

Making rice production profitable makes good economic sense

The most dramatic case is probably that of Japan, whose rice consumption per capita has fallen from 140 kg to 70 kg since World War II. If this is any indicator for the future of Bangladesh, then rather than being food deficit, there is good reason to think of Bangladesh continuing as a food exporter into the future, observes **Salim Rashid** concluding his two-part write-up on 'Food policy, Rice Exports and Full Information'

If rice becomes scarce domestically, the domestic price will rise and automatically make export less profitable. The government of Bangladesh (GoB) can smooth this process by holding stocks of rice, much as it does now, but with a somewhat different goal in mind. Both food security and foreign exchange are gained through this change of direction.

Let us turn to the background of the crisis of January-March of 2008. From 1998 onwards Bangladesh has been practically self-sufficient in food grains. In 1999 Bangladesh attained self-sufficiency in circumstances which need elucidation. The prices of inputs and outputs were similar across neighbours - so smuggling was no attraction. Input management was effective in the forecast of requirements; government monitoring of the private sector was strong and timely. Private import of inputs was liberalised and privately done, but directed by GoB as needed. Free but regulated markets worked. In 2009, TSP and MOP prices rocketed from Taka 13 to Taka 90. The GoB needs to mediate such price shocks in the short run. In the medium term, such increases, if they meet world prices, are to be permitted to work their way through the market system.

The quantitative importance of the subsidies can be understood if we total the subsidies for fertilisers and for grains over the 2007 and 2008. This total comes to about 2.0-3.0 per cent of gross domestic product (GDP). If the GoB only accepts the responsibility of mediating price shocks and not bearing the burden of removing all

shocks, the people will rapidly get more used to the risks of a market economy, and develop both habits and institutions to meet the new circumstances.

When price shocks come, this is now a transfer between the rural and urban populations. Since at least 60 per cent of the people of Bangladesh live dependent on their land, why is it bad that their incomes increase?

Since I am suggesting that Bangladesh rice prices become comparable to the world price, this point is important for policy purposes. Suppose a significant increase in rice price occurs. All growers will benefit unless markets get monopolised, so the free market in rice will need to be accompanied by some measures, such as loans at the minimal rate of interest to all entrants to the rice wholesale market. If monopoly profits are being earned, this will attract many new entrants, and all the GoB has to do is to ensure that such entry is painless and secure. As more wholesalers, or arohdars, enter, the price earned by the grower must rise.

When rice becomes profitable, agricultural land values will rise. This will have two desirable effects. First, those urban households who have treated their village homes with benign neglect will now start looking after their ancestral property more carefully; perhaps they will even visit the village regularly. Secondly, the higher rice price will make people think twice before they start building new homesteads on profitable agricultural land. Soon there will be an automatic pressure to build upwards to save land and to cluster to

gain amenities. The landlords gain through higher land values, the farmers gain from higher prices; overall the impact on the rural areas is positive.

In urban areas the impact is more nuanced. As there is a significant, but unknown, number who obtain their rice from the village home, we should ignore this group from the analysis. As the data is not available, let us say that it refers to only 10 per cent of the urban population. Of the remaining 90 per cent are too rich to care. When the price of rice goes up, the wages of workers will soon follow suit. There will be some hardship until wages catch up, and this may take several months. So there is transitional pain for say 50 per cent of city dwellers.

More carefully stated, this applies only to those in the cities such as Dhaka and Chittagong, or to the larger mofussil towns. Those in small mofussil towns are still sufficiently close to their villages to get rice directly. So those who will have to bear the brunt of higher rice prices are basically the fixed income middle class. A crude estimate of their numbers comes from noting that the urban population of Bangladesh is about 30 per cent of the total and the middle class is no more than 20 per cent of the urban population, making the affected group about 6.0 per cent of the total population of Bangladesh. However, this group comprises a very vocal and articulate political class. Nonetheless, one has to ask if beneficial economic measures should be held up because of the hardship of 6.0 per cent.

Even as it attained self-sufficiency

in rice production in the 1990's, Bangladesh was gradually pushed into a form of marginal dependency. International organisations put pressure on Bangladesh to accept the presumed comparative advantage of India and importing a small part of the total yearly supply, primarily from India. Suddenly, India decided in 2008 that it no longer wanted to be part of this system and raised its export price to a prohibitive level. Till this point Bangladesh prices followed world prices, which makes economic sense if Bangladesh wants to participate in world trade. Thailand followed by raising its export price soon after. India's decision was motivated by an increase of less than 10 per cent in its rice price.

With India's sudden decision, market integration was disrupted and buyers started acting out of fear. The clear message from the spring of 2008 was that no government will risk the wrath of domestic consumers and allow the domestic price to rise to politically unpalatable levels. What makes this episode especially significant is that the decision to halt rice export was made on political grounds, so there can be no dependable economic calculation that international buyers of rice can rely on.

If the people were given accurate and credible figures, very little 'panic' may have happened. But in the confusion caused by multiple statements of the then caretaker government (CTG), ordinary people hoarded, say, an extra month's supply. Aggregated over millions of households, this created a burden too great for the market to bear

without high prices. The CTG made a partial response through opening stalls. If 20 million families keep an extra 100 lbs. each, or 1/20 ton, then the total withheld comes to 1,000,000 tons - enough to make it look like a real scarcity. The CTG simply kept reiterating that there was no need to worry; what it should have done instead was to provide a synopsis of Bangladesh food policy, an analysis of price movements and a clear accounting of the reasons why supply was sufficient.

Equally importantly, it should have provided all this information in publicly verifiable form. In the absence of such publicly verifiable evidence, many households engaged in 'precautionary' behaviour. The problem with households acting as holders of buffer stocks is that households act not so much out of greed as out of fear.

While a profit-maximising arohdar can be persuaded easily to dispose stocks when faced with accurate figures of supply, a household will continue to hoard out of fear. The role of the policymaker is to build up its credibility in good times so that the people will believe its pronouncements and not let a rumour turn into a panic. The amounts that can be held in homes far exceed what can be stored.

The policies and programmes, suggested above, are not to be seen in isolation. Of course, all the other measures, considered part of good economic policy, will continue in parallel. For example, measures to stop the current loss of agricultural land - considered to be almost 1.0 per cent per year - will be taken, as will continuing popu-

lation programmes. But it is important to emphasise just how much these measures add to the effectiveness of the production possibilities stated above.

Let us suppose that economic growth continues, as does population growth. Some may wonder if richer populations will not demand more rice and this additional demand will require even more production. However, in the case of the qualities of rice being considered, the facts go the other way. It is well-known that richer populations diversify their foods and lessen their consumption of cereals. This has been a worldwide pattern and there is no reason to expect it not to hold in Bangladesh.

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This is an adapted version of a presentation made by Professor Salim Rashid at the first conference of Bangladesh Economists' Forum, held in Dhaka on June 21 and 22, 2014. The writer mentions that this presentation is an expanded and revised version of a paper, originally published in The Financial Express, Dhaka, in 2009. He wrote the original article jointly with Prof. Zohrul Karim, ex-Secretary, government of Bangladesh and Director General, BARC.