Free Market in Agriculture

What is the issue?

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- Farmers in some States are regretting their abundant yields this year as the prices of agricultural commodities have crashed.
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- e.g Chilli farmers in Andhra Pradesh and Telangana, tomato growers in Karnataka, and toor dal cultivators in Maharashtra have witnessed prices fall by more than half in a matter of just weeks.
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- High commodity prices last year caused farmers to respond by boosting production, which in turn led to the present price crash.
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How does market help in price stabilisation?

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- **In the consumer market**, commodity speculators usually dampen price fluctuations by managing supply according to consumer demand. e.g When the supply of grains is abundant, speculators do not flood the market with all their stock but instead hoard the grains and sell them later when supply turns scarce.
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- Thus, even if farmers engage in mindless grain production, speculators usually save the day for consumers by preventing steep rises and falls in grain prices.
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- **In the wholesale market**, speculators can save farmers from similar price fluctuations by paying a competitive price for their produce even when there is abundant supply.
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- Grain traders, to return to our previous example, who want to hoard supply expecting higher grain prices in the future would be willing to pay a better price to farmers today.

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- Farmers can also expect a more predictable price for their produce each season, reflecting stable consumer prices, thus preventing mindless cultivation.
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What is the situation in India?

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- Similar competition is missing from the Indian agricultural scene where the supply chain is broken.
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- Red tapeism, including limits on stocking agricultural products, has prevented the growth of a robust market for commodity speculation.
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- The result is lack of investment in infrastructure like cold storage.
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- About 40% of agricultural produce in India is wasted because of it.
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- This led to price fluctuations that have affected both the farmer and the consumer.
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- Wholesale agricultural prices are also determined by trader cartels not by competitive bidding.
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- This only boosts the profits of some privileged traders.
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- Farmers receive only 20-25% of what the final consumer pays for his product.
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- Thus, a free market in agriculture can be the best antidote to the crisis facing Indian farmers.
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Source: The Hindu

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