Indian Express
P-15
15-3-16

Why doubling farmers' income by 2022 is possible

IE P-15. 15-3-16

There are several measures, such as crop diversification, that can help India achieve this goal

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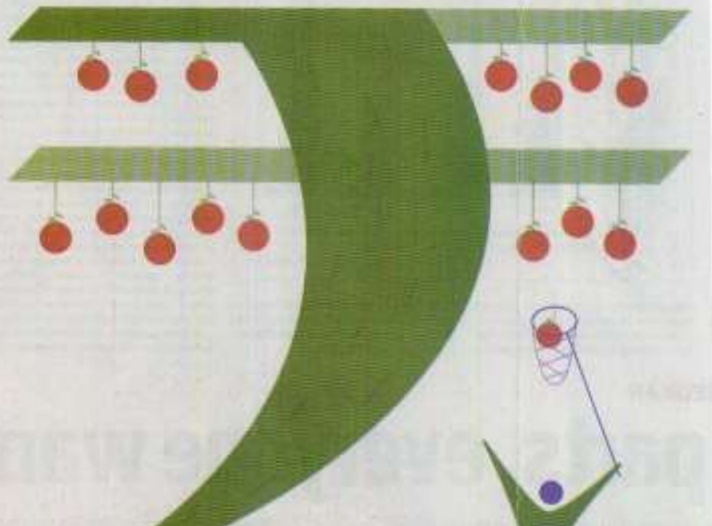

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PRIME MINISTER Narendra Modi's desire to double the income of farmers by the year 2022, that he expressed while addressing a farmers' rally in Bareilly, Uttar Pradesh, on February 28, 2016, has evoked strong responses from various analysts, experts and the media. The goal has been dubbed as impossible and unrealistic. On the very next day, the finance minister repeated what the PM had said, in his budget speech. This invited an even stronger reaction and criticism. Some commentators have produced calculations that agriculture will require an annual growth of 14.86 per cent per year for the next five years to double the income of farmers, and pointed out that this growth level hasn't been achieved even for a single year in Indian agriculture. Most commentators ridiculed the possibility of doubling farmers' income. It seems that critics and sceptics focused more on five years and ignored substantive aspects of the desire expressed by the PM and the intention of the PM.

The substantive points involve the following questions. Which is the targeted year for doubling farmer income? What is to be doubled — is it output, value added or income earned by farmers from agricultural activities? Is it nominal income or real income that has to be doubled? Does the targeted income include only income derived from agricultural activities or would it also include income from other sources? Clarity on all these points is important to assess the possibility of doubling the income of farmers as envisioned by the PM.

While talking about the income of farmers, the PM stated that it is his dream to see farmers double their income by 2022, when the country completes 75 years of independence. The time horizon to reach his dream is very clear in his statement. It is obvious that he is referring to a doubling of farmer income of the agricultural year 2015-16 by the agricultural year 2022-23. The budget speech creates slight confusion about the period for doubling farmers' income. The FM's speech first mentions the "focus on doubling farmers' income in five years" and then, while elaborating on this, he says, "Government will, therefore, reorient its interventions in the farm and non-farm sectors to double the income of the farmers by 2022." It is evident that both the PM as well as the FM are setting the target of doubling farmers' income by the year 2022, which is seven years away from the current year. And, if anything is to be doubled by the year 2022-23, it will require annual growth of 10.4 per cent, and not 14.8 per cent, as reported in the media.

Again, it is important to point out that what is sought to be doubled is the income of farmers, not output or value added or the GDP of the agriculture sector. If technology, input prices, wages and labour use could result in per-unit cost savings, then farmers' incomes would rise at a much higher rate than the rate of increase in output. Another very important source of an increase in farmers' income is the relative increase in prices of farm products compared to non-agricultural commodities. Past estimates of farm incomes show a significant difference between growth in output and growth in farmers' income. Between 2004-05 and 2011-12, agricultural output at constant prices increased by 34 per cent while real farm income per farmer increased by 63 per cent. In nominal terms, the output became 2.65 times while farmers' income tripled in the eight-year period. Therefore, a doubling of farmers' income should not be viewed as the same as a doubling of farm output.

It is obvious that if inflation in agricultural prices is high, in nominal terms, farmers' income will double in a much shorter period. Twice over the last 30 years, farmers' income at nominal prices almost doubled in six years — once between 1987-88 and 1992-93 and then between 2004-05 and 2009-10. Inflation in agricultural prices also leads to an increase in real farm income if agricultural prices received by farmers increase at a faster rate relative to the prices paid by farmers: that is, when terms of trade for agriculture improve. In a situation where non-agricultural prices do not rise, or rise at a very low rate, the growth in farmers' income in real terms tends to be almost the same as in nominal terms. This is what is being experienced currently. The wholesale price index or WPI-based inflation for non-agricultural prices is declining, whereas the WPI-based inflation for agricultural prices has increased by about 5 per cent in the year 2015-16. This implies that price movements are resulting in a 5 per cent growth in real farm income. Thus, if similar price trends continue, there will not be much difference between nominal and real farm income. Anyway, the government's intention seems to be to double the income of farmers from farming in real terms.

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It is important to look at the possible drivers of income growth for farmers. The first source is diversification of farm activities towards high-value crops and enterprises. National-level data reveals that shifting to high-value crops can more than quadruple income from the same piece of land. The second source is irrigation, which can double productivity. The third source is better price realisation for farmers through competitive markets, value chains and improved linkage between field and fork. The fourth source is an improvement in the terms of trade for agriculture. The fifth source is technology upgradation. Another important source is the shift of cultivators from farming to non-farm occupations. State-level data shows that agricultural income in real terms, including the effect of improvement in terms of trade, doubled between 2006-07 and 2013-14 in Gujarat, Jharkhand, Madhya Pradesh, Rajasthan and Telangana. Few states, namely Bihar, Chhattisgarh, Gujarat, Jharkhand, Karnataka, Madhya Pradesh, Rajasthan and Telangana, are experiencing a transition towards doubling farmers' income in seven years while Uttar Pradesh and Maharashtra are showing the potential to do so. In conclusion, if the above-mentioned six measures are implemented sincerely at the state-level, then farmers' income can be doubled by 2022-23 in most of the states.

The writer is a member of Niti Aayog. Views are personal