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Gainers & Losers

Friday, 05 Apr 2024 | 15:30 IST

TOP GAINERS TOP LOSERS

Bajaj Finserv share price	1,593.8	2.22%
Bajaj Finance share price	7,198.8	0.9%
Asian Paints share price	3,246	0.62%
Kotak Mahindra Bank share price	1,767	0.4%
Tata Motors share price	615	0.33%
	615	0.33%

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Adani Power share price	501	1.96%
Tata Steel share price	137.3	1.85%
Bharat Electronics share price	133.95	0.6%
Yes Bank share price	17.35	0.75%
State Bank Of India share price	571.35	0.75%
Zee Entertainment Enterprises...	268.7	1.56%

4 min read • 01 May 2006, 11:03 PM IST

Bharat Ramaswami

Why shoot the messenger?

What is a crisis for some is a blessing for others.The fortunate? folks at this moment are the European farmers and the agriculture minister of the European Union, blamed for stalling trade talks at WTO, the pressure is off them. Indeed, the boot is on the other foot. Countries such as India have in the past gleefully pointed to the dismal farm subsidies in the EU and Japan to avoid any action on tariffs themselves. If only the EU had better sense, poor farmers everywhere would have a brighter future, we proclaimed.

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At trade talks, our position is that the rich countries pamper their growers, produce too much and dump it on the hapless farmers in poor countries. Now, when they cut their food supply for biofuels, we say that the prices are too high and the world is starving as a result. One could say that our position is consistent; we are not to blame.

Whatever the consequences of biofuels, they have limited bearing on India's food crisis. In the US, corn planting traditionally competes with soya bean, not wheat so much. Globally, wheat supplies are stretched because of crop failures in key exporting countries, especially Australia, over the last two years. As a result, stocks are down everywhere. The diversion of corn to biofuels notwithstanding, wheat prices are up and prices. As a large importer of soya oil, this is where India is vulnerable to biofuels.

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Rising demand for meat in China is the other factor that is mentioned as responsible for shifting the demand for grains upwards. Once again, this is more directly relevant for corn and soya bean rather than for wheat and rice. So far, Indian growers and industry have gained from exporting corn and soya meal to feed the demand from China and South-East Asia.

In rice and wheat, India is both a large producer and a large consumer in world markets. Typically, government policy has kept India a closed market and trade barriers have dropped only when domestic supplies fell short. Even in the worst years, our grain imports have not been more than 2.5% of domestic production. Yet, the import option is crucial in cooling domestic inflation because food prices can spike sharply even if shortages are marginal. It is our misfortune that our shortfalls coincided with the shocks to world food supply.

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Of course, with growth in domestic foodgrain output moving along linearly at about 2% per annum since the early 1990s, we were headed towards a situation of the current sort. Although foodgrain demand is not very responsive to income, it still grows proportional to population.

The potential mismatch between supply and demand was masked in the 1990s because of bizarre policies that kept soyal prices and sucked out supplies. By 2001, the government had stashed away nearly 65 million tonnes, or about one-third of the country's grain output, in silos, storage bins, in warehouses or simply under tarpaulins.

The desperate measures that were put in place to retrieve the situation is another story. What is relevant is to recall the legacy of that crisis—a view that agriculture needed a new policy framework that dealt with food surpluses rather than food deficits. But to many, it was clear then, as it is now, that the massive food stocks in the early part of the decade owed a lot to policy blunders.

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Agriculture needs a new policy paradigm all right—but of a different sort. The structural factors that all the sector include stagnant-to-declining public investments, the failure of Plan programmes to make a dent in the erosion of land resources, a sluggish agricultural research system, and an extension system on the verge of collapse. There is nothing like a Green Revolution on the horizon—a magic bullet that can revive the sector. Lots of different things are required, including better management of land and water resources, crop diversification, and developing markets and infrastructure.

All of these issues are well known to the government. A lack of knowledge is not a constraining factor. Yet, a turnaround is not evident. Much depends on state governments. The Union government has limited leverage to determine the effectiveness of state government expenditure even when it is financed by Central assistance. But, neither have Union government institutions risen to the occasion. This is especially evident in research and development institutions.

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For the immediate, exports are banned and agricultural tariffs have been slashed. But since this has been done by many of the big producers in the world market, global prices rule higher than domestic levels. So, expect no relief from cheap imports. On the other hand, Indian wheat and rice farmers would certainly question why they are expected to bear the burden of cheap food.

Unless we have an effective food safety net for the poor, the politics of food prices will never allow farmers to have unhindered access to markets.

The rhetoric of the license-permit raj has been revived to strike against hoarders. The country's commodity exchanges are also in the line of fire. Shooting the messenger does not make for great policy. But who wants to hear the bad news?

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Bharat Ramaswami is professor, Indian Statistical Institute, New Delhi. Comments are welcome at theirview@livemint.com

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