



A historical perspective of agricultural price policy in India

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Abstract

Agricultural Price Policy is a key component of Agricultural Policy because many evidence shows that it has significant effect on farmer's income and their decision regarding agricultural production. This paper analysis the various changes taken place in the Agricultural Price Policy in India over the period and views of different researchers on this policy. This paper is qualitative in nature and entirely based on secondary data sources. Results of this paper reveal that though this policy has significant effects on income of farmers and growth of agriculture sector, it still has some weaknesses. Estimation of Cost of production (COP) should be done in ideal way and prices must be determined considering inequality of COP across different states of the country.

Keywords: agricultural price policy, minimum support price, cost of production, commission on agriculture costs and prices

Introduction

India is known as Agriculture dominant country because more than 50% of its population directly or indirectly depends on agriculture as their source of livelihood. Share of this sector in Gross Value Added (GVA) at current prices was 42.91% in year 1961-62 while the share of industrial and service sector was 22.77% and 40.72% respectively in the same year which clearly reflect the significant of this sector in national income. But its share in national income is continuously declining. Share of agriculture, industrial and service sector was 20.19%, 25.92% and 53.89% in year 2020-21. Despite this fact its share in total employment generation is high in year 2019, 42.6% population was directly depended on agriculture. This sector helps in the development of industrial and services sector also.

After independence, the main aim of government of India was to attain food security for all section of the country for this purpose many steps were taken by the Government of India (GOI) after independence. Jha committee was appointed, which submitted its report in year 1964. On the recommendations of report of this committee Agricultural Price Commission was appointed by GOI in year 1965. The focus of first Agricultural Price Policy was on both producers and consumers. When it was renamed as Commission for Agricultural Costs and Prices in year 1985 more objectives were added into its TOR and it was made after reviewing the need of whole economy. There are three main instruments of Agricultural Price Policy- Minimum Support Price, Procurement Prices and Fair Prices. Minimum Support Price is that floor price at which farmers can sell their produce when market price falls below their cost of production. Procurement price is always remained little higher than MSP. Procurement price is that price at which government purchase agriculture produce to meetwith certain objectives. In addition, fair price is that subsidized price at which government supply necessary commodities to poor section of the society so that objective of food security can be achieved. At present there are 23 commodities out of 5 groups (Sugarcane, Raw Jute, Copra, Kharif Crops and Rabi crops) for which MSP are determined by the CACP every year. Prices recommendations of CACP

are always based on views of Ministries, all state government and concerned organisations. Other agencies that play vital role in the successful implementation of Agricultural Price Policy are NAFED, Jute Corporation of India, Cotton Corporation of India and FCI.

Objective of the study

The sole objective of this study is the analysis of changes taken place in Agricultural Price Policy of India from that year when the Agricultural Price Commission (1965) [13] was established to till date.

Research methodology

This study is completely descriptive. To accomplish objective, data for this study extracted from secondary sources such as CACP website, website of Ministry of Agriculture and Farmer Welfare, FAO, World Bank, CMIE, newspapers, reports, journals, and from other reliable sources.

Review of literature

Acharya, S. S. (1997) [1] in this study analysed the impact of Agricultural Price Policy on farmers and consumers. This states that focus should not be only on those prices which covers the cost of production, but it is also necessary that alternative ways of reduction in costs should be adopted by the farmers. Agricultural Price Policy has benefited all section of the society. It suggested that Minimum Support Prices (MSP) should be continued.

Chand, R. (2003) [3] this article states that Agricultural Price Policy made India from grain shortage economy to grain surplus economy. Objectives of food security and price stability have been achieved. But there are also some negative consequences of this policy. It is argued that it has created imbalances in demand and supply of various commodities. Farmers do not focus on demand side factors while sowing crops on their land. Due to this demand and supply imbalance created in market and private traders do not show any interest in purchase of the commodities produced by the farmers.

Sarkar, B. et. al. (2014) ^[16] this paper evaluates the cost of production, MSP, and their effects on farmers' income. Secondary data for this study was obtained from archive of Foundation for Agrarian Studies (FAS) under project PARI which was based on survey of 5 villages selected from 3 states namely Uttar Pradesh, Rajasthan, and Madhya Pradesh. Results of the study reveals that cost, C2 or A2+FL which are used by CACP in determination of MSP is beneficial for rich and upper middle farmers and not covered the cost of poor farmers and small cultivators. Through availability of credit and cheap inputs, poor peasants can be made participants in benefits of MSP.

Kang, M. S. (2018) ^[14] under this article it was stated that MSP is unfair to Agriculture Dominated states such as Haryana, western UP, UP and Punjab. Reason behind this is that cost of production (COP) calculated by CACP in fixation of MSP is based on average cost of entire country while COP remains high in these states. Other issue with MSP is that it affects crop diversification negatively due to more incentive prices of wheat and rice than other crops.

Das, R. (2020) ^[4] in this paper farmers access to MSP in case of two crops i.e., wheat and paddy were analysed. Data for the study was collected from 70th round of NSSO and Situational Assessment Survey of Agricultural Household for year 2012-13. In addition to this price policy reports of CACP on kharif and Rabi season for the same year were also analysed. To assess the efficiency of MSP policy comparison between the percentages of those farmers those were aware about MSP and percentage of farmers those selling their crops to Public Procurement Agency (PPAs) were made. Results of the study shows that though in Madhya Pradesh and Rajasthan sizeable proportion of farmers were selling their crops at MSP due to bonus, small proportion out of them were aware to MSP. In Tamil Nadu, Kerala and Karnataka situation was just opposite to it. In Bihar, some parts of UP, and West Bengal considerable no. of farmers were selling their crops below MSP to PPAs. At last, but not least working of this policy is efficient in green-revolution leading states i.e., Haryana and Punjab.

Rituet. al. (2020) ^[15] under this study researcher analysed the impact of Agricultural Price Policy on selected food crops (Gram, Wheat, Bajra, Rapeseed/ Mustard, Rice, Barley and Maize) produced by the farmers of Haryana. Time period for this study was 10 years from year 2007-08 to 2017-18. This study reveals that there was positive deviation between FHP and MSP of these crops and effect of MSP on the productivity of these crops was insignificant.

A historical analysis of agricultural price policy in india

Following the legacy of 2nd world war, the prices of most of the crops were controlled in India. Prices of crops were set to ensure consumer protection and no emphasis was given to provide incentives to farmers. The changes in Agricultural Price Policy of India during different phases can be explained as follows:

From 1965 to 1980

In 1965 on the recommendations of Food grain Price Committee (L. K. Jha Committee) Agricultural Price Commission (APC) was established which was later renamed as Commission for Agricultural Costs and Prices (CACP). At the time of establishment concerning the interest of both consumer and producer it was mandate for this to fix incentive prices of crop so that farmers

encouraged adopting improved technology and production can be maximized

During this period total no. of commodities for which remunerative prices were fixed by the CACP were 21 including paddy, rice, wheat, cotton, sugarcane, jowar, oilseeds, bajra, maize, gram, and other pulses so that price remained stable and overall needs of economy can be fulfilled. Other important objectives were- optimum utilisation of farm resources and it was also directed to this commission that after collecting information it will recommend fair margin on prices and suggest various ways of reduction in costs of marketing.

It was added in TOR (Term of Reference) of Commission that it would undertake studies on plantation of crops according to the method suggested by GOI.

During this period in fixation of prices includes in this policy (MSP, Fair Price, Procurement Price) APC was using 9 important indicators including cost of production, trends in market price and in prices of international market, inflation indexes, demand and supply of commodities, risk under cultivation, changes in input prices etc.

In year 1979 Sen committee was appointed by GOI. This committee recommended that for the fixation of MSP/ Procurement price "Extrapolated Price" should be used. The use of Extrapolated Price will be based on average FHP in the base period and Index No. of cost A1.

From 1980 to 1990

After the setup of APC investment in agriculture and growth rate of agriculture increased rapidly. Thus, CACP also introduced some changes in its Agricultural Price Policy so that this growth rate can be sustained. Now two new objectives were included in its TOR that was following:

- In this policy government directed CACP to set prices in such a way that production pattern can fulfil national requirement.
- Price policy should be made by considering the changes in TOT between agriculture and non- agriculture sector.

During this period total 21 commodities were under the price control. The committee that was appointed during this period was Hanumanth a Rao committee (1990). This was appointed to examining the methodology adopted by commission in estimating the COP and to review terms of trade (TOT) between agriculture and other sectors of economy. It recommended the inclusion of total cost + 10% margin in fixation of prices.

1990 and onwards

In the beginning of this period Agricultural Price Policy was made for 21 commodities, but over the period no. of commodities including in it are changing. In year 1994, Niger seed and sesamum were come under this scheme. Lentil and pulses peas included in year 2001 and 2002 respectively. Thus, in year 2009, total no. of commodities that were included into this policy becomes 25 and at present there are 23 commodities for which prices are recommended by CACP to GOI. According to CACP these Commodities "comprise 7 cereals (paddy, wheat, maize, sorghum, pearl millet, barley and ragi), 5 pulses (gram, tur, moong, urad, lentil), 7 oilseeds (groundnut, rapeseed-mustard, soyabean, sesamums, sunflower, safflower, Niger seed), and 4 commercial crops (copra, sugarcane, cotton and raw jute)".

During this period, 3 important committees were appointed. First of all, in year 2002 "High Level Committee on Long – Term Grain Policy" was appointed. It recommended, in fixation of prices for high-cost regions A2+FL criteria and for most efficient states C2 criteria of estimation in COP can be used.

National Commission on Farmers states that MSP should be fixed based on weighted average of COP+ at least 50% margin. In addition, Alagh Committee was also appointed. At present, while recommending prices CACP taken 7 factors in the fixation including- demand and supply, Price trends in domestic as well as in international market, TOT between agriculture and other sectors, inter- crop price parity, likely implication on customer, COP, and COP+ 50% margin.

Positive and negative aspects of current agricultural price policy

After reviewing various phases of Agricultural price policy it is clear that with some positive effects on farmers and consumers it has some negative aspects also. Some positive and negative aspects of this policy are discussed below:

Positive aspects

- It helps in raising farmer's income and their standard of living by providing them a sense of security via Minimum Support Price and Procurement system.
- Production of staple crops and pulses continuously rising and due to this target of food security has been achieved.
- It can play an important role in diversification of crops according to the requirements of the economy.

Negative Aspects

- In many backward areas farmers still remain unaware to prevailing prices of their crops and sell their agricultural products at market prices though they goes below MSP.
- Out of 23 commodities government agencies prefer to procure only wheat, rice and some certain pulses.
- Implementation of Agricultural Price Policy suffers because of poor infrastructure facilities such as lack of warehouses, long distance of markets and lack of well-built road.
- Some farmers those adopt advanced technology have to bear large production cost than determined

Conclusion and recommendations

It is not only the prices of the commodity which determines the production of the commodity but other factor such as technology and input used also plays important role in its production. As being the important sector of the economy agricultural prices effects not only the agricultural production, crop pattern and productivity but also affects all section of the society. After the establishment of CACP India transform from the agriculture shortage country to agriculture surplus country. Many studies of this field shows that though Agricultural Price Policy has significantly affected farmers' income and helped in achieving the objective of food security for all section of the society. It has some negative aspects also. Measuring COP is not an ideal criterion, and this is not affected all regions equally. An ideal price policy is that which consider interest of all kind of farmers viz. marginal, small, medium and large and

also take into account the interest of the consumers. Some suggestions for an ideal price policy are followings:

- Regional disparities must be considered in determination of criterion of MSP fixation. Because some sates of India are more developed than others and accordingly COP vary state to state.
- Inflation and change in inflation rate should not be ignored at the time of determination of MSP.
- To provide incentives to the farmers for crop diversification, farmers those produce horticulture on their land remunerative prices can be determined for their crops.
- Prices of crops should be fixed in such a way that these can encourage even the small farmers to adopt advanced technology and agricultural product become competitive at international level.
- Last but not least, for effective implementation of this policy warehouses and markets must be created at sites those are approachable so that transportation costs can be minimised and farmers become able to store their produce for long time without the threat of dust, rain and cyclone etc.

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