**Introduction to Agricultural Policy:**

Price policy plays a pioneer role in the economic development of a country. It is an important instrument for providing incentives to farmers for motivating them to go in for production oriented investment and technology.

In a developing country like India where majority of the population devotes 2/3 of its expenditure on food alone and where majority of the population is engaged in agricultural sector, prices affect both income and consumption of the cultivators. The Govt. of India announces each year procurement/support prices for major agricultural commodities and organizes purchase operations through public agencies.

**Objectives of Agricultural Price Policy:**

**(i) To Ensure Relation between Prices of Food-grains and Agricultural Goods:**

The foremost objective of agricultural price policy is to ensure the appropriate relationship between the prices of food grains and nonfood grains and between the agricultural commodities so that the terms of trade between these two sectors of the economy do not change sharply against one another.

**(ii) To Watch Interests of Producers and Consumers:**

To achieve the balance between the interest of producers and consumers, price policy should keep a close eye the fluctuations within maximum and minimum limits.=

**(iii**) **Relation Between Prices of Crops:**

The price policy should be such which may sustain the relationship between the prices of competing crops in order to fulfill the production targets in respect of different commodities in accordance of its demand.

**(iv) To Control Seasonal Fluctuations:**

Another object of price policy is to control cyclical and seasonal fluctuations of price rise to the minimum extent.

**(v) Integrate the Price:**

The agricultural price policy should also aim at to bring the greater integration of price between the various regions in the country so that regular flow of marketable surplus could be maintained and exports of farm products stimulated regularly.

**(vi) Stabilise the General Price:**

To stabilize the general price level, it should aim at increasing the public outlay to boost economic development in the country.

**(vii) Increase in Production:**

The agricultural price should aim at to raise the production of various commodities in the country. Therefore, it must keep balance between output and input required by the cultivations.

**Effects of Agricultural Price Policy:**

**1. Incentive to Increase Production:**

Agricultural price policy has been providing necessary incentive to the farmers for raising their agricultural output through modernisation of the sector. The minimum support price is determined effectively by the government which will safeguard the interest of the farmers.

**2. Increase in the level of income of Farmers:**

The agricultural price policy has provided necessary benefit to the farmers by providing necessary encouragement and incentives to raise their output and also by supporting its prices. All these have resulted in an increase in the level of farmers as well as its living standards.

**3. Price Stability:**

The agricultural price policy has stabilized the price of agricultural products to a greater extent. It has successfully checked the undue fluctuation of price of agricultural products. This has created a favourable impact on both the consumers and producers of the country.

**4. Change in Cropping Pattern:**

As a result of agricultural price policy, considerable change in cropping pattern of Indian agriculture is needed. The production of wheat and rice has increased considerably through the adoption of modern techniques by getting necessary support from the Government. But the production of pulses and oilseeds could not achieve any considerable change in the absence of such price support.

**5. Benefit to Consumers:**

The policy has also resulted in considerable benefit to the consumers by supplying the essential agricultural commodities at reasonable price regularly.

**6. Benefit to Industrials:**

The agricultural price policy has also benefited the agro industries, like sugar, cotton textile, vegetable oil etc. By stabilizing the prices of agricultural commodities, the policy has made provision for adequate quantity of raw material for the agro industries of the country at reasonable price.

#### Shortcomings (Lack) of Agricultural Price Policy:

**1. Inadequate Coverage:**

Inadequate coverage of procurement facility has rendered the price ineffective. The facility of official procurement reaches only a handful of farmers—of the total food gains production, procurement covers hardly 15 per cent.

**2. Remunerative Price:**

The remunerative price and/or subsidized inputs have failed to keep pace with the rate of increase in costs. It has had two consequences. The farmer is discouraged from producing the maximum level of output; he tries to balance his output against the level of costs, and settles for a lower level of output.

**3. Ineffective Public Distribution System:**

The public distribution has not been very effective. A large section of the poor people are outside the purview of the system. Even those who are covered under the system do not necessarily get the benefit of issue prices. The system has absolutely failed to serve the objective. Besides, the burned on the national exchequer is increasing enormously.

**4. Difference in Prices:**

There is an important issue of wide difference between prices received by the producers and prices paid by the consumers. In this context, issues relating to the network of regulations and costs associated with it, incidence of octroi, increase in transportation costs, over fragmentation of the distribution network etc. require careful study.

**5. Unaccompanied by Effective Policy**:

The efficacy of the price policy depends on a number of other factors inherent in the system of agricultural operations like land holding patterns, income distribution, general disparities and cropping pattern. But, it is pity to say that the price policy has not been accompanied by any effective policy for a total development of agriculture.

A continuous increase in procurement prices may have even an adverse impact on agricultural productivity. Price increases which over-compensate cost increases can discourage measures to raise agricultural productivity since such prices automatically lead to higher profits for the farmers.

#### Summary of Agricultural Price Policy in India:

**The summary of agricultural price policy followed by the Government of India since independence is stated below:**

**(i) Setting Institutions:**

The Government of India has set up some institutions for the implementation of agricultural price policy in the country accordingly; the Agricultural Price Commission was set up in 1965 which announced the minimum support prices and procurement prices for the agricultural products. In 1985, the name of this institution was changed into Agricultural cost and Price Commission. Moreover, the Food grains policy.

Committee was, appointed by the Government in 1966 which also recommended various measures of price support. The Food Corporation of India was also set up in 1965 for making necessary procurement, storage and distribution of food grains.

In 1989-90, total capital employed in FCI was to the Extent of Rs. 5138 crore with its total storage capacity at 18 million tones. The corporation organises the price of food grains at government determined price and sale these food stocks through the network distribution system. In the year 2009-10 and 16.28 million tonnes of wheat and 4.94 million tonnes rice were distributed to FCI.

**(ii) Minimum Support Price:**

The government fixes the minimum support prices of agricultural products like wheat, rice, maize, cotton, sugarcane, pulses etc. regularly to safeguard the interest of farmers. The FCI also make their purchase of food grains at the procurement prices so as to maintain a rational price of food grains in the interest of farmers.

**(iii) Protecting the Consumers**:

To safeguard the interest of the consumers, the agricultural price policy has made provision for buffer stock of food grains for its distribution among the consumers through public distribution system.

**(iv) Fixation of Maximum Price:**

In order to have a control over the prices of essential commodities the government usually determines the maximum price of agricultural products so as to protect the general people from exorbitant rise in prices.

# 4 Major Instruments of Price Policy

**The following points highlight the four major instruments of price policy. The instruments are: 1. Minimum Support Prices 2. Procurement Prices 3. Public Distribution System 4. Buffer Stock.**

#### ****Instrument # 1. Minimum Support Prices:****

The minimum support price is the foremost instrument in the nature of a long-term guarantee to producers. These prices are generally announced well in advance of the sowing season.

Once the minimum price for a product is announced, it implies that the Government is committed to purchase, by all means at the announced level of support price. By changing the relative rate of return on different crops, support prices may also help to give a boost to some crops at the expense of others.

The theoretical basis for the guaranteed minimum price policy has several elements such as price stabilization, improvement of agricultural terms of trade and provision of insurance to the agricultural producer. The notion that minimum guaranteed price forms part of a stabilization policy aimed at reducing fluctuation has not been explicitly developed by the CACP.

The CACP has mainly emphasized on the insurance aspect of the policy. Of late, a much more positive and dynamic content has been sought to be imparted to the concept of a minimum price guarantee.

The Food grains Policy Committee, Dantawala and a number of other economists have suggested that the device of minimum guaranteed price should be utilized to assure the progressive farmer that his effort to augment production through adoption of improved technology will not become un-remunerative because of the price factor. As so far the criterion for the fixation of minimum prices, different criteria have been used at different time for different crops.

**In fixing the level of minimum support prices, the CACP takes into account the under mentioned factors:**

 (i) The available data on cost of production,

(ii) Changes in input prices,

(iii) Changes effected in the administered prices of competing crops, and

(iv) The need for maintaining overall stability in the general economy.

It is commonly accepted that the first and foremost requirement for arriving at an appropriate level of support price is to have representative cost data. The absence of reliable data on cost of production of crops on a continuous basis had been a major handicap in this regard until recently.

Presently, data on cost for some of the representative area, through not for all the producing States, are now available under the ‘comprehensive scheme for studying the cost of cultivation of principal crops’ being implemented through the agricultural universities and institutes.

However, by its very nature the data on cost of production becomes available with a time lag of one-two years. These have to be updated and adjusted on the basis of available indicators of the change in cost of important items, such as wage rates, irrigation rates, prices of fertilizers and other inputs etc.

#### ****Instrument #****2. Procurement Prices:

Price policy also aims at to stabilize prices on the part of the consumers especially in the case of food grains. In a situation of shortage, sailable supplies of food grains in the free market would generally be available at very high prices. Under such circumstances, the poor people of the community would be put to extreme hardship.

Therefore, in view to achieve the objective of stabilizing prices on the part of the consumers, the Govt., may adopt the system of public distribution. It can be in the form of rationing, fair price shops. Here, it is of immense use to quote that public distribution system cannot operate unless necessary stocks are acquired by it.

The best way to attain the stocks would be through the open market. But during the period of scarcity, it would only be possible if the Govt., offers higher price than the market price. In view of this, Govt., adopts the procurement policy, under which producers are required to sell the Govt., a part of their produce.

#### ****Instrument #****3. Public Distribution System:

Public distribution is another major instrument of price policy. It comprises of two types of rationing, viz., statutory rationing and informal rationing.

In the statutorily rationed areas, the open market is legally barred from functioning, the Government undertakes the responsibility of supplying specific rationed quantities to consumers. In the areas of informal rationing, the open market is allowed to function so that the consumers can supplement the ration obtained from fair price shops by purchase in the open market.

**Objective:**

**The fundamental objectives of the system are enlisted below:**

(i) To improve distribution of basic goods;

(ii) To control prices of essential commodities;

(iii) To meet consumption needs of masses:

(iv) To maintain good quality at low cost;

(v) To bring stability in prices;

(vi) To weave the production and marketing system into a unified whole.

**Problems:**

**The main problems of public distribution system are as under:**

**(i) Restricted Scope:**

It is restricted in its scope in terms of the range and quantities of different commodities supplied through the system.

**(ii) Urban Biased:**

The PDS is largely urban- biased. In the 60s and early 70s, public distribution was probably urban biased, but in the 80s a distinct change appears to have taken place. A recent study analysed the public distribution data collected by the NSSO for the year 1986-87 and found that the criticism that the PDS was urban-biased was no longer correct.

**(iii) Limited Coverage:**

As against its declared objective, the system has largely benefited the well to do sections of the society with majority of the rural poor still out of its reach due to lack of economic and physical access. The poorest in the cities and migrants are left out for they do not generally possess ration cards.

**(iv) Inadequate Infrastructure:**

The system has been faced with serious operational problems like inadequate procurement and storage facilities, finance, administrative capability etc.

**(v) High cost:**

The cost of operating the system has been very high.

**(vi) Malpractices.**

The operations of fair price shops and cooperatives have led to serious malpractices, like issuing ration against bogus cards, charging higher prices for controlled commodities, delay in lifting of stocks etc.

**(vii) Increase in Price:**

The operations of the PDS in fact result in an all- round price rise. This is because by procuring large quantities of food grains every year the government actually reduces the net quantities available in the open market.

#### ****Instrument #****4. Buffer Stock:

Buffer stocks refer to the buying and selling out stock with sole purpose of moderating the price fluctuations. Buffer stocks serve as shock absorbers in the economy and provide a defense mechanism against widely fluctuating price levels.

Under this policy Govt., builds stocks of food, agricultural goods and other essential commodities either through direct purchase from the domestic market or through imports from outside and release these stocks for sale in the domestic market when prices are going up.

Thus, the Govt., through supplementing the market supply prevents any sharp rise in prices which would have occurred if these supplies were not released from the stocks built up by it. On the contrary, if due to good harvest, there is excess supply in the market, the prices would fall which leads to a decline in the farmers income. In such a situation, the Govt., enters the market and makes direct purchases, thereby prevent a fall in prices. Therefore, buffer stock operations aim at eliminating unduly low prices consequent to bumper crops.

**Price and policy:**

**Classification of Stocks:**

The total stocks with the Govt., are not meant to be used as a buffer stock. The govt., has to keep operational stock need for meeting the requirements of fair price shops.

**Therefore, size of stock is determined by two considerations viz.;**

1. To meet the current needs.

2. To maintain supply in the years of crop failure.

The first consideration helps to even out seasonal fluctuations. The second helps to even out annual fluctuations. Prof. Khusro termed the first consideration as the buffer stocks.

**Objectives:**

**The main objectives of buffer stocks are as stated below:**

**(i) Stability in Income:**

The foremost objective of the buffer stock policy is to achieve stability in the farmers income. Buffer stocks by elimination peaks and troughs in commodity prices can assure stability in farm income.

**(ii) Stability in Food Prices:**

Another related objective of buffer stock policy is to ensure stability in food prices when enough food grains are available through public distribution, hoarders and speculators cannot manipulate price and exploit the general masses. Therefore, prices of food grains should remain stable throughout the year.

**(iii) Public Distribution System:**

Buffer stocks can be utilised to provide food grains for public distribution system. It enables supply of food grains to the weaker sections of the society at reasonable prices.

**(iv) To Ensure Remunerative Price to Farmers:**

Generally, during the good harvest prices of food grains tend to fall and farmers do not get the remunerative prices. As a result, farmers are forced to resort to distress sale of their crops because there are no enough buyers in the market. In such a situation, the policy of Govt., ensure reasonable prices to the farmers.

**(v) Food Security:**

Buffer stocks policy ensures the food security in the country. In Indian context production of food grains fluctuates from year to year. The buffer stock provides adequate stocks to cope up with the shortfall in production.