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UTSA PATNAIK

Destroying Public Provisioning of Food in India

The Latest Neo-Imperialist Attack Through the WTO

Using the Agreement on Agriculture

THE BACKGROUND

Very few people realize that land productivity in a tropical country like India is far higher than in advanced countries of Europe and North America that are mainly located in the cold temperate zone. Over a given production period, say one year, at least two and up to three separate crops can be produced in India (also in S. E. Asia, over most of China and in tropical regions of Africa and S. America) compared to only one crop producible over the entire year in the cold lands of advanced countries. While larger tropical developing countries in Asia can and do produce in their winter season every crop that advanced countries grow in their single summer growing season, additionally, the former produce a very large range of typically tropical crops in their monsoon season that are demanded by advanced countries but can never be produced by them at all owing to their climatic constraint. This simple but very important material reality has been deliberately and consistently obscured for centuries by the fallacious economic theories emanating from universities in the North, to the extent that even progressive developing-country scholars are totally taken in and never factor this reality into their discussions of international trade and imperialism. The most important fallacious theory is David Ricardo's theory of comparative advantage that explicitly assumed, taking two countries and two goods, that both countries could produce both goods and specialization and trade led to mutual advantage. (His implicit assumption was that all countries could produce all goods.) Ricardo's material fallacy was to make an incorrect statement of fact since both countries could not produce both goods. Cost could not even be defined for tropical goods, whose output in Europe is always zero, and therefore the inference he drew was incorrect – specialization and trade did not lead necessarily to 'mutual benefit'.

The real reason for the historic and unprecedented drive by a handful of maritime European countries to travel halfway around the globe to subjugate peoples of tropical lands was their desire to access primary goods they could never themselves produce. They could not obtain these goods through normal trade in the large volumes they desired because the populations of these highly bio-diverse countries produced everything they needed and simply had no demand for the products of relatively poorly endowed temperate lands. The solution of the foreigners from Europe was to acquire by force of arms, political control that gave them the sovereign right of collecting taxes, and in India the British used this right to convert a third or more of net tax revenues into exported goods by 'paying' the producers of these goods out of their own taxes. This abnormal use of tax revenues meant the producers were not actually paid though they appeared to be paid. Thus, surplus budgets (collecting much more in taxes than was spent domestically) were operated that had a severe *income-deflating* effect, reducing the population's consumption of basic necessities especially

foodgrains thereby releasing the land and other resources for diversion to export crops. The cropping pattern was made to change through such mechanisms of demand management resulting in a declining nutritional standard for the population. Further, we know that discriminatory policies of keeping colonial markets open to imports of their manufactures while protecting their own markets further intensified unemployment, pressure on land and loss of purchasing power.

There are two important points to note: first, while tropical and sub-tropical lands as in India are more productive, these lands are limited as to physical extent. Without adequate investment to raise land productivity further, both satisfying the insatiable demands of Europe and North America, and at the same time maintaining the domestic supply of food grains was not possible in the past and is not possible now under neo-liberal policies of cutting back public development expenditures. In history, Europeans invested little in raising yields in their colonies and did not care that, as a result, their own rising demands for the products of these lands were met only at the expense of drastically reduced consumption of the local masses. An *inverse relation* always resulted between primary sector exports and domestic availability for the local population.

Today there is no longer direct control by imperialists over the revenues of developing countries. But the neo-liberal dogmas of finance capital that are implemented by pliant governments in developing countries under pressure from advanced countries and global financial institutions, produce the same economic outcomes. They ensure mass income-deflation via reduction of development spending especially on agriculture and promote once again free trade namely primary exports without regard to the impact on domestic availability. Productivity cannot rise to the extent required when governments mindlessly cut back on outlays on irrigation, crop research and extension services as advised by global financial interests. We see an agrarian crisis not only in India but other developing countries too and as primary exports grow domestic foodgrain availability declines once more.

While output and availability of foodgrains per head in India rose during four decades of protection under the Nehruvian *dirigiste* regime, it has declined fast during the last quarter century of neo-liberal reduction in public investment and removal of protection, so that by 2011 India has sunk to a lower level of annual grain consumption per head for all uses (176 kg) than even the least developed countries (212 kg) and substantially lower than Africa (225 kg). China's grain availability per capita, always higher than India's, also declined sharply as a big shift of cropped area to raw cotton took place as part of its textile export drive – a fact not generally known outside that country but now admitted by some Chinese scholars: in short, China has not been exempt from the operation of the inverse relation.

Second, the industrially advanced countries have raised their own crop yields through technical change, but no amount of capitalist investment can alter the fact that they have a *permanently rigid output pattern*. They can only raise the yield of the small number of crops they can actually produce but cannot ever diversify their output, and this means that the permanent mismatch continues between their limited production possibilities and the demand pattern of their rich populations that have become habituated to consuming a huge range of primary goods they cannot ever produce. This is what makes agriculture quite different from any other branch of production, namely import substitution is not possible in advanced countries as regards tropical crops – and even the crops these countries can grow in summer are not producible in winter and have to be imported. In fact, the mismatch has intensified since, with cheapening of air-freighting, their demand has grown greatly for new items like fresh produce in winter resulting in an intensive drive to access the superior productive capacity of our lands by their agri-business corporations. Raw materials import is not as important as earlier but the demand of rich populations for variety in imported foodstuffs has

increased fast. On the other hand, North America and Europe have had for decades a permanent over-production of grain and dairy products relative to domestic absorption and are constantly seeking markets for their mountains of surplus produce.

It is in the economic interest of advanced countries to promote an international division of labour under which bio-diverse developing countries give up their food security concerns and buy foodgrains from the advanced countries, thus releasing their land and resources to specialize in export crops for filling their supermarket shelves with produce that advanced countries cannot grow themselves at all or not in volumes sufficient to meet their own demand. Systems of public procurement, stocking and distribution of foodgrains were set up by most developing countries after independence from colonial rule, to ensure a modicum of food security for their poor populations including protection from the wild price fluctuations that mark global markets. These systems are seen by advanced countries as a barrier to their aim of accessing developing country markets to dispose of their grain surpluses and have therefore come under continuous attack from the WTO, directly from individual advanced countries and from international financial institutions.

Under unremitting pressure many dozens of developing countries did in fact give up public procurement and stocking of food grains ranging from Philippines in 1994 to Botswana a decade later. They paid the price of becoming import dependent as advanced countries in Europe and in particular the USA diverted larger and larger volumes of grain to ethanol production in the years following the second Gulf war, causing an unprecedented spike in global grain price from end 2007 onwards. The newly food import-dependent low income countries saw increasing hunger and poverty – food riots took place in as many as 37 countries. In India too, the public procurement and distribution system while not entirely abolished, had been run down considerably and was revived only from 2008 with the global grain price shock.

INTENSIVE DRIVE TO ACQUIRE GRAIN MARKETS IN DEVELOPING COUNTRIES

The drive of industrial countries to penetrate new markets for their grain became particularly intense from the 1990s because they lost large export markets following the economic collapse of the former Soviet Union and sharp decline in its population's consumption level from 1990 to 1996. The inclusion of agriculture for the first time in international trade negotiations in the Uruguay Round and the formulation of the iniquitous Agreement on Agriculture (AoA) to which India is signatory, its implementation from 1994 after the formation of the World Trade Organization, were all part of this advanced-country drive to acquire external markets and force a pattern of international specialization beneficial for themselves.

In recent years developing countries have been battling to assert their food security concerns in international fora, where advanced countries have attacked their public grain stocking systems and the meager subsidies these entail, citing specific provisions of the WTO's Agreement on Agriculture. Very recently, in May 2018, the USA had the temerity to directly target India by complaining to the WTO that India gives market price support for rice and wheat amounting to 70 to 80 per cent of the value of rice production and over 60 per cent of the value of wheat production, violating the *de minimis* rule that such support cannot exceed 10 per cent of output value. We will take up the basis of their calculation of these absurd figures in the following sections as it is instructive, it provides an object lesson in the illogic and hypocrisy indulged in by the world capitalist leader in pursuit of its aims.

It is important to realize that the AoA was from the very beginning formulated by advanced

countries based on intellectually dishonest premises, with the sole aim of achieving their objectives, ignoring the real cost to much poorer developing countries, even while presenting a spurious and misleading façade of taking account of their problems. The term dishonest is used advisedly and the reasons are spelled out below. When developing-country officials including in India signed into the AoA neither they, nor the economists called upon to advise them, had much information or technical expertise on the actual operation of volatile global markets and the actual high level of subsidies to agriculture paid out in advanced countries. Lacking knowledge of colonial free trade, unfortunately, they were also clueless regarding the likely adverse impact on food security in their own countries.

We will take up briefly only two main aspects of the way the provisions of the Agreement on Agriculture were deliberately formulated to the sole benefit of advanced countries. The first is that mere lip service was paid to free trade and the necessity of reducing subsidies and barriers to trade in agriculture: while in reality advanced countries continued to operate the most highly subsidized state managed agricultural system in the world. The countries of the industrial North ensured that they could continue to subsidize their own crops heavily by simply defining *direct cash transfers to farmers* under many different heads, as 'non trade-distorting' and outside reduction commitments, so that they could increase such transfers at will. On the other hand *market price support* such as the system of Minimum Support Prices operated in India and other developing countries and the meager subsidies this entailed, were defined by them as 'trade distorting' and subject to reduction. Needless to say, these definitions are completely arbitrary and self serving.

It was easy for industrial countries to shift their agricultural subsidies entirely towards many different heads of cash transfers because agriculture accounts for less than 5 per cent of their workforce and contributes less than 4 per cent of GDP. The relevant ratios are even lower for the USA in particular. It is financially and administratively perfectly feasible for the US to pay out, as it does, to its few million farmers very large cash transfers, that have amounted in many years, *up to 50 per cent of the entire value of total agricultural output*, for transfers of this order are less than 2 per cent of its GDP and less than 8 per cent of its annual budget. Not surprisingly, the US claimed to have met its subsidy reduction requirement within 2 years of the formation of the WTO, for on paper it hardly had anything to reduce, having shifted its mountainous subsidies to the many categories it had already taken pains to define as non-reducible. In a paper published in 1997 articulating the threat free trade posed to India's food security, I had pointed out using OECD sources that there were as many as 46 separate heads under which the US paid agricultural subsidies and crop-specific price support was very minor, so that while US total agricultural subsidies in 1994 were $96 billion only $19 billion came under reduction commitment by one-fifth under the AoA rules; hardly $4 billion needed to be lopped off. The US and other industrial countries after such token reduction retained a dominant position in global markets.

For poor developing countries that are by definition agriculture-predominant, the matter is entirely different for they cannot implement any meaningful level of cash transfers to farmers. With agriculture employing anything from one third to two thirds of the workforce and contributing substantially to GDP, it is neither financially nor administratively feasible to operate a system of direct transfers. In India for example, there are 100 million farming households of which only the top 5 per cent is well to do. Even though the neo-liberal attack on agriculture has reduced this sector's contribution to GDP to 16 per cent today compared to 33 per cent twenty five years ago, subsidizing agriculture to the same extent – half of output value of agriculture – as the US has done in many years would mean spending 8 per cent of GDP, namely 80 per cent of the entire central government annual budget, on agricultural subsidy alone, and this is clearly impossible. Even a small order of cash transfer say 2 per cent of GDP would pose intractable problems of high distribution cost and

equity given that 100 million peasant families are involved. The European countries and Japan operate even higher subsidies than the US as proportion of their agricultural output value, all self-servingly put under the 'non-trade distorting' category.

Unlike popular perception promoted by advanced countries themselves, their production is highly inefficient and unit cost of production for all major crops is much higher than in developing countries. Their high unit cost arises from the intensive use of fossil fuels both directly and for producing inputs. Without the support of massive subsidies as cash transfers, their farmers would be completely out-competed on the global market by developing country producers. Nor can it be argued that their subsidies are to supplement incomes because Northern farmers need to be maintained at a higher standard of life for parity with their fellow citizens, compared to the lower standard prevalent in poor countries. This argument will not wash, for cost of production analyses have shown that for many crops including grain, in many years in the US, *value added is negative* namely not even their material cost plus depreciation of machinery, etc., is covered by the prevalent global price leave alone covering wages to labour or giving a net income to the farmer.

THE FIXED EXTERNAL REFERENCE PRICE ADVERSELY AFFECTS ONLY DEVELOPING COUNTRIES

The second element of dishonesty, related to the first, in the Agreement on Agriculture is the laying down of a rigid, fixed external price reference period, 1986-88, such that prices prevalent then are to be used for calculating the present extent of support a country provides to its agriculture and hence the extent of reduction required under the rules. At the time the AoA came into effect the external reference period crop prices were 6 years in the past but by now these prices are over 30 years in the past and input costs have risen at least ten-fold, yet the prices of that distant period are being applied without any adjustment for rise in costs. The difference between these three-decade old reference prices and current necessarily much higher MSP, multiplied by output 'eligible for support', is fallaciously said to be the extent of price support. The additional important and outrageous bit of trickery by the US is to take the entire annual output of wheat and rice, not the amounts actually procured, as eligible output – as though India could ever wish to or actually procure its entire gross cereal output amounting to over 253 million tons ignoring the farmers' own consumption, seed and livestock feed requirements.

As a preliminary example, let us consider the US's figures using this absurd method of calculating India's market price support for wheat. In its recent complaint to WTO against India saying it provides massive price support for grains, we can see from their calculations that have been reproduced in Table 1, that the 2013-14 MSP of wheat inclusive of bonus paid by some states (namely Rs. 1386 per quintal average) is being compared with Rs. 354, the rupee value of the 1986-88 average external reference price of wheat per quintal in dollars, converted at the exchange rate prevailing at that time (the official exchange rate averaged Rs. 12.5 per dollar). The difference between Rs. 1386 in 2013-14 and Rs. 354 in 1986-88 amounting to a huge Rs. 1032 per quintal is stated as the excess price per quintal being paid to Indian wheat farmers in 2013-14! It is as though the cost of production and exchange rates have remained static for 27 years. In reality the MSP inclusive of bonus, Rs. 1386 in 2013-14 was far too low to cover realistic costs and give a return to the farmer: witness deep farmer distress and agitations for better assured prices that continue to date. The actual global wheat price in 2013-14 was $32 per quintal or Rs. 1936 at the actual exchange rate of Rs. 60.5 per dollar (five times the 1986-88 rates), so, if anything, India's internal price was Rs. 550 per quintal lower than this current external price, namely price support was negative when calculated on a sensible basis. And that is precisely what India's correct calculation

shows – negative price support in most years (see Table 3). Similar calculation by India for Rice gives a level of positive support that is well below the 10 per cent upper limit.

The advanced countries however ignore the patent illogic of taking a three decade old 'external reference price' converted to local currencies at a three decade old exchange rate to calculate present levels of support. Representations by developing countries go unheeded that indexation is necessary given the rise in production costs plus depreciation of their currencies relative to the US dollar over the last three decades.

Two questions may arise – First, since advanced countries too have seen a rise in unit production costs over the last three decades, is it not to their disadvantage too, to insist on such a distant reference price? Second, why are advanced countries so implacably fixated on the particular dates 1986 to 1988 as the 'external reference period'? The answer to the first question we know already – the US and other industrial countries are unaffected by a distant reference year for calculating market price support, because they have negligible or no such support to calculate, having already shifted their massive and rising subsidies to the many dozens of heads of cash transfers that they have arbitrarily called non trade-distorting, have written into the AoA as non-reducible and put in the so called 'green box' and 'blue box'. Needless to say, a subsidy remains a subsidy regardless of the name or colour attributed to it.

The answer to the second question emerges from Table 2 taken from the useful 1994 book edited by Ingersen et al, that shows the astronomical rise in advanced country subsidies between 1980 and 1986 when global grain prices were falling, by around a quarter to a third for wheat and maize, and by half for rice. We need not go into the reasons for the fall but confine ourselves to noting that every industrial country made it an excuse for raising their agricultural subsidies to a much greater extent than the price fall justified.

Thus 10 states of the European Commission raised their production subsidy equivalents (PSEs) from a quarter of the value of agricultural production in 1980 to 66 per cent by 1986. Canada raised the corresponding ratio from 15 to 54 per cent, and the USA raised it to the largest extent, from 9 per cent to 45 per cent, while Japan with the heaviest initial subsidies at 77 per cent raised it to equal the entire value of its output, to 99 per cent. Since the value of production also rose in almost every country, the absolute level of subsidies rose even faster than the rise in the proportions.

It is now clear why the late 1980s were insisted on as the reference period by advanced countries, since having already reached a peak of subsidy payments they could then claim to reduce their subsidies while actually retaining high effective support levels. The advanced countries conveyed not a genuine, but only an apparent spirit of accommodation in being willing to reduce what they had pre-defined as trade-distorting subsidies by 20 per cent compared to a lower extent, 13 per cent reduction mandated for developing countries. Having raised its total subsidies by over 500 per cent over the six years ending in 1986, for the US a mere 20 per cent reduction meant nothing – further, this reduction ratio was applicable to only a small part of its total support to farmers as we have seen already.

Table 1 The United States' calculation of India's allegedly high 2013-14 market price support to Rice and Wheat taking 1984-86 reference prices and exchange rate, applied to 2013-14 total production

2013-14 MSP for Rice and Wheat in India, WTO's 'External Reference Price' prevalent in 1986-88 and USA's calculation of 'Market Price Support' in India							
RICE	MSP + Bonus Per Quintal Rs. 1	1986-88 External Reference Price per Quintal Rs. 2	Difference Per Quintal Rs. 3	'Eligible Production' Assumed Equal to Total Production million MT 4	Estimated Price Support 3 x 4 Rs. crore 5	Value of Total Production Rs. crore	Price Support as Percentage of Total Production %
TOTAL RICE	*1347.48*			159.99	178038.3	231421	**76.9**
Chhattisgarh	1610	234.67	1375.33	10.08	13863.36		
Karnataka	1600	234.67	1365.33	5.36	7318.17		
Kerala	1800	234.67	1565.33	0.77	1205.3		
Madhya Pradesh	1460	234.67	1225.33	4.26	5219.91		
Tamil Nadu	1360	234.67	1125.33	8.03	9036.4		
All other States* (no bonus)	1310	234.67	1075.33	131.49	141395.1		
TOTAL WHEAT	*1385.95*			93.51	96497.46	147795	**65.3**
Madhya Pradesh	1500	354	1146	13.13	15046.98		
Rajasthan	1500	354	1146	9.28	10634.88		
All other States	1350	354	996	71.1	70815.6		

(no bonus)

Source: WORLD TRADE ORGANIZATION, Committee on Agriculture. Dated 9 May 2018: Certain Measures of India Providing Market Price Support to Rice and Wheat: COMMUNICATION FROM THE UNITED STATES OF AMERICA PURSUANT TO ARTICLE 18.7 OF THE AGREEMENT ON AGRICULTURE

Note: The US officials submitting the above calculation for rice evidently could not multiply one number by another for they gave some wrong figures for individual states in column 5, not consistent with their figures in columns 3 and 4. The corrected figures are given above. However since the errors were small relative to total output their estimated percentage of market price support for rice, 77 per cent, remains virtually unchanged at 76.9 per cent.

Table 2 Producer Subsidy Equivalents as Percentage of Agricultural Output Value in High Income Countries

Producer Subsidy Equivalents as Percentage of Agricultural Output Value in High Income Countries

Year	United States	European Commission (10 states)	Canada	Australia	Japan
1980	9	25	15	5	71
1981	12	30	16	8	65
1982	14	42	20	15	77
1983	34	26	19	8	79
1984	21	24	25	9	81
1985	26	44	39	13	86
1986	45	66	54	19	93

Source: Ingersen, Rayner and Hine, 1994
Agriculture in the Uruguay Round

Table 3 Comparison of Indian and US Estimates of Market Support By India to Rice and Wheat

Market Support for Rice and Wheat as Percentage of Value of Production

	2010-11	2011-12	2012-13	2013-14
INDIA Estimate	%	%	%	%
RICE	7.22	7.44	7.68	5.45
WHEAT	-0.73	0.48	-2.5	-3.53
USA Estimate	%	%	%	%
RICE	74	80.1	84.2	76.9
WHEAT	60.1	60.9	68.5	65.3

Source: As Table1.

THE UNTENABLE US CLAIM ON LARGE MARKET PRICE SUPPORT BY INDIA

According to the calculations submitted in its complaint by the US to the WTO, that take four years starting 2010-11 and ending 2013-14, India's market price support for Rice has ranged between 74 to 84 per cent of the value of production and for Wheat it has ranged from 60 to 69 per cent of the value of production. According to the Indian government's own calculation, its market price support for Rice ranged from 5.5 to 7.7 per cent of the value of production while for wheat it ranged from negative values for three out of the four years and positive value only for one year at 0.48 per cent of the value of production. The contrast between the two sets of estimates could not be sharper (see Table 3).

In Table 1 we have given the detailed data from the US submission only for the last of the four years, 2013-14 in order to illustrate the logically untenable method it has employed to reach its grossly inflated estimates. One important element of the US's spurious calculation has been discussed already, namely taking the dollar price of the relevant crop that prevailed more than a quarter century ago in 1986-88 and converting it to the local currency equivalent, similarly applying the exchange rate then prevalent (column 1), then comparing and deducting this value from the current 2013-14 MSP (column 2) where the latter is necessarily a multiple of this value, since it reflects, though inadequately, the over ten-fold rise in production costs that has taken place over this long period. Further the rupee had depreciated against the dollar from Rs. 12.5 to Rs. 60.5 over

this period.

The resulting figures the US presents from its illogical exercise are in column 3 of Table 1. Note that India's actual MSP for wheat, not shown in their table, was Rs. 175 per quintal or half the external reference price during 1986-88 and for most years afterwards so that support to wheat was negative, a situation that continues up to 2014 (see Table 3). Essentially the US exercise is one located in cloud cuckoo land for it assumes no change in the unit cost of production and no change in exchange rates over the long period of the late 1980s to 2014.

The second important element of the spurious calculation by the US is to take *the entire gross output* as 'output eligible for subsidy' and multiply the figures of column 3 by this entire output amounting to 160 million ton for Rice and 95.5 million ton for wheat to reach the final figures of price support in column 5. The actual procurement in India however was less than one quarter of the tonnage applied by the US. Further, historically, even before MSPs and public procurement ever started, the marketed proportion of grain output was estimated at 35 per cent since farmers retained some part of their own output for seed, for their own consumption, for feeding livestock, and paying out meals and kind wages to hired labour. Developing country agriculture is carried out by peasants and tribal farmers, not by giant enterprises that produce grain on an industrial basis as in the US and Europe to sell all of it.

The US is disturbed by the fact that India has been exporting grain in quite large volumes in recent years. But they ignore the fact that their own relentless pressure on the Indian government exercised also through international financial institutions, to reduce public development expenditures to reach low fiscal deficit targets, has necessarily led to mass income deflation and rise in unemployment. Aggregate market demand has been squeezed owing to such fiscal contraction, to the extent that per head grain absorption by the Indian population has declined substantially. India's grain exports are coming out of more and more hungry stomachs, they are not a genuine surplus after satisfying minimum nutritional needs. Both per capita calorie intake and per capita protein intake has been falling as documented repeatedly in the National Sample Survey Reports.

The UN Food and Agriculture Organization data on annual supply and utilization of crops in every country is available for decades and the latest year is 2011 for which the data have been compiled. As regards cereals, the US absorbed 1,033 kg per capita (over one metric ton) annually, of which over 550 kg per capita was in the form of food – directly consumed, converted to livestock products by being used as feed, and processed; the balance after provision of seed being converted to ethanol. By contrast in India the per capita absorption of cereals for all uses, was only 176 kg, the lowest in the world (lower than the Least Developed Countries that posted 212 kg) and less than one-third of the per head intake of cereals directly and indirectly as food by the US citizen. The US consumption per capita of animal products is forty times the corresponding Indian figure.

It is all the more shocking that the US, the country that has the most gargantuan appetite in the world should be targeting India's public grain procurement system designed to provide basic food security to its seriously underfed population. If the WTO does give credence to the USA's dishonest calculations and claims, and rules against India, it should serve as a signal for India to quit the WTO for good. In any case, the rationale for the very existence of the WTO has diminished greatly with the unilateral protectionism that the US has initiated during the last year.