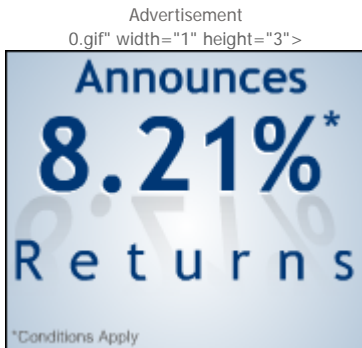


# Get real, India

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The spate of farmer suicides during the last five years has made it clear that despite high growth in a few sectors of the Indian economy, many citizens of the country are still without basic livelihood, and are forced to deal with their despair by taking their own lives. Across Vidarbha in eastern Maharashtra and the Telengana and Rayalaseema districts in Andhra Pradesh, over 1,700 farmers have ended their lives due to their inability to deal with the repayment of large loans, unremunerative farm outputs and the vicissitudes of rain-fed agriculture.



Counter-intuitively, a large proportion of farmers committing suicide are not from the

desperately poor subsistence sector, but have significant land and asset holdings. A report submitted by the [Tata Institute of Social Sciences](#) to the Mumbai High Court in 2005, which studied 36 cases of suicide by farmers in Maharashtra, identified 48 per cent of them as medium and large landholders. An overwhelming 81 per cent of them were literate. Further, the pattern of suicide was the same across castes.

This relative affluence of the victims shows just how badly the rural sector is doing in the so-called liberalised era of free markets. Let us examine the reasons why the livelihood of a large segment of our population are dwindling. At the centre of the problem is the fact that agricultural output is not remunerative any more due to the rise in input costs. In a bid to liberalise our economy, we have allowed the entry of cheap primary products from the EU and the US, while our own farmers struggle to sell their produce.

The reason imported grain is cheaper is the high level of support that developed countries' governments provide to their own farmers, as well as the economies of scale that large farming conglomerates have realised. Furthermore, our own government's calculation of a minimum support price for agricultural procurement has largely been flawed, and has failed in providing relief to farmers who find it unremunerative to sell in the market.

The low cash flows that have resulted from agricultural sales have forced farmers to seek loans. However, most corporate money-lenders like banks require collateral, especially if the prospective borrower has a history of defaulting on loans. Often the collateral requirement is such that only the wealthiest of the agrarian community can meet it. Thus, most farmers are left with little recourse but to borrow from local traders, who also act as providers of liquidity, at usurious interest rates. Particularly exploitative examples of the latter are the commission agents-cum-moneylenders. These agents advance loans to farmers at the beginning of a season, with the condition that the farmer will have to sell them his produce at a price significantly lower than the market price.

This scheme makes sure the farmer stays indebted year after year, especially as his income from selling his produce is never enough to invest in next season's sowing. Added to this is the possibility of crop failure due to the late arrival of the monsoon, which can ramp up the level of indebtedness several notches. Most of the farming community is so deeply in debt that a single event like an illness in the family can push a household into the realm of food insecurity.

The governments of Maharashtra and Andhra Pradesh have announced relief packages during the last few years, and, more recently, the government of Maharashtra has agreed to fund Art of Living courses to help distressed farmers. Whereas the latter has been lampooned by the media and has caused significant public outrage, it is the trend inherent in the former, i.e., providing short-term relief packages, that should be more worrisome to us. It is amply clear today that implementing developmental strategy in a piecemeal manner will only have the effect of providing short-term relief to disadvantaged sectors with low intertemporal sustainability.

In other words, growth needs to be self-sustaining to make a difference. Small farms need to be made viable again. The rural sector requires credit policies that lead to formation of cooperatives and creation of actual productive assets rather than mere employment creation, which can only be the first stage of the rural developmental process. Further, the planning process in India has always been fraught with errors in not just the implementation of policies but in their actual conceptualisation. A large portion of such errors today is related to the blind desire to privatise and deregulate all sectors of the economy. It must be clear to our policy-makers today that reducing rural credit, attempting to dismantle the PDS, reducing services in essential healthcare, and lowering taxes in order to promote a 'trickle down' effect leads to nothing but a rise in inequities and the dualism that has always plagued our planning process.

Writing in 2005, MIT economist Abhijit Vinayak Banerjee cites India as having a declining ratio of the share of income tax to GDP. It must be understood that what the government gives with one hand (tax relief), it takes away with the other (lowering of state provision of services). If a 'bubble up' (rather than trickle down) effect on growth is desired, basic services have to be emphasised. This includes providing the vulnerable sections of the population the avenues to participate in economic life rather than be stuck in an exploitative informal labour sector and risky rain-fed agriculture. Policies that account for both the expenditures involved and the revenues that will allow the social sector to provide essential services are needed. Along with such policies we also need the regulatory wherewithal to ensure that the services reach the people who need them.

It must also be emphasised that an anti-growth, administered price-policy regime that completely does away with markets is not what India needs. However, complete faith in a system which cannot be availed of by over 60 per cent of the population would be entirely misplaced.

One reason why markets have worked well in countries of Western Europe and the US (though even they have promoted inequity) is the existence of simpler regulatory frameworks that have led to better market signals. In addition, their economic agents have significantly higher than subsistence levels of wealth, which has allowed them to not be eased out of the market. Thus along with market formation, there is a strong need to promote

countervailing measures on redistributive policies that may indeed allow the most vulnerable sections of the population to improve their economic condition. Over time, these agents, should they choose to, could exercise the option of using markets for the conduct of their economic activities.

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