

# **The Future of Small Farmers in Punjab**

## **Contemporary Distress, Emerging Issues and Growth Policy Options**

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## EXECUTIVE SUMMARY

### 1. Introduction

Small farmers predominate the agriculture scenario in India. About 138 million small farmers today, who own less than 2 hectares of land, is home to about 600 million people in the country. Majority of them are undernourished, trapped into a vicious circle of abysmal low income-indebtedness and low level of living. The forces unleashed by processes of liberalization and globalization have hit them hard, compelling thousands of them committing suicides and leaving others into deep poverty, indebtedness and distress conditions. Expecting no silver lining in the near future, many are willing to quit agriculture but not doing so because either alternative options are not available or they are ill-trained and incapable to adopt the prevailing opportunities. The agrarian distress not only impacted adversely the small peasantry in India but falling real prices and market volatility of agricultural commodities in the recent past hit hard the small farmers globally. Only the severity of crisis varies across countries and regions depending upon how the small farmers are categorised and what types of supports, securities and safety nets are extended to the farmers.

The available empirical literature suggests that the issues concerning small farmers have not been adequately explored by Indian economists in the same manner as it received extensive attention in the two recent international conferences organized by IFPRI and UN-IFAD. Outcomes and recommendations of these two conferences provided rich insights on the issues concerned with the future of small farmers in the globalized agriculture. However, suggestions and recommendations arrived at these conferences, lack universal applicability and effectiveness because of known inter- and intra-country heterogeneity in structure and comparative advantage of agricultural products resulting from disparities in agro-climatic endowments, level of development and provisioning of various social and economic infrastructural services, and supports and interventions in agricultural markets. Consequently, knowledge generated in these conferences can be a starting point to explore the future of farmers in a specific region like Punjab.

Agrarian distress and suicidal tendencies in India not only affected adversely the agriculturally less developed states like Andhra Pradesh and Maharashtra but also struck hard the agriculturally most advanced state of Punjab. In fact, agrarian distress in rural Punjab is contrary to the general impression that the Punjabi farmers are prosperous compared to their counterparts in other states. In this background, the present study is a modest attempt to examine the contemporary issues and prevailing distress among the small farmers in Punjab so as to identify the appropriate policy options providing enduring solutions to their problems. More specifically, the main objectives of the present study were to examine the nature and extent of contemporary distress and living conditions of the small peasantry in Punjab; to study the emerging issues affecting income and well-being of the small peasantry;



and to identify feasible policy options enabling the small peasantry to benefit from emerging opportunities in the state.

The present study is based on both the primary and secondary data sources. The primary data was collected by canvassing a pre-tested questionnaire to the randomly selected 1000 small farmers from randomly selected 80 villages of Punjab from all agro-climatic zones of Punjab. These 1000 small farm households were selected randomly giving a due representation of each sub-size category of the small farmers. The secondary information is basically from the two 'Situational Assessment Survey' of farmers conducted by the National Sample Survey Organisation (NSSO) during 2002 and 2013. The secondary information besides enabling us to explore temporal changes in farmers economy in Punjab was also used to compare the income, consumption and saving of the state farmers with farmers in other major states of India. For better understanding of the findings of the study, simple tabular and graphical analyses have been employed to present information collected from primary and secondary sources.

## **2. Macroeconomic Scenario**

Division of the country and Punjab in the wake of attaining independence in 1947, dealt a serious setback to the economy and social life in the state. However, soon afterwards the economy emerged from the ashes of partition and became one of the leading states in economic performance in general and agricultural performance in particular. The entire credit goes to the adoption of Green Revolution Technology. Consequently, Punjab emerged as the leading state in per capita income, having universal coverage of roads and electrification by 1970s and the lowest incidence of poverty across Indian states. Similar to the partition in 1947, the events of the 1980s again dealt a serious blow to economic growth and social life of people in the state. The focus from development shifted to maintaining peace and harmony in the state. Huge expenditure incurred for the purpose put the state under serious fiscal deficit and hence mounting debt burden. Disruption of economic and social life broke the momentum of growth and development in the state. Even the reforms during the 1990s, that put the Indian economy on the path of high growth trajectory, failed to make any significant impact on the revival of the Punjab economy. Contrary to the leading states like Gujarat that recorded almost two-digit rate of growth over almost two decades, Punjab economy continues to be trapped in low growth equilibrium of 5-6 percent annual growth. From one of the fastest growing states, Punjab economy joined the league of laggard least performing states in the country.

Slugging growth during the last two decades marked every sector of the economy including most spectacularly performing agriculture. Over the two decades, the sector recorded almost half growth rate than experienced by the country as a whole. The poor performance on industry and services sectors inhibited the obvious process of structural transformation of the economy and shifting of the labour force from low productive agriculture to more productive



and better rewarding non-agricultural sectors. Furthermore, the slowdown of agriculture inter alia other factors ultimately started reflecting in low returns to farmers. Low profitability and resulting low saving pushed farmers to borrow loans both for investment purposes as well as for their households needs. This led to the accumulation of borrowings that ultimately trapped them in the cobweb of indebtedness. Failing to cope up with the precarious situation created by low returns and chronic debt burden, many farmers in the agriculturally most prosperous state committed suicides. Small and marginal farmers, having small holdings and a weak economy, were the most affected by these developments.

### **3. Farmers Distress in Contemporary Punjab**

Farming is not just a profession but a way of life for the farmers. With the exception of marginal farmers who draw a substantial part of their household income from wages, crop production and livestock constitute the mainstay of their household economies. Even though, Punjabi farmers' tops in the average income of farmers (₹ 18020 per month in 2012) in the country (₹ 6445) yet average income of farmers is abysmally low as compared to other segments of the society. On an average, monthly income of a Punjabi farm household is less than the monthly salary of the freshly recruited clerk (₹ 23220) in the Government service. Average earning of the small and marginal farm households (₹ 12520) is almost the same as minimum salary of a gardener or watchman (₹ 12212) and much less than even of the freshly recruited driver (₹ 16994) in Government service. The plight of the small and marginal farmers is much worse when the comparison is done on per worker employed basis. On per worker income basis, an average Punjab farm worker in 2012 was earning ₹ 8842 per month whereas a freshly recruited peon was paid the minimum monthly salary of ₹ 11954 per month. Similarly, on an average monthly income of small and marginal farmers in 2012 was just ₹ 7542 whereas the minimum wages of skilled workers in the state in 2012 was ₹ 7458 and of peon was ₹ 11954.

With such low returns, it becomes an uphill task for small and marginal farmers to maintain their hierarchical status and standard of living in their own communities and social networks. Their exposure to the burgeoning information in the wake of the explosion of internet and electronic media further aroused their aspiration for modern comfort and insatiable consumerism. Low income and high aspirations of modernism led to financial stress and dissatisfaction. The marginal farmers in the state are already under severe financial stress as their expenditure overshoot their income. Small and marginal farmers on an average spend 95 per cent their income on consumption needs leaving almost nothing (5%) to invest in human resources or physical capital formation and repayment of liabilities. The slowdown of agriculture and tightening of credit supply to farmers by the commercial banks under the processes of financial sector reforms adversely affected the small and marginal farmers as they have to rely more on private lenders for their financial needs. When asked about financial stress, 75 percent of the small and marginal farmers responded having such financial worries- 39 percent always and 46 percent sometime during the year. Overwhelming

empirical evidence support that indebtedness was one of the prime characteristics of the farmers committing suicides in the country, including Punjab.

#### **4. Emerging Issues**

*Satisfaction and Shocks:* Whether the small and marginal farmers themselves are willingly engaged in farming and satisfied or just they are trapped in the profession due to limited options elsewhere. When posed with this query, only 7 percent responded with high level of satisfaction whereas another 40 percent felt satisfied but the level was not high. Rest were not satisfied with the profession. Two-fifth of the small and marginal farmers wish to quit agriculture. Three-fourth of those wanted to quit, cited high cost/low profitability from farming as the main reason for their willingness to quit. Interestingly every sixth (15 percent) of those willing to quit cited the small size of their land holdings as one of the prime reasons. What else if not farming? Almost everybody (90 percent) sought employment in the Government or private sector. About a half desired market rent and security of their land rights and 40 percent sought some kind of skill formation or training for non-farm jobs. Besides returns and aspirations, production and income volatility resulting from natural and market-related shocks are well-known determinants of farm profitability and satisfaction from farming. About 70 percent of the farmers reported crop failure or low yield due to natural shocks as the prime shocks. Pest attack, failure of the tubewell or its deepening due to depletion of underground water, death of animals and the low market price of produce were the other shocks encountered by the Punjabi farmers.

*Potential Threats:* When farmers were asked to identify potential threats to their future sustainability, 83 percent reported catastrophic family consumption needs as the most important threat. They fear that in the near future, meagre family incomes may not be adequate to match rising consumerism. Three-fourth of the farmers reported ever increasing the cost of production as the second important threat. Small size of land holdings and probably future fear of its sub-division among the heirs along with the high land rent that hinders renting in the land were the other threats identified by the farmers.

*Are Small Farmers Willing to Diversify?* To cope up with the depleting underground water, the state of Punjab in recent past undertook some policy measures to diversify area under the wheat-paddy crops to other high value and less water intensive commercial crops like fruits and vegetables, pulses and maize. However, despite Government efforts area under these wheat-paddy crops in the state increased from 30 percent in 1951 to 70 percent in 1990-91 to 80 percent in 2010-11 and to 84 percent in 2017-18. Farmers are willing to diversify the cropping pattern but there are serious constraints that needs to be addressed and alternative choices must be incentivised as inducement to willing farmers.



### *What Constraints Diversification?*

When farmers posed the question of reasons constraining diversification of their cropping pattern despite public policy initiatives for the same? Interestingly it was neither the land and labour and nor it was technical know-how of the farmers for growing of alternative crops. The farmers revealed that the low profitability, high price volatility, inadequate market demand, risk of yield volatility and high production cost of substitutes of paddy were the predominant roadblocks on pathways of diversification of area from the wheat-paddy crop cycle to other commercial crops.

### *Diversification: Choice and Inducement Incentives*

Among the alternatives to paddy, maize emerged as the most preferred option as every third farmer opined to cultivate maize as an alternative crop. Dairy farming and vegetables were turned out to be the second priorities of every fifth farmer in the state. All the three sets of crops are on the priority list of the policy-making and implementing agencies associated with diversification of agriculture in the state. Interestingly there are a few takers for fruits, contract farming, net house cultivation and organic farming in the state and others crops on the priority list. Even in these crops market support in terms of assured market and price/income support turned out to be most preferred incentives inducements desired by the farmers for shifting resources from paddy to the maize and vegetables cultivation and investing resources in dairy farming. Technology and credit two other crucial requirements are not much sought after incentives of the farmers desirous to diversify. Interestingly, with so much focus on the non-farm activities and emerging opportunities in the area, Punjabi farmers seem to lack taste or not being exposed and aware of the opportunities in the non-farm sector in the state.

## **5. Policy Options: Rejuvenating Small Farmers' Economy**

The problem of prevailing agrarian distress in general and poor plight of the small and marginal farmers in the state, finding any quick-fix solution is almost impossible. Probably, a multipronged strategy would be more effective reasonable remedial measure for a solution to this complex problem. Policy initiatives are required both in create enabling environment for the small farmers to revitalise their economic base and augmenting their capacities and capabilities to cash on the emerging earning opportunities both in and out of the agriculture.

### *5.1 Enabling Macro Economic Environment: Generating Opportunities*

First and the foremost requirement for strengthening small farmer's economies is to revitalize the Punjab economy. Besides resolving problems and strengthening of the agriculture sector, the state must focus on reviving its industrial and services sectors to resolve the twin problems of sluggish growth and lack of decent job opportunities for educated youth in the state. Accelerating the growth of both industries and services sectors is essential for much desired structural changes of the Punjab economy. The agriculture sector has limits of attaining even

middle level of growth and with existing cropping pattern, not much scope is left for further acceleration of its mediocre growth. On the other hand, about two-digit growth recorded by many states in India in the recent past is mainly because of high (more than two digits) growth recorded by their industrial and services sectors. Moreover, the recent four-fold increase in unemployment among the educated youth in the state is mainly because of the slow growth of its non-agricultural sectors.

The state must strengthen its traditional niche industries in the Food and Textile processing, IT, Pharmaceuticals and Machine Tools industries that enjoy comparative advantage vis-à-vis their counterparts in other states of the country. Developing the agro-based industries not only will broaden the industrial base in the state but will also facilitate value addition by farmers and diversification of agriculture through various forward and backward linkages with other sectors of the economy. Nevertheless, shifting of industries to other states, serious competition from the intrusion of Chinese cheap imports in the Indian market and poor technology base of SMEs in the state dealt a serious setback to Punjab industry. Many Punjab firms fleeing to other states and others have been marked by serious sickness problem. The state industries failed to take advantage of the more liberal investment and business environment generated by the processes of reforms in the country. This needs immediate reversal along with efforts to attract the FDI in the state. Bridges must be built with the rich Punjabi diaspora to invest in Punjab. With the leading state in infrastructure development and ease in doing business, policy initiatives are desired to build the confidence of private investors in the state.

For strengthening its agriculture base, provisioning of the assured market and containing price volatility through either price support or price stabilisation programme or through deficit payment scheme are need of the day. In fact, alone so there are big opportunities to diversify agriculture from paddy crop to less water consuming maize and vegetables crops that are already on the priority list of official agencies for the purpose and most preferred revealed preferences of the small and marginal farmers in the state. The minimum support price must be remunerative to ensure adequate returns on farming. Recommendations of the Swaminathan Commission Report of fixing MSP 50 per cent higher than the cost of production is one of the most cited and accepted policy option across the many stakeholders including farmers and major political parties in the country. Besides diversification, there is still scope for technological developments of plants and animals production in the state. Among the new techniques artificial insemination (AI), import of quality breeds and semens, and precision farming in the state along with strengthening the post-harvest technology in marketing and processing through the farm co-operatives and SHGs are most cited options by the agricultural scientific community.



## 5.2 *Micro Initiatives: Capacitating Small Farmers*

Meagre earnings not even sufficient to meet their family consumption needs and mounting indebtedness fuelling stress and financial insecurity are worrisome for the well-being of the small and marginal farmers in the agriculturally most prosperous and developed state in India. Besides macroeconomic policies, the study comes up with some policy suggestions to rejuvenate their economies. First and foremost is the need for policies to facilitate their exit from farming. Almost half of them are not satisfied with the profession and they also don't visualise a better future prospectus in farming. They expect the Government to provide employment elsewhere, provide training for any job, and assure of the security of land rights on renting land to others. Upon initiation of such policy measures, quite possibly a substantial proportion of them may quit agriculture to see green pastures elsewhere. Small and marginal farmers who would be left behind must be incentivised to undertake high tech intensive and modern activities in the production of dairy farming and vegetable cultivation, as revealed by them as preferred options.

The second set of policy initiatives to strengthen the economy of the small farmers is to enable their upward mobility on the income ladder. As identified by them, provision of quality education for their children's, access to quality health services, and dissemination of right information and knowledge of opportunities are some initiatives expected to capacitate the small farmers to rise on the income ladder. Similarly, there is an equally important need of policy initiatives to avoid pitfalls of addiction, debt burden, litigation along with provisioning of income and social security in wake of potential natural and market threats that push them down the income ladder. Commendable recent achievements of the Delhi Government in health and education and promised doubling of farmer income or minimum income security promised in recent elections indicate that such farm level desired initiatives are feasible, provided they prevail amongst the ruling classes.