From New Delhi by Susan Maitra

The price of populism

The Rajiv Gandhi administration is embarrassed by soaring food prices—a major issue in the coming elections.

With less than three months left before the next general election, the Indian economic scene has created a good bit of concern around the country. The most immediate problem is the steep rise in basic food prices.

On Oct. 9, the governor of the Reserve Bank of India (RBI), India's central bank, announced that in view of the strong inflationary pressures in the first half of the fiscal year, the bank has advised the nationalized commercial banks to tighten up non-food credit. Gov. R.N. Malhotra was speaking to a meeting of his chief executives on the eve of the busy banking session which starts in November and continues through April.

Malhotra also pointed out that money growth in the first six months of the fiscal year 1989-90 (April-September) had been almost three times that of the previous year during the same period.

The response to the RBI's move to tighten credit was unanimous: As the major news dailies rightly pointed out, the present spurt in food prices has little to do with private-sector lending from the banks. The chief borrower from the banks, by far, is the government itself, and the latter has done very little to curb inflation.

Government deficit financing in the first six months of this year has already exceeded the amount projected in the last budget for the entire fiscal year. With the election just around the corner, it is most unlikely that an end will be brought to the government policy to hand out cash and goodies to the poor, a measure which establishes the "socialistic" credentials of the administration as well as helping to woo voters, critics say.

There are plenty of indications that it is precisely such doles to the poor that brought about the recent steep rise in prices of essential food commodities. In the first place, the prices of these basic items have all shot up, in spite of bumper crops of wheat, rice, pulses, oilseeds, and sugar cane, among others, this year.

In the case of sugar, despite a bumper harvest, the price doubled during the eight-week period from July to September, and, in spite of active efforts of the administration, has not shown any signs of coming down.

Minister of State for Food and Civil Supplies Sukh Ram, who has taken most of the flak for the price debacle, has said that bringing the prices down and stabilizing them is "one of the greatest challenges" that he has met so far in his political career. The government opted for importing sugar from abroad, with the purpose of "softening" the market, but so far there has been no tangible result.

Ruling party politicians are increasingly uneasy over the situation. N.K.P. Salve, former minister and a Congress (I) Member of Parliament, admits that "inflation will be a major election issue." Prime Minister Rajiv Gandhi has already had a series of meetings with administration officials as well as his own party bosses to discuss the matter.

According to some critics, the character of price rises this year is quite different from other years. In the 1960s and 1970s, when the Indian economy experienced high inflation, the cause was invariably failure of crops and large-scale hoarding by traders. In those days, a sudden drop in output allowed the traders to reap windfall profits by selling the commodities at a premium price.

By contrast, the present price inflation is not the end-product of a crop failure. Instead, handing out billions of dollars to the poor under various poverty alleviation schemes has created a large amount of cash which is not supported by productive assets. This cash has gone into the hands of those who earlier had little means to consume anything; their first impulse has naturally been to increase consumption of such relatively luxurious items as sugar. Neither the agricultural sector nor the import mechanism has, meanwhile, been geared up to handle this demand.

According to others, timely measures could have prevented the administration the embarrassment. Cooking oil prices, for instance, went up despite a record output of oilseeds last year. But the Union Ministry of Food and Civil Supplies reportedly did not formulate plans for support pricing correctly, and imports were drastically reduced even before the transition to the new "surplus" situation could be completed.

In the case of sugar, critics point out, faulty calculations exacerbated the problem. At the early stages of sugarcane harvesting, it was mooted that India would have surplus sugar, and as the sugar began to arrive in the market, about half a million tons were diverted for export. Later, sugar arrival in the market slowed down, and the latest estimate indicates that there will be a shortfall of about half a million tons this year after all.