

## INTERVIEW

■ Nitya Nanda\* ■ Suresh Chandra Babu\*\* ■ Sthanu R Nair†

## “Better management of food economy is key to containing food prices and bringing long-term food price stability.”

**Inflation in India, essentially the food price inflation, is rising at a fast clip, threatening to derail the growth momentum and triggering a rise in the interest rate. How do you see this inflationary situation?**

**Nitya Nanda:** The situation is quite alarming. For the rich and upper middle-class people, this is not a big issue as they spend a very small proportion of their income on food. But for the poor and even for a section of the middle-class, this has really created havoc. Some people spend even up to 80% of their income on food. I am sure this has increased poverty and hunger. If this continues, you might see some social unrest.

**Suresh Chandra Babu:** India has been facing a double-digit food inflation for the past one year, and it reached 20% in December 2009. A major impact of such sustained high growth in food prices is that the poor and vulnerable sections of the society will continue to go into deeper food and nutrition insecurity. Given the same amount of income, poor consumers are finding it difficult to spend more on food, resulting in low food and nutrition consumption. This will have both short-run and long-run impact on the economy. In the short run, the situation of hunger and malnutrition will increase. In the long run, due to possible reallocation of resources from health and education, there is likely to be deterioration in human capital.

**Sthanu R Nair:** In fact, the debate on soaring food prices has been hogging the national limelight for quite some time now. If you recall correctly, it started off with the rising headline inflation, measured by year-on-year changes in the Wholesale Price Index (WPI), starting from December 22, 2007 and lasting up to September 2008. Indeed, in terms of duration, this 10-month price spiral was the longest since 2000-01. The average inflation rate (considered a better measure), period-on-period, recorded during this period was 8.75%. [Note: Average inflation rate is calculated based on the change in the average value of the WPI over a certain period (e.g., December 2007 to September 2008) with respect to the average value of the WPI over the corresponding period (e.g., December 2006 to September 2007) the year before.]

Among the reasons attributed to this overall price buildup, soaring prices of food, in particular that of primary food articles, have received considerable national attention. However, contrary to popular perception, the high overall and food price inflation during this 10-month inflationary stint was driven mainly by the rising prices of manufactured ‘food products’. Primary food articles, including the food grains, have had little influence on the rise in food prices. This is evident from the fact that the average inflation rate recorded for primary food articles during this 10-month period was 5.18%, against 10.29% in the case of food products. The three food products, namely, oil cakes, edible oils and dairy products, were the major contributors to the food price spiral dur-

ing this time. All these boil down to the fact that the food inflation witnessed during the overall inflationary situation between December 2007 and September 2008 was the result of the higher prices of only a few food items.

The food inflation scenario has changed significantly since then. Though the overall WPI inflation rate started declining from the week ending October 4, 2008, thanks to the consistent fall in the inflation of fuel group (including mineral oils) and manufactured products, food prices continued to rule high. Significantly, this time around, the rising food inflation has proved to be more damaging. The food inflation, since October 2008, has been driven by a wide range of food items under both primary food articles and manufactured food products category. On an average, the primary food articles have recorded inflation, period-on-period, of 12.18% between October 2008 and January 2010. The same figure during the 10-month period from December 2007 was only 5.18%. Except milk, the average inflation of all the food articles (food grains, fruits and vegetables, egg, meat and fish, and condiments and spices) has been ruling high since October 2008. In the case of food products, it has been the turn of two product groups, namely, sugar group and tea and coffee processing, since October 2008. The sugar group alone has registered an average inflation of a whopping 31.53% between October 2008 and January 2010 against -3.03 during the previous 10 months. Similar figures for tea and coffee processing were 11.09% and 2.33% respectively.

Thus, the coverage of the inflation in food prices witnessed in India since October 2008 is wider than before. The prices of a variety of primary food articles and food products, namely, food grains, fruits and vegetables, egg, meat and fish, condiments and spices, sugar items, and tea and coffee, have been under pressure. In contrast, between December 2007 and September 2008, only two food products, namely, edible oils and dairy products, contributed significantly to the spiraling food prices. Hence, the current inflation in food prices is much more serious and complex due to the wide range of products involved. Due to this, the task of controlling inflation has also become tough.

**To what factors would you attribute this food price inflation?**

**Nitya Nanda:** There are several factors. Firstly, there is reduced supply. This is not just due to monsoon, but agriculture has been quite stagnant primarily due to the withdrawal of state from this sector. Then, there has been an increase in the costs of production. There has also been an increased demand due to economic growth and changing food habits. When people go for more of non-vegetarian food, demand for cereals actually goes up, as you need more of feedstock. Then there is some amount of market manipulation. Such manipulation occurs more and with greater impacts in a shortage situation.

**Suresh Chandra Babu:** Low food production in 2009 is a key factor. But the low supply of food commodities is a result of long-term neglect of our food production system. The productivity of agriculture is low and has been so for the past two decades. Thus, the low supply is a key factor. At the global level, the food prices are also at high levels, creating scarcity at the global markets. The demand for food commodities has been going up. Poor trade policies and mechanisms that do not allow free and timely trading of commodities continue to work against us. In addition, poor price stabilization policies and stock management mechanisms have hindered the protection of consumers when the prices go up.

**Sthanu R Nair:** In my view, the present food price inflation stemmed from supply side rigidities. The reason for the high inflation of the aforementioned product groups is not very difficult to see from the food crops production figures furnished in the Economic Survey 2009-10. As per the fourth advance estimates, the production of a majority of the agriculture crops was expected to be lower in the year 2008-09, compared to a significant increase witnessed a year before. The year-on-year growth of food grains production was pegged at 1.3% in 2008-09, against 6.2% in 2007-08. The growth figures for the other major crops during the same two years are (figures in brackets are for 2007-08): cereals 1.5 (6.4), pulses -0.7 (4.2), rice 2.6 (3.5), wheat 2.5 (3.7), tur -25.8 (34.8), and sugarcane -21.3 (-2.1). Alarming, in 2009-10 also, the production of some of the crops is expected to be lower. For example, according to the Review of the Economy 2009-10 (RoE) brought out by Economic Advisory Council to the Prime Minister, the output of rice is expected to be lower by about 11 mt in 2009-10 due to the nearly 12 mt lower kharif production. The severe shortfall in domestic sugarcane output will continue unabated in 2009-10.

**Policy makers have kept the interest rates at low levels. Do you think that this has fueled inflation? Or, do you think that it is a supply side phenomenon?**

**Nitya Nanda:** I don't think Indians borrow from banks to buy food. Those who often borrow to buy food do not get loans from banks, so that cannot be linked to interest rates in formal market. But interest rate can have some indirect impact on food prices as well. But that is unlikely to be significant. You don't eat more food beyond your biological requirement (except in case of changing a food habit where indirect consumption can go up). But if poor people are demanding more food, then they must have been hungry before! So I don't think interest rate can be a factor, unless some traders are hoarding food by taking bank loans.

**Suresh Chandra Babu:** Food inflation is a supply side phenomenon, further induced by poor internal systems to manage the demand-supply imbalances. The low level of food production in 2008-09 and the drought in 2009 culminated in the low supply of food. When the food production was very good in the years 2005-2007, much of the surplus food was exported. But when the domestic food supply went down in the last two years, there was inertia in the policies and institutional mechanisms to react and increase food supply by importing.

For example, prices of commodities such as edible oil are under check, since the importing mechanisms in edible oil respond quickly to price rise. But this is not the case in food commodities.

**Sthanu R Nair:** No, I don't think that the present food price spiral has anything to do with interest rates or monetary policy in general. It is purely due to domestic supply shock. Even international price conditions, with the exception of a few commodities, such as crude oil and metals, are not showing an elevation.

**What measures do you suggest to contain the food prices and to bring long-term stability to food prices?**

**Nitya Nanda:** Firstly, the agriculture sector needs serious attention. It has been neglected for too long a period. There is a need for infrastructural investment and strengthening of the support system for the farmers. Weakening of the support system has pushed the farmers towards private traders who often mislead farmers in terms use of seeds, fertilizers and pesticides. There is also a strong need to strengthen the public distribution system which reduces the market power of traders.

**Suresh Chandra Babu:** Better management of food economy is key to containing food prices and bringing long-term food price stability. In the long run, clear and well-designed food policies that are consistent with the long-term food security objectives of the country are needed. Frequent droughts and floods that reduce food production are here to stay. Anticipating such supply reductions and having effective and shift mechanisms that will engage in food markets are needed. It is clear from earlier experiences that when food is released in the market, the prices could be contained. But without proper management of food stocks and trade policies that facilitate quick importation of food, the food inflation will continue to pose development challenges.

**Sthanu R Nair:** The long-term solution lies in increasing agricultural productivity and also in moving towards diversification of agricultural production. In an emerging and growing economy like India, there will always be elevated domestic demand for food. This is especially the case with high value food commodities like pulses, fruits, vegetables, fats, edible oils, dairy products, processed foods, and livestock products. Studies suggest that demand for such food items has recorded high and accelerating growth in India during the post-economic reforms period. But progress in diversification has been slow. I think we are still in the age of relating agriculture to the production of staple foods like rice and wheat. Also, when it comes to high value food commodities, our productivity is one of the lowest in the world. For example, according to the World Development Report 2008, among the countries where the proportion of workforce engaged in agriculture was high, fruits and vegetables production was 118 kg per hectare in India during 2003-05, against 390 for China, 217 for the Philippines, 178 for Thailand, 162 for Vietnam, and 516 for Turkey. In the case of cereals, the relative figures are India 2417 kg per hectare, China 5095, Bangladesh 3535, Indonesia 4278, the Philippines 2916, Thailand 3044, Sri Lanka 3438, and Vietnam 4641.

When it comes to taming the ongoing food price spiral, the consensus (short-term solution) appears to be in favor of imports. In fact, given the ground realities at present, there is no other option than this. This is particularly so in the case of rice, sugar, and pulses. In the case of pulses, even the import option appears to be limited. This is because, as RoE pointed out, many of the pulses varieties consumed in India are not grown to a significant extent in other parts of the world. Hence, presently, import of pulses is not a feasible option. This again takes us to the issue of productivity improvements. Another concern with imports is the tendency among the exporters to jack up prices knowing the short supply situation in India. This may cause imported inflation.

**One of the glaring features of Indian agriculture is that the farm productivity in India is far below the global averages. Do you think that India badly requires a second green revolution now?**

**Nitya Nanda:** Yes, but we must be cautious too. If you see all the countries that have high productivity, they also have high costs of production. Technology is expensive and hence even if it might increase land productivity, it might not lead to an increase in total factor productivity or a decrease in costs. As a result, most countries with high productivity are also subsidizing their agriculture hugely. I am not sure if India will ever be able to give that much of subsidy. Hence, we must ensure that farmers get technology at cheap costs. If the second green revolution comes with greater control of the Indian agriculture by a few companies, we can get into serious trouble. Moreover, the first green revolution, though brought food security for India, also brought serious environmental problems. Now we need to clean up our environment. The second green revolution must solve such problems rather than adding to them.

**Suresh Chandra Babu:** Investment in agricultural research is key to improving the low productivity of Indian agriculture. The research and extension system in the country needs to set priorities that will address the question of low productivity.

Whatsoever, this unabated rise in food prices has provoked intense debate among economists, bankers and investors as to whether the Reserve Bank of India would be forced to raise interest rates in an attempt to cool the economy. Already, the central bank has begun to exit its loose monetary policy by hiking banks' cash reserve requirements. The government has also been doing its part to check the prices by reducing duties. But that has not been sufficient to contain food prices in India, since international prices have been at elevated levels due to global shortage and speculation over it with cheap money supplied by central banks. With the food crisis deepening, Pratibha Patil, India's President, recently called for a 'second green revolution' to boost farmers'

yields and incomes with improved seeds, better water management and more scientific agronomic techniques.

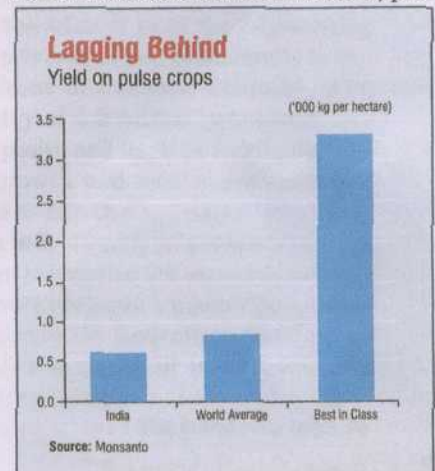
### The making of the crisis

The agriculture sector, including allied activities, accounted for 15.7% of the GDP (at constant 2004-05 prices) in 2008-09, compared to 18.9% in 2004-05, and contributed approximately 10.2% of the total exports in 2008-09. But the glaring fact that this sector provides employment to around 52% of the total workforce in the country reinforces its key role in the economy. And the Economic Survey of 2009-10 has rightly singled out the setback in the farm growth rate and the emergence of double-digit food inflation as major areas of concern and has blamed poor food

The research results need to get translated into increases in farm outputs. Knowledge management and increasing the capacity of the farmers to adopt innovations are important. The role of extension cannot be overemphasized. There is a need to take stock of the approaches to extension and make it work for the resource-poor farmers. Bringing advanced agricultural practices to the farm gate will require the coordinated efforts of researchers, extension personnel, and farmer-based organizations. Making the current system work efficiently in terms of innovation, knowledge management and effective use of existing capacity will bring in a second green revolution.

**Sthanu R Nair:** Yes, no doubt about this. What we need is a positive change in agriculture. You may call it by any name. What should be the nature of this positive change? It is well-known that the single most problem facing Indian agriculture is the small size of farm holding (over 80% of the operational holdings are of the size of less than 2 hectares), which not only affects dissemination of modern methods of production but also the scale of production. Together with other constraints facing Indian agriculture, such as rising cost of cultivation, dwindling public investment in agriculture, and falling growth of institutional credit, it is clear that for an individual farmer it is difficult to survive in the Indian farming sector. One can think of a two-pronged strategy under this circumstance. First, improve the economic viability of small size farm holdings by way of enhanced public investment in agriculture, i.e., in irrigation, rural roads, cold storage facilities, refrigerated transport, wholesale markets, and R&D. The beneficial effect of this would be substantially reduced cost of production for the individual farmers, better technical support, assured production, reduced risk, quick transportation of the produce, and reduced wastage. In the absence of adequate public investments, as it is the case in India, individual farmers are forced to meet such input requirements on their own, which is economically not viable. The only option available to them is to

management policies for this sustained high food inflation. It has observed, "A significant part of this inflation can be explained by supply-side bottlenecks in some of the essential commodities, pre-



exit agriculture as it is happening now. The root cause for the inadequate public investment in agriculture has been the ever-rising current expenditures like subsidies, support prices, and concessional credit. Also, the government has budgetary commitments to other sectors.

If adequate public expenditure is difficult to come by, as it appears now, the second option is to aggressively promote contract farming and agribusiness ventures, which, in many ways, help in overcoming the adverse impact of falling public investment. It is not necessary that such initiatives are confined only to big corporate houses like ITC e-Choupal initiative. When it comes to linking farmers with organized business, only big corporates hog the public limelight in this country. What about the contributions made by individual entrepreneurs? There are many enterprising people who have been charting their own growth trajectories by combining their entrepreneurial skills, labor, vision, and hands-on approach with their core competence in technology, engineering or marketing and scientific inputs.

Let me mention some of them: Malvinder Singh Bhinder who owns the world's largest mushroom producing firm, Agro-Dutch Industries Limited ([www.agro-dutch.com](http://www.agro-dutch.com)); Jagjit Singh Kapoor who owns Kashmir Apiaries, India's biggest honey producer-exporter ([www.kashmirhoney.com](http://www.kashmirhoney.com)); Ramakrishna Karuturi, owner of Karuturi Global Ltd which is the world's largest producer and exporter of cut roses ([www.karuturi.com](http://www.karuturi.com)); B Soundarajan who owns Suguna Poultry Farm, a leading integrator of poultry products in India ([www.sugunapoultry.com](http://www.sugunapoultry.com)); and Jang Bahadur, owns Sangha Group, the largest producer of seed and table potatoes in Asia ([www.sanghaseeds.com](http://www.sanghaseeds.com)).

At a time when agriculture is considered to be on the downswing, these enterprising people are changing the agrarian economy. The underlying factor behind their success seems to be diversification towards high value agriculture

goods and their ability to unite and bring the best out of individual farmers. The need of the hour is to spread these success stories among the farming community alongside the big corporate-led stories and induce them to stay in agriculture and change their farm practices. In this process, the successful farmers/entrepreneurs shall be used as 'change agents'. Farmers' decisions can be influenced by experiences of other farmers in their social networks. This we witnessed during the Green Revolution in which farmer education had higher returns in regions with higher rates of adoption of new seeds. Unfortunately, such 'social learning' is not occurring now.

In this context, I have one suggestion. It is high time that we honored/recognized the farmers' contribution. Contributions of entrepreneurs such as the above ones and other innumerable individual farmers need to be appreciated and recognized. This is the best way to boost the morale of the farming community. I think this country—governments, business bodies, non-governmental organizations, media houses and so on—has been very active in recognizing (by way of awards or felicitation) the contributions of people from all walks of life, except the farming community. As a positive development, recently, the Ministry of Agriculture, Government of India, arranged a function to honor the 'faceless' small and marginal farmers from all parts of the country who fought against all odds to make a difference. Union Agriculture Minister Sharad Pawar, participating at the function, is reported to have said: "These are shining examples of farmers who have traversed a different, quite often an uncertain path to reap rich harvests. These are the unsung heroes [and heroines] of Indian agriculture." Let us honor more such unsung heroes and heroines.

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cipitated by the delayed and subnormal southwest monsoon."

It has pointed out that because of 23% deficit in monsoon rainfall, the first advance estimates of the 2009-10 kharif production declined by 18.51 million tons over 2008-09, including the output of rice, coarse cereals and oilseeds. Significantly, the kharif season also witnessed a decline of 6.5% or 46.18 lakh hectares in the area covered under foodgrains, including pulses and oilseeds. However, some of this decline was compensated for by an increase in rabi acreage in wheat, pulses and groundnut. It has also observed, "In the case of sugar, delay in market release of imported raw sugar may have contributed to the overall uncertainty, thereby allowing prices to rise to unac-

ceptably high levels in recent months."

### Raising 'productivity' is the key

In the 1970s (during the period of Green Revolution), India's dramatically increased food production, through the application of high-yielding varieties of seeds, allowed the giant country to feed itself. But the government's efforts to persist with that miracle by encouraging the farmers to use fertilizers at a subsidized rate have backfired, as increased application of fertilizers degrades the productivity of soil. In fact, India has been providing farmers with heavily subsidized fertilizer for more than three decades. The overuse of fertilizers has so degraded the soil that yields on some crops are falling and import levels are rising. So are food prices, which jumped 19% last year.

The survey has categorically maintained that escalating food prices, driven by expectations of deficit in food production, have brought the issues of food security, food stocks management and the utmost need for augmenting food production and productivity to the forefront of national strategy. The country of 1.2 billion population has now positioned itself as a driver of global growth and as a major economic power in the coming decades. India will stumble to get there, and to return to booming 9% economic growth, unless it prepares a master plan to reinvigorate its agricultural sector, on which a majority of its citizens still rely for a living. ■

— Y Bala Bharathi and Sanjoy De

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