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Farms need a free market

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Greater role for private trade will ease the supply situation

State intervention is redundant in a situation of plenty.

Indian farm policies need to be restructured in view of the problems of plenty becoming the new norm, as against severe shortages. The CACP (Commission for Agricultural Costs and Prices) in its latest *kharif* report of 2013-14 has urged Central and State Governments emphatically to initiate "non-price" reforms, instead of limiting its role to fixation of Minimum Support Price (MSP), which generally in trading terminology turns out to be "maximum support price".

On May 20, the Finance Minister asked the Competition Commission of India to suggest the manner in which the state monopoly of grains can be corrected — a means by which private participation can be enhanced and discovery of market price is not affected by Government policy.

SETTING MARKETS RIGHT

Prices will be right, if markets are right. If markets are misleading, prices too will be distorted. Markets need to be set right — that is the essence of the CACP report. It does not limit itself to the Agricultural Costs and Prices but also extends its advice to "Agricultural Concepts and Practices".

It redefines the trading model of the farm sector, which has an annual output of 250-260 million tonnes, and registered a growth of 3.6 per cent in 2007-12 (Eleventh Plan). This was closer to the planned target of 4 per cent, against an earlier attainment of 2.4 per cent in 2002-07 (Tenth Plan). The farm sector is responsible for employing about 50 per cent of the population and accounts for about 14 per cent of GDP. A stress on agro-investment rather than agro-subsidies should be the roadmap for future growth.

The Centre takes recognition for fixing MSP for the benefit of farmers, undertakes massive procurement of wheat and paddy/rice, provides subsidies and fiddles with the export-import regime. States shower bonuses, decide on local taxation or movement, undertake decentralised procurement and enforce discretionary levy obligations.

These dual power centres with arbitrary interventionist actions substantially distort the market and crowd out private players. Markets are essentially the continuous and collective interaction of millions of minds. All bureaucratic rules negate this fact. Streamlining ambiguities in trade of perishable commodities over the last 50 years is the call of the day.

MSP, ARCHAIC CONCEPT

The genesis of MSP can be linked to a parochial approach of restricting inter-State movement of grains and imposition of stock limits, leading to demand compression in the district or State and price depression for producers. MSP itself is an artificial, archaic mechanism which the Government needs to abandon when yields are rising with better production techniques.

The soul of the report is the exercise undertaken by CACP in evaluating 18 States engaged in paddy/rice procurement for "market friendliness". Gujarat is at number one while Chhattisgarh for the "least" market affability is at no. 18. Both are BJP-ruled States. Gujarat supports openness. Chhattisgarh is highly state-centric. Bihar is at no.4, while Haryana, Punjab, Andhra Pradesh are on the bottom from 15th to 17th for 'poor market oriented' strategies.

The ranking takes into account six vital parameters — local taxes, bonus on paddy, stock limits, levy obligation, market reforms under APMC Act and rice procured as percentage of States' production, these being the "maladies".

Gujarat is a highly industrialised State and can earn revenues from the industrial and service sector. Agrarian regions believe they have no option but to tax farm production heavily. The belief that lower to moderate taxation will yield lower revenues is erroneous.

When large volumes of farm products and their value-added derivatives are officially traded even with a lower rate of taxation in the open market, the revenue deficit will be recovered.

The report mentions that discretionary bonuses by Punjab, Haryana, Andhra Pradesh, and Chhattisgarh ensure diversion of substantial paddy produced from Uttar Pradesh, Odisha, Bihar (where it fetches 10-15 per cent below MSP).This builds up huge surpluses with Government agencies. Intriguingly, the Centre has to shell out local taxes to State Governments followed by subsidisation in economic cost.

The open market is throttled — fuelling inflation and curbing exports. The "remedy" is to restrain open-ended procurement. Let the private trade function efficiently for better remuneration to the farmers. Let the domestic demand and demand expansion through export markets be the drivers.

Market reforms

Enforcing levy obligations for paddy or rice — as is strictly done by Andhra Pradesh — is irrational with overstocked grains at the national level. Rice exports from AP have suffered because of this historical insistence. Imposing stock limits under Essential Commodities Act (ECA) is an anachronism in an age of plenty.

For market reforms, it is imperative to repeal the Market Committees under APMC Act in its various dimensions, especially with respect to the freedom to buy directly from farmers.

Private markets are the necessity of our times. Where it has been repealed, as in Bihar, the State needs to invite the private sector to build markets, say, under Public-Private Partnership (PPP) mode, suggests CACP.

EXPORT POLICY

According to the WTO, India's share in the world's agro export is 2.1 per cent in 2011, compared with 0.8 per cent in 1990, while overall merchandise export is 1.7 per cent in 2011 vs. 0.6 per cent in 1990. This is a reflection of India's overwhelming comparative advantage in international agro trade.

Exports — freed from Government's quantity/ DGFT (Directorate General of Foreign Trade) registration and price controls for rice, soyabean meal, guar gum, maize and cotton — have done exceedingly well after 2011.

Overall, agro-exports were around $40 billion in 2012-13 with 96 per cent involvement of private sector.

Wheat exports through PSUs have met with sub-optimal success, because the Government failed to show the price flexibility required for international parity. Stable market-focused export policies generate consistent demand overseas, which enables better price realisation domestically.

The very concept of MSP will be redundant when agro-markets are allowed to function harmoniously with active participation of private players and true market price will be discovered. The nation will be less burdened with financial and administrative stress.

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