Free Market Perspective and Their Importance a Case Study

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INTRODUCTION

India, being a signatory of the WTO, has to reform agriculture sector to give market access to other member countries. There is urgent need to prepare this sector for global competition. Now, agriculture should not be seen in the context of food security alone but as a multifunctional sector contributing to (a) national product (b) low inflation (c) alleviation of poverty (d) market for farm input (e) savings to economic development (f) import substitute and foreign exchange earnings (g) releasing labour for other sectors (Desai, 99). To foster its competitiveness, agriculture sector needs to be liberated on the line of other manufacturing sectors being reformed to improve their competitiveness in globalized economy.

Fixation of maximum retail price of fertilizers or any products has the effect of cartelization, an anticompetitive practice, in preventing the benefits of competition to tickle down. Similarly restriction on export of agro-products disabled the Indian farmers to capitalize from the market access, so hotly being negotiated under the multilateral trading system. So, all types of restrictions are to be removed for ensuring free sale /purchase of agro-inputs, including fertilizers, and outputs including food grains. In a market driven economy under multilateral trading system of the WTO, domestic market is to be protected from external competition through Tariff only and there should be absolutely no embargo on import or export of agro-inputs/outputs.

Albeit, government may continue with the present system of Minimum Support Price (MSP) to ensure reasonable return to Indian farmers. However, procurement of Wheat, Rice or other Agro-products should be done on obtaining market prices. The present system of centralized buffer, being operated by the Food Corporation of India (FCI), should give way to the system of decentralized buffers, which are to be operated by the respective state agency. These agencies should maintain and operate buffer stocks for the respective state as per each state's requirement. Every state can procure required food grains, either domestically or from international market as per its requirement. However, such procurement should be made at market price and not at MSP, which is to be used if market prices are below desired level to ensure reasonable returns to the farmers.

Since market economy takes cognizance of only demand, needs that can be supported by the purchasing power, some safeguards will be needed for enhancing the purchasing power of the resource poor farmers. This class of farmers, having no marketable surplus to gain from the market access being intensively negotiated under the WTO, may suffer heavily in market driven economy as a result of market failure.

Now the moot point will be who is to be protected and how long?

Article 6.2 of the Agreement on Agriculture permits financial support to resource poor farmers as well as subsidies normally available for agriculture and rural development. As per the government of India notification to the WTO, the resource- poor- farmers having land holding of less than two hectares cultivate about 30% of the land. Economist hold the view that given the standard definition of poverty line in expenditure terms, a representative Indian farmer has to have at least 3.3 hectare agricultural landholding to stay above the poverty line (Datta et.al.,99). So, targeting of resource poor farmers can be done in the context of land holdings. The extent of agriculture holdings above the poverty line in India can be assessed from the Table: 18 below, which give the details of the farm size in the country.

(Source-Fertilizers Statistics 2005-2006, FAI, New Delhi, pgII-19)

From the Table: 18 it is seen that 78% holdings were less than 2 hectares, covering around 53.7 million hectares of total area of 165.5 million hectares in 1990-91. This means resource poor farmers (having less than 2 hectares land) were cultivating about 32% of the total agricultural-land area. The size of uneconomical holdings (less than 2 hectares) grew to 80 % covering 58.8 million hectares i.e. 36% of total area of 163.4 million hectares in 1995-96.

The problems of uneconomical holdings might have got further aggravated since 1995-96 due to division of holdings among successors. If 14.3 millions holdings of 2-4 hectares are also treated as subsistence farmers and added to 92.8 millions of less than 2 hectares holdings, it works out to be about 93% of the total holdings of 115.6 millions in 1995-96. It means only balance 7% holdings, covering around 40% of the total agriculture land, will have marketable surplus and stand to gain from the market access. Since the subsistence farmers will not have

marketable surplus, it is feared that they may not gainfully participate in market oriented trading system in agriculture. As per available data small and marginal farmers consume about 42% of fertilizers consumed in India. Therefore this segment will need safeguards against erosion of purchasing power due to increase in prices of fertilizers resulting from withdrawal of subsidy. To safeguard the marginal and small farmers in market driven economy and protect them from market failures following model of state assistance is envisaged.

Table 18: Number of farm holdings and Area of cultivation (1980-81 to 1995-96)

States	Period	No. of holdings (Millions)					Area (Millions hectares)				
		0-2	2-4	4-10	10 <	Total	0-2	2-4	4-10	10 <	Total
All India	1980-81	66.7	12.5	8.0	2.1	89.4	42.7	34.5	48.3	37.2	162.8
	1990-91	83.4	13.9	7.6	1.7	106.6	53.7	38.4	44.8	28.7	165.5
	1995-96	92.8	14.3	7.1	1.4	115.6	58.8	39.0	41.4	24.2	163.4

(i)Safeguards against Income erosion

The mechanism of “Kisan Credit Cards” can be used to transfer the purchasing power to resource poor farmers. These cards are to be issued by the commercial banks and their credit limits can be decided by the government as per its fiscal capacity and need of subsidization as per crop requirements and holding size. This may not entail leakage in subsidy disbursement. The funding of Kisan Cards should not be a big challenge. For example, if 42% fertilizer consumption by the small and marginal farmers (less than 4 hectares) is to be allowed at the present level of subsidy, government might have saved more than Rs.8180/ crores on total urea subsidy of Rs.14103.91 crores in 2006-07, while covering about 93% holdings. This means that only 7% holdings, which consume 58% fertilizers, will be out of the government subsidy mechanism. However, in free market scenario, this segment will gain significantly from greater market access and so need no protection.

Government may also generate about Rs. 2600 crores of revenue on sale of urea from gas based plants at market price by moping 50% of differential of sale price and cost of production. Since Commercial banks have already issued 4, 78, 03, 050- Kisan Card up to 31 January 2005 and got enough experience, it should not be an insurmountable problem in managing the mechanism of direct subsidization to resource poor farmers.

Similarly, there is need to broad base the existing “Crop Insurance” schemes to cover almost every crop to shield the hapless farmers from vagaries of the weather. To help rural folks, living below poverty line, the present scheme of BPL for food distribution can continue. Such safeguard will take care of both the rural & urban poor , while permitting the free market to improve consumer surplus through competition & market mechanism.

(ii) Safeguard against Market Failures

The free market may fail in creating awareness about quality fertilizers, their judicious use, soil testing, need of proper mix of micro nutrients and organic manures to improve stagnating farm productivity, creation of irrigation infrastructure, marketing network and dissemination of market price information, research on new seeds and farm technology etc.

To address such issues Government of India’s intervention will be needed to provide financial assistance and stimulate action on these counts. However, gradually free transfer of technology should be phased out. This will enable each State Units and Institutions to learn to compete in market economy, where competency is the touchstone for survival and success. Thus Indian agriculture will get integrated with the global economy and prosper like any IT or finical sector of Indian economy.

The concept of free market and safeguards can be explained graphically as under:

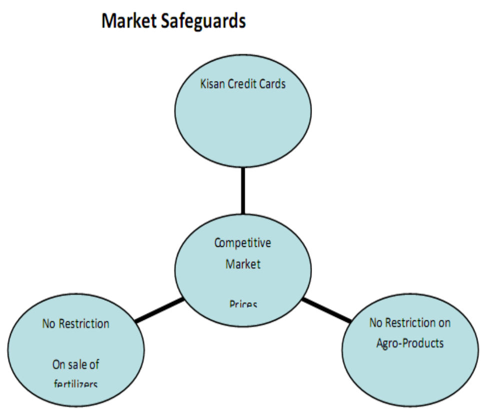

Figure6:

It is assumed that absence of any type of embargo on agro-products and fertilizers will lead to emergence of competitive market. This is reflected from bottom circles of free market leading to central circle of competitive prices, which will benefit producers as well to consumers. In free market the looser will be one who dose not have marketable surplus and so need protection. Similarly, market may fail to attract investment in activities, which does not maximize profit. Consequently areas like research, extension works, soil testing and awareness about proper mix of micronutrients with manure etc. may be overlooked. These market failures need corrections by state interventions. The top most circles describe this correlation. The reason of putting this circle on the top is to highlight the need of safeguards like “Kisan Credit Card” to be placed first, before complete withdrawal of subsidy takes place. Other wise subsidy withdrawal will have far reaching political implications, besides, affecting farm production and its productivity.

MULTIFUNCTIONAL MARKET FARMING

Since 93% land holdings are falling in the category of subsistence farming, having no marketable surplus, they may not gain from the market access being hotly negotiated under multilateral trading system of the WTO. The number of such holdings is increasing, due to divisibility of land on account of succession. If Indian leadership wants Indian farmers to grow and prosper through market access, there is dire need to model Indian farming system on the basis of organized corporate sector. One of the models can be Multifunctional Market Farming.

To organize the vast unorganized agriculture sector to benefit from the market economy, there is need of such model that enables farm sector to compete and complement the corporate sectors. Today corporate identity is almost must to do business at global level. So unorganized agriculture sector has to metamorphose in to a legal entity, which will show the path of riches to those who had been so far neglected and the poorest. The Multifunctional Market Farming model conceptualizes three tier corporate bodies (Limited Companies), each to be managed professionally at Village, Taluka and District levels respectively as shown below.

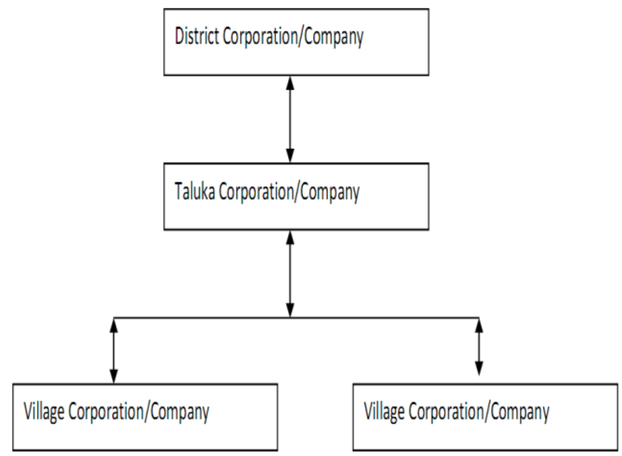

Figure 7:

MULTIFUNCTIONAL MARKET FARMING

(i) Village Corporation/Company

This model assumes agriculture as an industry and visualizes every village to be incorporated as Corporation/Company, named after the village, and every cultivator, to the extent of his/her land holdings, as the equity-holder of the so formed corporation/company. The farmers can sell their land by transferring their equity without physical transfer of the land and will share the crop sale proceeds in proportion to their equity, after meeting the corporate expenses. This will check further fragmentation of the landholdings and provide economical farm size to work as an effective tool of poverty reduction in rural India.

To begin with these corporations are to be managed either by the private investors, on 25:75 profit sharing ratio basis, or by consortium of 6 experts to be constituted by the government by drafting 50% from the qualified and trained agronomist of the district and balance from the educated folks of the respective village. Every alternate year government nominee should give way to village representatives, who should be given at least six month training in farm practices and company affairs. Thus at the end of 6 years the Village Corporation/Company management will be free from the government nominees. This corporation will not outsource human resource till able persons are available in the village community. Every equity holders will be entitled to work on payment of **minimum wages.** If more man-hours are available for work than required, landowners are to be given priority and work be apportioned on equity basis by drawing roster. The profit is to be apportioned among the equity holders as per the ratio of their equities. The village corporation is to be given soft credit and term-loan on subsidized interest for adoption of the modern farm-techniques and diversification as per the market requirement. The village corporation should be entitled to get crop insurance for all the crops, both for input-cost and opportunity-cost, on the line and logic industrial sector is getting insured. They can also be provided modern storage facility at least at Taluka level and better infrastructure link with urban markets. For optimization of the government assistance, all sorts of the farm subsidies should be galvanized into one category and extended directly to Village Corporations/Company. This will decouple the subsidy from the individual farmers and infuse objectivity to prevent the misuse of the subsidy and improve its productivity, while being WTO compatible. Now government need not depend on Fertilizer Industry for payment of the subsidy to farmers, as it can be directly administered through village corporations, which will be around 0.6 millions compared to over 110 millions individual cultivators. This may not be a big administrative problem as national gains may far exceed the individual losses, if any. Besides, it will provide enough elbow room for the market forces to fix the input and out put prices at competitive level to the benefit of consumer as well producers. This may help Indian agriculture to come out of the clutches of misbegotten concept of subsistence farming. On supply side, Village Corporation can organize production of various crops output as per the market requirement and on demand side it can get better organized to negotiate farm inputs prices and fuel the demand of the quality products. It will be easy to administer contract farming to meet the corporate requirement of the quality raw material and attract new investment in agriculture to improve its productivity as well capital formation in rural sector.

(ii) Taluk Corporation/Company

All village corporations under a Taluk should be incorporated into a Taluk Corporation to optimize the gains of the village corporations by installing food-processing units for value addition to farm-products. All Village Corporations will be its equity holders and its Board of Directors will comprise representative of the Village Corporations who are to be replaced every alternate year. Or their management can be handed over to professional firms or private investors who will dovetail Village Corporations as their shareholders. Thus Taluk Corporation will be the hub for food-processing units for value additions and exploiting the untapped area of Food-Processing Industry. In India processed food hardly contributes 2% of the trade. However to make it a success story government has to extend full cooperation in terms of credit, infrastructure and power, besides linking them with the district headquarters. These corporations can abate the rural folks drain to cities and help overall improvement in the village economy.

(iii) District Corporation/Company

To ensure marketing of the agro-produce of the Village and Taluk Corporations, a District Corporation is to be incorporated integrating the interest of all the Village and Taluk Corporations. On the line of the Taluk Corporation/Company, they can be either managed by the professionals by drafting them from the Village and Taluk Corporations or by the private investors who will make Village and Taluk Corporations their share holders interalia others. The District Corporation will provide technological and other professional information to their shareholder corporations/companies and market their goods on contract basis. They will keep vigil over market trends and disseminate timely information to guide Village Corporations about the type of the crop to be cultivated and pre harvesting as well as post farm practices to be observed for optimal value of their produce.

To achieve aforesaid objective, existing land laws should be amended to permit corporatization of the agriculture land holdings. However corporate farming should be optional, at least to begin with, and may be made compulsory if more than 50% land holders of any revenue village decide to go for the new system of farming. Once enough experience is gained and the required infrastructure is created, it should be obligatory for every village to adopt corporate farming to ensure overall welfare and equitable growth of the rural sector.

DISCUSSION AND CONCLUSION

The fertilizer subsidy served as a vehicle for transfer of income to poor farmers, encourage usage of chemical fertilizers and protect infant fertilizer industry in its early stages of development in Eighties and Nineties. Now Indian fertilizer Industry has matured and need no protection. So the main issue left is transfer of income to resource poor farmers. The issue of farm income needs a new paradigm in market economy. The following model fills this gap by offering an alternative to the present system of fertilizer subsidization as an instrument of income transfer to Indian farmers.