

# Agricultural Price Policy in India - An Overview

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## Abstract

The government has formulated a price policy for agricultural produce that aims at securing remunerative prices to farmers to encourage them to invest more in agricultural production. The government announces minimum support prices for major agricultural products every year on the recommendations of the Commission for Agricultural Costs and Prices (CACP).

The initial price policy at the dawn of Independence was, to a large extent, based on the plethora of controls exercised during the Second World War. It included rigid controls on movement of crops from one State to the other, procurement of food grains through a compulsory levy on producers and millers, open market purchases, and rationing in practically all the States. Following the recommendation of the Food grains Policy Committee of 1947 for progressive decontrol, restrictions were relaxed. However, a food crisis appeared in 1948 and food prices rose substantially. Accordingly, controls were introduced.

## **Introduction**

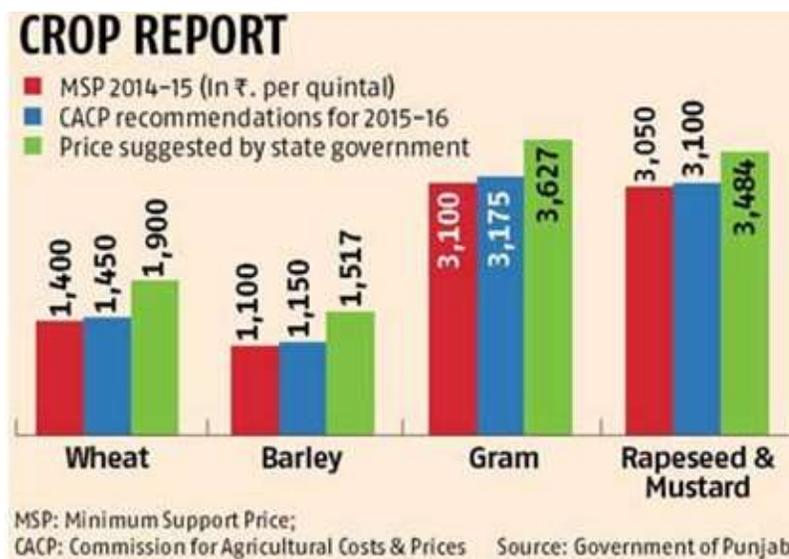
On the recommendations of the Food grains Enquiry Committee, 1957, calling for 'social control over the wholesale trade in food grains' and its subsequent endorsement by the National Development Council in November 1958, the Government of India experimented with State trading in food grains in April 1959. According to this scheme, state trading was to be confined to two main commodities - wheat and rice. However, the scheme ran into difficulties since it was put into practice in a haphazard way without taking cognizance of economic forces.' For instance, procurement prices for wheat were fixed at much lower levels than those dictated by the forces of demand and supply

The government formulated price policy for agricultural produce to secure remunerative prices for farmers to encourage them to invest more in agricultural production. Keeping in mind, the government announces Minimum Support Prices (MSP) for major agricultural products every year. Government provides food grains to the BPL families through the public distribution system. These prices are fixed after consulting the Commission for Agricultural Costs and Prices (CACP).

The Commission of Agricultural Costs and Prices (CACP) while recommending prices takes into account important factors, such as:

- I. Cost of production
- II. Changes in input prices
- III. Input/output Price Parity
- IV. Trends in market prices
- V. Inter-crop Price Parity
- VI. Demand and supply situation
- VII. Effect on Industrial Cost Structure
- VIII. Effect on general price level
- IX. Effect on cost of living
- X. International market price situation
- XI. Parity between prices paid and prices received by farmers (Terms of Trade)

The table given below depicts the minimum support price for different crops for the 2015-16.



## Support

To secure the interests of the farmers as also the need of self reliance, government has been announcing the minimum support price for 24 major crops. The main objectives of the **Minimum Support Price (MSP)** are:

- I. To prevent fall in the price in the situation of over production.
- II. To protect the interests of the farmers by ensuring them a minimum price for their crops in the situation of a price fall in the market.
- III. To meet the domestic consumption requirement
- IV. To provide price stability in the agricultural product
- V. To ensure reasonable relationship between prices of agricultural commodities and manufactured goods
- VI. To remove price difference between two regions or the whole country.
- VII. To increase the production and exports of agricultural produce.

## Objectives of Minimum Price (MSP):

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- V. To ensure reasonable relationship between prices of agricultural commodities and manufactured goods
- VI. To remove price difference between two regions or the whole country.
- VII. To increase the production and exports of agricultural produce.

VIII. To provide raw material to the different industries at reasonable prices in the whole country.

### **An Overview:**

I. To increase the income of the farmers, the poor of the country have to pay more. This practice will create the problem to allocate inefficiency in the country.  
II. Subsidizing farmers through higher product prices is an inefficient method because it penalizes the consumer with higher prices. Also it means large farmers will benefit the most. They have received more than they need but small farmers are still struggling.  
III. Farmers use fertilizers in the huge quantity to increase their production but it creates problems for those peoples who do not get benefits from this increment in the production.

Price policy plays a pioneer role in the economic development of a country. It is an important instrument for 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 Govt. of India announces each year procurement/support prices for major agricultural commodities and organizes purchase operations through public agencies.

Undoubtedly, violent fluctuations in agricultural prices have 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 period, then the consumer will definitely suffer. In case, the prices continuously increase for the particular crop, this can have disastrous effect on the sector of the economy.

### **Objectives of Agricultural Price 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.

**(i) To Ensure Relation between Prices of Food-grains and Agricultural Goods:**

The foremost objective of agricultural price policy is to ensure the appropriate relationship between the prices of food grains and nonfood grains and between the agricultural commodities so that the terms of trade between these two sectors of the economy do not change sharply against one another.

**(ii) To Watch Interests of Producers and Consumers:**

To achieve the balance between the interest of producers and consumers, price policy should keep a close eye the fluctuations within maximum and minimum limits.

**(iii) Relation Between Prices of Crops:**

The price policy should be such which may sustain the relationship between the prices of competing crops in order to fulfill the production targets in respect of different commodities in accordance of its demand.

**(iv) To Control Seasonal Fluctuations:**

Another object of price policy is to control cyclical and seasonal fluctuations of price rise to the minimum extent.

**(v) Integrate the Price:**

The agricultural price policy should also aim at to bring the greater integration of price between the various regions in the country so that regular flow of marketable surplus could be maintained and exports of farm products stimulated regularly.

**(vi) Stabilize the General Price:**

To stabilize the general price level, it should aim at increasing the public outlay to boost economic development in the country.

**(vii) Increase in Production:**

The agricultural price should aim at to raise the production of various commodities in the country. Therefore, it must keep balance between output and input required by the cultivations.

**Major Objectives:**

**The important objectives of the new agricultural policy are stated below:**

**1. Facilities for All-Round Development:**

The policy aims at providing necessary support, encouragement and thrust on farming activities so that rural people accept it as a noble and viable occupation.

**Features of New Agricultural Policy:**

The important measures or features of new agricultural policy are summarized as under:

**(i) Raising Capital Formation:**

The new policy has undertaken a strategy to raise the rate of capital formation in agricultural sector as the same is maintaining a decreasing trend from 18.7 per cent of total gross capital formation in 1978-79 to only 9.5 per cent in 1993-94.

As the invisible resources are being diverted from agriculture to industry and sectors, the new policy, thus introduces measures to rechannelise available resources for productive investment in the sector. The policy will focus to create a better investment climate for the farmers by introducing a favourable price and trade regime.

**(ii) Enhancing Public Investment:**

In order to raise the volume of public investment, new agricultural policy will take steps to create public investment for building supportive infrastructure for agriculture. Conservation of water and use of alternative and renewable sources of energy for irrigation and other agricultural works have also been encouraged. Such enhancement of infrastructural investment will reduce the regional imbalances and generates more value added exportable surpluses.

**(iii) Raising the Flow of Credit:**

The policy will make an attempt to enhance the flow of credit to the agricultural sector. In this connection, the Co-operative credit societies were engaged for such purpose.

**(iv) Improving Agricultural Marketing:**

An attempt will be made to improve the marketing arrangement of agricultural produce through agro-processing, marketing and storage.

**(v) Ensuring Remunerative Prices:**

The new policy has entrusted the Government to undertake responsibility for ensuring remunerative prices of agricultural produce to the farming community by adopting necessary price support policy.

**(vi) Raising Agro-Exports:**

The new policy has made an attempt for harnessing the comparative natural advantage in agricultural export of the country. The policy has laid special thrust on the exports of fruits, vegetables, flowers, poultry and livestock products so as to raise the share of agricultural exports.

**(vii) Land Reforms:**

The new policy will make efforts to take land reform measures for the interest of small and marginal farmers and raise agricultural output.

**(viii) Development of Land:**

The policy has made an attempt to develop land permanently for cultivation to meet the growing needs of population. In order to develop rainfed areas of the country watershed management scheme has been given much importance so as to bring integrated development of the land.

**(ix) Treating Agriculture at Par with Industry:**

The steps for creating a positive trade and investment climate for agriculture and also to treat agriculture at par with industry for the purpose will be taken.

**(x) Crop Insurance Scheme:**

Considering the problems of crop failure and high risk of instability in production, the policy stressed for redesigning the crop and livestock insurance schemes in a comprehensive manner so that the farmers can recover their losses arising out of natural disasters.

***Types of Agricultural Price Policy:***

The prices favourable to the producers of agricultural products may work against the interest of the non-agricultural sector vice-versa. In fact, this has been one of the major considerations underlying the agricultural price in various countries during the course of the development of their economies.

Sometimes, the prices of agricultural products as well as the agricultural inputs have been so manipulated and the ancillary fiscal and administrative policy so devised that the benefits of development of the agricultural sector were partly or wholly passed on to the industrial sector. Such a policy changed the terms of trade, against agriculture.

On some other occasions, the price policy has favoured the agricultural sector at the cost of the non-agriculture sector. The two types of price policy have been called 'Negative' and 'Positive' price policies respectively.

**The following paragraph discuss these two price policies in some detail:****1. Negative Price Policy:**

In the context of the policy of accelerating economic growth, a "negative" agricultural price policy has been practiced by a large number of countries in the early stages of their development.

The main objectives of such a policy was to keep the prices of food and raw materials relatively low (when compared with the prices of industrial products) so as to facilitate the growth of the industrial and tertiary sectors and to provide surpluses in the form of savings for these sectors. In other words, the terms of trade were purposively kept unfavorable for the agricultural sector.

## 2. Positive Price Policy:

In contrast to the above methods, a number of countries today follow what may be termed as the “positive” price policy which consists of light taxes on the agricultural sector and also assure the farmer of a fair price for his produce.

Such a policy is considered necessary in the context of the realization that unless the agricultural sector attains some critical minimum rate of growth, it would not be possible to attain the general targets of economic growth and development.

### **This is true for a number of reasons, chief among which are:**

- (i) In most of the developing countries, agriculture continues to be the single most important sector from the points of view of generating income, employment and exports, and
- (ii) The increasing demand for food caused by increasing population and rising money incomes can be met only by a continuously growing agricultural production.

### ***Evaluation of Agricultural Price Policy:***

The draft agricultural policy envisages 3.5 per cent annual growth in agriculture as compared to 2.6 per cent growth rate registered since independence. The draft of the National Agricultural Policy circulated for comments has secured broad agreements from all the State Government, central ministries and Agricultural Universities.

But its adoption by the Government at this moment might create new problems for the Union Agriculture Ministry and the Planning Commission for its inclusion within the already launched Ninth Plan. Thus under the present circumstances, the adoption of the draft agricultural policy by the Government may take some time for making necessary adjustment with the agriculture component of the Ninth Plan.

In short the draft agricultural policy has offered a detailed framework of policy initiative required for the agricultural sector on a long term perspective. By introducing a favourable price and trade regime, the policy has created a suitable environment for the sector.

The thrust of the policy is to make the sector a viable and profitable for the nation. Thus the new policy is expected to improve the quality of life in villages and can reduce the gap in the social welfare facilities between rural and urban areas and create sufficient gainful employment opportunities on a self-sustaining basis.

Moreover, new agricultural policy proposed to accord the status of industry. The new agricultural policy resolution would bestow the same benefits to agriculture as were being enjoyed by the industry but care should be taken to ensure that agriculturists were not subjected to the regulatory and tax collection machinery of the Government.

Thus the draft agricultural policy was intended for the progress and welfare of farmers. The Agricultural Ministry has also given stress on drip irrigation projects so that agriculture did not suffer. Attention was also being paid to watershed management, soil conservation environment and other aspects which would benefit agriculture. Besides, the benefits of liberalisation and technology transfer should reach to the farmers.

### ***Effects of Agricultural Price Policy:***

It is correctly stated that agricultural price has worked remarkably well to streamline the price stability activities.

**However, its effect are shortly mentioned below:**

#### **1. Incentive to Increase Production:**

Agricultural price policy has been providing necessary incentive to the farmers for raising their agricultural output through modernisation of the sector. The minimum support price is determined effectively by the government which will safeguard the interest of the farmers.

#### **2. Increase in the level of income of Farmers:**

The agricultural price policy has provided necessary benefit to the farmers by providing necessary encouragement and incentives to raise their output and also by supporting its prices. All these have resulted in an increase in the level of farmers as well as its living standards.

#### **3. Price Stability:**

The agricultural price policy has stabilized the price of agricultural products to a greater extent. It has successfully checked the undue fluctuation of price of agricultural products. This has created a favorable impact on both the consumers and producers of the country.

#### **4. Change in Cropping Pattern:**

As a result of agricultural price policy, considerable change in cropping pattern of Indian agriculture is needed. The production of wheat and rice has increased considerably through the adoption of modern techniques by getting necessary support from the Government. But the production of pulses and oilseeds could not achieve any considerable change in the absence of such price support.

#### **5. Benefit to Consumers:**

The policy has also resulted in considerable benefit to the consumers by supplying the essential agricultural commodities at reasonable price regularly.

#### **6. Benefit to Industrials:**

The agricultural price policy has also benefited the agro industries, like sugar, cotton textile, vegetable oil etc. By stabilizing the prices of agricultural commodities, the policy has made

provision for adequate quantity of raw material for the agro industries of the country at reasonable price.

### ***Shortcomings of Agricultural Price Policy:***

**The major shortcomings of the agricultural price are as under:**

#### **1. Inadequate Coverage:**

Inadequate coverage of procurement facility has rendered the price ineffective. The facility of official procurement reaches only a handful of farmers—of the total food grains production, procurement covers hardly 15 per cent.

#### **2. Remunerative Price:**

The remunerative price and/or subsidized inputs have failed to keep pace with the rate of increase in costs. It has had two consequences. The farmer is discouraged from producing the maximum level of output; he tries to balance his output against the level of costs, and settles for a lower level of output.

#### **3. Ineffective Public Distribution System:**

The public distribution has not been very effective. A large section of the poor people are outside the purview of the system. Even those who are covered under the system do not necessarily get the benefit of issue prices. The system has absolutely failed to serve the objective. Besides, the burden on the national exchequer is increasing enormously.

#### **4. Difference in Prices:**

There is an important issue of wide difference between prices received by the producers and prices paid by the consumers. In this context, issues relating to the network of regulations and costs associated with it, incidence of octroi, increase in transportation costs, over fragmentation of the distribution network etc. require careful study.

#### **5. Unaccompanied by Effective Policy:**

The efficacy of the price policy depends on a number of other factors inherent in the system of agricultural operations like land holding patterns, income distribution, general disparities and cropping pattern. But, it is pity to say that the price policy has not been accompanied by any effective policy for a total development of agriculture.

A continuous increase in procurement prices may have even an adverse impact on agricultural productivity. Price increases which over-compensate cost increases can discourage measures to raise agricultural productivity since such prices automatically lead to higher profits for the farmers.

***Suggestions for Reorientation of Agricultural Price Policy:***

The adequacy of the present agricultural price policy calls for reorientation in relation to the priority objectives which are likely to shape the development strategy. Considering the present critical situation in the national economy, concern with and about broad-based and sustained growth is bound to be a dominant objective. Such crucial issues relating to the strategy needed to achieve such growth are yet to be settled and focused.

Given the recent thinking in India and outside on the relative roles of government, markets, private enterprise and non-government organizations, a careful look would have to be given to the issues regarding spheres appropriate for direct government intervention.

While it is important to explore opportunities to transfer certain takes from the government to others, it would be equally important to demarcate areas, where the government must act. It would be wishful to assume that wherever the government performs badly, others would readily take-over and do better.

This means that top priority should be given to national issues rather than ideological issues of different political parties of the country. There is ample reflection of these broader objective in the recent and continuing discussion on the yet to be finalized Agricultural Policy Resolution.

**Some obvious indications are:**

- (i) Systematic attempts to orient agricultural planning towards effective use of resource endowments
- (ii) A much-expanded employment-cum-investment programme for conservation and upgradation of land and water resources;
- (iii) Greater priority for dry land agriculture,
- (iv) A substantial set-up in the proportion of total planned resources earmarked for agriculture/rural sectors; and
- (v) Time-bond targets for provision of rural infrastructures, etc.
- (vi) Comparative advantages of grow climatic areas of the country,
- (vii) Policy regarding growth of inputs and extension services and marketing etc.

Sincere and determined efforts for development of agriculture/rural sectors would have three main implications for the agricultural price policy.

1. Agricultural growth in the areas, crops and farms which have remained stagnant so far would have the effect of expanding the boundaries of that part of Indian agriculture which is responsive to agricultural price changes.
2. Improvements in what CACP considers as important 'non-price' factors—technology, inputs, marketing etc. —would add to the effectiveness of price policy as an instrument to promote growth along with efficiency and cost effectiveness.
3. The most important, if income and welfare support for the poor and the problems of non-viable small and marginal farmers get priority attention in the overall development strategy, the price policy would be able to focus itself more pointedly on its primary economic functions.

**In view of the above considerations, following suggestions can be made in regard to reorientation of the agricultural price policy:**

**1. Minimum Support Prices:**

Two economic criteria should govern the operations based on minimum support price. First, it should give protection only to the efficient producer so that minimum support price promotes growth and efficiency and merely subsidizes all sections of farmers.

Specifically, it is urgent to realize that non-viable farmers cannot be helped simply by fixing a high enough minimum support price; the solution of their problems lies in other areas than in policy. Secondly, the protection should be given only to prevent losses being made by the efficient producer and not to ensure him profits.

**2. Maximum Price:**

The criteria for fixing a maximum for the prices of a commodity are not equally easy or strength forward to stipulate.

**The primary responsibility of the government in relation to price level is:**

- (a) To keep in check the inflationary forces bringing about increases—sustained and cumulative—in the overall price level, and
- (b) Elimination of collusive and manipulative practices leading to artificial scarcity and high prices for particular commodities.

If these two sources of price rise are effectively neutralized, it is difficult to think of any need to match every minimum support price with corresponding ceiling price. When the stability of the general price level is maintained; the efficacy of the price mechanism would depend on the extent to which the relative prices are left free to vary in response to changes in the underlying supply and demand conditions.

**Conclusion:**

The basic motive behind the Agriculture policy of Government of India is to save the interests of both farmers and consumers. The prices of the food grains should be decided very wisely so that neither farmers nor consumers get suffer.

The government fixes the minimum support prices of agricultural products like wheat, rice, maize, cotton, sugarcane, pulses etc. regularly to safeguard the interest of farmers. The FCI also make their purchase of food grains at the procurement prices so as to maintain a rational price of food grains in the interest of farmers.

To safeguard the interest of the consumers, the agricultural price policy has made provision for buffer stock of food grains for its distribution among the consumers through public distribution system.

In order to have a control over the prices of essential commodities the government usually determines the maximum price of agricultural products so as to protect the general people from exorbitant rise in prices.

