CHAPTER-6

CONCLUSIONS AND POLICY IMPLICATIONS

This chapter aims to sum up the work that has been done in the preceding chapters and present main findings obtained from the empirical analysis. Accordingly, Section I presents the main findings of the study. Section II elicits suitable policy implications of the present study.

The process of liberalisation adopted during the nineties has put the price policy under new connotations. In the wake of this process and opening up of the international trade, we are required to think afresh about the context of the policy. Apart from being an instrument for creating incentives, it is now expected to play a much wider role of fully interacting with the market forces and facilitating the integration of domestic market with the world market. It needs to be ensured that in this change there should not be any welfare loss to the stakeholders. Farmers are already expressing deep concern about the ‘remunerative aspect of MSP’, but this rather points an accusing finger towards the frequent failure of the market mechanism to provide economically viable prices to them. In the wake of larger stocks, now the price policy has to be handled carefully. Even beyond this, it has come into bold relief that the price intervention scheme
hitherto has not been very effectively implemented and thus, could not fully stand by the objectives it has framed to serve.

The price policy has been asymmetric in terms of crops as well as regions and thus can inflict inequality even through a well intended intervention scheme. Such externalities inflicted by a deliberate policy bias on coarse cereals and pulses sector as well as on the regions growing these crops can be seen in their growth rates and income foregone in the process. Therefore, a fresh look at the price intervention scheme is most imminent.

The context of price policy has changed substantially over the years and so also the direction and effectiveness of price policy as a tool to influence the agricultural economy. This has provoked many social scientists to ask for a fresh look at MSP as an instrument for interacting with the important parameters of the agricultural economy. Among the major objectives of the Price Policy (as reflected from the 1986 policy statement), the incentives to adopt new technology, rational utilisation of land and other resources, the effect of prices on the cost of living, agricultural wages as well as wages in the other sectors of the economy, have together assumed greater importance. In the present situation, two important aspects deserve attention, viz., (i) insulating the farm producers against the unwarranted fluctuations in prices, provoked by the international price variations, and (ii) creation of an incentive price structure for the farm producers in order to
direct the allocation of resources towards growth/export oriented crops. The focus has to change towards creating value addition for the cultivators. Therefore, it becomes necessary to review the implementation process and effectiveness of MSP as an instrument on this background.

It has been noted in the recent past that the growth pattern is changing in favour of certain crops due to various reasons. At times, questions are raised about the suitability of area allocated to such crops and the aggregate welfare implications of these changing crop constellations.

In this context, the present study has been undertaken with a focus on the effectiveness of the Minimum Support Prices in its impact on various parameters of the agricultural economy. The specific objectives of the present study are as follows:

- To analyses the effectiveness of the price in U.P. in the context of the objectives set forth by the Commission on Agricultural Costs and Prices.
- To analyses the overall relevance and effectiveness of MSP in the case of major crops in U.P.
- To analyses the process of implementation of Minimum Support Prices and allied measures at the state level.
- To suggest policy measures in order to enhance the effectiveness of MSP.
To assess the impact of MSP on adoption of improved technology and their relative contribution in increasing the production and productivity of the specified crops.

For achieving the above objectives of the study, we have attempted here to analyse the very existence of MSP as a tool of price policy in the context of its effectiveness. The study is expected to highlight the factors responsible for the success of MSP as a tool of price policy as well as the parameters responsible for its failure. The study also incorporates the analysis of the administrative process in the implementation of MSP. In such an exercise, I have taken help from secondary data sources at the State level. For the purpose of secondary data a good number of indicators are collected at State and district level.

SECTION I: CONCLUSIONS

The main conclusions drawn from the present study are as follows;

Marketing of agricultural commodities under State stipulated regulations began in Uttar Pradesh from 1927 and through various regional acts covering marketing of agricultural products it came under the purview of Uttar Pradesh Agricultural Produce and Marketing (Regulation) Act. The Act provided good scope for establishing a democratic marketing body. The regulation of marketing in began Uttar Pradesh with
a focus on commercial crops and under the situation marked by scarcity in the supply of agricultural commodities.

Movement restrictions and market specialisations effected concentration of commodities in a few markets. Above all, the density of markets was too thin and could not effectively eliminate the role of middlemen. Marketing infrastructure is another important component of effective price policy. The availability of this infrastructure directly reflects on a successful market operating mechanism in terms of prices.

Uttar Pradesh State has a typical composition having large share of its area under severe climatic constraints with a highly diversified agricultural sector. The state has the largest share of drought-prone areas of the country and higher than the country's share of poor but that did not deter the state from achieving better rates of reduction in poverty ratio. The high density of low value and high-risk crops typifies the State agriculture. The crop economy of the state has a few typical characteristics. It has a predominantly cereal dominant crop pattern with coarse grains having largest share of area under them. These crops generally have low yield rates and lower prices and thus commercial crops are resorted to support the agricultural economy. The growth pattern depends upon the performance of monsoon and the availability of water. On the contrary and at the same time, the state has entered in a big way in high-tech agriculture,
only next to a few states in the country. Therefore, the price incentive structure becomes an important component of agricultural policy in the State.

The effectiveness of Price Policy at the State level involves the availability of market infrastructure at the State level and the initiative taken by the state governments in creating institutional structure for monitoring agricultural prices. In the case of Uttar Pradesh, the State government has recently constituted the Agricultural Price Commission. The Government of Uttar Pradesh in its order establishing the Price Commission states that the Commission on Agricultural Prices is constituted to recommend standard prices, those could be sustained in the market, and support prices at which the state government should intervene in the agricultural market. Therefore, at the institutional level the State government has taken a bold step towards formalising a price monitoring system and thereby it has given a fillip to organising a Price Policy at the State level. This institutional initiative will go a long way in establishing the price policy at the State level.

It is analysed the trends in agricultural prices in the State during the last decade. The trends have been analysed from two perspectives, viz., market prices and the administered prices. The trends in MSP across crops indicate a growth of about 10 per cent per annum but there are variations across crops and regions. The
relative neglect of jowar, maize and gram compared to wheat, sugarcane and paddy comes out very clearly especially when we look at the relative prices of these crops in relation to administered prices of paddy and wheat. Similarly, it is also pointed out that the farm harvest prices and wholesale prices do not bear a strong lead or lag relationship with the Minimum Support Prices. Further, it is located that MSP does not bear any consistent and statistically significant relationship with farm harvest prices. This is indicative of the fact that MSP fails to influence trends in the market prices or even act as a guide price. In fact, it is bringing out that for a few years MSP was higher than farm harvest prices and the wholesale prices. The failure of market prices to keep pace with administered prices thus comes out very clearly. Therefore, the role of MSP as guiding price seems to be minimal.

Minimum Support Price also does not seem to work as an incentive price dictating the area under major crops in the State as well as at the district-level. In other words, the cropping pattern largely gets influenced by the market prices than the MSP. Similarly, the input use structure also has little influence on the administered prices. The yield response functions in terms of prices with yield of crops do not bear any statistically significant relationship with the lagged prices of the commodity. In other words, the administered price fails to act either as an incentive in
directing the cropping pattern or as an incentive to increase the input intensity. This analysis clearly suggests that MSP has ceased to act as an incentive to influence the area allocation under a crop and it also ceases to show any significant impact on the input use structure. This behaviour is very clear during nineties.

Implementation of MSP in Uttar Pradesh has been quite a oblique task. During the harvest season the arrivals in the market start increasing which is an obvious and well-anticipated phenomena. But as the regulated markets work on only a stipulated day in the week, the clustering of the arrivals in the regulated market takes place more by design than by chance. When the arrivals increase in the market it is natural that the prices offered by the traders are quite low in the wake of huge arrivals. Many times the prices go well below the MSP, and the procedure requires that the APMC reports this to the District authorities. After receiving such information the District authorities call a meeting of the ‘Task Force’ including the departments involved in the process of procurement and a decision about procurement is taken. This decision is conveyed to the authorities at state level in order to get clearance and release of funds. After such clearance and release of funds, procurement centres are opened. An order from the Government is issued for the purpose of procurement.
Administration of Minimum Support Prices is an important step in our analysis. We have analysed the administrative mechanism in terms of the institutions as well as the process of implementation. The administration of MSP goes through quite a few institutions and therefore, creates complex situations. This also prohibits ease in the process of implementation and introduces a significant lag between the price collapse and the purchase operations. The scheme assumes quick intervention so that welfare loss is minimum. However, timely intervention seems to be not taking place and the lag between the collapse of prices and procurement is about 2-3 weeks. Such lag provides sufficient time for the traders to purchase from the farmers at lower price and sell it to the state at MSP, making significant profits in the process. Therefore, reforms in the agricultural marketing process should feature prominently in the next steps of reform.

It has come out clearly that MSP does not help in deciding the area allocation under the crops during the next season. But there are subtle differences between the crops. The area decisions in the case of major crops and inferior cereals do not seem to depend on MSP. The relative prices seem to work against inferior cereals. The negative coefficient for tur indicates area under tur going down as MSP increases, which in itself is a perplexing result and undermines the role of MSP. But MSP is
acting positively on area under groundnut, whereas relative MSP of groundnut in relation to paddy may probably discourage such area allocation. However, degrees of freedom are not sufficient to conclude about the role of MSP as an incentive price at the macro-level during nineties.

The very foundation of price policy is to support decision-making in area allocation and provide incentive for adopting new technology but that seem to have not been working in the field. It is very clear that MSP does not provoke any area or input decisions, rather it seems that the time trend alone dictates the decision environment. Our analysis indicates that wheat and paddy got the best out of the price policy (through MSP) but unintentionally this worked as an inflictor of negative externality to discourage coarse cereals and pulses. Therefore, it is not wrong if we consider this as a strong policy bias against a few crops. Incidentally, these are the crops grown in agriculturally backward region of the State and mostly by the resource poor farmers.

One of the important objectives of the price intervention scheme is to enhance adoption of technology by providing a wedge against the fluctuations in expected prices. When farmers are assured about price level before the next harvest, they feel secure to use proper mix of inputs and technology which requires a little more investment. Essentially the farmers are not
`investment-shy’ in the context of such assurance and they become cautious risk takers. They probably give consideration to the current MSP exercise and therefore, the declaration of MSP should be before the sowing season for the concerned crop. The experience of last three decades tells us that this happens more as an exception than practice.

In the present context, the factors influencing the effectiveness of MSP assume more importance. Among the factors that dictate the effectiveness of MSP the most important are;

- Process of implementation of the policy
- Undue dependence on the State for intervention so that the markets function effectively and freely in long run
- Weeding out the information asymmetry prevailing in the agricultural markets and providing farmers with the required information at proper time
- Monitoring the prices without intervention and assess the situation in the place of sue motto intervention, and
- Long term policy steps to replace the present ad hoc arrangements.

The process of implementation favours a few crops against another group of crops. This is ensured by a few interest groups. It is well known that a segment of the farmers’ lobby has a greater influence on the price policy and at the macro-level it favours a few crops and regions. This, in turn, affects the
aggregate welfare. Similarly, input markets too have little influence of the behaviour of MSP. In product market, the expectation about support prices provide ripe situation to the intermediaries to achieve greater advantage. The implementation process itself provides time-lag between declaration of the intention to procure under MSP and the actual procurement. In the history of last three decades, it has come out boldly that the process of implementation has a significant dependence on state bureaucracy. This undermines its relevance as an instrument of the Price Policy. The relevance of MSP to the farm sector can be viewed from three different angles. First, the declaration of MSP should be at the time when the farmer has to take a decision about the crop. It is stipulated that the Minimum Support Prices be declared well before the sowing season. This is not difficult as the cost data used for computations and arriving at MSP is of the previous years. However, even after more than two decades of exercise the MSP is not declared before the decision-making about sowing.

Minimum Support Prices have been in operation as a price support scheme for over a quarter of century and it is time to look back at the effectiveness of this scheme. This requires an examination of the present operations of MSP and to see if they are meeting the objectives with which the scheme began. The first question that comes up here is the need for intervention especially
to correct the market distortions and making the market more competitive. The present institutional structure in the market itself is imperfect and that provides further scope for the process to fail. The APMCs and other market intervention agencies perform their functions in such a way that the farmers and the primary producer rarely benefit out of the process. If the intervention is streamlined and supported with proper institutional framework, probably the gain will be on the farmers’ side. Such scheme requires the market institutions to intervene selectively but timely when the market prices fall below the declared MSP. However, timely intervention in the agricultural markets, at least in Uttar Pradesh, seems to be not taking place. In order to ensure timely intervention the Uttar Pradesh Government has opened procurement centres at all the APMCs and a special fund is created for this purpose.

The following paragraphs give a succinct view of the findings from our macro-level analysis of the objectives set for the study. The results pertain to the State of Uttar Pradesh

- The impact of the MSP on market prices (FHP or WHP) in terms of reducing the seasonal and cyclical fluctuations during nineties has been quite negligible.

- MSP could not act as an incentive price since more often it is declared well after the sowing season. Moreover, the mechanism of implementing MSP does not
fully allow it to perform the role of an incentive price.

- It also does not help in adoption of technology as the declarations come well after the sowing of the crop is undertaken. The determinants of the adoption of technology work be located in the market prices and market behaviour.

- In the present context, the MSP has not influenced the structure as well as quantum of inputs since many of the farmers are not even aware of MSP.

- MSP does not influence the regional variations in the prices and these continue to dog the market of agricultural commodities.

- Among the factors that dictate the effectiveness of MSP, the following assume significant importance:
  - Process of implementation of the scheme.
  - Undue dependence on the state machinery every time for the purpose of initiating the procurement.
  - Information asymmetry prevailing in agricultural market thereby causing severe market imperfections.
  - Absence of state level mechanism for monitoring agricultural prices to initiate sue motto intervention.

- MSP, if implemented properly, can effectively play the expected roles: to act as incentive price, crop pattern and input intensity navigator, risk abated and technology promoter. Our simulation exercise suggests that if the
process of MSP is overhauled probably its envisaged role can be witnessed.

- The relevance of MSP in the case of Uttar Pradesh proves to be extremely marginal and its influence could be seen only on the Paddy and Sugarcane growers.

- MSP reveals only theoretical impact on agricultural growth and distribution parameters. However, the implementation of the scheme is such that it prevents to empirically assess any such impact.

- The process of implementation of MSP requires a thorough overhauling and it needs to be made market as well as farmer friendly. We have suggested some of the measures to enhance the effectiveness of MSP.

- The questions regarding the micro-level impact of MSP on adoption of technology, investment in agriculture, inter-crop price parity, impact on cropping pattern and sustainability of cropping pattern have been analysed and it was found that as the scheme is not perfectly implemented to influence these parameters at micro level. Therefore, it will not have any such impact. Probably, an overhauled scheme and the process of implementation will make up for these lacunae.
SECTION II: POLICY SUGGESTIONS

In the light of above stated empirical results, the following suggestions have been put forward on the basis of derived policy implications;

The objectives of the price policy were formulated in three different phases. Among these the first phase was a typical food scarcity phase with major focus on making food grains available to the consumers. The second phase started with the recommendations of S R Sen Committee report (GOI, 1980) and revisiting the methodology of computing cost of production. The first formal price policy declaration came in the form of the Price Policy document of 1986 and that provided a long list of objectives to the Price Policy. Subsequently, the focus was divided between farmers and consumers. Price Policy assumed political overtones and among the positive gains buffer stock as well as distribution became quite satisfactory. The decade of nineties witnessed several changes in the agricultural sector as well as in the agricultural policy. On the background of these changes it is felt that the primary objectives of the price policy need to be: (i) to protect the agricultural producers from the sharp fall in prices (providing insurance; (ii) to encourage a definite cropping pattern in the context of overall growth imperatives and (iii) to ensure the participation of primary producer in international market as well as to protect the farmers’ interest.
against the price fluctuations due to world price/market situations. Therefore, the change in the focus of price policy is quite imperative. The Agricultural Policy document of 2000 goes on in a similar vein and it is stated that “the Central Government will continue to discharge its responsibility to ensure remunerative (emphasis added) prices for agricultural produce through announcement of Minimum Support Prices Policy for major agricultural commodities (GOI 2000:14). The document also reflects on several aspects which require the changes in the approach to Price Policy. It is therefore, required that the contours of Price Policy be reviewed carefully. The concept of ‘remunerative prices’ has entered first time in the policy vocabulary. This should be made clear emphatically since it will have deeper significance for the farmers and the agricultural economy.

Minimum Support Prices as a tool of Price Policy covers a large number of crops across the length and breadth of the country. Over years, CACP has added quite a few crops to this list, probably not reviewing the list of the crops over years. In the process, the inter-crop price parity got vitiated and policy became instrumental to such process of deliberate policy neglect. Discouraging certain crops and crop-groups also inflicted inequality across regions and farmer groups. Largely, the crops which received raw deal in terms of relative prices were the ones
grown by resource poor farmers and in slow growth regions. This experience requires a selective Price Policy with a clear focus on the outcome. We suggest that the MSP should be selectively applied for crops and in the regions specified based on three criteria namely – growth pattern, competitiveness and trade response.

Administration of Minimum Support Prices has been quite a circuitous task in most of the States in the country. No wonder we have a large number of instances in which market prices rule below MSP and even average Farm Harvest Prices are also below MSP. The peak arrivals in regulated markets are naturally clustered during harvesting season and added to that the regulated markets function on pre-decided days in the week. These two together result in clustering of the arrivals in the market on a particular day and consequently push the producers in a dis-advantaged situation. When the arrivals increase, it is natural that the prices collapse. After getting this information a meeting of the Task Force is conducted under the Chairmanship of District Commissioner involving all the concerned institutions in the process of procurement. The decision for procurement is taken and location of the centres for procurement is decided.

The whole procedure takes more than two weeks to complete, despite the present days communication facilities. But by this time, farmers are compelled by the circumstances to sell the
products to the middlemen/traders at the prices dictated. It is necessary to simplify the procedure and have permanent procurement centres at the APMC yards, with funds to procure at a time when prices collapse below MSP. One such step has been taken by the Govt of Uttar Pradesh, but the experience needs to be reviewed. There are a number of institutions involved in the procurement process and there is hardly any coordination between them. For an effective policy, it is necessary to have a single agency coordinating the whole procedure without any time lag involved. It is suggested that FCI should handle food commodities as is done now and NAFED may be made responsible for the other non-food commodities and international trade. The rest of the bureaucratic structure causing distance between procurement agencies and the farmer should be done away.

The process of determination of Minimum Support Price has undergone several debates and reviewed during the last three decades. But even then it has not been widely accepted by the farmers and a certain group of academicians. During the last two years, two workshops were conducted by the CACP to thrash out the methodology problems. But yet we have to get a comprehensive policy statement based on these deliberations. There are hardly any attempts to check the authenticity of the data collected under cost of cultivation schemes, which is often challenged by the farmers. CACP arrives at MSP after long
deliberations and based on the cost of production data collected from the countrywide centres. Notwithstanding the quality of these data, it is necessary to keep cost C2 in view while fixing MSP Unfortunately, the recommended

MSP by CACP is changed while it is declared by the Central Government, mostly based on the political interventions and to score some political mileage. Such changes are effected quite often, rather as a rule than exceptions. Moreover, these changes in MSP are not substantiated by any rational arguments, ridiculing the so called ‘scientific process’ of CACP in arriving at the MSP. Therefore, it is required that deliberation with the interested Cabinet Ministers and farm leaders are undertaken by the CACP well before declaration of MSP. Another way of achieving this is to make CACP a statutory body of the Government. It is mandated that MSP should be announced before sowing of the crops in every season. But this is done rarely. We located that the MSP is rarely announced before the sowing season. MSP announced after the sowing season loses its reference as a price policy tool. Therefore, it is necessary to announce the MSP before sowing season.

During the sixties and early seventies the price policy focussed on protecting the consumers and procuring buffer stocks required for supplying the Public Distribution System. The prices were to be kept at an affordable range for the consumers and that
formed the fulcrum of the policy. Providing remunerative prices to the farm produce came as an important change after 1979 and precisely in post 1986 period. We located a distinct shift in the trends of MSP at that point and the second break was visible at 1996-97. The second change was more in response to the process of liberalisation and with an eye on international markets and prices. This change though noted subtly in their reports by the CACP, nothing specific has been done to support the producers willing to participate in the exports of agricultural produce. Agencies like NAFED also have a significant presence in international trade but have not been geared through policy to undertake such initiatives. Therefore, it is necessary that institutions like NAFED or specially constituted Commodity Boards (like Tur Board of Uttar Pradesh) also intervene the market with the prices declared well in advance for the purpose of trade.

Price and market monitoring mechanism at the State level is the most urgent requirement. A few sporadic experiments are available in the country but there is hardly any policy support for such initiatives. These mechanisms should cater for providing information on domestic/ international prices, technical advice in marketing, interface with specific Commodity Boards and market intervening agencies. In the absence of such market reforms it will be difficult to transfer the benefits of liberalisation to the most deserving sections among farmers.
There are following specific steps needed

- There should be a thorough review of the methodology of arriving at MSP, discussed with farm leaders and academicians. Such review should be taken periodically and should be transparent in nature.

- Sample checks of the data collected under Cost of Cultivation scheme by independent agencies are extremely necessary. This process should be made mandatory for each of the State.

- MSP, if declared before the sowing season, can become an effective tool of Price Policy. Similarly, the gap between the recommended price by the CACP and the MSP declared by Government of India should be rationally explained.

- The procurement mechanism needs some streamlining and the State governments should be encouraged to setup their own Agricultural Prices Commissions. Such Commissions will help to monitor the prices and the procedure of intervention on the similar lines as has been done in Uttar Pradesh.

- Inter-crop price parity can be utilised to encourage or discourage a particular cropping pattern. Probably during nineties little attention is paid to this aspect. Therefore, coarse cereals suffered a relative neglect at the policy threshold. This policy should be used by
encouraging growth-oriented crops.

- Price Policy now needs to keep in view the crops having international trade potential. Two aspects have to be kept in view to encourage agricultural trade. First, to monitor and manoeuvre the Price Policy between domestic prices and international prices and second to encourage the cropping pattern in favour of the export-oriented crops.

- MSP policy has not reached the farmers except in the regions with predominantly commercial agriculture. This is both due to the present process of implementation and declaration of MSP. To overcome this lacuna the information of MSP should reach the farmers through the well oiled extension agencies.