

# Socio-economic Crisis in Rural Punjab

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A detailed look at the agricultural, educational and health crises that afflict Punjab. Government support in all three areas has been falling. The state government is not doing enough to mobilise available resources to improve public services.

Punjab continues to be predominantly a rural economy as two-thirds of its total population and 70 per cent of its total workers live in villages [G01 2001]. Further, 39.4 per cent of the total workers in Punjab are engaged in agriculture (cultivators and agricultural labourers). Their share in total rural workers, as per the 2001 Census, is 53.5 per cent. An empirical study of three villages in three districts of Punjab, however, highlights that only about 16 per cent of the rural workers were employed in the rural-non-farm-sector [Ghuman 2005].

There are about 18.44 lakh farm households in Punjab [nss0 2005], out of which 8.41 lakh are cultivators. A very high proportion supplements its income from dairying. Another 8.65 lakh farm households are exclusively dependent on activities other than farming. They are largely engaged in dairying and livestock rearing.

Nearly 32 per cent of operational holdings are smaller than five acres and another 33 per cent are between five and 10 acres [G0P 2001]. The percentage share of the marginal and small holdings (up to five acres) in the total operated area is merely 8.73 per cent. These holdings

have already become uneconomical. But for dairying, 2.96 lakh marginal and small farmers would have been below the poverty line.

About one-third of the gross domestic product of Punjab (GSDP at constant prices, 1999-2000) in 2005-06 was contributed by agriculture and livestock. The share of livestock (mainly comprising dairying) in the total income generated by agriculture and livestock is approximately 32 per cent.

## Trends in Agriculture

Since the early 1990s, the yield of major agricultural crops has been experiencing a stagnation. The additional increments in yield are rising at a very high marginal cost. As a consequence, the per hectare net return is declining and this is the real crisis of Punjab agriculture. The annual trend growth rate of per hectare return, over variable costs, from wheat and paddy (combined) was -2.18 per cent during the 1990s. In the case of cotton, it was -14.24 per cent per annum during the same period [Ghuman 2001]. A depleting water table, the ever-rising use of fertilisers and pesticides, over-mechanisation, declining fertility of soil, and almost stagnant minimum support prices (in real terms) are the major reasons for a shrinking of farmers' income from agriculture.

Along with the shrinking of income, the labour absorption capacity of agriculture is sharply declining. The employment of labour in the rearing of major crops in

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Punjab declined from 48 crore man-days during the triennium ending 1983-84 to 43 crore man-days during the triennium ending 1996-97. About 12.85 lakh persons (10.07 lakh cultivators and 2.78 lakh agricultural labourers) in agriculture and livestock sectors were surplus in 1991 [Gill 2002].

The ever-rising cost of cultivation and declining net return has resulted in the heavy indebtedness of farmers. According to the National Sample Survey Organisation [NSSO 2005] estimates, the average amount of outstanding loan on each farmer household is the highest (Rs 41,576) in Punjab amongst all the major states in India. About 52 per cent of this debt is from non-institutional sources. Next to Andhra Pradesh and Tamil Nadu, the debt incidence of farmers is the third highest in Punjab. About 65 per cent farmer households in Punjab are under debt.

Nearly 64 per cent of farmers (up to 10 acres) may not be able to repay the debt/loan and may fall in a debt-trap in the next 10 to 15 years. Another 20 per cent (two-thirds of the medium farmers) could follow. About 37 per cent of farmers have already expressed their willingness to opt out of agriculture (55th round of NSS). Farmers' suicides are a manifestation of the above-mentioned scenario. Farmers' indebtedness and suicides have become very serious problems in Punjab.

### Possible Way Out

What is required in Punjab is that the state should have its own comprehensive policy towards agriculture, allied activities and cooperative sectors. Research and development in agriculture and allied activities are essential for updating technology and developing high-yielding varieties of seeds and milch animals. Extension services in agriculture and allied activities are equally important to carry out the recommendations of research from laboratory to the farm and end-user.

Institutional loans should be written off, though after a careful scrutiny, as a one-time exception. The non-institutional loan/debt should also be settled as a one-time settlement by giving due consideration to the already repaid amount

(both in the form of principal and interest). In future, the 'arhtiyas' and other money-lenders should be registered and licensed. Only such registered and licence holder arhtiyas should be authorised to do the business of moneylending.

In view of the large-scale unemployment in Punjab (approximately 20 lakhs, out of which about 15 lakhs are in rural areas), there is an emergent need to develop the rural non-farm sector for employment generation and smooth transition from agriculture to other sectors.

Vertical integration of agricultural produce with industry is imperative for value addition and employment generation. That would require public-private partnerships and farmers' cooperatives to be put in place, free from bureaucratic control and corruption.

Free electricity to the farm sector in Punjab is neither sustainable nor the demand of farmers. It is simply competitive political populism, which is not sustainable at all. What farmers require is an uninterrupted regular supply of electricity. Instead of giving free electricity to the farm sector and other weak sectors, the government should subsidise education and health services in rural areas. Already, the amount of subsidy on electricity for agriculture in Punjab is around

Rs 2,500 crore per annum. Subsidised 'aata-dal' churns out about Rs 750 crore annually. Such a huge subsidy is neither required nor sustainable.

In the changing scenario, the state needs a comprehensive land use/acquisition policy, which would include mapping of the entire land in Punjab. The special economic zones and other projects should be established on relatively less productive land. The farmers should be given the market price plus the dislocation cost. To take care of their livelihood and employment, at least one member of the farmer's household should be given suitable employment in that project.

The problem of landless agricultural labourers working on the land, prior to acquisition, is rather serious. Such households also need to be compensated with suitable employment in those projects or elsewhere.

### Education

Education in rural Punjab has almost collapsed. The process started in the 1980s and there has been no resurgence till date. The share of education, sports and culture in the state budget declined from 22.17 per cent in 1970-71 to 17.12 per cent in 1980-81 and further to 12.29 per cent in 2004-05 [GOP 2007]. The shortage of



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teachers, head teachers and headmasters is more than 40,000. The dropout rate from class 1 to class 10 is around 48 per cent. Approximately, 65 to 80 per cent of students in rural government primary schools belong to scheduled castes, other backward classes and other economically weaker sections [Rani 2007]. It has resulted in a serious societal divide. A recent study [Ghuman et al 2007a] revealed that 69 per cent of rural households in Punjab do not have even a single member who has completed class 10. In the case of labour households, this proportion is 90 per cent.

The proportion of rural students in higher education also presents a dismal picture. According to another recent study [Ghuman et al 2006], the share of rural students in the four conventional universities of Punjab was only 4.07 per cent during the academic session 2005-06. It has serious socio-economic implications for the future growth potential of the state economy.

Unfortunately, during the last two decades or so, some top ranking bureaucrats of Punjab have been spreading a good deal of misinformation and disinformation that education in the developed countries is funded entirely by fees. They also convinced the political leaders about this. This has led to a cut in the budget allocation to education in the state. They have conveniently forgotten that education is a merit good and emanates high social/external returns along with individual returns. That is why education in the state deserves public funding [World Bank 2000].

The political leadership and civil bureaucracy must understand that the main engine of growth is the accumulation of human capital or knowledge and the main source of differences in living standards among nations is a difference in human capital. "The real wealth of a nation is its people. And the purpose of development is to create an enabling environment for people to enjoy long, healthy and creative lives. The simple

but powerful truth is too often forgotten in the pursuit of material and financial wealth" [UNDP 1990].

Knowingly or unknowingly, education is being pushed into the hands of private players and in the process, there a reckless commercialisation of education has taken place. The hefty fee being charged by the private service providers, is beyond the reach of 80 per cent households in Punjab. Ghuman et al (2007b) established that 40 per cent of the rural households and 31 per cent of the urban households in Punjab cannot afford the fees and funds of general higher education even for a single child, not to talk of medical, engineering and other professional education. Clearly, education cannot be left to the market forces and for-profit private players.

### Health

Health, like education, is an equally important determinant of human capital and growth. However, the public health

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delivery system in Punjab during the past two decades has been deteriorating, more so in rural areas. People living here face two difficulties – scarce availability of quality health services and limited affordability. In the absence of a sufficient number of qualified doctors and paramedical staff, rural inhabitants are largely left to the mercy of unqualified doctors (chemists, quacks, faithhealers, etc) who provide sub-standard services and that too, at high prices.

Unfortunately, the state has not recruited doctors and other paramedical staff during the last decade or so. Contrary to this, the neighbouring state of Haryana, has regularly been recruiting doctors every year. The appointment of doctors (on contract), as service providers, by the Congress regime in its last year, i e, in 2006, has made a mockery of the health delivery system in rural areas.

The share of health and family welfare in the state budget declined from 7.24 per cent in 1970-71 to 4.32 per cent in 1991-92 and further to 3.51 per cent in 2004-05 [GOP 2007]. Rural inhabitants are the worst hit by such a withdrawal of funds by the government. The government must remember that the delivery of health services, particularly at the primary level, cannot be left to the mercy of private service providers.

Availability of adequate resources with the government is a prerequisite condition for effective intervention. It is often argued that the government has a scarcity of resources. In fact, what is scarce is political will and not resources. Every finance minister of Punjab, during the last 15 years, has admitted that there has been a serious undermobilisation of resources (both from tax and non-tax sources). As per official estimates, proper implementation of value added tax can generate more than Rs 5,000 crore additional resources. The evasion and pilferage in excise, stamp duty and tax on many services may add another Rs 5,000 crore to the public exchequer.

Thus, Punjab can raise the tax-GDP ratio from the present 9 per cent to at least 13 per cent, as has been in the case of many other Indian states, by better

tax compliance and bringing additional services/activities in the tax net. Along with proper mobilisation of resources, their judicious use is equally important. As such the wasteful and unproductive use of resources needs to be curbed with a heavy hand. The competitive political populism, in the form of freebies, will not be good economics and would not be sustained for long. In the absence of additional resource mobilisation, it is bound to be unsustainable.

The corruption and size of black economy in the state are highly correlated with each other. Going by the national estimates of black economy (40 to 45 per cent of GDP) the size of the black economy in Punjab is likely to be in the range of Rs 35,000 to 40,000 crore per annum. This, along with high degree of corruption, should be a serious concern of all the political parties in the state. It has a negative fall-out on governance and the ability to govern. The hallmark of governance is its credibility, which in turn depends on integrity, transparency, efficiency, accountability and delivery of justice.

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