

South Asia

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India's poor paying for government folly

By Kunal Kumar Kundu

Recently the United States government cut the stock forecast for the country's key crops. Argentina and Brazil are suffering dry spells and Russia from drought. On the other hand, excessive rainfalls have damaged crops in India and Indonesia, while Australian agriculture output will suffer because of flood.

Endless incidences of natural calamity, one big problem - food shortage. Apart from the wrath of nature, a Western push to use biofuels made from corn to reduce dependence on fossil fuels and increased demand for meat and dairy products from the richer Asian countries, are also put forward as factors important enough to cause food scarcity and rising prices.

All of these, however, are external causes which are not easily, if at all, controllable. What these help masking are causes that have led to the stagnation of agricultural sectors in the developing world, causes that are rooted in the policy choices of governments.

According to Robert Paarlberg, professor of political science at Wellesley College, most of the world's hungry people do not use international food markets, and most of those who use these markets are not hungry. The fact is, international food markets, like international markets for everything else, are used primarily by the rich, not the poor.

In world corn markets, the biggest importer by far is Japan followed by the European Union. Next comes South Korea. Surely, citizens in these countries are not underfed. In the poor countries of Asia, rice is the most important staple, yet most Asian countries import very little rice. Hunger is caused in these countries not by high international food prices, but by local conditions, especially rural poverty linked to low productivity in farming.

India is no different in this regard given the misalignments of policy interventions. Interventions in the farm sector are mainly in the form of high support prices for food grains, various subsidies (mainly power and fertilizer), debt write-offs and so forth.

India's foodgrain production growth rate has been lagging behind population growth rate. This can be mainly attributable to low levels of yield.

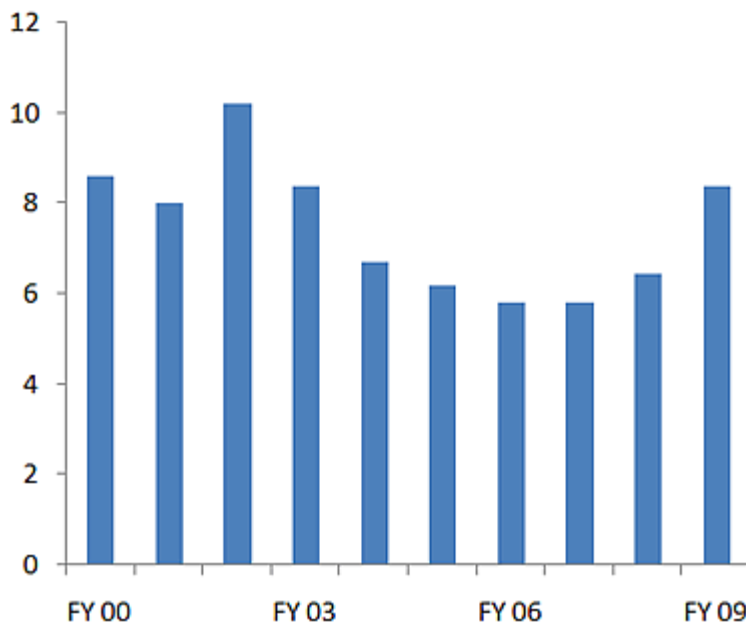
Yield (Hg/ha)

Country	Maize	Millet	Onions, dry	Potatoes	Pulses, nes	Rice, paddy	Tomatoes	Wheat
China	53,518	17,443	210,426	145,308	20,000	65,901	226,740	47,480
France	91,081	57,142	222,222	437,909	45,454	57,066	1,611,111	74,466
Germany	97,499	n/a	482,093	440,557	24,000	n/a	2,233,333	78,084
India	20,595	8,180	162,649	188,134	5,333	29,767	186,126	28,408
Indonesia	42,372	n/a	102,434	164,745	5,000	49,985	165,985	n/a

Japan	25,384	10,234	480,833	327,647	n/a	65,224	578,145	32,366
Pakistan	36,705	6,155	131,626	202,848	7,423	35,811	100,887	26,567
Philippines	26,208	n/a	87,624	148,948	8,648	35,889	112,400	n/a
Sri Lanka	25,515	10,876	133,549	149,033	n/a	38,002	103,529	n/a
Thailand	41,779	n/a	147,368	165,948	10,126	28,698	187,967	10,000
UK	n/a	n/a	407,230	414,387	29,333	n/a	4,106,018	79,266
USA	103,389	18,868	565,628	462,734	n/a	79,412	806,079	29,886

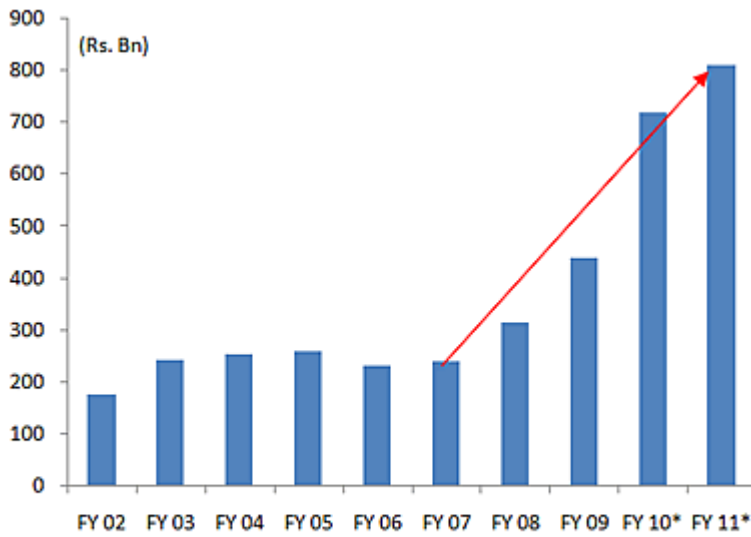
Source: FAO. Note: HG/HA - hectogram per hectare

Low level of productivity is a manifestation of continuous under-investment in this sector. As can be seen from the table below, the gross capital formation (GCF) in agriculture (a sector on which about 60% of India's population depend upon, for their livelihoods) as a percentage of total capital formation in the country has been falling continuously since fiscal year '07. Subsequently it has picked up, but only just.



Source: Economic Survey, Government of India

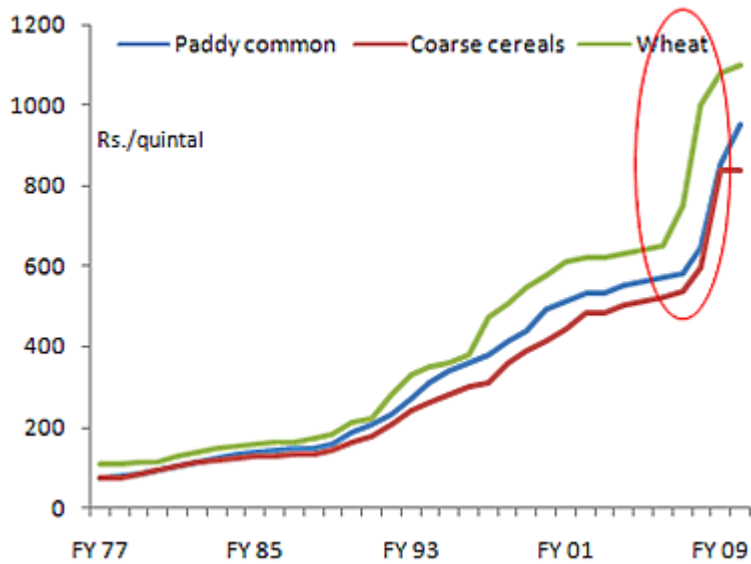
Unfortunately, rather than investing adequately in a sector that is severely deficient on physical infrastructure (be it irrigation, cold storage facilities, transportation or whatever), India's food subsidy budget is ballooning.



Source: RBI and government sources
*- estimated

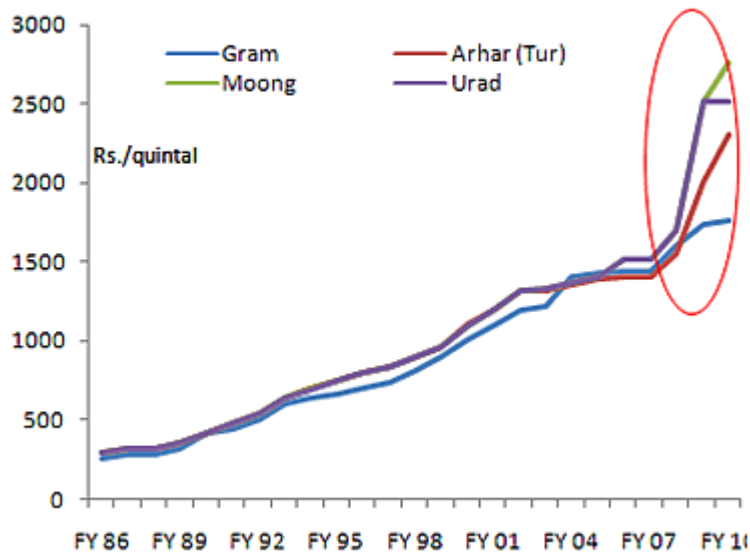
The legendary inefficiency in the procurement and management of foodgrains by the Food Corporation of India (FCI) and that of the Public Distribution System (PDS) notwithstanding, the sudden spurt in minimum support price (MSP - the remunerative price that is paid to farmers for their produce) since fiscal '07 and the large quantity of procurement has resulted in food subsidy reaching stratospheric levels.

MSP cereals



Source: RBI

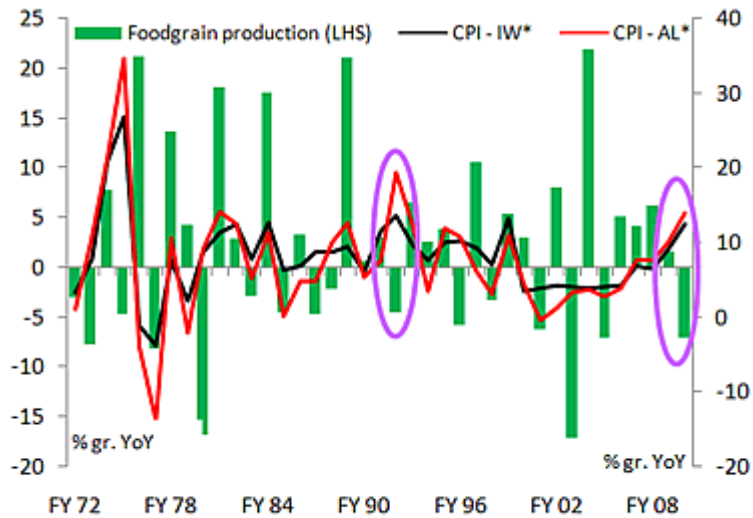
MSP pulses



Source: RBI

As is quite well known, the decision for setting the MSP of a produce during a crop year is fraught with political connotations. In fiscal '08, the MSP was increased to keep parity with global foodgrain prices on the back of a global food shortage. Thereafter, there was no way of reducing the price. Then came the elections and the MSP was raised even further. And it is the rich and the strong farmers' lobby that gains the most from increases in MSP.

Clearly, it is this continuous rise in MSP (apart from the inefficiencies in the system) that has been accelerating food inflation in India. In fact, apart from fiscal 2010 and, to a certain extent in fiscal '92, falling foodgrain production did not lead to an inflationary spurt, thereby debunking the myth perpetrated by the government that shortage of production leads to inflation.



Source; Foodgrain inflation, my calculation

*- IW – Industrial Workers, AL – Agricultural Laborers

Hence, subsidies and interventions cannot lead to amelioration of the malaise afflicting the Indian

agriculture sector. Fertilizer subsidy, for example, leads to widespread use of urea leading to imbalance of soil nutrients, thereby impacting productivity. The much talked-about debt-waiver schemes have not necessarily reduced the indebtedness of the farmers nor have these resulted in substantial decline in incidents of farmer suicides.

Farmers continue to be burdened by debts, both from banks and other institutions - the number of suicides in 2009 was 1,200 higher than in 2008 and just about on par with the average of the post-1997 period.

What is really needed is directed investment to ensure that the dilapidated physical infrastructure in the farm sector is modernized, streamlining procurement and distribution mechanism, and working toward ensuring capacity building of the farmers.

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