Bad Ideas are Back

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Do we need a separate set of economic ideas for the agricultural sector? While the government and the country celebrates market friendly policies and economic dynamism in varied sectors such as telecom, insurance, IT and the retail sector, the license permit raj has been revived to govern agriculture.

State governments have received the blessings of the Central government to control the movement and storage of grains and other commodities under the Essential Commodities Act. Private firms have been `informally' warned by the government to stay away from grain mandis during the procurement season. Moreover, even if they purchase they will not be able to use railway wagons to transport it because of unofficial curbs. Trading in wheat futures contracts has been suspended.

The enemy is an old one: speculators and hoarders. The truth is that the marketing acts did little to keep foods inexpensive for the poor; on the other hand, some officials, politicians and merchants feasted well on the rents due to these regulations. More importantly, the return of such controls will short-circuit the entry of the organized sector in food processing and retailing.

Last year, thanks to reforms in agricultural marketing, "multi-national firms like ITC and Cargill" competed with FCI in buying wheat from the wholesale mandis. Farmers recorded impressive gains. The involvement of corporates in agricultural markets is a recent phenomenon. Under the stifling controls on storage and transport, wholesaling was a preserve of small traders. Flour mills relied on them. While the mills could have potentially realized economies by integrating backwards, the inspector raj dissuaded them. This was beginning to change with the relaxation of restrictions.

These reforms have been severely dented. Even if the government was once again to adopt a magnanimous air simply because it no longer needs stocks, the private players will be wary of investing. How can they be sure that their activities will not be curtailed again? The *aam aadmi* farmer has been shortchanged.

It might be argued that restrictions and bans on private trading activity are essential to source and procure grain cheaply for the public distribution system (PDS). But why should the burden of financing the food subsidy fall on farmers? Granting government agencies a monopoly on grain procurements is a disservice to farmers and is inimical to the development of a viable food marketing sector and to all those who work in it.

For agricultural commodities such as wheat, production is seasonal but consumption is not. Stocks have to be carried to the lean season where prices must be higher to cover the costs of storage. Since storage is done in anticipation of higher prices, it is also risky. It is futures trading that can facilitate this in a smooth manner. Suspending futures trading might decrease current prices as stocks are released. But it will be at the cost of higher prices in the lean season.

Even those with short memories would recall the abundance of stocks only a few years ago. This problem came about because the government bought too much of grain. The stocks were reduced through various ad hoc measures including export subsidies and open market sales. Today's crisis management consists of procuring as much grain as possible. As the government builds stocks, it will displace private storage and sows the seeds for the next crisis of over-procurement.

The continual crisis in food policy can be broken only if food subsidies are divorced from grain procurement. It is unnecessary and wasteful for the government to procure, store and transport grain to deliver food subsidies to the poor. It is far more efficient for the government to distribute cash subsidies to be used for food purchased. The underlying logistics can be handled by market players – whether retailers, wholesalers or public agencies like the Food Corporation of India. The job of the government ought to be to monitor and guard the value of food subsidies (against inflation) and to target them well. All evidence points to the large exclusion of deserving households from the list of below-poverty line households that are targeted by PDS. Households just above the poverty line are not very well-off either and evidence shows that targeting errors would be lower if such households are included by the targeting criteria. The government's unwillingness for fundamental reform would be easier to understand if the PDS worked tolerably well. This is far from the case.

It is disappointing that the enormous effort that went into persuading states to reform obsolete agricultural marketing regulations should be sacrificed now. However, unless we have a functional food safety net that the poor can reliably access, agricultural reforms will always be reversible stalling the gains that farmers can get from expanding domestic and foreign markets.