

## Editorial

# Manufacturing fails agriculture

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Breast beating about agrarian distress is the flavour of the poll season. The crisis has been building over decades and has reached a tipping point. Quick fix solutions like loan waivers may be good options, but are unlikely to make a dent on the problem. The population explosion and lack of structural and factor reforms have resulted in the agriculture sector, which contribute about 17-18% of the GDP being forced to support more than 50% of the country's population. A demographic disaster is staring the country. Loan waivers by state governments are a manifestation of 'the goalkeeper's dilemma' i.e. being perceived as acting in a crisis, without caring for the outcomes. Such waivers have been unsuccessfully experimented with earlier, and it is unlikely, that doing the same thing would yield different results in the future.

The answer to the crisis has been, to quote a line from Bob Dylan's famous song, 'Blowin' in the wind', obvious if one wants to see and know it. At least 250 million people have to be shifted from the agriculture to the manufacturing sector. This would require creating at least 50 million jobs for the rural unemployed. Experience over the last two centuries has conclusively demonstrated that the manufacturing sector has to be the prime mover of this transformation. Expecting the services sector to absorb this size of underemployed and unemployed agriculture labour force, is a red herring, backed neither by evidence nor facts.

Unfortunately, the share of manufacturing in the India's Gross Domestic Product (GDP) over the last several decades, has languished around 15-16%. This is far below the aspiration of 25%. Manufacturing has grown much below 12-14% cumulative annual growth rate (CAGR), required to significantly increase its share in the GDP.

Manufacturing is an outcome. Its growth and sustainability rests on competitiveness. An annual manufacturing trade deficit of around \$50 billion with China, of which a significant portion is attributable to low technology products, red flags the need for a paradigm shift in fiscal, trade and investment policies, to create an eco-system which will enable Indian manufacturing to compete with international standard. The National Manufacturing Competitiveness Council, set up by the UPA government, with the aim of energising and sustaining the growth of manufacturing, achieved little.

Manufacturing is a sub-set of Industry. Industry, but for two exceptions, figures in the State list, enumerated in Schedule 7 of the Constitution. The exceptions as mentioned in the Union List are industries required for the purpose of defence and conduct of war, and those whose control by the Union is declared to be expedient in public interest and subject to compulsory licensing. There are only five items which are subject to compulsory licensing on date.

The onus of promoting industrialisation lies mainly on the state governments. Further, as per the Constitutional scheme of things, the bulk of reforms in the arena of land and labour have to be effected by the state governments, while ensuring availability of cost effective capital, has to be primarily the remit of the Union government. However, both the federal and the state governments have to join hands to create the infrastructure and reduce the regulatory burden enabling entrepreneurship to flower and flourish. Manufacturing is the acid test of cooperative federalism.

The National Manufacturing Policy 2011 was an effort to comprehensively address the problems plaguing the manufacturing sector.

The Economic Corridors and National Investment and Manufacturing Zones under NMP, with their world class infrastructure were envisaged to accelerate the growth of manufacturing, by inter-alia, improving the efficiency of factors of production. It did not gain much traction during the UPA government. The successor government came out with the 'Make in India' programme to boost manufacturing. Factor reforms continued to remain on the drawing board. With the additional overhang of infrastructural bottlenecks and regulatory overload, accelerating the manufacturing growth rate remains a work in progress.

Manufacturing has failed to bail out the agriculture sector. Some succour could have been provided by reducing the heavy regulatory burden on the agriculture sector. Ceiling on agriculture landholdings has lost its relevance. In this context it is pertinent to mention that, a similar legislative attempt to impose ceiling on urban land, was an abject failure and the relevant Act had to be repealed. In several states there are restrictions on sale and leasing of agriculture land which further distort the market for such land. Subjecting the domestic sale of agriculture produce to the provisions of the Agricultural Produce Market Committee Act (APMC) and The Essential Commodities Act, 1955 adversely affects the farmers' price realisation.

The price distortion gets accentuated by restrictions on the export of agriculture produce. Felling and transportation of trees standing on the farmer's land is severally constrained. None of these legislations are serving the purpose for which they were enacted. The time has come to abrogate all laws, which stand in the way of raising farm productivity and best price realisation for the farmer, by allowing him complete marketing freedom for his agriculture produce.

The Rythu Bandhu scheme of the Telengana government and the KALIA scheme of the Orissa government, are first steps in the right direction, to improve the lot of the farmers. The Union government could emulate these state governments by introducing a scheme in the forthcoming budget, whereby subsidy linked to a farmer's holding size is directly transferred to his bank account. This could be a holding operation till comprehensive factor and regulatory reforms for the agrarian sector are undertaken. However, the sine qua non for the sustainability of agrarian reforms resulting in rural prosperity, will be determined by the ability of the manufacturing sector, to absorb the surplus labour from the agriculture sector.

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