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in Indian Agriculture-An Empirical Analysis of Government
Policy Interventions in Food Management**

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Positive and Normative Aspects of Food Policy and the Market in Indian Agriculture-An Empirical Analysis of Government Policy Interventions in Food Management

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Abstract

This paper begins by outlining the views of economists on food management and contemporary food policy issues in the backdrop of largely unchanging dynamics of slow growth of the farm sector in India. First we deal with the manner in which the changing situation is dealt with in terms of cycles in the wheat market. We also outline the analysis of how the effects of government policy including subsidizing import is dealt with in the policy literature. We then empirically examine the welfare impacts of the policy of subsidies on imports alongside high Support Prices. Finally debates on high support prices are discussed. We sum up this paper with the argument that the need for food management in India, under conditions of global volatility, risk and uncertainty is obvious to any sensitive analyst of Indian Agriculture. Efficiency and reform in food management policies and administration in relation to clearly stated welfare objectives is the need of the hour.

Positive and Normative Aspects of Food Policy and the Market in Indian Agriculture-An Empirical Analysis of Government Policy Interventions in Food Management

Introduction:

In this paper we build up a perspective on food stocking, pricing and policy, this includes the need to concentrate on food management reform particularly regarding the presence of cycles in stocks of food grains. Various authors ranging from Chand (2009) and Mahendra Dev (2010) are a part of this narrative.

Food Policy and Price Policy: A Contemporary Perspective

S. Mahendra Dev (2010 p.174.) discusses the role of price policy in protecting the interests of both consumers and producers, ensuring that consumers do not have to pay too large a price and ensuring that producers get a sufficient income. He further says that the second major factor driving higher support prices is the operation of market forces in a liberal and open trade regime. Price policy faces different challenges in such a scenario. For example, low production can coincide with low prices with liberalized imports and exports. When the international market prices are higher and rising as a result of a supply shock, domestic prices of the respective commodity shoot up and procurement of sufficient quantities to the required levels to ensure food security becomes difficult. Therefore, the government will have to offer higher prices. The result of these higher support prices is that it hurts the consumers and has an adverse impact on poverty reduction. (S. Mahendra Dev, 2010, p.180-181). On openness, Dev's assessment is that although somewhat protectionist, India's trade policies and food management policies (support prices, buffer stock and PDS) were responsible for insulating India from global volatility (S. Mahendra Dev, 2009, p.3).

He concludes "To sum up, a higher emphasis has to be given to non-price interventions through public investments to supplement price policy measures. They can help in increasing yields, reduce the exclusive reliance on prices for farm profitability and food security, and also hasten poverty reduction, as the history of poverty reduction in the country shows that the proportion of the poor declined at faster rates when food prices are low."(S. Mahendra Dev, 2010, p.181)

An argument against price incentives is provided by Maurice Landes of the Economic Research Service, U.S. Department of Agriculture:

“During the late 1990s, the MSPs set for wheat and rice in India became increasingly out of step with domestic and world market conditions. . Higher MSPs benefited the producers in surplus areas who received the MSPs, but higher market prices had adverse impacts on consumers. By maintaining high prices, the Government became responsible for the storage and transport of most of the marketed surplus of wheat and rice in the country—which some observers termed a “de facto nationalization” of grain trade. This resulted in rising budgetary costs for procurement, storage, and storage losses, together with reduced incentives for private investment in grain storage and handling.” (M.Landes, 2010, p.7)

Minimum Support Price and Cycles in the Wheat Market

Does Agricultural price policy in India play a counter cyclical role? Or do quantitative interventions exaggerate cyclicity. This important practical question with obvious macro implications is analyzed by Ramesh Chand:

“After 1998, India was caught in a spiral of accumulation of large stock of wheat, followed by large exports, and the subsequent depletion of stock followed by large imports. Again the country started building stock of wheat beginning with July 2008 and it seems to be at a threshold of accumulating the large stock.” (R. Chand, 2009, p 41.)

Self-sufficiency in wheat was considered to be a major objective in Indian Agriculture. For this to happen there had to be enough production to satisfy demand. This happened to some extent with the green revolution and the increase in yield due to that. Though the problem of heavy imports was solved due to this, there began as described above in the quote from Chand the problem of adversarial cycles in the buffer stock.

The following is the situation of buffer stock of wheat in India since 2000, as computed by us, from government sources:

Table 1

Buffer Stock of Wheat

Month-wise Foodgrains Stock in Central Pool (As on 1st day of the month)
(Lakh Tonnes)

Year	Jan	Feb	Mar	Apr	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
2000	171.71	158.08	144.03	131.87	215.20	277.68	277.57	275.91	272.97	268.50	264.98	259.77
2001	250.41	241.18	233.03	215.04	292.16	375.47	389.20	387.15	378.74	368.26	357.97	340.06
2002	324.15	302.01	284.64	260.39	381.04	413.17	410.74	396.58	379.02	356.37	330.59	312.72
2003	288.3	213.21	185.80	156.45	260.12	265.36	241.94	224.27	207.04	184.27	164.13	145.62
2004	126.87	109.5	85.73	69.31	190.33	193.9	191.52	174.26	159.98	142.23	126.31	106.6
2005	89.31	73.05	57.5	40.66	150.5	161.31	144.54	129.81	116.22	102.9	90.52	76.31
2006	61.88	48.74	34.49	20.09	89.93	93.2	82.07	73.3	67.17	64.12	59.94	55.94
2007	57.29	53.85	51.00	45.63 ¹	116.0	133.08	129.26	120.19	110.08	101.21	90.25	83.58
2008	77.12	71.62	65.06	58.03	176.92	241.23	249.12	243.80	232.59	220.25	209.61	195.98
2009	182.12	167.74	152.76	134.29	298.26	331.22	329.22	316.23	300.73	284.57	268.88	251.61
2010	230.92	206.23	183.88	161.25	337.13	351.62	335.84	320.47	298.62	277.77	255.58	239.14
2011	215.4	193.73	171.57	153.64	313.75	378.32	371.49	358.75	336.21	314.26	296.71	276.56

Source: FCI Web-site.

The demand and supply imbalances in the case of wheat became more serious in the recent period. After 2000, we can see a tendency to accumulate large stocks followed by large exports, and then depletion of stocks followed by imports. Meanwhile MSP shows a steady increase (Table 2.) After 2008, we again began the policy of large accumulation of stocks. Till 2004 there were large stocks surplus and exports, from 2004 onwards, the wheat stock was low and there were imports, this policy of cheap exports followed by expensive imports was befuddling. In 2008 again large stocks were accumulated, there was again (as in 2002-04) a situation in which procurement of wheat at low prices needed to be done. This leads to a typical problem, with international prices lower than the MSP, the window for export is closed, if still the country chooses to subsidize wheat exports to reduce stock *it would amount to subsidizing wheat to foreign consumers, at the cost of Indian consumers.*(R.Chand 2009, p.42)

¹ In addition to above, 1.40 LMT imported Wheat lying at ports

Table 2
MSP Wheat Rs. /qtl.

Year	MSP
2005-6	650#
2006-7	750##
2007-8	1000
2008-9	1080
2009-10	1100
2010-11	1120###
2011-12	1285

#An additional incentive bonus of Rs.50 per quintal was payable over the Minimum Support Price(MSP).

##An additional incentive bonus of Rs.100 per quintal was payable over the Minimum Support Price(MSP).

###An additional incentive bonus of Rs.50 per quintal is payable over the Minimum Support Price (MSP)

Source-Agricultural Statistics at a Glance, Government of India, 2011.

As Chand (2009, p.43) writes “...after 1995, the MSP was clearly raised when the international prices were higher than the domestic prices. However, the MSP was not lowered when the international prices fell below the domestic prices and the MSP. This closed the trade window to stabilize the domestic market through exports when there was surplus wheat in the country. The increase in MSP while ignoring the COP and the domestic market conditions also adversely affected the domestic demand and led to a buildup of stock with the government.”

Thus the situation was of low international prices of wheat and subsidy being given for wheat exports. This led to glaring contradictions in government policy as seen in Table 3 and Box 1 looked at simultaneously.

Table 3**Wheat Monthly Price - US Dollars per Metric Ton**

Wheat - Monthly Price		
Month	Price	Change
Nov-11	281.01	-
Dec-11	269.03	-4.26%
Jan-12	274.89	2.18%
Feb-12	277.77	1.05%
Mar-12	283.88	2.20%
Apr-12	266.32	-6.19%
May-12	264.36	-0.74%

Reference: <http://www.indexmundi.com/commodities/?commodity=wheat>

Box 1-Expedite norms for wheat export

The PM's economic adviser Dr C Rangarajan has recommended to the Food and Commerce Ministries in mid-May an export subsidy of Rs 1,500 crore for two million tonnes of wheat from the central pool, or 7,500 per tonne (\$133 per tonne at \$1 = 56). Simultaneously, to incentivise private shipments, an additional allocation of Rs 150 crore for one million tonnes or discount of 1,500 (\$27) per tonne has been suggested, perhaps to partly reimburse freight

These arguments by Chand mirror very similar thoughts expressed for Indian Agriculture in a volatile International Market by D.S.Tyagi some twenty years back, (D.S.Tyagi, 1990). His arguments on Domestic Prices and Trade Policy are discussed elsewhere (M.Alagh, 2011).

Effect of Intervention Policies on Producers and Consumers of Wheat in an Open Market with Trade: Impact of Subsidies on Wheat Imports with High Support Prices

The basic concept is to examine the net effect of government intervention in the market and second of trade impacts. These are then attributed to producers (traders in the case of imports) and consumers using welfare theory. Government bears the cost of these policies. These estimates are worked out below.

Table 4

Effect of Intervention Policies : Producers : 2006/07

<u>S. No</u>	<u>Variable</u>	<u>Value</u>
1.	Domestic Production (Million tons) q_s	75.80
2.	Production Sold to Public Sector (lakh tons). $q_{\bar{p}}$	92.26
3.	Government Producer Price (Statutory Minimum Price) (Rs.per quintal) p_g	850
4.	Effective Producer Price (Rs.per quintal) p_p	1025.98 ;847.30#(4); 873.63@(5)
5.	Farm level Price p_f (Rs. Per quintal)	933.45
6.	Producers Receipts (1X4) (Rs.millions) $q_p p_p$	777693;642253#(4); 662212
7.	Producers Subsidy or Tax (4-5)(Rs/quintal) $p_p - p_f$	92.53 subsidy;-86.15 #(4); -59.82
8.	Policy Transfer to Producer (2X7) Rs.lakhs $q_{\bar{p}} (p_p -$	85366,-79483 #4;-

	p_f);	55191@5
9.	Proportional Subsidy $(7/5 \times 100) (p_p - p_f)/p_f\%$	9.91% subsidy;-9.23% tax#(4)-6.40% tax@(5)
10.	Direct Price Elasticity of Marketed Surplus	1.33
11.	Quantity Effect of Producers Subsidy $2 \times 9 \times 10/100$ (lakh tons) $q_p \times (p_p - p_f)/p_f \times 1.33/100$;	12.16 subsidy effect;- 11.32tax effect#(4);- 7.85 tax effect@5
12.	Production Value Effect. $7 \times 11/2$ (Rs.lakh)	5625gain;4876 loss#(4)2348 loss@5
13.	Gain/loss to Producers (8-12). (Rs.lakhs)	#85,360 -79,488(4)-55,193@5

Notes:

1. Source: Government of India, Agricultural Statistics At A Glance, (ASaG)2008 for Row 1 Table 4.7, Row 2, p.233, Row 2,p.249, ASAG, 2008, p.233

2. For Row 3, Government of India, page 14, Report of the Commission on Agricultural Costs and Prices, 2007/08. Rs.750 per quintal + Rs 100 per quintal additional incentive bonus payable over the minimum support price 2006-7, see table-2.

3. For Row 4 regarding the numbers, the first figure is the average wholesale price 2006-7 CACP, 2009-10 pp.472-73 averaging for wholesale price from CACP report 2009-10, page 472-3, over all States and all Months for wheat and subtracting marketing and transport margins. This is taken from 2009-10 report of CACP and splicing this with year wise Wholesale Price Index for Wheat from the Office of the Economic Adviser adjusted for

year 2006-7 from 2009-10 adjusted for the figures of the WPI in the base yr 04-05. The actual calculations are the transport and marketing costs for 2009-10 Rs. 11.48, marketing costs+ Rs.3, transportation costs, Rs.14.48, and deflating the 2009-10 figure to 2006-7 figure of the wholesale price index. The deflator for 2009-10(166.47,wpi-2009-10) by 2006-7 deflated figure (125.12, wpi, 2006-7), gives 75.16, and the final value for the transport and marketing costs for 2006-7 for wheat is thus $10.88, 14.88*75.16/100,$

On p_p the effective producer price (Table 4, Row 4) the first exercise we have done is to take the wholesale price of wheat in different markets in the marketing season April to March 2006/07. This is the marketing season. We have not made any allowances for inter seasonal price differences. This is the marketing season and technically procurement operations continue the whole year. A more tenuous theoretical argument would be that operations at peak should affect the process in the whole season by determining supply quantities, or from the other side supply minus government purchases. Again no allowance has been made for quality differences. Intervention in FAQ or major quality should affect prices across the quality range. The price we get is Rs. 1025.98 per quintal of wheat

In the second exercise we take the assumption that procurement is largely as an economist put it 'a favoured region, favoured crop' phenomenon. The crop is wheat and the regions are Punjab and Harayana. Again this is not quite factually correct, although a large part of the policy folklore. In fact procurement had started in Eastern India by 2006/07. Quality differences are again ignored. This is not that bad since in this region largely the dwarf Mexican varieties are grown. The price then works out at Rs. 847.30 per quintal of wheat.

Finally in the third exercise we work out the wholesale price averages for the months of April, May, June and July. This is the harvesting, marketing season. The CACP for example when it looks at policy impacts analyses this period for prices falling below MSP (See CACP,2010, p.521). We also correct for quality differences. Only the Mexican varieties, or popularly procured varieties like Dara in UP and the FAQ varieties, are taken up for price impacts of procurement operations. The price then works out at Rs.873.63 per quintal of wheat, @5)

Note the following

“(In) the procurement season, the procurement price is found to be equal to the price in the wholesale market. This happens because (a) the procurement price is not lower than the market price for if it were, the government would not be able to buy any grain and because (b) the procurement price is not higher than the market price because government buys all the grain offered to it. ” (B. Ramaswami, P. Balakrishnan (2002) p 422)

In a second exercise in Row 4, we take WPI for wheat from CACP report 2009-10 for year 2006-7 averaging for states of Punjab and Haryana (# in Table 4, Row 4) and subtracting transport and marketing costs for 2006-7 as above. We get two alternative Effective Producer Prices, one considering wholesale price in the entire nation and one only in Punjab and Haryana.

4. For Row 5. The Farm level Price is the border price. This* is the import or export price (ASAG 2008, p. 250), Import price is value of imports of wheat 06/07 divided by quantity of imports. Value of imports, 2006-7, Rs 5850.49 million. The quantity of imports in 2006-7, 6.08 million tons, the price is therefore Rs 962.32 Rs. Per quintal worked backward to the farm by subtracting transport and marketing costs. The Import price as in Indian import will be the CIF landed price at Indian ports. This will have to be corrected for transport costs to inland locations. So we subtract $962.321 - (.03 = \text{import margin}) \times 962.321 = 28.86963 = 933.45137$

Some of the estimates are interesting. Row 6: producer receipts are the effective price at the farm level (after taking care of all leakages) times the quantity sold. Row 7 is the Real Subsidy or Tax which is the difference between the effective government purchase price at farm level (Row 4) minus the farm level price. If the government price of purchase at the farm level is more than the farm level price, there is a subsidy. If it is less, there is tax. In this case it is a subsidy (Rs.1025.979/qtl-Rs.933.45/qtl). But as mentioned above, in an alternative exercise we have taken the farm level price only for Punjab, Haryana and then the picture is different. (#) Procurement is largely from these States although the other States are picking up. Here the subsidy effect is much smaller and the gain to the producer is less. Remembering, that, if policy does not allow inter-state trade of gain, then as in our

example the effects of subsidy are much less, and the farmer is not able to get maximum price. Of course if transport costs are more than we have taken then even lesser advantage is obtained.

The policy transfer to the producer is Row 7 multiplied by the quantity sold to the public sector (Row 2) which gives the transfer to the producer (plus or minus) on account of governments intervention. These transfers are quite high. In the first case the subsidy is Rs. 853 crores(rounded off). But in the Punjab and Haryana alternatives, in the first case / full year prices the tax is Rs 795 crores (rounded off) and in the second case (peak season) the tax is Rs.552 crores. (rounded off) Row 9 expresses these figures as a percentage. In the first alternative there is a subsidy of 9.91%. In the Punjab Haryana alternatives the tax is 9.22% and 6.44%. Row 10 is the marketed surplus ratio change divided by the price change (figures are from ASAG 2011). The arc elasticity of demand is worked out as 1.33.

In Row 11 Given the elasticity of marketed surplus, and the price difference, the quantity effect of subsidy are worked out.

Table5

Effects of Intervention Policies :Consumption, 20006-7

<u>S. No</u>	<u>Variable</u>	<u>Value</u>
1.	Total Quantity Marketed and Consumed # q_c Million Tons	61.17
2.	Minimum Support Price wholesale p_c Rs per quintal	850
3.	Consumption Cost (1) X (2) $q_c p_c$ Rs millions	519945
4.	c.i.f. World wholesale price. P Rs. Per quintal May, 2006 level	903

5.	Consumption Tax $p_c - P$ Rs. Per quintal	-53 Minus so subsidy
6.	Policy Tax on consumers. $(1 \times 5) = q_c (p_c - P)$ Rs. million	-32,420.1 Minus so Subsidy
7.	Proportional Tax $5/4 \times 100\%$	-5.9(Subsidy)
8.	Commercial Imports q_{cc} Million Ton	6.0791
9.	Norm of Import margin Rs/ctl.	.03(4)=27.09
10.	Tax Revenue $(5-9) \times 8$ Rs million	-4868.75 Minus so Subsidy
11.	Parastatal Handling Domestic Purchases q_{cg} Lakh Ton	92.25
12.	Tax Transfer to Government $5 \times 11 + 10$ Rs.million	-9758 Minus so Subsidy from Government.
13.	Price Elasticity of Demand.	-0.45(estimate)
14.	Consumption Loss by Tax. $(1 \times 7 \times 13) \times 100$ million ton	1.62 subsidy
15.	Consumption Value Tax $0.5(5)(14)$ Rs million	- 430.4

		Minus so Subsidy
16.	Gain to Consumers 6/15 Rs. million	75.33
17.	Spoilage and Wastage	9%
18.	Spoilage (11)*9% lakh ton	8.3
19.	Economic Loss on Account of Imports (6-12) in million Rs.	-22662.1

Notes:

Row 1 : # : The consumption demand is derived as a product of average per capita consumption based on 61st Round – Survey on Consumer Expenditure (July 2004-June 2005),NSSO, and projected population. Sources: Directorate of Economics & Statistics; Food Bulletin, April 2008; and DGCI&S, Kolkata Fiscal year 2006-7 (page 23, CACP report 2008-9)

Row 2: Rs.750 per quintal + Rs 100 per quintal additional incentive bonus payable over the minimum support price 2006-7 pg 219, ASAG 2008.

Row 4: c.i.f.World wholesale price. United States Hard Wheat (HRW, No. 2, fob) P=May, 2006 level of US\$ 201 per tonne(CACP 07-08, pg. 27), Exchange Rate 2006=1\$=Rs 44.9

Row 8 Commercial Imports are from ASAG, 2008, Table 13.2.

Row 9=Norm of Import Margin is taken as .3

Row 11 Parastatal Handling Domestic Purchases (CACP, 07-08, p.25)

Row 18: Spoilage is taken as .09%

The consumption effects of public intervention are interesting. Since the price of imports is higher than the MSP there is a subsidy of Rs 53 per quintal in border prices (Row 5 of Table 5) giving a total subsidy of Rs 3242 crores (Row 6 of Table 5). At border prices given the import quantum involved the subsidy in border prices is Rs 486.87 crores (Row 10). In financial terms the Government bears a tax or gives a subsidy of Rs 975.8 crores (Row 12 of table 5). The value of consumption gained is Rs 43 crores. (Row 15 of Table 5).

The loss on account of imports is 2,266 crores. If one takes into account both the producer and consumer intervention there is a substantial loss on account of imports and a substantial gain to consumers and a small loss to producers (under the assumptions of producer price calculated based on procurement from few states or few months of the year.) Or alternatively a small gain to producers (under the assumption of producer price taken on basis of full inland trade possibility being there and price equalization through the year.)

The Government of course bears the cost of both the interventions. These are quite high.

In this year there was no export. If those are at subsidized prices it is evident that Government will lose, exporters and foreign consumers will gain.

Clearly by subsidizing domestic wheat production and consumption in the open market welfare gains are possible, (in case of producers a necessary condition for gains is the free internal trade of wheat) The costs for these gains is borne by the government.)

Price Support: Some Recent Debates

There is a very interesting debate in the Financial express recently between Ashok Gulati, Surjit Bhalla and YK Alagh. Gulati (Financial Express, May 16, 2012) says: “Whether you look at from international perspective of what other rice growing countries in Asia are giving to their paddy farmers, or from the supply side (rising costs) or the demand side (fob pricing). All roads lead to a major adjustment in our MSP pricing for paddy. I can understand his concerns about food inflation and its consequent

impact on the poor. But when the government is committed to supply rice at Rs.3/kg to the poor under the proposed National Food Security Bill, it is high time that we free up the farmers subsidizing the poor. Else, I am afraid, we run the risk of making our paddy farmers poorer.” (<http://www.financialexpress.com/news/column-getting-paddy-prices-right/949933/>) This is in response to Surjit Bhalla (May 10, 2012, Financial Express)“The CACP recommendation for a 16 percent increase in the procurement price of rice is bad policy, will hurt the poor, and perpetuate high inflation. Do we really need to destroy the economy with high inflation and low growth in order to “save” paddy producers or the Congress Party?” (<http://www.financialexpress.com/news/price-of-paddy-opulism/947358/>) Y. K. Alagh puts this argument in perspective (<http://www.financialexpress.com/news/column-problem-with-raising-paddy-msp/960381/>) “Bhalla argued that paddy prices in India were high and there was no case for upping these. Gulati showed that costs were high and so the price hike was justified.” Alagh questions Gulati’s logic with the following point: “Gulati argued that paddy markets in India were distorted on account of trade and domestic restrictions, and seemed to justify a high MSP on that count. This was fascinating since there is nothing in welfare economics that shows that distortions justify more interventions. In fact, the theory of second-bests shows that in a distorted economy, a so-called movement in the preferred market direction could make matters worse. In a practical sense, if the trade chain is distorted as Gulati says, a high MSP will only help rentiers. It is obvious that if non-price factors don’t let prices work, a higher price won’t matter. But things are probably not so bad since grain is now increasingly coming from ‘backward market areas’ and Indian economic policy today is not for the purists anyway.” And further: “The implicit argument that only grain prices are important for food security is incorrect since poor people consume a lot of non-grains. The income elasticities of demand for edible oil, sugar, vegetables, fruits and dairy products are more than one for poor households, as a lot of students of R Radhakrishna have shown.” (Y.Alagh, Financial Express, June 11, 2012).

Gulati does not really answer the argument but responds to it, (Ashok Gulati, Financial Express, June 14, 2012)“Either we should get the agri-markets right by removing all controls from export bans to movement restrictions to stocking limits on private trade,

etc, or get our MSP policy right and effective. Only then can incentives be fully resurrected and agri-GDP propelled.” (<http://www.financialexpress.com/news/column-hike-msps-or-free-up-agriculture/961764/>)

Later Surjit Bhalla (<http://www.indianexpress.com/news/low-yields-for-upa-populism/968452/>) writes: “There is no question that the increase in procurement prices helps the rich, kulak farmers of Punjab. And rich farmers elsewhere. And the intermediaries in the Food Corporation of India (FCI). But what the Congress has failed to answer is how does an increase in the relative price of food (i.e. increase in food prices above the rate of inflation) help the poor landless workers and the poor farmers unable to sell any produce to the agents of the FCI? The damaging effect of the kulak policies is enlarged by the domino effects in monetary policy. RBI does not distinguish between administered food inflation, and demand pull inflation. So it raises interest rates to further diminish non-agricultural output.” (Surjit Bhalla, 30th June, 2012, Indian Express).

Summary of the Perspectives

As Parikh et.al caution (Parikh et al, 2003, p 891)

“What happens when government increases procurement prices? High procurement price gives farmers an incentive to produce more. They will use more fertilisers and increase yield. But higher price would also reduce demand. To support price, FCI would have to procure more. Stocks would rise further. The government will have to finance the addition to stock. This is done by cutting some other expenditure. The easiest to cut is investment. Less would be invested in agriculture. Irrigation capacity would not grow as much. In a year or two the cumulative impact of lower irrigation would reduce growth rate of agricultural output despite higher procurement price. Farmers themselves could be worse off compared to what they could have been had investment in irrigation not reduced. Apart from that consumers and particularly the poor consumers may also be hurt. The poor consisting of landless labour, small and marginal farmers are net purchasers of food. They are able to buy less food even when one accounts for increase in wage rate that may follow higher procurement price.”

However Mahendra Dev puts forward a different perspective (Dev and Rao, 2010, p.180)

“It is important to note here that these higher support prices are meant to compensate the slowdown in yield growth and the consequent increase in COP that is the result of dwindling non-price interventions through public investments. In this situation, if the MSPs are not hiked sufficiently as in case of rice in the late 1990s and early years of the new millennium, margins would have gone down and distress would have spread.”

Thus some economists caution against too much criticism of support prices which have played a stabilizing and balancing role and continue to do so, they say that price and non-price factors have a complementary role, whereas other economists emphasize that these factors (price and non-price) have a substituting role to each other and caution against emphasis on price-factors.

Conclusion

In a liberalizing and globalizing economy with agriculture facing repeated random shocks and uncertainty, as also the risks and limitations of a by and large traditional agricultural sector operating in these circumstances, it is clearly necessary for the Indian farmer to be supported by food-management policies. A neutral observer looking at the circumstances under which the farmer is operating in the slowly transforming Indian conditions would realize that, criticisms particularly political economy criticisms of government stocking, procurement and distribution policies specifically of government policies of food-management regarding cycles in food stocks ie: variable stocks of grain, sometimes excess and other times shortage, seem to be justified. In those pockets where modern agriculture prospers, it does so, in spite of, not because of, government support, even in such pockets exposure to risk, uncertainty and volatility of the global market lead to a farmer cautious and uncertain of the market. The issue is not removal of food-management policies but reform of food-management policies, in fact apart from wheat and rice, government support in terms of support prices and the APMC Mandi is found to be absent and wanting.

Food-Management requires reform and the first step is a deeper nuanced understanding of its knowledge base of empirical reality which we attempted. Foreign trade in commodities

in which government intervenes has to be with an understanding of economy level impacts of benefits and costs and not domestic policies ignoring cycles and then knee jerk reactions.

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