

Agriculture Price Support Policy

5.42 Keeping in view the interests of the farmers as also the need for self reliance in foodgrains, the Government has been offering Minimum Support Prices (MSP) for all major crops like paddy, wheat, jowar, bajra, maize, ragi, pulses, oilseeds, copra, cotton, jute, sugarcane and tobacco. The farmers have the option to either sell their produce to the Government agencies at the offered Minimum Support Prices or in the open market, whichever is more advantageous to them. The Commission for Agricultural Costs & Prices recommends the MSPs for all major crops every year.

5.43 The MSP and the issue price under PDS provide a benchmark for the market prices of foodgrains. However, the economic costs of the FCI incurred for procurement, storage, distribution, drriage and wastage of foodgrains have been rising in recent years and are now much above the free market prices, (Table 5.10, see also Box 5.2). This is a cause for concern, and if not checked, it may keep on raising the burden of food subsidy. Measures to economise on costs by FCI need to be highlighted.

5.44 Very often, especially during the lean season, Government resorts to open market sale by releasing foodgrains from FCI's stocks so as to check speculative rise in free market

Year	General Index of Wholesale Prices	Price Index of Agricultural Products*	Price Index of Manufactured Products	Agriculture Price index as percent of Manufacturing
1982-83	104.9	107.3	103.5	103.7
1983-84	112.8	121.4	109.8	110.6
1984-85	120.1	129.2	117.5	110.0
1985-86	125.4	129.1	124.4	103.8
1986-87	132.7	142.8	129.2	110.5
1987-88	143.5	161.8	138.5	116.8
1988-89	154.2	170.9	151.6	112.7
1989-90	165.7	174.4	168.6	103.4
1990-91	182.7	198.3	182.8	108.5
1991-92	207.8	236.8	203.4	116.4
1992-93	228.7	255.5	225.6	113.3
1993-94	247.8	271.4	243.2	111.6
1994-95	274.7	307.6	268.8	114.4
1995-96	295.8	330.5	293.1	112.8
1996-97	314.6	358.4	305.0	117.5
1997-98	329.8	370.5	317.5	116.7
1998-99	352.4	417.3	332.0	125.7
1999-2000**	362.3	429.4	337.3	127.3

* Composite index of the sub-groups - Food Articles and Non-food Articles
** Annual average April-December, 1999 (Provisional).

prices. Besides, carrying large volume of stocks much above the minimum buffer stock norms sometimes is a cause of reduced market availability which FCI then attempts to correct through open market sale.

BOX 5.2

Minimum support prices and Annual Inflation

Minimum Support Prices (MSP) lay the floor for the market price of foodgrains, especially the two dominant foodgrains-rice and wheat. In recent years annual increases in MSP have been substantial and at times much above the the current inflation rate.

Minimum Support Prices (Rs/quintal) and Annual Inflation

	MSP	%	MSP	%	Annual
	Wheat	Increase	Paddy	Increase	inflation
		(Common)		(%)	
1995-96	380	5.6	360	5.9	4.4
1996-97	475	25.0	380	5.6	6.9
1997-98	510	7.4	415	9.2	5.3
1998-99	550	7.8	440	6.0	4.8
1999-2000	-	-	490	11.4	3.3@

@ as on January 15, 2000.

Consequently, MSP after inclusion of state taxes and procurement incidentals etc. becomes a benchmark price for the free market. The second impact is seen in public agencies such as FCI procuring a much larger quantity since private trade finds it costlier to stock large volumes at higher prices. Higher procurement prices invariably cause FCI to procure more than what is required for food security, leading to much higher commitments for Government subsidy. Lower volumes stocked by trade means higher market price during lean season. This explains why despite an eighteen year low inflation in 1999-2000, wholesale prices of rice and wheat alone were higher by 5.7 per cent and 13.5 per cent for the week ended January 15, 2000 over corresponding period last year.

There is need for some restraint in fixing Minimum Support Prices so that they are not too mis-aligned with the realities of the market.