

## **The furore over farm debt**

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The decision of the newly elected Congress-led governments in Chattisgarh, Madhya Pradesh and Rajasthan to implement the manifesto promise to waive farm debt has set off a controversy. Opposition to the move comes not just from opposing parties. In fact, the political leadership has been sensible enough not to oppose the policy *per se*. For example, the BJP that had gone the same route in Uttar Pradesh and Maharashtra, has only said that these governments are not doing things the right way, and are deceiving farmers with mere platitudes. The opposition comes from the neoliberal advocates, who paint this decision as the road to ruin.

Before turning to the grounds cited for the latter opposition, it is best to flag what these critics ignore or perhaps don't recognize. The reason why farm debt and its waiver are issues is that, through the years of post-liberalisation euphoria since the 1990s, economic policy has been characterized by an overwhelming urban bias. The neglect of agriculture, which is a corollary, has been visible on a number of fronts. Public investment in agriculture has been in long-term decline. The extension system aimed at reaching new agricultural technologies and information on better farming practices to India's agriculturists has either been dismantled or allowed to degenerate. Agricultural research, which served India well during the Green Revolution years, has been given inadequate attention and resources. And, a "reform"-induced combination of trade liberalisation and domestic deregulation has raised costs while inadequately compensating farmers with remunerative prices, damaging the viability of crop production and increasing farmer exposure to income volatility.

Urban bias was true of the 1950s and early 1960s as well. But the agricultural crisis that it led to, heralded by the consecutive bad harvests of the mid-1960s, necessitated a shift in policy that coincided with the adoption of the Green Revolution technology. That shift combined the new technology with redirected public expenditure, access to cheap credit (after bank nationalisation), subsidised inputs and state purchases at remunerative minimum support prices (MSPs), all of which sought to incentivise productivity-enhancing investments and stabilise agricultural incomes. Redirecting expenditure and reaching formal credit was necessary because that was a phase when inflation had set limits on public spending. The difficulty is that this time around the prolonged agrarian crisis stemming from policy neglect has not resulted in a similar shift to required longer term measures, intensifying farmers' distress.

Underlying the current crisis is a combination of rising costs, inadequate increases in minimum support prices and limited coverage of government

procurement. Not surprisingly, one of the principal demands of agitating farmers is higher procurement prices, that not only offer a margin of 50 per cent over costs, but are also based on a definition of costs that include besides paid out cost, the imputed costs of family labour, and imputed rent on land and the cost of capital. Actual support prices have been way below this as the government itself has accepted, in a fit of pre-election honesty. Moreover, even that price has not been on offer to farmers at large because of shortfalls in procurement, forcing farmers to often sell their produce at prices below the MSP.

In the event the viability of crop production has been undermined. The farm loan crisis, that leads either to extreme distress when debt is serviced or to debt default, is a reflection of this fact that farm production is no longer viable in many parts of the country. Farm loan waivers are a response to that crisis.

Those who argue that this is a wrong response repeat much-worn arguments. The most misplaced of these is the correct claim that a debt waiver will not solve the agrarian crisis. What that, however, misses is the fact that the objective of a debt waiver is not the resolution of the agrarian crisis, but relieving distress. That needs to be accompanied by measures to resolve the crisis, with public expenditure and investment, with incentives for productivity enhancing cultivation practices, and with stable and remunerative prices for farmers. The reason for today's distress is that such measures were inadequately implemented or absent in the not too distant past. But even if such measures are adopted the crisis would not be resolved soon enough to provide much needed succour to the farming community. A waiver goes part of the way, only a part, to provide that.

Such distinctions between short term alleviative measures and longer-term strategies is common in the policy arena. Nobody would argue that, while the complex task of stalling global warming and addressing climate change is pursued (without much success till now), measures to mitigate the adverse effects of extreme climate events should not be undertaken because they do not resolve the basic crisis.

A second argument is that not all farmers, especially the small and marginal ones, would benefit, because they depend on moneylenders for credit and are excluded from an official waiver. How true this assessment on debt exposure is, even if partially so, is never established. In any case, if there is distress, it does not make sense to say that unless everybody can be helped at the same time, nobody should be helped. Just as it is meaningless to argue that if only some farmers get formal credit, none should receive it. If the poorest are excluded from a debt waiver initiative because of the source of that debt, what is needed is an Emergency Debt Relief Commission that examines the debt exposure of individual farmers and decides on which and how much to clear through a transfer to the creditor. This has been used with much effect in the past in this country as elsewhere.

But possibilities such as these are not even mentioned nowadays because of their “fiscal implications”, since the government at the centre or the state would have to foot the bill. It is true that banks cannot be forced to carry the full burden of debt waiver schemes. They can, however, be called upon to share a small part of the cost, since in the absence of debt resolution, default by stressed farmers would result in a loss to them. Similarly, private lenders may be willing to take a small haircut, but will not write off debt altogether. So, if farmers have to be relieved of the burden of debt in the midst of an agrarian crisis, the government would have to foot much of the bill.

This is seen as unacceptable since it would lead to an increased deficit on the government’s budget, which goes against the tenets of ‘prudent’ or ‘sound’ finance. It never fails to surprise how widespread this view is among professional economists and even the media. The argument, if it can be called that, implicitly assumes that the only way the government can find the money for such “populist” measures is by borrowing. That, of course, has no basis. The government can mobilise revenues by better tax administration. The government can garner additional resources by reducing implicit subsidies to rich tax payers and corporations. Termed “tax expenditures” rather than tax concessions, transfers or subsidies, this head according to Annex 7 of the Receipts Budget document of Budget 2018-19, was projected to result in a revenue loss of Rs. 1,33,954 crore. That is just for a single year. And the government can garner additional revenues with new or higher taxes on a range of targets, as for example on the huge wealth in the country, 77 per cent of which according to Credit Suisse is held by the richest 10 per cent. Given this potential for generating additional resources, borrowing too is an option, since the servicing of that debt can be financed with new taxes. So, there is an answer to the question: “Where is the money?”, posed when the word waiver is mentioned with respect to farmers.

In fact, the emphasis on fiscal prudence and “consolidation” reflects the worst kind of urban and class bias. Much of the tax write offs and implicit tax concessions go to the rich and the large corporates. And these sections have been given huge benefits of other kinds. Over the 10-years ending March 31, 2018, public sector banks have written off Rs.4,00, 584 crore of debt, much of which is owed by large corporates. Even though the write-offs are supposed to be “technical”, the evidence shows that recovery of these written off loans has been woefully poor. There has been a transfer of public money to wealthy promoters, who have often gone scot-free. In fact, on one occasion even the official *Economic Survey* suggested that promoters and managements cannot be held responsible for corporate debt default, since that is often the result of changed economic circumstances beyond their control.

But if we set aside such blatantly partisan arguments, corporate and wealthy India is got far more than is being demanded to address the crisis facing farmers. According to official, state government estimates, the waiver of farm loans of up

to Rs. 2 lakh owed by 34 lakh farmers from national and cooperative banks would amount to between Rs. 35,000 to Rs. 38,000 crore. The waivers in Chattisgarh and Rajasthan would reportedly require sums of Rs. 6,100 crore and Rs. 18,000 crore respectively. Even if the scheme is spread to other states and made more inclusive, the numbers will not prove startling, since these can be one time write-offs if action to address the agrarian crisis is simultaneously taken.

The difficulty is that it is the fiscal regime that the advocates of neoliberalism favour, with tax incentives for finance, the corporate sector, and the rich in general, and tight control over government borrowing, that has resulted in the long -term neglect of agriculture. Having backed a regime that has created the problem, they now object to measures that provide relief to those affected by the resulting crisis, and that too on the grounds that it would violate fiscal prudence and yet not resolve the problem which neoliberal fiscal policy created in the first place.

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