



## Agricultural Price Policy in India: An Introspective Study

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### ABSTRACT

Most of the agro products are available based on season. At the time of harvesting, the product prices are very low and at the time of seedling, the product prices are very high. Both producers and consumers faced problems. For overall stabilizing the economy, price policy is necessary. The study aims to explore the benefit of the farmers through the price policy in the Indian economy. This study is descriptive type by nature based on secondary sources like various Government reports, books, articles, websites and web-based journals. Need for Agricultural Price Policy and minimum support prices with findings, appraisal, its advantages and disadvantages and suggestions are discussed here. The basic motive behind the Agriculture policy of the Government of India is to save the interests of both farmers and consumers. The prices of the food grains should be decided very wisely so that neither farmers nor consumers get to suffer.

**Keywords:** Agro Products, Prices, Farmers, Consumers, Harvesting, Seedling, Economy

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### INTRODUCTION

In recent times, India's economy has become somewhat dependent on agriculture. India was once one of the countries that relied heavily on agriculture worldwide. India offers a wide variety of agro products. Seasons determine which agricultural products are available. Product prices are extremely low during harvesting and extremely high during seedling development. There were issues for both consumers and producers. The Price policy is essential for stabilizing the economy overall. A nation's price policy is a driving force behind its economic growth. It is a crucial tool for encouraging farmers to pursue technology and investments that are focused on production by offering them

incentives. Prices have an impact on farmers' income and consumption in developing nations like India, where the majority of the population works in agriculture and most farmers spend their money solely on food. The Indian government arranges purchase operations through public agencies and releases the procurement/support prices for major agricultural commodities annually.

India implemented an agricultural price policy following its independence. However, India's agricultural price policies have differed significantly between years and between crops. The prices of food grains like wheat, rice, and coarse cereals like jowar, bajra, maize, etc. were given a lot of weight under this policy. The Food Grains Policy Committee was

established in 1947, marking the inception of the price policy in India. The committee advocated for a strategy of gradual decontrol, a decrease in food grain imports, and a significant boost in food grain production. The Food Grains Procurement Committee was established once more in 1950, and this time it brought in the rationing and supply management of food grains for the nation. A clear-cut policy to give farmers an incentive price was not introduced until 1964. The Third Plan document correctly noted that food grain producers need to receive a fair return. Put differently, the farmer needs to know that the prices of the commodities he produces and food grains will never drop below a fair minimum. Consequently, in 1964, the Food Grains Price Committee was appointed. Therefore, the purpose of the study seeks to explore the benefit of the farmers through the price policy in the Indian economy.

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## MATERIAL AND METHODS

This study is descriptive type by nature and based on secondary sources.

### *Sources of Data*

The data are collected from various Government reports, books, articles, websites and web-based journals published at different times.

### *Data Analysis*

The data gathered from various sources has been examined, validated, and methodically arranged under the proper heading to support the necessary presentation and conclusion.

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## RESULTS AND DISCUSSION

### *Need for Agricultural Price Policy*

There is no doubt that sharp swings in agricultural prices are detrimental to producers as well as consumers. Price fluctuation is a typical occurrence. However, abrupt, violent changes in the price of agricultural commodities have a negative impact on the nation's economy. Farmers who grow a particular crop suffer significant losses when the crop's price drops abruptly and sharply, as their income levels drop. Due to the farmers' inability to cultivate the

crop the following year, there will likely be a severe shortage of that food item, which may compel the government to import the crop from overseas. On the other hand, consumers may suffer greatly from an abrupt increase in the price of a certain crop, forcing them to either discard it or significantly reduce their other spending in order to cover the crop's consumption costs. In both ways, the nation's economy will suffer greatly from the widespread fluctuations in the price of agricultural products.

In order to promote increased investment and production and to protect consumer interests by providing food supplies at fair prices, the government's price policy for agricultural produce aims to guarantee growers receive fair compensation for their produce. The nation's price policy also aims to develop an integrated, balanced price structure that satisfies the demands of the economy as a whole. To this end, the government arranges purchase operations through the Food Corporations of India (FCI), cooperatives, and other agencies designated by state governments for the purpose, as well as announces minimum support prices (MSPs) for major agricultural commodities in each season. A thorough agricultural price policy needs to be appropriately developed in order to protect the interests of both producers and consumers. Sustaining buffer stocks of agricultural commodities and a vast public distribution network are necessary to support this. These will set up the supply of these agricultural products to consumers at reasonable prices and give the producers a minimum support price. Therefore, care must be taken to set the minimum support prices and procurement prices at a level that will encourage farmers to increase their output. Consequently, one could design the agricultural price policy as a "instrument of growth."

Objectives of the Agricultural Price Policy: In order to boost agricultural output, the following goals of the Indian agricultural price policy have been taken into consideration.

1. To ensure that the prices of agricultural goods and food grains are related,
2. Monitoring Producer and Consumer Interests;
3. Crop Price Relationships;
4. Seasonal Fluctuations Management
5. Combine the Cost,
6. Maintain the Average Price,
7. Production Growth;

8. All-Round Development Facilities;
9. Infrastructure Development;
10. Cooperatives Revision and Strengthening;
11. NGOs' Involvement; and
12. Encouragement.

Advantages behind the announcement of Minimum Support Price (MSP): The minimum support price for 24 major crops has been announced by the government in order to protect both the needs of self-reliance and the interests of farmers. The following are the MSP's primary goals:

1. To stop a price decline in the event of excess production.
2. To safeguard farmers' interests in the event of a market price decline by guaranteeing them a minimum price for their crops.
3. To fulfill the obligation for domestic consumption
4. To ensure agricultural product price stability
5. To guarantee a fair correlation between the costs of manufactured goods and agricultural commodities
6. To eliminate the pricing disparity between the two areas of the nation.
7. To boost agricultural produce exports and production.
8. To supply the various industries throughout the nation with raw materials at fair prices.

Disadvantages of the Minimum Support Price:

1. It forces the nation's poorest citizens to pay more in order to boost farmers' incomes. This approach will exacerbate the nation's allocation of inefficiencies.
2. It is inefficient to support farmers by raising the price of the products they sell because this penalises the consumer. Large farmers will gain the most from it as well. Even though they have more than they require, small farmers are still having difficulties.
3. Farmers apply large amounts of fertilizer to boost output, but this causes issues for those who do not profit from the increase in output.

Currently, the Commission for Agricultural Costs and Prices (CACPC) recommendations, state and central government opinions, and other pertinent factors deemed significant for fixing support prices for agricultural commodities are taken into consideration by the government when determining MSPs for various agricultural commodities shown in Table-1.

Explanation of Table-1, Fig.-1 and Fig.-2: From the above table and Fig.-1, it is seen that the prices for wheat and paddy for common variety are increasing year-wise on account of which the curve of wheat (Green Colour) and the curve of paddy (Red Colour) are upward rising from the left bottom to the right up the corner from 1980-81 to 2023-24. But the curve of wheat stands above a little more than that of paddy.

Fig.-2 is showing how the year-wise change in MSP of both wheat and paddy. Both the curves are fluctuating year-wise up and down. However, the changes in MSP of both wheat and paddy are not the same. Change in MSP between wheat and paddy is sometimes in the same direction, or one change more than another or one change but another is not change. 1980-81 is considered as origin. These curves represent from the 1980-81 to 2023-24.

### **Evaluation of the Price Policy**

The policy has played a key role in providing farmers with a relatively stable price environment, encouraging them to adopt new production techniques and increasing the amount of food grains produced. Enhancing the affordability of food has been made possible by the subsidized distribution of food grains. Because basic staple food prices have declined relative to income, the industry and organized sector have been able to maintain low wage costs. Thus, all facets of society have benefited from price policy and input/food subsidies.

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## **FINDINGS**

Impact of Agricultural Price Policy: It's accurate to say that agricultural prices have significantly streamlined efforts to maintain price stability. A brief summary of its effects is provided below:

1. Incentive to Increase Production: Farmers have been given the necessary incentive by agricultural price policy to increase their agricultural output through the modernization of the sector. The government sets the minimum support price in an effective manner to protect farmers' interests.
2. An increase in farmers' income: By supporting agricultural prices and offering the necessary incentives and encouragement to increase output, the agricultural price policy has given farmers the

benefits they need. The standard of living for farmers has increased as a result of all of these.

3. **Price Stability:** A larger degree of price stability for agricultural products has been achieved through the agricultural price policy. It has been successful in containing the excessive price fluctuations of agricultural products. This has had a positive effect on the nation's producers and consumers.

4. **Modification of Cropping Pattern:** Due to the agricultural price policy, India's cropping pattern has to be significantly altered. With the help of the government and the adoption of contemporary techniques, wheat and rice production has significantly increased. But without such price support, the production of oilseeds and pulses could not make any meaningful progress.

5. **Benefit to Consumers:** By consistently providing the necessary agricultural commodities at a fair price, the policy has also had a significant positive impact on consumers.

6. **Benefit to Industrials:** Agro-related industries such as sugar, cotton textiles, vegetable oil, etc. have profited from the agricultural price policy. The policy has provided for an adequate supply of raw materials at a reasonable price for the nation's agro-based industries by stabilizing the prices of agricultural commodities.

**Agricultural Pricing Policy's Drawbacks:** The following are the main drawbacks of the agricultural pricing policy:

1. **Inadequate Coverage:** The pricing is no longer effective due to the procurement facility's inadequate coverage. Of the entire amount of food produced, only a small number of farmers have access to government procurement facilities.

2. **Remunerative Price:** The rate of cost growth has not been kept up by the remunerative price and/or subsidized inputs. It has resulted in two outcomes. The farmer is disinclined to produce at the highest possible level; instead, he attempts to strike a balance between his output and expenses, settling for a lower level of output.

3. **Inefficient Public Distribution System:** There hasn't been much success with public distribution. A little portion of the impoverished population is not covered by the system. Even people who are enrolled

in the system may not receive the benefit or may not be eligible for it. The goal has not even been partially achieved by the system.

4. **Price Difference:** The significant disparity in prices between what manufacturers are paid and what consumers pay is a significant concern. In this context, it is necessary to carefully examine concerns pertaining to the regulatory network and the expenses associated with it because of factors such as increased transportation costs and distribution network fragmentation.

5. **Unaccompanied by Effective Policy:** A variety of other elements of the agricultural system, such as land holding patterns, income distribution, overall inequities, and cropping patterns, affect how effective the price policy is. However, it is unfortunate to report that no practical strategy for the overall growth of agriculture has been implemented in tandem with the price policy. Continuous price increases for procurement could potentially have a negative effect on agricultural productivity. Price rises that overcompensate for cost increases may dissuade farmers from taking steps to boost agricultural output because they inevitably increase their profits.

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## SUGGESTIONS

The current agricultural price policy is insufficient, and it needs to be reoriented in light of the top goals, which will probably influence the development plan. Concern over broad-based and sustained growth is certain to take center stage given the dire circumstances facing the country's economy right now. Such important questions about the approach required to attain such progress remain unresolved and unfocused.

National issues should take precedence above the ideologies of the nation's various political parties. The recent and ongoing debate over the Agricultural Policy Resolution, which has not yet been approved, fully reflects these larger goals.

The following suggestions may be considered on a priority basis.

1. **Minimum Support Prices:** Based on minimum support prices, two economic factors ought to direct the operations. Firstly, the minimum support price should only cover efficient producers, so promoting

expansion and efficiency and essentially subsidizing all farmer segments. In particular, it is critical to understand that non-viable farmers cannot be assisted by merely setting a minimum support price that is high enough; policy is not the only way to

address these issues. Second, the protection needs to be limited to preventing losses for the productive producer rather than guaranteeing him profits.

**Table-1: Minimum Support Price for Wheat and Paddy since 1980-81(Rs. Per Quintal)**

Crop Year	Wheat	Paddy (Common Variety)	Increase in Price between consecutive years	
Crop Year	Wheat	Paddy	Wheat*	Paddy*
1980-81	117	105	–	–
1990-91	225	205	108	100
1995-96	380	360	155	155
1999-00	580	490	200	130
2000-01	610	510	30	20
2001-02	620	530	10	20
2002-03	620	530	0	0
2003-04	630	550	10	20
2004-05	640	590	10	40
2005-06	650	600	10	10
2006-07	750	610	100	10
2007-08	800	645	50	35
2008-09	1000	850	200	205
2009-10	1080	1000	80	150
2010-11	1100	1000	20	0
2011-12	1170	1080	70	80
2012-13	1285	1250	115	170
2013-14	1350	1310	65	60
2014-15	1400	1360	50	50
2015-16	1450	1410	50	50
2016-17	1525	1470	75	60
2017-18	1625	1550	100	80
2018-19	1840	1750	215	200
2019-20	1925	1815	85	65
2020-21	1975	1868	50	53
2021-22	2015	1940	40	72
2022-23	2125	2040	110	100
2023-24	2275	2183	150	143

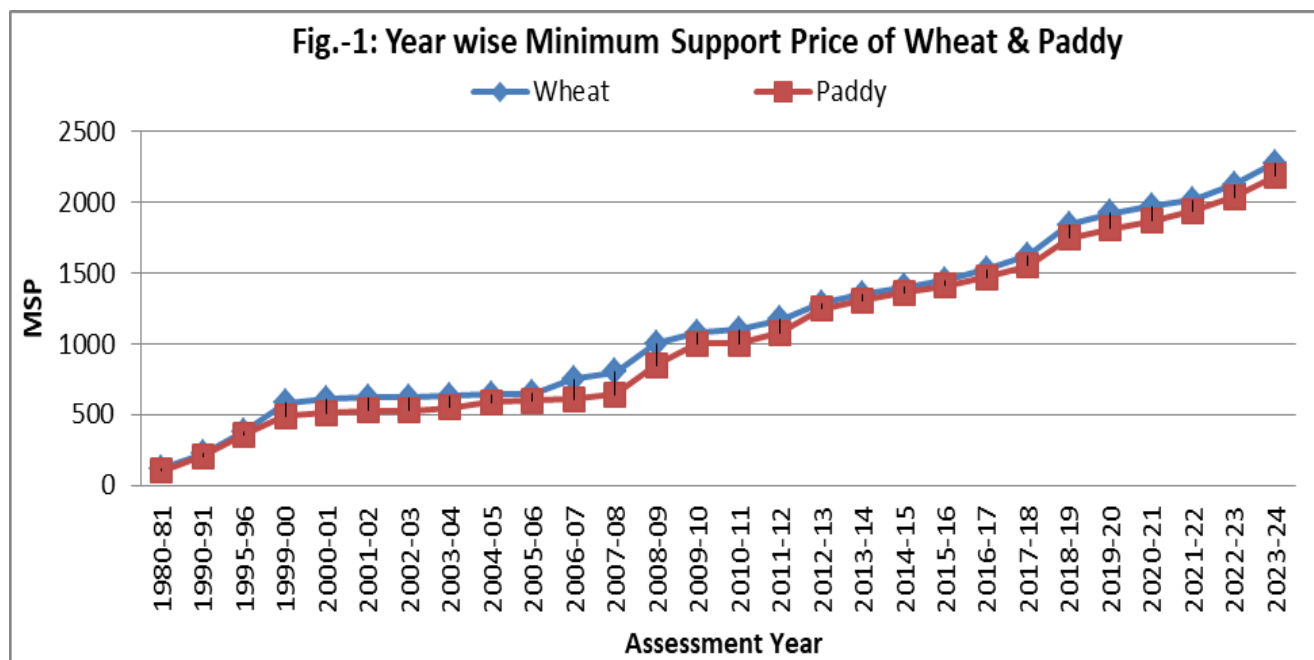
Source: Economic Surveys for 1980-2018, Ministry of Agriculture & Farmers Welfare, Government of India for 2018-24

2. Maximum Price: Setting a maximum price for a commodity does not always have simple or straightforward criteria. In terms of price level, the government's main duties are to: (a) Control the forces of inflation that cause gradual, cumulative increases in the overall price level; and (b) Get rid of collusive and manipulative tactics that cause artificial scarcity and high prices for specific commodities. It is difficult to see any need to match each minimum

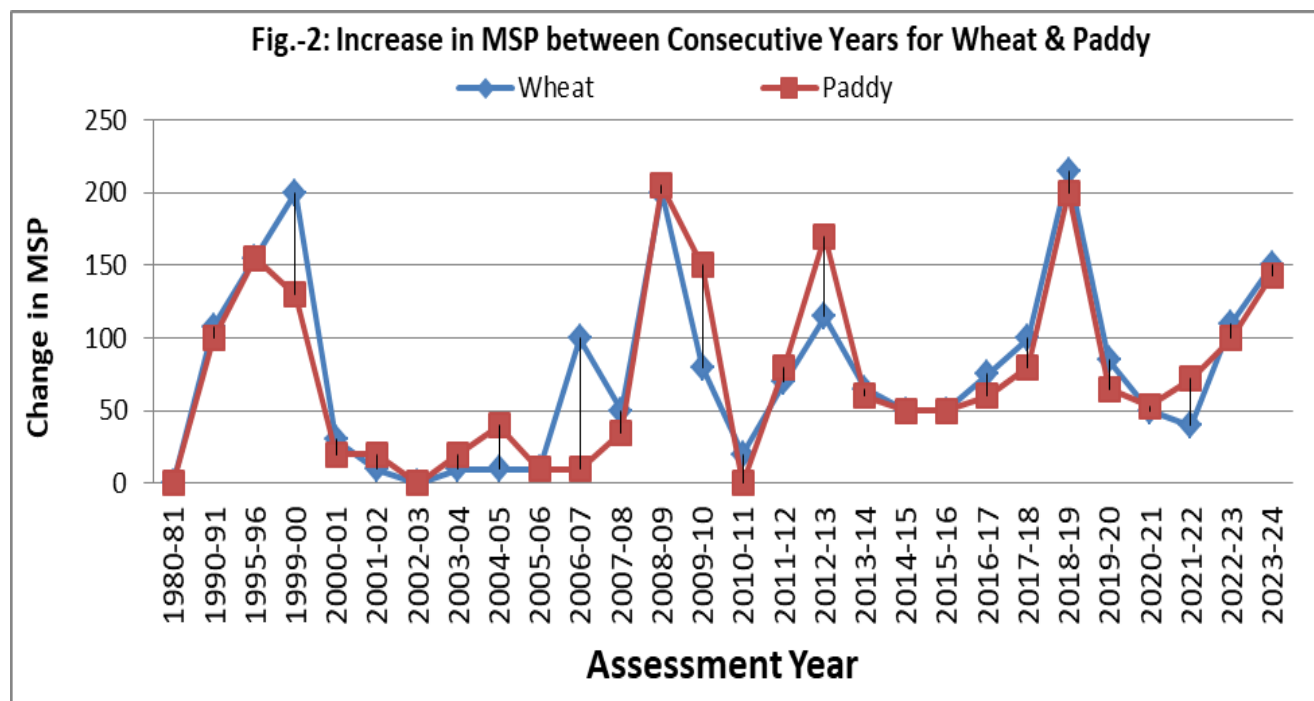
support price with a corresponding ceiling price if these two causes of price rise are adequately mitigated. The degree to which relative prices are allowed to fluctuate in response to shifts in the underlying supply and demand conditions determines how effective the price mechanism is while the general price level remains stable.

3. Balanced and Integrated Price Structure: It is necessary to develop criteria for a balanced and integrated price structure. This kind of pricing structure would be more beneficial for tracking changes in the variables that influence prices than for setting prices. The ability of an agricultural price policy to extrapolate, forecast, and calculate the ramifications of various actions would determine

how much it would aid in the formulation of agricultural strategy and planning. Such analytical exercises in a market-based economy would require models of interconnected markets that are founded on the idea of equilibrium and are able to demonstrate how the markets respond to disruptions, policy interventions, etc.



The Fig.-1 is drawn on the basis of Table-1



The Fig.-2 is also drawn on the basis of the same Table.

When recommending pricing, the Commission on Agricultural Costs and Pricing (CACP) considers a number of significant criteria, including:

1. Production costs;
2. Input price fluctuations.
3. Price parity in input and output
4. Price trends in the market
5. Price parity between crops
6. The state of supply and demand
7. Impact on the Structure of Industrial Costs;
8. Impact on the Overall Level of Prices
9. Impact on Living Expenses X. Global Market Price Conditions
10. Equiparity between the prices farmers receive and pay.

## CONCLUSION

The primary goal of the Indian government's agriculture policy is to protect the interests of both farmers and consumers. It is important to carefully consider food grain pricing to ensure that neither farmers nor consumers lose out. The expansion of the volume of aggregate output and productivity is greatly aided by non-price factors including enhanced human resources, financial inputs, land reforms, and efficient technologies. The financial resources of the small state should be directed toward developing rural communities' social and economic infrastructure as opposed to giving the general public subsidized agricultural products. If the agricultural infrastructure is inadequate, the price policy will not have the desired impact of increasing agricultural productivity. A few commodities should have their agricultural prices disclosed, as it is not financially viable for the government to purchase food grains at a premium and permit offtake at a discounted rate. Additionally, the development of the infrastructure receives sufficient attention. Numerous problems with price behavior were present in the Indian market. The Indian markets are extremely volatile when it comes to commodities or agricultural items. To prevent obstacles for the growers, the authority must exercise extra caution when it comes to food products that are grown seasonally.

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