## Slump in rice prices

# How has the countryside been destabilized and indebted?

By Ben Crow

Bangladesh is at a turning point, with agricultural production modestly rising to a level at which 'self sufficiency' in foodgrain production is being claimed. This turning point presents a historic opportunity to reduce poverty and accelerate growth. There is every indication that this opportunity is being allowed to slip away. Worse still, ill-advised and carelessly-implemented policies have impoverished sections of the rural poor and threatened the basis of agricultural growth.

A year ago, government policies contributed to a collapse in foodgrain prices. Foodgrain procurement was stopped precipitately, in a manner and with a timing such that the slump in prices would be maximized. In most areas, a year later, peasants are being paid paddy and rice prices lower than at any time since Independence.

This should be a time of celebration and hope. Instead for many rural households it is a time of hunger and increasing debt. This need not be. It may not be too late to change these mistakes.

In some discussions of food policy, the impression is being given that Bangladesh has reached self-sufficiency in rice production. This is misleading. What appears to have been achieved is a level of rice production roughly equal to the amount people can afford to buy. This is not the same as the level of rice production which would meet people's needs because many millions of poor people do not have enough money to buy the basic rice that they need. Half the population of Bangladesh does not have enough income to buy minimal food requirements. Some two million tons of additional grain production would be required to give these people enough to eat. Real self sufficiency in food production is a long way off.

Innovative uses of food This historic moment is important because rising agricul-

tural production has given Bangladesh some capacity to bridge the gap between the amount of food people can buy and the amount that they need Now is not the moment to discourage farmers from producing more. The opportunity to use food grains in innovative ways should besieged. Several suggestions have been made for the use of food in new ways, for example to finance an expansion of basic education, and to expand the more effective of the programs for feeding the most vulnerable. These suggestions should be examined with urgency, in order to find a way in which foodgrains can be effectively utilised without excessive waste (in either private or governmental organizations). If new ways of utilizing food more effectively cannot immediately be agreed upon, the more efficient of the older programs - Vulnerable Group Development and Food For Work - have to be expanded to increase the quantity of food being delivered from government godowns. If necessary old, inefficient food distribution programs should be revived. At the moment, 1 million

government godowns, when there are many millions of people who need that food. Distribution of cheap or free food to those without purchasing power has little impact on prices, so it would have little effect on the current price col-

Instead of seizing this opportunity, however, carelessly implemented food policy reforms have delivered a serious blow to the countryside.

Government grain procurement was suddenly stopped a year ago. It was done in a way which maximized the downward pressure on grain prices and prices fell dramatically. A year later procurement has not been re-started (though a misleading procurement price has been corruption. Here my own research may have played a small rolc. Between 1987 and 1989, research I directed in collaboration with BIDS, identified the ways in which Mill Gate Procurement gave very high returns to those millers who could participate in the scheme. Those findings were taken up by others and used as one part of a critique of procurement policy, suggesting a new round of reforms.

Open market tendering In place of Mill Gate Procurement, advisers suggested that a system of Open Market Tendering should be implemented, because it would be less expensive to implement

and appeared in principle less

the poor, there are nevertheless dangers associated with low

prices. Dangers of low prices

The first danger is that many livelthoods, including those of a proportion of the poor, are threatened. Important fractions of peasants and traders have their livelihoods threatened as prices fall and trading and processing margins are squeezed.

Some of these people are now suffering from hunger, taking out unprecedented loans and facing the loss of savings intended to buffer them from more usual crises. The second danger is longer term. Growth requires the accumulation of investable resources. In

For some peasants, on the other hand, this price slump has generated a crisis from which they will not recover. Their debts are too large and their assets too heavily mortgaged for them to gain access to the finance necessary for cultivation next year. The price slump has shifted some peasants towards dispossession. This year or next, their hold on the land will be made more tenuous and they will join the ranks of the landless. Their survival will come to depend on the availability of work, rather than the returns to cultivation.

The price slump was caused by two factors: good harvests and careless policies. It was a sad coincidence that an ill-advised sequence of policy reforms was undertaken in the year when, apparently, the market supply or rice met the limited demand for rice made available by the small buying power of the population. The sequence of careless

policy reform starts some years ago. Advisers to the government suggested about five years ago that the system of Modified Rationing supplying subsidized foodgrain to poor people in rural areas should be reformed because much of the foodgrain was diverted and did not reach those for whom it was intended. This reform was taken up in the heat of the Ershad regime's move for popular support, and the new system, Rural Rationing, was used as an opportunity to supply favours and build political support. A new round of research, two years ago, found that Rural Rationing was more leaky than its predecessors. In response, the government suspended Rural Rationing in December 1991. Since Rural Rationing distributed the largest volume of food from government godowns (500,000 tons per year), the suspension of its distribution set a time bomb ticking under the government

food system. Whilst the time bomb was ticking, a new set of reforms was proposed, this time to the system by which government had procured rice and paddy. Back in the mid-1970s, government procurement had been strengthened as a way of securing high and stable prices for cultivation. During the Ziaur Rahman regime this system had worked moderately well, but corruption and expense had led to the introduction of a more efficient scheme, Mill Gate Procurement, in the early years of Ershad. Now, in 1991-2 this scheme was under criticism for

traders making excess profits. The ability of government to implement this open market tendering, and its consequences for the concentration of trade, do not seem to have been seriously evaluated, and traders' report new forms of corruption associated with the trial of this new system. Nevertheless, it may have advantages. Whilst this new system was under experi-

ment, the time bomb went off.

Just as boro procurement for

1992 was underway, and traders had been encouraged to build stocks by the announcement of a higher procurement price, all procurement was suspended as government found it had run out of storage capacity. The cessation of Rural Rationing had created a food system with an outflow too small for its inflow. Procurement was stopped, and apart from the procurement of a small volume of the aman crop, it has not yet been re-started. Two rounds of price slump followed, the first triggered by the announcement, and the second occurring as millers and wholesalers tried to offload their stocks. A year later, prices are at a level not seen for many years and the seasonal pattern of paddy and rice prices has not been reestablished. Within the last few days, newspapers have reported paddy prices of between Tk 90 and Tk 150 from all around the country, with the lowest prices in Dinajpur. This, at a time when the prices of other goods, including fish and meat, are

The events of 1974 have made subsequent governments of Bangladesh rightly cautious of the dangers of high and rapidly rising rice prices. Rising prices are carefully monitored. There is no comparable fear of low and rapidly falling prices.

Indeed some advisers to the government argue that low prices are an unmitigated benefit. It is certainly true that low rice prices are an immediate and destrable benefit to most of

announced) and prices have not open to millers and other big Bangladesh, most of that accumulation occurs in agriculture because the industrial sector is still small. Low paddy prices reduce the rate to accumulation and threaten future production, particularly growth of agricultural production. To make a quick assessment

of the consequences of the price collapse, I visited two rural areas where I had studied grain markets previously. One is in the heart of the rapidly growing. surplus-producing area of the North West. The other is a lowlying area with high levels of tenancy and negligible growth in production. In both areas, I asked a range of previouslyquestioned households about their costs of production in the last season, sales and purchases of grain, labor selling and labor hiring, and their consumption, savings and loans. asked them to compare their experience this year with that of last year, and to talk about their intentions and expecta tions for the coming season.

What I found was that for the majority of peasants, cash costs of production were higher than the value of their output. For those who are sharecropping or renting land, in Bogra, the cash value of their output is only 80% of the cash costs of their production. Paddy produced by these households cost Tk 172/md, whereas the current market price (now lower than when they made sales) is only Tk 120/md. The position in Noakhali is slightly better with most households covering their cash costs of cultivation. Agricultural work carried out with family labour, and other non-monetized costs are not included in this calculation.

The middle peasants will be the hardest hit by the price collapse, because they sell some of their output but buy little grain. Poor peasants, who buy most of their grain, will get the benefit of lower rice prices. Rich peasants have savings which will carry them through. Nevertheless, for all cultivators, this

price collapse is a frustrating outcome. Months of labor in the fields are rewarded with a loss of savings or an increase in debt and reduced ability to buy food and other basic needs. The loss in price of grain sales is exacerbated by an increase in the price of fish and meat. Most of the households I talked to. particularly amongst poor peasants, reported that they are eating less fish and meat than they did last year, and most report that they have

reduced their savings. It is not just cultivators who are suffering as a result of the price collapse. Returns to landlords will also have fallen. That is desirable. But, in addition a large number of poor people depend upon seasonal trade for their livelihoods during the lean seasons. The largest proportion of these households buy and sell paddy and rice, and process paddy into rice. These legions of bharkiwalas, kutials, cycle beparis and becha bara, not to speak of the smaller mills and chatals, are now unemployed or running at a loss.

in Noakhali, a household processor of paddy into rice, who's business is running at a loss, told us he had not experienced conditions like this in last 10 yrs. On the benefits of cheap rice for those who buy rice, he said, 'even if the price of rice goes down to Tk 2, what's the use, if there's no work and people have no money?

Those who urge that this price slump benefits the poor, have to show that changes in rural wage and employment levels do not reverse the benefits. We also need to know about the longer term consequences through the investment decisions of all rural entrepreneurs, most notably the peasants.

Good and bad news on wages and employment On the question of wages and employment, the good news

last year. The Agricultural Workers Association reports that employment levels are reduced all over the country. They also report that wage levels are fulling in some areas.

Lower prices and reduced returns to agriculture will depress all kinds of economic activity in the countryside, in addition to agriculture. Work in brickfields, on house building and in all kinds of petty trade and processing is cut back because farmers have less to spend this

The second question concerns the effect of the price slump on future agricultural investment. Here too, there is some good and some bad news. The good news is that peasants do not respond instantly to reduced returns to their production. When asked if they would invest as much in next season's production as they did in the same season last year, those peasants who are not completely without savings or acceas to credit say they have little option but to buy fertilizer and water at the same levels. They are trapped on the land because industrial development has not yet provided secure alternative employment opportunities. Those who have land, and can obtain the finance necessary to cultivate it, will do so.

For some peasants, on the other hand, this price slump has generated a crisis from which they will not recover. Their debts are too large and their assets too heavily mortgaged for them to gain access to the finance necessary for cultivation next year. The price

slump has shifted some peasants towards dispossession This year or next, their hold on the land will be made more tenuous and they will join the ranks of the landless. Their survival will come to depend on the availability of work, rather

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more. New crops also require infrastructure. Apart from new processing facilities (cold stores and mills) and new research capacities, new input delivery arrangements and new marketing and transport arrangements are needed. Some work is being carried out in some of these areas, but the idea that peasants can make an instant transition to new crops is very misleading. And, a third lesson from the Green Revolution, is that government support for producer prices, and frequently subsidy to input prices, were also required. The idea that the market will provide all the conditions for agricultural diversification and growth is not supported by historical experience. The Green Revolution throughout Asia was promoted by government support. There is little reason to suppose that diversification to new crops will not require similar kinds of sup-

ism the over-simple view that markets are the source of all that is good in economic activity and governments the origin of all evil. Nevertheless, some advisers to the government of Bangladesh are still promoting the idea that within the not-toodistant future, public involvement in the foodgrain markets of Bangladesh will disappear. except perhaps for a role in mitigation of calamitous emergencies. There is little historical evidence to support the idea that agricultural development can be effectively coordinated solely through the actions of private traders. Adam Smith's invisible hand has worked best when there has been a visible elbow from government to keep it in line, virtually all industrial ized countries, and the successful developing countries of Asia have used and continue to use

growth. The vulnerability of

Bangladesh to a wide range of

natural disasters makes the ar-

gument for government inter-

vention all the more pressing in

What can be done?

paddy and rice needs to be re-

started, but not until the aman

harvest is available. If procure-

ment is restarted in this season

while the aman crop is being

planted, there is a good chance,

particularly if flood waters rise

high in August and September,

of giving excess profits to those

large millers and wholesalers

who are beginning to build

stocks in anticipation of a lean

season price rise. Procurement

tunity to use the large stocks of

grain in government godowns

Government procurement of

the case of Bangladesh.

Development ideas are

emerging from a period domi-

nated by market fundamental-

for the expansion of existing food distribution programmes and experiment with new ones. If the more efficient existing programs cannot be expanded. some modestly improved form of Rural Rationing should be reinstituted. The suspension of Rural Rationing was, in the absence of the capacity to implement new programs, a serious mistake. The wastage of food grain leaking from that system was a minor loss compared to the widespread privation and insecurity caused by the price slump which has resulted from the decision to suspend Rural

A long-standing discussion around input subsidy is being revitalized by this price slump. Thoughtful academics are arguing that farmers should be compensated for their losses this year, and their future investment encouraged, by the reintroduction of government subsidy to fertiliser and water costs. It is the case that input subsidies are likely to benefit rich and poor peasants more equally than support of output prices through procurement.

This question needs careful evaluation. If issues of implementation cost and technological flexibility can be resolved, it is possible that input subsidies would be an equitable addition to government agricultural policies.

This government, like that of Ziaur Rahman on whose traditions it draws, has shown interest in the use of food for develapment construction. There has never been a better time for the expansion of that activity. There is an urgent need to start new programs to disburse food to the poor, and an opportunity to use that disbursement for the creation of capital goods (roads embankments, drainage and irrigation canals) and human capital (education). The capacity to design and manage maintenance and construction works is scarce. But there are at least two sources of additional managerial and design skill which could be drawn upon. Selfmanaged groups of poor women in the Rural Maintenance program have reportedly been successful at using funds efficiently, and the considerable growth of skills, commitment and creativity in Non-Government Organisations provides another potential source of efficient managerial capacity, with which government can be assisted.

Uncoordinated implementation of reform, informed by overly abstract advice, can lead to disastrous policies. Food should not be rotting in government godowns. Agricultural investment should not be threatened by exaggerated price variations.

(The author is attached to Food Research Institute. Stanford University, USA. Earlier, he worked for the Open University of UK from 1980 to 1992. During this period he visited Bangladesh several times and did research on our grain market under UK ODA grant. He is currently visiting Bangladesh to finish his book on our "Grain Market".)

the idea that within the not-too-distant future, public involvement in the foodgrain markets of Bangladesh will disappear, except perhaps for a role in mitigation of calamitous emergencies. There is little historical evidence to support the idea that agricultural development can be effectively coordinated solely through the actions of private traders. government support to agricul than the returns to cultivation. is that wage levels, in Bogra and ture to regulate agricultural

Noakhali, have not yet been reduced in response to prices. This means that the labouring poor - poor peasant and landless households — may be able to buy more rice for the datlywage they receive. If prices remain low, those peasants who predominantly hire labour will seek to reduce wage levels. However, the bad news was told to me by poor and landless peasants who said that rich peasants, and other employers, are taking a second route to reduce their costs. Already, they are simply hiring less labour and, in some cases, using family members to a greater extent. This suggests that wage levels may be slow to respond to prices but aggregate employment may be more easily reduced. In both Bogra and Noakhali, poor and landless peasants complained that there was less employment available this year than at the same time

'Market fundamentalism

Additional bad news comes from the prospects for agricultural diversification. Some of the government's advisers term the current price slump a 'temporary adjustment' to the achievement of self-sufficiency.

They imagine that low rice prices will rapidly lead peasants to switch from paddy cultivation to the cultivation of crops with greater returns, such as potatoes, wheat and sugar. This is most unrealistic. The experience of the Green Revolution in rice and wheat production suggests that many factors are required before peasant farmers can embark on the production of new crops on a large scale. New crops require new skills, which cannot be acquired overnight. For wheat and rice, this skill acquisition occurred over a period of a decade or

should start immediately after the aman harvest. Till then, there is an oppor-

Ratification remains uncertain

### Britain's Maastricht bill becomes law

LONDON, July 21: Britain's Maastricht bill theoretically became law late Tuesday, after passing its third reading in the House of Lords and achieving roval assent, but ratification of the treaty remained uncertain, reports AFP.

Royal assent was announced to cheers in the Lords minutes after Peers voted by 141 to 29 - a government majority of 112

- that "this bill do now pass." Prime Minister John Major, however, still has severe hurdles to overcome before the European Communities (amendment) bill can come into force, allowing him to ratify the Maastricht Treaty on closer

European Union. As a result of a labour amendment previously conceded by minister, the bill now requires a vote on the controversial social chapter - which sets Europe-wide work roles. This is being held on Thursday

in both houses. Major argues that since the government agreed last winter to a separate debate on the social chapter - in the hope that Tory rebels would not support

Labour - the bill would become law by achieving royal assent. But opponents of the treaty contend that the bill cannot become law until debate on the

social chapter is finished. A second obstacle to the ratification process appeared Monday when the high court greed to hear arguments by Lord Rees-Mogg, a Maastricht opponent and former Times

Editor, challenging the legality of the government's ratification

methods. Even if Major wins Thursday's debate, the government will have to wait for the outcome of the judicial review, as it has pledged not to ratify the treaty until after final determination of court proceed-

#### British bank slammed for keeping political data on clients

LONDON, July 21 Consumer groups and parliamentarians have strongly criticised a bank which admitted to keeping records of its clients political affiliations, reports

The National Westminster Bank admitted that such were records were kept, but defended the policy by saying it was "another piece of information that may be useful when having

a conversation with a customer. "We do not try and get the information out of them as a matter of course. Whatever their affiliation may be, it does not affect our banking relationship,"

said a spokesman Sunday. The consumer organisation the Bank Action Group said the revelation about Natwest, which has 6.5 million customers, indicated a "big brother" policy by the bank.

## Seoul may resume inter-Korean economic exchanges

SEOUL, July 21: Encouraged by North Korea's compromise to ease confrontation over its nuclear programme South Korean said Wednesday it will consider resuming inter-Korean economic exchanges, reports

tons of foodgrain is rotting in

South Korea's Unification Minister, Han Wan-sang, said Southern businessmen could visit Pyongyang if the Communist North opens its suspected nuclear sites to international inspections.

In a compromise reached Monday in talks with US officials in Geneva, North Korea promised to begin consultations with the International Atomic Energy Agency on inspections of two buildings believed to house nuclear waste. The North's resistance to inspections had reinforeed suspicions that it was developing nuclear weapons,

despite its denials. South Korea welcomed the agreement as a step toward re-

ducing tensions. "Full-scale inter-Korean economic cooperation can begin if North Korea moves further to allow inter-Korean nuclear inspections," Han told a seminar on the southern resort island of

Han held out the possibility that North Korea could receive economic assistance from South Korea, which has raised a 125 million other fund to boost inter-Koran economic coopera-

Talks on inter-Korean pilot

projects began in 1989, but no

progress had been made because of disputes over the North's nuclear programme. South Korea banned direct

inter-Korean economic ex-

changes earlier this year when North Korea threatened to pull out of the Nuclear Non-Proliferation Treaty. The North backed away from

the threat after talks last month in New York. But South Korea refused to lift the ban, urging its northern rival to allow inspections. During a short-lived reconciliation period last year, major

ted out investment plans to combine their technology with a cheap labor pool in North Officials at South Korca's two leading conglomerates,

South Korean companies char-

Daewoo and Samsung, said they are ready to open contacts with North Korea on joint business projects.

South Koreans are barred from contacting North Korea

without approval. In the first half of this year, inter-Korean trade, all through third parties, amounted to 89.5 million dollar down 17.7 per cent from January-June last

Meanwhile, South Korean officials said Foreign Minister Han Sung-joo planned to meet US Secretary of State Warren Christopher next week to coordinate initiatives on resolving

North Korean nuclear issues. On Monday, North Korea and the United States, which

have no diplomatic relations, agreed to meet again in about two months. North Korea also promised to reopen dialogue on casing tensions with pro-West

South Korea. A South Korean spokesman, declining to be identified in keeping with official practice, said Han and Christopher had spoken by telephone about the results of the US North Korean

Further consultations will occur in Singapore, when the two meet during the Association of Southeast Asian Nations conference, he added.

#### Riyadh likely to raise oil production

DUBAI, July 21: Saudi Arabia, already the world's largest oil exporter, is speeding up plans to increase oil pro-barrels per day (BPD) by the end of next year, a leading Saudi-based economist said, reports Reuter.

Saudi Aramco (the country's giant of conglomerate is planning to increase production capacity from 9.15 million BPD in 1992 to 10 million BPD by the end of 1994, about a year sooner than originally targeted," said Henry Azzam, chief economist at the Jeddah-based national commercial bank.



State Minister for Textile, Maj(retd) Abdul Mannan addressing a meeting of the newly elected BGMEA executive committee members yesterday. Redwan Ahmed MP, President of BGMEA is seen on his left.

# India permits more private banks

bastion of the socialist econ-

BOMBAY, July 21: Nearly a quarter century after nationalising its major banks, India is throwing open the sector to competition in an attempt to stimulate growth following economic liberalisation, reports

Chakravarty Rangarajan, Governor of the Reserve Bank of India (RBI) - India's central bank — said in an interview that India was permitting privately-owned domestic banks to set up in order to build up a strong financial system.

"Requests have come in from public limited companies. trusts, firms and professionals. These are under examination," Rangarajan said.

The policy of opening up the banking sector dismantles a

omy, which under a programme of reforms launched in 1991 is finally being liberalised after 45 years of strict controls. Under the reforms, licensing

has been lifted in most industries, the rupee has been floated and majority foreign equity in Indian ventures is permitted. Financial sector reforms in-

clude the strengthening of regulations to prevent the lapses which led to the sustaining of huge losses by leading Indian and international banks, the analysts said. Now the government has

turned its attention on the banking sector, which came under sharp scrutiny when the country's worst financial scandal crupted last year.

with bankers to siphon off huge amounts of funds to invest in the booming stock market. The financial sector reforms

Stock brokers had colluded

include strengthening of prudential regulations in areas in which lapses led to the sustaining of huge losses by some leading Indian and international banks, the analysts said. AFP adds from New Delhi:

The Indian government Tuesday cleared 17 foreign investment projects worth a total of 23 million dollar in line with ongoing reforms to open its domestic market to the world, officials said.

Five of the projects are in the computer software development sector, a finance ministry spokesman said.