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SPECIAL LECTURE

Covid and the Agricultural Rural Economy*

Y.K. Alagh†

I

THE CONTEXT

Indian agriculture is at the crossroads. We can plan out the phasing of reform or force the pace and mess up the process. The Supreme Court had taken a practical stand on the Farm Trade Laws: implement them after consultation and with a well-defined framework spelt out. They had also appointed expert amicus curae. These were not acceptable to the agitating farmer organisations, in view of the stated views the experts had. It is possible that experts can re-examine their position as the Court said; but not highly probable, with persons of academic integrity. So going back to direct negotiations led to the stand the government has taken of holding the laws in abeyance for a year or a year and a half. This will provide the time for discussion of the details of agricultural reform, which was needed since the laws were passed in a hurry on a single day. To begin with it has to be understood that in a continental country, one size fits all will not work (Alagh, 2021).

The main thrust of the trade reform was possible only after the Covid transport restraints were over. However, in Punjab, Haryana and Western UP, the MSP based agriculture has a logic. It was surprising to read a well-known agricultural economist, say that the region must get out of the rice/wheat rotation. Not all regions must diversify. If you have great alluvial soil, good irrigation and almost a century long tradition of the application of science to agriculture, then there is nothing that says don’t grow the highest yielding paddy and wheat in the world. This is the wrong advice on diversification. It’s like telling Gujarat and Maharashtra to get out of dairy or cotton. In South Punjab, with less irrigation and parts of Haryana not covered by the Indira Gandhi Canal, perhaps some diversification to pulses, cotton etc. could work but the solid specialisation in this region remains. My teacher G.S. Bhalla and Gurmail Singh in the successor study he did to the original one with me, show this.

The argument that private trade is there anyways is misleading. To know that “Arhtias” (middlemen) are important in Indian agricultural markets is sensible. To

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† Chancellor, Central University of Gujarat; Vice Chairman, Sardar Patel Institute of Economics and Social Research; Former Minister of Power, Planning Science and Technology, Government of India, New Delhi.
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know that they are a part of the supply chain in the North West is also so, but here they are not like the middlemen elsewhere. They function simply as agents of the procurement agencies. This was done by a previous Manmohan Singh Government to reduce overhead costs of procurement.

A lot of the theorisation on private trade in the North West takes place by babus in Krishi Bhawan. The middleman in the North West, would not dare to take on the FCI and “mai baap Sarkar”. Those who pushed the Farm Laws on the last day of Parliament are from other regions, where procurement doesn’t work and the spread of markets must be encouraged in normal times. MSPs there are like ghost money: a concept which goes back to the Italian Carlo Cippola who wrote on the history of money. Money which is only a unit of account and not for transactions like an “anna” or earlier “cowries” something which worked at some other time or place. But to ignore it in the North West is just not kosher. To say that the markets, forwards and farmer managed companies, (the last as designed by a Committee I chaired at the beginning of this century) are all wonderful and to support them is to be with the angel's. To think they are the dominant mode of rural organisations even today two decades later is just childish.

Agriculture is the one good sector in this hellish year (Annus Horribilis as Queen Elizabeth said). So we need to strengthen it, not feed off on its glory, even outside the North West. We have the largest spread of agricultural markets in the World according to Satellite based Spatial maps. But they are not APMCs. With thin markets outside grains and without first stage processing and other infrastructure the farmer knows he is at the mercy of the trader and comes out on the road when that is not understood. Lalji Desai started this when good agricultural land was to be given to Suzuki in the Chuvhal (land of 44 villages in central Gujarat) and brought his thousand tractors with the ladies and children on the road. Sanat Mehta and me joined them and spoke to them in Gandhinagar. But refused to join the negotiations, which must be direct. It is happening again. His original strike has started a pattern. Now they will do it.

The trader is the traditional exploiter and the animus between the “Lala” and the “Jat” is the stuff of folklore. No wonder s/he is out on the road in the Punjab. Policy can do a lot, but some caution in a bad non-agricultural year won’t hurt anybody. In a normal year one would have suggested that if the market is there, the State should use its leverage, but in this year the State will fight stagnation after the pandemic and will not have the time to intervene with that selective touch. No wonder the Finance Commission Chief has lectured Mihir Sharma without naming him, to the effect that lives are important and FRBM will wait. It will be good to make a few more FMC’s, but even being their grand-daddy, I wouldn’t think they will become the dominant form of rural organisation this year.

That relic of the past which sits on our shoulders and won’t leave us, MSP, now a slogan, was in its glory when the Marxist Dada economist Ashok Mitra was APC (later CACP) Chief and then the late Dharam Narain, in the days of compulsory procurement and zonal restrictions. Each crop had its own report. I took charge from them and said,
prices play an allocation role, so declared there will only be two reports, one for *kharif* and another one for *rabi*, apart from one for sugarcane (an annual crop). The 1982 *Rabi* report, I wrote gave the role of relative prices and in that context MSP’s as an intervention mechanism when markets failed, outside the compulsory procurement area. This was heresay then and the Agriculture Secretary told me so! Ahem, but my Commission is autonomous I said and to his chagrin he found out that was indeed true. The idea was to be gradually developed by my successors, my teacher G.S. Bhalia, D.S. Tyagi, G.K. Chadha and Abhijit Sen. The concept of transport costs and managerial cost then became important and a conceptual report I was commissioned to write in which incidentally Tajamul Haque worked with me was classified. Sharad Pawar, a kisan at heart, summarised my conceptual Report and released it in a very long reply to a Parliament question, knowing full well that compulsory procurement MSPs were a ghost concept outside the North West. The last time I argued for a ‘fair’ MSP to States like Rajasthan and Gujarat was as an Advisor to the then Finance Minister, Jaswant Singh together with Shri Ram Niwas Mirdha, former Deputy speaker of the Rajasthan Assembly and a champion of dry land agriculture. Today, when the farmer agitates on MSP’s, s/he says don’t be unfair to me.

The Essential Commodities Act should be ditched together with the medical waste of the Virus! And next year we will use all these lovely laws we have always wanted and start the slow walk to the land of perennial sunshine. Good laws are good, because progress starts with them. Those who disagree should make their case. If they do it without sloganeering, we may actually progress. But not in the North West. Not all laws are good everywhere. And first let’s wait out the COVID with its curfews and lock downs. From Mehsana to Navsari and Nashik to Mumbai, the milk train must run again. The modified version with a road map will be on the agenda. Not everywhere, but most places outside the lands of the five rivers. The Kisan may then be with us and many times she is a lady, who not only serves the langar, but also does agriculture.

India is globalising. Economists believe that under benign conditions it is an axiom that trade helps both parties. This is not always so (See Alagh, in Luis Albrechts, Ed., 2019). We argue that recent policy initiatives for reform in the agricultural sector have reinforced slow growth. However, if properly phased reform legislation can be beneficial. In fact, it has been argued that the recent Farm Acts can provide a basis for discussion on implementable policies (Chand, 2020). We analyse the impact of globalisation as initiated by trade reform, pushed by global pressures and domestic reform strategies and their impact on income and levels of living in the rural sector. Changes in the stand on food security in global negotiations are also discussed.

II

**COST CONCEPTS FOR DOMESTIC SUPPORT AND TARIFF POLICIES**

Trade is around cost advantages. It is claimed that the increase on the A2 FL Cost for domestic support in terms of MSP price support levels is 50 per cent. Niti Aayog
officials have correctly pointed out that MSP is 50 per cent higher than paid out costs. But Dr. M.S. Swaminathan was also reported as having said earlier that 50 per cent additionality, which his Committee had recommended had not been provided for. The cost concepts used by the Swaminathan Committee include imputed rental income on land and interest on invested capital. The official argument that rental is an unearned income on scarce land is correct. But returns on scarce capital income are permitted in domestic industry to the corporate sector and there is no logic to deny this for the farmer (For elaboration of the concepts stated in this para and empirical estimates (see Alagh, 2018, Ch. 3).

III
RAPIDLY CHANGING INDIAN POSITION ON TRADE AND AGRICULTURE

India has very rapidly in 2018 modified a position it had held for decades in the agricultural globalisation debates. The 11th Ministerial Conference of the WTO at Buenos Aires in Argentina in December 2017 and the US Administration informed the US Congress, India blocked a Ministerial Declaration at that Conference, taking a firm stand on Special and Differential Treatment. But in March end 2018, India’s Trade Minister Suresh Prabhu made the following statement in a brainstorming session on the WTO in Delhi:

“While some of the new issues being raised by others may also be of relevance to India, existing issues such as agriculture are critical livelihood issues which are extremely important for India” (Suresh Prabhu, 2018; emphasis added).

With this statement India changed a policy stand taken for more than two decades. The larger context of globalisation in which trade takes place needs to be set as the content in which India earlier contributed and played a role in the world. This can be compared with the marginalised position it has created for itself now.

IV
WHY NOT ALL TOGETHER NOW?

In the field in a literal sense the food security angle is still compelling. WTO’s proposed restrictions on India’s initiatives on food security were also sourced from its Indian pundits (Hoda, 2001, 2012).

The angst against food security is a political economy slant. FAO studies on poverty removal where subsidised grains are modelled with a price support program demonstrate the viability of a two track approach if government budgets can support them. In India this modelling originated in the Sardar Patel Institute (For a summary see Radhakrishna and Ray, 2005). The opposite counterfactual, uses the same general equilibrium modelling with lower prices hurting agricultural incomes and food purchases and calories falling.

WTO’s opposition to India’s price support programmes started with World Bank studies by Gary Purcell and A. Gulati (Purcell and Gulati, 1993) arguing that India
taxes its agriculture. This was used in the debates then often. But in this century it could not be argued that India taxes its agriculture and also ask it to cut down its subsidies. Purcell and the World Bank changed their stance and then said that the anti-agriculture bias is not there and India subsidises its agriculture (Rosenthal et al., 1996). Statements of the following kind became common: For example Ms Mary Whelan, chairing India’s Trade Policy Review said:

“Concerns were expressed over subsidies for agricultural products and inputs, which have contributed to large grain stocks and export restrictions on agricultural goods” (World Bank, 2003). Gulati and colleagues subsequently fell in line and in 2005 in a not very well known piece admitted “we report less disprotection of Indian agriculture in the 1990’s than in earlier studies” (Mullen et al., 2005). These World Bank studies are used for the attack on food security.

WTO debates pick up the Indian old hash general equilibrium calculations. In these arguments poverty goes down by agricultural investment more than by food security entitlements. The policy menu inserted is of choice between agricultural investment and food security (Gulati says it is dumb to give food subsidies, Indian Express, 3 October 2018). Agricultural growth of course reduces poverty. But a lot of the poor remain, even with high agricultural growth. This terrible choice is avoided if we have more agricultural investment and some food subsidies for the starving and say less of the goodies given to the Mallyas and diamond traders? An M.Phil student could do the GEM exercise.

Are we a middle income country and poverty is eliminated or nearly so with economic reforms of the Manmohan Singh/Modi Saheb regimes. The Times of India reported a Brookings Institute’s brief to the Government of India showing a large decrease in poverty in India according to World Bank studies. These are supposed to be in contrast to Indian studies (Official Poverty Line or Alagh Poverty Line as the Planning Commission described it). The findings that the Brookings Institute has placed before the Government are based on World Bank Poverty Norms stated as ‘X Dollars per Person per Day in Purchasing Power Parity Prices in A Particular Year’.

Indian estimates of poverty are based Minimum Nutritional Requirements in terms of calorie intake per person per day based on what are called Akroyd Scales. This goes back to the estimates presented in the 1970s of the last century, by a Task Force and lasted for a long time (Government of India, 1979). Then an attempt was made to add on social needs to such requirements. The whole issue is now being examined afresh by the Niti Aayog (Government of India, 2016, 2017).

The World Bank announced its first estimate of poverty with a dollar one per person per day norm applied across countries, it used Purchasing Power Parity rates rather than exchange rates. Interestingly, at that time one of the arguments the Bank used to justify this norm was that the dollar one requirement was equal to the Indian Minimum Nutritional Calorie Requirement Norms (coincidental equivalence of income and nutrition based poverty estimates). But given the falling value of the rupee, purchase power parity being worked out at American prices, Indian urban poverty was
estimated at a very high figure. The present author commented half in jest in a seminar in Washington that he was a highly paid professional in India, but was below the World Bank poverty line. Indian representatives at the World Bank Boards had also pointed out this problem.

Purchasing Power Parity prices create a very special problem because they are based on market exchange rate calculation and this in turn is based on weights between countries, estimated by their trade structure in terms of the commodity spread of exports and imports. Trade in Harley Davidson Motorcycle’s and Steel alloys, for example is in controversies in tariff policy. Trade weights are not the weights of the consumption pattern of poor people and as such purchase parity norms can give weird results. At one stage, they were showing that more than two third of the Indian in urban areas were poor and today they are showing that there is little poverty in India. They were wrong then and they may be wrong now.

Poverty in India has been going down according to all estimates and this has been happening gradually over the last four decades. But only the very brave, the Brooking Institute and some World Bank and economists working with, or advising the Government (Surjit Bhalla, 2018), will say, that it has been nearly eliminated in India. We must stay in the real world.

We must protect both food security and farmer support programmes. This would then provide the basis for the No Challenge Clause the Commerce Minister was reportedly working on to defend, public stock holding in the green box over the 10 per cent subsidy limits. This is important if India wants to escape the trap of the so called Peace Clause of either four or eight years, giving up eventual abolition of hunger over temporary relief from the global grain cartels. The problem is more severe for in fact that some food security policies also provide later for non-grain subsidies to the real poor like a glass of milk to the poor lactating mother. It should be easy to establish a knowledge network to support the Commerce Ministers No Challenge position against the line against food security (Prabhu, 2018).

We need to take a stand. When the WTO was set up Rajiv Gandhi held out upto the end with his Brazilian counterpart and changed the discourse. At Doha Murasoli Maran fought upto the end for the livelihood clause inspite of his poor health. This is terribly important in a small holder agriculture and malnourishment, models which support agriculture without nuances of size of farmers, are like the gifts the Greeks brought in wooden horses. A consistent stand is essential for as the DG of WTO, a friend from another developing country, pointed out the opposition will press for trade facilitation and our bargaining space will get to be narrower.

THE TRADITIONAL INDIAN ARGUMENT

According to G.S. Bhalla, (For a more detailed discussion of this section see, Alagh, 2009, 2019) the avowed objective of the WTO Agreement and that of the AOA
was to create a free multilateral trade regime. The aim therefore was to eliminate or considerably reduce obstacles to market access including restrictions and controls and high tariff walls; to eliminate or considerably reduce domestic support and to streamline the export subsidy regime, but the provisions of the WTO Agreement on Agriculture (AOA), the modalities adopted for making the reduction commitments, and the manner in which these were actually translated into specific commitments, all suffered from serious limitations. India played a role as a concept builder and strategist for developing countries.

First, in the matter of market access, in the choice of the base year period of 1986-1989, prices were extremely low, and this it is suggested enabled the developed countries to get away with much higher than the true tariff equivalents. Second, most of the major players indulged in dirty tariffication that enabled them to come to a higher figure of base tariff equivalents by as much as 61 per cent for the EEC and 44 per cent by the USA. Because of dirty tariffication, developed countries retained very high tariffs for highly protected commodities such as dairy and sugar products. This resulted in the continuation of high border protection for several high value agricultural commodities. On the other hand, oil seeds, fruits and vegetables, which were less protected, were further liberalised (Hathaway and Ingco 1995). This policy proved deleterious to the interests of developing countries like India. Third, the method of making average reduction on tariffs enabled the developed countries to make minimum reduction (of 15 per cent) on highly protected sensitive items and much larger reduction in products in non-competitive products with low tariffs. The administration of tariff rate quotas (TRQ) by developed countries was also discriminatory.

There is a strong case for multilateral trade liberalisation and reduction of tariffs on all commodities including agricultural commodities, it is, however difficult to make a convincing case for unilateral liberalisation in the matter of agricultural tariffs, as some Indian experts do on welfare arguments of cheaper commodity availability. This is because the developed countries not only had kept tariff ceilings very high, but also more importantly, agriculture received huge subsidies. The present author argued that along with other developing countries, India should link the reduction of tariffs with overall negotiations on easing of market access by the developed countries including reduction in domestic and export subsidies. Further, India could also argue for higher level of protection under the S&D clause to meet exigencies like a flood of imports. Actually India did ask for “the availability of safeguard mechanism under AoA to the developing countries alone when this is eliminated for the developed countries that are exclusively enjoying it at present” (Government of India, 2001).

India also proposed to the WTO that all direct payments, decoupled income support and insurance and income safety-net programmes, direct payments under production limiting programmes, should be included in the non-product specific AMS and should be subject to reduction commitment as per the AoA. India’s other suggestions were product specific support provided to low-income resource poor farmers to be excluded from the AMS calculations; total domestic support should be
brought down below the de minimis level within a maximum period of three years by the developed countries and in five years by the developing country Members.

Much the same arguments continue. There are many additional proposals given by scholars and experts like the ceilings on total AMS and product specific support for each product; reduction commitment should not be only on the total AMS but also on each product-specific support separately as well as on non-product specific support; there should be a faster reduction of product specific support and not of non-product support; negative product-specific support should be treated as zero; only green box be included for direct payments and blue box must be excluded; green box should be strictly defined as support to research and development and extension, environment and those on equity ground and must exclude payment on land laid off; and the base period changes. Some of the arguments here are by Dubey and Hussain (2014) and to repeat them here is bringing to New Castle.

VI

AGRICULTURAL GROWTH AND HUNGER

The question is raised: Why do we need tariff protection for agricultural growth? The issue is not grain, but access. You need money to buy food, even if your farmers produce it and your shops have it. You need agricultural growth, not to grow grain, but to create a source of income on a widespread basis. When a large number of people live in rural areas, only widespread agricultural growth can trigger broad based rural growth and this is the only guarantee of reducing hunger. The State can feed a few people and it must do so. The really starving are the destitute women headed households, disabled wage earners, the destitute old. They have to be given grain. You have to give the poor girl child a free lunch to keep her in school and the poor pregnant or lactating mother needs assistance. There are also sharply defined geographical pockets of starvation placed there by the atrocities of man on nature, the environment and the remnants of colonialism. But these are targeted areas or peoples like the adjoining hunger zones of MP, Rajasthan and Gujarat and the KBK districts of Western Orissa, the Sahel and war torn areas. But on a mass scale no government can do the task and you have to grow so that there is work and then money in their pockets, so they buy food (Alagh, 2010).

Paradoxically to grow on a widespread basis, grain growth has to slow down more than in the past. Generally, the pattern is that non-grain crops grow faster than grain crops and animal husbandry and fish even faster. Diversification is the name of the game and incomes grow fast in response to demand changes, only this way. But it does not happen fast enough. You need reform and investment in rural infrastructure. This reform is more difficult for it runs into problems, because the rural economy is complex (For a numerical example with a small model for 2020, see, Alagh, 2013).
Our stance as we have seen has the historical background to India’s WTO negotiations. Two further arguments have a history (Hoda, 2003). This was the perception to the effect that India never had a trade strategy and that anyway the scope for intervention in agricultural markets was limited by the fiscal crunch. There was an element of force in these arguments and an anonymous reviewer wanted this paper to show how limited protection would be efficiency enhancing. To an extent, the argument is of shadow men, since Indian agricultural policy moved over from the initial emphasis in the 1970s on grain self-sufficiency to diversification in the early 1980s and a resource based agro-climatic strategy from the late eighties, the role of regional specialisation and trade became more explicit. It has been argued, by the present author and others that agricultural diversification in India is basically driven by domestic demand (Alagh, 1995). International trade would also hasten the process (Alagh, 1999). This follows from trade theory and was welcomed (Alagh, 1995). It has also been argued that the trading agricultural agro-climatic regions were also those that had more often than not, followed sustainable land and water development policies (Alagh, 2013). Since the pandemic is not going away soon it is wise to read carefully the Halvov economist of Romanian origin Nicholas Georgescu Roegen who developed the few of Entropy, You can consume so much upon won’t be able to exist. Much like the Indu concept of Pralaya. We must avoid that (N. Georgescu Roegen, 1966, ch.5). The fiscal argument is overdone, since intervention in agricultural markets should be only at the margin, in some regions and in particular contexts and in any case, tariff, tax and monetary policy instruments were also available. There was therefore considerable synergy seen in trade, diversification and sustainable development. In the agro-climatic literature, for example, economists and policy makers supported the recommendations of studies on diversification and agricultural markets (Alagh, 2013).

Hoda and others have also argued that India can impose high tariffs if it wants to. These are fairly contentious issues in any negotiation as the comments on India’s Trade Policy Review bring out, not to mention President Trump’s logical statements on the American interests. The kinds of arguments given historically keep on being repeated. Thus on the 2002 Trade Policy Review, Canada “noted that many tariffs remained high, and hoped that high tariff and non-tariff barriers would not impede access to high quality and competitively priced imported goods for Indian consumers” (See WTO, 2003, p.198); Switzerland argued that “The rather large proportion of unbound tariff lines as well as the gap between bound and applied rates provided scope for uncertainty, and diminished the predictability needed by economic operators”. Japan “thought that India’s tariff was a bit too high” (p.199) The EU stated that “there was still a need to cut down the high number of rates and to simplify the complex tariff structure” (p. 201)
New Zealand “was concerned about the increase in the average MFN tariff from 35 per cent in 1997/98 to 41 per cent in 2001/02. New Zealand also had reservations about the extent of tariff escalation on agricultural forestry imports”. And again “New Zealand looked forward to working with India in the relevant negotiations to address some of these issues” (p. 203). The US “asked about India’s plan to simplify its tariff and excise structure, and to reduce rates, which were prohibitively high” (p. 204). Even Norway wanted tariff simplification to “cover fish and fish products, and hoped it would do so at the lower levels” (p. 207). When the US Administration comments adversely on India in the 2017 Buenos Aires Ministerial Meeting is following a long tradition. But again President Trump’s trade war (Hoda, 2018) gives India space for raising tariff.

VIII

CONCLUSION

It is not wise to ignore present realities. The policy bind India is in is, therefore a difficult one, even if the arguments are not ideologically anti-trade or those of a lack of policy interest. It is also important that knowledge-based solutions are encouraged. In this case the recent directives to implement instructions that the members of professional groups should foster 'sustainable' strategies are not intended to encourage “environmental prudence”, but commercialisation of research. This is extremely short sighted. The origin of the vaccine goes back to the stud farm in the Himalayas enroute to Shimla. The stud was infected and the serum extracted from his veins. Later biotechnology came into the picture and my Rector at JNU when I was VC, Asis Datta was the first Indian to patent a gene. We had to raise funds for the Centre of Biotechnology. These things don’t come cheap for a single experiment can cost a hundred dollars. But now we straddle the World with Covaxin.

But for the next generation knowledge generation has to be commercially sustainable as per current policy instructions if you are ICAR, ICMR, NIE, ICSSR and so on. The pandemic is not just a visiting occurrence. Nicolas Georgescu-Roegen the Harvard economist of Romanian origin put it in his well-known Law of Entropy. It states that if you overuse available resources you can reach a point of no return. The pandemic is not going away in a hurry. Anna Marie Slaughter, then Dean of the Woodrow Wilson School at Princeton had predicted at the beginning of the Century that the Virus will be the challenge, not nuclear war, which game theory will rule out. She predicted it originating from Africa and not in Wuhan, China. Entropy is like the Hindu concept of Pralaya. We need to develop the knowledge and then the skills to avoid Entropy. The name of the game is not commercial 'sustainability' but research for human survival. India has the tradition, since its freedom movement and the capability to meet the challenge. But our vision has to be clear. The other requirement is a plan with a long term vision, not commercial “sustainability” but real “sustainability”.
If a feasible alternate transitional policy set exist, a sensible approach would be to try to establish a roadmap of economic policies for say a few major crops and see if feasible alternatives exist. The present author argued that was the only logical course in a liberalizing economy, otherwise agriculture would be left out of the process of reform, with serious negative consequences. As I argued once two decades ago ‘Lets hasten slowly’.

REFERENCES

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