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Abstract	Pursuit of subsistence living has become one of the major struggles of Indian farmers. This struggle is largely dictated by the monsoon on one side and functioning of the markets (land, labour, factor and product) and 'governed' prices on the other. Current economic reforms in the form of liberalisation and globalisation were introduced and agricultural sector as always was taken for granted. In this entire process, participation of the sector was presumed.
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Chapter 7

Under the Shadow: Pricing and Marketing in Indian Agriculture in Globalisation

R. S. Deshpande

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Introduction

Pursuit of subsistence living has become one of the major struggles of Indian farmers. This struggle is largely dictated by the monsoon on one side and functioning of the markets (land, labour, factor and product) and 'governed' prices on the other. Current economic reforms in the form of liberalisation and globalisation were introduced and agricultural sector as always was taken for granted. In this entire process, participation of the sector was presumed. The entire process of reforms involved liberalisation of domestic controls and opening up of the external markets for the domestic produce. This new approach to agricultural development is market centric and essentially involves good functioning of both domestic and international markets. But the mute question is, whether we are ready for that? Is Indian agriculture market oriented? Do we have a price discovery mechanism which is the base for any globalisation based reforms? Can state withdraw from the sector as quickly as expected? It is well documented that Indian agricultural markets are far from being ready to adapt to the market centric development approach (Dantwala 1996; Deshpande 2003; Bhalla and Singh 2012). Similarly, the agricultural price policy has also undergone quite a few important changes over last six decades and any field researcher will certainly vouch that price policy hardly helped to solve issues confronting the sector for at least in the last four decades. Agricultural markets are imperfect and price discovery mechanism is far from satisfactory. Quite a few questions crop up for a dispassionate analyses and one needs to address to these questions while looking into the current agricultural scenario.

- Will agricultural sector get an advantage by participating in the changing economic reforms and will it sustain the growth with a gradual withdrawal of the State?

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- 32 • Is the present agricultural policy competent enough to deal with the new
- 33 challenges?
- 34 • Is our price policy conducive to absorb the market centric reforms?
- 35 • Would Super-imposition of the globalisation and liberalisation processes further
- 36 perpetuate the existing level of imperfections in the markets?
- 37 • Are our agricultural markets near perfect and free of exploitative intermediaries
- 38 (traders and input dealers)? Are they phasing out?
- 39 • Why the pricing of agricultural crops, mainly commercial (inter alia commercial
- 40 production of food crops- rice, wheat, maize and sugarcane) though regulated by
- 41 states to some extent, have not been able to fully garner the benefits? Are these
- 42 only due to infrastructural and institutional bottlenecks?
- 43 • Do we need fundamental changes in marketing and price policy?

44 State Intervention and Agriculture

45 Indian agriculture is largely dependent on the State and State policies. Sizeable
46 amount of work in development economics has been devoted to the debate on the
47 role of State as against the role of market as catalytic institutions in the aggregate
48 development process. The debate on the role of the State began with the early
49 theories of economic development, where it was argued that failure of allocation of
50 investment to the deserving developmental sectors created structural imbalances in
51 the process of development (Chenery and Srinivasan 1989). In such situation, State
52 has to intervene as a correcting force. A group of theoreticians blamed it on the
53 failure of the State whereas others held market responsible for that. One common
54 understanding that emerged in this debate was pertaining to the failure of the role
55 of State as against that of the markets. Of course, this needs to be analysed
56 differently in the context of developing and developed nations (Chenery and
57 Srinivasan 1989). Recently, again, the debate came alive in the context of the
58 process of liberalisation, where the minimalist role of the State is prominently
59 argued, so that market forces create a proper atmosphere for economic growth. In
60 this process of thinking, it is believed that rational and most desirable resource
61 allocation takes place through the market forces. The underlying assumption here
62 is of near perfect and fair market related practices functioning in the sector.
63 Besides, an inherent assumption is that the structure as well as quality of growth
64 will be automatically taken care of. Moreover, the aggregate process will help in
65 correcting the distortions. In view of this new thinking in the context of developing
66 countries, it is essential to look into the basic tenets of the role of the State and that
67 of the market in the process of development in India.

68 Anne Krueger (1990, p 22) while arguing on the platform of the symposium on
69 the State and Economic Development concluded that “*At a general level there are*
70 *innumerable questions as to how political and economic markets interact. At more*
71 *mundane levels, there are endless opportunities for research, analysing the*
72 *functioning of technologies, alternative policies and institutions, documenting and*

73 *hopefully quantifying policy interventions, the response to them, and their evolu-*
74 *tion over time.”* But at the same time, we find a strong opposition to this view
75 emerging not only from the Indian academic field but vehemently supported by
76 well-known development economists. In the words of Byres, “*The current*
77 *orthodoxy, to the effect that ‘rolling back the State’ and the full blooded operations*
78 *of markets are appropriate to India’s problems, lacks historical warrant and*
79 *intellectual justification”* (1997: p 37). This signifies that the scene of argument is
80 not very clear in the minds of development economists, especially speaking in the
81 context of India, viz., PranabBardhan, Terence Byres, AmitBhaduri,
82 MrinalDattaChoudhury, ArvindPangaria, etc. Their views appear mainly due to the
83 failure to inter-connect of microrealities with macrotheories and understanding
84 from the bottom. The ground realities clearly show almost non-existence of any
85 text bookish market and an overshadowing role of the State.

86 In a systemic analytical approach, State is visualised as the provider of basic
87 public goods (merit goods) and organises the production process through incen-
88 tives and allocations while operating through various market, monetary and fiscal
89 policies. Thus, coordination becomes an underlined function of the State. Over the
90 decades, State recovered its presence in almost every field and this proliferation
91 caused over dependence. That further created lack of coordination between market
92 and the State. Besides, the failure of such coordination due to the emergence of
93 transaction costs and rent-seeking attitude of the polity and bureaucracy together
94 have undermined and *immensely* distorted the image of the State. More often, the
95 distortions are hurriedly recognised as functional failures on the part of the State or
96 the quality of the State. In this context, the intervention in agricultural policy at
97 different levels by government in India provides enough evidence (Deshpande
98 2006) and that brought out the poor quality of interventions. This is despite the fact
99 that agriculture is a private activity in its content and as a subject it is assigned to
100 the states (provincial controls) for the purpose of policy-making and implemen-
101 tation of programs. Six decades of experience brings out weak coordination
102 between the Centre and the States (provinces) to achieve a well-defined set of
103 policy objectives (Deshpande 2006). These have been mutually inconsistent
104 economy-wide macropolicies like foreign trade policies, industrial policies on the
105 one hand and agricultural macropolicies on the other. These have had large and
106 offsetting impacts on agriculture (Srinivasan 2000).

107 While determining the role of Central government in formulating agriculture
108 policy, the views of the leaders at the time of independence were of great
109 importance. In a memorandum to the Cabinet during 1947, it was stated that
110 agricultural production policy, price control of agriculture products, the estab-
111 lishment of the Central higher technical institutions, food distribution, and then
112 setting up of a research Institutions and industrial development are vital problems
113 and the Central government should take steps to correct these (Parliament Debates
114 1947). It was inherently accepted that Central government should have an
115 authority of its own to coordinate agricultural production in the country as a whole
116 and play an increasingly active role in the development of both industry and
117 agriculture (Food grains Review Committee 1966). The objective of the framers of

118 constitution was to make the states (provincial governments), primarily and
119 directly responsible of all matters concerning the development of agriculture with
120 a focus on rural poor, and at the same time, the Central government owning
121 the responsibility to oversee such arrangements. The powers over agriculture, and
122 the responsibility for its development, were thus ambiguously divided between the
123 Centre and the State (provinces). This exercise was quite fragile as the Federal
124 inaction in its own spear could render any policy ineffective, either by the states
125 (provinces) or by the Centre. No wonder, neither the States (provinces) nor the
126 Centre could formulate and articulate long-standing agricultural sector policy.
127 Marketing policy as also price policy suffered similar lacunae to large extent.

128 The Commission on Agricultural Costs and Prices issued an Agricultural Price
129 Policy statement in the mid-1980s but did not bother to revise that in the current
130 circumstances. The fate of marketing policies and directives is not largely dif-
131 ferent. Presently, the functions directly undertaken by the Central government and
132 the functions that it coordinates are:

- 133 • Overall planning and coordination of agricultural development in the country;
134 coordinating State (provinces) agricultural plans; assuring the efficient imple-
135 mentation of development plans; and their evaluation.
- 136 • Assisting the states (provinces) in securing the requirements of agricultural
137 inputs such as pure seeds, irrigation, fertilizers, but rises and pesticides in
138 adequate quantity and timely supply.
- 139 • Providing credit; assisting the states (provinces) in organising marketing storage
140 and transport facilities;
- 141 • Price stabilisation; enforcing incorporation with the State's (provincial) mini-
142 mum and maximum prices for agriculture produce; regulating interstate trade
143 and movements of the commodities;
- 144 • Laying down import and export policies in respect of agricultural requisites and
145 products;
- 146 • Providing cooperation to the states (provinces) for betterment of extension
147 services to the formers;
- 148 • Coordinating programmes of land use and development; soil conservation and
149 utilisation of water sources;
- 150 • The administration of external assistance to the agricultural sector.

152 These have not changed even a bit in the circumstances under the new eco-
153 nomic policy. Of course, there are a few initiatives to incentivise the agricultural
154 sector, but all these remained only on the margin. As a result, the overtly accepted
155 market centric approach under liberalisation has not made any significant dent.
156 Agricultural marketing and the price policy continued in the same garb with
157 superficial tinkering and that had no substantial effect but at the same time new
158 distortions crept in. With a large part of the agricultural policy still being
159 framed at the provincial level guided by the Centre and as many of the contours of
160 policy have not changed, agriculture sector remains under the influence of the
161 State. As a result existing inefficiencies continued to dog the sector.

162 It is well-known and quite often mentioned that the contribution of agricultural
163 sector to overall GDP is going down but the workforce is not reducing with the
164 same rate. Larger share of the workforce still depends on agriculture as livelihood.
165 Sheer with the size of population, its growth and the critical unskilled workforce
166 engaged in agriculture; the sector will continue to be critical in the overall per-
167 formance of Indian economy. Our experience over six decades very clearly brings
168 out that whenever agricultural sector growth rates experienced a trough, it was
169 clearly reflected in the overall growth rates of the economy (See Fig. 7.1).
170 Therefore, the volume of workforce, their livelihood security coupled with slow
171 absorption of workforce in non-agricultural sector, essentially demands that the
172 agricultural sector still should be at the centre stage of the policy. As such, the
173 experience of the last two decades has not been gratifying for agricultural sector
174 despite the special focus on agriculture in the meeting of National Development
175 Council (2007) that focused on the stagnation in the sector. Current economic
176 reforms being market centric and agricultural markets being far from perfect are
177 unlikely to touch the core problems of the sector. More likely the market distor-
178 tions and market-based discrimination is likely to widen further.

179 The only agricultural policy document that exists in India is the 1999 'Agricultural Policy' released by the then government. This was followed by the fanfare of the Farmers' Commission led by Dr. M.S. Swaminathan (2004). These documents as well as sporadic attempts at designing agricultural policies by different states skirted the issue of preparing Indian farm sector to confront the challenge or liberalisation. There are very little efforts to draft a new agricultural price policy or to change the present marketing structure. Direct marketing and APMC Model Act fell far short at the threshold of implementation.

187 **Agricultural Price Policy**

188 Immediately after independence and after getting the grips of the food insecurity
189 issue, evolving a long-term price policy and creating an incentive structure in the
190 agricultural sector, it was felt necessary in order to direct development of the crop
191 economy (Raj Krishna 1963). In view of this, the Government of India appointed
192 L.K. Jha committee to suggest the required steps towards organising the *agri-*
193 *cultural price policy*. Recommendations of the Jha Committee included market
194 interventions for procuring food grains to meet the requirement for distribution as
195 well as a protective price levels to the farmers. Following the Jha Committee
196 report, a series of measures were taken and as a result Agricultural Prices Com-
197 mission (APC) came into being in January 1965.

198 Prof. ML Dantwalaas Chairman submitted the first report of the APC in August
199 1965, covering Kharif Season. The preamble states that "The Agricultural Prices
200 Commission was set up in January 1965 to advise Government *on price policy* for
201 agricultural commodities, with a view to *evolving a balanced and integrated price*
202 *structure in the perspective of the overall needs of the economy and with due*

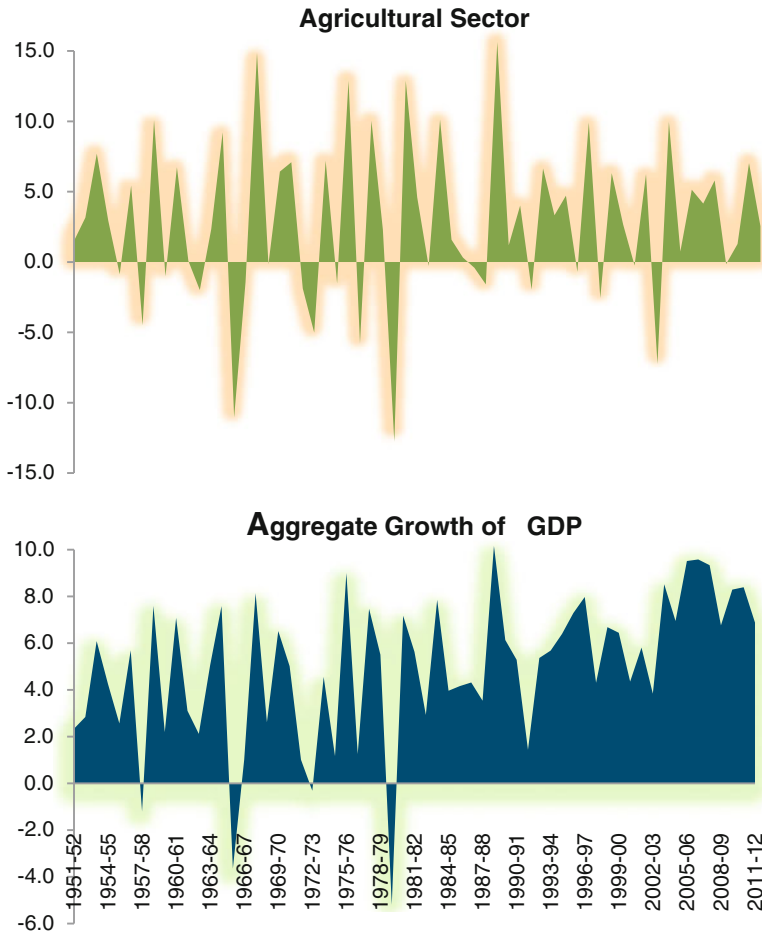


Fig. 7.1 Influence of agricultural growth rates on GDP of India (at 1999–2000 base year prices)

203 **regard to the interests of the producer and the consumer”** (emphasis added)
 204 (Government of India, APC Report 1965). The focus on the **‘overall needs’** of
 205 the economy was apparent from the very beginning. This marked the foundation of the
 206 price intervention scheme and it is in operation since then. An important elimina-
 207 tion, however, was the long run ‘evolution of the balanced and integrated price
 208 structure serving the interest of the producers and the consumers’ (from above
 209 quote).

210 It is necessary to remember that initially the price policy was placed in the
 211 context of food scarcity and price fluctuations, provoked by drought of mid-1960s.
 212 The policy was then framed keeping in view three aspects. (i) Providing food
 213 grains for the Public Distribution System, (ii) Ensuring reasonable (affordable)
 214 prices for food grains to the consumers and (iii) Inducing adoption of the new

215 technology. Specifically, it ensured that major economic factors that influence the
216 rate and quality of growth are brought into play and these result in the most desired
217 crop mix. This incidentally ensured allocation of resources, capital formation and
218 inter-sectoral terms of trade. All these together formed a theoretical pedestal for
219 the price policy in the context of the existing economic scenario.

220 The Agricultural Prices Commission was expected to keep under consideration
221 nine important components while fixing the MSP, levy prices and procurement
222 prices, viz., (i) Cost of production, (ii) Risk in cultivation, (iii) Changes in the
223 input prices, (iv) Trends in the market prices, (v) Demand and supply of the
224 commodities, (vi) Cost of living index and general price index, (vii) Fluctuations
225 of prices in international market, (viii) Price parity between crops input and output
226 across sectors and (ix) Trends in the market prices. There has not been any change
227 announced on these counters ever since inception. Thus the price Policy was
228 framed keeping in view the farmers' response to prices.

229 Raj Krishna in his seminal paper emphasised the price response of Indian
230 farmers despite the dominance of subsistence farming (Raj Krishna 1963).
231 A number of price response studies have shown the strong role of price policy to
232 serve as incentive in managing agricultural growth (for a review see Deshpande
233 1996). The role was endorsed by Acharya former Chairman of CACP. He noted
234 that "In fact, the instruments of Minimum Support Prices, Food Subsidy and Input
235 Subsidies have played an important role in achieving the objectives of food
236 security and accelerated growth of economy and benefits all the sections of the
237 society" (Acharya 1997). Thus, the contribution of Agricultural Price Policy
238 towards sustaining the tempo created by the technological change of mid-1960s
239 has been widely acknowledged.

240 During the last two decades, with the forces of liberalisation and globalisation
241 the agricultural price policy connotations have changed significantly. Prices now
242 play much wider and more critical role than just supporting the adoption of
243 technology and serving the food distribution system. It further needs to support the
244 producer and provide the best commodities to the consumers. But the issues
245 confronting the sector do not reflect that change, new issues have rather not
246 emerged significantly. This is more so due to the minimal change of policies in the
247 price policy and the market operations. We are continuing the same game with the
248 outdated rules and well-expected devastating effects.

249 Major Issues for Changes In Price Policy

250 Historically, interesting issues emerged in the debate on price policy. These are
251 reviewed succinctly by Raj Krishna (1967), Acharya (1988), Tyagi (1990),
252 Krishnaji (1991), Jharwal (1999), Rao (2001), and GoI (2002). A few important
253 questions that were discussed in the context of changing price policy over and
254 again but remained unanswered include the relationship between cost of produc-
255 tion (CACP) and prices; authenticity and quantum of managerial costs and other

256 imputed input costs, distortions in the price parity across crops; scientifically
257 building and maintaining of the buffer stocks; inefficiency in PDS, targeted versus
258 universal PDS and overall ineffectiveness of the price policy to serve the objec-
259 tives set forth even in the policy statement of 1986. Beyond that the price policy
260 did not take enough cognizance of the changing trade scenario. Furthermore,
261 efficacy in continuation of the MSP operations in the same format given the
262 changed economic scenario in the context of liberalisation is a question that seeks
263 answer. All these get reflected in the imperfections of agricultural markets and the
264 renewed awareness of these inefficiencies among the farmers. Farmers' groups all
265 over the country have expressed displeasure about the present handling of the
266 policy and their unhappiness may soon take shape of the strong agitation.

267 The methodology of arriving at the MSP is being questioned by farmers' groups
268 and doubts are raised about the use of data, certain concepts and inclusion/
269 exclusion of imputed cost of various items of farm operations. It was during the
270 late 1970s, that the farmers' organisations emphasised remunerative role of prices
271 and insisted on revisiting the method of arriving at the Minimum Support Prices.
272 In order to reconsider the prevailing structure of the Agricultural Prices Com-
273 mission and review its methodology, a Committee under the Chairmanship of
274 Dr S.R. Sen was appointed in 1979. The Committee examined the methods of
275 arriving at the cost of cultivation, and suggested required modifications (GoI
276 1980). Quite a few changes were introduced in the methodology and approach
277 keeping with the Sen Committee report. Following this, the nomenclature as well
278 as the focus of the Agricultural Prices Commission was changed. Subsequently,
279 the Commission was named as Commission on Agricultural Costs and Prices
280 (CACP) with changed terms of reference, but sharpening of the role of price policy
281 remained unattended. A policy document was issued in 1986 under the title
282 '*Agricultural Price Policy: A Long Term Perspective*' officially confirming the
283 redefinition of the objectives of the price policy. After that and in the context of
284 liberalisation we are yet to come to terms with an apt Price Policy. Perhaps Delhi
285 will be busy preparing one such document that will remain with academicians for
286 the coming decades. Nevertheless, there exists a manual on agricultural prices and
287 markets issued by CSO (October 2010), but that does not qualify as a policy
288 document. It must be noted that the 1999 statement of agricultural policy includes
289 providing 'remunerative prices' to farmers. Whether it is possible to do that is
290 another question but it raised many hopes and farmers groups have deliberated on
291 these issues in many places. Absence of a well-deliberated price policy on one
292 hand and increasing input costs on the other left the farmers with almost stagnant
293 net income from farming in real terms (Sen and Bhatia 2004; Deshpande and
294 Prabhu 2005; Mishra 2006). It is very clear that distress in the farm sector emerged
295 out of the failure to ensure income generation out of farming and that leads us to
296 debate on price policy. This debate raises the most pertinent issue about the
297 competence of our current price policy to accommodate the market centric
298 approach. It is analytically established that the price policy is neither protective to
299 the farmers nor creates any incentive for them. Rather with the present structure of
300 the price policy, more distortions are creeping in the market and if the efforts are



301 not undertaken to bring in the changes, such aberrations will create significant
302 social stress. Already the sector is reeling under severe agrarian distress and that
303 may get aggravated.

304 **Price Policy and Farmers' Distress**

305 Farmers as an occupational group world over faces high risk and uncertainty in
306 their income flow (Malmberg and Hawton 1999). In the factor market, the farmer
307 has to pay the prices dictated by the suppliers, whereas in the product market, the
308 purchasers determine the prices with farmer as a mute receiver. The role of the
309 farmers in influencing the prices in either market is astonishingly minimal. Thus, a
310 farmer faces not only weather risk along with resource scarcity in terms of
311 availability of inputs (water, fertiliser, pesticides or seeds) but also an inevitable
312 market uncertainty generated through prices. This is compounded by the spurious
313 inputs and lack of information. Further, even though farming is a free enterprise,
314 the state policies largely dictate their course of development.

315 The studies conducted on farmers' suicides (read acute distress) in India fall in
316 three broad groups. The first group includes the reports Committees on the request
317 of the State governments in order to assist the State in policy formulations. Three
318 such reports are available for Karnataka, Andhra Pradesh and Maharashtra. In
319 addition to the search for the causes of farmers' suicides, these reports essentially
320 focus on the policy to alleviate the distress in the farming communities. Report of
321 Karnataka state focuses on the 'Farmer Consultation Centre' approach to deal with
322 the 'welfare domain', whereas Andhra Pradesh report highlights the inadequate
323 public investment and need for Agriculture Technology Mission. The second
324 group of studies comprises the Citizens Reports prepared by non-governmental
325 organisations. Largely, these reports concentrate to locate the policy lapses of the
326 State and are also guided sometimes by strong ideological moorings. At times,
327 these reports create sensational news too. The third group of studies highlighted by
328 individual researchers are: indebtedness, borrowing from money lenders, shift
329 towards new technology, commercialisation, crop failures due to spurious seeds
330 and inputs, increased cost of production, over-exploitation of natural resources,
331 absence of safety nets and collapse of village as an institution. Questioning the
332 failure of price policy and intra-market exploitations of the producers did not get
333 into the eyes of researchers. That really says all is not well in the price and market
334 sector and as field workers the farmers are in an agitated mood. We can expect
335 agitations like those during 1980s and 1990s.

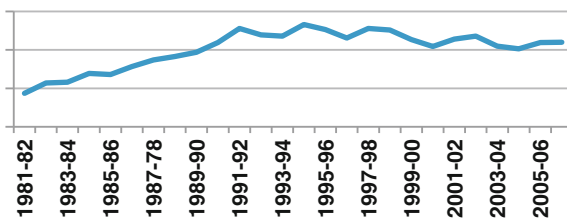
336 During the farmers' agitations during 1980s and early 1990s in Punjab,
337 Karnataka, Tamil Nadu, the farmer leaders insisted that the method of fixing of MSP
338 be reviewed. The agitations were led by Mr. Sharad Joshi (an Economist with a
339 World Organisation) and Late Prof Nanjundaswamy (a Professor of Law). The
340 arguments were focused on the method of computation of imputed cost, risk pre-
341 mium, imputed cost of family labour and the terms of trade between agriculture and

342 industry (Nadkarni 1987; Dhanagare 1990). Following this the Government of India
 343 appointed another Committee under the Chairmanship of Prof C.H. Hanumantha-
 344 Rao to review the methodology of cost of production of crops specifically focusing
 345 on valuation of labour, imputed costs of family labour and managerial costs. The
 346 Committee submitted its report covering these aspects and suggested that actual
 347 wages to be taken to value the labour cost and family labour should be valued at the
 348 wage rates of casual labour and 10 % managerial cost (Government of India 1990).
 349 All these provided so-called ‘scientific attire’ to the earlier process of arriving at the
 350 cost of production. The Committee, however, did not consider the futuristic view for
 351 the price policy, where agricultural markets should function efficiently.

352 The current debate among the farm lobby is about the dwindling Terms of Trade
 353 (ToT) between agriculture and non-agricultural sectors. Farmers are almost unani-
 354 mous in comparing the hiatus in price and income situations between sectors, even
 355 though not in very sophisticated terms, but bring forth the disparity. The Terms of
 356 Trade debate almost emerged with a consensus that the ToT are going against agri-
 357 culture till 1990s (See Fig. 7.2) and at the same time capital formation in the agri-
 358 cultural sector was also declining over years (Chand and Kumar 2004). Almost while
 359 these debates are on the situation in the agricultural sector underwent substantial
 360 changes in the wake of liberalisation. We have now opened up the domestic markets
 361 for the world trade and that will exert significant pressure on the market situations.
 362 Now in this context, questions are being raised about the efficacy and effectiveness of
 363 the instruments of price policy specifically the Minimum Support Prices.

364 The price parity between sectors reflected through ToT was first brought forth
 365 in Thamarajakshi’s seminal paper of To T (Thamarajakshi 1969). This was
 366 followed by the work of Dhar (1968), Dantwala (1981), Kahlon and Tyagi (1980),
 367 Venkataramanan and Prahladachar (1978) and Nadkarni (1987). During the mid-
 368 1970s, the debate on ToT between agriculture and non-agricultural sector had
 369 picked up as the ToT started showing signs of turning against the agricultural
 370 sector (See arguments of Sharad Joshi in Dhanagare (1990)). This along with the
 371 farmers’ movements during that decade spanning across the country, led to a
 372 review of the price policy and also the methods of arriving at the MSP. Farmers
 373 react very sharply to the methodology saying that CACP never releases the
 374 method, it uses to derive the magical numbers each year. “The labour costs, or the
 375 land costs are never revealed,” says Vijay Jawandhia, of ShetkariSanghatna of
 376 Vidarbha, an organisation for farmer rights. Once again we are likely to face the
 377 question of ‘remunerative prices’. Now that willy–nilly the concept has been
 378 recognised in the Agricultural Policy document of Government of India (2000),

Fig. 7.2 Behaviour of
 changing terms of trade index





379 the issue will feature more prominently among farmers. Farmer leaders are already
380 arguing for providing such remunerative prices. The question became sharper now
381 in the context of withdrawal of subsidies on inputs (fertilisers, water, credit and
382 power) as well as increasing demand for consumer durables, and consequently the
383 changing relative prices with the non-agricultural sector. Similarly, the price
384 wedge between goods produced in urban sector as against the farm products has
385 given rise to the necessity of looking afresh into this issue of price intervention.

386 Viewed from this angle, the effectiveness of MSP now assumes a totally different
387 context. In a nutshell, the debate pointed out that ToT went against agricultural
388 sector till the mid-1960s and slightly became favourable to agricultural sector for a
389 short while in the late 1960s and early 1970s to revert back against agriculture
390 during late 1970s and early 1980s. It is only in the 1990s that the ToT are turning in
391 favour of the agricultural sector (Government of India 1995). The computations of
392 the ToT largely rest on the data from National Accounts Statistics and hence there
393 are a good number of corrections that are required in the data in the framework of
394 National Accounts Statistics. Even with these corrections, it was observed in one of
395 my earlier studies that ToT in the recent past is slightly turning in favour of Agri-
396 culture, but needs to be watched carefully (Thippaiah and Deshpande 1998).

397 The ToT has been fluctuating in favour of agriculture and against the agri-
398 culture alternatively. During 1990s, the ToT was improving in favour of the
399 agricultural sector but not as much as required for the growth of the farm sector.
400 One of the important reasons for such behaviour can be located in depressing
401 trends in the relative prices between agriculture and non-agricultural goods. The
402 prices of agricultural commodities have not been rising at the pace at which prices
403 of non-agricultural commodities are rising. *Therefore, the emphasis on MSP that*
404 *seems to be only providing the psychological support to the farmers continues.*

405 **Need for Long-Term Policy**

406 The price policy related concerns also featured prominently in the Report of the
407 High Level Committee on Long-Term Grain Policy. The Committee elaborately
408 discussed the question of Minimum Support Prices and the operations in view of
409 the effectiveness of the scheme, decentralisation of price support and procurement
410 and alternatives to MSP. The Committee recommended that MSP should be
411 continued incorporating corrections which include: “(i) the CACP should be made
412 a statutory body; (ii) CACP should act directly on the basis of C_2 cost of pro-
413 duction; (iii) CACP should also indicate a system of imputing family labour cost;
414 (iv) CACP should recommend uniform price for Paddy for the entire country; (v)
415 All the procurement agencies and Public Grain Management Institutions should be
416 legally bound by the MSP Policy; (vi) Central government should under-write
417 open purchase of grains under MSP; (vii) FCI should be the buyer of the last
418 resort. FCI should withdraw from a few states and concentrate on other states”
419 (based on the detailed recommendations given by the Committee, GoI 2002,

pp 9–10). The Committee also looked into the possibility of decentralised procurement scheme where it recommended that the grain procured under decentralised scheme must be treated as part of the central pool with FCI. It further stated that based on the guarantee of central purchase there should be an open-ended bank credit on the lines of FCI provision to the states involving decentralised procurement. These are some of the far reaching recommendations to keep pace with the changes in the context of liberalisation.

There is also a strong view that the entire MSP declaration has political overtone. It is reported that the prices recommended by CACP are more often modified by the Government of India (Rao 2001) with the intervention of the political representatives, and therefore fixation of the prices with an elaborate structure and mechanism remained only an academic exercise. The political interventions occurred selectively across crops depending on the crop region and the active lobby. Therefore, some crops received better deal while a few other crops suffered a relative neglect. This hampered the price parity across crops. It also created distortions between the trends in factor prices and product prices for a few selected crops and farmers. Thus, a need to have a fresh look at the MSP and such review must consider its operational efficiency as the vital objective (Narayanamoorthy 2012).

MSP covered a large number of crops across the country. Over years, CACP has added quite a few crops to this list without providing rationale and probably not reviewing the list of the crops on the basis of effectiveness as well as operations of the scheme over years. This also smells intervention of different lobbies. In the process, a good number of crops were added vitiating the inter-crop price parity and the policy became instrumental to such process of deliberate policy neglect, indirectly discouraging certain crops and crop-groups through relative prices. The cropping pattern acted as a conduit to transfer this effect of inequality across regions and farmer groups. *Largely the crops that received raw deal in terms of relative prices were those grown by resource poor farmers and in slow growth regions such as millets and underutilized crops.* The inter-crop price parity of a few crops with wheat and paddy (which benefited the most from MSP), was worked out and it clearly shows that parity has not been followed (Deshpande and Naika 2004).

The relative MSP of the crops indicates a continuously downward trend for coarse cereals and sugarcane. For cotton, however, there are some fluctuations. The relative price series in terms of Wholesale Prices do not show a similar trend as that of the relative MSP. It is quite intriguing that even though similar inputs are used in all these crops and the cost of cultivation of all the crops is increasing almost in a similar pattern, the trends in MSP are dissimilar. Invariably, the relative MSP of these crops shows declining trends thereby indicating built in price differential in the policy, even though the cost of cultivation has similar trends. That probably brings out the policy bias against these crops. In addition, it is also difficult to appreciate how the MSP for dry land or rainfed crops is on par or higher than irrigated crops. This shows that water is totally discounted and undervalued in the cost of cultivation as well as in MSP.

There are hardly attempts to check the authenticity of the data collected under cost of cultivation schemes for different crops, and is often challenged by the

465 farmers. In addition, CACP is translucent since it does not allow the state units to
466 deliberate with the academicians and farmers regarding reliability of the data col-
467 lected by the CCSs. Unless this is initiated, the CCSs continue to be unaccounted to
468 the public with regard to quality of data, let apart the democratic process which
469 ultimately super cedes the CACP recommendations. CACP arrives at MSP after
470 long deliberations and based on the cost of production data collected from the
471 country-wide centres. In order to check the relationship between of Cost of Pro-
472 duction (A_2) and (C_2) with the declared MSP, three time series are plotted for major
473 crops. It was evident that MSP broadly covers Cost C_2 in the case of paddy, wheat,
474 groundnut and gram and, there is some consistent trend in these series. But for jowar,
475 bajra and ragi, throughout the decade of 1990s, MSP had been lower than Cost C_2 .
476 This is also true for cotton. These facts (extracted from CACP reports) provide a
477 clear evidence of the relative neglect of jowar, bajra, ragi and cotton.

478 **Msp as a Price Policy Tool: A Cross-Section View**

479 In order to obtain a complete view of the effectiveness of Minimum Support Price
480 across states included in the study, certain parameters determining effectiveness
481 have been extracted from the reports of the study team. A countrywide study was
482 undertaken to review the effectiveness of MSP across states coordinated by the
483 author. The reports revealed quite a few intricacies (Shroff 2003; Ghosh 2001;
484 Ratnam and Rao 2002; Athavale 2002; Singh et al. 2002; Sinha 2002; Singh 2002;
485 Swaminathan 2002). The effectiveness is graded into five levels starting with 'very
486 effective' to the 'ineffective' level as these studies have utilised different ways of
487 analysing the empirical results. Therefore, the levels here are arrived at after
488 completely studying the reports and eliciting the required information on a com-
489 mon scale. Annexure Table A.1 presents the picture at a glance. It can be seen that
490 the process of implementation is carried out with two purposes in view. First, it is
491 for the purpose of procurement and the second for providing a 'cushion' to the
492 farmers against violent price fluctuations in the market. The first objective is to
493 mop the available marketable surplus in the food surplus regions to feed the Public
494 Distribution System, whereas the second objective aims at providing support
495 against the income loss due to price collapse. We find that the procurement
496 objective has been largely successful during 1990s only in the states of Punjab and
497 Haryana in the first place and Uttar Pradesh, Tamil Nadu, Madhya Pradesh and
498 Bihar at the second level. *But the objective of providing cushion against the price
499 fluctuations has not been successful in most of the states. A large number of
500 farmers are not even aware of MSP and the awareness is confined to 4–5 states
501 and even within these states the awareness is largely confined only to the com-
502 mercial crop belt.* It was observed that majority of the farmers do not get the
503 expected prices for their products and their expectations are not unfounded. The
504 relationship between Wholesale Price and Farm Harvest Price on one hand and
505 Minimum Support Price on the other hand seem to be largely dictated, and all the

Table 7.1 Progress of reforms in agricultural markets (APMC Act) as on 30.11.2009

Sl.No.	Stage of reforms	Name of states/ Union territories
1.	States/ UTs where reforms to APMC Act has been done for Direct Marketing; Contract Farming and Markets in Private/Coop Sectors	Andhra Pradesh, Arunachal Pradesh, Assam, Chhattisgarh, Goa, Gujarat, Himachal Pradesh, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Nagaland, Orissa, Rajasthan, Sikkim and Tripura.
2.	States/ UTs where reforms to APMC Act has been done partially	(a) Direct Marketing: NCT of Delhi. (b) Contract Farming: Haryana, Punjab and Chandigarh. (c) Private markets: Punjab and Chandigarh
3.	States/ UTs where there is no APMC Act and hence not requiring reforms	Bihar ^a , Kerala, Manipur, Andaman & Nicobar Islands, Dadra & Nagar Haveli, Daman & Diu, and Lakshadweep.
4.	States/ UTs where APMC Act already provides for the reforms	Tamil Nadu
5.	States/ UTs where administrative action is initiated for the reforms	Mizoram, Meghalaya, Haryana, J&K, Uttrakhand, West Bengal, Puducherry, NCT of Delhi and Uttar Pradesh.

^a APMC Act is repealed w.e.f. 1.9.2006

Source <http://agmarknet.nic.in/amrscheme/apmstatus08.htm>



506 three prices move in the same direction over time. There are two different views
507 coming out of this relationship viz., (i) Minimum Support Prices keep pace with
508 the Wholesale Prices and Farm Harvest Prices due to probable transmission of
509 price signals. This is more due to the behaviour of Minimum Support Price to stick
510 around the Wholesale Prices and Farm Harvest Prices and (ii) The Wholesale
511 Prices and Farm Harvest Prices help in deciding the trends in the Minimum
512 Support Price in most of the states under review. The Wholesale Prices and the
513 Farm Harvest Prices were related with Minimum Support Price. It was observed
514 that, in the states where the MSP was below the FHP and WSP, procurement has
515 been undertaken and the largest procurement is effected only from these states.
516 *This defies the very objective of MSP as a protective policy.*

517 MSP has been introduced as one of the important policy interventions that helps
518 in dictating the levels of input use (as reflected by improvement in yield level),
519 adoption of technology and as an incentive to increase the capital formation. It was
520 noted that except four states, MSP could not live to this expectation. The role of
521 MSP as an important variable in the decision-making process of the farmer also
522 gets confined only to a few states and regions within (Punjab, Haryana, Tamil
523 Nadu and Andhra Pradesh). *Thus, the Minimum Support Price has not been an*
524 *effective policy tool as a variable in the process of decision-making; as a lever to*
525 *absorb the market fluctuations; as an incentive to adopt the new technology and*
526 *application of new inputs; as a leading price to dictate market prices and*
527 *Wholesale Prices and finally as a cushion to the farmers to protect from the market*
528 *imperfections. That calls for a relook at the policy.*

529 **Globalisation and Need for Revisiting MSP**

530 MSP is now viewed as a market intervention on the part of the State and also as
531 one of the supportive measures (safety nets) to agricultural producers. Even though
532 this is perfectly WTO compatible, the (GoI 2002), there are some doubts about its
533 continuance and effectiveness to deal with the objectives set by the architects of
534 the reforms. The issues that dominated the current debate include reasons for
535 continuation of the price support scheme; its effectiveness in terms of the objec-
536 tives as set forth in the 1986 document and support price vis-à-vis remunerative
537 price approach. We must now realise that the context of price policy has changed
538 substantially over the years and so also the direction and effectiveness of price
539 policy as a tool to influence the agricultural economy. This provoked many social
540 scientists to argue for a fresh look at MSP as an instrument for interacting with
541 some parameters of the agricultural economy.

542 Initially, its role was perceived from the viewpoint of incentivising farmers to
543 adopt the new seed-water-fertilizer technology. The initial role of MSP as an
544 incentive to adopt technology is apparent in the writings of Professor Dantwala, the
545 founding architect of India's price policy.: "Though no rigid formula has been
546 accepted to determine the levels of floor prices, the criterion followed is that

547 *progressive farmers should find these levels adequate to encourage enterprise and*
548 *investment to augment production through the adoption of improved technology*
549 *with all its risk and uncertainty (emphasis added)” (Dantwala 1996, pp. 213*
550 *originally published in 1967). Prof Dantwala wrote again during early 1990s:*
551 *“Likewise, intervention has to be selective. Its need must be clearly established and*
552 *its effectiveness should be constantly under review (emphasis added). The real*
553 *problem is not simply to establish the legitimacy of intervention, but that of*
554 *ensuring its effective and judicious implementation” (Dantwala 1996, pp. 292,*
555 *originally published in 1993). Following the logic of Prof Dantwala it is time to get*
556 *at a serious review of MSP as a policy to render it more meaningful in the current*
557 *context.*

558 With the changing scenario of agricultural sector under liberalisation, the price
559 and market intervention schemes may require significant changes. We find two
560 opposite views expressed by academics. First group believes in fully revamping
561 the price policy in the context of liberalisation (Ashok Gulati, Sharad Joshi). The
562 second group suggests retaining the schemes but changing the structure to suit the
563 present needs (Bhalla (1994) and Sen Committee Report, GoI 2002). A clear
564 analysis of this question requires a review of the scenario of agricultural price
565 policy in the post 1991. The current trends due to liberalisation are expected to
566 induce competition in the factor and product markets. Primary signs of this could
567 be visualised in the new market-oriented changes in the cropping pattern and
568 availability of seeds, pesticides and fertilisers. Quite a few changes are taking
569 place in the product markets too but these are sporadic in nature. Agricultural
570 marketing being the State subject, changes are not uniform within and across states
571 and have not been planned with any focussed theme. A few States have been taken
572 initiatives to provide the farmers with updated market information, through
573 electronic media on daily basis of the main/major market and in a few other states
574 on weekly basis. Farmers’ markets (*RayatSanthe*) have been established over-
575 shadowing the earlier process of marketing dominated by middlemen. The
576 removal of the restriction on the interstate movement on the agricultural com-
577 modities has also contributed in effecting some changes in the markets.

578 **Agricultural Marketing Scenario**

579 Agricultural marketing in India has changed through different phases of agricul-
580 tural development but mainly through State regulations than market signals. The
581 interventions and provision of legal framework were essential as the existing
582 mechanism was more truncated against the sellers and favoured unhealthy prac-
583 tices. It was during the First plan period that the Planning Commission had
584 directed the state governments to bring agricultural marketing under specifically
585 enacted Regulated Market Act (called as Agricultural Produce Marketing Act)
586 which most of the states complied with, rather at slow pace. The problems of
587 marketing failures were highlighted and it was expected that the legal framework

588 would take care of the following problems: Undercover Sale; Removal of large
589 samples; Unwarranted trade allowances; Heavy market charges; Unauthorised
590 deductions; Incorrect weighing and multiple units of measurement; Absence of
591 grading; Presence of touts. My 2 years stint with Agricultural Price Commission of
592 Karnataka during 2004–2006, and the field visits of the Commission clearly
593 revealed that all these problems still persist in the regulated markets prominently
594 and sometimes with deeper intensity.

595 Historically, the problems compounded the market imperfections and therefore a
596 series of steps were taken to deal with these. In view of the imperfections, agricultural
597 marketing institutions after independence have undergone changes. The Regulated
598 Market Acts enacted by various State governments incorporated a legal framework
599 to deal with some of the issues. These changes could be broadly put into four broad
600 groups, namely: (i) Introduction of Agricultural Marketing Institutions in India, (ii)
601 Creation of marketing infrastructure, (iii) Co-operative Marketing as an alternative
602 to protect weaker participants in the market and (iv) Emergence of the New Regu-
603 lated Market Act and subsequent modifications in that. It is apparent that these
604 changes occurred due to the prevailing circumstances and the ongoing reorganisation
605 in the agricultural sector during these early decades. Four components predominated
606 the policy interventions viz.: (i) Putting in place regulation of marketing functions
607 and removing imperfections; (ii) Creating infrastructure to facilitate the process of
608 marketing; (iii) Introduction of Price intervention schemes; (iv) Procurement and
609 distribution of essential commodities. All these measures were operating simulta-
610 neously and therefore had an overlapping effect on marketing sector.

611 The Agricultural Marketing Boards in most of the states and each of them function
612 under Agricultural Produce Marketing Committee (APMC) Act of the respective
613 states. A quick review of the regulations across states reveals that there is an urgent
614 need to bring more uniformity in powers and functions and demarcations of activities
615 between the Directorate of Marketing and State Agricultural Marketing Boards.
616 Even the model APMC act did not achieve this simple review for reasons beyond
617 comprehension. This can facilitate proper regulation of marketing practices as well as
618 building more infrastructure facilities so as to expedite growth towards competition.

619 **Regulated Markets: Regulating Irregularities**

620 The agricultural market infrastructure in India has been inadequate to handle the
621 situation. Despite increase in the number of regulated and wholesale markets, the
622 spread of these markets across the states has been uneven. The average area served
623 by each regulated market also varied considerably among the states of India, from
624 103 Km² per market in Punjab, 129–1185 in Himachal Pradesh. If we consider other
625 north Indian states then this variation will even wider. Area coverage based on
626 geographical area may not reflect true requirement of agricultural markets. If we
627 take gross cropped area as an alternative indicator, the scenario does not show many
628 changes. West Bengal, Andhra Pradesh, Tamil Nadu and Haryana are in quite better

629 position as compared to other states. As can be seen from the Annexure Table A.2,
 630 the density, measured as number of regulated markets per lakh hectare of GCA, was
 631 also insufficient. At all India level there were 3.3 markets per lakh hectare of GCA
 632 existed in 1991 has marginally increased to 3.7 in 2010 (See Figs. 7.3, 7.4 and 7.5).
 633 This indicates that even the increment in the density is modest. It can also be
 634 observed that ratio of markets per lakh hectare of GCA, was lower than the national
 635 average for states like Uttar Pradesh, Orissa, Rajasthan and Gujarat (See Fig. 7.6)
 636 but was above the national average for other states. Research studies revealed that
 637 farmers on an average get 8–10 % higher price and higher share in the consumer's
 638 rupee by selling their produce in the regulated markets compared to rural, village and
 639 unregulated wholesale markets. The benefits obtained by the farmers by sale of
 640 agricultural produce in the regulated market varies from area to area because of the
 641 variation in the spread of regulated markets over the regions and the existence of
 642 necessary infrastructural amenities/facilities in these regulated markets (Singh
 643 2005; Jairath 2010). The National Commission on Agriculture (1976) and National
 644 Commission on Farmers (2004) have recommended that the facility of regulated
 645 market should be available to the farmers within a radius of 5 km. If this is con-
 646 sidered a benchmark, the command area of a market should not exceed 80 Km².

647 The facilities created in market yards are inadequate. The cleaning, grading and
 648 packaging of agricultural produce before sale by the farmers have not been popu-
 649 larised by the market committees on a sufficient scale. Even facilities for these have
 650 not been created in most of the market yards. Marketing Board is almost the same in
 651 all the States where Statutory Boards exist; a broad variation has been observed in
 652 their composition/constitution and functioning. It is necessary to bring more uni-
 653 formity in powers and functions of Boards and demarcations of activities between the

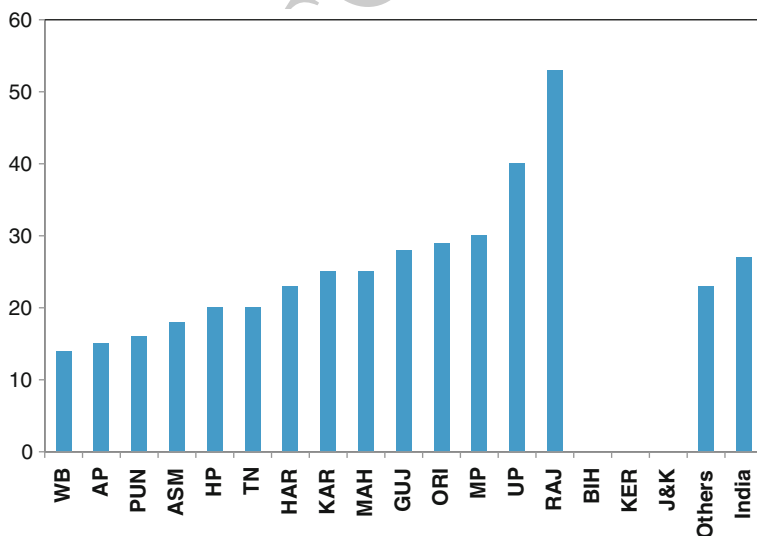


Fig. 7.3 Area (GCA) served by per regulated market—2010 (Area in 000 ha)

Fig. 7.4 Geographical area served by per regulated market—2010 (Area in Sq. Km)

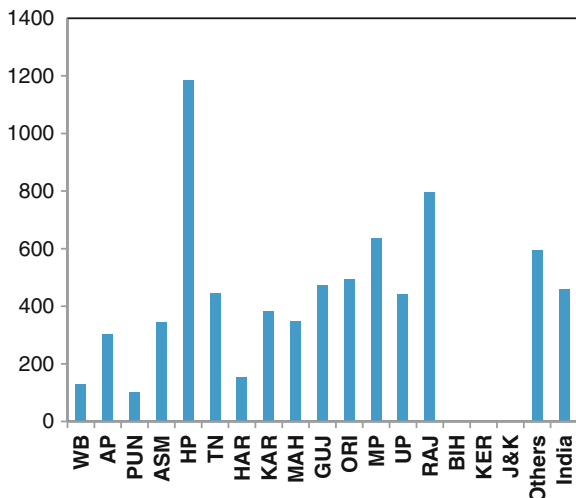
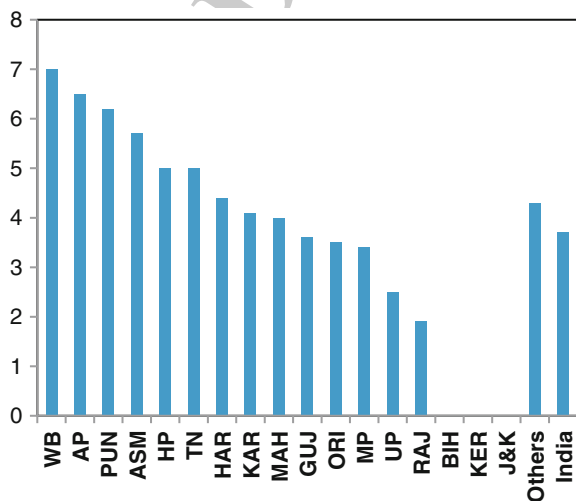


Fig. 7.5 Market (Regulated) density per Lakh GCA (2010)



654 Directorate of Marketing and State Agricultural Marketing Boards. This can facilitate
 655 proper regulation of marketing practices as well as building more infrastructure
 656 facilities so as to achieve a faster growth and better private participation. The benefits
 657 available to the farmers from regulated markets depend on the facilities/amenities
 658 available rather than the number of regulated markets in the area. Both covered and
 659 open auction platforms exist in two-thirds of the regulated markets. One-fourth of the

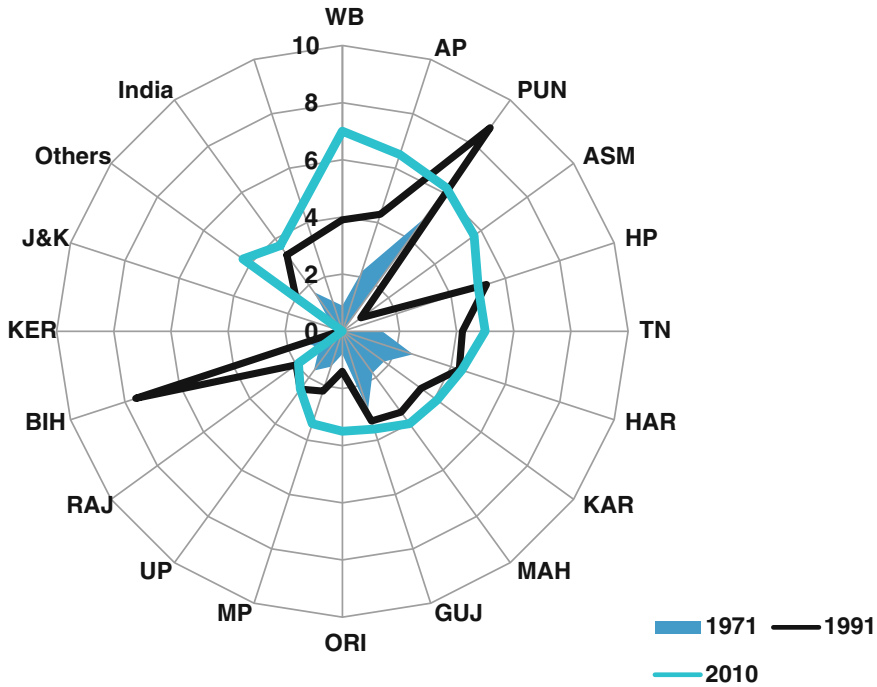


Fig. 7.6 Market (Regulated) density per Lakh GCA

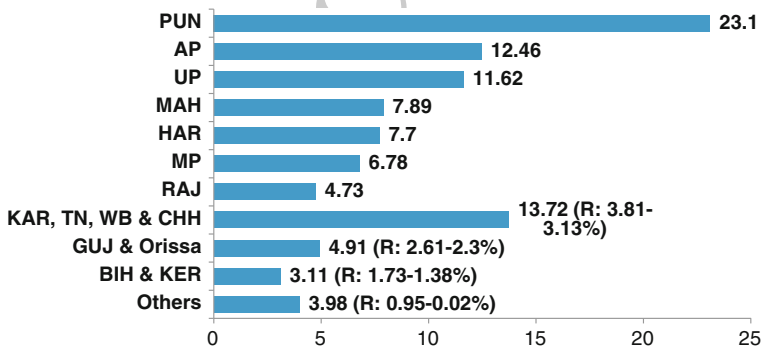


Fig. 7.7 Percentage distribution of overall covered foodgrains storage capacity across Indian states (2011) (Note R indicates Range of the values; Source Annexure Table A.3)

660 markets have common drying yards. Traders modules viz; shop, godown and plat-
 661 form in front of shop exist in 63 % of the markets (Jairath 2010).

662 The cold storage units exist in only 9 % of the markets and grading facilities exist
 663 in less than one-third of the markets. The basic facilities viz., internal roads,
 664 boundary walls, electric light, loading and unloading facilities and weighing

665 equipments are available in more than 80 % of the markets. Most of the regulated
666 markets at present still awfully lack facilities for handling produce as less space for
667 auction platform, inadequate number of shops and godowns in the premises etc. and
668 hence reduces effective competition (Jairath 2010). The food grains storage
669 capacities across states vary considerably on a comparative scale (See Fig. 7.3).
670 Absence of storage godowns at market level further perpetuates the problems of
671 traders in general and continuous movement of goods in particular. Various State
672 governments recently initiated a process of direct marketing by producers to the
673 consumers in the country by initiating the concept of *ApniMandi* (Punjab), *Rythu*
674 *Bazar* (Andhra Pradesh), *UzahaverShandies* (T.N.) and Shetkooorbazars in Maha-
675 rashtra. But these markets have been promoted so far only at the State headquarter
676 and some district headquarters adjoining to the state. Rural periodic markets/*haats/*
677 *shandies* are the first contact point for producer—sellers for en-cashing agricultural
678 produce. There are about 27,294 rural periodic markets in the country. The minimum
679 necessary infrastructural facilities do not exist in these markets.

680 Agricultural Marketing Act

681 The Agricultural Produce Marketing Act made provisions for the regulation,
682 establishment and administration of markets for agricultural produce. It constituted
683 the Market Committees in these regulated markets and entrusted them with the
684 formulation of rules in the market yards and monitoring the functioning and
685 conduct of business. But, in the process the APMCs are emerging as monopolistic
686 centres and the market system is left with major inadequacies like lack of
687 accountability of the full volume of business transacted in the regulated market
688 with the connivance of traders, lack of proper infrastructure (including density) to
689 satisfactorily provide clear access to markets for all the farmers, difficulties in the
690 mode of payment as well as storage and transport facilities in the market yards,
691 domination of 'under-cover' Commission Agents in the operations inside the
692 market yard and inadequate dissemination of market information to the farmers.
693 Hence, measures have to be taken for proper monitoring of the implementation
694 process of the provisions of the Act in letter and spirit.

695 For implementation of Model Act on agricultural marketing, the central govern-
696 ment has taken different steps like consultations, persuasions and subsidy
697 incentives on infrastructure projects, to bring changes in APMC of State govern-
698 ments on the lines of the Model Act. So far progress made on this account is
699 shown in Table 7.1.

700 Market intervention through the State agencies has been at a low key so also the
701 market reforms. It is taken up sporadically and at times under pressure from farm
702 lobby. Market intervention scheme, actually, requires arrangements for a perman-
703 ent institution that does not exist. Further, the time lag between the signals
704 originating from the distress caused due to price and the initiative of action, defeats
705 the very purpose of the action. More than the financial constraints, the MIS

706 operations require adequate autonomy to the agencies and a business culture like
707 that of NAFED. *It should also be ensured that these agencies are located in the*
708 *market yards and APMC yards and should be ready to gear up to face contin-*
709 *gencies of deficit or glut in supply.* There has always been asymmetry in the
710 dissemination of knowledge about prices, the markets and various schemes, among
711 the farmers. Traders and other actors in the market. Awareness is not created about
712 the latest market developments among the farmers and stakeholders to sell their
713 produce such that they reap the maximum benefits out of their sale.

714 In an overall view, market imperfections are an important factor that obstructs
715 the path to a developed marketing system. Farmers do not have the necessary
716 shield against these imperfections and safeguard their interests. Insurance has no
717 way protected the farmers. Establishment of separate Commodity Boards for
718 specific agricultural commodities can effectively circumvent the market imper-
719 fections but such experiments are sporadic. It is quite evident that in the process of
720 economic reforms, agricultural domestic market reforms have been totally
721 neglected. The process of globalisation is handled only at the level of international
722 trade with domestic markets confronting problems due to imperfections. Attempts
723 to bring reforms in the domestic agricultural commodity markets have failed and
724 in fact helped to perpetuate imperfections. We have neither attended to correct the
725 distortions in price policy nor helped to correct market imperfections. The policy
726 thus will introduce new forces of inequality.

727 **Concluding Remarks**

728 The process of globalisation was expected to release new market forces in the
729 domestic market environment. Even though the domestic markets are not fully
730 integrated with the world market, the pressure of international prices is a potential
731 threat to domestic consumers as well as producers. Similarly, the liberalisation in
732 other sectors of the economy has exerted significant pressures on the role and
733 functions of the domestic markets. The inefficient functioning of the institutions
734 governing markets and prices have contributed to the already existing market
735 imperfections and market failures. This has not only resulted in high food inflation
736 on one side, farmers' distress and lopsided share of market intermediaries on other.
737 The situation of distress in agricultural sector has been analysed and the conclu-
738 sions begin with indebtedness, low income, technology failure and other many
739 components. However, my fieldwork and research in the three sectors namely the
740 price policy, market inefficiencies and agrarian distress brought me to the con-
741 clusion that we have failed at the threshold of price policy and in institutionalising
742 agricultural markets (Deshpande 2003, 2006, 2008; Deshpande and Naika 2004;
743 Deshpande and Prachitha 2005). In the present era of reforms wherein, we are
744 trying to reduce the role of the state and allow markets to function freely, it is not
745 understandable that still the role of the State (not being able to be absolutely
746 efficient as it is) is not reduced. Therefore, two of the most important contested



747 issues, the price policy and dealing with the market imperfections remain untouch-
748 ed in the reforms.

749 The farm sector distress in most of the states has been analysed from different
750 angles and the substantial literature is available on the subject. One of the major
751 points that missed the analysts is the inability to generate higher net income in the
752 farm sector. This happened both due to stagnation in productivity on one hand,
753 increasing prices in the farm inputs with the product prices not keeping pace with
754 the increased cost of cultivation, on the other. It is not that the farmers do not
755 intend to pay back the dues to the banks or moneylenders but most of them are not
756 in a position to generate that income required due to failure of the price policy and
757 market imperfections. The mood in the farm sector is now a matter of concern and
758 farm leaders like RajuShetty, Manveer Singh Tevatia, Y. Sivaji, Vijay Javandiya,
759 M.R. Sivaswamy, Puttannaiah and many others have given strong warnings about
760 the price policy as well as market imperfections. The writings on the walls are very
761 clear and bold that the farm sector is agitated and the situation may aggravate any
762 time. The major issues spoken by the farmers lobby at micro level include the
763 promise given in the 1999 Agricultural Policy about remunerative prices and
764 maintenance of the price parity. The declaration of support prices and the method
765 of computation of MSP has always been one of the points in all these agitations
766 across the country. Absence of the price policy and market reforms is the major
767 concerns now. The situation is quite critical and may surface seriously soon.

768 Long-Term Grain Policy deliberated the problems confronted by the Minimum
769 Support Prices and the operations to analyse its effectiveness. The committee
770 favoured decentralisation of price support and procurement as an alternative to
771 MSP, an argument put forward earlier by Rao and Deshpande in 2002. Failure of
772 the MSP policy is traced to faulty data, failure to adhere to the guidelines, political
773 interventions, imputation methodology and failure to maintain across crop parity.
774 The Committee recommended that MSP should be continued albeit in a new form.
775 The suggestions included making the CACP an empowered statutory body and
776 thus the intervention by the government will be minimised. But this also needs
777 transparency in the operations of CACP specifically about the methodology of
778 arriving at MSP. All the computational methods should be clearly stated along
779 with the basis of the assumptions about all costs including the imputed costs. All
780 the procurement agencies and Public Grain Management Institutions need to be
781 legally bound by the Policy. The committee also recommended that the Central
782 government should under-write open purchase of grains under MSP and FCI
783 should become the buyer of last resort. FCI can gradually focus on other states
784 where they missed the rural bus.

785 Main problem in the policy being ineffective is the involvement of the state
786 bureaucratic procedures in the entire operations of MSP and its failure as a tool of
787 price policy is largely to inefficient administration. The time lag between the
788 incidence of distress price and procurement operation is the challenge. Therefore,
789 procurement centres should be located in the market yards where the farmer should
790 have a choice to exit if the product is being auctioned at a lower price. Farmers
791 group along with the APMC should be assigned the responsibility to procure and

792 disperse the procured grains. This could be achieved on a decentralised level. It is
793 better that the stakeholders manage their own issues with the state support rather
794 than state taking the responsibility and then take the blame of mismanagement.

795 The preambles of the APMC acts invariably state that the Act was brought into
796 reduce the inefficiencies prevailing in the market but the result seems to be reg-
797 ularising the irregularities prevailing then. The market infrastructure is painfully
798 inadequate and each market serves large areas. The density of markets in many of
799 the states is so thin that farmer prefers to sell at the village and to the middlemen.
800 The analyses of the various APMC acts show that largely the Acts are focused on
801 the operations of the APM Committees and a large number of references to liti-
802 gations in elections. The APMC yards are more dominated by political interests
803 rather than the interests of the farmers. Besides, the increased density of small and
804 marginal farmers has caused lower marketable surplus available per farmer
805 reaching the market yard and the farmer also finds it easy to sell the surplus to a
806 middleman rather than taking the small lots to the market. If markets have to
807 become efficient, it will be necessary to reduce the role of the state, middlemen and
808 the farmer should feel free to sell the product at his/her will. It will be essential that
809 the farmers themselves manage the markets through direct sale, through group
810 marketing or other modes where producer share of the consumer rupee is appre-
811 ciable. For this, the new model act will facilitate but has not come under imple-
812 mentation in many states.

813 Globalisation process has opened up the gates for international trade and lib-
814 eralised a few barriers. Small ripples did get reflected in the agricultural trade but
815 the domestic market imperfections and the price policy continued to suffer under
816 imperfections. Precious little was done on this policy front. Agricultural markets
817 and price policy continues with the distortions that entered into this arena during
818 seventies and eighties. The resultant of this neglect can be many folds such as the
819 warning sounded by Bhaduri (2008) about increasing inequality and state growing
820 hostile towards welfare. Deepak Nayyar pointed to the real failure in the second
821 half of the twentieth century as our inability to transform growth into development
822 (2006). Agricultural sector with the major constraints of imperfect market and
823 distorted price policy cannot expect to reach the desired goal of development
824 under the market centric globalisation policy, unless quick policy amends are
825 undertaken. Even now the situation is that if a farmer enters the regulated market
826 yard she/he faces all the irregularities and cannot come out without disposing off
827 the produce at the will of a few operators and prices that do not cover even his
828 cost. This must change (Fig. 7.7).

829 **A.1 Annexures**

830 See Tables [A.1](#), [A.2](#), [A.3](#), [A.4](#), [A.5](#), [A.6](#).

Table A.1 A comparative picture across states of effectiveness of MSPMSP

Sl No	States	Relationship of MSP with		Impact on		Role as decision making variable	Area response	Process of implementation		Major crops	Per cent of farmers who	
		WSP	FHP	Yield	Technology			Incentives	Procurement		Cushioning	Are not Aware (%)
1	PUN	****	****	****	****	****	****	****	**	Wheat, Paddy, Cotton	30-90	6-20
2	HAR	****	****	****	****	****	****	****	***	Wheat, Paddy, Cotton	90	5-20
3	UP	***	***	***	****	****	****	****	***	Wheat, Gram, Sugarcane	20-80	10-15
4	KAR	***	***	**	***	**	**	**	**	Paddy, Jowar, Raggi, Tur, G.Nut	2-58	20-45
5	MAH	****	****	****	****	****	****	****	**	Jowar, G.Nut, Soyabean	1-50	10-25
6	GUJ	****	****	***	***	***	***	***	**	Bajra, Maize, Wheat, Cotton	80-90	20-40
7	AP	****	****	****	***	**	**	***	***	Paddy, Jowar, G.Nut, Sugarcane	12-100	12-60
8	TN	****	****	***	***	****	***	****	***	Paddy, Sugarcane, G.Nut, Pulses	36	25

(continued)

Table A.1 (continued)

Sl No	States	Relationship of MSP with		Impact on		Role as decision making variable	Area response	Process of implementation		Major crops	Per cent of farmers who	
		WSP	FHP	Yield	Technology			Incentives	Procurement			Cushioning
9	MP	***	***	****	***	****	***	****	***	Wheat, Jowar, Gram, Soyabean, G.Nut	40	48
10	BIH	***	***	***	****	***	**	****	***	Paddy, Wheat, Jute	27	40
11	WB	****	***	***	***	**	*	***	***	Paddy, Wheat, Jute, Mustard	16-80	60

Note ***** Very Effective; **** Effective; *** Average; ** Less Effective; * Ineffective

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Table A.2 State-wise total number of regulated markets and area served by them

States	Geographical area served by per regulated market (Area in Sq./Km)		Area (GCA) served by per regulated market (in 000 ha)							Market (Regulated) density per Lakh GCA						
	1971	1981	1991	2001	2010	1971	1981	1991	2001	2010	1971	1981	1991	2001	2010	
WB	1305	303	263	160	129	105	26	26	16	14	0.9	3.8	3.9	6.1	7.0	
AP	929	510	484	319	305	45	23	23	16	15	2.2	4.4	4.3	6.4	6.5	
PUN	182	145	76	75	103	20	19	11	12	16	4.9	5.1	8.8	8.5	6.2	
ASS	-	4902	2451	2241	347	-	215	119	117	18	-	0.5	0.8	0.9	5.7	
HP	-	1591	1071	1591	1185	-	27	19	27	20	-	3.7	5.3	3.7	5.0	
TN	1227	531	471	482	445	70	26	24	23	20	1.4	3.8	4.2	4.3	5.0	
HAR	345	248	172	156	156	39	31	23	22	23	2.6	3.3	4.3	4.6	4.4	
Others	28350	9021	4510	3422	596	191	44	49	176	23	0.5	2.3	2.0	0.6	4.3	
KAR	969	601	483	405	383	55	33	30	26	25	1.8	3.0	3.4	3.9	4.1	
MAH	900	567	398	359	350	55	37	28	26	25	1.8	2.7	3.5	3.9	4.0	
GUJ	641	660	575	495	473	34	36	30	26	28	2.9	2.8	3.3	3.8	3.6	
ORI	2831	2290	1198	1081	496	123	129	74	55	29	0.8	0.8	1.4	1.8	3.5	
MP	1680	1381	834	720	636	78	67	45	29	30	1.3	1.5	2.2	3.4	3.4	
UP	745	477	464	456	444	59	40	40	39	40	1.7	2.5	2.5	2.5	2.5	
RAJ	2113	1076	903	835	796	103	55	51	47	53	1.0	1.8	2.0	2.1	1.9	
BIH	1207	392	218	214	-	77	25	13	10	-	1.3	4.0	7.6	10.2	-	
KER	6477	9716	9716	-	-	489	716	755	-	-	0.2	0.1	0.1	-	-	
J&K	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
India	1194	714	529	461	459	60	37	30	26	27	1.7	2.7	3.3	3.8	3.7	

Note GCA Gross Cropped Area

Source Based on data on DM&I and compendium of selected economic indicators, CSO 2011

Table A.3 State-wise covered storage capacity—FCI, CWC and SWCs in India as on 1.1.2011

State	Covered storage capacity (In Lakh MT)				Percentage share of state in all India			
	FCI	CWC	SWCs	Total	FCI	CWC	SWCs	Total
Punjab	78.77	6.9	58.05	143.72	25.74	6.78	27.07	23.10
Andhra Pradesh	42.21	13.57	21.74	77.52	13.79	13.33	10.14	12.46
Uttar Pradesh	30.77	11.63	29.89	72.29	10.06	11.42	13.94	11.62
Maharashtra	21.19	15.95	11.97	49.11	6.93	15.66	5.58	7.89
Haryana	25.87	5.31	16.74	47.92	8.45	5.21	7.81	7.70
Madhya Pradesh	8.36	5.17	28.64	42.17	2.73	5.08	13.36	6.78
Sub total—(A)	207.17	58.53	167.03	432.73	67.70	57.48	77.90	69.55
Rajasthan	17.71	4.02	7.71	29.44	5.79	3.95	3.60	4.73
Karnataka	8.38	5.42	9.93	23.73	2.74	5.32	4.63	3.81
Tamil Nadu	9.85	6.33	6.36	22.54	3.22	6.22	2.97	3.62
West Bengal	11.01	6.5	2.16	19.67	3.60	6.38	1.01	3.16
Chhattisgarh	8.26	2.75	8.47	19.48	2.70	2.70	3.95	3.13
Gujarat	7.02	7.72	1.49	16.23	2.29	7.58	0.69	2.61
Orissa	6.44	3.73	4.14	14.31	2.10	3.66	1.93	2.30
Bihar	6.98	1.31	2.47	10.76	2.28	1.29	1.15	1.73
Kerala	5.37	1.22	1.98	8.57	1.75	1.20	0.92	1.38
Sub total—(B)	81.02	39.00	44.71	164.73	26.48	38.30	20.85	26.47
Assam	2.75	0.65	2.53	5.93	0.90	0.64	1.18	0.95
Delhi	3.67	1.51	—	5.18	1.20	1.48	—	0.83
Chandigarh	3.60	0.13	—	3.73	1.18	0.13	—	0.60
Uttarakhand	2.34	0.71	—	3.05	0.76	0.70	—	0.49
Jharkhand	1.29	0.35	—	1.64	0.42	0.34	—	0.26
Jammu & Kashmir	1.31	—	—	1.31	0.43	0.00	—	0.21
Tripura	0.52	0.24	—	0.76	0.17	0.24	—	0.12
Goa	0.15	0.41	—	0.56	0.05	0.40	—	0.09
Meghalaya	0.26	—	0.14	0.4	0.08	—	0.07	0.06
Himachal Pradesh	0.26	0.07	—	0.33	0.08	0.07	—	0.05
Nagaland	0.20	0.13	—	0.33	0.07	0.13	—	0.05
Mizoram	0.23	—	—	0.23	0.08	—	—	0.04
Arunachal Pradesh	0.22	—	—	0.22	0.07	—	—	0.04
Manipur	0.20	—	—	0.20	0.07	—	—	0.03
Sikkim	0.11	—	—	0.11	0.04	—	—	0.02
Sub total—(C)	17.80	4.30	2.67	24.77	5.82	4.22	1.25	3.98
All India (A + B + C)	305.99	101.83	214.41	622.23	100.00	100.00	100.00	100.00

Source Based on Annual Report 2010–2011, Department of Food and Public Distribution, Ministry of Consumer Affairs, Government of India

Table A.4 Covered storage/warehousing capacity available with the FCI/CWC/SWCs for foodgrains in India (in Lakh MT)

Years	Total storage capacity				Percentage share of owned capacity to total			
	FCI	CWC	SWCs	Total	FCI	CWC	SWCs	Total
1990	175.88	63.36	88.80	328.04	67.86	72.10	72.67	69.98
1991	195.92	64.77	91.79	352.48	61.23	72.90	71.88	66.15
1992	183.14	64.28	92.03	339.45	65.43	74.28	73.02	69.16
1993	180.18	64.02	90.74	334.94	67.57	75.77	76.46	71.54
1994	209.64	63.73	95.58	368.95	58.43	77.66	73.71	65.71
1995	226.79	69.13	100.04	395.96	54.22	73.28	72.59	62.19
1996	206.66	69.75	108.31	384.72	60.07	73.55	68.29	64.83
1997	194.76	71.19	109.50	375.45	63.79	72.95	70.29	67.42
1998	191.60	72.28	107.80	371.68	64.90	72.34	75.70	69.48
1999	191.56	73.48	113.89	378.93	65.27	73.01	69.88	68.16
2000	254.08	74.79	123.74	452.61	58.06	72.83	69.30	63.57
2001	314.46	83.91	149.05	547.42	47.34	66.88	57.71	53.16
2002	279.01	89.17	185.49	553.67	45.67	76.76	54.87	53.76
2003	265.87	91.14	199.31	556.32	48.21	83.51	76.04	63.96
2004	236.65	93.59	206.81	537.05	54.15	86.28	76.42	68.33
2005	233.70	101.87	195.20	530.77	55.24	82.83	66.00	64.49
2006	228.36	100.38	197.05	525.79	56.63	79.92	64.78	64.13
2007	222.83	102.20	192.20	517.23	58.08	79.35	66.02	65.23
2008	216.61	98.78	188.31	503.70	59.78	68.47	65.79	63.73
2009	230.91	105.25	190.91	527.07	56.16	64.23	64.12	60.65

Note FCI Food Cooperation of India, CWC Central Warehousing Cooperation, SWCs State Warehousing Co operations

Source Various Annual Reports of Department of Food and Public Distribution, Ministry of Consumer Affairs, Government of India

Table A.5 Farmers' awareness of MSP and procurement agencies

Sl No	States	Percent of farmers aware/not aware of MSP		Those aware of procurement agency
		Aware	Not aware	
1	Punjab	63.2	36.8	53.0
2	Haryana	66.7	33.3	43.6
3	Uttar Pradesh	33.3	66.7	21.5
4	Karnataka	29.2	70.8	23.4
5	Maharashtra	27.8	72.2	21.1
6	Gujarat	26.7	73.3	14.3
7	Andhra Pradesh	29.4	70.6	16.7
8	Tamil Nadu	49.9	50.1	39.0
9	Madhya Pradesh	29.4	70.6	19.7
10	Bihar	19.5	80.5	8.8
11	West Bengal	30.3	69.7	13.1
12	All-India	29.6	70.4	19.0

Source NSSO (2005), Some aspects of farming, 59th round, NSSO, P.A1

Table A.6 Statewise other marketing infrastructure in India

States	No. of grading labs	Other marketing facilities							Agmark nodes			Cooperatives		
		No. of grading labs per 1000	K ^m ² MT	Food parks	Agro-exp zones	CE	Pack house	NO. Aug 2010	Per 1,000 K ^m ²	Per 1000 MT	No. of APMCS	No. of societies/ 1,000 K ^m ² area		
PUN	62	1.23	1.92	1	3	1	1	199	3.95	6.17	116	2.30		
HAR	82	1.85	3.93	2	-	-	-	150	3.39	7.20	103	2.33		
KER	52	1.34	7.80	4	2	2	-	92	2.37	13.80	548	14.10		
GUJ	43	0.22	1.75	-	3	4	6	319	1.63	13.00	1717	8.76		
TN	47	0.36	1.86	2	4	-	1	190	1.46	7.54	114	0.88		
AP	44	0.17	1.12	1	5	-	6	334	1.28	8.50	383	1.47		
MAH	68	0.22	2.17	7	8	4	89	346	1.12	11.06	1426	4.63		
UP	153	0.64	2.09	5	4	4	-	257	1.08	3.51	258	1.08		
KAR	44	0.23	1.62	4	4	1	4	171	0.89	6.29	505	2.63		
MP	46	0.15	1.62	6	5	2	-	267	0.87	9.40	1097	3.56		
HP	10	0.18	3.28	-	1	-	1	39	0.70	12.79	184	3.31		
WB	24	0.27	0.58	8	6	1	-	56	0.63	1.34	287	3.23		
BIH	12	0.13	0.39	1	3	-	2	58	0.62	1.91	376	3.99		
ORI	6	0.04	0.33	1	1	-	-	91	0.58	4.99	171	1.10		
CHH	2	0.01	0.20	1	-	-	-	73	0.54	7.18	5	0.04		
RAJ	209	0.61	8.67	4	2	1	-	166	0.49	6.89	208	0.61		
UTK	5	0.09	1.39	-	4	-	-	21	0.39	5.84	10	0.19		
JHA	1	0.01	0.12	-	1	-	-	26	0.33	3.03	-	-		
ASS	-	-	-	1	1	-	-	23	0.29	1.93	26	0.33		
J&K	46	0.21	9.82	3	2	-	1	41	0.18	8.75	110	0.49		
GOA	-	-	-	-	-	-	-	10	2.70	31.37	9	2.43		
TRI	-	-	-	1	1	-	-	21	2.00	14.9	14	1.33		

(continued)

Table A.6 (continued)

States	No. of grading labs	Other marketing facilities					Agmark nodes			Cooperatives		
		No. of grading labs per 1000	Food parks	Agro-exp zones	CE Pack house	NO. Aug 2010	Per 1,000 Km ²	Per 1000 MT	No. of APMCS	No. of societies/ 1,000 Km ² area	No. of societies/ 1,000 Km ² area	No. of societies/ 1,000 Km ² area
SIK	-	-	2	-	-	7	0.99	27.82	46	6.48	6.48	
NAG	-	1	-	-	14	0.84	17.17	32	1.93	1.93	1.93	
MEG	-	-	-	-	11	0.49	11.53	22	0.98	0.98	0.98	
MIZ	-	1	-	-	9	0.43	24.34	4	0.19	0.19	0.19	
MAN	-	2	-	-	5	0.22	5.37	17	0.76	0.76	0.76	
ARP	-	-	-	-	15	0.18	29.74	4	0.05	0.05	0.05	
All India	956	0.29	2.03	56	62	20	111	3011	0.92	6.4	7792	2.39

Note CE indicates Commodity Exchange

Source Compiled from the data obtained from DMI, MOA, GOI, Faridabad; and Jairath (2012)

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