

Gist of EPW April Week 4, 2021

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1. Surging Wholesale Prices

Context:

The article discusses the current surge in the [wholesale price index \(WPI\)](#) and its impact on economic growth.

Background:

- The wholesale price index (WPI) has increased sharply to 7.4% in March 2021. This is the highest monthly increase in the last eight years, resulting in WPI exceeding the consumer price inflation in the last 23 months.
- More surprising is the pace of increase. Headline inflation almost became three times higher from 2.5% in January 2021 to 7.4% in March 2021.
- This has happened despite the successful attempt by the RBI in bringing the [consumer price index](#) within the tolerance band in the last four months of 2020–21 even as core and food inflation touched new heights.

Reasons:

- Wholesale prices increased in all categories of primary products, namely food articles, non-food articles, minerals, and crude oil and products. The primary products constitute 25% of the WPI basket, fuel, and power account for more than one-tenth of the WPI basket, and manufacturing segments account for almost 2/3rd of the WPI basket.
- A double-digit rise in prices in non-food, minerals, crude oil and gas, and fuel and power has caused the surge.
- Both exogenous and endogenous factors are responsible for this increase in the WPI.
- An increase in the import price of commodities, especially oil is attributed to the unanticipated recovery in China and other developed countries.
- Hence, the prices of crude and natural gas increased by around one-third in one month after declining for consecutive previous months.
- The effect of external factors is also evident in the case of fuel and power albeit less severe.
- Petrol, diesel, liquefied petroleum gas, and aviation fuel registered significant price rise and at the same time, there was a minimal increase in coal and electricity.
- Wholesale prices of primary non-food articles and minerals also increased by double digits.

- An increase in oilseed prices is the main reason for almost three times increase in prices of non-food articles.
- The inflation rate is 10.2% in the prices of minerals due mainly to the increase in global prices of iron ore owing to the high demand for steel.

IMF forecast:

- According to the International Monetary Fund ([IMF](#)), commodity prices will increase after having registered a significant decline last year due to the pandemic.
- According to IMF projections, international trade prices of oil will increase by 42% in 2021, that of metals will increase by 32%, agricultural raw materials by 13%, and food by 14%.
- Except for food, the recent price trend in WPI in India is as per the global trend.

The Indian scenario:

- The cause of worry for India is an increase in wholesale prices of manufactured goods and food.
- Manufactured goods, which is the largest component of WPI constituting almost a two-thirds share, have steadily risen for 10 months to touch 7.3% in March 2021.
- This is due to an increase in production costs due to higher commodity prices.
- Food processing, textiles, chemicals, rubber, plastic, and metals, which account for close to two-thirds of the manufacturing output, have registered the highest price increase.
- The food price index of the WPI, which also includes processed foods, has increased from negative to 5.3% in March in just over two months.
- Such an increase in wholesale prices of manufactured goods is mainly attributed to an increase in input prices. This hurts both domestic demands and exports and at the same time lessens the pace of economic recovery.
- Similarly, an increase in wholesale food and fuel prices which constitute more than half the consumer price basket doesn't augur well for economic recovery.

Conclusion:

- Persistent increase in product prices will lead to an increase in consumer inflation, surpassing the limit set by [RBI](#), forcing it to revert to hard monetary policy.
- This will lead to increased interest rates, dampening the motivation of investors, and also putting hurdles in the path of recovery.
- Hence, there is a need to be more cautious on the price front.

2. Indian Agriculture Needs a Holistic Policy Framework, Not Pro-market Reforms

Context

The article explains the Structural Infirmities of Indian Agriculture in detail.

Introduction

- The Indian agricultural sector has faced a plethora of structural infirmities that have contributed to the continuing crisis in the sector.

- The government's recent move to introduce the farm legislation ([Farm Act, 2020](#)) shifts the focus onto issues primarily relating to the marketing of agricultural products.
- The Farm Laws seek to deregulate the agricultural markets for entry of big businesses by removing the restrictions on trading, movement, and storage of agricultural products and by promoting contract farming.
- The laws aim at making India an agricultural export hub which marks a fundamental shift in the policy orientation of the sector, as the primary driver for agriculture has always been the realization of domestic food security and supporting rural livelihood.
- The government and a section of commentators claim that the farm legislation will help realize the goal of doubling farm incomes by removing the middle person and other barriers to trade.
- Most of the critical commentary against the farm legislation has highlighted the issue of the central government encroaching upon the policymaking space of state governments.
- The criticism has also centred on the merits and demerits of allowing big businesses to engage with the individual farmers directly.

Agriculture Post Independence

- In 1950–51, agriculture's share in the country's gross domestic product (GDP) (including livestock) was 45%; the share of the workforce directly dependent on the sector was close to 70%. Seven decades later, agriculture's share in the [GDP](#) is just around 15%, but more than 42% of the country's workforce depends on this sector.
- The income–employment imbalance in agriculture can be addressed through a sustained rise in agricultural incomes and/or reduction in the share of the workforce in agriculture.
- Stagnation in agricultural productivity has not created a serious food crisis in India due to the lack of purchasing power that continues to put a squeeze on the food intake of an overwhelming share of the population.
- India faces serious headwinds in the [World Trade Organization](#), especially for its agricultural subsidies regime and also for maintaining relatively high levels of import tariffs.

Structural Constraints

- The agricultural sector never experienced a high-growth phase, unlike the non-agricultural economy.
- The highest decadal growth (compound annual growth rate or CAGR) for agriculture has been just 3.5% in the 1980s.
- The food crisis led to the central government launching the now-famous [green revolution](#) in the late 1960s that included the introduction of new farming technology through large-scale adoption of HYV of foodgrains (initially wheat) and chemical fertilizers.
- The Green Revolution was introduced to realize the objective of food self-sufficiency for the country.
- The gains from the green revolution were realized in the entire country only in the 1980s when agriculture overcame its low-growth syndrome, registering the highest decadal growth of 3.5%.

Coverage of Irrigation

- In 2015–16, 49% of the gross cropped area under principal crops was irrigated, increasing from 43% a decade earlier, thus bringing an additional 12 million hectares under irrigation.
- States like Maharashtra, Madhya Pradesh, and Karnataka were well below the national average as regards the coverage of irrigated areas under principal crops during 2015–16.
- Of the 29 states and union territories for which data were available, in 21 states, coverage of irrigated areas under principal crops was lower than the national average.
- The relatively slow spread of irrigation facilities in the country is a reflection of the inadequate infrastructure supporting agriculture.
- The irrigation irregularities can be understood from the table below.

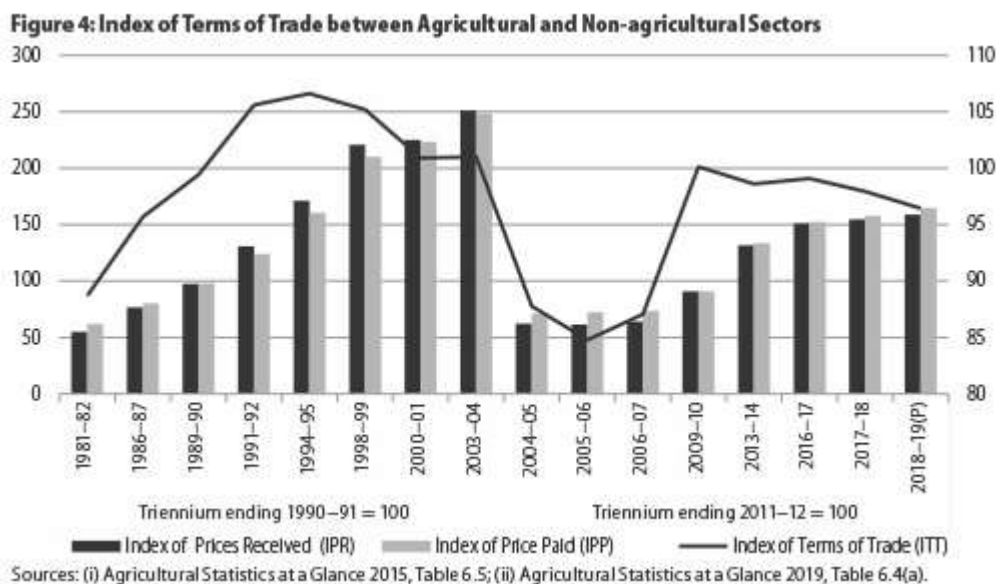
Table 1: Coverage of Irrigated Area under Principal Crops in Select States during 2015–16

State	Share of Gross Cropped Area (%)
Maharashtra	20.2
Karnataka	31.2
Telangana	41.4
Rajasthan	42.2
Madhya Pradesh	42.3
West Bengal	64.0
Bihar	69.3
Haryana	91.4
Punjab	98.6
All India average	49.0

Source: Government of India 2019, Table 13.4.

Investment in Agriculture Sector

- The ratio of agriculture's share in investment and its share in GDP shows that there has been a disproportionate fall in agricultural investment in the country since the 1980s.
- The ratio has always been less than one, which implies that agriculture is an investment-deficient sector.
- Inadequate investment, including critical infrastructure, has adversely affected agricultural productivity.
- This can be gauged from the behavior of the barter terms of trade between agricultural and non-agricultural sectors.



The Policy Challenges

- The most enduring set of policies that the government has adopted for the development of the agricultural sector since the mid-1960s have been an extensive subsidies regime.
- It was followed by the adoption of the “green revolution”.
- It emphasized the necessity of providing the farmers with a “complete package of practices” for increasing yields, including “credit, modern inputs, and price incentives” in the form of assurance of [MSP](#) by the government for the major crops.
- India maintained high levels of import tariffs, which it did to protect small farmers from import threats.
- An additional level of constraints was introduced on its agricultural subsidies after India assumed the membership of the WTO that brought with it the commitments to implement the subsidies’ discipline of the Agreement on Agriculture (AoA).
- AoA agreement stipulates that input subsidies, MSP, and a component of the expenditure incurred for operating the PDS cannot exceed 10% of India’s value of agricultural production.
- In contrast, the AoA imposes no limits on direct income transfers to farmers, the form of subsidization that the US and the [European Union](#) have adopted.
- In 2015, India was able to negotiate a temporary “peace clause” with the WTO members, whereby no member would initiate a dispute against it for violating its commitments under AoA for as long as the “peace clause” holds. Read more on the peace clause in the article [WTO Agreements](#).
- India’s subsidies regime faces two major challenges.
- Subsidies provided have been increasingly questioned in the WTO.
- A second challenge facing India’s subsidies regime has emerged from the suggestions made to the government to amend the country’s subsidies regime.
- The most significant of the above has come from the “High-Level Committee on Reorienting the Role and Restructuring of FCI.

- The committee had recommended in its report in 2015 that India should provide direct income transfers to farmers on which the AoA does not impose any limits on government spending.
- Direct income transfers have at least two implementation problems –
 - First, three types of cultivators are engaged in agriculture, namely owner cultivators, tenants/sharecroppers, and landless labour, and therefore payment of subsidies can be a vexed issue.
 - Second, given a large number of holdings (over 146 million in 2015–16), implementation of direct income transfer could be a strain on the administration.

Conclusion

- The agricultural policy in India has remained significantly centred on subsidies.
- The fundamental ills of Indian agriculture have not been adequately addressed through the various government policies to the present.
- The Indian agriculture sector needs an umbrella approach focusing on different aspects like investment, infrastructure, and subsidies.

3. Indian Democracy at Aesthetic Disadvantage

Context

The article highlights the recent patterns in political practices in Indian Democracy.

Introduction:

- People i.e. politicians who are in the business of electoral politics are expected to follow constitutional norms of civility when communicating the significance of their political position.
- Constitutionalism demands civility among political leaders, heads of institutions, and people.
- The constitutional provisions help to enter the institutions of power and people should refrain from disregarding the norm of civility.
- The electoral campaigns in Assam and West Bengal have witnessed a spate of communally divisive and morally offensive language that does not bring any decency to democratic ethos.

Do's and Don't of Democracy

- In the initial decades of the Indian democracy, there was an artistic use of language that would make the critique powerful without morally hurting the opponent.
- The institutions of moral governance are supposed to regulate and control public expressions and keep such expressions by leaders within the minimum level of decency.
- At times, these institutions delay the actions where any or some democratic ethos is challenged.
- Any attempts to use the act of ridicule that is expressed through gestural language should not deserve acceptance. Unfortunately, even such acts do not seem to get the attention of the Election Commission.
- An institution like the [Election Commission](#) should have utmost clarity and sincerity in these matters.

- Institutional failure to control language, whether verbal or gestural, leaves it to the politicians to intuitively reform themselves, which is more often than not neglected as it can lead to the loss of electoral and political support.
- Instances from recent elections show that the public as well offers considerate indulgence in such practices of the politicians.
- Also, people who use these outrageous speeches, however, do not consider them as a regrettable error.

Conclusion

- The pursuit of power in the course of democracy should be governed with constitutionalism.
- Any liberty with the integrity of democracy will cause long-term aesthetic damage to Indian Democracy.

