

Agricultural Price Policy in India: Is there a Case for Government Intervention Now?

Dr. N. S. Shetty

Government of India, since late sixties, had administered support price policy for the principal agricultural commodities. The primary objective of the support price policy was to providing incentives to producers by way of remunerative prices to stimulate agricultural production. The remunerative support price policy had played a catalytic role during green revolution to enable farmers to adopt new high yielding technologies and the country to achieve self-sufficiency in food. Starting from a large deficit in production of food, the scenario changed to such an extent that India was able to build up sizable stock of food grains and stop imports totally, thus erasing its begging bowl image.

In recent years, the agricultural sector, however, witnessed a deceleration in growth rate and almost stagnation in food production. The past policies and strategies, though, enabled the state to achieve self-sufficiency in food, neither led the rural sector into prosperity nor reduced the rural poverty. The economic crisis of 1990-91, which led the country to adopt economic reforms, aimed at liberalization of the economy. However, economic reforms completely bypassed the agricultural sector. Whatever the *ad hoc* reforms undertaken towards agricultural trade liberalization was triggered by The WTO commitments in 1994. Moreover, most of these reforms took place only in the arena of international agricultural trade. There are hardly any changes taking place in the agricultural policy and domestic market. The existing market imperfections and distortions continued

unabated. The agricultural sector is, now, fast heading towards a total collapse, if no remedial measures are taken on war footing basis.

The fundamental issues now raised include: Is the present price policy is remunerative to provide incentives to farmers to stimulate production in the agricultural sector? If so, why the agricultural production growth is decelerating? Why the farmers' per capita income is declining and so many farmers are resorting to suicide? If the farmer is the 'price taker' in both factor market as well as product markets, can we term it as liberalized market? How liberalized is the agricultural sector? Whether the present price policy is compatible with the WTO commitments? All these raise question on effectiveness and justification for present Minimum Support Price Policy in the context of liberalization and globalization.

The recent unprecedented surge in agricultural prices due to supply breakdown both in domestic and global markets has also received much public and policy attention in India as well as the world over in recent times. It was strongly felt that with the changing agricultural supply and demand scenario globally, the domestic agricultural price policy must take into account the surge in world prices, international trade potential of the crops and need for liberalizing domestic market to improve farmers' income. As against this, there was also a strong argument that the liberalization of agricultural prices is a threat to food security in the country. Revisiting the present agricultural price policy has, therefore, become

inevitable in the present context.

In this paper, an attempt is made to examine the rationale for continuing the present agricultural price policy in the context of recent surge in agricultural prices in both domestic and global markets. A brief overview of the present agricultural price policy is presented as a backdrop. In subsequent sections, an attempt is made to examine critically the appropriateness of minimum support price policy and justification for liberalization. An attempt is also made to look into, in the context of liberalization, some of the issues and concerns on food security and safety net to protect the interest of farmers against distress sale.

Rationale for Agricultural Price Policy

Agricultural prices play crucial role in developing agriculture and achieving higher growth. They directly or indirectly influence farmers' incentives and supply responses, allocation of resources for production of various farm products, employment, income, trade between agricultural and non-agricultural sectors, supply of raw materials for agro-based industries, rural savings, capital formation and foreign exchange earnings. Due to biological and seasonal nature of production, high risk and uncertainty of weather factors and inelastic nature of demand and supply, inter-year and intra-year seasonal variability in agricultural prices is, however, wide and frequent. As the implication of wide fluctuations in agricultural prices on instability of income of producers is more than the fluctuations in output, it adversely affects producers' incentive to invest for enhancing farm production. Farm producers, therefore need to be protected from the instability of agricultural prices and income. Agricultural price intervention has, therefore, become an important plank of policy in both developed and developing countries (FAO, 1987).

Government policy interventions in pricing of farm products have taken place in various forms in different countries. In developed countries, it is mainly by way of support price policy through direct income subsidy, deficiency payments and export subsidies. In developing countries, intervention measures adopted include, on the other hand, guaranteed floor price, mandatory producer price, guaranteed market through government procurement, maintenance of buffer stocks, restriction on movement of products, parastatal monopoly in marketing, public distribution and regulation of exports and imports.

In a developing country like India, it is also important for the government to ensure the availability of food supplies at all times at stable and affordable prices. The unrestrained rise in agricultural prices would affect the standard of living of the population in other sectors of the economy. Its effect is severe on poor people, who spend a major portion of their income on food. Formulation of agricultural price intervention, is thus complicated by the multiplicity of often conflicting functions, which agricultural prices perform.

Agricultural Price Policy in India:

Immediately after independence, the agricultural policy, in general, was more concerned with the procurement of surplus from farmers at lower prices with a view to provide cheaper food to urban consumers. This was consistent with policy preference for industrialization and agriculture to contribute cheap food and surplus labor. Thrust of the policy was to ensure that shortages did not cause excessive rise in consumer prices. Agricultural prices were depressed through imports to meet the deficit of the domestic supply and by restrictions on movements of farm

produce. Administered prices have been in vogue only in the case of certain food crops mainly with an objective of ensuring availability of food to consumers at affordable prices.

In the mid-1960s, faced with recurrent food crisis situation, the main emphasis of agricultural policy shifted to increasing productivity of land through use of high yielding new technology. The Government of India adopted a new agricultural strategy, which emphasized the introduction of high yielding seeds and technological package for achieving food self-sufficiency. Since remunerative prices can help in encouraging the adoption of high yielding technology, a comprehensive and systematic thinking about fixation of incentive prices to producers started in real earnest. Based on the recommendations of the Jha Committee on Food grains Prices in 1964, agricultural price policy was for the first time considered as an instrument to provide incentive by way of support prices and guaranteed market for the farm produce.

The Agricultural Price Commission, which was subsequently renamed as Commission for Agricultural Costs and Prices (CACP) was set up in 1965 to advise the government "on the price policy of agricultural commodities particularly paddy, rice, wheat, jowar, bajra, maize, gram and 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 interest of the producer and consumer." With a view to provide guaranteed market for the farm produce at prices fixed by the government, the Food Corporation of India (FCI) was set up in 1965 to undertake purchase, storage, movement, transport, distribution and sale of food grains.

The Government of India, based on the recommendation of CACP, announced every year minimum support prices (MSPs) for principal agricultural commodities. The agricultural commodities covered under MSP were mainly cereals, pulses, oilseeds and commercial crops. The minimum support prices are announced before the planting season so that these prices serve as guaranteed minimum for decision making on allocation of resources and choice of crops to grow. The procurement prices are announced, subsequently at the time of harvest. Food Corporation of India provided guaranteed market to safeguard the interests of farmers under MSP program. Besides procurement operations under MSP, FCI mandate included maintenance of buffer stock for food security and supporting public distribution.

Though, during the green revolution, the objective of agricultural price policy was to provide remunerative incentive prices to producers and provide guaranteed market through FCI, in subsequent years, the price policy was diluted in its objective and focused more on providing minimum support prices. As per this policy, the prices of agricultural commodities were not fixed or controlled by the Government, except for sugarcane. The producers were free to sell their produce at market prices. If the market prices fell below minimum support price (MSP), the Government was bound to support by buying whatever quantity is offered for sale. If the market conditions warrant higher prices, there was no bar on the sale of these commodities at higher prices. Thus, the objective of MSP policy was to prevent what may be called distress selling due to conditions of glut or lack of effective demand. MSPs were only meant to be the floor levels below which the market prices would not be allowed to fall. In other words, the MSPs were in the nature of

guarantee to enable the producer to pursue his efforts with the assurance that prices of his produce would not be allowed to fall below the level fixed by the government (Dantwala, 1996)¹. Thus, FCI's market intervention was only when market prices fell below the minimum prices announced by the Government

Liberalization and WTO Policy Regime

The economic crisis of 1990-91, which led the country to adopt economic reforms, aimed at liberalization of the economy with a view to restore macro-economic stability and to achieve higher growth on sustainable basis. The process of liberalization and opening up of Indian agriculture was expected to reduce distortions of domestic prices, turn the terms of trade in favor of agriculture, increase productivity by an efficient allocation of resources, improve its competitiveness, increase private investment and provide better incentives to farmers than has been in the past. With globalization, unless the Indian agricultural sector becomes efficient and globally competitive, it cannot achieve the desired objectives of higher growth and increase in farmers' income. Agricultural liberalization was, thus, expected to remove government interventions from both agricultural commodity and factor markets. Instead of "getting prices right", the emphasis should have been to "get the market right".

With the signing of the GATT Agreements in 1994 and joining the World Trade Organization (WTO) as a

founder member, Indian agriculture has entered into a new era. Being one of the largest producers of agricultural products, India could be a big beneficiary and become a major player in the global market. To benefit from globalization, however, Indian agriculture has to be operated in more openness and competition. Under the WTO policy regime, the policy thrust of Indian agriculture was, thus, expected to "establish a fair and market-oriented agricultural trading system." In order to achieve this, the policy should have aimed at reduction of trade distorting domestic support and promotion of trade promoting policies.² As per this policy paradigm, the price policy was to play a critical role of fully interacting with the market forces and facilitating the integration of domestic market with the global market. Both growing domestic and world markets were expected to provide driving force to stimulate higher growth in Indian agriculture.

However, economic reforms of 1990-91 completely bypassed the agricultural sector. Whatever the ad hoc reforms undertaken towards agricultural trade liberalization was triggered by the WTO commitments. Moreover, most of these reforms took place only in the arena of international agricultural trade. There were hardly any changes taking place in the agricultural policy and domestic market. The existing market imperfections and distortions continued unabated. The agricultural sector is, now, fast heading towards a total collapse, if no remedial measures are taken on war footing.

¹ No attempt has been made in this study to critically examine the methodology adopted for estimating cost of production to set the minimum support prices and to evaluate the implementation of price policy during the last three decades.

² For details of the WTO policy package for agriculture sector, see "WTO and Its Implications for Indian Agriculture" A Research Report Submitted to Indian Institute of Banking and Finance by Justice K.S. Hegde Institute of Management, Nitte, 2003.

Recent Surge in Agricultural Prices

Global food prices have, recently, witnessed an unprecedented surge and are likely to stay high in the near future. After two decades of almost stagnation in food prices, the increase in prices, initially, started with maize and wheat, now cover all cereals, pulses, vegetable oils, fruits and vegetables. Agflation- rise in agricultural prices globally started building up around 2005. It reached the double digit level in mid-2006, crossed 20 percent in 2007 and accelerated to 43 percent in 2008 (FAO, 2008). Wheat price has more than doubled and rice price almost tripled. The rise in energy prices and resultant cost escalation, diversion of food grains to produce bio-fuels in the form of ethanol and also for feedstock have triggered an upward shift in demand for food grains and caused major surge in prices (Siddique, 2008).

On supply side, the world production of cereals has remained stagnant around 2100 million tonnes after 2006, whereas, world population has been increasing by about 78 million per year. Per capita cereal production in the world declined from 357kg to 317kg per year between 1997-99 and 2005-07. Food production is, thus, required to be doubled by the mid-21st century to feed a world population that is projected to increase from the current 6.4 billion to 9 billion (FAO, 2008).

The challenge is how to double the world food production output by 2050 using less land, far less water and fewer nutrients in the background of increasing climate variability and change. With increasing urbanization and competition from other crops, less land will be available for food crops. Huge rise in crop yields is unthinkable with declining water availability for irrigation and diminishing return on fertilizers use. A technological breakthrough that can

raise the productivity of grains dramatically is a long term process. As against this, population growth, rising incomes, the declining agricultural productivity, climate variability and change, and the increased use of grain and sugarcane for bio-fuel production - all are leading to a surge in food grains demand. The rise of bio-fuels presents a serious issue since it takes over arable land and diverts resources from food production. It is estimated that by 2020, this would require 400 million tonnes of grains. Due to all these factors, grain markets are undergoing structural changes, which will keep food grain prices high in the near future.

High food prices in both world and domestic markets are now boon to farmers and favourable factor for growth of production. High prices will encourage investments in farming and raise productivity. The era of low food prices, which continued since Second World War, may have ended for the time being. If major agrarian economies such as India and China can strengthen their farm production base, then only global market will have enough to feed.

Issues relating to Price Policy

In India, the emergence of agricultural price policy came in the context of food crisis of 1960s. During green revolution, it was found necessary to provide remunerative incentive prices to farmers for their produce with a view to induce them to adopt new technological package to stimulate agricultural production. The remunerative support price policy has played a catalytic role during green revolution to enable farmers to adopt new high yielding technologies and the country to achieve self-sufficiency in food. However, during the last two decades, other two considerations weighed more in influencing the agricultural price

policy. They were: (i) providing food grains for public distribution system and (ii) ensuring food availability at affordable prices to consumers with a view to control inflation. Though, there was continuous increase in MSPs announced, with the increasing costs and almost stagnation in productivity, the price policy has not played positive role in providing incentives to farmers. It has neither succeeded in increasing farmers' income in real terms nor sustained the viability of agricultural production.

The major issues arising from the present agricultural price policy are as follows:

- Though the government of India announces minimum support prices for all principal food crops, its price support mechanism, now, remains effective basically for wheat and rice. For the coarse cereals, oilseeds and pulses, the price support mechanism ends with mere announcement without the government market intervention³. There were several occasions when prices of coarse cereals went below minimum support prices announced, but no government market intervention took place at MSPs.

- MSPs at present neither provide safety net at the time of distress sale nor represent remunerative incentive prices to farmers to raise crop output. Since the government market intervention constitutes only a small proportion of only two food crops, MSPs could not act as safety net to protect the interest of farmers at the time of fall in prices. With systemic market failure, farmers end up selling their produce at prices

below MSPs. The minimum support prices were mainly based on the cost of production rather than on demand - supply basis. They were most of the time kept below the world prices and farmers were thus discriminated and implicitly taxed.

- With the increasing costs of purchased inputs and without adequate profit margin, MSPs were not considered as remunerative incentive prices to farmers. As pointed out by Prof. Dantwala, the first chairman of APC, anything less than market prices necessarily constitute disincentive to farmers⁴. They would also act as indicative prices for private traders to collude to depress market prices for the farm produce. Moreover, whenever MSPs were higher than market prices, the greater would be their ineffectiveness in terms of market clearing (Bhattacharya, 2003).

- In the past, farmers were using family labour and farm based inputs. Whatever the gross income earned from their produce was their family income. At present, farmers mainly depend on purchased inputs and hired labour, which has driven the farming to a much higher-cost economy. With the increased outflow for paid-out inputs, their income is completely eroded. The green revolution, though, resulted in increase in production, has not contributed to increase in farmers' income; it has increased production at higher paid-out costs. The price policy adopted completely ignored increase in per capita income of farmers and also terms of trade parity between agriculture and other sectors

³ KSAPC Study Report-7 analyzed data for a period of 14 years from 1987/88 to 2000/01 and concluded that "most favoured" crops by the Government of India were wheat, sugarcane and cotton., "moderately favoured" crops are paddy, oilseeds and pulses and the "least favoured" crops are coarse cereals. KSAPC: Procurement, Storage and Disposal of Agricultural and Horticultural Commodities – A Report, 2003.

⁴ "Incentives and Disincentives in Indian Agriculture," *Indian Journal of Agricultural Economics*, Vol.19, 1964.

- The announcement of minimum support price was not done in time before the commencement of crop season. It was done only as an annual ritual; one not performed in time. Unless the minimum support price is announced before the planting season, it cannot become a powerful tool to guide farmers in resource allocation for increasing production.

- Farmers are not allowed to adjust to the integration of local markets with global ones. On one hand, they are deprived of surge in market prices and on the other hand, they are not allowed to adjust the cropping pattern in accordance with the markets to increase their income.

- The systemic market failure and delay in payment particularly small farmers on crop delivery under the government procurement operations forces farmers to sell their produce to private traders below issue prices announced by the government as they are badly in need of cash immediately after harvest. If prompt payment is not made on delivery of their produce, farmers naturally look to the alternative, where they get on the spot payment even at discount. This defeats the whole purpose of the Government intervention.

- Agricultural Produce Marketing Committee (APMC) monopoly and lack of proper infrastructure at APMC such as storage, grading facilities, network for transport etc. contributed to market imperfections and inefficiencies, which result in arbitrary grading, congestions and delays in procurement, deterioration in quality, waste of products procured and various malpractices in marketing of produce.

The price policy in its present form is, thus, ineffective in providing either remunerative prices for their produce or safety net to protect farmers' interest against distress sale. The price policy adopted for the current Kharif crop season is also quite revealing in this regard. The government has in the middle of June announced the MSP for paddy at Rs.850 per quintal for common paddy and Rs. 880 per quintal for Grade 'A'. The increase in MSPs is only Rs.105 per quintal. As regards MSPs for other Kharif crops, "there is no urgency for announcing the MSP for other crops as the market prices are already ruling high for them"⁵.

The price policy adopted for the current kharif crop season raises the following questions:

1. The announcement of MSP for paddy is too late. With the onset of Monsoons, the kharif crop season has already begun. Announcement of MSPs at this juncture does not serve the purpose of guiding farmers in resource allocation and farm planning. Moreover, the announcement of MSP for paddy and leaving other crops untouched defeats the whole purpose of pre-planting announcement of MSPs.

2. The announcement of MSP for paddy is too little. The domestic market price of rice has already increased by 200 percent and global price by 300 percent. The government has increased the MSP for paddy only by 14 percent as against almost 300 percent increase the global price of rice. When the government has not found justification for pre-planting MSP for other crops on the ground that the ruling market prices are already high, why the same approach was not adopted for paddy?

⁵ Finance Minister Chidambaram stated in his Press Statement while announcing MSP for Paddy on June 12th, 2008

3. While the CACP has recommended based on cost plus basis MSP for paddy in the range of Rs.1000 – Rs.1050 per quintal, on what basis, the government fixed Rs.850 per quintal as an incentive price for paddy. Can the government expect farmers to increase paddy production with the MSP of Rs. 850 per quintal, when the ruling market price has almost doubled?

4. The government has referred the recommendations of the CACP on MSPs to Prime Minister's Economic Advisory Committee (EAC) for the first time. Besides creating a bad precedent, this raises the question of the justification for existence of the CACP. Is the EAC better equipped than the CACP for fixing MSPs for agricultural crops.

From the above, it is clear that the present price policy does not aim at providing incentive prices to farmers to stimulate production. Instead, the policy is more dominated by consideration of effect of any steep hike in agricultural prices on inflation and its impact on its procurement operation for public distribution and subsidy. Thus the intended objective of providing incentives to farmers was relegated to the backyard and the price policy was now used more as a political tool to please the consumers.

Is there a case now for Government Intervention?

In a closed economy, the MSP is a market-clearing price. Theoretically, whenever, market prices fall below the MSPs, the Government is expected to intervene and purchase farmers' produce and build stocks. This is expected to reduce supply and result in prices to rise. When prices started to rise, the Government is expected to release the stock under commercial operations. Empirical studies have, however, clearly

shown that market intervention has not helped to raise prices of farm produce. Instead, in most of the cases, it depresses prices further with the withdrawal of private traders or their forming cartels in the agricultural produce market. The Government can stabilize agricultural prices only by monopolizing in the market. The efficacy of the Government intervention as a policy instrument to ensure stability of farm income is therefore doubtful. In spite of continuous increase in MSPs, there is no empirical evidence to prove whether the MSP policy achieved the set objectives of stimulating supply response and maintaining stability in the grain markets. Instead, the approach led to lopsided allocation of resources resulting in production inefficiencies, cropping-parity distortions and decline in food production. Unless price distortions are corrected and prices are linked to demand and supply, farmers tend to misallocate their resources.

In an open economy, market mechanism determines price. It is immaterial whether the market is competitive or oligopolistic. What is important is the relative prices i.e. global and domestic market prices. The MSP is, by definition, not the market clearing price. In fact, it introduces market distortion. If the MSPs are lower than the relative prices in the global market, farmers will be implicitly taxed; which will depress farmers' incentive to produce more. If the MSPs are higher than relative global prices, the global market will increasingly turn against the domestic prices. This will adversely affect the comparative advantage and bring more imports and distort the market further. Moreover, since the procurement prices are out of line with global market prices, this will involve implicit export subsidy which is not permitted under the current WTO policy regime.

After an experience of a quarter century in implementation of the price policy intervention scheme, Prof. Dantwala- an architect of the price policy in India- rightly urged policy makers to recognize the changing role of MSP and market interventions. He wrote that *...Intervention has to be selective. Its need must be clearly established and its effectiveness should be constantly under review. The real problem is not simply to establish the legitimacy of intervention, but that of ensuring its effective and judicious implementation*" (Dantwala, 1996). Thus, with liberalization, the context of price policy changed substantially and so also the direction and effectiveness of price policy as a tool to influence the agricultural production and welfare of farm community (Deshpande and Naika, 2004).

In the wake of liberalization and globalization now, the question will therefore arise whether there is any justification for the price policy intervention? The liberalized trade regime essentially allows the market determined price mechanism to work. The administered price mechanism distorts the market mechanism. In the context of globalization, what is important is the set of relative prices i.e. global market prices and the domestic prices and their integration. This would raise the fundamental issue of the efficacy of continuation of the present price policy in the context of the WTO policy framework. Hence issues in the price policy need to be posed in a totally different perspective.⁶

India's population is growing at present by 1.44 percent per year and per capita food demand is also increasing. But the growth in food grains is not keeping

with the rise in population. Per capita food grain production declined from 207kg during early 1990s to 186kg during 1996-2007. Global prices almost doubled during the last three years, but farmers' prices have remained more or less the same in real terms. After remaining a net exporter of food grains for some years, the country appears to be on the verge of becoming net importer. The domestic demand for food grains (without exports) is projected to increase to 235.4 million tones by end of Eleventh Five Year Plan and 280.6 million tones by year 2020-21. This would require annual growth rate of 2 percent in food grain production as against the present annual growth of 0.48 percent.(1997-98 to 2006-07(Chand, 2008). This could pose a serious threat to food security.

The main problem of agriculture today is decelerating growth and non-viability of farming. Market driven incentive to stimulate production and improve profitability and productivity growth should be the cornerstone of the agriculture policy in India today. The National Agricultural Policy Document (2000) recognized, among other things, that agriculture has become a relatively unrewarding profession due to generally unfavorable price regime and low value addition. It is imperative to ensure that farmers receive prices commensurate with their efforts and investment.

High food prices in both world and domestic markets could be a boon to Indian farmers and an opportunity for increasing production, since high prices encourage investments in farming and raise productivity. The era of low food prices may have ended for the time being. For Indian farmers, it is now a wake up call for survival and challenging opportunity

⁶ There are two opposite view- points; one to fully revamp the price policy and allow market to determine prices (Gulati and others) and other to change the structure slightly to suit the present needs (Bhalla and others).

to improve their well-being by increasing income. The benefit of high market prices should be therefore passed on to farmers. With the present policy regime, this may not be possible. There is, therefore, an urgent need to free the agricultural price policy from the political and bureaucratic nexus and closed economy scaffolding.

Liberalization and Areas of Concerns

There is a fear in some quarters that liberalization of agricultural prices will endanger the food security. The justification for continuing the minimum support price policy for food crops, even in the context of agricultural liberalization, is made, among other objectives, in the perspective of overall food security. The policy of food security aims at ensuring the physical and economic access for all people at all times to enough food for an active, healthy life with no risk of losing such access. A country is food secure when it is able to provide nutritionally balanced adequate food to all citizens under all circumstances. Food should be made available to all as a matter of right and food insecurity is a matter of human deprivation (Parikh, 1998). By the very definition, food security primarily involves increase in food production and its availability. Enhancing production growth by providing incentives to producers alone can ensure food security in the long run.

The fallacy in justification mainly arises due to confusion in the role of MSP and procurement operations for Public Distribution System (PDS). Empirical evidence clearly shows that PDS, as an instrument of price incentive and stabilization, is ineffective and

has failed miserably everywhere. However, the PDS, as the main safety net to protect the poor from malnutrition and provide food at affordable prices,

need hardly any emphasis. With a large population below poverty line, it was strongly argued that compromising with the economic access to food security and non-availability of food at affordable prices will be detrimental to aggregate welfare. With the threat of agflation, there is already demand for universalisation of PDS

A distinction should be, therefore, made between incentive support price policy and government intervention for procurement for PDS. While advocating liberalization, the WTO Agreement on Agriculture imposes two basic constraints on the PDS for food security: First, the government can buy food grains for buffer stocks only at market prices. Second, subsidized public distribution of food below market prices should be restricted to targeted groups in the population below a prescribed nutrition minimum, instead of universal PDS. The PDS for food security should not be in any way at the cost of producers' prices as it will adversely affect the food security in the long run. In India, in the wake of economic reforms and budgetary constraints, the PDS was revamped as the safety net to protect the poor from adverse economic conditions and malnutrition and targeted to people below poverty line. However, as pointed out by many evaluation studies, it suffers from large leakages and misuse and never reached the targeted poor (Radhakrishna, 2002). What is required is delinking of procurement operations from price policy and revamping of the present PDS on line with the WTO policy stance.

Another justification for MSP policy is to provide safety net against distress sale at the time of fall in prices. For majority of farmers, the distress sale immediately after harvest is a major problem. There is a need to safeguard the interest, particularly of small and marginal farmers against distress sale

immediately after harvest. At present, the Government's market intervention operation covers only wheat and rice and 20 to 30 percent of their marketed surplus. They benefit only large farmers who have marketable surplus and not small and marginal farmers. The effectiveness of the MSP policy as a tool for providing safety net against distress sale for small and marginal farmers is, therefore, doubtful.

Instead of depending on MSP as safety net against distress sale, the government should consider market based instruments available to protect the interest of farmers against fall in prices. They are comprehensive crop insurance scheme, which should also cover price risk, forward trading, pledge loan scheme and loan against warehouse receipts to enable farmers to prevent distress sale and hold the stock when prices crash. Whenever there is a crash in price, farmers could store their produce at warehouses/rural godowns at a nominal tariff and obtain warehouse receipts. Such warehouse receipts should be considered as negotiable instrument to obtain credit facilities from the Banks. In the same vein, the extension of crop insurance scheme to cover loss incurred due to fall in prices below the cost price would go a long way in overcoming the problem of distress sale. Farm Income Insurance scheme to safeguard farmers' income can also be considered as an alternative option, wherein, the risks of loss of income due to fall in the prices of commodities will be included. In the long term perspective, thus, the solution to these entire problems lie in market driven production approach, vertical integration of production, processing and marketing for value addition, provision of market information to farmers and insurance coverage for production and price risks rather than government intervention in the market.

In the present context, more than price

intervention, price and market monitoring mechanism are the most urgent requirements. The major problem faced by the farmers, today, is lack of information on the commodity market outlook, market prices and prospects and relevant developments in both domestic and world market. In liberalized market situation, timely comprehensive and systematic information is a must. There is a need to have a nodal agency to systematically compile information, build data bank, carry out market surveys and research and disseminate them on regular basis to the farmers. In the changed liberalized context, competitive and efficient functioning of markets and easy access to such markets for the farm produce will go a long way in alleviating most of the problems faced by the farmers today than the government's price intervention.

Conclusion:

At micro level, market determined agricultural prices play a crucial role in determining farmers' incentives and supply response, allocation of resources and adoption of new technology to increase productivity and crop diversification based on domestic and world market demand. In the context of market liberalization and the WTO policy framework, the thrust of the Government's price policy should be not market intervention to distort markets, but promotion of trade through market enabling and facilitating intervention as well as monitoring and provision of market information as public utilities to guide the farmers in their decision making process.

In India, the emergence of agricultural price policy came in the context of food crisis of 1960s. During green revolution, the remunerative support price policy played a catalytic role to enable farmers to adopt new high yielding technologies and the country to achieve

self-sufficiency in food grains. However, during the last two decades, it has neither succeeded in increasing farmers' income in real terms nor sustained the viability of agricultural production. The falling income and rising cost of production have made farming unviable and farmers quite vulnerable. The agricultural sector is, now, fast heading towards a total collapse, if no remedial measures are taken on war footing.

The real solution lies in improving profitability of farming through market based incentives, productivity growth and improving competitiveness in the global market. Incentive to producers is the cornerstone of any production system. Income of the farmers can be protected in the long run only through the market driven production system, which require public and private investment in agricultural infrastructure, removal of market imperfections, quality improvement and value addition through vertical integration of linking production with processing and marketing both for domestic and export. This requires not price policy intervention but market promotion intervention by the Government. The focus of the policy should be on market driven production research to improve productivity and quality, storage and grading facilities, pledge credit to improve farmers' countervailing power, processing and export marketing promotion. For this both public sector and private sector participation is required. This needs another green revolution of a different type in the context of liberalization.

The PDS, as the safety net to protect the poor from malnutrition and provide food at affordable prices, should be delinked from the objective of providing incentives to farmers. The state should build up buffer stock by undertaking procurement operations in open market for public distribution for poor. Similarly in order to protect the interest of farmers against distress sale, the government should consider other options such

as direct income support to the farmers whenever prices fall below the average costs, Guaranteed Income Insurance Scheme (GIIS), activate forward/future market operations and pledge loans against warehouse receipts.

Global food prices have recently witnessed an unprecedented surge and are likely to stay high in the near future. The recent surge in food prices in both world and domestic markets are boon to farmers and can be viewed as a challenging opportunity to save the ailing agriculture. High market prices will encourage investments in farming, raise productivity and farmers' income. The era of low food prices have ended for the time being. The Indian agricultural sector has the golden opportunity to move towards prosperity. The time is right for Indian agriculture to focus on its strengths and drive towards higher growth path. The benefit of high prices should be passed on to farmers in full measure. However, in India, as recent policy announcements have clearly shown that instead of looking towards farmers' interest and providing them a challenging opportunity to enhance their income, the government is more interested in a short term fire-fighting measures to control inflation by depressing MSPs and distorting the market further. Even the ban on exports and forward marketing of certain food grains aimed at driving away increase in domestic food prices. All these measures are detrimental to farmers' interests. Agriculture, as usual, is discriminated.

References

- Acharya S.S. and Agarwal N.L. 1994: *Agricultural Prices – Analysis and Policy*, Oxford and IBH, New Delhi.
- Bhalla G.S. (Ed) 1994: *Economic Liberalization and Indian Agriculture*, Institute for Studies in Industrial Development, New Delhi.

Bhattacharyya B. 2003: Trade Liberalization and Agricultural Price policy in India since Reforms, *Indian Journal of Agricultural Economics*, July-September.

Chand R, 2008: *Demand for Foodgrains*, Economic and Political Weekly, Dec.29 – Jan 4, 2008.

Dantwala M.L. 1996: *Dilemmas of Growth – The Indian Experience*, Sage Publications India Pvt. Ltd., New Delhi.

Dantwala M.L. 1986 (Edited): *Indian Agricultural Development since Independence*, Oxford and IBH, New Delhi.

Deshpande R.S. and Naika T.R. 2004: *Moon in the Mirror: Farmers and Minimum Support Prices in Karnataka*, Institute for Social and Economic Change Bangalore.

F.A.O.(U N), 1987: *Agricultural Price Policies: Issues and Proposals*, F.A.O., Rome.

Government of India, 2007: Karnataka Development Report, Planning Commission, New Delhi.

F.A.O. (U N), 2008: *Agricultural Outlook*, FAO, Rome.

Government of India, 1990: *Report of the Expert Committee for Review of Methodology of Cost of Production of Crops*, New Delhi

Government of India, 2000: *National Agricultural Policy*, New Delhi.

Gulati, Ashok and Pursell G, 1996: *Trade Policies, Incentives and Resource Allocation in Indian Agriculture*, The World Bank, Washington, U.S.A.

JKSH Institute of Management, 2003: *WTO and Its Implications for Indian Agriculture* Oct. Nitte, A Research Report submitted to The Indian Institute of Banking and Finance.

JKSH Institute of Management, 2007: *Floor Price Revolving Fund Scheme of Karnataka – An Evaluation Study*, Research Report submitted to Government of Karnataka.

Radhakrishna, R. 2002: Food and Nutrition Security, in India Development Report -2002, Indira Gandhi Institute of Development Research, Mumbai.

Siddique, K. 2008: Challenge and Opportunity in Agriculture, *The Hindu*, May 2.