AERC Foundation Day Lecture 2016

Agricultural Price Policy in India: Some Facts, Issues and Concerns

by

Dr. S. S. Acharya

Former Chairman, CACP, Government of India;
Honorary Professor, Institute of Development Studies, Jaipur; and
Director Emeritus, Africa Harvest Foundation International,
Nairobi, Washington DC and Johannesburg

Agro-Economic Research Centre
For the states of Gujarat and Rajasthan
(Ministry of Agriculture & Farmers Welfare, Govt. of India)
Sardar Patel University
Vallabh Vidyanagar, Anand, Gujarat, India

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Felicitation of Dr. S. S. Acharya by
Dr. Harish Padh, Hon. Vice Chancellor of our University

Dr. S.S. Acharya delivering the lecture on 1 July, 2016

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The Agro-Economic Research Centre (AERC) for the states of Gujarat and Rajasthan was established in July 1961 at the Sardar Patel University, Vallabh Vidyanagar by the Directorate of Economics and Statistics, Ministry of Agriculture, Government of India, New Delhi. AERC has been working as an associate institution of S. P. University and enjoying autonomy status in its working. The Centre has completed 55 glorious years (1961-2016) of its journey marked by both achievements and challenges. During these years, the Centre has emerged as a strong policy feedback centre of the Ministry of Agriculture, Government of India due to hard work and strong commitment of the staff in the Centre. The focus of research effort in the initial stage was on comprehensive village surveys and resurveys in order to understand the process and direction of change at the village level. Subsequently, the emphasis of research has shifted to problem oriented studies. The Centre has by now completed 163 problem-oriented studies, 21 village surveys and 4 village resurveys. During its long journey, the Centre has brought remarkable improvement in every aspect of research including methodological base of the studies. The studies have come out with useful findings and policy implications for agricultural and rural development of the states of Gujarat and Rajasthan.

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S. S. Acharya#

Foreword

Hon'ble Vice Chancellor Dr Harish Padh, AERC Director Dr Kalamkar, Dr (Mrs.) Amrita Patel; distinguished invited guests, faculty and scholars of SPU and AERC; ladies and gentlemen!

I feel greatly privileged and honoured to stand before you to deliver this year's Foundation Day Lecture, when this centre completes 55 years of dedicated service to the country. While expressing my grateful thanks for this honour, I congratulate the Vice Chancellor of SPU and Director and staff of AERC on 55th Foundation Day of the Centre. My association with AERC-VVN goes back to its earliest years when Dr Vijay Vyas was Director, and the team consisted inter alia of Dr D.S. Tyagi, Dr N.S. Jodha and Dr V.N. Mishra, My association got further strengthened when Dr Mahesh Pathak took over and also when AERC became a centre for cost studies.

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#Former Chairman, CACP, Government of India; Honorary Professor, Institute of Development Studies, Jaipur; and Director Emeritus, Africa Harvest Foundation International, Nairobi, Washington DC and Johannesburg.

When Dr Pathak called me a couple of months back asking me to deliver this year's Foundation Day Lecture on a suggested theme, I readily agreed, mainly on two counts. The first is owing to my high regards and respect for this AERC. My assessment is that AERCs in general, and this AERC in particular, have contributed immensely in shaping India's agricultural and food security policies, through their micro-research and analysis-based outputs on concurrent and temporal issues. And second, the theme suggested for my talk has been close to my heart and a major part of my study, research and actions during the last more than five decades. I consider it to be my good fortune that I have remained an active partner, in different capacities, in bringing about changes in agricultural prices and marketing scenario in India and several other countries of Asia and Africa - having been brought up in a rural poor family; as a student of agriculture stream, specializing in farm management at Master' level and in agricultural policy analysis at Ph.D. level; as agricultural extension worker for five years (in pre-green revolution era); as university teacher; as agricultural policy researcher; as chairman, CACP; as chair or key member of several High Powered Committees of Government of India; as Agricultural Policy Advisor of FAO in several countries of Asia; and during the last six years, as Independent Director Africa Harvest Biotech Foundation International (AHBFI) that works in 15 countries of Africa.

Agricultural Prices, including agricultural marketing system, affect the life of every one. That is why, these often occupy considerable space in various forums, be it print and audio-visual media, informal corner discussions in villages & towns, in government offices and in the parliament and state assemblies. Everyone, including common men and house wives discuss and come out with accusations and/or prescriptions, based on their own perceptions. I keep track and in the process, I improve my understanding of the expectations of various stakeholder from the agricultural marketing and pricing system and related policies. I have interacted with stakeholders and policy makers ranging from Hon'ble Prime Minister and his cabinet colleagues to farmers' leaders and could convince them about both what should be done and what should not be done.

Whatever I write or talk, comes out not only from my research and analysis, but also from my observations, insights, and experiences, particularly in my interpretation of facts and research results and in articulating or turning these into specific policy prescriptions and further into implementable or doable action points. I feel highly satisfied that almost all of my formal or informal suggestions at different levels have been accepted and are being implemented –the latest being 14 action points which I sent to the present government (also published in IJAM, Acharya, 2014), and I find all of these at different stages of implementation, except one.

I always try to share my insights and oversights on these issues, with others, whenever I get an opportunity. I consider this forum as an opportunity in this sense also. I have divided my lecture into seven parts. These are (a) role and nature of agricultural prices; (b) what is meant by policy?; (c) agricultural price policy in a developing country; (d) agricultural price policy in India, particularly current policy instruments and process of policy formulation; (e) impact assessment of agricultural price policy; (f) answers to some frequently asked questions; and (g) some current issues and way ahead.

I. Role and Nature of Agricultural Prices

The important role and functions of agricultural prices can be understood from the following:

(i) These affect farmers' income from agriculture.

(ii) These play an important role in investment and capital formation in the agricultural sector.

(iii) Prices of farm products affect the cost of living of non-farm families.

(iv) These also affect the distribution of income between farm families and non-farm population (through terms of trade).

(v) Within agricultural sector, these influence the allocation of resources across crops and between crops and livestock sectors.

(vi) Level of farm product prices helps in balancing the demand and supply.

(vii) The levels of farm product prices in different regions or times regulate the movement of commodities across space and time.

The nature, behavior and characteristics of farm product prices are conspicuously different than the prices of manufactured products. There is higher inter-year variability in farm product prices due to year to year fluctuations in production, coupled with relatively price-inelastic demand for farm products. Even within a year, there are intra-year fluctuations. This happens mainly due to seasonal nature of production of farm products, coupled with higher perishability of most of agricultural commodities. Further, due to regional pattern of production and higher costs involved in transportation of bulky and perishable commodities, there is a considerable spatial variation in farm product prices. These apart, there is inter-relationship between prices of some groups of farm products depending on the degree of substitution. The examples of such groups are pulses, vegetables, cereals and edible oils/oilseeds. One other character of farm product prices, that needs to be noted is that even at the same place or same time, it is not uncommon to observe multiple prices of the same farm product. This mainly happens because of variation in quality of the product. But even for the same quality of

product, one can observe at least two prices at the same shop, especially in primary markets. In such markets, there is a buying price and a different selling price by the same trader (usually primary wholesaler).

Based on the role and characteristics of agricultural or farm product prices, four important aspects, emerge as critical dimensions of prices. The first is the fluctuations in farm product prices, which create price uncertainty in the minds of farmers and also affect their decisions related to production and marketing management. The second is the level of farm product prices in relation to the prices of farm inputs (like seeds, fertilizers, manures, hired labour, machinery related services and plant protection chemicals). Third aspect is the level of farm product prices in relation to the prices of consumption goods purchased by the farmers. As every farmer does not produce all the agricultural products consumed by him/her, many farm product prices become the prices of consumption goods paid by many farmers themselves. Whether the price received by the farmers for their products are remunerative or 'fair', basically depends on the level of prices of farm products in relation to the prices of inputs or consumption goods purchased by the farmers. And the fourth is the gap between prices at different stages of marketing, especially from farm gate to the end-consumer. This is what is called the 'price-spread'. The price spread from farm gate to the end-consumer is also denoted as Gross Marketing Margin

(GMM). It is in this context that all aspects of agricultural marketing system i.e., market structure, market conduct and market performance assume importance in determination of the price spread in agricultural commodities.

Gross Marketing Margin (GMM) is composed of three distinct parts viz:, marketing costs (cost of performing various marketing function); taxes, levies and other statutory charges (someone has to pay at different marketing stages); and net marketing margins (NMM) of various market functionaries. The size of net marketing margins depends on the degree of competition and risks. My studies revealed that quite often marketing costs are not correctly estimated or under-estimated and consequently, to that extent, NMM automatically get over estimated. Considering all commodities together, real marketing costs (MC) are around 65 percent of GMM. In 2001, I estimated that half of these marketing costs are avoidable costs, which arise due to the inefficiencies in the prevailing marketing system (Acharya, 2006). It was also estimated, at that time, that an investment of Rs 2.74 lakh crores in marketing infrastructure is necessary for reducing the avoidable costs of the marketing system (Acharya et.al, 2001). Our estimate was that half of the total investment can come from the private sector, if and only if complementary public sector investment is made and marketing regulations are made investor-friendly. My review of the

situation after 10 years in 2011 revealed that only around 15 percent of the intended private investment could come in the marketing system. Many of new initiatives like agri-export zones (AEZs), food parks, entry of organized retailers in farm products, promotion of food processing, recently permitted FDI in agricultural retail and launch of National Agricultural Market (NAM) are helping or may help in this endeavour.

Another dimension of looking at the functions and role of agricultural or farm product prices is the trend or changes in income and price elasticities of demand for farm products. These reflect the consumers' response to changes in income or prices. I take only three cases to illustrate as to how demand elasticity estimates are helpful in understanding the interaction of supply/production changes and demand pattern in influencing market prices. First is the income elasticity of demand for rice and wheat. Over the last five decades, the income elasticity of demand for rice/wheat has decreased from + 0.5/0.8 to +0.2/0.3 and in recent years to minus -0.03/0.05. On the other hand, income elasticity of demand for nutritive foods (horticultural and livestock products) has generally increased over the years. My second case is direct price elasticity of demand for pulses. It was minus 0.9 and came down to minus 0.5 over the years. My assessment is that for around 60 percent of upper-income consumers, it is lower at minus 0.3 (this explains the recent sharp increase in pulse prices

due to around 20 to 25 percent shortfall in supply/production). It is likely to be the same situation for onion. The third case is the cross price elasticity of demand for rice and wheat. The magnitude of cross price elasticity is + 0.45 and +0.57, that clearly reveals high degree of substitution between these two staple cereals, in recent periods.

II. What is meant by a Policy?

A standard English dictionary defines the word 'policy' as a set of ideas and/or a plan of action, in a particular situation, that is formally agreed by either (a) a group of people; (b) a business organization; (c) a government; or (d) a political party. However, for the purpose of development policy analysis, a more precise definition is necessary. J. Tinbergen, in one of his writings, defined a policy as composed of goals, objectives and instruments to be used to achieve the objectives.

My assessment is that any government's policy (related to any aspect of development) can be accessed in the form of specific policy statements or policy documents. Quite often, no such statement or document is available. In such situations, reflection of policy is available from legislative framework or actual actions in the form of development or governance schemes or programs/ projects. A perfect and transparent policy must have following essential components:

(a) Goals of the policy (usually long-term)

(b) Objectives to move towards the attainment of goals - objectives may be short- term or medium-term with well-defined time lines.

(c) Policy instruments for achievement of the objectives, which may include legal instruments, schemes, programs, projects or simply measures.

(d) Scale of each instrument (adequate to achieve the objectives in time).

(e) Timing of each instrument.

(f) Actual implementation on the ground (without slippage or leakages, and with correct identification of beneficiaries).

III. Overview of Agricultural Price Policy

Before looking at the agricultural price policy in India, it is useful to understand some basic features of a general agricultural price policy. This is based on India's experience since the mid-1960s. Agricultural Price Policy (APP), basically means government intervention to influence agricultural product and/or farm input prices. The kind and degree of intervention vary with the stage of agricultural development. All countries, developed or developing, have used or are using some form of intervention to influence agricultural prices. It should also be noted that APP is an overarching policy

regime, meaning thereby that agricultural marketing and external trade policies, which are often used as instruments of APP, are subsumed into APP. Further, APP is never operated in isolation, because its goals and objectives are meant to sub-serve the goals/objectives of agricultural development and food security policies of the government.

As already mentioned, the objectives and instruments of APP vary with the stage of country's development. In a newly emerged developing country (e.g. India during late 1940s and 1950s), the initial situation is characterized as follows.

(i) A very large proportion of population is engaged in farming.

(ii) The production levels of food and other farm products are considerably lower than the requirement/demand.

(iii) The food prices rule at unduly high levels.

(iv) Majority of the families are poor, with very low purchasing power.

(v) There are no or very little foreign exchange earnings or reserves for food imports.

(vi) Whatever agro-industries that exist (and provide employment) do not have enough raw materials for their normal functioning.

(vii) Therefore, there is an urgent need for increasing the production of food and other farm products.

In such a situation, the first focus of agricultural development remains (and ought to be so) on increasing food production in these countries. But, if farmers invest in farming and increase food grains production, they, as a group, end up in lower gross income, due to price inelastic demand for food grains. To understand this aspect clearly, consider the price elasticity of demand as (say) minus 0.4. In this situation, an increase in total production by 10%, leads to 25% decline in prices. It is in this context that agricultural development strategy, aimed at increasing the production of food grains, at initial stages, must encompass assurance of remunerative price environment for farmers (foodgrain producers). The agricultural development and food security strategy, adopted by India, during the period mid-1960s onward, therefore, included following three foundations:

(i) To make available new yield –enhancing technologies to the farmers;

(ii) A system for timely delivery of modern inputs to the farmers; and

(iii) A mechanism to assure a remunerative price environment for the farmers.

Another important aspect of agricultural price policy (in early stages of development) that needs to be understood is while providing price incentives to the famers for

increasing production, the interest of the consumers (large section with low purchasing power) should also be kept in view, This poses a great challenge to policy makers, in balancing the interests of farmers producers, on the one hand, and consumers or buyers of food grains, on the other.

In case, it is only the maintenance of balance between the interests of farmers and the consumers, there is no difficulty. For example, the policy may give the highest price to the foodgrain farmers/ producers and distribute the grains to the consumers at the lowest price. However, the issue is not that simple. I will explain it with a simple hypothetical example (but it is close to reality).

Consider that a minimum support price (MSP) of Rs.1500 per quintal is assured to the farmers, and 20 million tonnes of wheat is purchased at MSP (to provide price assurance to the farmers). Also consider that this entire wheat is distributed to the entilled ration card holders (under FSA) at a price of Rs 2 per kg. From the stage of purchase of wheat by public agencies, several costs are incurred, before the grain is delivered to the consumers at fair price shops or PDS outlets. These costs include handling, storage, transportation, gunny bags, taxes or cess paid at various levels and incidentals paid to ration shop owners. Consider that these are around 50 percent of MSP or Rs 750 per quintal. In this example, the economic cost of 20 million tonnes of wheat to the public

agencies is 20 million multiplied by 22500(1500+750) or Rs 45000 crore. And the value at which it is distributed under PDS is Rs 4000 crores. This implies that a sum of Rs 41000 crores has to be borne by the government which is what is called food subsidy. This has to be met from the government revenue (by raising the taxes or curtailing other development expenses).

It is obvious that any increase in support price or decrease in issue price entails higher allocation of money for food subsidy. Therefore, agricultural price policy has to balance the interests of the entire economy, and that is the challenge policy makers or policy advisors face. This example also illustrates the dilemma that whatever policy is put in place, there is bound to be arguments against it if only one of the three interests (dimensions) is viewed in isolation.

General forms of government intervention or instruments of price policy are as follows. These have been used at one time or the other in all the countries, including India.

(1) Administrative Prices

(a) Minimum support prices
(b) Statutory minimum prices (e.g. for sugarcane)
(c) Procurement prices
(d) Distribution or issue prices

(2)Instruments for Influencing Supply and/or Demand

(a) Public procurement either through open market purchase, pre-emptive purchase, monopsony purchase or compulsory levy (as on sugar factories, rice mills or even on farmers at one time)
(b) Buffer or public stocking
(c) Rationing and/or public distribution system
(d) Open market sales from public stocks
(e) Inter-regional movement restrictions
(f) Regulation of imports and/or-exports

(3)Instruments for Influencing the Behaviour of Market Functionaries

(a) Regulation of trading practices in wholesale markets
(b) Licensing of traders and other market functionaries
(c) Imposition of stock limits
(d) Restrictions on futures/forward trading
(e) Ban on certain trade practices

(4) External Trade Related Policy Instruments

(a) Ban on exports or imports
(b) Quantitative restrictions (Qrs)
(c) Minimum export prices (MEPs)
(d) Export taxes
(e) Import tariffs (custom duties)

(5) PDS related Policy Instruments

(a) Differentiated issue prices
(b) Differentiated quantitative entitlements
(c) Assurance of right to food (legal)
(d) Measures to curb leakages and mis-identification of beneficiaries

(6) Subsidy Related Instruments

(a) Food subsidy to reconcile the interests of farmers and targeted consumers

(b) Implicit input subsidies as a part of output price policy

(7) Creation and Promotion of Marketing Infrastructure

(a) Physical infrastructure like market yards, roads and transportation, grading and standardization, warehousing and storage, cold stores and cool chains, and communication facilities.

(b) Institutional infrastructure in the form of innovative and dedicated institutions like Agricultural Price Commission (APC) or Commission for Agricultural Costs and Prices (CACP), Food Corporation of India (FCI), Agricultural Produce Market Committees (APMCs), Marketing cooperatives at various levels, Farmers' Producers Organizations (FPOs), Central/State Warehousing Corporations (CWCs/SWCs) etc.

IV. Agricultural Price Policy in India

Agricultural Price Policy in India was designed to sub serve the objectives of agricultural and food policies.

Genesis and Objectives

While a formal, comprehensive and explicit agricultural price policy came into existence in the mid-1960s, the genesis of India's policy can be traced to the early 1940s (Acharya and Agarwal, 1994). Some of the milestones in evolution of India's APP are as follows:

(i) In 1941, a ceiling on prices of wheat was imposed in the Punjab

(ii) In 1942, Food Control Order was promulgated, inter-state movement restrictions were imposed and a Central Food Department was created.

(iii) In 1943, a Food Grains Policy Committee, under the chairmanship of Sir Theodore Gregore, was constituted, which made several recommendations.

(iv) In 1944, a Price Sub-Committee on Agriculture was constituted under the chairmanship of T.T. Krishnamachari.

(v) After Independence, in 1953, Agricultural Price Enquiry Committee was constituted under the chairmanship of P.N. Thapar (senior ICS Officer, who, later took over as Vice Chancellor of Punjab Agricultural University).

(vi) In 1954, Agricultural Prices Fluctuations Review Committee, was constituted, which suggested measures to reduce price uncertainty of farm products, including foodgrains.

(vii) In 1957, a Food Grains Enquiry Committee was constituted under the chairmanship of Ashok Mehta. This committee made several recommendations to tackle the problem of food insecurity being faced by the country.

(viii) In 1959, there were three important developments. The National Development Council suggested for fixing/assuring minimum prices to the farmers. The reports of Ford Foundation became available that formed the basis of launch of Intensive Agriculture Area Program (IAAP) and Intensive Agriculture District Program (IADP) for increasing food production in potential areas. Also, a comprehensive program of democratic decentralization was launched, which paved the way for creation of three-tier panchayati raj institutions at village, block and district levels.

(ix) In early 1960s, first model Agricultural Produce Markets Regulation (APMR) Act was circulated to states for creation of physical and institutional infrastructure at primary wholesale market levels.

(x) In 1964, Food Grains Prices Committee, under the chairmanship of L.K. Jha, came out with a concrete

road map for Agricultural Price Policy in India. Its recommendations, inter alia, included

(a) specific level of minimum support prices for 1964-65 season,

(b) need for setting up Agricultural Prices Commission for advising the government on price policy matters on regular basis, and

(c) Creation of Food Corporation of India, for implementing the programs related to food security policy (handling of foodgrains on behalf of the government).

Objectives of APP-Terms of Reference of Price Commission

The objectives of price policy are reflected in the terms of reference of Agricultural Prices commission (APC) that was set up in January 1965. These are briefly as follows:

(i) To advise on price policy for agricultural commodities, particularly paddy, rice, wheat, Jowar, bajra, maize, gram, other pulses, sugarcane, oilseeds, cotton and jute, with a view to evolving a balanced and integrated price structure, in the perspective of the overall needs of the economy and with due regard to the interests of the producer and the consumer;

(ii) To recommend, from time to time, in respect of different commodities, the measures necessary to make the price policy effective;

(iii) To examine methods and cost of marketing and suggest measures to reduce marketing costs and recommend fair margins for different stages of marketing;

(iv) To keep under review developing price situation and make recommendations, as and when necessary, within the framework of overall price policy;

(v) To keep under review studies relating to price policy and arrangements for collection of price information and suggest improvements in the same;

(vi) To advise on any related matter, referred by the government from time to time.

In 1980, when the situation on cereals production front improved, the name of the APC was changed to Commission for Agricultural Costs and Prices (CACP) and the ToR were revised to inter alia include the following:

(i) The list of commodities was expanded to specifically include ragi, barley, tur, moong, urad, groundnut, soyabean, sunflower seed, rapeseed, mustard, and VFC tobacco.

(ii) To keep in view the following, while recommending the price policy and relative price structure:

(a) the need to provide incentives to the producers for adoption of improved technology and for developing a production pattern broadly in the light of national requirements (Note: earlier the implicit focus was on increasing the production of cereals, but now the focus shifted to a balanced basket);

(b) need to ensure rational utilization of land, water and other production resources; and

(c) likely effect of the price policy on the rest of the economy, particularly on cost of living, level of wages, and industrial cost structure.

(iii) To suggest such non-price measures as would facilitate the achievement of the objectives set out above.

(iv) To take into account the changes in terms of trade between the agricultural and non-agricultural sectors.

(v) To undertake studies in respect of different crops as may be prescribed by the government from time to time.

The other items of Terms of Reference were the same as before.

Current Price Policy Instruments

Here is a list of price policy instruments, which include those withdrawn during the last two years or have been recently launched (for details see Acharya and Agarwal, 2016)

(i) Minimum support prices (MSPs) for 25 crops

(ii) Decentralized Procurement Scheme

(iii) Market Intervention Scheme (MIS) for some other crops

(iv) Statutory minimum price (F&RP) for sugarcane

(v) Buffer stocking of rice, wheat and now pulses (sometimes also of sugar)

(vi) Subsidized supply of cereals under PDS

(vii) Launch of Food Security Act, PDS reforms and DBT scheme

(viii) Open market operations/Sales Scheme (OMSS)

(ix) Food and Input subsidies

(x) Levy on rice millers (now withdrawn)

(xi) Levy on sugar mills (now withdrawn)

(xii) Control on free sale sugar (now withdrawn)

(xiii) Regulations on traders and processors

(xiv) Encouragement to producers' cooperatives or marketing groups

(xv) Creation and expansion of marketing infrastructure

(xvi) Incentives for food processing

(xvii) First phase and second phase marketing reforms

(xviii) E-auction and e-portal for common national market

(xix) Trade policy instruments like MEP, bans, tariff levels, export promotion and import liberalization

Process of Policy Formulation

Commission for Agricultural Costs and Prices (CACP) is the advisory body in the matter of India's agricultural price policy. When the APC was established in January 1965, it was mandated to devise its own methodology for advising the government in this matter.

The structure of CACP consists of a chairman and a few members. The number of members has varied from time to time, At one time, the number of members was six including three representing the farmers or their organizations, nominated by the Government of India, and other three representing the experts in the field. One of the expert-members is usually drawn from in-service senior government officials, who works as member-secretary of the commission. The commission submits its reports (for each year) in five groups, mostly three

months in advance of the sowing season of crops. These are (a) report for kharif crops (that includes 14 kharif season crops); (b) report for rabi crops (that includes seven rabi crops); (c) sugarcane, (d) jute and (e) a separate report for copra (dried coconut).

The secretariat of the commission is well-equipped with experts in different fields which continue to monitor various kinds of data on daily basis, keep track of market behavior and review the research studies available in the field. The analysis–based internal hand-outs are regularly prepared and shared/discussed within the commission every now and then.

For each of the five reports, about 2 to 3 months before the scheduled date of submission, elaborate questionnaires are prepared and sent to various stakeholders for seeking their response. These include state governments, central ministries, concerned public sector organizations, farmers' organizations, traders' recognized bodies and recognized associations of agro-based industries.

After receiving the responses to the questionnaires and based on commission's own internal analysis, a one-to-one separate meeting is held with each stakeholder to seek their extended views/inputs on various issues.

Subsequently, the Commission visits selected important states, and holds discussions with different stakeholders,

including development functionaries at various levels and farmers. This is followed by intensive internal meetings of the commission for about a fortnight. That is how, the final price policy report for each group of agricultural commodities is finalized by the Commission.

The structure of the report broadly includes (a) price recommendations; (b) 15 to 20 non-price recommendations (which have important bearing on prices received by farmers and those paid by the consumers); and (c) enough data and analysis (which have formed the basis of above recommendations), to serve the purpose of possible professional scrutiny by outside experts.

The report is submitted, in confidence, to the Union Minister for Agriculture, around 3 months in advance of the sowing season. The Agriculture Minister, in turn, circulates (in confidence) this report to relevant state governments and central Ministries for their comments. After receiving these comments, the Agriculture Ministry, prepares a cabinet Memo, which along with the CACP report is submitted to the cabinet secretariat. The final decision is taken by the Cabinet Committee on Economic Affairs (CCEA), which is chaired by the Prime Minister.

Minimum Support Prices

It is not possible to elaborate all the price policy instrument mentioned earlier, but I want to talk little more about MSPs, because this is the most frequently discussed instrument of price policy.

Since 1991, minimum support price (MSP) is declared for all the selected crops, including paddy/ rice and wheat. In the case of rice/paddy and wheat, upto 1971-72, there used to be MSP as well as a separate procurement price. Between 1971-72 and 1990-91, there was only procurement price, which used to serve the purpose of MSP also. Four important characteristics of MSP should be noted.

(i) These remain the same throughout the country.

(ii) These remain the same throughout the marketing year of the concerned crop.

(iii) These vary according to the grade and variety (e.g. for paddy, soyabean, jute, sugarcane and cotton).

(iv) Inter-year changes in MSP are (and should be) always non-negative.

The factors that enter the decision to arrive at the level of MSPs for various crops, inter alia, include the following:

(a) Cost of production

(b) Change in input prices (Input-output price parity)

(c) Trend in market prices

(d) Demand and supply situation

(e) Inter-crop price parity

(f) Industrial cost structure (through raw material and wages)

(g) General price level (inflation)

(h) Cost of living (consumer prices)

(i) International prices (export/import- linked commodities)

(j) Terms of trade for farmers

While looking at the level of MSP, it is important to understand the difference between MSP, procurement price and levy price. MSP is a price at which there is no compulsion on farmers to sell. It is a guaranteed price or an insurance price, meaning thereby that if farmers do not get a price higher than MSP in the market, they can come and sell to the public purchase agencies at MSP. On the other hand, procurement price is a price at which government tries to procure pre-decided targeted quantities. The levy price is a price at which the government binds the producer (rice miller, sugar mills or even farmer) to deliver certain fixed quantity to the public agencies. Unlike procurement or levy price, the MSP is a price at which the government is committed to purchase all the quantities offered by the farmers at that price.

Cost of production of a crop is an important factor in determination of level of MSP, but a mechanical linkage of MSP-with cost of production needs to be avoided for several reasons. One, there are various concepts of costs like A1, A2, B, C1, C2 and C2*. These are important in agriculture because apart from the purchased inputs, there are quite a few imputed costs (like value of own land, interest on own capital investment, value of family labour and own management input), which accrue to the farmer. Two, the cost of production varies widely across states, across districts, across farms and even, on the same farm, across plots of land. In this sense, an important question arises as to whose cost of production to be linked to the MSP. Three, quite often, inter-crop variation in cost of production does not reflect the market situation. Four, for rain-fed or un-irrigated crops, the cost of production (cost per quintal) may fluctuate from year to year, but MSP, being a medium–term or long-term guarantee should not fluctuate in line with cost of production. And five, by establishing a mechanical linkage of cost of production with MSP, the flexibility of encouraging certain crops is lost (for example, in the current stage, India needs to encourage production of pulses and oilseeds).

The related dimension is the parity considerations in deciding the level of MSP. There are at least five concepts of parity that need to be noted (Acharya, 1981). First, is the input-output price parity. Second is the parity

between farm product prices and prices of their derivatives, like raw cotton price vs price of yarn, cloth and garments or sugarcane price vs. sugar price. Third is the inter-crop price parity, which becomes important for substitute crops in production like wheat vs. barley and wheat vs. mustard. Fourth is the parity between prices received and paid by the farmers (paid for inputs as well as for consumers' goods). And fifth is the parity with international prices especially for commodities where trade linkages are involved (both export and import linkages).

V. Assessment of Impact of Price Policy

While looking at the approach to assess the impact of price police, it needs to be remembered that: (a) agriculture price police in India has sub-served the objectives of agriculture development and food security policy; and (b) It has been one of the foundations of agricultural development and food security strategy. Its impact, therefore, cannot be seen in isolation. The impact of agricultural price policy in India can be assessed from the following:

(i) It has helped in inducing farmers to adopt new yield-increasing technology and increase the production of food and other commodities. The macro food security achieved by a large country like India is well-acknowledged the world over.

(ii) It has helped in increasing the physical access of masses to food through marketing system improvement, coupled with various schemes of public distribution system.

(iii) Price policy helped in improving economic access of masses to cereals. Apart from increase in production, food subsidies and implicit input subsidies helped in keeping the real prices of key staple cereals continuously declining. For example, in early 1970s, around 17 percent of India's average per capita income was required to buy a quintal of wheat or rice. This percentage has continuously declined and is at less than 2 percent at present. The declining trend is observed in the lowest income decile also. It means that market prices of staple food, in relation to income, have declined continuously.

(iv) When staple food is available by sacrificing smaller proportion of income, the families have higher proportion of disposable income to spend on more nutritive foods (fruits, vegetables and livestock products), and on education and health.

(v) A wider impact of continuously declining real prices of staple food is often missed out. The benefits of this package have flown to all the sections of the society. Real lower prices of staple food benefitted all the cereal consumers. These

have also helped the government and industry to keep their wage bills low.

(vi) The success of the policy is also reflected in balancing the interests of farmers and the rest of the economy, by way of movements in terms of trade for the agricultural sector.

(vii) Despite the intervention by the Government, the markets for rice, wheat and oilseeds generally show very high degree of spatial integration (Acharya and Chaudhri, 2001).

(viii) During the period of World Food Crisis of 2008, our response was evaluated by FAO in a multi-country study in 2011 (Acharya et al, 2012). It concluded that

(a) India's policies insulated both farmers and consumers against wild fluctuations in cereal prices in the world;

(b) India's domestic markets for rice and wheat have remained very well integrated;

(c) There had been no direct transmission of high world prices to domestic markets; and

(d) However, international price levels fed into India's MSPs and farmers of India received higher prices for rice and wheat during this period.

(viii) Decentralized Procurement Scheme has helped more effective price support to the farmers in those states where farmers continued to suffer due to lack of purchase arrangements. It also helped by way of savings in FCI's costs of transportation.

(ix) Full scale roll-out of Food Security Act, PDS reforms (digitization etc.) and DBT scheme will further reduce leakages and bring down costs.

(x) Recent measures like withdrawal of rice levy and sugar levy and decontrol of free-sale sugar are likely to further improve price discovery of these farm products in a significant way.

VI. Answers to Some Frequently Asked Questions

Several questions are raised, related to agricultural price policy in India, at national as well as international forums. The questions often pertain to policy per se, policy instruments or the implementation mechanism. In this section, I intend to make some statements that provide answers to such FAQs.

(1) Price policy cannot be a substitute for an income policy. The price policy, in isolation, can not improve the income of tiny land holders.

(2) The level of MSP should be treated as a guaranteed price, which assures a price to the farmers. This is like an insured price.

(3) MSP is not meant to compensate the farmers for output or yield loss. The crop insurance, and not the price insurance/MSP, is the instrument to cover yield or output loss of farmers from natural calamities.

(4) The MSPs cannot be (and should not be) fixed on regional basis. There is considerable variation in cost of production across regions. A single MSP for the country gives a signal that high-cost regions should shift to other crops, based on their relative or comparative advantage.

(5) For such commodities as fruits and vegetables, market intervention scheme is the best suited instrument rather than MSPs.

(6) CACP is an advisory body and price policy decisions are taken by the CCEA of central government. Usually, all the recommendations of CACP are accepted by the government.

(7) As already mentioned earlier, formulation of price policy is a balancing act. My assessment is that this balancing feature of price policy is very well understood by the politicians at all the levels. Each interest group tries its best to influence the price policy decisions in its favour but while doing this, they fully appreciate the need for a fair balance of conflicting interests.

(8) There used to be, at one time, several questions related to FCI, particularly with respect to its operational costs. However, a large number of studies brought that if the period of storage and distance the grains transported by FCI are correctly assessed, FCI's costs are not higher than the private trade. For many decades, FCI's storage and transit losses were less than one percent. Further, ineffectiveness of price support operations of cereals was mainly due to slackness on the part of state agencies, rather than that of FCI.

(9) I have myself raised questions related to timing of trade (import) decisions. Due to delayed import decisions, we have often ended in higher prices for imports. Also, delayed imports did not help in containing high domestic prices. This situation arises because we do not have reliable outlook–generating system well-in-advance. For trade decisions, reliance on external sources is sometimes quite costly as happened during 2006-07 when we imported about 6 million tonnes of wheat. The capacity on decision support system has already been built in NARS as a part of ICAR-NAIP, but this has not become operational on a regular basis.

(10) During the last seven years, Agricultural Market Intelligence Centres (AMICs) are functional

within the National Agricultural Research System, which are providing advance information about likely prices in the post-harvest season with great precision for various crops in the country. There is a need to set-up at least one AMIC in each state (Acharya, 2015).

(11) A very important initiative of electronic-National Agricultural Market (eNAM) has been recently launched in the country, which is a right step. For making it fully operational in all the wholesale markets, there are several pre-requisites like storage and warehousing facilities, assaying and certification in physical markets, hassle-free mechanism of physical delivery to the buyer and on-line payment to the sellers. My assessment is that even if the e-portal is operational (nation-wide) in next 5 years, it will be a revolutionary measure towards improvement of price discovery mechanism.

(12) Many of such initiatives can be up-scaled if Agricultural Marketing is brought in the concurrent list by a constitutional amendment.

VII. Some Urgent Concerns and Way Forward

Pulses

In the case of pulses, in terms of price policy, we have relied mainly on (a) MSP but with inadequate support

purchase arrangements; and (b) putting imports under OGL with zero or low import duties. The production of pulses has increased but it is still lower than the domestic demand. The pulses are grown by resource-poor farmers. By liberal imports and not diagnosing the problem currently, we could not find a stable long-term solution to price hikes during shortage years. By liberal imports, the consumers gain (via lower prices) and producers lose due to lower price realization. Taking society as a whole (producers and consumers together), the net welfare gain or loss from imports may be very small, but, in the process, redistribution of income takes place from resource-poor farmers to relatively rich pulse consumers. Our rough assessment is that during the last 20 years, around Rs 5 lakh crores have been transferred from resource-poor farmers to pulse consumers.

The diagnosis of the problem can be understood from the following:(a) As 85 percent of pulse area is rain-fed or un-irrigated, year-to-year fluctuations in domestic production will continue; (b) The average year to year variation in recent years has been around 1.5 million tonnes; (c) The gap between demand and normal domestic production is around 5 million tonnes; (d) price elasticity of demand for middle and high income consumers is now low at around minus 0.3, implying that any short fall in production will lead to three times the hike in market prices; (e) private importers will obviously work as astute traders; and (f) marketed

surplus per farm is generally low, even 20 or 40 kg, that calls for different mechanism of price support arrangements. It is in this context that government intervention is called for.

The policy package for pulses should consist of the following:

(i) Appropriate technology for the farmers, including short-duration varieties.

(ii) Arrangements for making available critical inputs like seeds in time, coupled with extension efforts.

(iii) MSP with effective support-purchase system (even reaching farmers having low marketed surplus).

(iv) Buffer stock of at least 2 million tonnes.

(v) Open market operations plus retail sales in small packs.

(vi) Stagger and dovetail import policy (duties) with MSP policy.

Oilseeds

It is disgusting that despite having comparative advantage in production of oilseeds (Acharya 1997, 2006, 2016), we depend for more than half of domestic needs, on imported edible oils. On the lines of argument made above for pulses, by liberal imports of edible oils, during the last 20 years, we have shifted Rs 9 lakh crores

from the pockets of resource-poor oilseed producing farmers to richer sections of the society.

In the short run, we can neither double our oilseeds production nor stop imports of edible oils. However India has demonstrated in the 1980s that if a balanced package is put in place, the production of oilseeds can be doubled within 10 years. There is a need to replicate that package now. The package for oilseeds should inter alia consist of the following:

(i) Identification of crop-specific and location-specific technology for higher yields.

(ii) Systems for making available seeds and extension activities.

(iii) MSP with effective support purchase arrangements.

(iv) Market Intervention as was done by NDDB during the 1980s.

(v) Open market sales scheme (OMSS), including retail outlets using village cooperatives and other grassroot organizations.

(vi) Stagger and dovetail trade policy (including duties) with price policy.

(vii) Resist the pressures from overseas well-wishers, who demolished our package during the first half of 1990s.

Onion

Onion prices have remained frequently discussed issue at all levels. At one time, consumers suffer due to high prices and after a few months onion producers suffer due to very low prices received by them. Some quantity of onion is an item of necessity in almost every house or kitchen in India, be it vegetarian or non-vegetarian, except those following 'Jain' food. To that extent, the demand for onion is price inelastic, though the proportion of income spent on acquiring onion is very small. On the other hand, the consumption demand will not absorb the excessive supply if production goes sharply up. In this context, three points need to be noted. One, the traders fully understand this nature of onion demand and try to take advantage whenever they see an opportunity to maximize their profits. Two, the government has been using the price policy instrument of imports (in shortage situations) and allowing exports (in glut situations), with the clause of minimum export price (MEP). However, the timings of use of these instruments are often questionable. The main reasons are (a) lack of advance 'outlook' information on likely production and (b) absence of active stance on such matters by the state governments concerned. And three, the most appropriate price policy instrument for such farm products is the Market Intervention Scheme (MIS). The initiative in MIS has to be taken by the state government. Recently, a

special fund for MIS has been created and placed at the disposal of SFAC (Ministry of Agriculture, Government of India). MIS is very flexible scheme and can be of great help to the farmers as well as consumers, if concerned states come forward and use it prudently.

I will like to stop here. While thanking you all for a patient hearing, I once again express my sincere thanks to Director AERC, VVN for giving me an opportunity to share my experiences and views on this theme.

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