



The Farmer in the Dell *Are food prices driving India's economic growth*

In this centuries old children's musical game, there is this farmer who acquires a wife, a child, a maid, a cow and sundry animals from the children around him. The last child left is the loser and, predictably enough, he is designated as the farmer for the next round.

This tag of farmers being eternal losers is especially relevant in India where the farmer has perpetually been in the dell. Vagaries of uncertain weather, low productivity, small land holdings and, finally, market

forces tend to work against this largely poor community. For the last six decades, most small farmers have been beset by low incomes. This has been despite best efforts of the government who have doled out subsidies on inputs like seeds, fertilizers, electricity coupled with minimum price guarantees for crops. Even the economic boom of the last decade and a half had seemingly left the farmers on the wayside. As urban India grew into world beaters, the rural part still struggled to make both ends meet. The small increases in income would get offset by inflation – which brings us to our topic for this piece.



High Food Inflation

High inflation generally has a tendency to leave large sections of society unhappy. Not only do people find it more expensive to sustain their existing life styles, their savings also end up losing partial value. The poor suffer more as they have to spend more on mere sustenance. At the macro level too, economists have always looked upon high inflation as a threat to economic stability. So why is there now a wide spread feeling of quiet satisfaction in rural India even as the government (and our central bank) struggle to lower food inflation and take periodic vows to beat it down.

The answer, we believe, lies in perception as well as the failure to look beyond the obvious. Authorities tend to forget that economics is an evolving science and a social science at that. Remedies that may have worked wonders in the last century make no longer be effective (look at our western brethren who are still trying out the same old policies, quite ineffectively, for a brand new crisis). Similarly, something like food inflation that what was considered appalling a few decades ago may no longer necessarily be unacceptable for all times to come.

Consider this. For nearly two years now, Indian monetary policy has been trying to push down food prices. The RBI Governor himself has recently lamented this unabated increase in food prices for over two years now. Pink papers as well normal dailies have been crying themselves hoarse over rising food prices with the former claiming that the country's growth rate is likely to suffer as a consequence.

Now look at the other side of the coin. Nearly two thirds (around 65%) of the Indian population is dependent upon agriculture for survival. Prices of food items have increased sharply all around



(pulses, vegetables, fruit, milk, eggs, meat, fish, grains, etc.) unlike in the past when the increases were limited to one or two items. So we can safely assume that most of the above class of people have been recipients of considerably higher gross incomes in the last two years.

Also consider the fact that food inflation does not hurt the farmers themselves that much as they do not have to buy their foodstuff requirements from urban markets. Most of their purchases are made from within their rural/semi-urban communities where the prices of locally produced items are only a fraction of the end prices in metros. Thus, while the farmers are now getting 25% to 50% (food inflation has been over 15% for two years now) more for their produce, their expenses on food would have gone up on a much smaller scale. Therefore, these farmers can now, spend more on consumer goods including durables and electronics, where prices are actually become more and more affordable with each passing day. This would also explain the higher rural demand for such goods in recent years.

This change in agricultural fortunes has been largely brought about by an insistence upon higher prices by the farmers who had been watching in frustration as they noticed their urban brethren embark upon an unending spending spree, crying out loud only when food prices went up. The farmers appear to have now boarded the same gravy train even as the more seasoned urban fellow travelers try and push them out with the help of the government and the central bank.

How can something which is good for nearly 65% of a country's population be bad for the country as a whole? Let us take this satisfaction theory even further. An estimated 15% of Indians (180 million) belong to the middle class – a community which can easily take periodic shocks of higher food prices in their stride. Food prices do affect their budgets but not to an unbearable extent. Thus, it is only the balance 20% of the country's population that is adversely affected by food inflation. Thankfully, this is also the class towards whom a number of state run welfare programs are directed including provision for highly subsidized food grains.

Coming back to food prices, they appear to have acted as the villains but have actually helped spur agricultural growth. Higher prices are attracting larger number of people and corporations towards farming activities like dairy, poultry, fisheries, horticulture, etc. Thus it will only be a matter of time before the prices stabilize around the presently high levels. And remember, current food prices in India are still lower than most developed countries. Finally, let the Government, the RBI and economists carry out an extensive study of the extent to which food prices are resulting in a transmission effect on other prices in the economy before they take further bludgeoning measures.

Celebrating the Indian farmers

The recently announced official estimates for national income show that the Indian GDP is expected to grow at 8.6% in the current year ending March 2011. Agriculture sector is slated to grow at an astonishing 5.4% against the previous year's 0.4%. So let us celebrate the coming of age of Indian farming in the same way as we welcomed growth in other sectors a few years ago. Like the children's game, the Indian farmer has finally acquired cheese and is, therefore, entitled to move out of the eternal dell.

Acknowledgement: This article, authored by our Managing Director Sunil Chandra, was first published in Global Economic Intersect on 17 February 2011

<http://econintersect.com/b2evolution/blog2.php/2011/02/17/the-farmer-in-the-dell>