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Output Price Policy in Indian Agriculture: A Review

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Abstract
The evolution of India's agricultural price policies, from the establishment of the Agricultural Price Commission in 1965 to the present-day schemes like MSP, MIS, and PM-AASHA, has aimed to ensure fair prices for farmers and affordable food for consumers. MSP, as the cornerstone policy, shields farmers from price volatility, while interventions like MIS stabilize prices for perishable commodities. The recent introduction of PM-AASHA further enhances income security through schemes like PSS, PDPS, and PPPS. Despite these advancements, challenges persist, including the need for a more nuanced approach to policy formulation, the expansion of coverage beyond MSP, and the adoption of direct payments. Incorporating these suggestions can bolster India's agricultural sector, ensuring fair returns to farmers and stable commodity prices.
Keywords: *Price policy, Farmers, Remunerative price, Gross revenue, Food grains, Direct payment, Kharif crops*

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I. Introduction

Output price policy refers to governmental intervention aimed at influencing the prices of agricultural products and/or farm inputs. These interventions can vary in type and extent depending on the level of agricultural development in a given region (Acharya, 2016).

The Agricultural Price Commission (APC), established in 1965, was tasked with regularly advising the government on how to evolve a balanced and integrated price structure. This mandate outlined the general parameters of the policy. The main goal of the policy was to guarantee farmers received fair and remunerative prices and to supply food grains to consumers at affordable costs. Previously, the goal of agriculture programs in developing nations like India was to increase food grain production so that the country could become self-sufficient and avoid ship-to-mouth dependence. The problem with this plan was that farmers' gross revenue increased less than expected. To understand this aspect clearly consider the price elasticity of demand as (say) minus 0.4 in this situation, an increase in production of food grains by 10 per cent, leads to 25 per cent decline in prices (Acharya,2016).

Within this framework, output price policies that are intended to boost food grain production in the early phases must provide a profitable price environment for food grain farmers. In order to encourage farmers to invest money in improving their farms and increasing their usage of inputs to increase productivity and, consequently, net income, a variety of price support policies are intended to be set at an incentive level (Govt. of India,1986).

Frequently occurring gluts and shortages lead to price crashes and sharp price increases, which is another cause for different pricing strategies. Prices are becoming somewhat erratic. Unlike business firms, farmers do not practice income smoothing, which involves setting aside a portion of their earnings during periods of high prices for usage during periods of low prices

(Chand,2017).

Genesis of output price policy in India

Explicit output price policy came into existence in mid-1960s but genesis of it can be traces way back before that:

1. In 1941, a ceiling on prices of wheat was imposed in the Punjab
2. In 1944, a price sub-committee on Agriculture was constituted under the chairmanship of T.T. Krishnamachari
3. In 1954, Agricultural Price Fluctuations Review committee was constituted which suggested measures to reduce price uncertainty of farm products, including food grains.

4. In 1959, there were three important developments. The national Development Council suggested for fixing/assuring minimum prices to the farmers.
5. In 1964, Food Grains Prices Committee under the chairmanship of L.K. Jha came out with a concrete road map for Agriculture Price Policy in India. Its recommendations included:
(a) Specific level of minimum support prices for 1964-65 crop season,
(b) Need for setting up Agriculture Price Commission for advising government on price policy matters on regular basis and
(c) Creation of Food Corporation of India for implementing the programs related to food security policy.
6. In 2013, National Food Security Act 2013 (also 'Right to Food Act') is an Indian Act of Parliament which aims to provide subsidized food grains to approximately two thirds of the country's 1.2 billion people

Current administrated price policies in India

1. Minimum Support Price (MSP)
2. Market Intervention Scheme (MIS)
3. Pradhan Mantri Annadata Aay Sanrakshan Abhiyan (PM-AASHA)

It further includes:

i. Price Support Scheme (PSS)
ii. Price Deficiency Payment Scheme (PDPS)
iii. Pilot of Private Procurement & Stockist Scheme (PPPS)

1. Minimum Support Price (MSP)

MSP is the most prevalent and well-known output price policy in India that has been in existencesince 1965. Based on the recommendations of the Commission for Agricultural Costs and Prices(CACP), the Department of Agriculture and Co-operation, Government of India, declares Minimum Support Price (MSP) for 23 crops before the sowing season. The mandated crops are 14 crops of the kharif season, 6rabi crops and 3 other commercial crops. In addition, the MSPs of toria and de-husked coconut are fixed on the basis of the MSPs of rapeseed/mustard and copra, respectively. The list of crops is as follows:

- Cereals (7) - paddy, wheat, barley, jowar, bajra, maize and ragi
- Pulses (5) - gram, arhar/tur, moong, urad and lentil
- Oilseeds (8) - groundnut, rapeseed/mustard, toria , soyabean, sunflower seed, sesamum, safflower seed and nigerseed
- Raw cotton
- Raw jute
- Copra
- De-husked coconut
- Sugarcane (Fair and remunerative price) *

The purpose of MSP is to protect farmers from price swings by providing them with guaranteed markets and prices. Farmers are protected from unjustified price fluctuations brought on by supply variations (which are heavily impacted by the monsoon), a lack of market integration, information asymmetry, and other aspects of market imperfections that plague the agricultural markets. It is anticipated that the stable market and fixed price will promote increased investment and the use of contemporary technology in agricultural operations (NITI AAYOG, GOI,2016).

Due to supply variations, a lack of market integration, and information asymmetry, agricultural commodity prices are naturally unstable. A particularly strong harvest in any given year can cause a sharp decline in the price of that commodity during that year, which can then negatively affect future supply as farmers decide not to plant that crop in the next or following years. The shortage of supply that results the next year drives up consumer prices significantly. In order to combat this, the government sets the MSP for important agricultural crops annually.

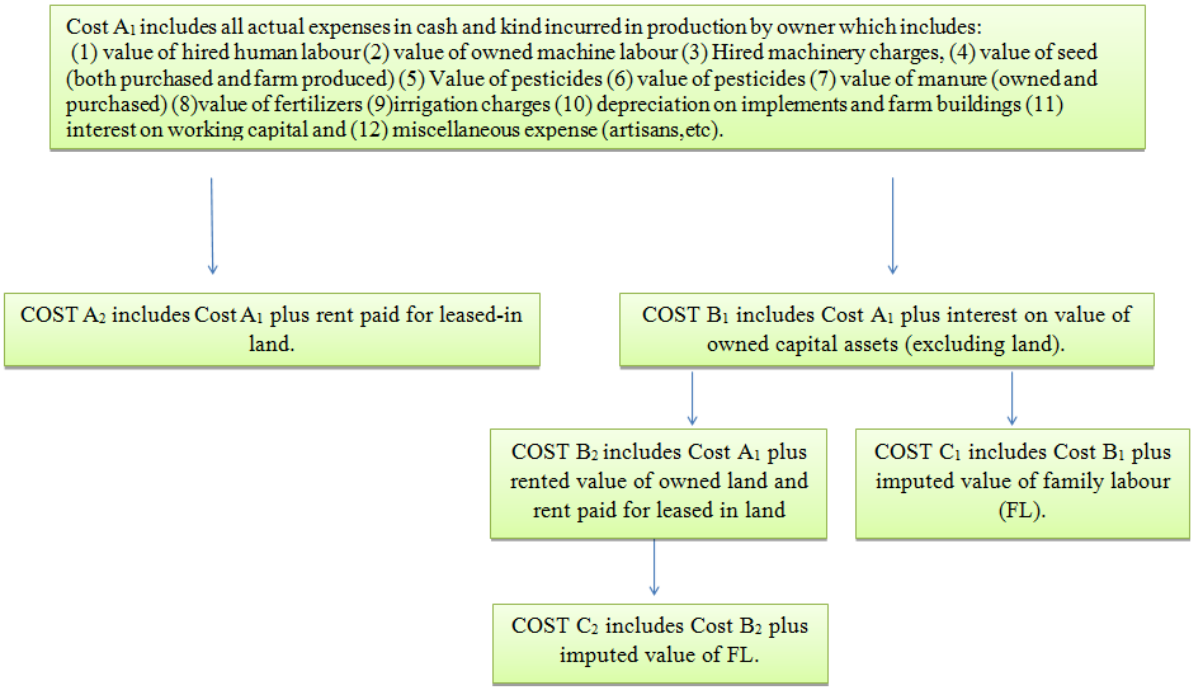
Method of Calculation of MSP

Commission for Agricultural Costs &Prices (CACP) considers the whole economic structure of a given commodity or group of commodities for determining the level of minimum support prices and other non-price measures:

- cost of production
- changes in input prices

- input-output price parity
- trends in market prices
- demand and supply
- inter-crop price parity
- effect on industrial cost structure
- effect on cost of living
- effect on general price level
- international price situation
- parity between prices paid and prices received by the farmers and effect on issue prices and implications for subsidy

Cost Of cultivation as suggested by the Jha Committee was the foundation for the calculation of MSP (Kadasiddappa*et al.* 2013). Over time the concept of such cost has become complex, resulting in divergent views about the computation and estimation of MSP. Varied concepts of cost of cultivation are shown below:



The Swaminathan study offers a promising remedy for the ailing community. It was suggested that nearly all actual farm costs, expressed as C_2, be added to the MSP computation, in addition to a 50 per cent margin.

Another Committee under the chairmanship of Ramesh Chand suggested some additional cost aspects that needed to be incorporated in C_2.The key additionswere: - post-harvest expenses such as cleaning, grading, drying, packing, marketing, and transportation should be incurred, the head of the farm household should be viewed as a skilled worker rather than the common practice of considering him or her as a manual worker, interest on working capital should be accounted for the entire season instead of half of it.

Table 1: MSP (According to Crop year)

(Rs. per quintal)

S. No.	Commodity	Variety	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Kharif Crops									
1	Paddy	Common	1470	1550	1750	1815	1868	1940	2040
		Grade 'A'	1510	1590	1770	1835	1888	1960	2060
2	Jowar	Hybrid	1625	1700	2430	2550	2620	2738	2970
		Maldandi	1650	1725	2450	2570	2640	2758	2990
3	Bajra		1330	1425	1950	2000	2150	2250	2350
4	Ragi		1725	1900	2897	3150	3295	3377	3578
5	Maize		1365	1425	1700	1760	1850	1870	1962
6	Tur (Arhar)		5050^^	5450^	5675	5800	6000	6300	6600
7	Moong		5225^^	5575^	6975	7050	7196	7275	7755
8	Urad		5000^^	5400^	5600	5700	6000	6300	6600
9	Groundnut		4220*	4450^	4890	5090	5275	5550	5850
10	Sunflower Seed		3950*	4100*	5388	5650	5885	6015	6400
11	Soybeen (Yellow)		2775*	3050^	3399	3710	3880	3950	4300
12	Sesamum		5000^	5300*	6249	6485	6855	7307	7830
13	Nigerseed		3825*	4050*	5877	5940	6695	6930	7287
		Medium							
14	Cotton	Staple	3860	4020	5150	5255	5515	5726	6080
		Long Staple	4160	4320	5450	5550	5825	6025	6380
Rabi Crops									
15	Wheat		1625	1735	1840	1925	1975	2015	2125
16	Barley		1325	1410	1440	1525	1600	1635	1735
17	Gram		4000^	4400@	4620	4875	5100	5230	5335
18	Masur (Lentil)		3950@	4250*	4475	4800	5100	5500	6000
19	Rapeseed & Mustard		3700*	4000*	4200	4425	4650	5050	5450
20	Safflower		3700*	4100*	4945	5215	5327	5441	5650
21	Toria		3560	3900	4190	4425	4650	5050	
	Other Crops								
22	Copra (Calender Year)	Milling	5950	6500	7511	9521	9960	10335	
		Ball	6240	6785	7750	9920	10300	10600	
23	De-Husked Coconut (Calender Year)		1600	1760	2030	2571	2700	2800	
24	Jute		3200	3500	3700	3950	4225	4500	4750
25	Sugarcane$		230	255	275	275	285	290	305

Source: CACP

* Including Bonus of Rs. 100 per quintal.
^ Including Bonus of Rs. 200 per quintal.
^^ Including Bonus of Rs. 425 per quintal.
@ Including Bonus of Rs. 150 per quintal
$ Fair & Remunerative Price

Source: Agricultural Statistics at a Glance (2022-23)

2. Market Intervention Scheme (MIS)

Market Intervention Scheme (MIS) is an ad-hoc scheme under which are included horticultural commodities and other agricultural commodities which are perishable in nature and which are not covered under the MSP. The Scheme is implemented when there is at least 10 per cent increase in production or 10 per cent decrease in the ruling rates over the previous normal year. Proposal of MIS is approved on the specific request of State/UT Government, if the State/UT Government is ready to bear 50 per cent loss (25 per cent in case of North-Eastern States), if any, incurred on its implementation. Under MIS, funds are not allocated to the States.Prices for procurement of crops are decided on the basis of cost of production and other factors for that season. Under the scheme, in accordance with MIS guidelines, a predetermined quantity at fixed market intervention price is procured by NAFED as the Central agency and the agencies designated by the State government. This policy of Market Intervention also proved a boom to the farmers in distress.

Table 2: List of the State with major commodities procured under MIS

State	Commodity under MIS
Andhra Pradesh	Oil palm, Chilly
Himachal Pradesh	Apple- 'C' Grade
Jammu and Kashmir	Apple- 'A,B and C' Grade
Karnataka	Oil palm, Arecanut
Kerala	Black Pepper
Mizoram	Chillies, Ginger, Chow-Chow
Rajasthan	Onion, Garlic
Uttar Pradesh	Potato
Uttarakhand	Apple- 'C' grade
West Bengal	Potato

*Source:*Kalmakar S.S, 2015

Table 3: Market Intervention Scheme in Himachal Pradesh

Sr. No.	Year	Production (MT)	Procurement under MIS (MT)	Procurement price (Rs./Kg)	Percentage (%)
1	2011-1	275036	5664	5.25	2.06
2	2012-13	412395	11822	6	2.87
3	2013-14	738723	34229	6.5	4.63
4	2014-15	625199	13415	6.5	2.15
5	2015-16	777126	36033	6.5	4.64
6	2016-17	468134	16088.87	6.5	3.44
7	2017-18	446574	30657.795	7	6.87
8	2018-19	368603	27139.19	7.5	7.36
9	2019-20	715253	61117.035	8	8.54
10	2020-21	481062	37875.985	8.5	7.87

Source: Directorate of Horticulture, Shimla, Himachal Pradesh (2022)

3. Pradhan MantriAnnadataAaySanrakshanAbhiyan" (PM-AASHA)

The Government has approved a new umbrella scheme "Pradhan MantriAnnadataAaySanrakshanAbhiyan" (PM-AASHA) which provides Minimum Support Price (MSP) assurance to farmers.As stated in the Union Budget for 2018, the Scheme aims to guarantee farmers receive fair prices for their produce. By enhancing the procurement process in collaboration with the State Governments, the MSP rise can raise farmers' incomes.The three components outlined under the scheme is thus aimed towards enhancing agricultural productivity, reducing cost of cultivation which will enable boosting and securing farmer's income in the long run.

i. Price Support Scheme (PSS)
ii. Price Deficiency Payment Scheme (PDPS)
iii. Pilot of Private Procurement &Stockist Scheme (PPPS)

i. Price Support Scheme (PSS)

✓ Under the PSS, Central nodal agencies will procure pulses, oilseeds and copra with proactive role of state governments.
✓ The Food Corporation of India (FCI) and the National Agricultural Cooperative Marketing Federation of India (NAFED) will help implement the scheme.
✓ The procurement expenditure and losses due to procurement will be borne by Central Government as per norms.
✓ The government will procure 25% of the marketable surplus of farmers for eligible crops.
✓ The Centre has made a provision of about Rs 16,000 crores to be provided as bank guarantee for the agencies to procure from farmers.

ii. **Price Deficiency Payment Scheme (PDPS)**

✓ Under the PDPS, the state will provide the difference between the prices prevailing in mandis and the MSP.
✓ All oil-seeds are to be covered under PDPS.
✓ This scheme is modelled on the **BhawantarBhugtanYojana** that has been implemented by the Madhya Pradesh state government as well as **BhavantarBharpaiYojana** of Haryana Government.
✓ There will be **no physical procurement of crops**.

iii. Pilot of Private Procurement & Stockist Scheme (PPPS)

✓ In lieu of PSS and PDPS, in certain pilot districts the PPPS will be tried out.
✓ Private agencies will procure oilseeds in coordination with the government.
✓ The selected private agency shall procure the commodity at MSP in the notified markets during the notified period from the registered farmers in consonance with the PPSS Guidelines, whenever the prices in the market fall below the notified MSP and whenever authorized by the state/UT government.

II. Suggestions

India used both MSP and procurement prices as its pricing structures until the early 1990s. The MSP, which was a floor price set prior to the sowing season, was mostly determined by the cost of production, among other things. However, the primary purpose of the purchase price was to buy grain in order to increase buffer and operating stocks for the PDS and other welfare programs. Prior to the harvest season, the procurement price is made public and is not based on production costs but rather on a number of criteria such as government stock levels and current market prices. Beginning in the early 1990s, the procurement price was gradually removed, and MSP is currently the accepted procurement price. As a result of rising production costs, the MSP has been rising gradually. Since MSP is also the de facto procurement price, this led to an increase in government procurement, which resulted in episodes of frequent build-up of huge stocks. As a result of the government's accumulation of these equities, the market's supply decreases and market prices are driven higher. This led to instances of food inflation in certain years. Large-scale grain diversion and leakages resulted from the ensuing discrepancy between the PDS price and the market price. In India, only a small range of commodities are covered via public procurement. Currently, only rice and wheat among the 25 commodities for which MSPs are declared annually are continuously sourced, and from a limited number of states. Although there are some systems in place for cotton, sugar, and pulses, they have proven to be mostly insufficient due to frequent price fluctuations. Even with this restricted coverage, stock build-ups and the ensuing shortage of storage space occur frequently. Large amounts of area are needed for distribution, storage, and procurement in addition to the corresponding infrastructure for marketing. Purchasing, storing, and distributing just two grains—rice and wheat—has proven to be extremely expensive (Sekhar *et al*.2018). Unlike the PDPS or procurement, direct payments are more akin to income support. Under this system, farmers receive payments directly from the government based on historical data regarding area, yield, and price of a crop (or few crops) that they have registered(Sekhar and Bhatt 2012**).**

It is not necessary for the farmer to grow the crop (s). He receives a one-time payment in full and is free to grow any kind of crop he wants. It is anticipated that this approach will have very little impact on supply and demand. This system has been adopted by other nations, including China and the United States of America (US). The programme is broadly as follows. Like MSP, the government sets a payment rate for different crops. Depending on the cropping pattern in each region, only a small number of suitable crops may receive notifications. Next, the farmer can choose a base year (any one of the previous five years) and a set of crops depending on their cropping history. The farmer may get a payment each year, which is determined by the fixed payment rate and the amount of the crop produced in the base year.

Direct payment for the crop = (payment rate × production of the crop in the base year)

Regardless of whether the farmer really grows the crop in the current year or not, the farmer receives this money. Actually, any other crop that the farmer thinks profitable may be grown. Subject to the crops and base year selected, direct payments to farmers can be seen as a form of Universal Basic Income (UBI). Farmers have the freedom to plant different crops and are not limited to cultivating only those for which they are paid directly. Although they can be paid for wheat, they can also cultivate soybeans on the land they receive payments for each year. Thus, farmers' cropping decisions will be based only on expected market price and variable costs of production. The cropping pattern under direct payments is unlikely to be distorted in favor of few crops, unlike in case of MSP or PDPS (Gulati *et al.* 2018).

Certain farmers may find that they require fewer loans for longer-term investments or for short-term operations due to the enhanced liquidity brought about by the payments. The self-financing approach has opportunity costs, although they are not as high as the commercial cost of loan. The risk aversion of farmers may be lessened by all of these variables. (Chavas and Holt, 1990)

Differentiated policies based on commodity specificity:

There is a need to classify commodities according to their nature and devise policies appropriately. The commodities may be broadly classified as follows (Mittal *et al.* 2018):

(i) commodities required for the PDS (rice and wheat)
(ii) commodities with surplus production but not necessary for the PDS (maize, coarse cereals)
(iii) commodities with deficit production but adequate import sources in the world market (edible oils)
(iv) commodities with deficit production but inadequate availability in the global markets (pulses); and
(v) perishable commodities (fruits, vegetables, eggs, fish and mutton).

Different trade and price policies will be required for each category. Limited public procurement is appropriate for the first group. An e-NAM-integrated PDPS might be suitable for the second group. For the third group, a liberal import policy in addition to PDPS might be required. A thorough policy covering production scheduling,

technology adoption, value addition, and marketing is required for the fourth and fifth groups. The fourth and fifth categories will benefit most from the private sector's involvement.

III. Conclusion

The evolution of India's output price policy, dating back to the mid-20th century, has seen the establishment of pivotal institutions like the Agricultural Price Commission (APC) and the development of crucial schemes like MSP, MIS, and PM-AASHA. These initiatives aim to stabilize prices, ensure fair returns to farmers, and provide income security. Recommendations from studies like the Swaminathan report, along with interventions like MIS and the introduction of PM-AASHA, offer promising solutions to address the challenges in the agricultural sector. However, there is a need for a more nuanced approach, including the incorporation of direct payments and differentiated policies based on commodity specificity, to further enhance the effectiveness of these initiatives. In essence, while significant progress has been made, ongoing improvements and adaptations are necessary to meet the diverse and evolving needs of Indian agriculture.

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