

Arvind Singhal: Myopia-induced inflation

In the medium term, India's food security appears to be under serious threat



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Even as Indian policy-makers earn plaudits for their deft handling of the economy in the shadow of a global turmoil, some disturbing clouds have emerged on the country's horizon which, if not managed with a sense of urgency and bold policy initiatives, have the potential to not only create short-term political strife but also destabilise the current UPA government itself. The clouds are the inflationary pressures that have reared their head again after a relatively stable situation in the last 12 months — especially the inflation in food prices, which has been rampaging upwards of 15 per cent for months now. The impact of food inflation can be better appreciated when one notes that out of about 210 million households, food accounts for as much as 48 per cent of the total spending of the bottom 65 million. For the next 70 million, spending on food accounts for over 40 per cent of their income.

It is easy for the government, and especially the agriculture ministry, to put the blame on a poor monsoon last year even if the production data does not entirely support this conjecture? India's food output is expected to be around 230 million tonnes in the current year, just marginally lower from the output a year ago. With the government holding adequate buffer stocks of essential commodities, including wheat and rice, India's food inflation at the worst could have been in low single digits.

Unfortunately, even if rainfall in the next monsoon is copious, it may only temporarily help in curbing the speculation-driven component of this food inflation. The reality is that successive Indian governments in the last two decades have only given lip service to the needs of Indian agriculture and farmers. Indeed, agriculture is one sector that has not seen even a whiff of ideological and policy reform in the last 20 years, even as other sectors of the economy have seen a sea change in the policy framework, which has enabled India to grow at over 6 per cent per year for most of these 20 years and near 8 per cent per year for the last five years.

The constraints start from the failure to consolidate fragmented land holdings. With over 65 per cent of the 1.15-billion population still living in rural India and over 50 per cent still directly or indirectly dependent on farming, land holdings have become highly fragmented with successive generations. As a result, the average size of the farm holding has slipped to below one hectare, making large swathes of farmland increasingly suboptimal from productivity perspective. Yet, there is no effort to facilitate consolidation of farmland while guiding and supporting tens of millions of marginal farmers towards other vocations and jobs.

Farmers continue to be forced to sell their output to local "marketing committees" through antediluvian acts such as the APMC (Agricultural Produce Marketing Committee) Act. With the governments — both at the Centre and in states — also continuing to believe that modern, more organised retail is harmful to the livelihood of traditional retail, it is no surprise the farm produce distribution in India remains extraordinarily inefficient, benefiting neither the farmer nor the hundreds of millions of low- and middle-income consumers. The difference between farm gate and kitchen prices for perishables such as vegetables and fruit could be as much as 300 per cent, while for basic staples, it is well over 100 per cent. Not only this, India also wastes as much as 10-15 per cent of its cereals and staples production every year on account of an inefficient and fragmented collection, storage and distribution system, while the losses in horticultural produce are as high as 30-35 per cent. Maintaining status quo only makes the middlemen and many small, opportunistic, independent retailers richer.

Indeed, the next monsoon may be copious and could douse the raging food inflationary fires for the time being. However, in the medium term, India's food security appears to be under serious threat unless India's policy-makers come up with a slew of visionary, bold and determined reforms for its much-neglected agriculture sector covering critical issues relating to consolidation of land holdings, entry of corporate/cooperatives in farming, freer market distribution with reduced or no internal barriers to movement of farm goods across the country, and an efficient, modernised retail front-end.

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