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SPECIAL LECTURE

Poverty and Agricultural Policy Since Dantwala*

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INTRODUCTION

Prof. Dantwala's slim monograph on poverty since Dadabhai Naoroji is a classic paper. Immersed as I have been in the measurement of poverty and malnutrition queston, I have always known that the numbers issue is set in the larger societal question of what is the minimum requirement of subsistence. As the Marxist scholar Eric Hobsawm has stated elegantly examining it through the centuries, this is a dynamic standard by which society measures itself. It changes as we progress. What was acceptable half a century ago would not be today and it will rise again. I was invited to deliver at the Bombay School of Economics, which was later published by the school as a part of a well known series. Concluding the third lecture Dantwala Saheb said Alagh is a carpenter in the most elegant sense of the term.

Dadabhai Naoroji raised the issue of poverty in the context of the 'specie', question and the drain effect. A part of the larger imperialism debate issue and was obviously raising it not just as a measurement question but of poverty and deprivation in the globally exploitative economy and Dantwala as a prominent Indian socialist was at the heart of that more important socio-economic question of global exploitation in his poverty paper.

To say that I was a carpenter was a great compliment to a 33 year old economist who was a chela of the iconic Dantwala. It brought me back to my University of Pennsylvania days as a student and a teacher there and my teacher the nobel lauriatte Lawrence Klien teaching us the approach of the cowles commission that you face a problem and then develop the theory to solve it and that is carpentry and economics at its best.

Soon thereafter, V.N. Dandekar, Dantwala's personal friend was to organise a three day retreat at Lonavala on the measurement of poverty question. I was then in the planning commission as PPD adviser modelling the green revolution in the agricultural sub-model of the Fifth Five Year Plan, which Dantwala saheb read on request from Lakdlawala saheb, and sent me extensive pencilled notes on the first

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draft. Getting back to Dandekar, he would organise meetings within the budgets of the sponsors, but tell them, I will spend as I want to. Remember the attack from K.N. Raj and George, at the CDS Kerala on the consequences of ignoring tapioca in the diet. I have opposed prohibition in Gujarat and so don't drink there. Elsewhere I am also what can be called a social drinker, in the sense of giving company. Anyway as Dandeker was pouring the whiskey, Pranob Bardhan who was an invitee at the seminar, piped in "ýou are giving Yoginder more" to which Dandeker shot back, 'body weight my friend, bodyweight,' much to the amusement of all, at the comparison of the pathan and the elegant bengali. The seminar interestingly was being attended by Vithal Babu from the Andhra cadre of the IAS and Ashok Parthasarathi from the PMO's office. I knew Pranob because we were both selected at the university level, he at Burdwan and me at Jaipur by the great A.K. Dasgupta. In those days much against the prevalent orthodoxy both me and Pranob had built up the case for an agricultural income tax as opposed to the arguments of scholars like Prof. Lakdawala.

Dantwala's presidential address to the Indian Society of Agricultural Economics was to make a powerful plea to have an effective agricultural price policy and he designed a framework for it. This was Dantwala at his best. You are to establish systems to reverse exploitation on a global plane and you have to do it at home. He was a major factotum of the Congress socialist forum and Jawahar Lal Nehru was their leader. Jawahar Lal would lead Ashoka Mehta, Jay Prakashji and others. To the fiery Mehta and comrades like Dantwala, it was always a tinge of regret that Bapu would catch hold of both strategy and tactics effortlessly and they would have all have to fall in line, with a tinge of remorse.

Not all that much has changed. It's all new. It's all the same. It's clear to me that the nyaya scheme is a successor to Dantwala's perception of poverty from the thinking of Dadabhai Navroji. The future lies in all round agricultural development and if more is needed on that please take off the shelf Dantwala's cotton marketing in Saurashtra, an all time classic. But until then you also need support. The cotton farm needs protection from marauding animals and fencing. If futures don't work because of thin markets the state has to step in and not throw away the baby with the bath water. The Bombay school and Dantwala are in the tradition of relevant market socialism and not the dreary and heavy hand of the state. The lactating mother has to have her nutrition and the girl child holds up half of the sky. If you can do it right a cash transfer is better than doles. Good. Good not only for the farmer but also for the landless labourer and marginal farmer.

More generally today, this much is history of ideas. Important to me as a teacher. But does Dantwala have relevance to the agricultural world of today and tomorrow. On May 1, 2019 as I write this it is extremely likely that some extremely antideliviuan ideas contemporary scene be the recipients of the butt of criticism, most justified, some vicious. My speculation is along positive lines. As we emerge out of the dark ages of attacks on knowledge, institutions and fact based policy arguments, will the thinkers of the past like Dantwala have some relevance for us. If so we should pause and recapitulate.

A monopoly of trade in grains was short lived. In the eighties, in the evenings I spent with them in Mumbai, Pune or Ahmedabad, they would recount with amusement their thinking in the end of the decade of the sixties of the last century. For a limited period of time complete nationalisation of wholesale trade in grain could be traced back to the influence of thinking of economists of their influence. But soon private trade was introduced, particularly in higher quality grains. These were generally high-priced, more than the quality differential that the Commission for Agricultural Costs and Prices (CACP) allowed, the Food Corporation of India purchased at, and were largely privately traded.

If prices slumped, the State Governments would intervene but in a limited way, with limited funds, and with nowhere like the organisation that FCI has.

Going into the Contemporary Scene

The agriculture issue has gained public attention as the terms of trade which had risen in the first decade of this century after falling in the period after the Manmohan Singh liberalisation – were again moving against the farmer.

Since 2013, according to CACP, the fall in the terms of trade was around five per cent.

So when everybody else's income was rising, the farmer was losing out and was coming out on the road. We do not have data on the terms of trade for the last two years, but according to most indications of price relatives, the farmer was not doing too well.

Can Higher MSPs Do the Trick for Farmers and the Policy Makers?

All this is well known. More recently, the twist was with the claim that 'MSP would be 50 per cent higher than the cost of production'. The increase in minimum support price (MSP) announced was respectable. The increase in cereal crops, with some exceptions was 15 to 20 per cent higher than last year. Oilseeds were 13.42 per cent and cotton 23.97 per cent higher. Jowar, castor and sugarcane MSPs were marginally lower than last year. These are all good prices, taking into account that government has, for more than a decade, given the bonuses on CACP recommendations. The novelty this year was the claim that a 50 per cent increase in MSP has been provided over the cost of production.

The increase in MSP over the cost of production – measured as all paid-out expenses (A2) plus family labour (A2+FL)- was above 50 per cent in case of each *kharif* crop. So, the NITI Aayog's top officials – Rajiv Kumar and Ramesh Chand, are correct when they say that MSP is 'fifty percent higher than paid out costs'. But M.S. Swaminathan is correct too, when he said that the increase is below what was recommended. The National Commission on Farmers led by Swaminathan had said that the MSP should be “at least 50 per cent more than the weighted average cost of production”. This needs explanation.

The big question is, should the support price cover only the paid-out costs or all the costs.

All costs would include the imputed values of owned land, imputed interest on own capital, imputed value of family labour and imputed remuneration for the management function of the farmer.

Specific difficulties arise and questions are raised on the imputation of the values of farmers’ own resources.

The NITI Aayog’s economists’ argument that rental and interest imputations on capital costs should not be incorporated in MSPs as was recommended by the Swaminathan Committee, leaves much to be desired. Rental incomes, it is correctly argued, are unearned income as defined in Ricardian economic theory. But, we do not follow these principles in setting tax or tariff policies for non-agricultural goods. If Mr. Adani can get income nice, why not the farmer.

The price fixing rules provide that, according to the existing practice, DES applies a normative rate of interest at 12.5 per cent on working capital and 10.0 per cent on the fixed capital. Considering that a large proportion of farmers resort to non-institutional loans from sources like moneylenders, a higher rate of interest should be provided.

The case for including actual interest costs seems quite clear. But it seems very unlikely that there will be policy coordination between agricultural price policy and tariff policies to protect the efficient Indian farmer. Getting players like Walmart to buy farmer’s produce and give them space in its warehouses is far more important, but simultaneously we are told that this has slowed down because of the influential trader lobby. In pulses, vegetables and fruits, and milk and milk products – where demand is rising fast and which drives food and agri inflation – the infrastructure has yet to be built.

The Challenge of Procurement at MSP

That 150 per cent business is a ‘no-brainer’ and is taking away policy focus from more important areas of infrastructure and credit provision. Policy coordination is always easy in a textbook, but normal persons don’t like to give up power. Only the exceptional become more powerful by shedding power and coordinating for the larger good. Another reason could be a fear of rule-based systems. For then, you are not seen as the benefactor and this can be important in pre-election periods. There are real problems. M.L. Dantwala is as relevant today as he was then.

To have MSPs and, separately, free imports is like pouring water in a leaking bucket. He saw it then formulating the framework for the Agricultural Prices Commission (APC) and agricultural policy in India. Perhaps there is a divinity which inspires the chosen ones!