

Yogi's wrong call

Govt policy is responsible for sugar sector's woes

Uttar Pradesh Chief Minister Yogi Adityanath has a history of making puzzling statements. But even by those standards, his recent remarks on sugar production in UP stand out. Mr Adityanath exhorted farmers in his state to grow less sugarcane since too much sugar caused diabetes. This has confounded onlookers. First of all, any form of simple carbohydrates can stress the body's insulin sensitivity and lead to diabetes. Sugar alone is not the culprit. And second, production and consumption are two different sectors and should be thought about separately. More to the point, however, Mr Adityanath's statement betrays a lack of understanding of the market economy and of incentives. The simple truth Mr Adityanath should realise is that if Uttar Pradesh's farmers are producing too much sugar, it is because the government is incentivising, indeed, paying them to do so.

The sugar production sector is the single-most complex and under-reformed sector of the agricultural economy. This is thanks to the political salience of not just sugarcane farmers but also the owners of sugar mills. In some states, sugar mills are controlled by powerful politicians. The consequence of this is that for decades the central and state governments have poured subsidies and resources into the sector and India has a problem of chronic over-production. Economists have pointed out that India is likely to produce over 35 million tonnes this financial year, which is more than 40 per cent over what is required for domestic consumption. There is already a stock of 10 million tonnes of sugar in place. In a global economy, such mismatches between domestic demand and supply should matter less. However, the Indian government has always misapplied export and import controls in order to "manage" domestic prices of commodities such as sugar, which means that Indian farmers have never been able to properly enter global supply chains. Further, the complex controls on the Indian sugar industry mean that high amounts of exports might be successfully challenged at the World Trade Organization.

Meanwhile, its propensity to subsidise farmers means that subsidy arrears have reached over ₹210 billion at the beginning of this financial year and will undoubtedly swell in a year of over-production. Uttar Pradesh accounts for 38 per cent of national sugarcane production and its budget will be particularly stressed. This is a consequence of a policy that sets out to coddle sugarcane farmers and provide them with a return that is 90 or even 100 per cent above their costs. There have been past efforts to reform the system of sugarcane pricing, including recommendations from a committee led by former Reserve Bank of India Governor C Rangarajan. But Mr Adityanath's UP has implemented none of them. There is only one sustainable solution to the problem of sugar over-production and stressed state budgets: Reforming the sugarcane sector in such a way that farmers are plugged directly into the market for sugar. Then if farmers need income support, direct transfers instead of meddling with pricing should be provided.

Business Standard
20/9/2018