

The agriculture solution

Most immediate is the one on offer for the Budget

Were the BJP to come to power, the agriculture ministry offers it the best chance to not just fill big holes in the budget, but also to cater to its primary base of traders—indeed, it is ironical that the party has not cared to think about this all these years. The latest 'price policy for kharif crops' of the Commission for Agricultural Costs and Prices (CACCP), ranking states in terms of their being market-friendly, brings out the possibilities quite starkly. The states that distort the market the most by way of putting curbs on private trade or by way of high taxes are ranked the lowest—not surprisingly, the large producer states like Punjab and Haryana are among the least free—Punjab, for instance, levies a 14.5% tax on rice purchases in the *mandi* and, at ₹3,600 crore in FY12, these added up to 18% of the state's own taxes. As a result of this, in even BJP-ruled states like Chhattisgarh, there is virtually no paddy left for procurement by the private sector. Were the new agriculture minister to put a cap on procurement from states that levy large taxes—and are, therefore, low on the CACCP index—this would both save money as the taxes are borne by the Food Corporation of India (FCI) and even free up space for private trade.

The huge excess stock with FCI—the result of an open-ended procurement policy—do two things. First, with limited floating stock in the market, they drive up food inflation. Two, from the point of view of the exchequer, they block valuable funds. Just offloading 10 million tonnes of wheat will generate around ₹20,000 crore for the exchequer in terms of the price it will fetch as well as the reduction in carrying costs. Do the exercise for the excess stock FCI holds—at least twice what is required—and, according to ex-CACCP chief Ashok Gulati, you could get around ₹1 lakh crore. Were a more rational policy of cash transfers to be adopted, FCI would need even less stocks, but if the next government were to strictly implement even the current stocking norms—that needs eliminating the current open-ended procurement—this would go a long way in easing the budget as well as making the sector more competitive. And also keep inflation in check.