Dealing with Agrarian Surpluses

What is the issue?

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- Whenever there is surplus productivity in the farming sector, the wholesale prices of perishables seems to crash hard.
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- To safeguard our farmers, we need to devise innovative policies to deal with unexpected market gluts.
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What are the trends in agro-prices in recent years?

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- When the National Democratic Alliance (NDA) government took charge in 2014, it had to deal with almost double-digit inflation (primarily food inflation).
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- Hence, the government naturally give priority to allaying the concerns of the consumers and made efforts to contain food inflation.
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- To this end, the government resisted announcing any sharp increases in Minimum Support Prices (MSP) for various agricultural commodities.
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- It also tweaked the trade policy to ensure that there was enough agricultural produce to contain any sharp increase in retail prices.
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- Consequently, excessive supply in agro-produce has become a recurring and common market phenomenon in recent times.
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- This has caused regular price crashes, leading growing farmer unrest across the country, which is now making the government take note of the plight of farmers.
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- Notably, there have been multiple incidences of farmers throwing away

their produce to express dissent and vent their anger at the unfair prices being offered.
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What are the reasons for higher productivity?

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- Multiple reasons has caused production across a whole range of agricultural commodities in India to go up year on year.
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- There have been productivity gains due to improvements in the quality of seeds available because of better plant breeding and genetics.
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- Added to this is the sustained improvements in scientific farming practices, such as high-density cultivation and use of drip irrigation.
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- Investments in associated infrastructure, such as better road connectivity and improved access to electricity, have also helped in raising overall productivity.
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- Also, with improvements in information technology and more inter-connectedness, demand signals are penetrating more rapidly than ever.
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What has been the government response?

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- **Actions -** As the growing anger could have electoral repercussions, the governments at various levels has promised higher MSPs and loan waivers.
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- But these measures are mere painkillers, and a sustained solution is needed to address the current crisis comprehensively.
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- Notably, the promise of higher MSP would only incentivize the greater production of certain commodities than sustainably securing farmer incomes.
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- **The problems -** Government seems obsessed with supply-side management measures such as imposing stock-holding limits and allowing easier imports.
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- Also, government policy has largely been biased against farmers to favour consumer needs by ensuring that prices are sustained at low levels.
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- For instance, government tends to block exports when there are better international prices, in order to ensure that domestic prices doesn't spike.
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- Contrarily, when there is a spike in domestic prices, the government opens up for cheap imports to ensure safeguard the consumers from price rise.
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- Hence, it can be said that farmers are indirectly subsiding consumers for long, which needs to correction in order to ensure economic justice to our farmers.
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What is the way ahead?

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- Improving market access for the farmers (rather than artificial pricing manipulations) would help in reducing the frequency of market gluts.
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- By facilitating long-term purchase agreements between farmers and agro-companies could improve storage infrastructure.
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- Such storage infra could help in creating buffers that can absorb market gluts and also ease food inflation and hence benefit both famers and consumers.
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- Monsoonal vagaries trouble Indian farmers regularly, but present agro-policies are proving to be even more troublesome, thereby needing immediate correction.
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Source: Business Standard

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