

NEGATIVE SIGNALS: ON FALLING INFLATION RATES

Relevant for: Indian Economy | Topic: Issues related to direct & indirect Farm Subsidies and MSP

The days when inflation could topple governments appear to be gone. It is now time for the government to worry about falling prices, especially of food. Retail inflation dropped to a 17-month low of 2.33% in November, as compared to 3.31% in October, primarily due to the fall in the prices of various essential food items. Food prices fell by a huge 6.96 percentage points compared to a year ago and, at minus 2.61%, are now in deflationary territory for the second successive month. The fall in inflation is obviously good news for consumers, particularly those in urban India who are happy to pay less for their purchases; also for the Reserve Bank of India, which will now have more room for manoeuvre in the matter of interest rates. But it is bad news for the producers of basic food items who are located in the distress-affected rural parts of the country, with falling farm incomes also impacting landless labour and rural demand. At the heart of this problem is the unpredictability of farm prices, which are known to exhibit extreme levels of volatility owing to various supply-side issues that plague the agricultural sector. Though farmer producer companies have stepped in with help and guidance to farmers to use hedging tools to minimise price risks, they are too few and far between to make a difference. And even when their produce finally commanded impressive prices in the retail market, the cartelised agricultural marketing system has made sure that farmers received little to nothing.

Ahead of the general election next year, State governments across the country are likely to resort to short-term relief measures such as farm loan waivers to temporarily relieve farmers of their deep distress. Further, with the issue of rural distress now expected to significantly affect the general election verdict, the Bharatiya Janata Party and the Congress are already engaged in a competitive battle to offer the highest extent of loan waiver to farmers. There will also be pressure to announce higher minimum support prices for various agricultural goods. It is another matter that no government has ever had the wherewithal to deliver on such lofty promises. In fact, the poor implementation of MSPs is one of the reasons for farmers taking to the streets in protest. The Centre may prod the new RBI Governor to adopt a more dovish monetary policy stance in the run-up to the election citing falling inflation figures. But none of these measures will help farmers, who have increasingly taken the protest route of late to make their demands heard, in any meaningful manner in the long run. Real agricultural reform is crucial to enable farmers to freely make their own business decisions without the grabbing hand of the government.

Maharashtra's proposal on reservation for Marathas is bound to invite judicial scrutiny

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