> Insight: Reinventing the Food Corporation of India

> Answers to Farmland Woes

FARMERS' FORUM

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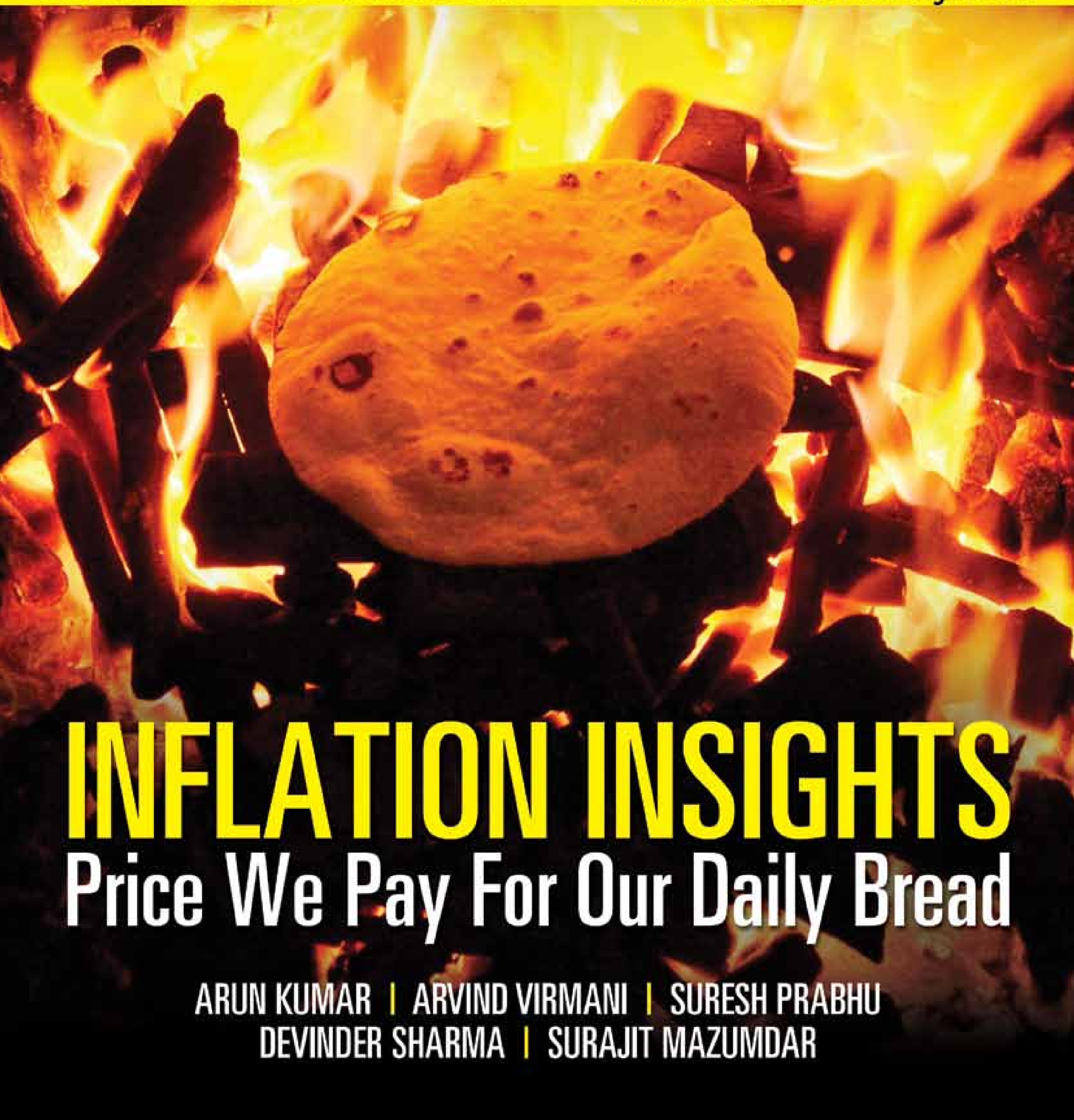
Issues and Ideas for Indian Agriculture



INFLATION INSIGHTS

Price We Pay For Our Daily Bread

ARUN KUMAR | ARVIND VIRMANI | SURESH PRABHU
DEVINDER SHARMA | SURAJIT MAZUMDAR

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Whither 'Achhe Din' for the Farmer?

It has been four momentous years of 24 issues of *Farmers' Forum*. It has tried to provide an independent platform for different opinions on farming; some of them voices in the wilderness. It has made an effort to invite domain specialists and independent experts (upwards of 100 at last count) to its programmes and sought their views on what it publishes. People speak out for independent work but go to any length to thwart independence, if it is contrary to their views and expectations. In that respect and more, *Farmers' Forum* feels proud of having covered so much territory in four years. Without doubt it could not have done so without the editorial support team, designers and the printers, to name just a few.

Farmers' Forum has tried to generate some understanding amongst those that influence agriculture policy of the alternatives that exist to their policies and the impact of the policies formulated. Along the way, it learnt, amongst other things, that those who know how to farm cannot express themselves as well as those who articulate well on the farm economy but do not farm.

Understanding of such simple things as the timing of rain is no less important than the percentage of normal rain that remains deficient. The spell of heavy rains in September reduced the seasonal deficit to 87 per cent. Statistically this may appear good but unseasonal rains closer to harvest time actually damage the crop. Harvest time varies with movement of the sun over latitudes; the same rain that is beneficial for one crop or one region may play havoc for other crops or regions.

In 1875, when the Indian Meteorological Department (IMD) started, it would have been more probable to expect an accurate weather forecast by 2014 than the 'Mangalyaan' space probe to planet Mars. That was not to be and India reached Mars but dependable weather forecast remained elusive. The IMD predicts aggregate rainfall in percentages over vast regions, which is good for statistics but not useful for planning crops. Consider this year's IMD forecast of a 60 per cent chance that El Nino would impact monsoons. Chances of being wrong on such a wide prediction or the information being useful was slim.

Monsoon prediction in India lacks accuracy and is not location specific (block level, not district level information is what is needed) rendering the forecast irrelevant for individual farmers. This is not to say that there has been no improvement. Short-term forecasting (one week) has improved reasonably in the last few years, medium-term forecasting remains unreliable and there is no

THOSE WHO KNOW HOW TO FARM CANNOT EXPRESS THEMSELVES AS WELL AS THOSE WHO ARTICULATE WELL BUT DON'T FARM

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IN 1875, WHEN THE IMD STARTED, IT WOULD HAVE BEEN MORE PROBABLE TO EXPECT AN ACCURATE WEATHER FORECAST THAN THE 'MANGALYAAN' MISSION BY 2014

medium-range prediction about winter rains. A farmer needs a medium-term forecast (three months) to plan a cropping pattern.

The cost-benefit analysis of an effective weather advisory will prove invaluable to the nation and help farmers to decide on what to do or not to do; to reduce losses, risks and improve quality of produce and productivity. It will be far more valuable than any grandiose scheme like interlinking of rivers. The same could be used for crop-based weather insurance, which is as good as non-existent for majority of farmers.

For example, this year paddy and Basmati farmers are incurring losses as cost of cultivation has increased on account of extra consumption of electricity, diesel and expenses on re-boring of deeper tube-wells due to falling water tables. To make things worse, the market price is much less than last year.

Prices of non-perishables not only paddy and rice but cotton, mustard, maize, soyabean, masur (lentil), gram, wheat (open market) are all selling 20 per cent below and even more when compared to last year's high. These are not perishables; such sharp decline in prices will destroy the dream of 'achhe din' for farmers. Prices of agriculture commodities in the international market are on the downswing and are expected to remain moderate for some time to come.

Farmer's efforts have enabled India's food production targets to be met and controlled food inflation to some extent. The government must mitigate farmer distress on account of rainfall woes by announcing bonus for such farmers. Now, that no major elections are due, political expediency must not interfere with decisions on relief measures. Given India's curious way of thinking, the same economists who oppose the relief bonus to farmers may well suggest a tax on falling rain should the IMD make its forecasts more reliable!

Ajay Vir Jakhar
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CONTENTS

ANNOUNCEMENT

Cushrow Irani Prize for Environmental Reporting for Farmers' Forum contributor

BHARAT DOGRA

The Cushrow Irani Prize for Environmental Reporting was presented to **Bharat Dogra** for his report 'No Justice for the Rural Scientist' published in the April-May 2013 issue of *Farmers' Forum*, September 16, 2014, at a well-attended award presentation function held at Kala Mandir in Kolkata.

To the Editor

For a meaningful agri agenda

Sir, Apropos of your editorial “Time to Plough a New Path” (*Farmers’ Forum*, August-September 2014), there are three main lessons that need to be taken into account on a priority basis. As you mentioned: the key to increased prosperity lies in not allowing wages to increase but in reducing prices so that people can afford more. The second suggestion that is noteworthy is the reconstitution of the Food Corporation of India into three entities. The third and the most important one is about including farmer representatives in the various boards and commissions set up by the government. I hope someone in the new government is listening.

Harit Sharma,
New Delhi

De-reforming agriculture!

Sir, Apropos of Surjit S. Bhalla’s article, “Sorry; We do not Reform Agriculture” (*Farmers’ Forum*, August-September 2014), the Indian agriculture experience has been so disappointing for the farmers that it has led to the coinage of a new term. Surjit S. Bhalla has brought to the fore a very serious issue of there being no reforms in Indian agriculture in the last 65 years and the fact that Indians are still debating the same of topics around agriculture they were in the 1960s. Rightfully, the focus must also turn to what the farmers’ community and the farmer organizations have been lobbying for. Indeed, are they lobbying for any radical change that, by the way, are non-radical when compared to most countries or do they not have a voice?

Randhir Singh,
Jaipur, Rajasthan

Brar brothers blaze a trail

Sir, the heading of your Greenfingers article, “Of grit and dirt, risk and reward, hard work and Providence” (*Farmers’ Forum*, August-September 2014), tells it all. These are the factors behind the inspiring story of the two Brar brothers Harnek Singh and Gurdev Singh. They present a case study or how enterprise and the sweat of one’s brow can move mountains.

Jitender Singh,
Chandigarh

Farmers’ Forum website www.farmersforum.in is now up and running. Log in to check out all earlier numbers.

Understand problems before attempting solutions

Subir Gokarn’s exceptional observation that the real agriculture minister in this country is the monsoon, in his article “Time to Shape Expectations and Drive Solutions” (*Farmers’ Forum*, August-September 2014), brings to the fore a very basic issue around the resilience of Indian agriculture and public response to farmers and farming who seem to be at the receiving end of everything. Admittedly, the very serious problem of food inflation should lead to public angst but the hapless farmer is one of the victims here, not the cause. The new government should come to an understanding of issues instead of applying solutions that hurt instead of helping.

Sandeep Soni,
Jammu, Jammu and Kashmir

Beware of oligopsony

In his article “Food Inflation: Achilles’ Heel for Good Governance”, (*Farmers’ Forum*, August-September 2014), Darshan Singh Bhupal hits the nail on the head: food inflation is associated with necessities and cannot be left at the mercy of the oligopsonies alone, particularly when the regulatory framework is at a nascent stage.

Arijit Bandopadhyay,
Kolkata, West Bengal

FOOD INFLATION

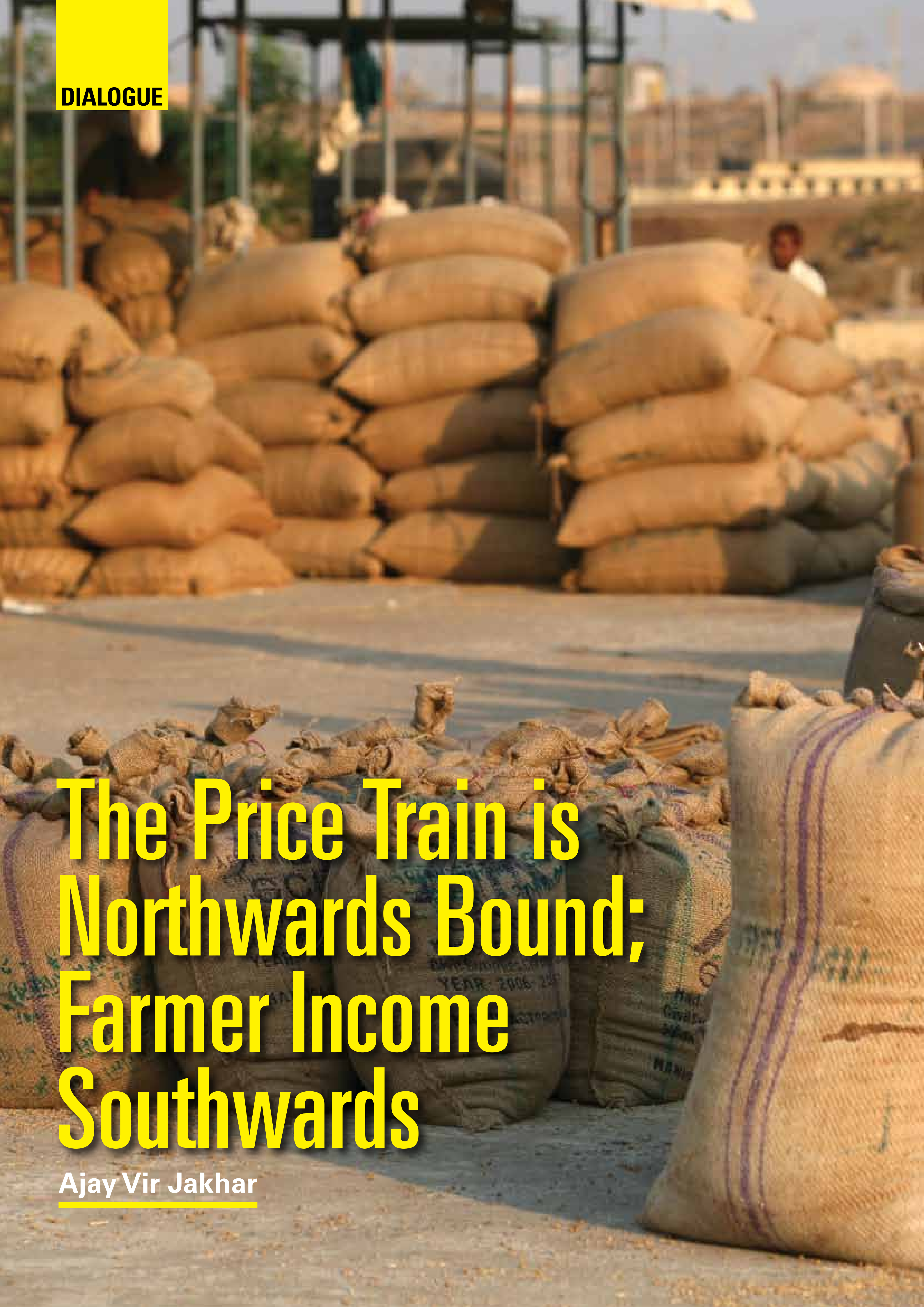
Disturbing Malaise; Doubtful Cure

The most worrisome facet of the Indian economy is its endemic poverty and the stubborn food inflation that no amount of authority and strategy has successfully addressed thus far. Opinion on the cause and remedy of India's food inflation that impacts the poor the most are often sharply polarized. The *Farmers' Forum* cover story by two of India's leading agriculture commentators presents one important perspective that is data driven.

Yet there are other positions that are just as convincing, the poverty of India being as much a social phenomenon as an economic one. Perceptions do matter. Is inefficiency the root cause? Is it corruption or is it the lack of political will? Popular perceptions become particularly important during elections. If the bulk of Indian poor believe that the government is not ensuring access to basic food, the reigning government has to go. That has been the recent experience at the hustings in this country.

'Dialogue' presents a cross-section of opinions of experts who met at the India International Centre Annexe on September 8, 2014. The Editor, *Farmers' Forum*, Ajay Vir Jakhar, flagged off the deliberations, focusing on the paucity of knowledge amongst those determining policy; something that *Farmers' Forum* is seeking to address through a constant communications initiative, as it were.

The keynote address, titled 'Containing Food Inflation', was delivered by Suresh Prabhu, former Union minister. The other speakers were Arvind Virmani, former Chief Economic Adviser, Government of India and President, Chintan; Arun Kumar and Surajit Mazumdar, Professors at the Centre for Economic Studies and Planning, Jawaharlal Nehru University; Devinder Sharma, food policy analyst and activist. The discussion was moderated by Paranjoy Guha Thakurta, senior journalist and educator. ●



DIALOGUE

The Price Train is Northwards Bound; Farmer Income Southwards

Ajay Vir Jakhar

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AJAY VIR JAKHAR
Chairman, Bharat Krishak Samaj; Editor, *Farmers' Forum*

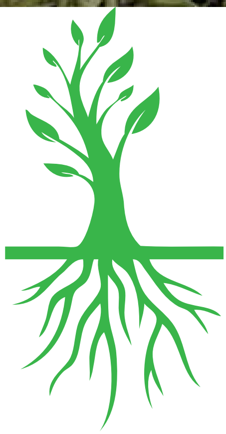
Bharat Krishak Samaj (BKS) is a farmers' organization that deals with the crucial and single objective of farmer prosperity. It provides a platform for different views to be expressed in its programmes and publications to spread awareness amongst those who make and those who influence policy. They are not necessarily those only in government. They are also those writing in newspapers and, often, urbanites with little understanding of agriculture, who nurse romantic ideas about farming and the fields that are far removed from reality.

BKS has very strong opinions on how to contain food inflation. It is against the import of foodgrain and vegetable as a tool for countering food inflation, for instance. Many economists favour such imports though these imports are not a solution but more like inviting disaster. While listening to such views, one should tread with caution, and pay attention to countervailing positions. That is what BKS facilitates.

It provides a platform for contradictory points of view to play themselves out; in its seminars, on its website; through its publications: all 24 issues of *Farmers' Forum*, with upwards of a hundred eminent contributors, including leading policymakers and economists who have written for the magazine. These will be available free of cost online and for everyone to read. Hopefully, these will inform policy-making deliberations.

An example will explain how and why a policy is made and how and when it does not work. Around 600 years ago, Mohammed Bin Tughlaq, who ruled Delhi from 1324 to 1351 started a ministry of agriculture that continues to this day. He wanted all the fallow land to be brought under cultivation, which was a good thing and the government of today says the same thing. Mohammed Bin Tughlaq then wanted cultivation of high value crops and decreed: "Wherever wheat is grown, barley should be grown, wherever barley is grown, sugarcane should be grown and wherever sugarcane is grown, dates and grapes should be grown". That is what the government is doing today and calling it diversification of agriculture.

The point is that it was a good policy to increase use of fallow land and even better for Mohammed Bin Tughlaq to offer loans to people to cultivate such



BKS wants policymakers to know ground realities and implications of policy. It's a farmer's body – apolitical and doesn't accept funds from private entities and government

lands and to those who diversified into high-value crops. What transpired though was that the money was given to the people who were controlling the provinces. They swallowed the money but said that it had been given to the farmers. That problem too continues along with the policy today. A policy that cannot be implemented is at best a daydream that can turn into a nightmare.

People who make policy today do not even consult those who implement them and that is where the problems crop up; because there is a disconnect between those making the policies and those who will implement it and further between those for whom the policy is implemented. The same problem has cropped up even with the MGNREGA. It was proposed by the National Advisory Council (NAC), which later said that it was a pro-people policy implemented by the anti-people system.

What does that mean? The NAC cannot say that the policy is good but the implementation is not right because a good policy must necessarily be grounded in reality and take aboard practical problems. It cannot be based on hypothetical situations. That is an issue that BKS is trying to address: it is trying to get the policymakers and influencers to understand the ground realities. It is also trying to make farmers understand the implications of government policy. It has no political affiliation, does not take donations or funding from private organizations or even from the government of India. It is a farmer's organization and that is the differentiating feature; its USP, as it were. ●

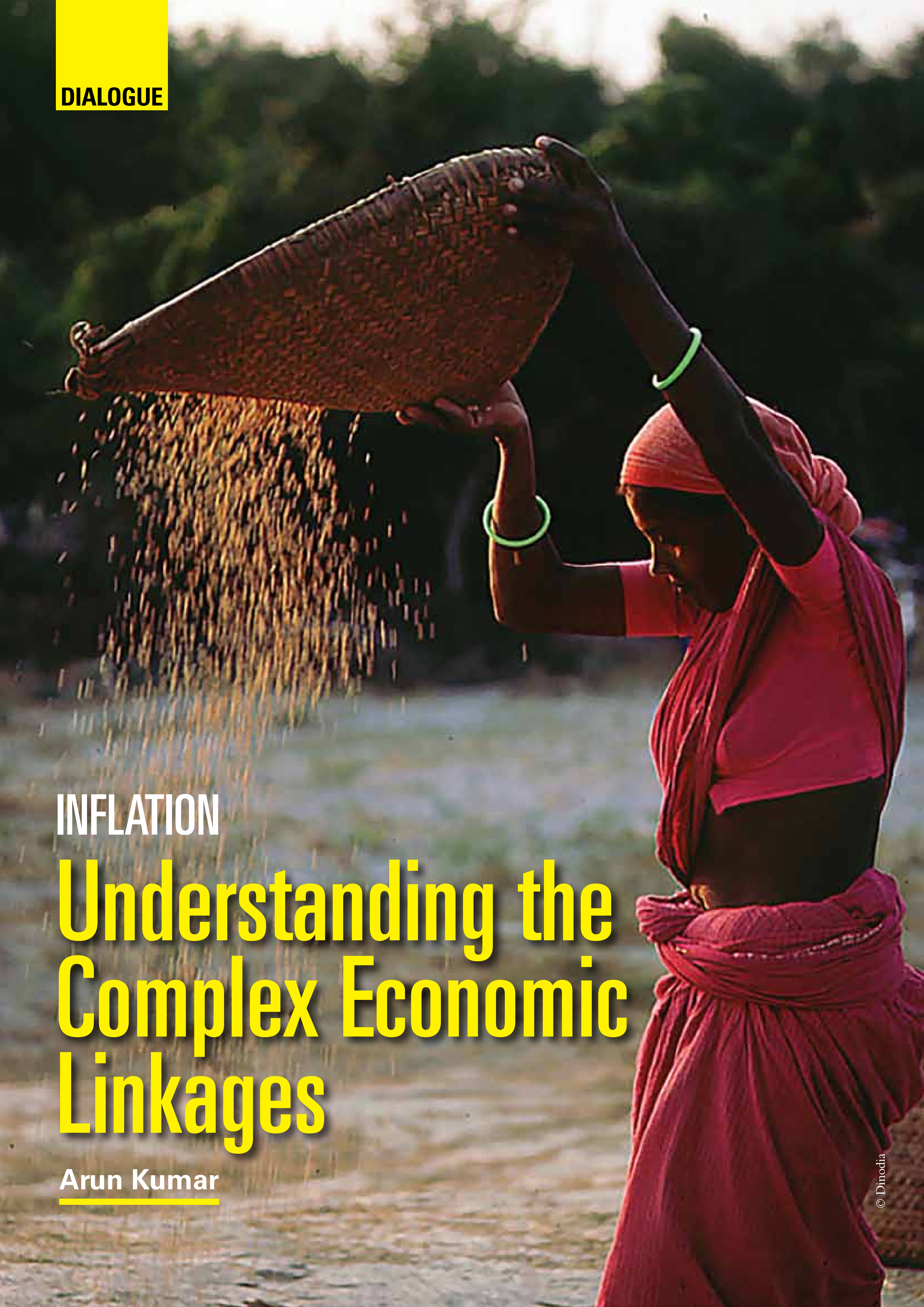

Drishti


Pratima


Malav


Nutan


Navkiran



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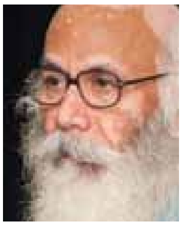
INFLATION

Understanding the Complex Economic Linkages

Arun Kumar



ARUN KUMAR
Professor, Centre for Economic Studies and Planning
Jawaharlal Nehru University

There is a lot of controversy around food inflation and the ways to contain it. Opinions differ as in the case of the "six blind men and the elephant". One blind person, touching the leg of the elephant, thinks it is a pillar of a building. Another touching its tail, believes that it is a broom. While the first thinks he is dealing with a building, the second tries to solve the problem of a broom, but neither tries to resolve the problem of the elephant.

Inflation is much like that; different people have different points of view because there are different schools of thought supporting different arguments and working on different assumptions. This is why many solutions are suggested for inflation. Some suggest a market solution, others a government policy-driven one.

The main issues to understand include (See Kumar, 2013 for details):

- The linkages between the many macroeconomic factors underlying inflation; between different sectors and different macroeconomic policies, which include fiscal policies and so on, before one can understand the nature of inflation in India.
- The fact that agriculture has got marginalized since Independence. It accounted for around 55 per cent of the gross domestic product in 1950, which has declined to about 14 per cent currently. It has got marginalized even in the policy making agenda and in other ways too.
- The fact that agriculture does not consist of one interest. There are different categories of farmers with diverse interests. For instance, rich farmers have different interests from those of the marginal farmers and policy must take into account these differences, or else it will fail one group or the other.
- There are several different price indices each with its own implications. Current data shows that the wholesale price index (WPI) inflation is persistently high. The Consumer Price Index (CPI) inflation too is high and food is a large contributor to this.

Three prices are relevant to agriculture: the WPI, CPI and the farm gate prices. The farmer gets the farm gate price, what the consumer pays gets captured by the consumer price index and the gap between consumer pricing and farm gate pricing is very high. That is why both the agriculturists and the consumers complain about inflation; as consumers they all pay the high prices signified by the CPI. While the different categories of people – the agriculture worker, the industrial worker, the white collar worker or the rich – have different consumption bundles, inflation impacts them all but in different ways and with varying intensity.

The rich are not as affected by food inflation as the poor, 50 per cent of whose consumption bundle is comprised of food. Matters are made worse by the inadequacies in the inflation indices. The WPI has zero weight for services even though services comprise more than 60 per cent of the production in the economy today.

In the CPI, the weightage for services being only 16 per cent, there is an incomplete reflection of inflation that confronts the average person on the street. That is why, even when the government says that the rate of inflation is coming down, the public feels it is quite high. School fees, health costs and so on are increasing but these are not included in the various indices of inflation. The government is trying to include services by building an housing index but that is still work in progress.

Agriculture doesn't consist of one interest group. Interests of rich farmers are different from those of the marginal. If policy doesn't address all interests, it will fail one group or the other

Food, it must also be realized, is not just about production but also about employment and lifestyle. Hence food inflation needs to viewed differently than price rise in other commodities. It is not just a question of controlling inflation but extends to issues like, acquisition of one's land, import of food and so on and these in turn link up to the question of food security and employment generation.

The criticality of food security was brought into sharp focus after the drought of 1966 and 1967, when India was forced to go for a sharp devaluation during Indira Gandhi's regime. Besides, there is the disconcerting issue of some 40 per cent of children and women being malnourished. This stunts the children mentally and physically. So food is very critical for this segment of people and hence the

Food Security Bill needs to be taken into account while framing policies to control food inflation.

Food inflation is driven by supply and demand. Unlike in the manufacturing sector, where markets are 'fix price', in agriculture, markets are 'flex price' with demand and supply determining prices. Food markets consist of some 540 *mandis* (wholesale markets) with none having monopolistic power in any of them, so that no one can fix prices as in manufacturing. This impacts terms of trade between agriculture and non-agriculture. Fluctuations in agricultural prices are still dependent on rainfall because only half of the farmed area is irrigated and hence fluctuations in prices are high.

There is also the question of private and public investment in agriculture that are very important for both irrigation and transportation. In spite of 50 per cent of the population depending on agriculture, only about seven per cent of the total investment goes to this sector. The organized sector that accounts for only 6.5 per cent of the employment gets about 80 per cent of the investments. The disparity between the organized sector and agriculture is thus very high and results in disparity in incomes.

Another aspect to be considered is the speculative element in food prices. Typically, the margins on trade in agriculture are very high and small shortages lead to large price increases as black liquidity flows in, with the Reserve Bank of India having little control over it. Those with deep pockets in organized retail trade are able to hold stocks when there are supply shortages.

Government policies are playing themselves out in a curious fashion. There is a 27 million tonnes buffer stock requirement but the system stocks up to 80 million tonnes of which between 10 million tonnes and 15 million tonnes rot because of inadequate proper storage.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How have strategies/policies impacted on the price scenario? Today there is the minimum support price (MSP), fair & remunerative price (FRP), procurement and the public distribution system (PDS). The strategy of dual pricing between MSP and issue price and the market price was put into place in the 1960s and has helped stabilize the consumption of the poor and give an assured minimum price to the farmers growing certain crops.

Even when the PDS did not cover the poor, the stabilized prices benefited them. Earlier, in poor

Table 1: Agriculture Sector: Key Indicators (per cent) at 2004-05 Prices

Sl. No.	Item	2009-10	2010-11	2011-12	2012-13	2013-14
1.	Growth in agri GDP	0.8	8.6	5	14	4.7*
	Share in total GDP	14.6	14.6	14.4	13.9	13.9*
	Of which, agriculture	12.3	12.4	12.3	11.8	NA
2.	Share in total GCF	7.3	6.3	7.0	7.1	NA
	Of which, agriculture	6.7	5.8	6.5	6.5	NA
3.	GCF as per cent of agri GDP	20.1	18.5	20.8	21.2	NA
	Of which, private sector	16.7	15.7	18.0	18.1	NA
4.	Agri exports (incl marine products) as per cent of total exports	8.2	8.0	10.1	11.8	11.9(P)

Source: GOI (2014)

Wages have been affected by off-farm employment generated by MGNREGA, though its impact on wages has been questioned. Wages seem to be rising with a cost-push effect

crop years, when the prices rose sharply the poor suffered the most. Price stabilization initiatives have lowered prices in comparison to what they would have otherwise been. In good crop years, when prices could have fallen dramatically, the procurement price prevented the price that the farmer received for certain crops from falling sharply and, therefore, stabilized the supply.

So both from supply and demand aspects, the dual pricing policy introduced in the mid-sixties, helped in controlling both supply and the consumption of the poor. In recent times, the impact of opening up of markets, WTO and imports have had a considerable impact on food production and pricing. Cropping patterns are being determined by other demands – like for floriculture, horticulture and such products – and are not limited to food. The demand is determined to a certain extent by the export markets and that affects inflation.

Other important macroeconomic factors include rapidly rising aggregate demand along with a rising GDP post 2003-04. Even though India is growing at around only five per cent currently, the rate is still high enough to push an increase in demand. However, the income distribution has been getting very skewed in favour of the better off and that leads to demand for certain kinds of crops and thus impacts prices of those items. Besides, fiscal policies – the role of subsidies, and indirect taxes – too strongly impact prices and must be considered while determining what kind of inflation is taking place.

Other significant cost hikes come from the rising cost of inputs like petroleum products that affect transportation costs, fertilizer and other input costs that are substantial. Wages too have been affected by off-farm employment being generated by the Mahatma Gandhi National Rural Employment Guarantee Act even though there are people who question its impact on wages. Wages, however, seem to be rising with a cost-push impact.

Alongside, there is the devaluation of the rupee in the last few years. After rising to ₹44 to the dollar, the rupee fell to ₹68 and has now stabilized roughly at around ₹60-₹61. This has resulted in imported inflation, which leads to food and other prices to rise, especially due to rising petroleum goods import.

Worse, investment has been diverted to speculative channels and financial markets and agriculture has suffered and been marginalized in the economy. Speculative activity in the market has been pulling in investment, which impacts productivity increases in agriculture in the long run.

There is also a strong link between inflation and the black economy because one of the mechanisms by which black income is generated is through over invoicing costs. Hence costs have risen everywhere in the economy. While revenues are under invoiced, costs are over invoiced, creating a black economy that has had a strong impact both from the point of pushing up costs and demand. The black economy is concentrated in the hands of three per cent of the population and in the services sector. This further increases the disparity between agriculture and service sector.

If one considers the white and the black economy together, the share of agriculture is down to a mere nine per cent of the GDP while in the white economy it comprises 14 per cent of the GDP. This has its own impact on demand, on the nature of inflation and the Indian economy. If the black and white economy are considered together, the ratio of per capita income between the top three per cent and the bottom 40 per cent was 57:1 for 1995-96. If one considers the white economy only it was 12:1 (Kumar, 1999). So a large part of the demand is fuelled by the black economy.

Another impact from the supply side is that black economy makes liquidity available for speculative activity. Speculation increases far beyond what the white economy alone would have fuelled and that has its impact on prices of food. Finally, investment develops a bias against the white economy and agriculture.

We are currently studying tax havens in the world and the flight of capital from India. We estimate that the opportunity cost of of this would be roughly $1.2 trillion over the last 66 years. Instead of being invested in India, the capital has been invested abroad leading to a shortage of capital within the economy, which again has impacted on agricultural productivity and its growth.

Table 2: MSP/FRP of Select Crops (Rs/Quintal)

Crops	2013-14	2009-10	%change
Paddy (common)	1,310	1,000	31
Wheat	1,400	1,100	27
Maize	1,310	8,40	56
Jowar (hybrid)	1,500	8,40	79
Arhar(tur)	4,300	2,300	87
Urad	4,300	2,520	71
Gram	3,100	1,760	76
Groundnut in shell	4,000	2,100	90
Rapeseed/mustard	3,050	1,830	67
Sunflower	3,700	2,215	67
Soyabean (black)	2,500	1,350	85
Cotton (medium staple)	3,700	2,500	48
Sugarcane (FRP)	210	129.84	62

Source: GOI (2014)

Note: Most of the MSP and FRPs have gone up substantially between 2009-10 and 2013-14 and impacted inflation.

The measures that could check inflation, especially food inflation, could be:

- Controlling the black economy that would lead to lower rates of inflation.
- Checking speculation through administrative steps. Since June 2014, in spite of expectations of drought, prices have not risen dramatically as administrative steps have been taken to check speculation.
- Strengthening and extending PDS is an important instrument to check price rise, especially of food items. Cash transfers, instead of PDS, is not a good strategy as the use of the cash for purchase of food cannot be ensured.
- Improving storage and transportation to improve the supply side so that food does not rot.
- Ensuring credit for small and medium farmers. The Jan Dhan Yojana announced will not be adequate by itself.
- Increasing investment in R&D in agriculture and extension of its result to farms.
- Ensuring food security; and implementing right to food. ●

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India's cotton farmers' lives transform for the better

Research indicated that 87 per cent of Bt cotton farmers enjoyed higher standards of living, 72 per cent invested in their children's education and life insurance, and 67 per cent repaid their long pending debts*. Many more built *pucca* (stone) homes, purchased farm equipment and motorcycles, leased additional land for cultivation etc. Further, women from Bt cotton households had higher access to maternal care services, while children had higher levels of immunization and school enrolment*. Additionally, female earners witnessed a 55 per cent gain in average income, and 42.4 cr. additional days of employment across the total Bt cotton area**.

Partnering India's cotton revolution - Mahyco-Monsanto Biotech (MMB).

Farmer's Pride. India's Pride. Bollgard II® Mahyco Monsanto Biotech (India) Ltd.

*IMRB Samiksha 2007 ** Nature

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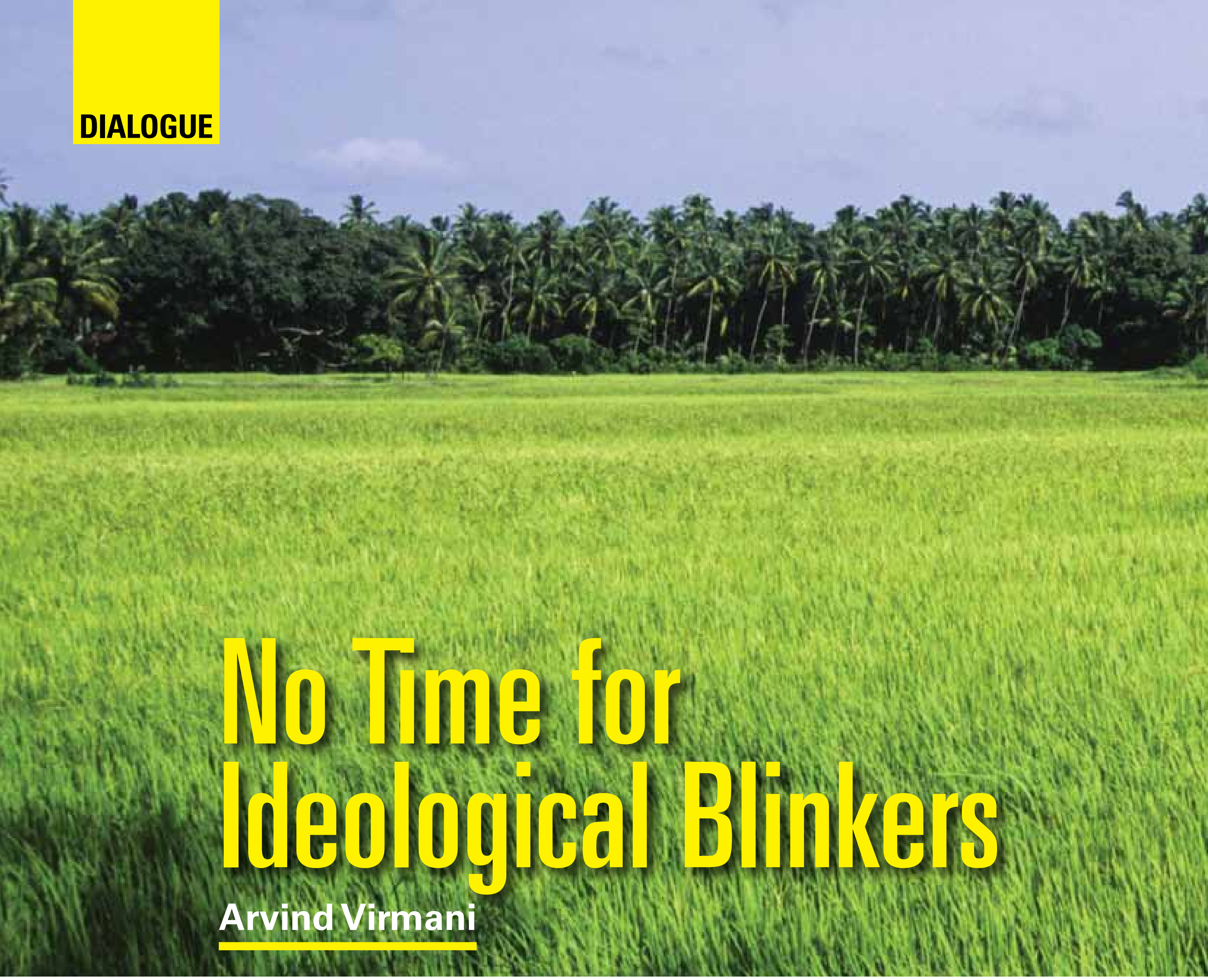
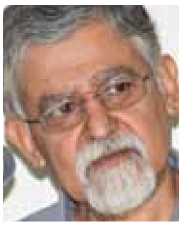


No Time for Ideological Blinkers

Arvind Virmani

In 2008-2009, sitting in the Ministry of Finance, one of the things that I focussed on was agricultural inflation that would clearly be an important issue in the future. Over the past 10 years, the rate of growth of per capita income had doubled from what it was 30 years ago. That implied that the incomes would double in one generation instead of two and one could actually see the rate of per capita income growth doubling in one's lifetime.



ARVIND VIRMANI
Former Chief Economic Adviser, Government of India and President, Chintan

The first implication was that the demand for agriculture could well double even though structurally agriculture remained small-scale and fragmented in the country. Second, the economic boom had led to rising real estate prices and created a gap between retail and wholesale. This was pointed out in one of the surveys when I was the Chief Economic Adviser and I cautioned that this was going to be a serious problem in the future. Third, supply chains being inadequate, the retail structures in urban areas would face difficulties, given the rising real estate prices. One needed a place to sell and this had implications for agricultural goods prices. Unfortunately, these and other warnings were ignored.

In 2010-11, there emerged a bubble (*Graph 1*, Page 20) when the economy grew at 10 per cent while world economy was crawling under a slowdown. India became arrogant and thought it was unique to have recovered from the 2008-09 crisis and growing at 10 per cent in 2010. This was unsustainable with an 11 per cent agriculture inflation and 10 per cent GDP growth. It was a bubble waiting to burst.

Ever since I joined the Planning Commission 25 years ago, a technical committee on stocks was constituted every five years, of which I was a member on several occasions. There has been no such committee for the past decade because people

thought that there was no need to evaluate how much stock would be needed. An innovation by one of those committees was to change the stocking norms to account for two consecutive droughts. Attention to detail was never routine though and at the last meeting that I attended on stocking and inflation the talk was about a campaign for procurement; they were trying to procure more. I asked them not to do so when there was enough stock but at the end of the discussion it was decided to procure more. The result was wheat inflation at seven per cent. That was bad, bad policy.

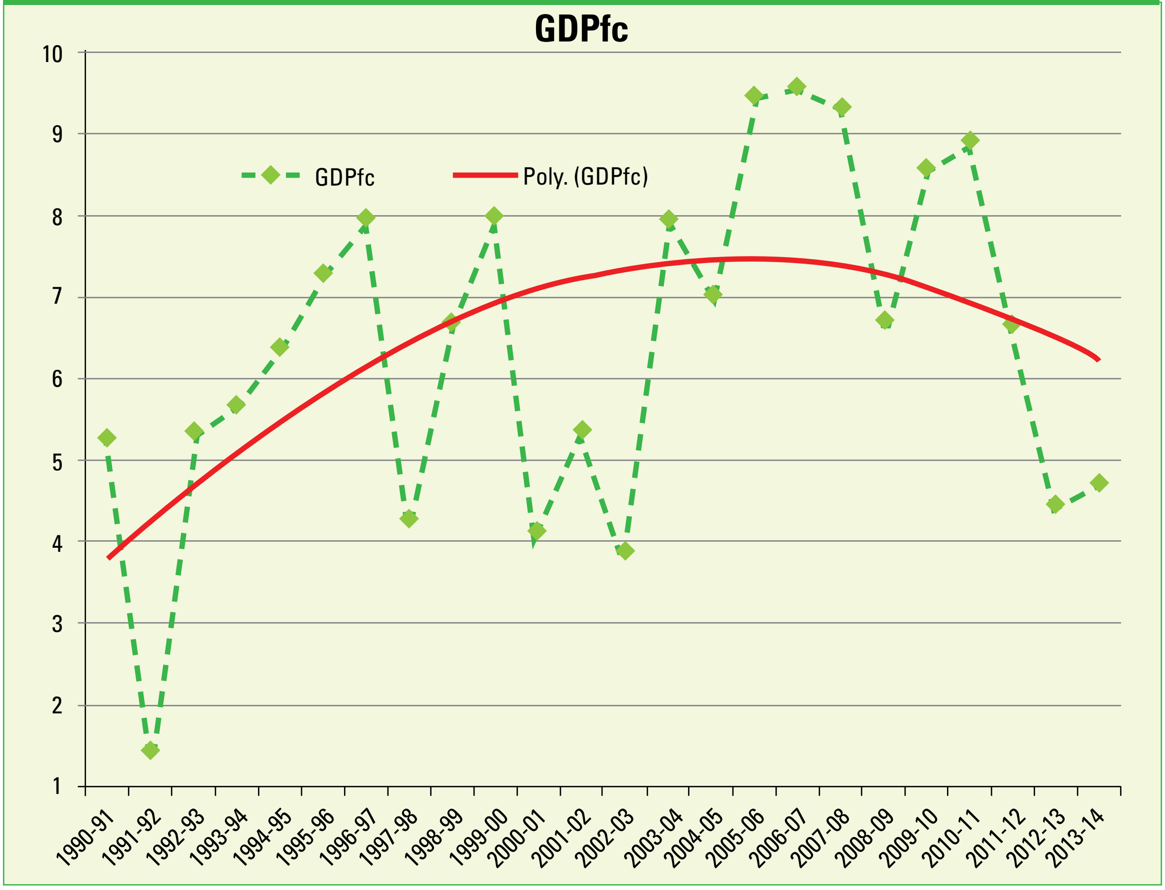
Intentions do not always determine outcomes. At the aggregate level, demand and supply issues are linked with monetary and fiscal policy, the only two agents that can inject extra demand into the economy. Elsewhere transactions such as borrowings happen between two parties, one lends, another borrows; someone consumes more, another less. Savings, investments and such other complications arise but, basically, the monetary authority and the government can inject demand into the economy.

Unfortunately, they got the balance wrong in 2010. There was more money being injected by the government and the Reserve Bank of India (RBI). Fiscal and monetary policy imbalances, which have still not been corrected, are one reason for aggregate demand inflation. There is problem on the supply side too. As cautioned, demand was up but supply was unable to keep up, as has been happening in agriculture since the 1990s.

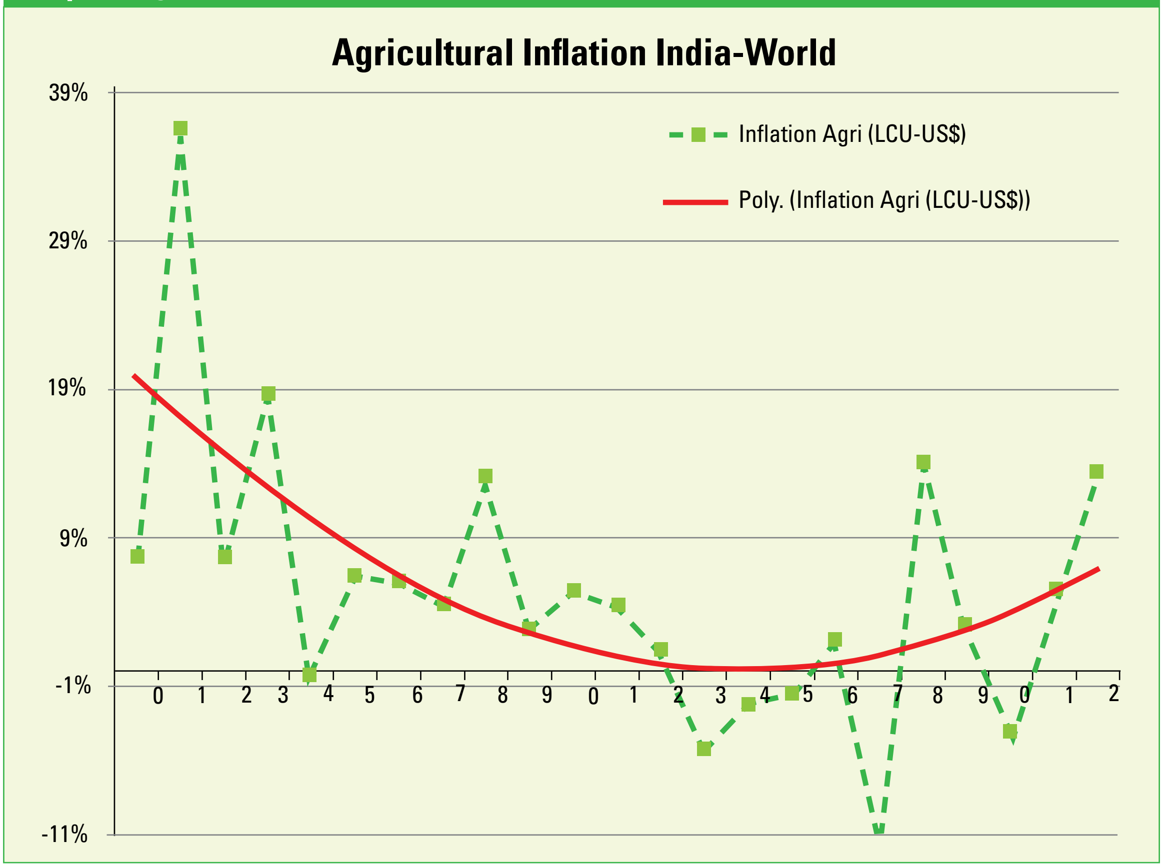
The GDP growth rate had accelerated in the 1990s and there was a phase of decline in inflation because of the opening up of economy. Interestingly, some (including some of the biggest industrialists) wanted tariff not to be lowered or else they would be finished. Nobody got killed and they learnt to compete and India acquired a competitive structure. Actually, competition led to a rise in productivity.

What remained puzzling was the rate of inflation in India that remained between between eight per cent

Graph 1: GDPfc



Graph 2: Agricultural Inflation India-World



and nine per cent while the average global inflation has been between five per cent and six per cent. One reason is that if an economy stays closed and does not allow goods and services from outside to come and compete, it has its own inflation rate. In India, agricultural tariff has remained mostly constant while non-agricultural tariff declined somewhat. The weighted tariff goes up and down. The explanation is very simple. If there are quantitative restrictions and slightly higher tariff-carrying items are allowed to be imported, lifting quantity restriction or by lowering the tariff a bit, will send the weighted tariff up. There is need to lower protection if India is to compete. (For comparative food inflation data, see *Graph 2,* Page 20)

Every single bad policy in India has been justified in the name of farmers, who do not actually benefit. Discussions often have little connection with serving the purpose of farmers. Instead, they seem to have something to do with some politician and how he would make money. Imports are restricted and restrictions continue till some day one decides to open it. Exports, for instance, are not permitted even if prices plunge. Who benefits? Obviously, not the farmer. The ones controlling it are not farmers but the ministers.

When things are thus controlled, every single decision is ad hoc. Prior to leaving government, I had suggested a kind of automatic system: protect the farmers but build a system that everybody understands, with no special favours or dispensations, and then fine tune the system. It is not difficult; it is not rocket science but I had the limited role of sitting and advising while the minister decided.

In terms of productivity, India's productivity per worker has been stuck at 50 per cent (half the world average) for last 30 years. There is a problem of inflation, largely driven by agricultural inflation. Agriculture is the most controlled sector of the Indian economy. The Essential Commodities Act, Agricultural Produce Market Committee (APMC) Act are all examples of the control. Thirty years ago, at a Planning Commission meeting, my boss told me that Delhi's agricultural markets are oligopolistic. I wondered how it could be so, given its fragmentation and with hundreds of producers. I disagreed strongly then but now realize that he was right. It is particularly the case with the APMC and all the evidence suggests that it is monopolistic.

The belief that with so many players they cannot get monopolistic is wrong as I learnt over three decades of experience and one must consider this while making policy. There is this strange thing called the Agricultural Prices Commission that decides the minimum support price, which the states raise by 20 per cent to 30 per cent. What kind of a joke is that? That is politics where the Agricultural Prices Commission's analysis (done and headed by eminent people) cannot be trusted.

Every aspect of land market too is similarly controlled: sale, lease, rent, wasteland and such like. The same applies for inputs like fertilizers, which have led to a nutrient imbalance from excessive use of heavily subsidized fertilizer. I have been on at least three committees to reform fertilizer subsidy and have realized that it is controlled by the fertilizer industry. I had to fight them in every committee but in very discussion they would justify themselves in the name of the farmers, who are never benefitted. The benefit goes to the industry, not to the farmer.

Government research institutions have failed and are becoming worse. There is inadequate research and all this is another governance failure. The Swaminathan Report says you have to change everything to get something out of agriculture but if one wants to change everything, nothing changes. That has been story of the last 60 years. There is need to start changing whatever has not worked with the old ways.

When FDI in retail was first mooted, I opposed it but I realize now that if we move slowly and start by opening food retail for FDI, it would be a good idea to begin with, if we do not want to open up the whole of retailing. For example,when McDonald's came, it started a supply chain. Things that work have to be considered without ideological blinkers. There are 29 states and one should find out what has worked and what has not worked in them; get rid of ideology and focus on finding and implementing what works. ●

I have been on at least three committees to reform fertilizer subsidy. It is controlled by the fertilizer industry, which justifies itself in the name of the farmers, who do not benefit

Reform Critical Sectors Impacting Indian Agriculture

Suresh Prabhu

Nobody is immune to food inflation even though the better off with flexible incomes get by more easily. India's inflation profile shows that food inflation is the highest but one cannot generalize. Different people consume different food and the need is to increase production of those foods that are causing inflation across the food basket.

SURESH PRABHU
Former Union Minister

This means investment and one of India's big challenges at the macro level is that inflation is not allowing central banks to bring down the interest rates that is important for economic growth. People make investment decisions based on the cost of capital that they borrow. As inflation is high and the rate of interest too is high, they lead to lower economic growth that in turn impacts people's purchasing power. Given the constraints, how does one increase production of those commodities where there is shortage. How does one address the many challenges faced by Indian agriculture?

Water is one such big issue and 85 per cent of agriculture uses water. This makes water efficiency in agriculture very important. Other sectors too, such as manufacturing and services, need

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increasing quantities of water as the GDP grows at rates upwards of nine per cent. This is largely through increased manufacturing and a growing service sector that accounts for 60 per cent of the GDP. Unless water efficiency improved in agriculture, there will be scarcity for other sectors as well, impacting the overall economy and leading to further inflationary pressures.

Things must thus be looked at holistically and water is a major issue. India has only four per cent of the global water resources, much of which exists underground. The water needs to be pumped up and this needs electricity. With increase in consumption of underground water, there will be fresh problems all of which will impact both on food security and general economy.

Land is the other major problem with India having only 2.2 per cent of the global landmass. Worse, the top soil that determines fertility is an issue courtesy the policy of subsidizing urea and not potassium or phosphorous fertilizers. The NPK ratio has thus been greatly affected and resulted in a skewed ratio, in turn affecting India's food security.

Policies that influence soil productivity thus need to be considered carefully. Fertilizer policies are very important and should prompt judicious use. As of now, subsidies for fertilizers extended only to industries should be extended directly to the farmers as well.

Ability to procure fertilizers would still be an issue though, given the financial constraints of farmers and hence universalization of banks, through a basic financial infrastructure, will be needed to ensure financial inclusion and direct transfers to farmers. There are many such externalities to agriculture that cannot be considered in isolation. Water, land and fertilizers are such sectors impacting agriculture that need reforms.

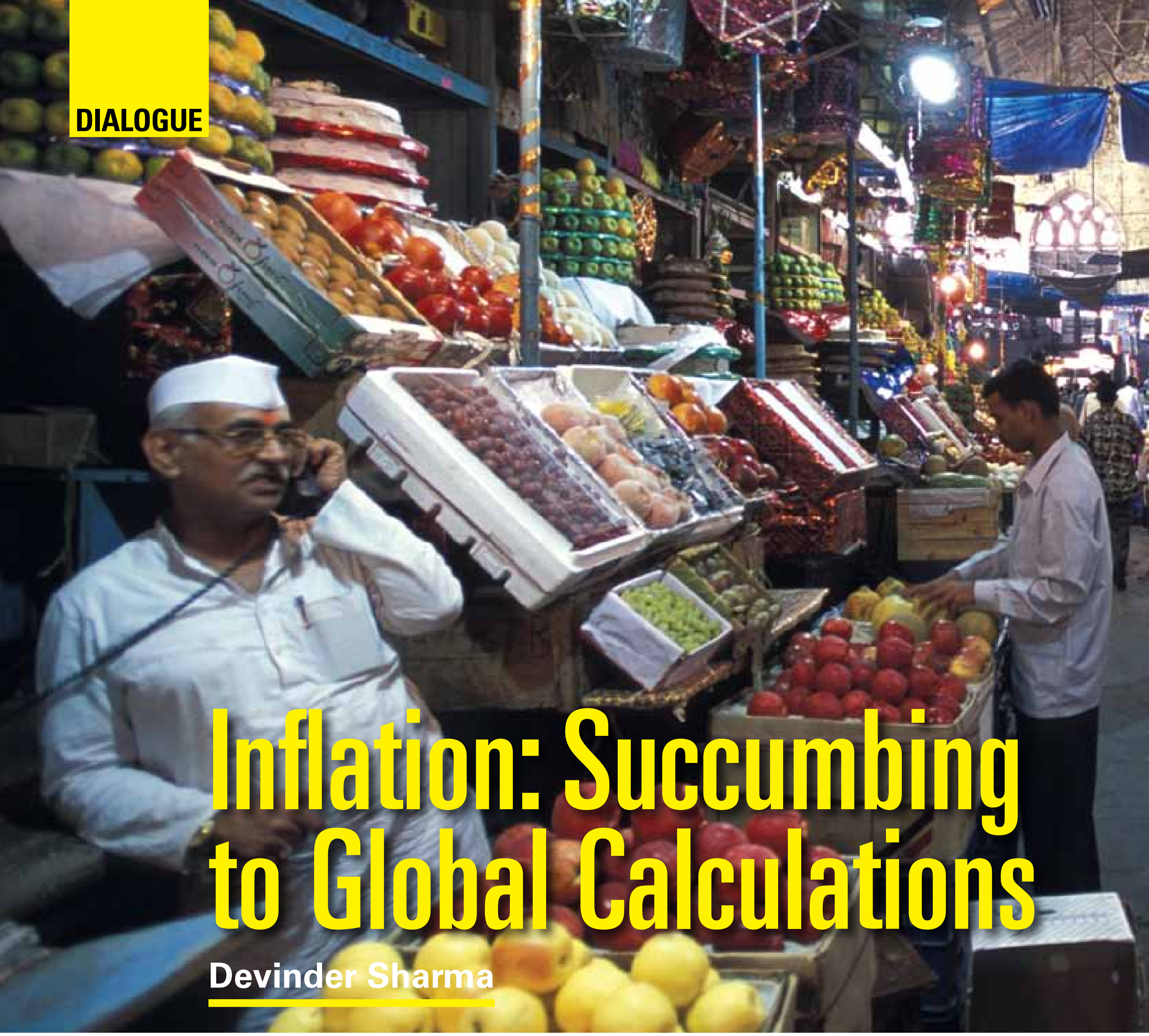
China started agricultural reforms in 1978 but the majority of the land there is owned by the government. The farmers take land on lease. In India, land is mostly privately owned. China, with government-owned lands and almost same arable area as India's, aggressively brought about changes and increased production and has done extremely well, producing double of what India does. Such reform cannot happen in India that must adopt a different approach and boost agriculture productivity through use of technology.

If one looks at the backward linkages of food inflation, one understands the many sectors that need reforms for agriculture to benefit. The trigger for change could come from food inflation and lead to improvements in such sectors.

Besides, there has been an increase in farmer incomes because of various programmes leading to a demand-driven inflation, which is a good sign. There should be no attempt to curtail demand but attention must be focussed on the supply side and issues like cold storage need to be addressed by determining actionable points and resolved immediately. Power too is important but encouraging excessive use of power to draw ground water should be discouraged. Hence a lot of policies need to be put in place.

The hope is that farmers incomes will go up enough for them to invest in their own farms and make farming a profitable economic activity. Regrettably, agriculture in India has never seen days in which the farmer has been able to create capital assets with farming becoming economically viable. ●

DIALOGUE



Inflation: Succumbing to Global Calculations

Devinder Sharma

The World Bank had predicted in the 1990s that the number of Indians moving out of rural areas and into urban centres by 2015 would be 400 million, which is larger than the population of USA. That was not a warning as one might have thought; that was a prescription for India to follow. Indian economists across the board have been advocating the same thing because Indian economic thinking is always driven by the World Bank or the IMF.

DEVINDER SHARMA
Food Policy Analyst and Activist

The 2008 World Development Report (WDR) suggested that India had not done what it should have and should hasten the process of moving people out of rural India to vacate land for industries because land, a productive asset, is currently in the hands of inefficient producers. The WDR also suggested land acquisition that the government of India is now pushing. The suggestion included setting up of institutes to train young producers, who knew nothing but farming, as industrial workers. The 2009 Budget saw P. Chidambaram providing funds for 1,000 industrial training institutes across the country.

One knows that the shift out of agriculture is being manoeuvred by making agriculture unremunerative. Food inflation provides a very easy stick to beat agriculture with because some want to actually kill agriculture; that is the intention across the board. So, food inflation is something that must be opposed aggressively.

Economists are also suggesting that the government opens up the economy to food import. When the WTO came in, the *Ecologist* magazine in London asked me to analyse how Indian farmers would compete with American and European farmers as the world was opening up. In my article, I tried to compare the Indian farmer with the cow in America, that was more richly invested with subsidies (See *Farmers' Forum* October-November 2013, 'High Time for a Farmer Income Commission' by Devinder Sharma). This shook the economic world and the WDR, the Human Development Report started talking about the subsidies that go to the cow and the aid that goes to the human beings.

A cow reared in America, Europe or any developed country, requires a fan, tube-light, shower, centrally-heated conditions and scarcely any Indian farmer enjoys such luxury. The cows in America or Europe are over-fed. It requires about 25 acres of land to produce adequate feed for an American cow whereas at least 10 Indian families would survive on the same land area.

The inequalities do not end here; the cows are milked by automatic machines but during the milking process the cow has to be fed for which it has to place its head in the feed-bin. There is a computer chip, with information like body weight, nutrients required and such other details, tied on every cow's collar that is read by censors on the wall and the food is automatically released in the feed-bin, according to those parameters.

Those cows are then the most food-secure animal on the planet while studies suggest that more than 60 per cent of Indian farmers go to bed hungry every day. This situation is not peculiar to India; globally 40 per cent of the food producers go to bed hungry every day. This seems to be a deliberate attempt to make agriculture unremunerative so that the people are forced to move out of it.

The last notable inequality between the Indian farmer and the American cow is that each cow receives a subsidy of $2.7. The total cost of the subsidy that each cow received in the early 2000s could finance their travel around the world; business class. One knows the plight of Indian farmers. Therefore, when it is said that farming in the US is far superior, it is not because of its productivity but because of the subsidy that farming gets. The US's latest food bill provides a clear idea of the subsidy provided for the next 10 years, which is $1 trillion, including agriculture and food coupons. This makes food cheaper and farming economically viable.

The current argument is that if, in a globalized world, India's productivity does not match global productivity levels, the Indian farmer will be left with no option but to commit suicide. Compare cotton production in USA and India that has the largest area under cotton cultivation in the world. The productivity is low and 70 per cent of all the farmers commiting suicide in the country are cotton growers. Globally, in places like sub-Saharan Africa, farmers are dying because of the subsidies provided to the American farmers. Similarly, India is asked to import cheaper cotton as Indian farmers do not know how to produce it.

Since Indians are being told that the American model is superior and should be followed here, it is worthwhile to study the numbers. My year 2005 study shows that the US has about 20,000 cotton growers producing cotton worth $3.9 billion who got a subsidy of $4.7 billion. The average subsidy per day is $12 million. Given this subsidy, international prices fell by 42 per cent and the Indian farmers got priced out. The truth is that the Indian farmers are not inefficient but the subsidies given to their American counterparts make them so.

The bigger picture must be understood to determine the cause and destination of food inflation. An eminent economist has raised the argument of monopolistic procurement. In 1999, after India imported a million tonnes of wheat from Australia, this economist said in a talk show: "Well, if India can import oil, why not wheat as it will make it cheaper?" One can hardly respond to such curious thinking. India would not have imported oil if it had oil; this is not the case for wheat. It was like suggesting that Saudi Arabia import oil!

Another argument doing the rounds is that India needs to import foodgrain to make it cheaper but one must understand what it means. The WTO came in 1995 with the objective to get developing countries to reduce import duties to become competitive. The WTO never used the term subsidies. In fact, an economist recently wrote in the Indian Express that the Indian farmers are the highest paid in the world when international prices were compared to procurement prices. Indian farmers who produce wheat and rice are paid respectively 69 per cent and 62 per cent more than international prices.

If Indian farmers were the highest paid, things would have been completely different and the American farmers would be queuing up to farm in India. The point is that the FOB price (trading price) is being compared with the procurement price. Comparing Indian and American FOB prices makes sense but how can one compare the US FOB price with the procurement price in India? If one has to compare procurement price, one must take into account the entire subsidies in USA.

Advocating that Indian farmers do not need any protection is a deliberate attempt to run down Indian agriculture. The Modi government's tough stand on food security at the WTO is thus remarkable. It was clearly said that unless India's food security was ensured there would be no opening up of the economy.

The Prime Minister, Narendra Modi went to Japan where an import duty of 738 per cent is levied on rice and 328 per cent on sugar, but nobody is saying Japan is isolated or anti-development or damaging the entire global economy because of protecting its farmers. The Japanese know where to protect their agriculture. The U.S. government will not open up its agriculture even while asking everyone to do so. Whatever India tries to export to the US will be rejected.

In 2005, some 20,000 US cotton growers producing cotton worth $3.9 billion got a subsidy of $4.7 billion. International prices fell 42 per cent and priced out Indian farmers

One is familiar with the Washington apples case. The report of the CABI (earlier Commonwealth Agricultural Bureaux International), U.K. lists 106 pests and diseases, of which 90 are unknown in India. India imports them as it is believed that anything coming from the west will be good. The point is if the same apples were to be re-exported to US, they would be rejected. Whilst others are becoming sensitive about these issues, India is becoming the dustbin of the world. Any discarded technology in the west is more than welcome in India and in the name of creating employment, getting investments and so on.

Earlier, a speaker talked of water efficiency and it would be worthwhile to understand why car manufacturers have moved to India. Of course, one feels good to say that the Indian economy is growing but the real issue is something else. Korea is a country with a water crisis due to its slope towards the sea. It has constructed underground water dams to block water. The country realized that each car plant requires about 400,000 litres of water every day, the highest in the entire manufacturing sector. No wonder that the car manufacturers have moved to Chennai to set up plants to produce a car every minute. Has any study been done of the automotive industry's water usage? Yet agriculture is always blamed for inefficient use of water.

Given this background to food inflation, a remarkable step had been taken in this country by way of establishing the Agricultural Produce Market Committee (APMC) *mandis*. Had they not been around, farmers would have become an extinct species by now. An interesting study from Kerala indicates that the farmers were getting ₹2,700 per quintal for paddy in 2005 and in 2013, the price offered was ₹1,300; less than half. The moment one raises the prices of wheat or any other crop, everyone starts talking about inflation.

Amazingly, when the food prices go up marginally, economists call it inflation but when real estate prices go up substantially, it is called growth. This vocabulary needs to be understood. Subsidies are now being demonized by economists as they have no link with reality. When they are given to the rich they call it incentive. When ordinary people fail to repay loans, they are called defaulters, but when rich people do the same their loans are dubbed as non-performing assets (NPA)!

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Procurement price reaches only 30 per cent of farmers. Does remaining 70 per cent get any market support? The areas with the largest number of farmer suicides do not have the APMC

There are conscious efforts to close down the APMC *mandis* today. During the green revolution in 1966, an important step taken by the government was the policy of providing minimum procurement price to the farmers. The Agricultural Prices Commission (later Commission for Agricultural Costs and Prices) was set up to work out the minimum price. Today, the argument is that because government is a monopolistic buyer the farmers are not able to realize the price that the market can offer. This argument is flawed.

The examples of Punjab and Bihar prove the point. The APMC has not existed in Bihar since 2007; it does in Punjab. Last year, the farmers in Punjab got ₹1,310 per quintal for paddy. In Bihar the price ranged between ₹800-₹900. Is that not a distress price? Economists say that the rate of inflation will increase if farmers are paid more without explaining how farmers can survive.

Another argument is that India does not need 70 million tonnes of foodgrain and should not procure that much. The suggestion is that food be imported without understanding that importing food amounts to importing unemployment. By importing India will actually push the small farmer out of agriculture without providing him with an alternate source of livelihood.

Can everyone be employed as a mason? Is this the kind of employment that India wants to generate? Since people have land, why can the government not ensure that they can be economically viable, with sustainable agriculture linked with agro business? If these two things are done there would be a complete shift in the economic paradigm. Government must understand that rural to urban migration and setting up resorts and golf-clubs in villages is not the solution. If India follows the World Bank's advice it is doomed as a nation.

In any event, the procurement price reaches only 30 per cent of the farmers. Does the remaining 70 per cent receive any market support? In fact, the areas with the largest number of the farmer suicides do not have the APMC. The argument is for markets to decide the price of crops like commodities forgetting that after the 2007 world food crisis the U.N. Human Rights Council stated very clearly that 75 per cent of the crisis was caused by food speculation and food commodity trading.

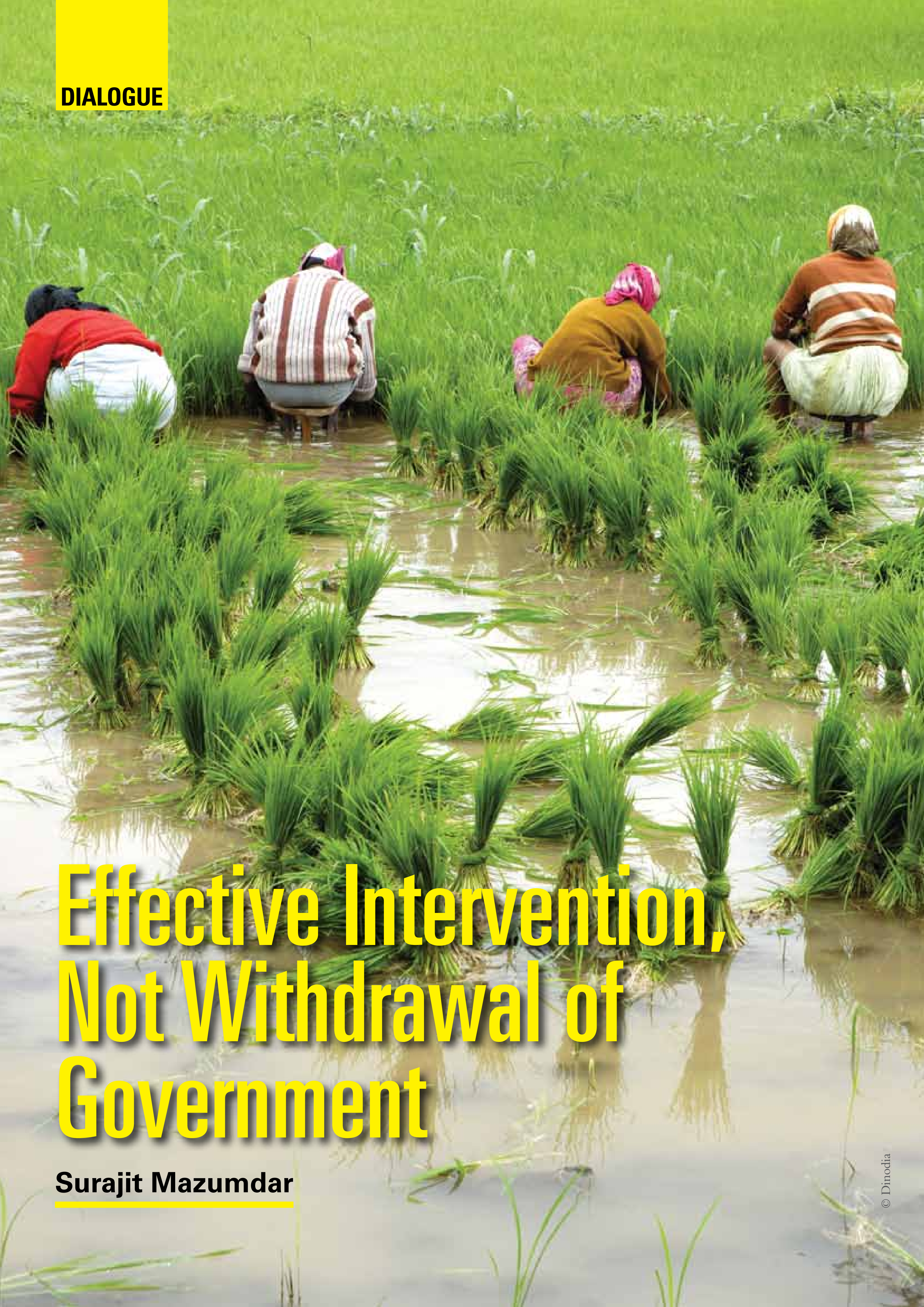
Interestingly, the world trades 46 and 24 times wheat and maize respectively than is produced. Nobody objects to that but when farmer's prices go up everyone speaks of inflation. This year the government raised procurement price by ₹50 per quintal (50 paise per kg) whereas government has increased daily allowance of its employees by 107 per cent. The average monthly income of a farming family is less than ₹2,400. This is what the NSSO, Parliament Committee and the Arjun Sengupta Committee tell us. Why should a farmer not quit agriculture?

The measures are simple: expand APMCs throughout the country with additional crops like pulses and mustard to check food inflation. One reason for importing pulses is the lack of a domestic assured purchase and marketing of pulses. If the government opens up the purchase of pulses, farmers will grow them. One sensible decision that Mayawati took before completion of her tenure in Uttar Pradesh was to set up 2,000 more APMCs. Fortunately, she is not an economist. India needs to provide farmers with an assured income while ensuring that the food brought to the APMC *mandis* is sold. This is the message that should be spread across the country to make agriculture viable.

The next thing to do is to stop thinking about the state being monopolistic. Had it been so, India could not have addressed the issue of hunger howsoever indaequately; certainly not by following the development model laid down by the World Bank. In 2001-2003, India had a surplus of 60 million tonnes that should have gone to feed the hungry in the country but much of it was exported. This year India has 83 million tonnes food lying till June. One fails to understood the logic behind exporting and then importing foodgrain into India.

A wonderful proposal came from a company called Rice X, which had tied up with Monsanto and was willing to invest $200 million in Karnataka to convert Ricebran into a human nutrition food until articles in newspapers pointed out that Rice X was traditionally cattle-food in the US. What a remarkable development for India to export food fit for humans to feed the cattle of the US and import the cattle food from the US for humans. Fortunately, the government turned down the proposal.

The question is why can India not be allowed to have food the way it is used to instead of allowing processing industries to take over. They will not make food cheaper or healthier. They may help the GDP to go up and companies to grow. As a society, India needs to seriously think about food inflation and its causes and take corrective measures to save Indian agriculture and to ensure food security. ●



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Effective Intervention, Not Withdrawal of Government

Surajit Mazumdar

SURAJIT MAZUMDAR
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Food inflation, as opposed to inflation in general, needs special understanding. While it contributes to the general inflationary processes in the economy with all its other implications, food inflation has a special significance in a low-income country where a large majority of people, including those who produce food are food-buyers with food constituting a large part of their expenditure. Food inflation, under such circumstances, becomes a matter of food security and does not remain simply a question of what is happening to prices in general.

The source of the problem could be inadequate availability resulting in a sharp rise in food prices, a mechanism whereby demand adjusts to the given supply. It could also be that food prices rise for some reason whereby people are unable to but adequate amounts of food even when stocks are available. Either way, whether as cause or effect of food inflation, the food consumption levels would be inadequate. Food inflation must, therefore, be looked at as distinct from any general inflationary process, more so because the discussion in India has been focused on the demand side in recent times; on the supposed increase in demand for food, following higher GDP and rising incomes.

Through phases of upturn as well as downturn a high rate of food inflation has persisted defying authoritative voices on inflation in India. It does not reflect a general inflationary process

The food inflationary process began in 2005-06, prior to which food prices were relatively stable over a long period and manufacturing inflation was higher. This position was reversed around 2005-06 and ever since the food inflation rate has been close to double digits – around 10 per cent per annum – while manufacturing inflation has remained close to or under five per cent per annum (*Graph 1*, Page 34). This entire period of eight years has included phases in which India's GDP was growing at over eight per cent and also years in which the growth slowed down significantly. Over the entire period of high food inflation, manufacturing growth rates have varied (from 14 per cent to a negative growth rate) even more than in agriculture.

Thus, through phases of upturn as well as downturn, a high rate of food inflation has persisted, defying authoritative voices on inflation in India. Responsible analysts/commentators have time and again made predictions that food inflation is about to end but it simply refuses to go away.

In contrast to food items, the manufacturing sector has seen relatively low rates of inflation and, in the last few years, virtually zero growth rate of production as well. What causes this kind of trend (*Graph 2*, Page 34) and what are the imbalances that such food inflation causes? There has been a more than doubling of food prices between 2005-06 and 2013-14. The prices of air-conditioners, automobiles, motorcycles, TV sets, microwave ovens and such others that the average Indian does not buy have either come down or risen very little.

In other words, the purchasing power of the money spent by the poor has got eroded much faster than of the relatively prosperous though the money incomes of the former have not necessarily grown faster. How is this process happening if there is an inflationary process that is essentially excess demand driven, pursuant to high GDP growth? Food inflation, therefore, is not a reflection of a general inflationary process that can be explained by a set of factors that applies to all products and their prices.

While there is something specific to the food inflation story that does not apply to other products, within the extremely heterogeneous food basket inflation has been a generalized phenomenon. In India, if the price of one food product is stable, that of another goes up. The rates of inflation of foodgrain, fruit, vegetable, protein rich products, spices and such others have varied from year to year but each year one or the other has been driving up food prices. If inflation is extremely generalized as far as food is concerned, one needs to look for common factors that apply to all of them but not to other manufactured products whose prices have been relatively stable. The general demand push explanation does not quite hold water.

Consider a hypothetical situation in which the inflation of the past decade had not occurred;

where all prices, including food prices and prices of inputs that go into agriculture had remained stable but agricultural output and input use had been the same as the actuals seen. Under such circumstances, as indicated by the trends in constant prices (*Graph 3*, Page 35), for every rupee of agricultural output the part that is the value added, the income that those involved in agriculture derive, would have come down. What inflation in agricultural prices has done is to partially compensate for this process and effectively allow agricultural incomes to grow faster than they would otherwise have.

It is not that there is a situation where the prices of the agricultural products are racing ahead while input prices are relatively stable. Most input prices have followed the rising trend; irrigation charges, livestock feed and such others, save for fertilizer prices that are subsidized. Even fertilizer prices have gone up in the last two to three years.

This trend of decline in the value added portion of output has been there from before the current phase of inflation began and is part of the background to the question of viability of Indian agriculture.

Demand-based explanations for food inflation contend that high GDP growth rate has led to greater consumption or demand for food in India. If the trend is considered only since 2004-05, this may appear to be the case (*Graph 4*, Page 35). How then does one explain the declining trend observable before that when we see the entire period since 1991? Even if the total per capita expenditure on a wide range of food products (to account for the position that people's eating habits are changing) is considered – which mostly make up what the average Indian eats; encompassing foodgrain, fruit and vegetable, sugar, potato and other tubers – real consumption levels in the subsequent two decades have been lower or at the same level as in 1991. Of course. certain products like egg have been excluded as data does not suggest that Indians eat a lot of them. India's current production of eggs is only around 55 eggs per capita per year. This means that less than 10 per cent of the population would consume more than half the production if they ate one egg every day.


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Eating habits do not change suddenly in one year indicating that incomes must have constrained the level of food consumption. Thus high growth cannot be driving the food inflation

Thus, what has been witnessed since 2004-05 has been a small increase in per capita food consumption but from a previously lowered level.

Additionally, if the consumption figure for 2011-12, the highest since 1991 and the first time that it crossed the 1991 levels, reflected the food consumption choices that people made, surely all the lower levels in the years preceding that must have been constrained by their inability to purchase food. People's habits could not after all have changed so suddenly in one year. Incomes must have constrained the level of food consumption. Therefore, it is hard to accept that very high growth in the Indian economy is driving the food inflation.

Another way of examining this phenomenon is to see if Indians across the board are benefitting from the growth in such a way that their incomes have been increasing. If that was really the case, how come the wages of organized sector industrial workers, those supposedly protected by the labour laws and

trade unions in this country, have not increased for over two decades (*Graph 5*, Page 36)? They are not slaves without options of switching jobs. It is only the absence of alternative opportunities outside that can explain this trend. Thus the explanation that growth is getting translated into rapid increase in food demand, which supply is unable to respond to, is not really sustainable on the basis of the data.

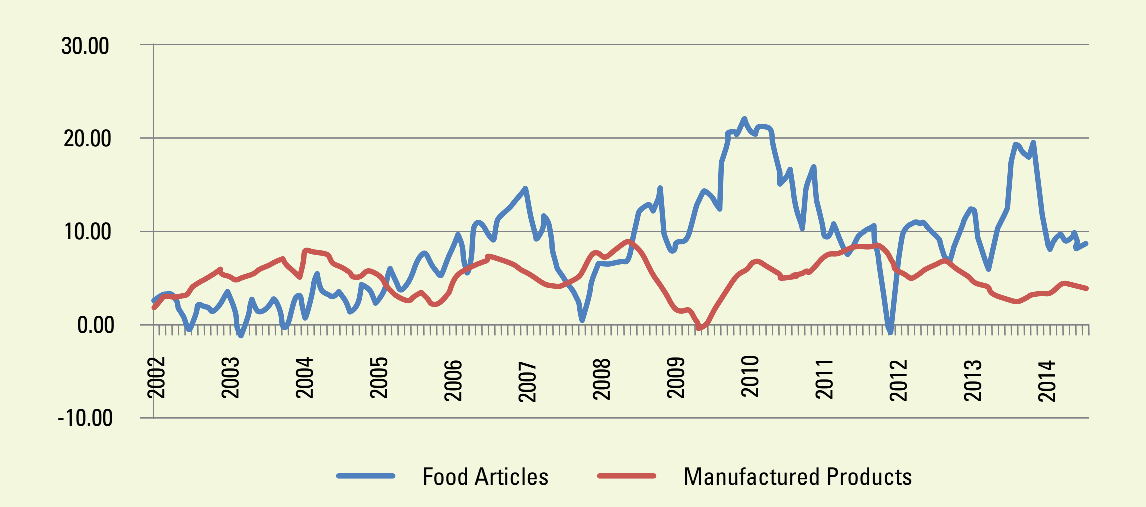
As was seen (*Graph 4*, Page 34), foodgrain consumption is drifting down slightly. Discussions about food inflation often assume India's self-sufficiency in foodgrain and refer to food exports along with massive quantity stored in the FCI godowns as substantiating this. Since people are not buying the available foodgrain anymore, it is claimed that there is no foodgrain problem and the search for an answer to the inflation problem has to move away from focusing on foodgrains to other kind of food products. The reality may, however, be that foodgrain consumption levels are very low because of income and price factors rather than India having sufficient foodgrain production.

There is another aspect to the foodgrain question that is often forgotten. Economists note that food production is moving away from foodgrain to other varieties like livestock products, whose share in the agricultural sector's output has been rising since the 1980s. Paradoxically, alongside there has been a declining trend in the use of livestock feed per unit of output. This is true at both the current and constant prices. Livestock feed is the single largest item on the input side and supposedly comprises half the input cost in agriculture. This declining trend in livestock feed use has occurred even during the recent phase of food inflation despite the rising cost of the feed.

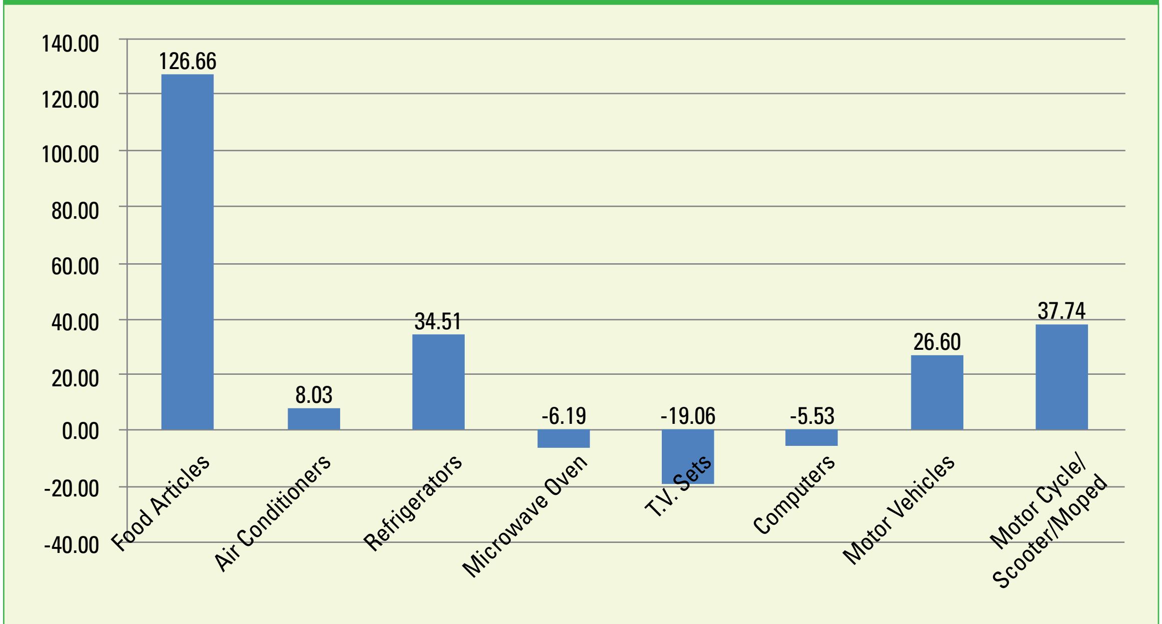
The only explanation for the contradictory trends in livestock output and the use of livestock feed as input is that the latter is attributable to the use of animals in agricultural activity having generally come down, while growth in livestock production is dominated by milk products and chicken. Chicken feed is, literally, chicken feed as one does not need much to feed chicken. Chicken prices have actually risen slower during this period of food inflation compared to other food products, adding to the disbalance.

Most of the milk comes from buffaloes whose feed requirements are very different from that of cows. India has a large buffalo population and has

Graph 1: Monthly WPI Inflation Rates, Year-on-Year, July 2002 to July 2014 (In %)



Graph 2: Percentage Increase in Yearly WPI of Selected Items, 2005-06 to 2003-14



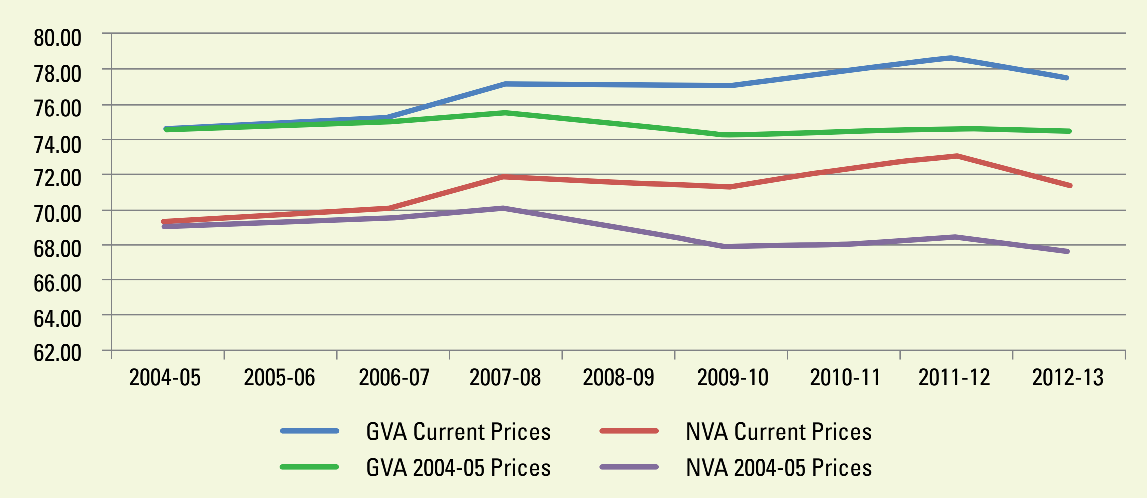
been able to increase production without having to consume a lot of feed. This process of increasing livestock production without consuming too much grain as feed may not be sustainable in the long term though. If so, the challenge of foodgrain production is far from having been answered.

The period of high food inflation also saw a pick-up in investment in agriculture. This was mainly private investment unsupported by public investment, the latter having remained low and stagnant. Not only was it not supported by the public investment, it was not backed by increase in long term direct institutional credit support to farmers either.

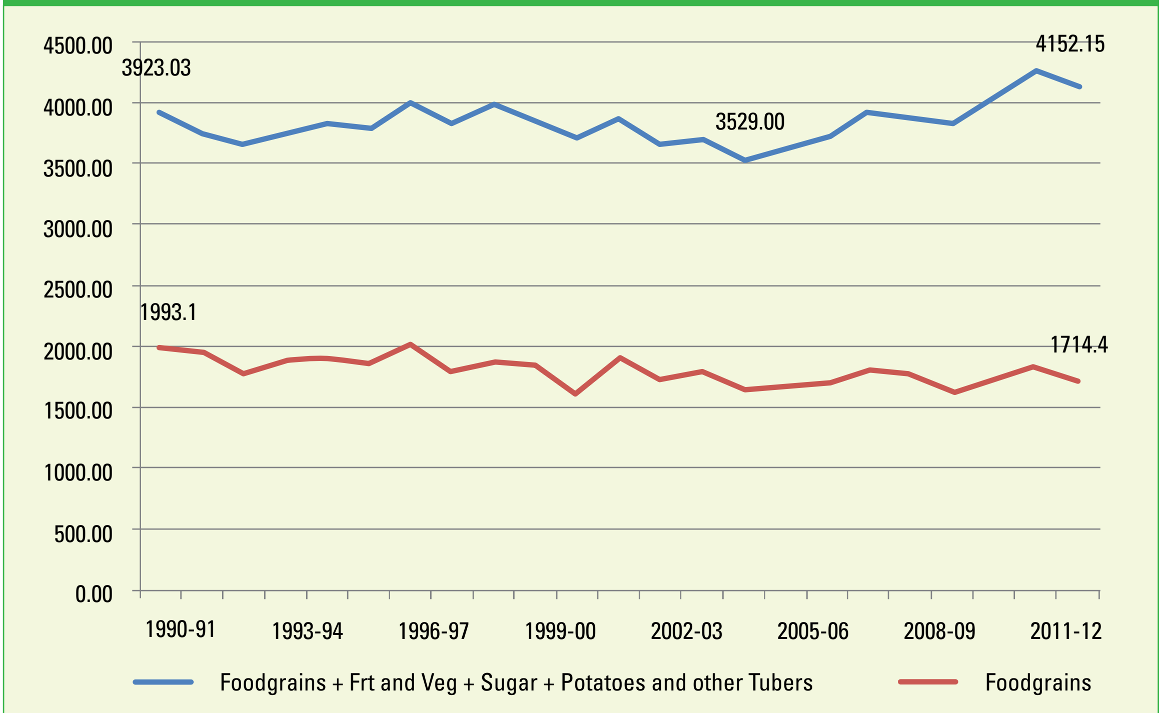
There is also the story of an increase in rural wages since 2008. Before that too per capita income in the country was going up pretty rapidly but it had no impact on the real wages of rural workers. Only from 2008, much after the inflationary process had begun, was there a rise in wages. Clearly, once there was high inflation, adjustment in money wage rates has to follow. This, combined with other factors, too is pushing up wage rates of rural workers somewhat.

However, there is no evidence that this has increased the wage-costs in agriculture. The workers may have been paid more per day but had fewer days of employment, which mean higher rates do not translate into higher incomes and higher agricultural costs. In any case, the wage cost in agriculture is quite low and cannot really explain the inflation.

Graph 3: Gross and Net Value Added in Agriculture as Percentage of Value of Agricultural Output, 2004-05 to 2012-13



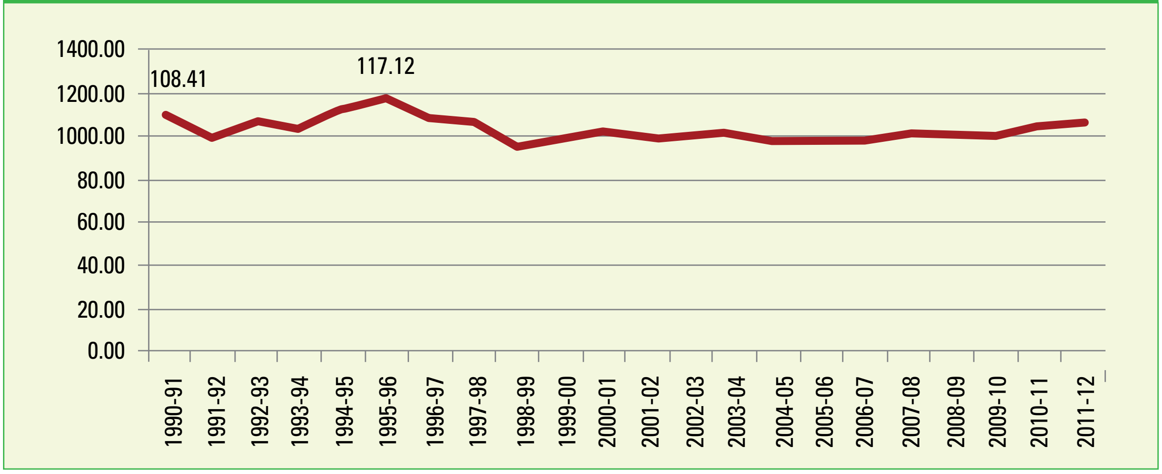
Graph 4: Private Final Consumption Expenditure Per Capita on Selected Food Items at 2004-05 prices, 1990-91 to 2012-13



What all this then suggests is that the current food inflation is the result of the long period of the neglect of the agriculture sector – with systemic tendencies towards inadequate production levels and exports of food leading to domestic unavailability of food. It is worth recalling in this regard that the food price inflation was initiated by a rise in foodgrain prices following a prolonged period of low production, consistent exports and running down of stocks. In the late 1990s, there was a large accumulation of foodgrain stocks but these were depleted by the mid-2000s. The running down of stocks checked the prices for some time but once stock build up was re-started it triggered the inflationary process.

Inflation, therefore, possibly provides the only mechanism by which the crisis that the agricultural sector faces is being mitigated somewhat. This does not mean that everyone in the agriculture sector is equally benefited by that inflation. The beneficiaries may even largely be the middleman between the producers and the consumers. Inflation is by no means a real solution to the crisis of agriculture – it is simply the only one available. That is what the

Graph 5: Index of Real Wages Per Worker in the Organized Factory Sector (2002-03=100), 1990-91 to 2011-12



Instead of recognizing the crisis, one starts with the proposition that the system of public intervention is the problem or that the fiscal deficit is the source of inflationary pressures

phenomenon of food inflation and its persistence for such a long period of time reflects.

If instead of recognizing the crisis one starts with the proposition that the system of public intervention is the problem or that the fiscal deficit is the source of inflationary pressures, which is what the demand-based analyses tend to argue, the conclusion is that expenditure should be compressed and the government should withdraw from the many activities around agriculture that it is involved in. This is precisely what has been happening and this constitutes the neglect of agriculture.

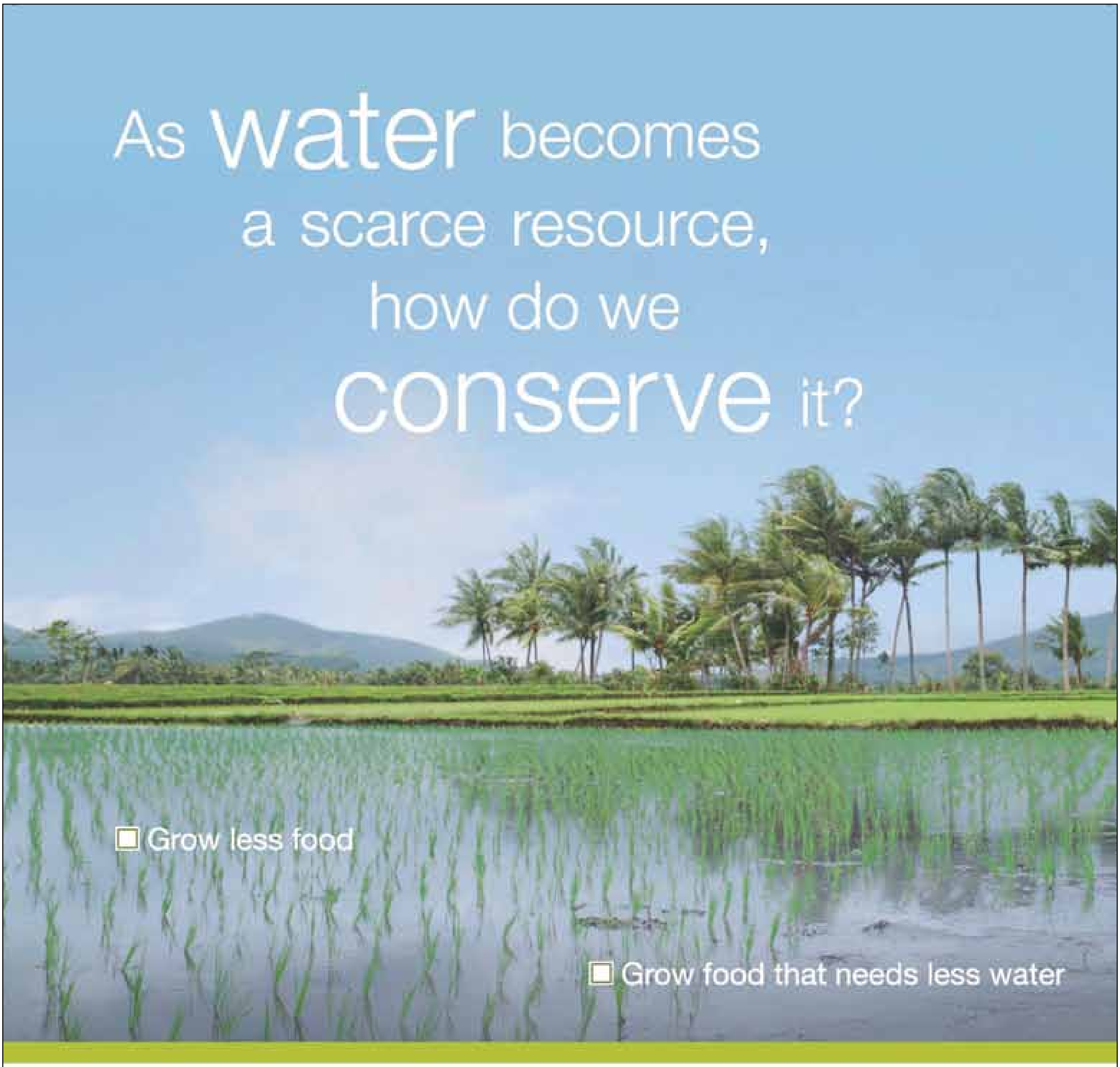
Even during the period of high food inflation, the process of 'fiscal consolidation' has adversely impacted various heads of public expenditure with a bearing on food prices like fertilizer and food subsidies and investment in agriculture and rural development. Contrary to the rhetoric, the combined expenditure on these heads has, in real terms, been stagnant for the last six years. The record, however, is that the high food inflation began at a time when the fiscal deficit was coming down and has persisted even after the retreat from the post-global crisis stimulus has been well under way and the fiscal deficit has been reduced again. That it is the neglect of agriculture rather than the fiscal deficit that is the problem gets reinforced by this observation.

Finally, when one talks about public intervention in agriculture, it is often government failure that is emphasized. This government failure, however, takes place when various private interests are able to influence public policy and the implementation process in such a way as to defeat the purpose that was the original rationale for public intervention.

The solution to that problem cannot be replacing the government involvement in the food market with a set of large private players who have every incentive to use their strength to manipulate the situation to their advantage. The government can still be made accountable in various ways and is also the agency through which private enterprises have to be made accountable.

Big private players in food trade may be efficient in terms of reducing costs by establishing large-scale operations but the corollary of that is the absence of competitive markets as the link between the large number of producers and the large number of buyers. In other words, rather than correcting any oligopolistic tendencies in these markets one would move towards the situation of private oligopsony as well as oligopoly – the abuse of which can only be checked by regulation.

That is precisely why the few big players would also have the incentive to manipulate any system of regulation that may be used to control their abuse. If public policy is subjected to such abuse by a large number of small players what will happen when there are only a few big players? ●


As water becomes
a scarce resource,
how do we
conserve it?
Grow less food
Grow food that needs less water

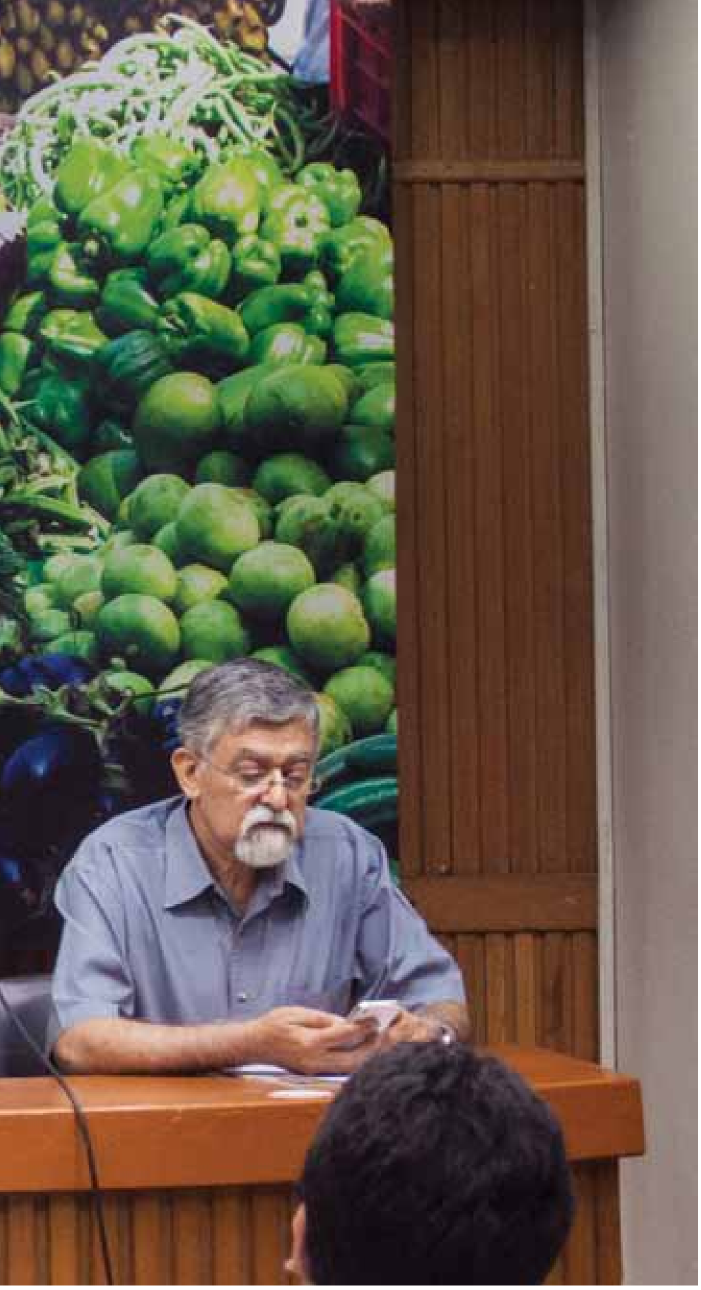
Point-Counterpoint

Is India a victim of a grand design that will rob it of its independence in a globalized world? Is the government being withdrawn from areas where it can play a role in keeping vested interests at bay? Will private industry usurp the government's regulatory/beneficial role or are things headed towards correction and better governance?

ARUN KUMAR: Distribution of income is very important while discussing India and growth. The demand for food depends on that distribution. The nature of growth too is very important. It is not just aggregate demand that is based on the growth rate of the economy. The GDP has been growing rapidly since 2000 but the income distribution having got skewed makes an important difference.

The other thing that cannot be emphasised enough is that the black economy skews the distribution further and skews the demand even further. Policy failure is so considerable in India because all policies are affected by the large black economy. Policies on paper differ from policies as they are implemented because of the existence of the black economy whether it be public distribution, stock piling, procurement or other policies vis- à-vis agriculture, for instance APMC. How they work on the ground and what steps can ensure effective implementation is what needs to be taken into account in all discussions on food inflation.

Direct cash transfers, now being implemented, would be subject to almost as much corruption as factors abetting black income generation. Also,



one does not know what purpose the household would use the direct cash transfers for; the subsidy is meant to ensure food security and improper use would only jeopardize food security further.

ARVIND VIRMANI: I am afraid we do not look at facts and analysis; we have our theories and examples. I have two papers, one from 2007 and another from 2012, showing that child malnutrition is more due to insanitary conditions than due to food/poverty. No one has challenged the analysis. In the 2013 paper (unlike the 2007 paper where I used inter-state data), I used international data. One should look at data and not go by impressions. Child malnutrition is a complex problem and to say that it is all about cereals as the Food Security Act does is wrong.

Again, I have dealt with FCI for 20 years as it came under my division in the Planning Commission. There was no consultation from the government when it was drafting the Food Security Act. The government is not interested in experience about ground realities; it goes by theory. I, independently, initiated the first study on the leakage in FCI about 10-15 years ago. Facts are all that matters.

DEVINDER SHARMA: Since the direct cash transfer was mentioned, it would be great if we can link it up with what is going to be its impact on agriculture. The direct cash transfer scheme and food coupons are also a part of the design that is being promoted in India. What are its results going to be? In a village one gets coupons or cash to buy food from any shop. This means that procurement shops become irrelevant and the pressure on the government to procure too diminishes. The government of India, in any case, wants to get out of procurement and the direct cash transfer scheme will help it to do so.

The emphasis is on leaving everything to the market by providing food coupons while procurement goes down along with the need to provide MSP to the farmers. The argument for food coupons is that it has done remarkably well in America but the American food coupons story is mainly being pushed by the MNCs and banks including J.P. Morgan and Coca-Cola. It is important to note that industries get nearly 52 per cent of the subsidy.

In India too, there is a lobbying for food coupons and ultimately there will be a Reliance Fresh distributing food to the poor. Is that agreeable to most Indians? The point is that there is no effort to improve the existing system. This is where the thrust should be and, as Surajit said, agriculture is neglected and that will be the story in the days to come.

SURAJIT MAZUMDAR: I endorse Arvind Virmani's position with a rider that while it is important to look at facts and analysis, economics is essentially a social science and the same reality can be interpreted differently. That does not mean that there are no facts and analysis underlying the alternative interpretation.

Q & A and Comments from the audience:

UTTAM GUPTA, Author and Analyst: Arun Kumar mentioned that direct cash transfer is not a practical proposition as it could be subject to misuse. Possibly this arises from doubting the capability of the housewife to use the given cash for the specific purpose for which it was given. The existing system, however, is riddled with so many inefficiencies, pilferages, leakages and what not. What then is the way out as none of these scenarios are acceptable?

ARVIND VIRMANI

PARANJOY GUHA THAKURTA

Arvind Virmani and Devinder Sharma both mentioned that 52 per cent of the subsidy goes to the fertilizer manufacturers. Let me put a very simple arithmetic before you: $6 per million British thermal units is the landed cost of gas-based urea to a manufacturer. This is what the manufacturer pays to the gas company. It works out to $150 or ₹9,000 per tonne of urea, which is what the gas company is paid, while the farmer pays ₹5,360 or so. How do you say that 52 per cent of the subsidy is goes to the manufacturers?

ARVIND VIRMANI: That was the figure when I was serving in the last committee; I am not aware of the figures right now. It is not the same every year and depends on the fluctuation of prices, control, input and such others. It is all controlled thus very arbitrary.

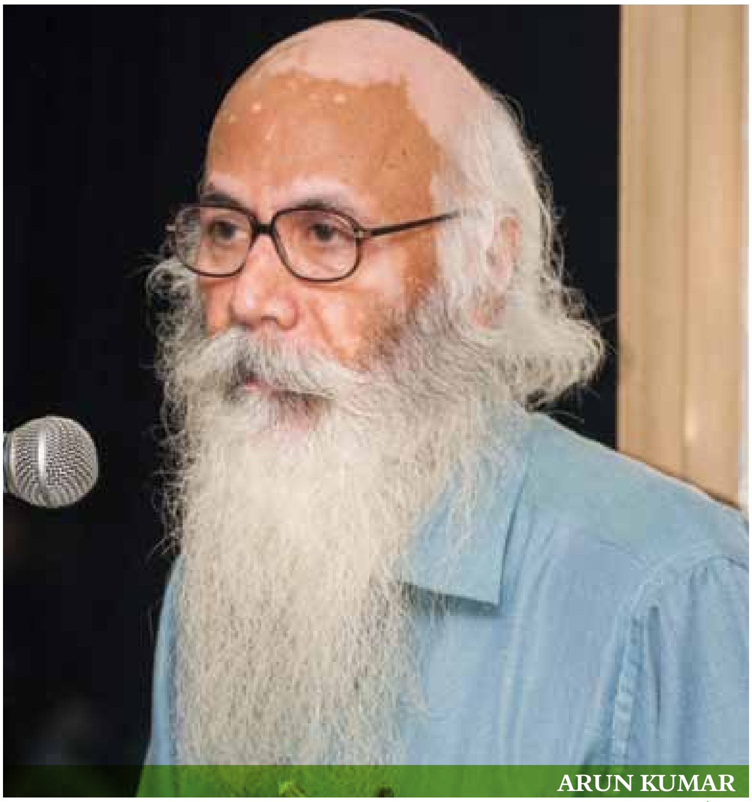
ARUN KUMAR: I would still prefer transfer of food rather than cash transfer as it at least ensures that some food reaches the beneficiaries. Is every leaking scheme closed down? Cash transfer will create a lot more of a problem because of the way banking functions in India. If traders are made to disburse cash, they will take decamp with the bulk of the cash before distributing to the beneficiaries. Implementing something like this without a banking infrastructure in place will be futile. My M. Phil. student studied a remote village of Odisha where banking had reached but people still went to the *seth* and *sahukaar* for loans at much higher rate of interest.

All this was happening because of the massive corruption in the banking system itself. Just to get a loan one spends 40 per cent of the loan amount. The interest rate worked out is quite high and repayments are a problem. In other words, unless you have a properly functioning banking infrastructure, there will be more corruption than in the present system. The present system should be cleaned up. Wherever PDS has been universalized, as Reetika Khera's and other studies show, it has worked much better than where it has been done partially.

QUESTION: We were hugely enthused by the Pradhan Mantri Jan Dhan Yojana despite all the talk about possibility of misuse, corruption and what not. The new scheme will lead to 150 million new accounts, which will be the founding pillar of the NDA administration that focuses on strengthening of the financial infrastructure by strengthening the financial architecture of the country. It would economically empower the poor. Time will tell what will happen but we are greatly enthused by what the PM has done.

PARANJOY GUHA THAKURTA: May I respond, though people here are far more competent


AJAY VIR JAKHAR


ARUN KUMAR

When the government has to guarantee a certain set of benefits to people, meeting that guarantee also makes it mandatory to ensure that the process is viable

than me. Opening the bank account is just the first step towards financial inclusion and there is a long journey ahead. To begin with, there are a large number of dormant bank accounts. Opening new bank accounts just to meet the targets is not financial inclusion. Second, one does not know the details of the insurance schemes and overdraft facility that could degenerate into a loan waiver scheme.

There have been many committees, commissions, payment banks, business correspondence and the poor definitely want financial inclusion or else there will be more chit fund debacles. After many years there is one gentleman named Subrata Roy in Tihar jail. Another is in a jail in Kolkata for the Sharada scam. These are so called 'cheat funds' not chit funds and indicate how important financial inclusion is for the poor.

SURAJIT MAJUMDAR: Since one is talking about the efficiency of the administration, guarantee schemes like employment guarantee or food security are extremely limited but also they play a different kind of role. When the government has to guarantee a certain set of benefits to people, meeting that guarantee also makes it mandatory to ensure that the process is viable. There could be other measures to guarantee employment so that one does not have an employment guarantee scheme to guarantee employment to everyone.

The government cannot provide funds from the budget to employ everyone but think about what can be done to expand income generation. The same thing applies to cash transfers. Replacing cash transfer with direct provision provides the government with an escape route. The government commits a certain amount of money no matter what happens to prices. When the government commits as certain quantity of food, the quantity is assured irrespective of price. When it commits a certain amount of cash, it does not build in price fluctuations.

QUESTION: What is your reaction to Arun Jaitley's proposed transfer of ₹300,000 crore of subsidy directly into the accounts of beneficiaries.

ARUN KUMAR: I am not clear if that would work given the levels of the corruption and lack of banking and financial institutions in the rural


SURAJIT MAJUMDAR


SURESH PRABHU

After 1991, rural and semi-rural banking branches have declined. Without a banking infrastructure in the rural areas, how would cash transfers work except on paper?

areas. That is why I am sceptical of the 7.5 crore bank accounts. If you take the people who earn less than $1.25 a day, the bottom 40 per cent of the total population, they are not savers. Having a bank account would only be a mechanism for cash transfer. How would that work without bank branches in the rural areas. After 1991, rural and semi-rural banking branches have declined rather than increased and more commercial banking branches have come up in urban areas.

Without a banking infrastructure in the rural areas, how would this kind of scheme work except probably on paper? Lot of traders and other people will have multiple accounts, which happened in the case of demat accounts. One gentleman in the Yes Bank had 10,000 accounts. People have multiple pan accounts to escape scrutiny. The system will connive to meet the target of 7.5 crore but will the target population really have banking or savings to invest?

There is no clarity on the administrative mechanisms and important issues like who will bear the subsidy. If banks do so, their profits would decline and there would be a clamour to privatize them and private banks would enter. There are a lot of questions at this point and one cannot see how how this is going to work. One must wait for the scheme to be spelt out because at this point these are mere announcements. There are no workable propositions.

ARVIND VIRMANI: Some 15 years ago, at a meeting of food minister, when the papers were talking of the hunger deaths in Kalahandi, Odisha, someone asked the food secretary of Odisha what was being done about it. He said that he could do nothing because he did not have the capability. One does not even know of the many schemes at the district level. I found out that there are 350 schemes that the district collector has to deal with. He probably deals with not more than one or two schemes.

Thereafter, one heard a lot about some far off places where people were not getting benefit of any scheme. We then came up with UID project to identify everybody and know what benefits under how many schemes people are getting. If one is benefitted under all 350 schemes, one would be the richest man. The deserving do not get it. The moral of the story is that you need to know what people are getting and UID is the only way to determine it.


DEVINDER SHARMA

It is not that the government just comes out with policies. We did a paper in 2002 that went into all the details. We proposed food debit card in the rural, semi-urban and urban areas as the public distribution was not reaching the remote areas.

As far as the Jan Dhan Yojana is concerned, I wrote a blog in a newspaper advocating that the best way to reach the people is mobile phones, which 80 per cent of the population has while less than 50 per cent has bank accounts. If we cross-check the address and other details to use mobile phone as a mobile bank (not for mobile banking that the RBI is talking about), we can reach the poor. The question is about achieving something and not having a theoretical discussion. I suggested that free mobile phones could be given to 20 per cent of the population that currently does not have it. That would be more worthwhile than a creaking system in which people get only one third of the benefits due to corruption and inefficiency.

PARANJOY GUHA THAKURTA: I want to add a small point on this issue. People have talked about self-help groups and microfinance institutions but, at the end of the day, these can never replicate the expansion of the traditional banking system.

AMIT: Devinder Sharma said that we should increase subsidy to the farmers. The government does not generate anything; it collects from people and distributes to the target groups. If some revenue is pulled out from somewhere, people should be ready to pay the tax so that the subsidy is diverted to the farmers. Also, why do we want to subsidize an inefficient system. Let the inefficient farmer who does not want to be in agriculture quit. Just because the father was doing agriculture does not mean that the children must do it too. Why do you want to keep the children in agriculture and subsidize him?

CHAITANYA KALBAG, Senior Journalist: I have heard much about the Food Security Act and its impact on food pricing. What I recently heard was that it costs ₹10 to produce a kilogramme of wheat and the cost of storage by the government adds ₹12-₹14, which makes the total cost ₹24 a kilogramme but under the Food Security Act it will be sold at ₹2- ₹3 to 67 per cent of the population. Where does this subsidy come into play in food inflation? I think there is something seriously wrong in the economics of this whole thing and nobody is talking about it.

Second, the government levies a heavy import duty on certain products. Washington apples and chicken legs were given as examples by the earlier speakers. We also keep patting ourselves on the back about being the largest producer of food and second largest producer of milk, and so on and so forth. How are the two things reconciled? I can understand about pesticides but we are paying a huge amount more to have products like Washington apples and chicken legs and talking of increased consumption. Can somebody explain the arithmetic of this?

VIJAY SARDANA, Co-chairman, Agribusiness Committee, PHD Chamber of Commerce: First, one has heard a lot in the last couple of years of decreasing water tables, defunct agriculture extension system, increasing labour costs and erratic monsoons. Yet production data shows that every year milk production is going up by four per cent and the output of chicken, wheat, rice, fruits and vegetables is up too. What is the secret of success when virtually nothing is available? Should we trust the data published on the economic surveys and the economists?

Second, we have to ensure that only chicken leg is being imported not the whole chicken. Chicken leg is the by-product or the unutilized part in those markets, which is available at a throw away price and is entering into India and destroying not only the chicken industry but also the associated maize industry and soya industry. I think it is very important to ponder on the fact that do we really have the authentic data on which to base our food inflation calculations and agricultural policy planning? The latest update from the horticulture department is that when they review of the production data and the area under production they find themselves in a fix about disclosing that the data in the public domain is fictitious.

PARANJOY GUHA THAKURTA: Lies, damn lies and statistics! Statistics is supposed to be like a woman in a bikini, what is revealed is suggestive and what is concealed is vital.

DEVINDER SHARMA: The issue of import of chicken leg is funny as chicken legs are waste products in the US. They have destroyed economies of many of the former soviet countries. They are also called as Bush legs in Kazakhstan and he was trying to promote it there. He was also trying to promote them in India. We are the world's biggest dustbin for anything. We even justify technology import that is sometimes not required in this country.

I think one of the classic ways to understand all this would be from Verghese Kurien. During the milk revolution, European Union wanted to supply the butter oil to India free of cost and Kurien knew that it was going to come to India because they were overladen with these things. He ensured that the milk is channelized through a system that actually developed the entire process of milk revolution in this country. We should be sensible enough, like Kurien, rather than saying let it come it will provide cheaper food to our people while not realizing the impact on the millions dependent on it.

It also answers the food inflation question. The most perishable commodity is milk. Without any multi-brand retails coming into India, he ensured that milk reached Indians promptly. Where was the need for cold storage chains that are not available in India? Everything was done by the National Dairy Development Board. There is need for original thinking rather than importing everything, including ideas, from the west.

There were a number of other questions on agriculture. On the question of providing subsidy to agriculture, I said (what Surajit also said) that we need to put more investments in the agriculture. Whether it can be dubbed as subsidy is a different question altogether. Look at the 11th Five Year Plan. ₹1 lakh crore were invested in agriculture and

the 12th Plan wants to invest ₹1.5 lakh crore in a space in which 60 per cent population is involved. Arun Kumar succinctly put it: an economic activity engaging six per cent of organized labour gets 80 per cent of the investments. The point is that the focus must shift to agriculture to restore the balance.

You also called the farmer inefficient. I took a lot of time to explain that the Indian agriculture is not inefficient. American agriculture is heavily subsidized making it seem efficient. Let me give you one classic example, rice productivity in India, on an average, is three tonnes per hectare while it is seven tonnes per hectare in the US. So, technically the seven per cent must corner the market that was, however, dominated by Thailand earlier and now by India. Interestingly, Thailand's productivity is 2.8 tonnes per hectare. The country producing seven tonnes per hectare should be economically viable but against the total output of $1.2 billion the direct income support provided by the government is $1.4 billion.

Indian farmers can also raise the production but the question is who will provide them the subsidy? Everyone questions these subsidies to Indian farmers but not to the American farmers. We need to understand the politics behind all these things.

As far as the Food Security Act, inflation and such issues are concerned, since the cost goes up in providing the food security, people are asking

The US has broken its record of last 25 years of hunger with more than 49 million people living in hunger. The cost of the food coupons provided last year was $120 billion

for free play of market forces. Look at the US, which is highly privatized and where hunger should come down, according to the argument that market economy helps entrepreneurship. The US has broken the record of last 25 years of hunger with more than 49 million people living in hunger. The cost of the food coupons provided last year was $120 billion while the total money provided by India for its food security programme is $20 billion. This issue came up in the WTO too.

Significantly, the entire WTO gamut of the 30 federations of the exporting agricultural commodities blamed the American stand of providing India the peace clause for four years to protect the farmers. They are saying that by providing a MSP to the farmers in India, the farm economy is being helped here, which comes in the way of their export interest. So actually they are looking to export cheaper, subsidized food in India. This will be dumped in the food chain and PDS system. We need to understand the bigger political economy to see how it impacts agriculture. It is also about the links to livelihood and not just a question of providing cheaper food.

SURAJIT MAJUMDAR: I would like to respond to two issues. One is the question related to the Food Security Act. The question of an act like this arises in a context where food security is not a reality for the large number of people. Even if considered a populist measure, it has a context. Second, the actual conceptualization of the act and what has been really thought to be implemented in India is still constrained by the considerations of fiscal balance. The Indian reality is that its public expenditure as well as tax to GDP ratios are amongst the lowest in the world. Indian government expenditure is not as high as in advanced economies that prescribe market solutions to many problems. Most of them spend 40 per cent to 50 per cent of their GDP.

India has low levels of growth and the subsidy component that has been so far budgeted to enable the implementation of the Act is a very small part of the GDP. It may be a large part of the deficit though. If that is the driving concern, it is unviable. The fact is both taxes and expenditures are very low in India and can be increased on account of the increasing inequalities – it is not unviable. India has 17 per cent

of the world's population producing roughly 11 per cent of the world's foodgrain and 25 per cent of the production is committed to the food security. If it is not viable for 17 per cent of the world population to receive a commitment of three per cent of the world's foodgrain, what is? Besides what is the point of all this growth, GDP and incomes if even this basic minimum cannot be assured.

There are various questions about various sectors. One takes into account those things but if all data is to be questioned nothing can be done. In analysis one should be careful about the quality of the data.

ARVIND VIRMANI: Agriculture is largely a state subject and centre controls the important aspects like import-export policy, MSP and fertilizer. The data also comes from the district level and the deterioration in data is because those systems have broken down in the last 50 years. It's sad that we often come from an ideological perspective. I have worked in the government for 25 years and there is always a suspicion on both the sides but never an emphasis on what works and what does not.

The governance has deteriorated and I have seen corruption too. Coming back to agriculture, where is the action? What role are the elected representatives playing? Vidharbha is a special sub-category region from the beginning. What is its representative doing? Is there any good candidate whom the voters can elect? Even within a corrupt regime, which scheme should the administrator choose? He should select the one that works better and focus on it. One cannot run 250 programmes. It is important to choose the objective. Is it to prove a point or reach the farmers? Every new government will start 10 new programmes without removing older ones.

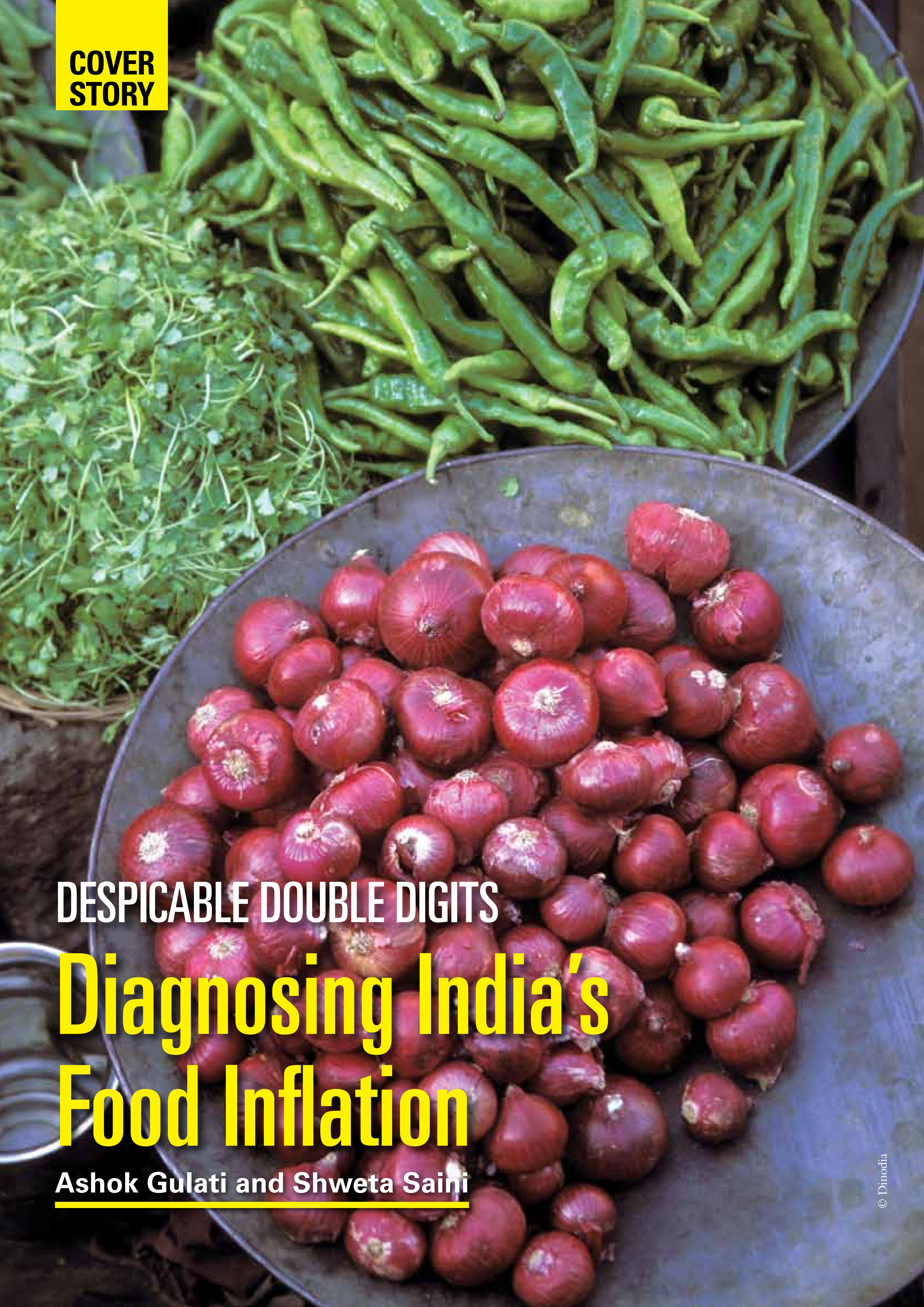
If it is not viable for 17 per cent of the world's population to receive three per cent of its foodgrain, what is? What is the point of growth if this basic minimum is not assured

ARUN KUMAR: Food security cannot be emphasized enough. India peaked at 510 grammes a day in 1991 and then dropped to 420 grammes a day, which meant that there was a sharp decline of around 17 per cent in terms of per capita food availability, which translates to food consumption. In 2013, it went back to 510 grammes per day. In other words, there are no permanent shifts in food preferences. It is because the poor people are unable to consume when the crop drops and prices rise. Food security remains a problem despite all kinds of other things being discussed.

What is the target for subsidy? There are a lot of subsidies in our system, including tax exemptions, data for which is available since 2006-07. It shows that roughly ₹5.5 lakh crore goes in tax exemptions that, in other words, are indirect subsidies for the well off. What the poor receive is Rs 3 lakh crore. So there is need to choose the target for subsidies. If it is for a food security programme, about ₹80,000 crore is already earmarked and the new act proposes an additional ₹25,000 crore, which can be found by reducing the ₹5.5 lakh crore of tax exemptions for the well off.

Why is the direct tax to GDP ratio only seven per cent; one of the lowest in the world? Why is total tax to GDP ratio roughly 16.5 per cent, lower than most other countries? It is because the black economy accounts for more than 50 per cent of the GDP and India loses 20 per cent of the tax ratio to the black economy. One cannot tackle black money without political will. If it was tackled and more tax was collected, India could have spent more on education, health, food, nutrition, employment generation and, above all, on dealing with poverty. Unless India gets rid of endemic poverty, all problems of financial inclusion and allied issues will remain. ●

COVER STORY



DESPICABLE DOUBLE DIGITS

Diagnosing India's Food Inflation

Ashok Gulati and Shweta Saini

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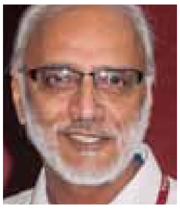

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Food inflation in India has been stubbornly high, hovering around double digits, for the last couple of years, especially since the UPA II regime (2009-10 to 2013-14). In a country with the largest mass of poor and malnourished people in the world (World Bank, 2013), where an average household still spends about 45 per cent of its expenditure on food (NSSO, 2011 data), a high rate of food inflation simply speaks of bad macroeconomic management. It acts as an implicit tax on the poor, especially those in the informal sector, whose wages are not indexed to inflation, and who do not have much bargaining power vis-à-vis their employers.

It is not only poor economics but also bad politics. Invariably, high rates of food inflation have unsettled the governments of the day in office, as people feel their savings are fast eroded and the basic necessities for existence are getting out of their hands. Each society has its own tolerance limits and it appears that, in the Indian context, that tolerance limit is around the double-digit number of 10 per cent. That is when it becomes a major socio-political issue.

Sometimes, even a specific food commodity, especially onions, makes headlines in daily newspapers, when its prices go up significantly. Onion is a curious case as it does not have close substitutes and is consumed by more than 90 per cent of the population. Given the somewhat inflexible demand, even a small drop in its production or supplies can cause large price spikes. That is what happened in October 2013 and the government of the day had to pay a heavy price, politically. Food inflation was a major issue in the election campaign of 2013-14 and UPA II finally lost elections, partly on this account.

The NDA government that came to power in May 2014 had three meetings under the chairmanship of the Prime Minister on how to tame this unacceptably high rate of food inflation in the very first month or so in power. Needless to say, it is one of the top priorities for the new government. In this context, it has also taken a slew of measures:

- Cabinet decision to offload 15 million tonnes of grains from the Food Corporation of India (FCI)'s godowns, apart from allocations under the Public Distribution System (PDS),
- Advising states to de-list fruits and vegetables under the Agriculture Produce Market Committee (APMC) Act,
- Advising some key states to put onions and potatoes under the Essential Commodities Act,
- Raiding 'hoarders' of these commodities to tame their prices.

Only time will show whether these measures bring some tangible results. For the time being, in July-August 2014, food inflation remained high and price spikes shifted from onions and potatoes to tomatoes.

It is important to understand the deeper structural problems that afflict India's food inflation, without which policymakers may be shooting in the dark without any tangible results. An examination of this article is based on the research undertaken under ICRIER-ZEF project on 'Stabilizing Food Prices through Buffer Stocking and Trade Policies'. It is also being published in 'Indian Economy since Independence' 25th edition (ed.) Uma Kapila, Academic Foundation 2014. The nature and structure of food inflation would show that during NDA rule (1998-99 to 2003-04) the average rate of food inflation was 4.1 per cent, a little below the overall inflation in the country for all commodities (*Figure 1,* Page 53).

During the tenure of UPA I (2004-05 to 2008-09), the average food inflation rate accelerated to 5.9 per cent, but it still remained below the overall inflation in all commodities. However, during the UPA II period (2009-10 to 2013-14), conditions changed dramatically. Average food inflation galloped to 10.3 per cent, and it was also higher than the overall inflation for all commodities in the country. It is this period that smacks of gross mismanagement of the macroeconomy, compounded by price troubles coming from global factors.

> Each society has its tolerance limits and it appears that, in Indian context, that tolerance limit is around double digit number of 10 per cent. Then, it becomes a socio-political issue

Figures 1, 2 and *3* reveal certain features of Indian food inflation. Food inflation comprises two segments: food articles and food products. Food articles are fresh and raw (largely unprocessed, such as cereals, pulses, oilseeds, fruits and vegetables, milk, eggs, meat and fish) and food products, which are processed (such as edible oils, sugar and processed foods). The rate of inflation has been generally higher in food articles than in food products. This has important implications for developing the food processing industry to contain food inflation.

At least during the last three years, 2011-12 to 2013-14, more than 70 per cent of the inflation in food article prices and more than 50 per cent of the total food inflation in the country emanated from the high-value segment of agriculture, namely fruits and vegetables, milk and milk products and eggs, meat and fish. These are superior foods, rich in vitamins and proteins and their demand increases with rising incomes. The per capita consumption of cereals, on the other hand, decreases with rising incomes.

Figure 3 (Page 53) only indicates that the demand pressure on high value agriculture (superior foods) is increasing faster than its supplies. As a result, the price indices of protein foods and fruits and vegetables have increased faster than cereals over this period (also see Gokarn, 2011) This has important implications for policy on diversification of agriculture as well as the need to build efficient value chains for perishables to save on large post-harvest losses.

It may also be noted that lately the discussion on inflation, especially by the RBI, has been more in terms of consumer price index (CPI) rather than wholesale price index (WPI). This is in line with the international practice that most of the developed and emerging economies follow. India had separate consumer price indices for agricultural labour and industrial workers. From 2011, however, India has also constructed a consumer price index for the country as a whole. The commodity weights in the CPI are based on consumption levels in the expenditure basket of an average household while the weights in the WPI emanate from the production basket. The two differ quite significantly.

Under the WPI series, for example, food accounts for 24.3 per cent (food articles for 14.34 per cent and food products 9.97 per cent) in the production basket of the country for all commodities. In the CPI series, however, the weight of food is 49.7 per cent, way above that in the WPI series. It is important to note this because the rate of food

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inflation measured through the CPI data is higher at 11.5 per cent than measured through the WPI (8.7 per cent), at least for the three-year average period of 2011-12 to 2013-14.

Since this new series of the CPI starts from 2011-12 onwards, one is staying with the WPI series for a longer-term analysis of food inflation in India, keeping in mind that food inflation for the consumer may be a little higher than being measured by the WPI series. So the shoe may be pinching a little harder for the consumer than is revealed by inflation numbers based on the WPI.

Undergraduate economic theory tells us that prices are an outcome of supply and demand. The supply curve is basically a marginal cost curve and demand is represented by marginal revenue curve. Switching from theoretical to empirical and real

India had separate consumer price indices for agricultural labour and industrial workers. From 2011 India has constructed a CPI for the entire country. The two differ significantly

world, one may not have easily available data to construct the two curves accurately and see what is driving food inflation in India. One, however, has some proxies closer to those data sets that can be used to test the hypothesis of food inflation in India.

The hypothesis being put forward here is that high food inflation is a result of three factors:

1. Rising farm wages (Damodaran, 2012), which significantly affect the marginal cost curve of supplies of agricultural products as farm wages account for roughly 35-40 per cent of overall paid costs of farmers
2. Rising global prices of food transmitting to Indian economy with a little lag. Global prices influence the cost of supplies when those commodities are imported but also indicate marginal revenues (demand curve) when they are exported
3. Loose fiscal and monetary policies, which pump more money driving the demand in the system by raising nominal incomes of people much faster than the real economy (goods and services) would permit. (Jadhav, 1990, 1994)

This leads to typical dictum of 'too much money chasing too few goods', leading to high inflation in

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On a five-yearly basis, especially during the UPA II period (2009-10 to 2013-14), nominal farm wages went up by an annual average rate of growth of 19 per cent

the country. A paper by C. Rangarajan and Alok Sheel (2013), has correlated the protracted fiscal stimulus with the present inflationary trends and have highlighted how such a trend has rendered monetary policy, as a tool for stimulating growth in the present pressing times, ineffective.

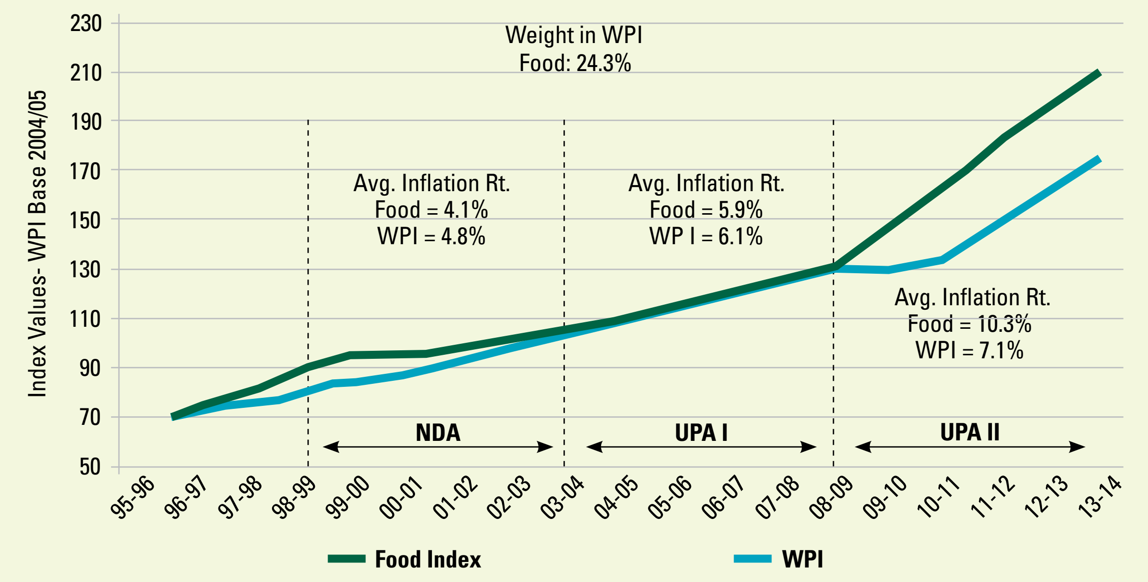
Figures 4 to 6 give the behaviour of these variables since 1995-96.

Each figure needs some explanation. *Figure 4* (Page 56) gives the nominal farm wage index for male workers from 1995-96 to 2013-14, with 2004-05 as 100. It is constructed from state level data on farm wages for five different operations, and then weighted by the number of workers in each state to get an all India picture. The trend in nominal wage index shows that during the first 10 years, from 1995-96 to 2005-06, the growth in farm wage index was very gradual and meager but started accelerating from 2006-07 onwards.

On a five-yearly basis, especially during the UPA II period (2009-10 to 2013-14), nominal farm wages went up by an annual average rate of growth of 19 per cent. This is more than triple the rate registered in earlier periods of NDA and UPA I. This is almost unprecedented in Indian history. This is more the result of 'pull' factors of development, especially in construction and overall GDP, than the 'push' factors emanating from the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) (see Gulati, Jain and Satija, 2013).

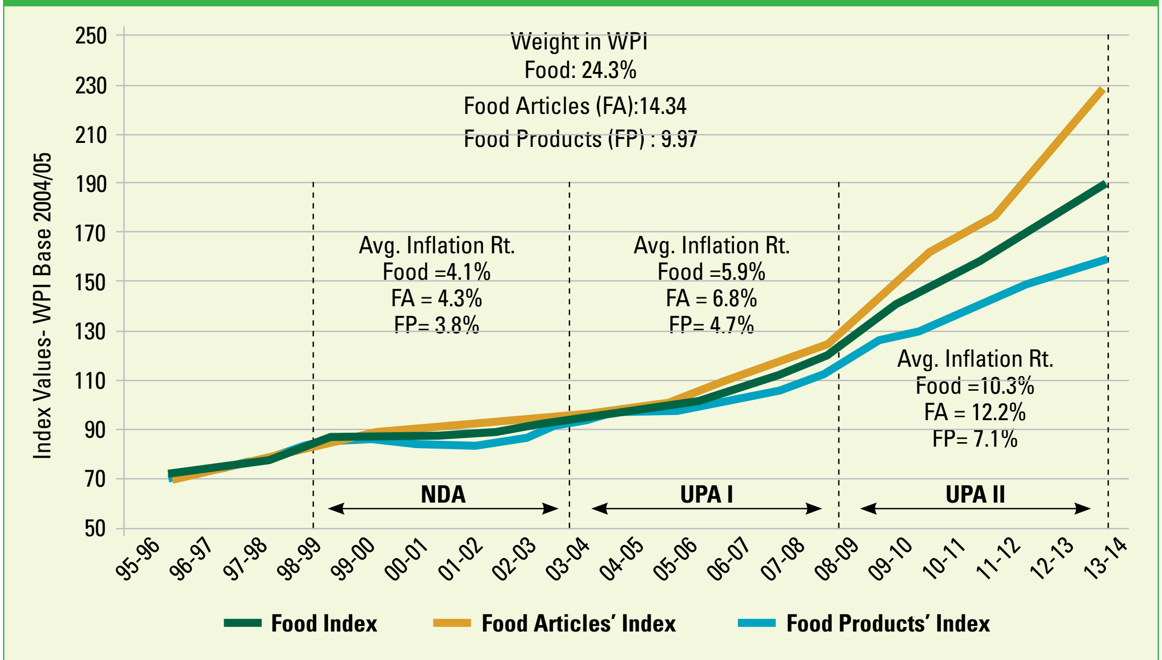
It is also for the first time that the Indian rural labour force shrank in absolute numbers during 2004 to 2011. This may have also put pressure on farm wages. Whatever the exact reasons behind these rising farm wages is, suffice it to say that it was raising the cost of production in agriculture and prices of agri-products had to incorporate

Figure 1: Indian Inflation: Trends in WPI



Source: CSO

Figure 2: Nature of Food Inflation (Food Articles and Food Products)



Source: CSO

these rising labour costs as the productivity gains were not able to offset these rising costs.

The second factor influencing domestic food inflation is the global food price vector. The FAO food price index (with 2002-04=100) stood at 210 in 2013. Interestingly, Indian food price index (2004-05=100) also equalled 210 in 2013. This shows a remarkable convergence in global and domestic food prices. It may be noted from *Figure 5* (Page 56), that the transmission of global prices to Indian prices is not immediate, especially from 2007-08 onwards. This is because Indian trade policy had been quite restrictive.

When global food prices erupted in 2007-08, India put a ban on exports of wheat and rice. This kept our food inflation relatively low in 2007-08 but very soon domestic prices had to be raised via minimum support prices (MSPs). Gradually over years, despite export controls, India could not insulate its domestic prices from what was happening in global markets. It only indicates that India is very well integrated with global markets and, sooner or later, its prices converge to global levels. Notably, after 2007-08, global prices are on a different plain altogether. So are now domestic prices. It has been a period of high global food inflation, which is reflected in India too, though with a little lag.

The third factor, namely loose fiscal and monetary policies, is reflected in *Figure 6* (Page 57). In 2008-09, fiscal deficit increased by 132 per cent in a single year over 2007-08. This was partly due to a synchronized 'global fiscal stimulus' that G-20 countries (including India) had decided to give to the global economy to avert any possibility of economic recession, which was much feared in 2008. This led to rising money supply (M3), which was growing at around 16 per cent to 18 per cent per annum during the last five years or so. With overall GDP decelerating after 2011, these loose fiscal and monetary policies were putting pressure on commodity prices, particularly food as much of fiscal deficit was financing consumption expenditures.

An econometric analysis to test this hypothesis gives following results: almost 99 per cent variation in domestic food prices over the period 1995-96 to 2013-14, can be explained by these three factors as eluded above. All the coefficients of explanatory variables have right signs and are statistically significant. The Granger's causality test that has been carried out provides results that are also very much in order.

The regression coefficients are elasticity values. The values in the parenthesis are the respective t-values.

In a nutshell, these econometric results show that Indian food inflation during medium to long term has been driven by rising farm wages, rising global food prices and loose fiscal and monetary policies and these results are statistically quite robust.

Some argue that the rising food inflation is attributable to the recent hikes in the minimum support prices. There was an annual average 20 per cent increase in the MSPs of both rice and wheat in the two years 2007-08 and 2008-09. However, it is not as simple as it may appear to the eyes. First, MSPs are declared for 23 crops and are effective for mainly wheat and rice and that too only in selected few states, namely Punjab, Haryana, Andhra Pradesh, Chhattisgarh and Madhya Pradesh. In the rest of the country, market prices often go below the MSP.

Second, in an open economy environment, simple rules of pricing require the MSPs to be closer to export parity prices or FOB (free on board) in commodities in which there is a surplus and net exporters; and closer to import parity prices or cif (cost, insurance and freight) in commodities that India is importing. If one compared the country's wheat and rice MSPs with comparator countries in south and south-east Asia, India is at a relatively lower band than these countries. (*Figure* 7 Page 57)

Pakistan's MSP for wheat hovers around $283 /tonne and China offers around $388.7/tonne, against India's wheat MSP of less than $226/tonne. Similarly, the rice MSP ($320.3/tonne) is closer to Vietnam's MSP ($297/tonne) and way below that of China, which ranges between $444.7/tonne and $494.1/tonne for Indica and Japonica rice. (Gulati and Saini, 2013)

For wheat, the prices are for 2013-14 crop year to be harvested in 2014-15. For rice, the crop and the marketing year are 2013-14. In countries other than China, the MSPs are given for paddy, which have been converted into rice prices by dividing the respective values by 0.66, which is the conversion factor of paddy into rice. For Philippines, the MSP is the buying price for individual farmers. The respective prices for FAs/FOs/FGs are $610.9. For China, the prices are for late and semi-late rice The Exchange Rate used for currency conversion is as on December 23, 2013.

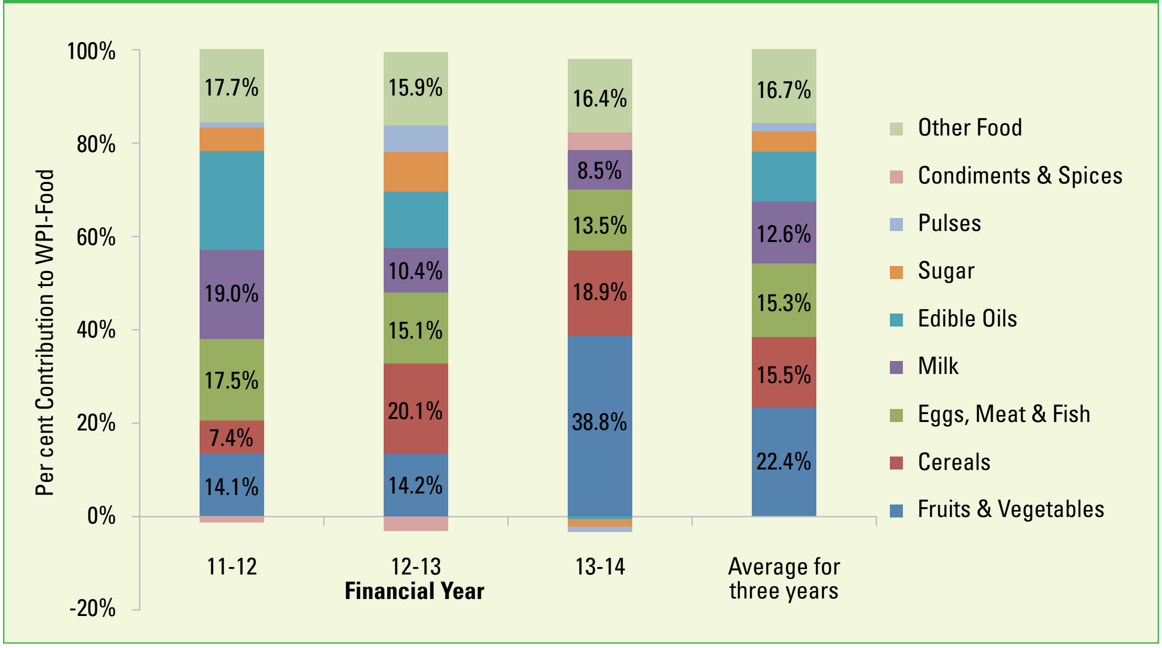
The MSPs in India are calculated on the basis of demand and supply forces of the crop, its costs of production and crop price trends in both the domestic and international markets. Other inputs used in the determination of MSP are inter-crop price parity, terms of trade between agriculture and non-agriculture products and the likely implications of the thus suggested MSP on the consumer of the product.

Thus, the fact that the costs of production for most of the crops have escalated sharply in the last three years, primarily led by labour costs has to be accounted for while understanding the hikes in MSPs. Labour costs, for example, have risen

$$\text{Log Food (WPI) Index} = -0.176 + \underset{(3.9)}{0.27}\ \text{Log FAO Food Index (T-1)} + \underset{(2.1)}{0.26}\ \text{Log Farm Wage (Nominal)Index T} + \underset{(3.2)}{0.21}\ \text{Log Fiscal Deficit (T-1)}$$

$$\text{Log Food (WPI) Index} = 0.046 + \underset{(5.8)}{0.34}\ \text{Log Farm Wage (Nominal)Index T} + \underset{(6)}{0.16}\ \text{Log M3 (T-1)} + \text{).13}\ \underset{(3.7)}{}\text{Log FAO Food Index (T-1)}$$

Figure 3: Contributors to Food Inflation



Source: CSO

The low-hanging fruit is to expedite the liquidation of grain stocks from FCI godowns to the open market. While implementing such policy, government must take into account the market conditions

by 74 per cent in the second half of 2011 over second half of 2008 at the all-India level, in Andhra Pradesh they have increased by 88 per cent and in Tamil Nadu by 94 per cent. DAP prices have almost doubled in a single year. The overall cost of production of paddy at the all-India level for the 2012-13 crop is likely to be 53 per cent higher than in 2008-09 and the MSP increase for paddy during 2008-09 to 2011-12 has so far been just 20 per cent (CACP, 'Kharif Price Policy Report', 2013-14).

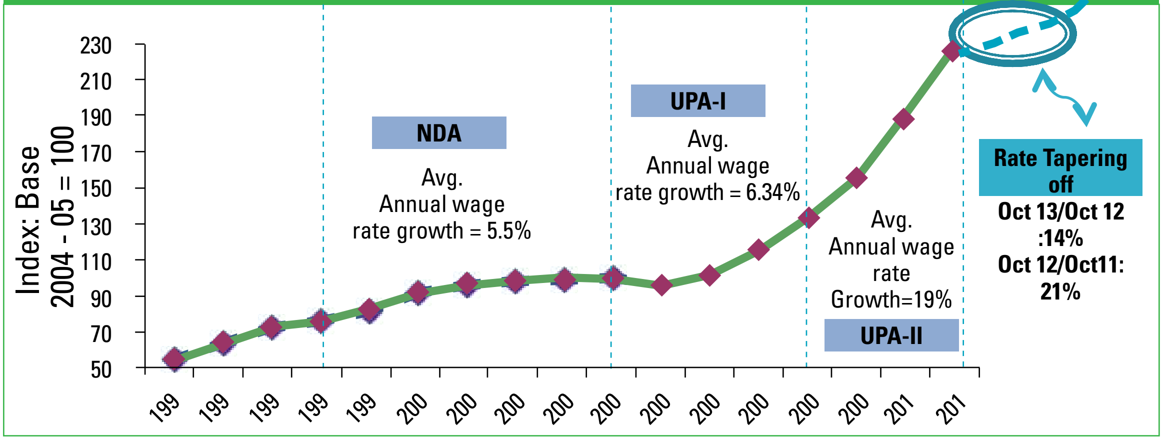
While arguing about the ill-effects of the hiked MSPs on the economy, analysts fail to acknowledge the production impact of such price hikes. Higher MSPs result in a higher supply response that, in turn, dampens price rise; crops with MSPs, by this logic, have seen lower inflation than those without MSPs.

What are the policy options emerging out of this analysis to rein in food inflation? First, the low hanging fruit is to expedite the liquidation of grains stocks from FCI godowns to open market. Although government has taken a decision in this regard the implementation process needs to be geared up pro-actively taking into account the market conditions. For example, if government is offering wheat that is two years old, with poor quality, it cannot expect to fetch ₹1,500/quintal rate from open market. In such cases, there should be appropriate discounts in the price. The bottom line being that the grains should reach people's stomachs rather than rot in the FCI godowns. This would help contain food inflation.

Second, as the analysis shows, one needs to contain the rising farm wages leading to higher costs in agriculture. Although, much of this is due to the overall development process, which is very desirable, a part of it can be contained to some extent provided one is ready to restructure the MGNREGA to apply to farm operations as well. At present there is a provision in the MGNREGA that workers can work on the farms of SC/ST small and marginal farmers. This can be amended to include all farms say up to four hectares, where half of the payment (say ₹100/day) is made by the farmer and another ₹100/day comes from MGNREGA account of the government. This way, the labour cost of production in agriculture can be contained and labour productivity can be ensured on farms because as private farmers will not pay unless MGNREGA workers perform properly.

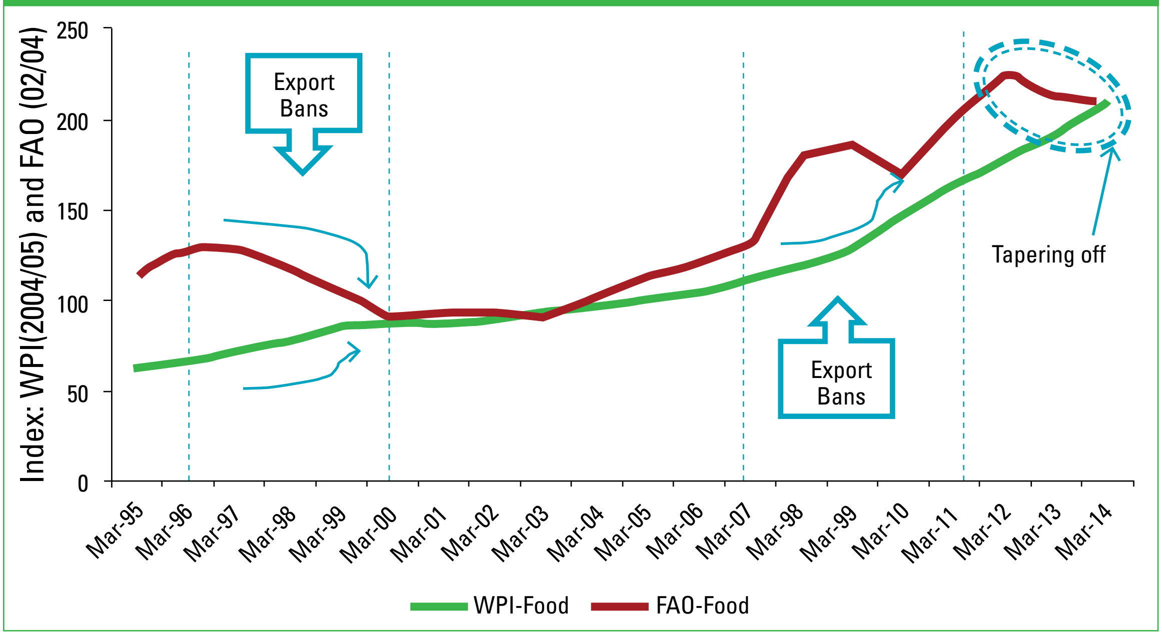
Operationally, however, it is a daunting task to implement it without leakages. Even so, this can

Figure 4: Rising Farm Wages



Source: Labour Bureau, Shimla and CACP

Figure 5: Global Price Transmission to Indian Prices



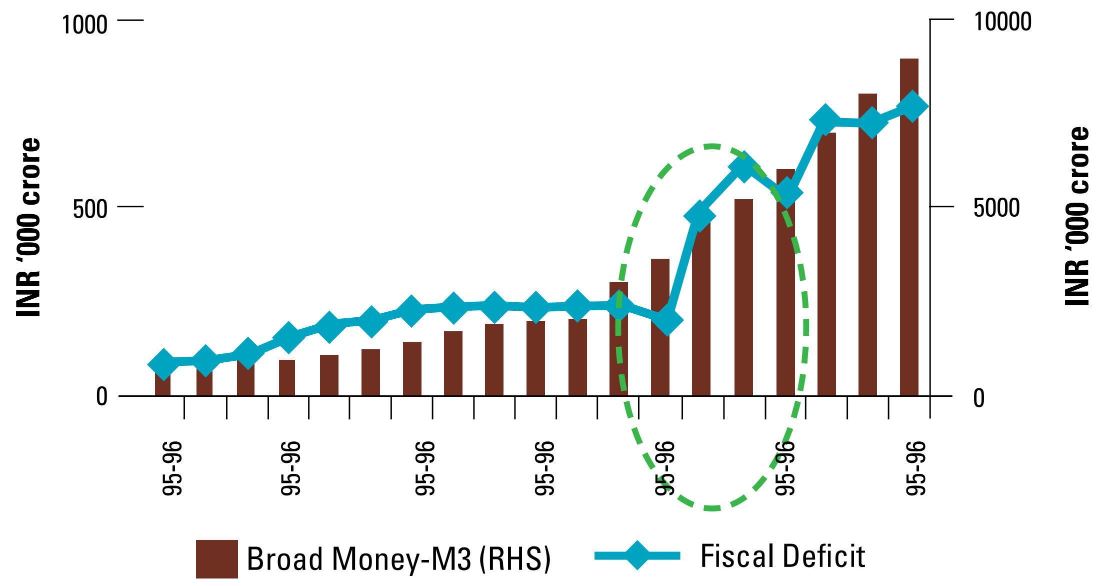
Source: Labour Bureau, Shimla and CACP

After touching a peak in February 2011, global food prices are getting moderated. If India reduces high import duties on various food products, it can moderate food inflation at home

still be perhaps better than the current system of MGNREGA, which operates more like a dole and under which no proper assessment is available about the type of assets are being created. In any case, lately, the rise in wage labour costs is slowing down as the overall development process has slowed down in the last two years.

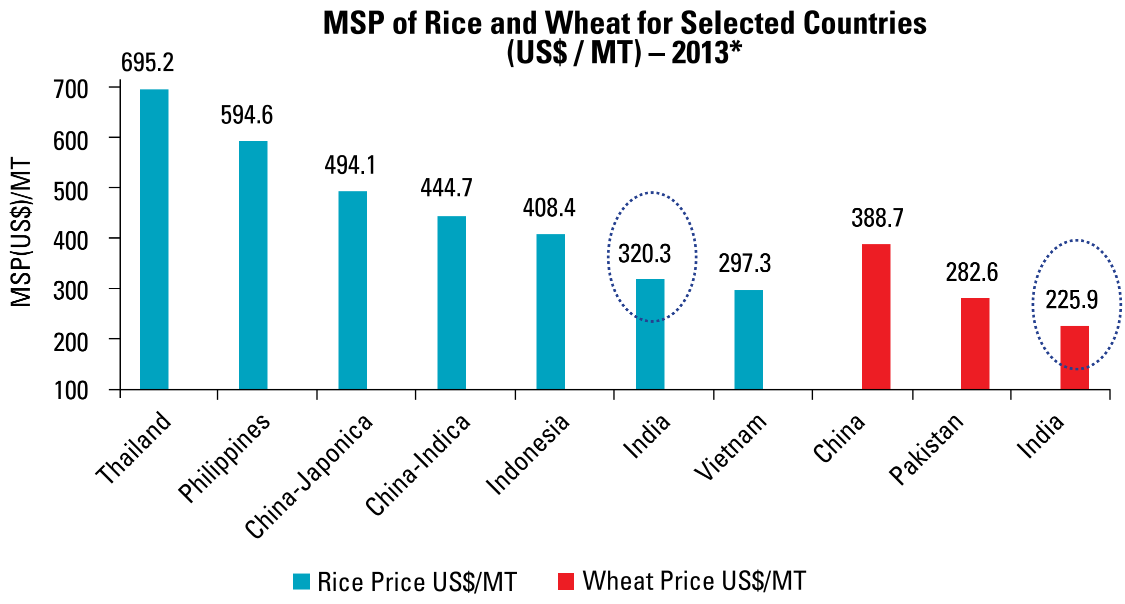
Third, as far as the influence of global prices is concerned, there is a silver lining. After touching a peak in February 2011, global food prices are getting moderated. If India reduces high import duties on various food products, it can moderate food inflation at home. Of interest would be to note that most of the fruits and vegetables attract duties above 30 per cent (potatoes, tomatoes are 30 per cent, garlic at 100 per cent and apples at 50 per cent). Only import duty on onions is currently at zero. It is suggested that import duties on all these fruits and vegetables be brought down to say 10 per cent. Similarly, skimmed milk powder, beyond in-quota tariff attracts 60 per cent duty and chicken legs (cut pieces) attract 100 per cent duty. All these

Figure 6: Loose Fiscal and Monetary Polices



Source: Planning Commission

Figure-7: Comparison of Indian Rice and Wheat MSPs with South and South-east Asian Countries



can be brought down significantly to give some relief to domestic prices.

Fourth, fiscal deficit must be contained to some rational levels. The Fiscal Responsibility and Budget Management Act (FRBMA) of 2003 had laid down three per cent of GDP as the prudent level of fiscal deficit. In 2008-09 the fiscal deficit of the centre crossed six per cent of GDP and if one adds to it the deficit of states, it was approaching almost nine per cent of GDP. This is gross mismanagement of the macroeconomy.

Three subsidies: fuel, food and fertilizers, along with loan waivers and expanded MGNREGA were responsible for this state of affairs. These need to be pruned and made much effective. It is well known that there are large leakages and inefficiencies in the delivery of these subsidies to the targeted groups. The best way these can be handled is to transfer the money to targeted beneficiaries through the Aadhaar (UID) route directly to their bank accounts. This requires that every family has at least one bank account though. The government is aware of this and its move towards

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financial inclusion through Pradhan Mantri Jan Dhan Yojana (PMJDY) is a step in the right direction. It can be a game changer if cash transfers are affected at an early date. This will reduce the leakages and subsidy bills, thereby containing the fiscal deficit and thus help relieve the pressure on food prices emanating from high fiscal deficit.

The money supply route, containing supplies of M3 by keeping interest rates high, may not be the best bet as high interest rates hit growth adversely. The real root cause is fiscal deficit and focus should be to contain that.

Fifth, there could be many other measures such as freeing fruits and vegetables from the APMC Act, incentivizing organized retail to buy directly from farmers' organizations, bypassing the mandi system, developing more food processing industry, developing cold storages and efficient value chains, all of which can help stabilize prices at lower levels. Some of these measures can be taken quickly but most of them will take time to deliver.

Finally, to conclude, unless strong measures are taken on the lines delineated above, ranging from trade policies to reining in fiscal deficits, food prices are likely to remain volatile and somewhat high. ●

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Reinventing the Food Corporation of India

Subir Roy

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Newspapers have periodically carried reports of departmental labourers in the Food Corporation of India (FCI) earning over a lakh of rupees a month. Till 2010-11, they formed a small section of the labourers or loaders employed by the FCI. There were also labourers under the "direct payment system", who earned less than half and whose numbers were 50 per cent higher than those of contract labourers. As opposed to this, there were 1.21 lakh contractual labourers, who earned a tenth of what the departmental labourers did.

SUBIR ROY
Senior Journalist

These figures are cited in public discussion as an example of the bloated costs of the public distribution system, which have added to the burgeoning food subsidy bill. Perhaps mindful of this, 'A Note on Various Labour System in FCI Depots', put out by the FCI, which gives the picture as on September 2013, does not mention contractual labourers at all but identifies a third category as "No Work No Pay", under which a small figure of just over 6,000 is given.

In 2009, the labour ministry had abolished the contractual labour system in FCI godowns but, the note says, "Still in a majority of godowns/ depots contract labour system is prevalent, which is not only the most economical and suited to the corporation but also legally viable as per the provisions of the Contract Labour (R&A) Act 1970". Against this, in 2012-13, staff expenses actually went down over the previous year by 2.7 per cent to ₹1,978 crore. This was around one-fortieth of the food subsidy of ₹81,609 crore that the FCI received in the same year.

The point is, things change slowly in the FCI, official information can be quite confusing and it is important to know where to act for proper results. The official group charged with chalking out a reform or reorganization agenda for the FCI has a tough task ahead. It must also contend with the fact that not much of the life of the present government, to end when the next parliamentary general elections are held in 2019, is likely to be left before the best possible scenario emerges. This is a scenario where a reinvented FCI has taken off and is producing the desired results.

The public distribution system procures more rice and wheat than is needed, at higher than the right minimum support price, creating an unnecessarily large buffer stock

This is because the bane of the current Indian food security system, ensured through a public distribution system (PDS) at the core of which resides the FCI, is the political reality at its root. The system procures more rice and wheat than is needed, at higher than the right minimum support price, creating an unnecessarily large buffer stock. In September, the central pool had a stock of 52.8 million tonnes, when the buffer stock norm for October (it varies according to the time of the year and depends on whether procurement from a new crop is about to be in or is already in) is 21.2 million tonnes. It costs money to carry this stock. In 2012-13, it cost ₹5.66 to carry a kilo of buffer stock when, under the targeted public distribution system (TPDS) and the Food Security Act, the consumer pays ₹3 for a kilo of rice and ₹2 for a kilo of wheat and the subsidy per kilo was ₹13.24.

In the five-year period up to March 2012, straddling UPA-I and UPA-II, food procurement in India went up by over 80 per cent and central grain stocks by over three and a half times or 381 per cent, to be precise. Is there space to store such a sharp rise in stocks? What does this do to the cost of carrying such stocks? What is the cost of moving such sharply rising quantities of food across the country from production to consuming areas? Do the railways or even the FCI have the ability to handle a logistical challenge of this nature?

All this made the Comptroller and Auditor General (CAG) take a close look at the FCI and this is what it found. On an average, the central government was allocating, under the TPDS, 15 per cent more than it was procuring. This level of procurement would be unable to meet the estimated future allocation and requirement of food.

What goes into determining the total amount of buffer stocks that the government says the country needs? How much each, for example, for emergencies, food security, TPDS and price stabilization? Also, how much of stock is manageable? The CAG could not get clear answers to these. Many agencies – the FCI, state governments and their agencies – maintain stocks that make up the central pool but who among them is finally in charge? Lack of clarity on the last adversely affects management and accountability.

The minimum support price (MSP) is a separate can of worms. The MSP markup over the cost of production for rice and wheat varied between 14 per cent and 16 per cent. The CAG could not fathom the norms used to fix the MSP (other than political, one can guess). The price is doubly important, as not only does it determine central funds outgo for food procurement, but charges levied by state governments by reference to the MSP. Punjab and Haryana levy taxes upwards of 10 per cent on grain procured.

While food stocks shot up over the period by over three times (to 82 million tonnes), the storage capacity of FCI remained virtually static at just over 15 million tonnes. Expectedly, it virtually doubled the space it hired (from 10 to 18 million tonnes). It spent three and a half times (₹1,200 crore) doing so but could not take over all the stocks that the states had procured for it by the yearly-prescribed month of June. It then had to pay steep carry over charges (₹1,635 crore) to the states, nearly 10 times higher. All this to carry stocks above the prescribed norms!

Why the large 33 million tonnes storage gap by 2011-12? Over the previous six-year period the central government and the FCI had planned to add 16 million tonnes of capacity but ended up adding only 3.4 million tonnes. When the FCI made its grain movement plans, it did not keep in mind its far-flung network's ability to handle it and the railways were not able to meet all the rakes required of them. Hence, rake shortage ranged between six per cent and 17 per cent. A regular mechanism is needed, says the CAG, between the government-FCI-railways system to streamline movement and track down missing wagons and settlement of claims over them.

According to food ministry figures, the storage capacity of FCI was static between 2005-09 and then went up during 2010-13. Hiring of storage space rose during 2009-10. Overall (own plus hired), there was little change in storage space during the eight-year period 2005-11 but some increase (just under 10 per cent) during 2013-14. It is storage capacity utilization that rose from 67 per cent in 2005 to 91 per cent in 2013 to meet the gap.

Expectedly, the CAG found the internal audit and physical verification system of the FCI inadequate, with a substantial shortfall in staff required for internal audit. The process lacked the necessary independence and ability to follow up things with headquarters.

What, according to the CAG, should the government do? It could hike procurement targets to meet requirements under heads like TPDS, and become more scientific about fixing buffer stock norms. The FCI should make operations at individual levels accountable, do a cost benefit analysis to determine the level of storage space that should be hired, as opposed to own space, plan movement to consuming states so that storage space at procurement centres is used optimally and crank up the scheme to secure more private storage space.

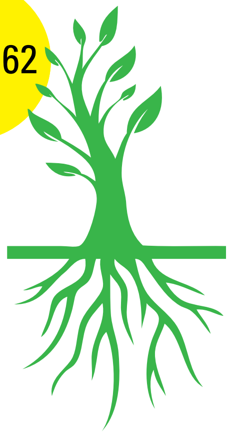
The big issue in reorganizing the FCI is whether to break it up or not. The BJP had promised to break it up into three parts to handle buying, storing and selling. Those opposed to the breakup idea say that it will only end up multiplying overheads – instead of one corporate structure there will be three. On the other hand, buying (procurement), storage (warehousing), logistics (delivering grain to the states) and distribution (sale through the PDS) are distinct operations that have commercial logic of their own. There can be one company with different profit centres for the different operations.

In procurement, the key political decision that needs to be taken is to buy at a scientifically-determined support price only as much as will keep farmers in business and not let prices crash during harvesting time. Thereafter, total procurement is to be determined by buffer stock needs. This again is to be scientifically calculated. The bane of the current situation is that it is excessively procurement driven by the political clout of the farmers' lobby in major producing states.

If the FCI becomes a commercially run procurer with India as a single market for grain (states' help needed), both private trade and a large player like the FCI, which will not allow market manipulation, can survive and be happy.

The storage and logistics are the easy part. There is already a Central Warehousing Corporation under the same ministry of food and consumer affairs. It can be asked to run and survive in the marketplace for warehousing. Logistics is also a well-defined commercial operation. The key political decision here will be to encourage dispersed cultivation of cereals so that wheat and rice do not have to be shipped across the country from a few producing states that have a large surplus. Also to be encouraged is less of cultivation of a water-guzzling crop like paddy.

The key political decision will be to encourage dispersed cultivation of cereals so that wheat and rice do not have to be shipped across the country from a few surplus states



As the importance of cereals goes down and protein goes up in everybody's diet, a bigger role can be envisaged for Anand type co-operatives (Amul), private diaries and also the private poultry industry. Equating cereal buffer stocks with food security, as the previous government did with the Food Security Act and the present government is doing in fighting at WTO for the right to subsidize cereal consumption, is entirely misplaced.

Perhaps the most intractable is distribution or retail sale and the issue of how to run or slowly dismantle the PDS. The present system runs well in Tamil Nadu but not well at all in Bihar. Aadhaar

linked direct transfer of benefits, removing the need to go to the ration shop, will take time. Till such time as Aadhaar does not cover all the poor the PDS will have to endure. It will be imperative for all with ration cards, BPL or otherwise, to have smart cards, with those getting direct transfer not having any physical entitlements in their smart cards.

One way to make retail sale of cereals modern will be to let large food companies produce and market pre-mixed packaged cereals with high nutritional content against smart cards and recover from the government the subsidy element on the basis of agglomerated smart card sales data.

There can be no one way to change the present system. One has to proceed pragmatically, taking practical decisions at every step while keeping a few fundamentals clear. Private trade in cereals has to be encouraged and impediments in the way removed in consultation with the state governments. The FCI has to live in this world because a large government company like it has to be around so as to ensure that no market manipulation by private trade interests takes place. Essentially, the FCI has to be Janus-faced. For most of the day it has to survive at the marketplace by competing with private players and thus improve its efficiencies. Occasionally it must also become the government's agency to break private attempts at market manipulation.

For example, during a particular harvesting season the government can find that *mandi* (wholesale market) prices have crashed in several local geographies. The FCI has to then quickly step in as a big buyer, not to procure for buffer stock requirements, but to stabilize prices. There has to be enough warehousing space nearby to store the large amount of grain purchased through market intervention. This means having a lot of warehousing redundancies. This planned redundancy will affect the FCI bottomline!

To come back to the basics, will the FCI be one company or three? One large company with decentralized operations and separate profit centres would seem to be the best option. Will it be run by the government or privately owned? The best option seems to be a government-owned company that operates at the marketplace for most of the day (like the State Bank of India) but does the government's bidding during national emergencies or requirements to address market imperfections and failures and set things right. Clear?

Vikas Means Development

Answers to Farmland Woes

Ajay Vir Jakhar

Vikas with onsite weather station

As I travel through Haryana, on way to Village Taraori (pronounced Tauori) in district Karnal, where the mighty king Prithviraj Chauhan had his fort, I am reminded of the rich history of the region. After having defeated Shahabuddin Muhammad Ghori many times, Prithviraj Chauhan lost his last battle to him here. The fort still stands as testimony to more violent times but is currently in dire need of the 'Swachh Bharat Nirman' (Cleanse India campaign) of the government of India.

I am on my way to meet Vikas Choudhary, whom I had met in Islamabad at the 'Regional Workshop on Youth in Agriculture'. I was impressed by him then and it is time to check out the person on his own turf; his farm.

Vikas is just 34 years of age, married with two children. He has been blessed with a baby boy just last month. Like me, he farms not only for himself but also his father's and brothers' shares of the land. He lives with his extended family under the same roof; the last of the dying breed of joint families. I had already developed an affinity towards him; we have so much in common.

His brother works for a bank to supplement the family's agriculture income. This is an increasingly common practice and is changing the socio-occupational character of villages across rural India. This trend will also impact voting pattern in villages that is changing from the set paradigms. Thanks to the opportunity to cultivate for his whole family, Vikas is a large farmer by Indian standards (10 acres to be a large farmer). It obviously helps optimize resources for better profitability and financial risk mitigation.

I arrive after a mild freak October storm has just retreated, leaving the Basmati and other paddy fields flattened. The yield from fallen paddy decreases by up to 20 per cent. I am not a rice farmer and Vikas explains that he uses 'Direct Seeding Rice' (DSR) technique for sowing. While conventional paddy cultivation using transplantation has fallen flat on the ground due to high speed of winds, the paddy sown with DSR has not.

DSR, however, has not caught on because many who adopted DSR suffered losses in the first year, thanks to inadequate knowledge, and went back to conventional methods of sowing. Farmers not being well versed with timing vis-à-vis practices to control weeds has been a typical shortcoming. Things improve in the later years and less herbicide is needed. Meanwhile, Vikas has achieved a more than 20 per cent saving in labour costs and 30 per cent on water consumption.

Curiously, water seminars typically choose aerated drinks manufacturers as sponsors and rarely invite farmers even though, as the largest consumers of fresh water (80 per cent), farms have the greatest potential to save water. Vikas' fields in the village also get irregular supply of canal water. In summers, comes the rain-fed surplus of the Tajewala barrage.

As the ground water is sweet, the non-stop drawing of water from the wells has led to the falling of the water table from 17 ft in 2007 to 40 ft. Electricity costs just 25 paise per unit and is available only for eight hours at night. That is enough to cultivate rice on two acres or wheat over 2.5 acres. Unfortunately, there is no advance notice of power cuts or when exactly electricity will be available. Electricity time management and advance intimation would make things so much easier.

Vikas tells me the electricity charges have been reduced in the election year. Again such largesse comes from the warped thinking of an older generation of politicians. Such poll time generosity no longer sways the voters. It failed in Rajasthan last year. It is high time that elected representatives gave more credit to voters' intelligence than to expect them to be swayed by last minute dole outs.

The Rabi season has been receiving more rain and the Kharif season less for the past three years. It has been raining in February for the last three years. This year it was different because of lower seasonal rain that led to higher cost of diesel that has increased by ₹5,000 per acre. Re-boring expenses have to be incurred too, at ₹4,500 for every 10 ft of depth. Some 80 per cent of the farmers have to deepen the tube wells to extract water.

Basmati had fetched a high price last year and farmers, expecting a repeat performance this year too, had contracted land at higher rents. Rentals went up from ₹30,000 per acre to ₹45,000 but the selling price of paddy and Basmati dropped by 25 per cent this year. Additionally, those with rented land suffered a loss on account of extra cost of inputs including diesel, electricity and re-boring charges. Surprisingly, there is no agro-forestry or orchards in the area.

Vikas rues that cost of labour has doubled in the last five years. Earlier people would come to find work but post Food Security Act people opt for other occupations. When paddy transplanting begins on June 15, the cost of labour for an acre increases from ₹1,700 to ₹2,300 per acre for the month. The MGNREGA has impacted farmland profitability.

Vikas is a very resourceful farmer and a goldmine of information. He is participating in the International Maize and Wheat Improvement Center (CIMMYT) led project

Fallen basmati

Farmers do not listen to scientists and agriculture development officers; they prefer to listen to the pesticide shop owners

As a farmer's organization, Bharat Krishak Samaj had advocated to the UPA government that jobs be restricted under the MGNREGA to seasons other than those for harvesting and sowing. Alas, it was too disconnected to read the signals from the ground and lost the parliament elections. The new government has gone further and restricted MGNREGA to only 200 backward districts of the country. One wrong cannot be set right by another.

Vikas continues with other issues confronting Indian agriculture. Knowledge transfer remains the basic problem for most farmers, who do not listen to scientists and agriculture development officers; they prefer to listen to the pesticide shop owners. Shopkeepers push farmers to buy inferior pesticides from local companies offering higher commissions and lower MRP of pesticides.

Vikas' farm is on the main road, the weather is warm and it is pleasant under the shade of the trees. Other farmers drop in chat and exchange gossip. The hot topic is the election because everyone wants a change. I ask if there has been development and the answer is yes but this is not enough to satisfy the farming community. There are many complaints; the agriculture development officer is inaccessible, amongst others.

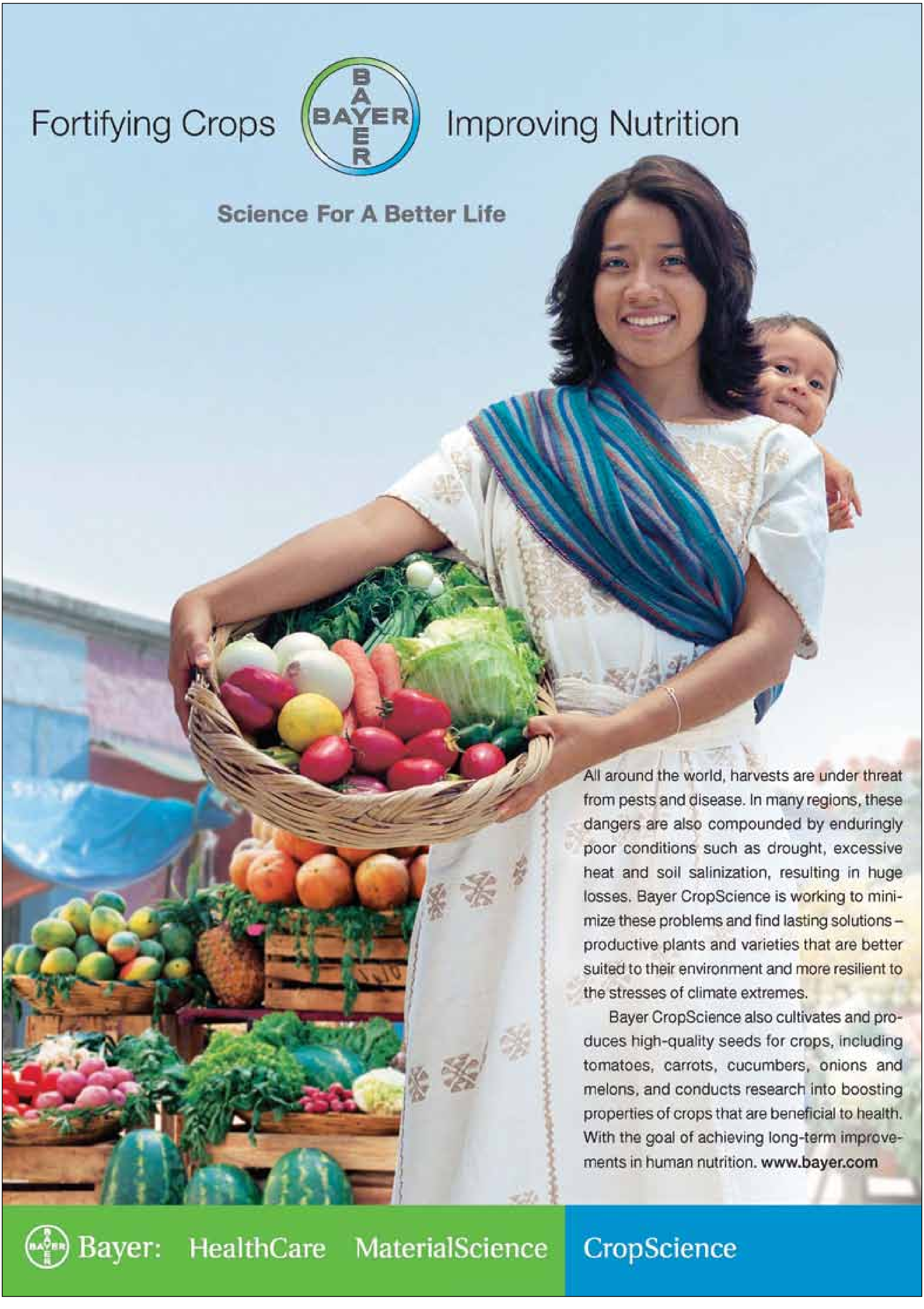
He works for five days in a week; Saturday and Sunday are holidays. On Tuesday, he goes for the block level meeting to Neelo-Kheri and on Friday he goes to Karnal for a district level officers meeting. On the other two days he is busy attending to paper work and that leaves no time for him to interact with the farmers. Another farmer complained that if the electricity transformer breaks down, it takes 10 days to replace it and that too after greasing palms. They will not vote back the incumbent government to power. Change is in the offing; one signified by Prime Minister Modi. There is hope and optimism for something better, which is difficult to specify though.

Vikas is a very resourceful farmer, a goldmine of information and is participating in a International Maize and Wheat Improvement Center (commonly called by its Spanish acronym CIMMYT for Centro Internacional de Mejoramiento de Maíz y Trigo) led project on the "Effect of tillage, cultivars, nitrogen, and residue management on crop performance and carbon sequestration in rice-wheat cropping system". He was initiated into the experiment and demonstration in the Hybrid cereal system initiative for South-East Asia (CSIS) by Dr M. L. Jat. The conservation agriculture experiment and demonstration started in 2010. More than 2,000 farmers have visited the site. The results are visible; crop residues are used in the soil itself and more earthworms are visible.

The average farmer spends ₹3,500 to sow paddy with conventional methods. While Vikas uses a happy-seeder that costs only ₹1,400 per acre. He also has bought a happy-seeder and now leases it to other farmers, who are most impressed with it. His yield has gone up from 18-19 quintals to 21-22 quintals. His herbicide requirement has dropped, as has his water requirement. Preparing the land takes a few hours instead of a few days. In the maize-wheat cycle, there is saving of 70 per cent, compared to the rice-wheat cycle.

Crops have suffered because of excess, unseasonal rains though. Excess rain in a short period of time is becoming more common, leaving standing water for a few days in fields prepared by conventional tillage. Water seeps faster into the ground when a happy-seeder is used.

Vikas is not just a farmer; he has become a trainer. That is what Indian farming is in dire need of. Farmers like him should be the fulcrum for reviving extension services in the country.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