

Agricultural Price Policy in India- A Study

B. Sailakshmi, M.A., M.Ed., NET,
Assistant Professor of Economics,
CSSR & SRRM Degree and P.G. College,
Accredited with NAAC B++

Kamalapuram-516 289, Kadapa Dist. Andhra Pradesh

Abstract: Prices of agricultural commodities have increased more or less continuously over the planning period. The only exception is the period of the First Plan when prices actually fell. Prices of the agricultural crops have shown a rising trend and have contributed their mite in further pushing up the index of agricultural prices. The agricultural price policy of the government should serve a dual purpose not allowing the prices to rise inordinately and not allowing them to fall below a certain minimum level. The agricultural price policy in a developing country must have to protect or insure the producer through guaranteed minimum supporting price. Announcing procurement prices has become one of the primary tools of intervention in agriculture while other crucial issues like fall in capital formation in agriculture, developing irrigation facilities, need for changing land holding patterns etc., ignored.

Key words: Agriculture, Price Policy, Procurement, Developing countries

I. INTRODUCTION

Pricing policy plays a pioneer role in the economic development of a country. It is an important instrument or providing incentives to farmers for motivating them to go in for production oriented investment and technology. In a developing country like India where majority of the population devotes 2/3 of its expenditure on food alone and where majority of the population is engaged in agricultural sector, prices affect both income and consumption of the cultivators. The key to economic development in developing countries lies in increasing agricultural productivity without an increase in agricultural productivity, it good not be possible to achieve industrial development and once achieved, to maintain it at a high-level. How unfavorably the developing countries compare with developed countries. In this regard would be clear from the fact that the per capital agricultural production in developed countries stood at \$680 in 1960 why for developing countries, it was a mere \$52. In other words, agricultural labour productivity in developed countries was more than 13 times that in the less developed countries. The productivity gap has widened considerable over the years. In 2009, agricultural productivity was as high as \$25, 066 in high income economies whereas it was only R\$777 in middle income economic and just \$278 in low income economies. Thus, agricultural productivity in high income economies was 32 times more than in middle income economies and 90 times more than in low income economies in 2009. This at one shows the highly unsatisfactory state of agricultural in developing countries and the possibilities of development that exit in these countries. The two fields in which efforts have been directed are the technological field and the institutional field.

Prices of agricultural commodities have increased more or less continuously over the planning period. The only exception is the period of the First Plan when prices actually fell. We have so far six series of index umbers of wholesale prices – The first has the base 1952-53 =100, the second has the base 1961-62=100, the third has the base 1970-71=100, the forth has the base 1981-82=100, the fifth has the base 1993-94=100 and the sixth has the base 2004-05=100.

A study of agricultural prices over the period 1955-56 to 2014-15 shows that expecting five years 1961-62, 1968-69, 1975-76, 1978-79 and 1985-86 prices in each year have been higher than immediately preceding year because these are the only five years registering a negative percentage change in prices. These trends indicate that there has been a steep rise in the prices of agricultural commodities over the planning period. This has had many adverse effects. Because of the heavy weightage of agricultural commodities in the overall index of wholesale prices in India, this trend of rising prices of agricultural commodities has contributed considerably to overall increase in prices over than decades they rising spiral of prices has spelt misery to the poorer sections of the population whose purchasing capacity has suffered substantial erosion. Prices of most of agricultural crops have shown a rising trend and have contributed there mite in further pushing up the index of agricultural prices. Moreover, there have been wild fluctuations from year to year in the prices of different agricultural commodities. This causes uncertainty in stability in the markets reading to speculative to activates.

Many economists use data on the comparative of the Wholesale Price Index of Agricultural Sector over the manufacturing center as indicative of the terms of trade between this sectors. During the period 1963-1964 to 1970-1971 prices of agricultural commodities as percent of prices of manufacturers for consistently more than 100 implying that during this period, the terms of trade mod in favor of agricultural and against industry. During the period 1971-72 to 1981-82, on the other hand, prices of agricultural commodities as percent of prices of manufactures for consistently less than 100 indicating that the terms of trade mood against agriculture in favor of industry during this period. This shows that the terms of trade have consistently been in favor of agriculture since early 1980's it has been argued that the reduction in the protection to the manufacturing sector in the post- economic reform period in recent years, lifting some of the restrictions, agricultural trades etc., have created conditions to bring about a more favorable trade regime for agricultural products.

II. OBJECTIVES OF AGRICULTURAL POLICY

The objectives of agricultural price policy vary from country to country depending upon the place of agriculture in national economy. Generally, in developed countries, the major objective of price policy is to prevent drastic fall in agricultural income while in developing economies it is to increase the agricultural production. The main objective of the price policy in India was to protect the interests of consumers. In this policy no attention was paid to provide incentive price to farmers. It was only in 1964, a clear-cut policy was introduced for providing incentive price to farmers.

III. NEED OF AGRICULTURAL PRICE POLICY

Violent fluctuations in agricultural prices have many harmful results. For instance, a steep decline in the price of particular crop in few years can inflict heavy losses on the growers of that crop. This will not only reduce the income but also dampen the spirit to cultivate the same crop in the coming year. If this happens to be a staple food item of the people, supply will remain below the demand. This will force the Govt. to fill the gap by restoring imports (in case of no buffer stock). If, on the other hand, prices of a particular crop increase rapidly in the particular periods, then the consumer will definitely suffer. In case, the prices continuously increase for the particular crop, this can have disastrous on all sectors of the economy.

IV. NATIONAL AGRICULTURAL PRICE POLICY -2000

On the 28th July, the NDA Government made public a National Agricultural policy, targeting over four percent growth through efficient use of resources and technology and prices protection to farmers.

Objectives of New Agricultural policy

The National Agricultural policy aimed at the following objectives:

- ❖ Rate of Growth: A growth rate of 4 percent per annum in the agricultural sector was to be achieved by 2005.
- ❖ Efficient Growth: The objective of the policy is to attain growth that is based on efficient use of resources and conserve soil, water and bio-diversity.
- ❖ Growth with equity: The policy aimed to achieve growth with equity i.e., growth which is widespread across regions and farmers.
- ❖ Demand Driven Growth: The objective of the policy is to achieve growth is demand driven and caters to domestic markets and maximize benefits from exports of agricultural products. Agricultural sector is to be placed on sound footings to face the challenges from economic liberalization and globalization.
- ❖ Sustainable Growth: The policy will seek to promote technically sound, economically viable, environmentally non-degrading and socially acceptable use of country's natural resources to promote sustainable agriculture.

Measures of New Agricultural Policy

New Agricultural policy consists of following measures:

1. Strategy for Sustainable Agriculture. The following measures are suggested to achieve the objective of sustainable agriculture:

- To control indiscriminate division of agricultural lands for non-agricultural use.
- To use unutilized wasteland for agriculture and forestation.
- To increase cropping intensity through multi-cropping and inter-cropping.
- To implement a long-term plan for rain fed agriculture through watershed approach. For development of two – thirds of India's cropped area which is dependent on rain.
- To make economic and efficient use of surface and ground water.
- Involvement of farmers and landless laborers in the development of pastures and forestry programmes on public wasteland. They will be given financial incentives and entitlement of trees and pastures.

2. Strategy for food and Nutritional security. The strategy for food and Nutritional security consists of the following measures:

- Efforts will be made to raise productivity and production of crops.
- New crop varieties, food crops particularly with high nutrition value.
- Horticulture, floriculture and roots, plantation will be encouraged.
- Development of animal husbandry, poultry and dairying will receive high priority.
- Cultivation of fodder trees and fodder crops will be encouraged.
- The involvement of co-operatives and private sector will be encouraged for the development of animal husbandry, poultry, and dairy.

3. Strategy for Generation and Transfer of Technology. The government will adopt following strategy for the generation and transfer of technology:

- Application of bio technology, pre and post harvest technologies, energy saving technologies and technology for environmental protection will be encouraged.
- Financial sustainability of extension services will be maintained.
- Measures will be taken to empower women and build their capabilities and improve their access to inputs, technology and other farming resources.

4. Strategy for Incentives for Agriculture. The following strategy will be adopted to provide incentives to agriculture:

- The terms of trade for agriculture with manufacturing sector will be improved.
- To consequent upon removal of quantities restriction on imports as per WTO Agreement on Agriculture, the interests of the farmers should be safeguarded.
- Continuous monitoring of international prices will be undertaken and adequate tariff protection will be provided.
- Structure of taxes on agricultural products will be rationalized.
- Excise duty in farm machinery and implements, fertilizers etc., will be reviewed.

5. Strategy for Investment in Agriculture. The strategy for promoting investment in agriculture sector will consist of the following:

- Public investment for narrowing regional imbalances and accelerating development infrastructure will be stepped up.
- Private sector investment in areas like agriculture research, human resource development, post harvest management and marketing will be encouraged.
- For setting agro processing units by collaboration between the producer co-operatives and the corporate will be encouraged.

6. Strategy for Institutional Reforms. The strategy for institutional reforms will focus on the following areas:

- Consolidation of holdings all over the country.
- Redistribution of ceiling surplus lands and wastelands among the landless farmers and unemployed youth.
- Tenancy reforms to recognize the rights of the tenants.
- Development of lease markets for increase the size of holdings.
- Legal provisions should be made for giving private lands on lease for cultivation and agri-business.
- Updating and improvements of land records.

- Computerize and issue of land passbooks to the farmers.
- Recognition of women's rights in land.
- Private participation will be promoted through contract farming to promote application of modern technology, capital inflow and assured market for cash crops

7. Strategy of Risk Management. The strategy for risk management is to implement National Agriculture Insurance Scheme:

Covering all farmers and all crops throughout the country. The farmers will be issued a package Insurance Policy right from sowing of the crops to post harvest operations including fluctuation of prices.

V. EVALUATION OF GOVERNMENT'S AGRICULTURAL PRICE POLICY

As started earlier, the basic objective of the agricultural price policy is to assure the farmers a reasonable return and instill an element of certainty and confidence in them. Hough the agricultural price policy in India has succeeded in achieving this objective to a certain extent, it has also contributed to the inflator trends in the economy and has some other adverse effects also as would be clear from the following discussion:

1. Injecting an element of certainty and confidence:

Prior to the setting up of the Agriculture prices commission (later renamed as Commission for Agricultural Costs and Prices) there were wide fluctuations in agricultural prices. However, the position has distinctly improved after the setting up of the CACP .The Commission, after an extensive study of costs of production, prices and procurement prices. The latter are the prices at which the government purchases food grains to meet the requirements of its public distribution system. The former are the 'support 'prices at which the government is bound purchase as much food grains as are offered by the farmers. Naturally, minimum support prices are in the nature of an assurance to the farmers that price will not be allowed to fall below this level.

2. Contribution to inflationary trend:

CACP has been recommending a hike in procurement prices year after year. In fact, an increase in procurement and minimum support prices (MSP)has become more or less a ritual performed twice a year. In recent years, the large farmers lobby has become very powerful in political decision-making processes and has been able to force increases in procurement prices much higher than those recommended by CACP. Sharp increases in procurement priced have pushed up the price level in the economy as the general price level is very sensitive to the changes in food grains prices. Not only this, the substantial increase in procurement prices over the years has pushed up the carrying cost of the buffer stocks of FCI (Food Corporation of India) considerably .This ,in turn has pushed up the food subsidy bill to very high levels.

3. Bias in favor of surplus states:

The MSPs benefitted farmers in only a few states. Nearly all states grow rice, approximately 20 states grow wheat. However, FCI procures approximately 95 per cent of wheat from three states: Punjab ,Haryana and (Western) Uttarpradesh.Appoximatey85 to 90 percent of rice is produced from 5 States: Punjab, Andhra Pradesh, Haryana, Uttar Pradesh and Tamil Nadu. Because of the sizable margin between the MSP and C2 costs, farmers in these 5 states received a considerable windfall. Punjab farmers received support totaling ₹1,980 crore in 2001- 02 which was 43 per cent of total price subsidies .Other states that benefitted significantly ,but to a much lesser degree, were Haryana ₹940 crore, Andhra Pradesh ₹490crore and Uttar Pradesh ₹460crore .The benefits transferred to other states were insignificant.

4. Adverse Impact on Investment:

Hike in procurement prices leads to an additional expenditure by the government. Given the overall resource constraint, the additional expenditure comes at the cost of decline in fixed investments adversely affects the demand for many non- agricultural GDP. Thus, a hike in procurement priced has an adverse effect on overall GDP growth. For instance ,on basis of their dynamic applied general equilibrium model for India, Kirit Parikh, A.Genesh kumar and Gangadhar Darbha have conclude that a 10 percent increase in minimum support prices of wheat and rice leads to decline in investments by 1.9 per cent and in overall GDP by 0.33 per cent.

5. Distortion in cropping pattern:

As pointed out in the report on currency and Finance, 2001-02, the agricultural price policy of the government has led to distortions in the cropping pattern. This is due to the reason that whiles the MSP of rice and wheat (particularly of wheat) has generally been higher than the cost of production that of coarse cereals and pulses has been less than the cost of production. For instance ,in 1997-98,the MSP of wheat was ₹510 per quintal as against the cost of production of ₹ 418 per quintal while MSP of rice was ₹415 per quintal as against the cost of production of ₹411 per quintal .On the other hand, the MSP of coarse cereals was only ₹360 per quintal as against the cost of production of ₹499 per quintal as against the cost of production ₹900 per quintal as against the cost of production of ₹1,221 per quintal .This has made the cultivation of rice and wheat more attractive than pulses and coarse cereals leading to a diversion of area towards them. These tendencies are also helped by the fact that the yield rates of pulses and coarse cereals much less yield rates of wheat and rice.

VI. CONCLUSION

In conclusion it needs to be pointed out that announcing procurement prices has become one of the primary tools of intervention in agriculture while other crucial issues like fall in capital formation in agriculture, developing irrigation facilities need for changing land holding patterns.ete, have been ignored. For example Raj Krishna (1982) had found that the elasticity of Output with respect to major technological shifters such as irrigation was 1.5 to 5.5 times the price elasticity. He conclude that national policymakers and international development bankers will therefore well to devote at least as much attention and effort to the development of technology, infrastructure, and human capital as to the price environment. Nevertheless, agricultural price policy does face some new challenges in the current period with reduced non-price interventions in the form of public investments and also the percolation equity in this regard. In a similar vein, Dharm Narain, (1976) had argued that "An over simplistic and, therefore, excessive preoccupation with price can do more harm than good by distracting attention from the order but more important tasks which belong in the non-price world of achieving technological breakthroughs and realizing such real constraints as stand in the way of their becoming a reality on the farmer's fields.

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