



GOVERNMENT OF KERALA

**53rd MEETING
OF THE
NATIONAL DEVELOPMENT COUNCIL**

**29th MAY 2007
NEW DELHI**

Shri V.S. ACHUTHANANDAN
Chief Minister, Kerala

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Honourable Prime Minister, Chief Ministers, Members of the Union Cabinet, Deputy Chairman and Members of the Planning Commission, Assembled Dignitaries Ladies and Gentlemen,

It is a matter of great gratification that this meeting of the National Development Council has been called to discuss the severe crisis facing the farm sector of the country, a crisis that has already claimed the lives of thousands of farmers through suicides. My own state Kerala has been one of the worst-hit states, with nearly two thousand suicides till date. It is only proper that the National Development Council should address itself to this major national issue on a priority basis.

It is important however that we do so with a correct approach, and on the farm sector's crisis there are two fundamentally different approaches. According to one approach the farm sector's crisis consists essentially in an extremely low agricultural growth rate, to break out of which larger investments have to be injected into this sector, major technological changes have to be introduced, the crop-mix has to be changed, farm practices have to be altered, marketing arrangements have to be revamped, and

productivity increases have to be achieved for making the sector internationally competitive. All this cannot be done within the confines of traditional agriculture and of the institutional support structure erected for it during the nineteen fifties and sixties. We have to open up agriculture therefore to a whole new set of institutions: contract farming, corporate farming, the entry of corporate retail chains into agricultural marketing, the removal of fetters on crop diversification away from foodgrains and permitting direct contact between the corporate sector, including multinational corporations, and the peasantry, in order to impart greater technological dynamism and market sensitivity to the sector. For bringing about all these changes, a certain back-tracking on land reforms, notably tenancy reforms and ceiling legislation, may be necessary, but we should have no hesitation in doing so.

This approach, which appears at first sight to be a merely technocratic one, has nonetheless, necessarily, a political economy dimension. It seeks to integrate Indian agriculture with global capitalism, to convert it into an adjunct, an appendage, catering to the requirements of global capitalism. The Report of the NDC Sub-committee is based on this Approach. True, it talks about ensuring

food security through domestic production, and mentions land ceilings as a possible deterrent to any excessive land concentration that may arise as a result of the legalization of land-leasing. But its emphasis on contract farming, its advocacy of Public-Private Partnerships as the means of developing wasteland farming and attracting higher investment to the agricultural sector, its insistence on a curtailment of subsidies, its promotion of the model APMC Act that seeks to induct large private operators into agricultural marketing, and its exclusive focus on productivity-raising without any reference to peasants' incentives, are all in keeping with this approach. Notwithstanding the valuable suggestions it makes on expanding irrigation, on strengthening research and on increasing public investment in agriculture, its adherence to an approach that calls for greater integration of Indian agriculture with global capitalism is in our view inimical to the interests of the peasants and hence unacceptable to us.

The basic problem with this approach is that such integration, even if it succeeds in increasing the rate of agricultural growth, will give rise to a net displacement of people from agriculture, and, given the unequal bargaining

strengths of the corporate players and the peasantry, further accentuated by such displacement, to a perpetuation of the misery of the peasantry and agricultural labourers. Corporate retail chains will displace large numbers of petty retailers; the shift away from foodgrain production will reduce net labour demand in agriculture, and the backtracking on land reforms will facilitate the buying out or evictions of farmers (as has happened in Mexico over the last decade with the changes in tenancy laws analogous to those suggested by the NDC Sub-committee). Such net displacement of labour might not matter, and in fact might be a historically progressive step, if those displaced could be absorbed into gainful employment in industry or the tertiary sector. But even extraordinarily high growth rates of the secondary and tertiary sectors, such as the economy is claimed to have been experiencing of late, have scarcely added much to gainful employment in these sectors. If agriculture is re-fashioned on the lines envisaged in this approach, then the net displacement of people from agriculture, in the context of "jobless growth" outside of it, will vastly worsen the already miserable condition of the agriculture-dependent population.

We find the suggested modification of tenancy legislation particularly unwelcome. We have just celebrated the fiftieth anniversary of the formation of the first Communist ministry in the state, among whose major legacies was the introduction of land reforms; we shall do nothing that goes against the essential thrust of Kerala's glorious achievements in the sphere of land reforms.

It is for this reason that the alternative approach, which is the approach favoured by us, emphasizes *the protection of peasant agriculture from the baneful consequences of integration with global capitalism, through deliberate interventions by the State*. Focusing on the conditions of life of the agriculture-dependent population constitutes the point of departure of this alternative approach. It sees the agricultural crisis not in terms of output growth rates *per se*, but as a crisis of the *peasantry and agricultural labourers*, i.e. in terms of the condition of social groups rather than the size of the basket of material objects produced. And a primary reason for the crisis on this perception lies in the decline in output prices and the rise in input costs which the peasantry has faced. These in turn are linked to the policies of liberalization: the withdrawal *de facto* of the banking sector from its commitment to provide agricultural

credit (which has forced the peasantry to turn to moneylenders for borrowing at high interest rates); the exposure to world prices that have witnessed a cyclical dip superimposed on a secular decline in terms of trade; and the progressive winding up of government extension services, which, among other things, shielded the peasants from MNC-agents pushing seeds of dubious quality. *Peasant agriculture in short had depended heavily on the support of the State for its survival and growth; and with the withdrawal of that support after liberalization, it has been thrown into a crisis, of which the output stagnation is a consequence.* It follows then that the way out of the crisis is for the State to support, protect, nurture, and promote peasant production. Once peasant production has been made viable through such support, then it will also begin to grow and flourish. The way to higher growth, without aggravating the condition of the agriculture-dependent population, is by the State supporting peasant agriculture through the provision of debt-relief, of institutional credit, of assured remunerative prices (backed by appropriate tariff policy), of extension services, of good quality affordable inputs, and of rural infrastructure facilities including in spheres such as education and health.

In fact in the absence of such support, even well-intentioned technocratic measures like watershed management, and farm-level planning will not yield the desired higher growth within peasant agriculture. The argument that instead of price-support what is needed is an augmentation of productivity to make peasant agriculture viable and internationally competitive is flawed for the same reason: no productivity-augmenting measures will ever be undertaken within the ambit of peasant agriculture, until it has already been made viable through the provision of assured and appropriate prices, backed by procurement operations, at the old level of technology.

A similar comment is in order over the Vaidyanathan Committee report. Leaving aside specific reservations that Kerala and some other states have about the report, its basic assumption that the problems of the co-operative credit sector arise exclusively because of state governments' interference in its functioning, is questionable. In a situation of agrarian crisis *any institutional credit agency catering to this sector will also be hard-pressed.* Unless the basic situation of an agrarian crisis is overcome, reforming the co-operative credit structure, along the lines suggested by the Vaidyanathan Committee, will not improve its viability,

as long as it continues to discharge its obligation of catering to the peasant agricultural sector.

The various "packages" announced by the Central government to help peasants in distress have been infructuous for this very reason. They provide relief on the payment of interest or even the principal on institutional debt, and they include a whole package of measures for productivity increase, but they *never* contain any measures assuring the peasants of remunerative prices. The debt/interest relief is at best partial since it never touches debt from non-institutional sources, which of late has become substantial. And the various proposed measures of productivity increase fail to enthuse the peasants in the absence of any measures of price support, through procurement at remunerative prices, at the prevailing level of technology. In Kerala too we have noticed that sums earmarked for detailed farm-level planning, which could potentially be an important productivity-augmenting measure, remain largely unspent. *No amount of detailed, and sophisticated farm-level plans drawn up on the basis of resource maps prepared through satellite technology, can possibly take the place of, or work in the absence of, old-fashioned, rough-and-ready measures of assured price-support at remunerative prices.*

It is true of course that the price-cycle for agricultural commodities in the world market has been looking up recently. But while this may bring some immediate relief, to believe that it would mark the end of the agrarian crisis is extremely simplistic. On the contrary, by enmeshing the peasantry deeper in the tentacles of global capitalism, under the false euphoria generated by the temporary revival of agricultural prices, it will only make the impact of the inevitable next round of price collapse even more damaging.

We in Kerala have undertaken several measures during the last few months for protecting peasant agriculture in the state from the debilitating impact of global integration. An important step is the setting up of the Agriculturists' Debt Relief Commission, which will not only negotiate with financial institutions about debt relief measures for the peasantry, but also intervene on a case-by-case basis to settle the amount of debt owed by peasants to private money-lenders, and to work out repayment schedules. In cases of destitute borrowers, it will recommend the taking over of the whole or part of the debt by the state government, for which a certain sum has been provided in the state budget. This legislation is

unprecedented in post-independence India and is reminiscent of debt relief measures undertaken in colonial times by some provincial governments, notably of Punjab and Bengal. A second measure of consequence is the announcement of an assured procurement price of Rs.8.50 per kg. for paddy, which has already had an impact in terms of reversing the sharp decline in area under paddy cultivation and in causing a nearly 30 percent (expected) increase in the size of the paddy crop in the current season. We are now engaged in putting in place a system of coconut procurement, as distinct from copra procurement that is current practice. (This being the CACP's domain, it is only proper that the Centre should help us in the matter).

Support for cash-crop farmers of course is completely outside the purview of the state governments, since it has to be backed up by appropriate trade and tariff policy. Among cash-crops one can distinguish between two different categories, each of which has a separate set of problems. There are certain cash crops where the competition is with the heavily-subsidized farmers of the temperate regions of the advanced capitalist countries; and there are other cash-crops where the competition is with the more or less equally impoverished farmers of the

tropical regions of other developing countries. Kerala's cash crops belong to this second category. In the absence of an agreement among producing countries, competition here would only mean cut-throat competition resulting in a "race to the bottom" among a whole lot of already impoverished peasants. Rather than join this race, it is important that our peasants be protected from such cut-throat competition. The Central government however has been entering into or negotiating free trade agreements with South and South-East Asian countries, presumably with a view to promoting our manufacturing and service sector exports to these countries, without any regard for the damage such agreements cause to farmers in states like Kerala. Even elementary economics scoffs at the wisdom of such moves in the absence of any system of "gainers compensating the losers". But no such system of compensations has ever been put in place, quite apart from the fact that no amount of compensation can make up for loss of livelihoods. True, a programme of re-plantation of several cash crops has been initiated by the Central government which aims to bring down costs of production. But at least as far as the smaller producers of such crops are concerned, they have to be protected first before they

can summon the enthusiasm for going for such programmes. The Central government's habit of entering into free trade agreements without consulting with governments of states where substantial peasant populations are likely to be affected adversely by such agreements, needs to be firmly reined in.

Existing bound levels of tariffs should on no account be reduced, though pressure for reduction is mounted in international trade negotiations. An appropriate tariff policy has to be pursued that gives a remunerative price to hard-pressed cash crop producers. *The need for this latter measure has assumed vital importance now in view of the sharp appreciation in the external value of the rupee.*

There is an additional factor, a fall-out once again of the new set of "liberal" policies, which has contributed to the agrarian crisis, and this has to do with the sharp curtailment in government expenditure on rural development. There has been much debate in the country over whether the benefits of such expenditure really accrue to those for whom it is intended. But this debate is beside the point here. Curtailment of such expenditure reduces purchasing power in rural areas which ultimately necessarily hurts rural labour households. True, the UPA

government sought to reverse this trend by enacting the landmark legislation on the National Rural Employment Guarantee Scheme. But the actual budgetary provision under this Scheme has been extremely niggardly, no higher than what used to be provided earlier for the assorted employment programmes. Indeed in the current year's central budget, even though the scope of the NREGS has been extended substantially, the financial provision for the Scheme has not been. The Finance Minister always assures that more money will be provided when the need arises, but there have been serious delays in the release of funds, which have invited no censure only because the "rights-based" nature of the Scheme continues remain largely unappreciated, even by the beneficiaries. Unless larger provisions are made or unless the beneficiaries are organized to assert themselves, this Scheme will not live up to its potential. The fact that the potential is great becomes apparent from Kerala's experience. We started late in implementing this Scheme in the two districts initially earmarked for it, Wyanad and Palakkad, because of elections in the state. While progress during the last one year was therefore limited, such expenditure as has been incurred under the Scheme has had a most visible salutary effect in the rural areas.

One problem that has arisen in the implementation of the Scheme is the following. Since the Scheme runs throughout the year, and since it is a "rights-based" Scheme, there should, strictly speaking, be no time when employment should be denied to applicants under it. The question of "suspending" the Scheme during the busy agricultural season simply cannot arise. But this makes it difficult to find labour for normal agricultural operations during the busy season. This problem should not matter in the case of the better-off peasants, since they should be willing to pay the statutory minimum wage anyway, and, upon their doing so, they should be able to obtain the requisite labour. But for destitute and marginal farmers the payment of the statutory minimum wage itself is difficult; besides, their labour requirements may be too small to add up to discrete units. A properly-implemented NREGS therefore makes it difficult for marginal farmers to meet the labour requirements for their normal agricultural operations. It would help in resolving this problem if the agricultural *operations* on marginal holdings (and on the holdings of SC/ST, IAY and women-headed households) are covered under the NREGS. Until now, capital projects on some of these holdings are covered under the NREGS; but, extending this to agricultural *operations* will not only

improve the implementation of the Scheme, but will also remove a potential area of conflict and in addition even provide a subsidy to destitute peasants.

The peasant's economy is a total economy, where there is no separation between production and consumption expenses. A price-fall for instance pushes the peasant into debt, not *per se*, but because he is unable to meet the health needs of his family without borrowing. To call this debt a "consumption debt" rather than a "production debt" is meaningless. For this very reason however the alleviation of distress in peasant agriculture requires a stepping up of public health and education facilities, which, again in the period of liberalization, have got severely run down. There is a view that such needs of the poor, especially the health needs, can be met through an insurance system. But this is wrong. Even in advanced countries like the U.S., getting payment against insurance claims is not easy. To expect the poor in India to enter into prolonged legal disputes to enforce insurance claims successfully is grossly unrealistic. An insurance scheme may work, without resulting in private appropriation of public funds, if *both* the health facility *and* the insurance company are publicly-owned. But precisely in such a case

it is much better to have free public health for the poor rather than an insurance scheme. In Kerala we are considering the provision of free public health to the poorest 30 percent of the population, and affordable public health to the rest. But any such Scheme will require a measure of assistance from the Central government and an accommodating attitude on the part of the NRHM. In any case the Central government has to step up expenditure on the health, education and such other needs of the rural population, even if its objective is to overcome the agrarian crisis. Unfortunately, the reduction in the central share of Sarva Shiksha Abhiyan to 50 percent, despite the opposition to this proposal by almost all the Chief Ministers at the last meeting of the National Development Council, is a step in the wrong direction.

It is not enough of course to protect and nurture peasant agriculture. Its productivity has to be raised. It has to undertake value addition and diversification (without jeopardizing food security). And it has to be modernized to reduce the drudgery of peasant life and to make it an attractive occupation for the younger generation. All these measures, if carried out within a framework of capitalist farming, give rise to unemployment and destitution. But

they can be carried out within the ambit of peasant agriculture through the development of group farming, through co-operativization, and the strengthening of other community and collective forms of peasant operation. Certain measures of egalitarian land reforms to make this possible, to create a more homogeneous class of peasants who can co-operate among themselves without any imminent danger of this becoming a camouflage for one section dominating and exploiting another, will have to be undertaken. There seems to be no other way of both protecting peasant agriculture and making it move forward. This was the vision entertained in the early years of post-independence India; this vision still remains relevant.

I shall end with a suggestion. Since agriculture is a state subject, given the fact that there are major differences in the approach to agricultural revival, with the Centre's approach and that of the NDC Sub-committee differing from ours in Kerala, let each state be allowed to pursue its own strategy, with the Centre offering assistance dispassionately. When the strategy we have put in place in Kerala is beginning to yield dividends, for us to jettison it now and adopt another that we do not believe in, would be tantamount to exchanging two birds in hand for one in

the bush! We would request the Central government therefore not to link the ACA to the adoption of a particular strategy. We would also urge it to give us additional support for our strategy, in lieu of what it would have given us had we followed the strategy suggested by the NDC Sub-committee, so that our attempt to provide debt relief and an assured procurement price of Rs.8.50 per kilogramme of paddy, does not run aground. After all, alleviating peasants' distress is all that presumably matters, and for us these measures seem to be working. Why should our efforts not be supported, and why should we be asked to abandon them simply because they differ from some other strategy that the Centre and the NDC Sub-committee prefer? Let one strategy not be privileged over others and let there be freedom to pursue alternative strategies.

Thank you for your attention.