



Subir Gokarn: Tur travails

Three components of a structural solution to the pain caused by price spikes

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There is no better way to understand the spike in the price of tur dal than through simple supply and demand factors.

Let's look at the supply side first. There are three ways to increase the availability of tur, or, for that matter, any commodity: increase the area sown; improve productivity; and, other enhancement measures like higher shelf life and imports. On the first, the reality is that there isn't really any new land available to sow more tur. More area could only come at the expense of some other crops. That is a story in and of itself, but in this specific context, what stands out is the relative constancy of land used for tur. It stayed in a range of 3.3-3.7 million hectares between 2001-10. It rose

sharply to 4.4 million hectares in 2010-11, but has come down since. In 2013-14, it was 3.9 million hectares.

As regards productivity, the picture is again one of relative constancy. All-India yield varied between 6.5 quintals a hectare, with an occasional surge to over 8 quintals. The combined impact of relatively stable area sown and a flat trend in yield has, logically, kept total production range-bound. The previous occasion on which prices surged to over Rs 100 per kg was in 2009. There was a clear decline in production that caused the spike. Production fell from 3.1 million tonnes in 2007-08 to 2.3 million tonnes and 2.5 million tonnes in the following two years. A similar set of forces appears to be at work now.

In 2015, with the rainfall being relatively abundant during the first half of the monsoon, sowing would have been widespread. Tur is a long-cycle crop, once sown, locking in the farmer for the entire season. But, it also leaves the crop vulnerable to late-season deficiency in rainfall. The crop withers, expectations of output are scaled down and, consequently, those about prices are ratcheted up. In both 2009 and 2015, adverse short-term impacts from the monsoon pattern reinforced the long-term structural stagnation in the crop to cause a sharp drop in output (or expected output) and a sharp increase in prices.

I will come to the third set of supply side factors later. Let's look at demand conditions. The simple story is that tur is what economics textbooks refer to as a "superior" good. As incomes increase, the demand for such goods increase more than proportionately. This propellor of demand is reinforced in the Indian context by a large number of households crossing points of inflexion in their dietary patterns - basically, moving from cereal-dominated diets to increasing shares of proteins and vegetables. It is a fundamental characteristic of economic development that both nutritional standards improve and diversification is an essential part of this. So, it is very good news that more and more people are eating a greater variety of foods.

But, the agricultural supply system has to be able to respond to this increasing demand, which it is not able to do. Food inflation driven by pulses, other protein sources and vegetables, has been a persistent theme in the Indian macroeconomic policy debate. In years like 2009 and 2015, when the monsoon adds to the structural problems, spikes like the one we are seeing now are inevitable.

One important aspect of demand is the availability of substitutes. Why don't people just switch to other pulses? Chana, in particular, is more abundantly grown and, being a rabi crop, is less vulnerable to monsoon frailties. In

terms of shelf life, it is amenable to preservation in the form of besan or sattu. Unquestionably, there is some substitution going on between different pulses, but large parts of the country are predominantly tur consumers, while, in others, rising incomes create a long-term, superior-good shift towards tur.

In a nutshell, long-term supply and demand are mismatched; short-term supply disruptions exacerbate the problem, as we saw in 2009 and are seeing again this year. The core economic issues are reinforced by adverse political symbolism. Just as people reach levels of income at which they could apparently afford tur, it is being yanked beyond reach by high prices.

A long-term supply enhancement solution is imperative. There are three main components in this. First, while small quantities of imports are feasible and will provide some relief, the fact is that, unlike chana, tur is not widely cultivated globally. It would be wise to enter into long-term supply contracts with land-abundant countries - Australia, some African countries and so on - which would guarantee a year-round minimum volume. India has to start thinking globally about food security, just as it has been doing about energy.

Second, as far as domestic production is concerned, there has to be a concerted effort to break out of the flat yield trend. In the late 1980s, a technology mission for pulses was set up. During the time it was functional, overall yields did see a steady uptrend, but as soon as it was wound up, they plateaued and have remained broadly within the range indicated above. Perhaps it is time to initiate a new mission focussed on long-term improvements in productivity, which should address both efficiency in cultivation and, very importantly, ways to increase storability and shelf-life. Dehydrated, preserved tur may be preferable to no tur at all.

Third, even as these components are being put into place, advance warning of impending supply disruptions would be useful in helping the government prepare for such outcomes and avoid the consequences of spiking prices. One way of doing this is a well-functioning futures market. There has been persistent ambivalence about developing such markets for commodities like tur and other pulses, perhaps based on legitimate concerns like rigging and manipulation. But, these are outcomes of market structure and weak regulation, both of which are amenable to solutions.

There really is nothing complicated about it!

The author is director of research, Brookings India, and former deputy governor of the Reserve Bank of India. The views are his own