

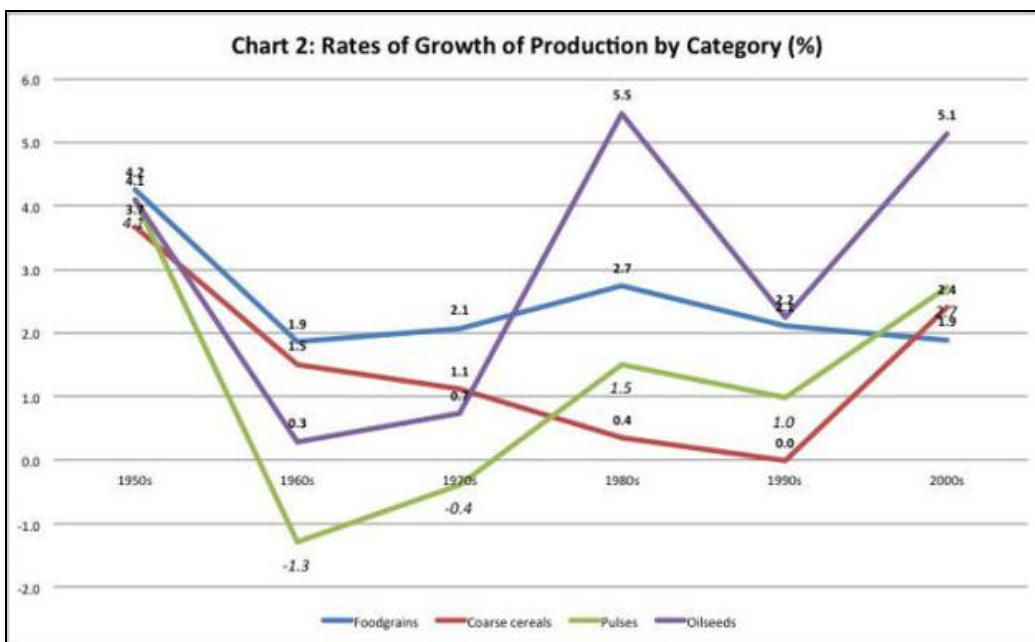
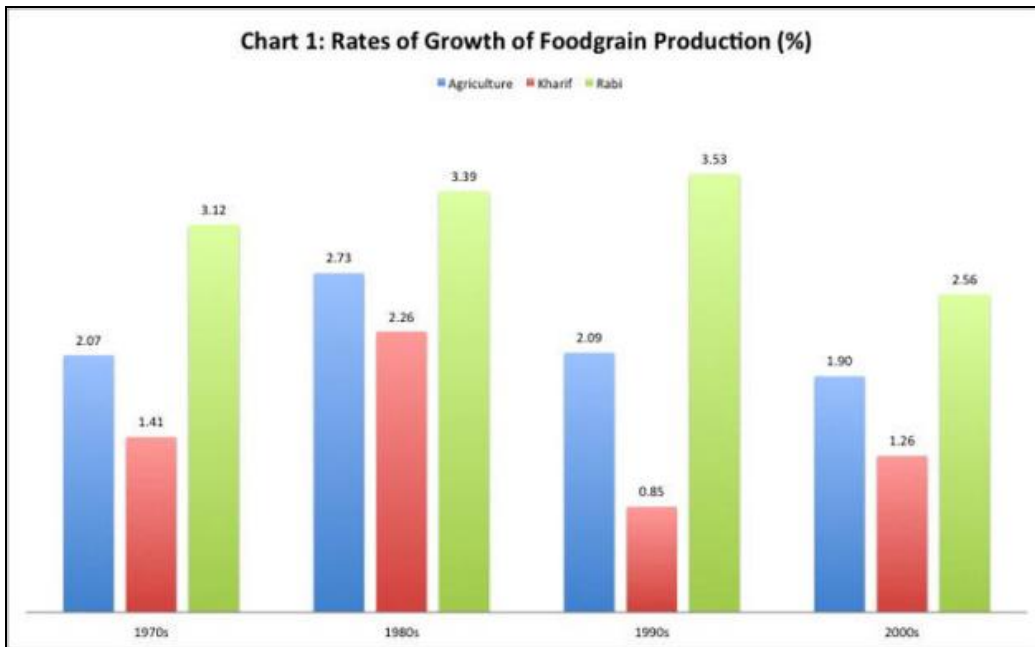
Wages of Neglect

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As the Reserve Bank of India struggles to rein in the overall rate of inflation, there is reason to fear that food price inflation could worsen because of a poor Southwest monsoon. Despite a late revival, the area-weighted rainfall during the Southwest monsoon period (1st June to 30th September) was only 92 per cent of its long-period average. The cumulative seasonal rainfall was deficient in a third of the country and in excess of normal in 67 per cent of its area. This is the third year over the five years ending 2012-13 when the Southwest monsoon has been deficient, with the other two being 2008-09 and 2009-10.

That is particularly bad news since Indian agriculture is still substantially rainfall dependent with only around 45 per cent of its cropped area having access to assured irrigation. According to the Reserve Bank of India, rain-fed agriculture accounts for around 56 per cent of the total cropped area, with the figure being 77 per cent in the case of pulses, 66 per cent for oilseeds and 45 per cent for cereals. Not surprisingly, the government's First Advance Estimates place kharif season food grains production in 2012 at 117.2 million tonnes, as compared with 129.9 million tonnes in the previous year.

Even if the immediate implications of this shortfall are not too ominous because of the comfortable stocks with the government, they could worsen an already deteriorating long-term trend. Around the middle of the last decade government spokespersons were arguing that India appeared to be getting out of a situation of long-term decline in agriculture. It is now clear that over the first decade of this century things have only got worse. As Chart 1 shows food grain production growth has fallen consistently from 2.73 per cent per year in the 1980s to 2.09 per cent in the 1990s and 1.9 per cent over the last decade. The result has been a decline in per capita food grains production over the long term, with adverse implications for food and nutritional security. The decline has been sharper in the case of coarse cereals and pulses (Chart 2).



While monsoon-dependence is one contributor to this long-term deterioration, that dependence and the decline in productivity is also the result of long-term neglect. The ratio of gross capital formation in agriculture and allied activities to GDP has stagnated in the 2.5 to 3 per cent range, the system providing agricultural extension services has weakened and changes in administered prices have eroded the viability of crop production.

Given the importance of food in the wage basket, this long term neglect is difficult to understand. One contributing factor could be the slow growth of employment and persisting poverty which reins in the demand for food even when the rate of growth of the economy is high, as was true between 2003-04 and 2008-09. Not surprisingly, even in relatively normal monsoon years when per capita production is not

excessively high, the government is saddled with significantly large food stocks. Thus, though food grain production growth was setback in 2008-09 and 2009-10, the subsequent modest recovery has resulted in procurement and offtake trends that ensured that as on September 1, 2012 stocks of food grains with the Food Corporation of India were at 71.75 million tonnes or 27 per cent higher than stock levels of 56.3 million tonnes a year earlier. Burdened with the costs of carrying these stocks the government lifted the ban on exports of non-basmati varieties of rice last September. That move combined with a decision of the Thai government to support its farming community with higher procurement prices, which pushed up domestic prices in Thailand, have made India the world's leading rice exporter this year.

A liberal policy on exports may, however, turn out to be short sighted because of the evidence that domestic food grain prices have been downward sticky and tend to turn buoyant even when the supply-demand balance is favourable. Over the last four years food price inflation has on average been high. Though food articles other than food grains have contributed significantly in recent times, rising costs of production have kept food grain prices buoyant. This rising floor then provides the basis for periodic bouts of high food price inflation. The persistence of high food prices even when overall economic growth has slowed and the periodic bouts of high inflation are clearly related to the long-term deterioration in production performance. Factors like speculation feed on this poor performance and make the government's policy of procuring and storing food a cause of inflation rather than an antidote to it.

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