Budget 2018-19: A Big Push to Strengthen the Bottom of the Indian Economic Pyramid

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Market efficiency is best achieved when an economic system is left to the "invisible hand", with least possible (government) intervention. However, in segments where there are market failures, and also developmental and equity concerns, government interventions and prioritization of budgetary allocations are crucial. The general budget 2018-19 underscores this economic principle, emphasising so much on agriculture, rural infrastructure, health sector concerns, while maintaining status-quo on several other grounds. In this article we will discuss about budget 2018-19 that relates to the issues of food and agriculture, and their possible ramifications.

In order to create better livelihood and infrastructure in rural areas, the budget 2018-19 has given a new boost to the rural economy to the tune of INR 14.34 lakh crore that is to be spent by the ministries in 2018-19. This includes extra-budgetary and non-budgetary resources of INR 11.98 lakh crore. This expenditure is supposed to create employment of 321 crore person days, 3.17 lakh kilometers of rural roads, 51 lakh new rural houses, 1.88 crore toilets, and provide 1.75 crore new household electric connections besides boosting agricultural growth.[1] Apart from major agri-pricing policy interventions (e.g., MSP, discussed later) there has been proposals in the budget to reform structural issues and strengthening of institutions in sectors related to the agrarian economy.

The volume of institutional credit for agricultural sector has been proposed to increase from the level of INR 8.5 lakh crore to INR 11 lakh crore in 2018-19. Diversification of agri-products have been incentivised by the announcement of establishing Fisheries and Aqua culture Infrastructure Development Fund (FAIDF) for fisheries sector and an Animal Husbandry Infrastructure Development Fund (AHIDF) with a total corpus of INR 10,000 for financing infrastructure requirement of animal husbandry sector. To address the price volatility of perishable commodities (tomato, potato, onion) **'Operation Green'** is announced with an outlay of INR 500 Crore. On marketing front, proposal has been to upgrade the 22,000 rural haats into Gramin Agricultural Markets to create a platform for facilitating bulk purchases and direct sale to the consumers. These markets will be electronically linked to e-NAM and are exempted from the APMC regulations. An Agri-Market Infrastructure Fund with a corpus of INR 2000 crore is to be set up to develop and upgrade infrastructure of 585 APMCs and these gramin markets. Also, organic farming in large clusters (1000 hectares) has been highly incentivised and INR 200 crore has been announced for organized cultivation of highly specialized medicinal and aromatic plants.

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[1]http://pib.nic.in/newsite/PrintRelease.aspx?relid=176062

Allocation to the Ministry of food processing has been raised to the tune of INR 1400 crore in 2018-19 from INR 715 crore last year. To promote bamboo sector in a holistic manner proposal of restructuring National Bamboo Mission has also been recommended with an additional corpus of INR 1290. On building irrigation potential under Prime Minister Krishi Sinchai Yojna 96 deprived irrigation districts will be taken up with an allocation of INR 2600 crore. Centre and states will work on facilitating farmers to install solar water pumps to irrigate their fields. On issues related to pollution from crop residues in certain specific states, the budget took initiatives to subsidise machinery required for in-situ management of crop residue.

Referring to the commitment on raising the welfare of farmers – doubling their income, by 2022, quite a good number of measures have been announced, first and foremost is deciding to keep MSP at least 1.5 times the cost of production for all announced kharif crops, and also declaring the same for majority of the rabi crops. This has been a drastic measure and a commendable gesture towards addressing the farm sector distress. The National Commission on Farmers (NCF) – subsequently led by M S Swaminathan, was set up in 2004 to identify concerned issues. NCF stated that farmers should be given a minimum support price (MSP) of at least 50 percent more than the weighted average of the cost of production. This was however, neither implemented in the National Policy for Farmers, 2007 nor by the Ramesh Chand Committee that submitted a comprehensive review of the Commission for Agricultural Costs and Prices (CACP) methodology to determine MSP.[2] Now, the big challenge remains on several fronts: firstly, what might be the implications on food prices, secondly, with the central government already started gliding on the fiscal consolidation path, thirdly, and not so insignificantly, the modus-operandi of this ambitious pricing scheme.

RBI in its bi-monthly policy on monetary policy review has raised the concern of rising inflation for several reasons; one of these being the impact of proposed revised guidelines for MSP on kharif crops, though the magnitude is yet to be assessed. Already there are concerns over rising international fuel prices which is adding implicit and explicit pressure on inflation. Budget Estimates of Expenditure for 2018-19 show an increase of INR 2,24,463 crore over the Revised Estimates 2017-18, which is mainly driven by Grants given to states as compensation to states on account of revenue loss due to the rollout of GST (calculated to be around 23 percent of the expenditure variation between 2017-18 RE and 2018-19 BE), interest payment (20 percent) and food subsidy (13 percent), on account of NFSA primarily.[3] Food subsidy has been raised from INR 1.4 lakh crore in 2017-18 RE to 1.69 lakh crore in 2018-19 BE, which is quite a quantum jump. Coming to the point of slippage in the fiscal consolidation path, RBI has expressed concern over its possible impact on inflation. For 2017-18 RE the FD is 3.5 percent instead of 3.2 percent mentioned earlier and also fixing a higher target of 3.3 percent FD in 2018-19 as against 3 percent set earlier, the reason being inadequate GST collection, which is expected to recover soon. However, there are expenses such as the recapitalisation bonds of public sector banks, which are excluded from this FD numbers, and other

[2]Ghuman, R. s. (2015), Economic and political Weekly, 1(15): 20-23.

[3]Statement 2B, Expenditure profile, Union Budget 2018-19.

serious fiscal concerns such as rising RD within this FD numbers.

Coming up to the third point of the modus-operandi, how the production cost will be accounted for? Will that come from the farmers themselves, which might include rentals and all other costs? If so, this might lead to escalating food prices at a massive scale. Typically, the need for providing MSP arises when there is bumper crop and the market price has become too low to make it remunerative for the farmers. In that case government procures the excess produce from the farmers at MSP, which is (obviously) higher than the prevailing market price and hence doesn't have buyers in the market. Now, the question is how the government will channelize this procured crops? There needs to a suitable outlet for this: either PDS or storage, because this can not be sold back to the market at lower cost (which will trigger problem of creating arbitraging opportunities, and hence monitoring issues are associated), neither this can be sold at higher market price- there will be no buyers in that case. Finance minister in a post budget press meet has mentioned that NITI Aayog in consultation with state governments, will work out the designing of the procurement mechanism once the newly proposed MSP is implemented.

Overall, this budget has certainly rejigged the sectoral emphasis; specially, on building the related structural and institutional concerns in the agricultural sector. It is well evident that our sectoral contribution in GDP is heavily skewed towards the service sector to the extent that more than 50 percent of the GDP contribution comes from the sector itself which absorbs less than 25percent people, and also, the sector is in a momentum of high growth. In contrast, more than 50 percent of people are engaged in agriculture with very little productivity. It is right time to put new impetus to the issues of “structural” concerns in those sectors which have historically shown high absorptive capacity shaping livelihoods for millions.