

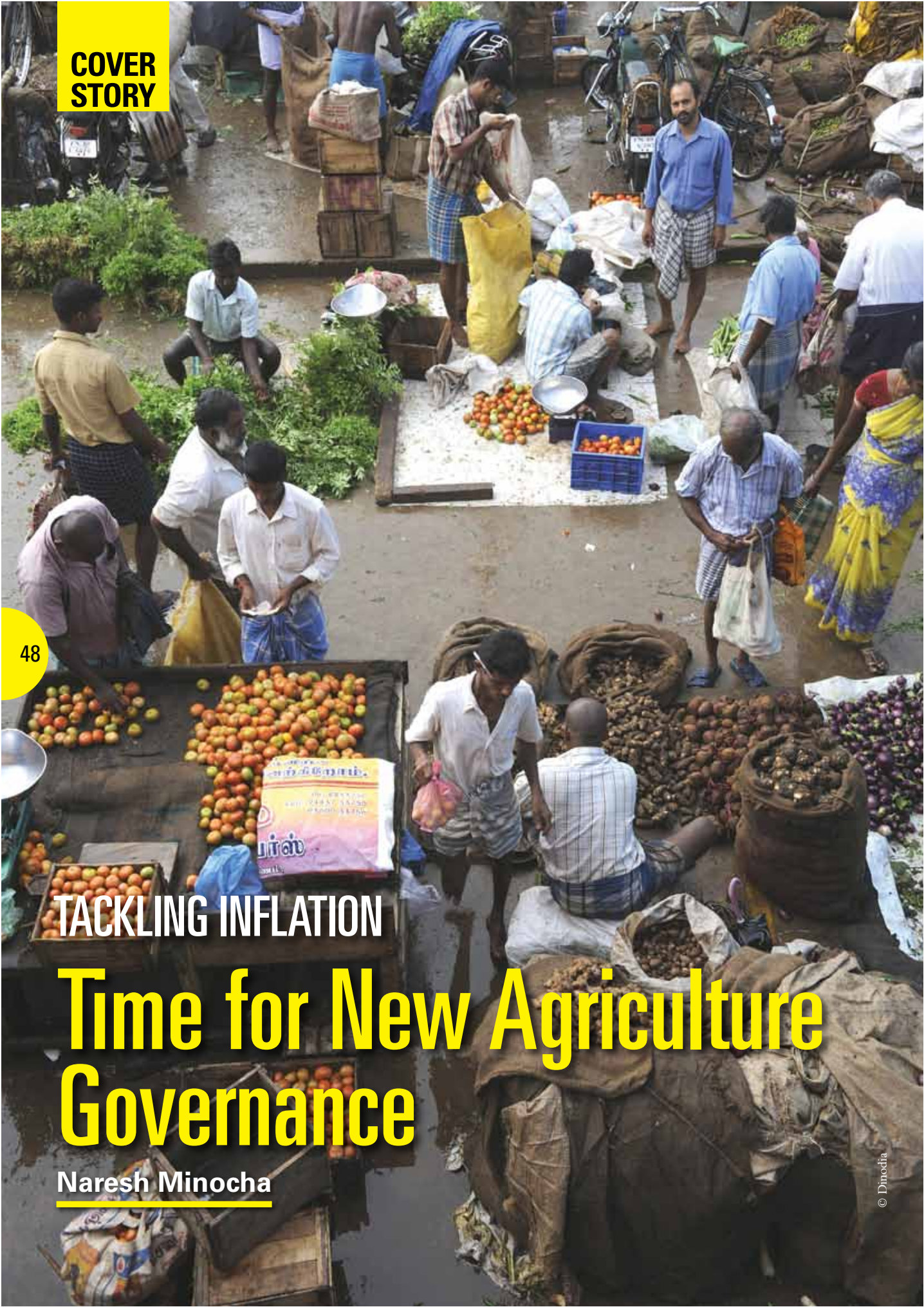
**COVER  
STORY**

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**TACKLING INFLATION**

# Time for New Agriculture Governance

**Naresh Minocha**



The minimum support price (MSP) to farmers more than doubled in the last 10 years. So went the headline of a government advertisement in newspapers during the pre-poll campaign in February 2014. The United Progressive Alliance (UPA) government of the day touted the price hike per tonne as a proof of Bharat Nirman. It continued: “MSPs for paddy increased from ₹550 to ₹1,310, wheat from ₹630 to ₹1,400 and coarse cereals from ₹505 to ₹1,310”.



**NARESH MINOCHA**  
Senior economic journalist specializing in Indian agriculture

What the advertisement did not disclose was that the UPA government, like its predecessors, never fixed MSP for vegetables and fruits, thereby hurting both the producers and consumers.

One can infer from the advertisement that the government’s flawed agriculture price policy has contributed doubly to food inflation. First, it over-relied on regular hikes in cereal prices as a means to boosting grain production, thereby constraining crop diversification. Second, it contributed to the volatility in prices of vegetables and fruits by denying MSP and allied market support to farmers.

When the assured price and procurement support through co-operatives and private companies can benefit both the farmers and consumers through

A rationalist would agree that the mainstream media’s hyped coverage of spikes and downplaying the distress sale of perishables during troughs contributes to the seasonal food inflation/deflation.

How the mainstream media, especially the TRP (target rating point) brigade, adds fire to the food inflation becomes clear if one reflects on what the Foodgrains Prices Committee chaired by late L.K. Jha, a reputed civil servant, observed in 1964 when television channels did not exist.

The Committee stated: “Once an upward trend in prices becomes evident (read this as drummed up incessantly by television channels in the present context), there is a tendency on the part of everyone – consumer, trader and producer – to hold larger stocks. This tends to increase inventory demand and to reduce supplies artificially and leads to a further price increase. In a rising market, hoarding becomes more common. Thus, an upward spiral in prices sets in and a shortage in supply even of a somewhat insignificant nature can cause a major upsurge in prices”.

Apart from the weather and supply-related spurt in prices of perishables, there are certain governance issues that have made food inflation an integral part of Indian economy since Independence as can be

## Food inflation can be attributed to the UPA government’s overdependence on regular hikes in cereal prices to boost grain production. This constrained crop diversification

door-to-door purchase and delivery of highly perishable milk, there is no reason why this success cannot be replicated in horticulture. Clearly, it is the lack of the required, composite policy thrust that is responsible for seasonal lows and highs in prices of onion, potato, tomato and such others.

Instead of unveiling a crops-neutral MSP policy, the Modi government is playing the blame game to deflect criticism for its failure to put on leash runaway rise in prices of perishables.

Recently, the Union minister for consumer affairs, food and public distribution, Ram Vilas Paswan, said that a “number of other factors like rumour and media reports about likelihood of shortage of food and vegetable items also have been responsible for the rise in the prices of these commodities as hoarders act promptly and stock up these items for couple of days to reap windfall later”.

Table: Growth in Crop Yields			
Crops/crop groups	1980s	1990s	2000s
Rice	3.15	1.21	1.42
Wheat	3.24	1.82	0.73
Maize	2.04	2.22	2.27
Gram	2.48	1.53	1.16
Arhar	0.07	0.13	0.94
Groundnut	1.74	1.34	1.76
Rapeseed and mustard	3.00	0.38	2.13
Soybeans	5.27	1.91	1.71
Cotton	4.21	-1.40	10.29
Sugarcane	0.21	0.79	0.59
Fruits	-2.21	1.81	-1.48
Vegetables	-2.46	0.38	1.31

Source: ‘Republic of India : Accelerating Agricultural Productivity Growth’, World Bank, Washington, DC, May 2014

**Table: Food Inflation based on Wholesale Price Index** (In %)

Commodity	June 2012	June 2013	June 2014
FOOD ARTICLES	10.91	10.27	8.14
CEREALS	6.64	17.87	5.33
Rice	7.46	20.43	10.24
Wheat	6.76	13.94	0.73
PULSES	20.59	1.59	1.78
Gram	59.67	-9.20	-13.34
Arhar	1.03	14.16	2.36
Moong	-5.68	20.08	25.19
Masur	17.50	15.60	15.97
Urad	-16.53	4.64	19.55
VEGETABLES	50.12	17.36	-5.89
Potato	84.91	-8.38	42.52
Onion	-9.46	114.76	-10.70
Tomato	NA	NA	NA
FRUITS	-4.93	0.86	21.40
MILK	7.46	4.08	10.82
EGGS,MEAT & FISH	16.69	12.48	10.27
FOOD PRODUCTS	5.91	6.41	2.33
Sugar	7.13	6.93	-2.09
EDIBLE OILS	9.52	0.07	-0.75
Vanaspati	0.00	1.85	-1.34
Groundnut Oil	19.65	1.42	-16.92
Palm Oil	9.08	-3.69	5.87
Mustard & Rapeseed Oil	19.34	0.66	1.31
Soyabean Oil	8.73	1.53	-2.57
Sunflower Oil	3.93	-1.85	-4.98

Source: Rajya Sabha Question on Food Inflation, July 18, 2014.

confirmed from the budget speeches for 1947-48 and later years.

Though the contribution of MSP to national food self-sufficiency and security is indisputable, the fact remains that price increases have overtaken technology and innovations as prime movers of increase in foodgrain production in the the last several years. Policy-induced imbalanced application of commodity fertilizers, coupled with discrimination against customized fertilizers, has curtailed the role of nutrients in enhancing yields.

To break the yield barriers and thus tame food inflation, the country has to rely on plant biotechnology/genetic engineering, which is an anathema to the neo-Luddites. Thus, the scare-mongering NGOs and sympathetic judiciary need to share the blame for food inflation.



It is relevant to refer to a World Bank report captioned 'Republic of India – Accelerating Agricultural Productivity Growth', published in May 2014. It says that:

- Yields dominated growth until the mid-1990s, as green revolution technology spread.
- Diversification has been a consistent but moderate contributor to growth. Since the 1980s, diversification consistently accounted for about one-quarter of growth, somewhat less than might be expected from a rapidly transforming agriculture.
- Prices contributed increasingly to growth in the 1990s and have again become the main driver in recent years.
- The area and yields rebounded early in the recovery (post 2003) but, since 2007, expansion in area has slowed as expected.



## Government follows inflation-promoting policies that facilitate increase in wages and population. These trigger demand for enlarging the variety of foods fuelling price rise

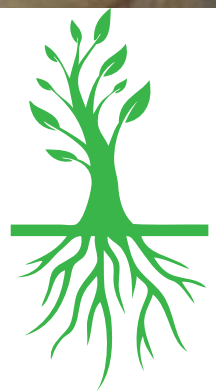
- Importantly, yields' contribution to growth diminished considerably and diversification remains modest despite rapidly changing diets and rising commodity prices.

The report explains that: "The contribution of yields to productivity is declining, and prices have emerged as the main driver of growth toward the end of the 2000s. In 2010, 55 per cent of the increase in the real value of output resulted from price increases. This finding raises concerns about the sustainability of the recent growth spurt: Farmers (specifically the net-sellers) gain from higher prices but without

underlying improvements in productivity, the current growth may be short-lived".

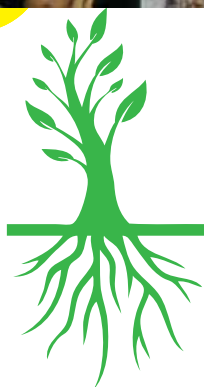
The government has been following inflation-promoting policies that facilitate increase in wages and population. These collectively fuel the demand for enlarging the variety of foods, thereby contributing to rise in food prices.

In keeping with its strategy to woo different vote banks, the UPA government had announced its decision to set up the Seventh Pay Commission (SPC) in September 2013. This decision was taken in spite of the fact that dearness allowance insulates





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## Phased rise in salaries across all the sectors means significant and regular increase in supply of money in the economy that sustains both food and non-food inflation

government employees from inflation. Moreover, successive finance commissions have disapproved of the practice of setting up of pay commissions every 10 years as it severely strains the fiscal profiles of states.

When the award of the SPC becomes available for implementation from January 2016 onwards, one may expect the beginning of a wage spiral in the states, public sector undertakings, the private sector and ultimately in the unorganized sector including rural workers over the subsequent three to four years. Phased rise in salaries across all the sectors means significant and regular increase in supply of money in the economy that sustains both food and non-food inflation.

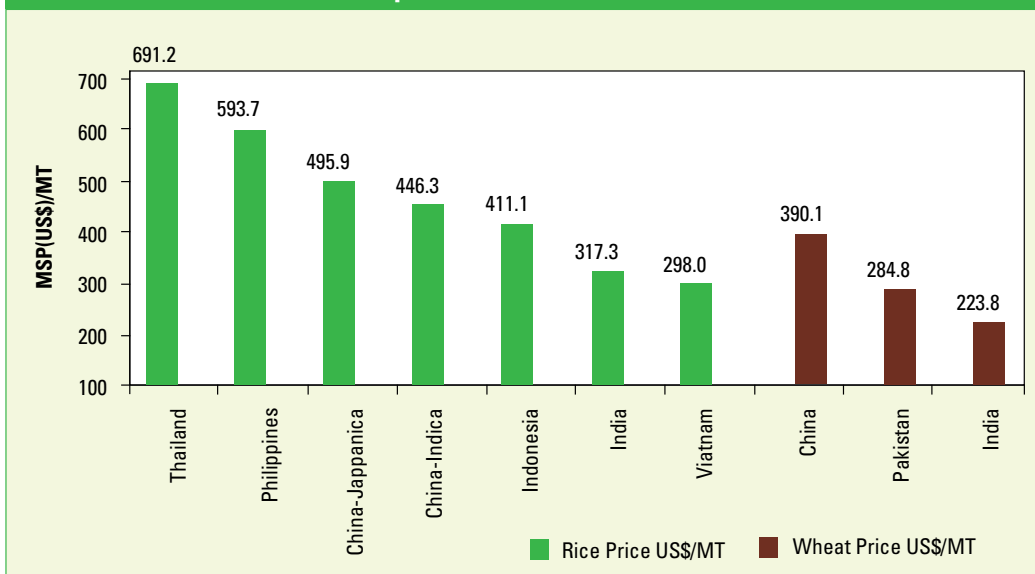
The increase in wage bill also increases fiscal deficit of states many of which do not have the capacity to pay higher wages but are forced to do so due to persistent demand of employees for implementation of the pay commission's award.

Fiscal pressures ultimately get reflected in rise in prices of goods and services.

As the Commission for Agricultural Costs and Prices (CACPC) says in its report on 'Price Policy for Kharif Crops for Marketing Season 2014-15': "the main factors responsible for high food inflation in recent years are sharp hike in fiscal deficit from 2008-09 onwards (by more than 100 per cent in a single year over 2007-08), which increased overall liquidity and consumption in the country; high global prices of food since 2007-08; and rising nominal farm wages in India largely driven by 'pull factors' of economic growth but also helped by 'push factors' of MGNREGA".

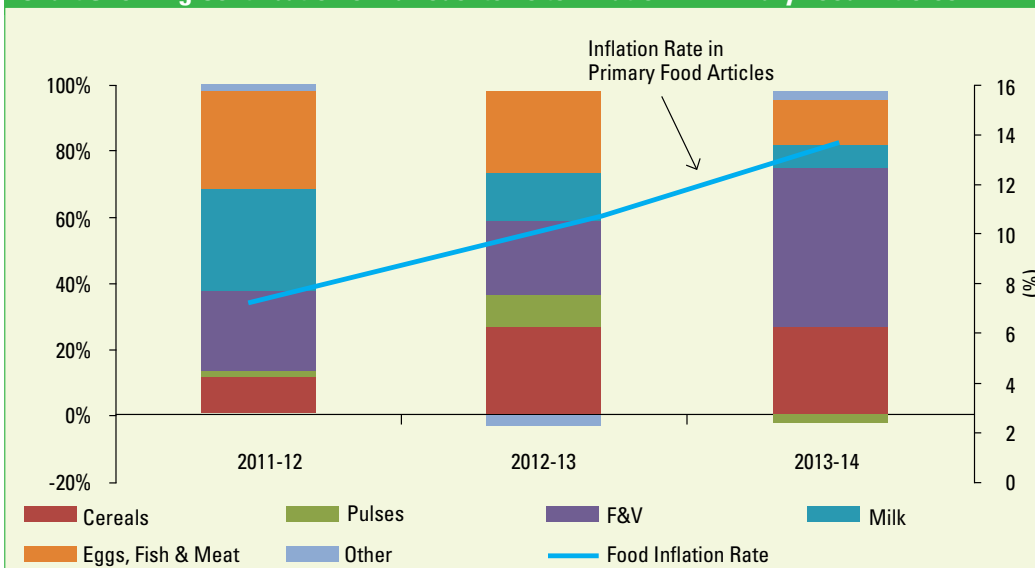
A similar perception about food inflation was conveyed by the Executive Director, Reserve Bank of India (RBI), Deepak Mohanty. Delivering the annual Lalit Doshi Memorial Lecture in January 2014, he said: "The increase in wages if not

### MSP of Rice and Wheat for Comparator Countries, 2013



Source: Commission for Agricultural Costs and Prices

### Chart Showing Contribution of Various Items to Inflation in Primary Food Articles



Source: Commission for Agricultural Costs and Prices

commensurate with productivity gains could be inflationary. Our food economy experienced a cost shock, which was reinforced by sustained wage increases buttressing demand. As supply did not increase commensurately, prices rose at a more than desirable level”.

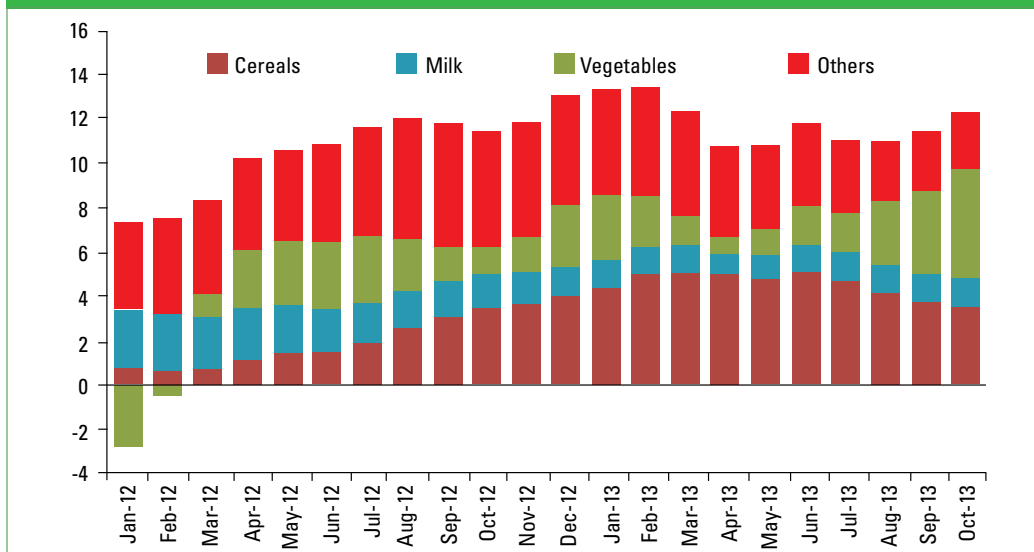
In his lecture titled ‘Why is Recent Food Inflation in India so Persistent?’, Deepak Mohanty pointed out that the nature and composition of food inflation has changed in the recent years. As per capita income has increased, the demand for food has shifted

towards protein, fruits and vegetables. As supply response has not been adequate, there have been price pressures. In addition, the agriculture sector experienced cost-push both in terms of increasing price of material inputs and labour.

As for the increase in the demand for food and resulting food inflation due to population explosion, the UPA government deleted the word ‘population control’ from policy turf in its first tenure.

In one of its annual ‘Report to the People’, released in May 2007, the UPA stated: “The use

**CPI Food Inflation: Contributions (In %, YoY)**



Source: CEIC Data Company and International Monetary Fund (IMF) staff calculations

of the term population control has been dropped. The emphasis is on voluntary acceptance through awareness creation and better access rather than on a target oriented approach through directives from the state”. In its second term, the UPA government tried to facilitate population explosion by offering inducement to prospective mothers to procreate and get maternity benefits under the National Food Security Act (NFSA), 2013.

The NFSA thus says: “Every pregnant woman and lactating mother shall be entitled to (a) meal, free of charge, during pregnancy and six months after the child birth, through the local anganwadi, so as to meet the nutritional standards specified in Schedule II; and (b) maternity benefit of not less than rupee six thousand, in such installments as may be prescribed by the Central Government...”

As a schoolboy, in the late sixties, one had learnt from the social studies teacher that India’s population was growing so fast that it added people equivalent to the population of one Australia every year. Many Australias have been added to the population since then. India has earned the dubious distinction of adding the equivalent to Brazil’s population in about 12 years. No policymaker has cared to assess the impact of such population growth on food inflation.

The Registrar General and Census Commissioner’s disclosure about the addition of more than 181 million to India’s population during the decade 2001-2011 “is slightly lower than the population of Brazil, the fifth most populous country in the world” has had no impact on policy.

It is pertinent to cite a report captioned ‘Indian Experience on Household food and Nutrition Security’ published by the Food and Agriculture Organization (FAO) in 1994. The report stated: “the burgeoning population not only marginalizes the achievements that the nation has made on the economic front but also does not allow the country to substantially enhance the Food and Nutrition security of the people”.

The other factors that have contributed to food inflation include anti-competitive behaviour by businesses and competition-resisting policies and regulations by the centre and the states in the realm of organized retail. Similarly, the states have either resisted or implemented half-heartedly agricultural marketing reforms.

As observed by the State Ministers’ Committee on Agricultural Marketing Reforms that submitted its report to the centre in January 2013 observed: “The present system of marketing practices is not offering remunerative prices to the growers while consumers are paying 1.75 to three times more over the wholesale price causing food inflation in the country. There is an urgent need to develop adequate post-harvest marketing infrastructure easily accessible to the growers to reduce the wastages substantially and shorten the supply chain of perishables. Private investment in the sector is much required and state governments should create a conducive atmosphere for private investment.”

The marketable surplus of one area currently moves out to consumption centres through a



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## There is a need to develop a national level single market for agricultural commodities by removing all the existing barriers of licensing, movement and storage

network of middlemen and traders, multiple market areas and institutional agencies.

The agricultural marketing reforms committee says: “Although, there exists a national level physical market, there is no national level regulation for the same and the existing regulation does not provide for a barrier free market in the country. Therefore, there is a need to develop a national level single market for agricultural commodities by removing all the existing barriers of licensing, movement and storage”.

Yet another contributor to food inflation is the lack of coordination in the implementation of MSP policy, foreign trade policy, domestic marketing policy, fertilizer subsidy policy, transportation and logistics policy. The government’s response to food inflation is reactionary and not pro active.

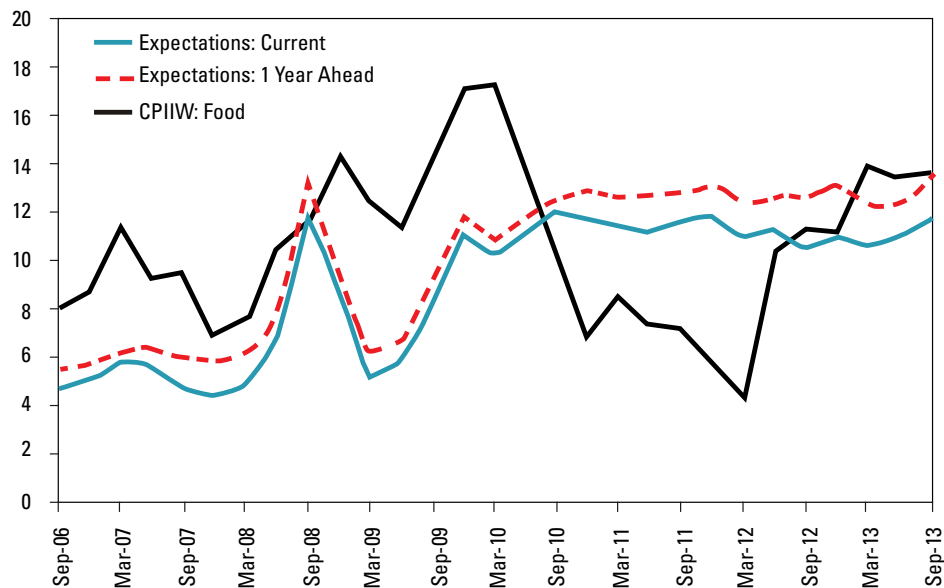
The policy interventions take the form of a ban of export of onion, etc. or either fixing or hiking the export price and issuing warning to alleged hoarders of commodities.

It is thus not surprising to see emergence of an opinion in the agricultural domain that calls for adequate empowerment of the CACP. A case in point are the observations and recommendations made by Expert Committee to Examine Methodological Issues of Fixing MSP that submitted its report under the chairmanship of Y.K. Alagh in June 2005.

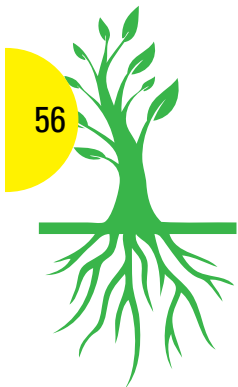
The Expert Committee said: “There is no relationship between MSP declared by the government and the market prices especially in case of crops like sugarcane and cotton. Natural cycle of 18 months in case of sugarcane crop, for instance, has been distorted by imports of sugar during the



**Household Inflation Expectations and Food Inflation (In %)**



Source: CEIC, Haver Analytics and IMF staff calculations



**Food inflation can be moderated and managed through timely and co-ordinated implementation of appropriate agriculture policies and related macro-economic policies**

second half of the decade of nineties. Cotton imports of a sixth to a fifth of demand make a mockery of the MSP. There is a need for integration of various policies of the government such as price policy, monetary policy, tariff policy, fiscal policy etc”.

Given the backdrop, the committee recommended that “CACP should be repositioned and emphasis should be laid not only on cost but also on issues such as tariffs, credit policies, market trends, market structure and broad macro economic policy to meet new challenges so that it can play a vibrant and dynamic role in consonance with domestic and global changes”.

A restructured CACP should also have the mandate to recommend appropriate policy changes and their synergetic implementation after taking into account inputs from market intelligence and research studies. One such study that merits attention is a working paper published by the Institute of Economic Growth, New Delhi in 2012. It has estimated that “for every one-per-cent increase in per capita income, the demand per capita for cereals and pulses is likely to decline by 0.05 per cent and 0.20 per cent, respectively, while the

demand for fruits, vegetables, milk, and edible oil is likely to increase by about 0.55–0.65 per cent and that for animal products such as FEM (fish, eggs and meat) is likely to increase by 0.38 per cent”.

The paper captioned ‘Food Price Inflation in India: Causes and Cures’ says: “It appears that rising income levels are increasing the size of the middle and upper income groups, who are reducing their consumption of cereals and pulses somewhat and eating more of vegetables, fruits, dairy products and meat, etc. Some of the most poor might be able to increase their consumption of cereals etc. with rising incomes but the first effect seems to be dominating”.

The CACP says that “food inflation needs to be reined in by containing fiscal deficit aggressively; liquidating excess grain stocks with the government and breaking the oligopoly of commission agents in mandis by de-listing fruits and vegetables from APMC Act”.

It becomes clear then that food inflation can be moderated and managed through timely and coordinated implementation of appropriate agriculture policies and related macro-economic policies. ●