

Leader Article: Ends and Means by C H Hanumantha Rao

It is reported that the government is close to finalising a system of dual pricing for the public procurement of foodgrains.

There would be two basic elements to this system: A fixed minimum support price (MSP) covering the cost of cultivation, as at present, recommended by the Commission on Agricultural Costs and Prices (CACP), and variable procurement prices, at the discretion of the department of food, depending on market conditions in different seasons and regions of the country.

Under these, the government would procure enough quantities for meeting the requirements for buffer stocks as well as public distribution system (PDS), in competition with private trade.

This proposal should be welcomed, as it would enable the country to more effectively cope with emerging challenges in agriculture. This proposal also recognises the greater ability of our economy, in the post-liberalisation era, to meet temporary shortages of foodgrains through imports.

One of the major challenges facing Indian agriculture is the slow pace of its diversification on account of an open-ended procurement of foodgrains at prices much higher than those recommended by the CACP.

The food basket, on the other hand, has become considerably diversified with much greater share being occupied now by non-foodgrain items such as sugar, edible oils, milk, meat, eggs, fish, vegetables and fruits.

These items now account for over 60 per cent of consumer expenditure on food. Even for the poor or bottom 30 per cent of population, these non-foodgrain items account for as much as half the total expenditure on food.

Since raising consumption of such items by the poor to the level enjoyed by the top 30 per cent of population has to be the ultimate goal, the per capita consumption of these items by the poor has to increase at least three-fold.

By guaranteeing MSP to farmers, the proposed dual pricing system for foodgrains can safeguard the foodgrain security already achieved, even as it would encourage diversification of agriculture.

Diversification will ensure effective food security by raising employment and purchasing power for the rural poor, as dairying, horticulture, etc have a potential for greater employment as well as higher wages.

The existing price and procurement policy has encouraged regional concentration of foodgrains output, with the north-western region alone accounting for bulk of the surpluses procured.

This is already causing severe ecological degradation in this region with the depletion of soil nutrients and water table driven down to unsustainably low levels.

Open-ended procurement at higher prices without any regard for the emerging trend in international prices rendered our grain exports uncompetitive for quite some time and also reduced domestic consumption by making foodgrains unaffordable by the poor.

For example, according to a working group of the Planning Commission, over the five-year period ending 2001-02, when there was a steep rise in procurement prices resulting in the accumulation of embarrassingly large stocks of foodgrains of over 60 million tonnes with the government, consumption of foodgrains in the country was reduced, on this account, by at least five million tonnes per annum.

The new system by assigning a greater role for private trade can improve the efficiency in the distribution of foodgrains and substantially cut down subsidies, which can help to step up much-needed public investment in agriculture.

The proposed dual pricing system is a better alternative than total marketisation of foodgrains trade by disbanding altogether public procurement at MSP. Such a dismantling could lead to a crash in market prices of foodgrains in years of good harvests.

Even though this may make exports competitive and raise domestic consumption of foodgrains in the short run, it may undermine food security by sapping producer incentives.

The experience of green revolution underlines the importance of assured MSP in inducing the farmers to step up their own investment and effort and derive full benefit from available infrastructure. For the dual pricing system to yield desired results, it needs to be backed by several other policy measures.

Since the impetus for crop diversification would be greater in the infrastructurally-developed regions like the north-west, this can slow down the growth of foodgrains output in the country and, in particular, the surpluses procured, unless immediate measures are taken to strengthen public support for irrigation, technology, extension and credit in the rest of the country, especially in the central and eastern regions where there is a large potential for increase in foodgrains output.

This is essential as the growth of foodgrains output has barely kept pace with population growth since the mid-90s. This also calls for more effective public procurement of foodgrains at MSP in these regions, as farmers have to often sell their produce immediately after the harvest at prices that are lower than MSP.

Therefore, dual pricing system can be sustained only through non-price interventions such as infrastructural support for regional dispersal of growth in foodgrains output.

The new system requires better market intelligence forecasts as well as concurrent analyses on prices and sales in markets in India and abroad.

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