

Crop circles

Indian policymakers should see agriculture as a source of growth, not votes.

INDIA'S industry is going from strength to strength. Manufacturing grew by 14.3% in the fourth quarter of 2009, compared with the same period in 2008. Politicians celebrate the achievements of "India Inc", applauding its acquisitions abroad and welcoming the foreign investment it attracts.

They do not show anything like the same confidence in "Bharat Inc", which is how India's rural economy is sometimes described. Bharat, which means India in Hindi, is a different country. The rural heartland is courted for votes, smothered with regulations, and shielded from the global economy that corporate India is busy conquering. Yet the government cannot achieve the "inclusive" growth it aspires to without robust progress in agriculture, which still employs about half of India's workforce. Agricultural growth cuts poverty twice as fast as other kinds, because the poor are mostly rural and they spend more than half of their household budgets on food.

Indian agriculture can comfortably feed the country, but that remains the sum of its achievement. The rapid increases in productivity achieved during the green revolution have levelled off, with soils responding only grudgingly to the heavy use of fertilisers. And farmers remain at the mercy of the monsoons. Thanks to the worst rains since 1972, agriculture shrank by 2.8% in the year to the fourth quarter. This year, for the first time in the country's history, India's factories may contribute more to GDP than its farms, forests and fisheries.

Indian agriculture has performed so poorly largely because governments have treated it as a source of votes rather than as an engine of growth. The contrast with China is telling. China's epochal reforms began on the farms. The growing efficiency of agriculture liberated labour and capital, spawning non-agricultural firms which eventually challenged state-owned enterprises. India freed industry first, and has barely reformed agriculture at all. Its policymakers remain stuck in the mindset of the 1960s, when India relied on food aid from America. They are more anxious to avoid such humiliation than to exploit fresh opportunities: they regard a state warehouse bursting with grain as a sign of success, and imports of wheat as a mark of defeat. Politicians' outbursts against hoarders and speculators have stymied the development of storage facilities and commodity markets. And their concern to protect farmers from exploitative merchants has slowed the development of contract farming (see article).

India's government still fixes prices and subsidises inputs, when public money would be far better spent on infrastructure and research. It sets a floor under the prices of 25 commodities including rice, wheat, sugarcane and cotton, which discourages farmers from diversifying. Ashok Gulati of the International Food Policy Research Institute points out that an additional rupee spent on agricultural research yields 9.5 rupees of output. An extra rupee subsidising fertilisers, by contrast, returns just 0.85 rupees. Better storage and transport facilities would also allow farmers to profit from growing fruit, vegetables and flowers. These offer better prospects than staple cereals, like wheat and rice, which preoccupy policymakers. According to the World Bank, transporting grapes to the Netherlands from India costs more than twice as much as transporting them from Chile, even though Chile is twice as far.

Not so down on the farm

The government is gingerly taking steps to improve things. On April 1st it will introduce a new fertiliser policy, which should add more nutrients to the soil while leaching fewer resources from the public coffers. In February's budget the finance minister cut duties on cold-storage equipment and allowed Indian companies to borrow abroad to pay for it. The government

acknowledges the money lost to middlemen and declares that we “need to take a firm view on opening up of retail trade”. But saying you need to take a view is not the same as taking one. And a “firm view” could be firmly in favour or firmly opposed.

India needs to stop seeing agriculture as a problem to be nursed and start thinking of it as an opportunity to be grasped. The Doha Round of global trade talks has been repeatedly held hostage to India’s fears for its “subsistence” farmers. (In fact, few Indian farmers grow food purely for their own consumption, and if they did, they would, by definition, have nothing to fear from trade.) Despite all the talk of an agrarian crisis, India is already an agricultural force in some crops. It is the second-biggest exporter of cotton and was a net exporter of cereals for a decade after 1995, Mr Gulati points out.

India will struggle to become an agricultural powerhouse like Brazil—its landholdings are too fragmented and its water sources too stressed for that. But its policymakers should treat farms as a potential source of growth, not just of votes. Then they might start to yield pride rather than pity.

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