

Price policy , farm profitability and food security

First part

Analysing trends at the aggregate level

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Introduction

- This paper is looking at the effectiveness of price policy as an instrument to support food security. To keep to that objectives , recent hike in wheat MSPs were required to get to input prices right . In that context we can say price rise was justified , one more reason after due to which , price hike further necessitated is due to price volatility of crops under neoliberal trade regime that distorted intercrop price parity.
- Agricultural price policy has come under serious attack in recent years for recommending higher support prices than warranted by the costs of production (CoP) and supposed distortion of the market, leading to food deprivation.

- It is also blamed frequently for the spikes in prices of food items that reached their peaks in 2009. Rice and wheat are the most state-protected crops and the millions of farmers are dependent on incomes from these crops, grown in an area of nearly 75 million hectares or more than 40% of the gross sown area.
- An analysis of costs and returns in these crops gives some idea about the profitability of Indian agriculture and provides insights into the working of price policy.

- Against this background, the overall objective of this paper is to examine the effectiveness of price policy in helping farmers get sufficient profits to promote investment, technology and productivity, thereby to the food security of the country
- The data generated under the cost of cultivation scheme (CS) of the Directorate of Economics and Statistics, ministry of agriculture, is used for the analysis in this paper
- In that context in this part of the reading we will look at the trend in Cost , MSP , Price realized and wholesale price of wheat and rice.

Trend in cost (1981-2008)....

- 1981-1991- first period
- 1991- 2008- second period

Per-unit cost of rice has gone up particularly after 1999.

Ratio of rice to wheat cost of production is less than cost of cultivation showing that yield in Paddy is more than wheat

But the paid cost of cultivation is more than cost of cultivation in general showing that imputed value of land labour and capital is less for Paddy compared to wheat.

Yield vs cost

- Data on cost of cultivation shows that in the first period cost of cultivation for rice and wheat has gone up but yield increment was more because of which overall cost of production (COP) fall in first period .
- But in the second period growth in cost of cultivation was less but yield fallen significantly for rice and wheat suggesting it may be that the falling profitability discouraging farmers to augment technical inputs in agriculture.

MSP & Price realized

- Data on MSP of both rice and wheat shows that it's trend growth was in negative for both wheat and rice before reform but after reform in the last decade of 20th century MSP for rice and wheat has grown , growth in wheat MSP has been more than rice MSP . In the recent decade growth in rice MSP has been more than wheat MSP .
- But if we look at the price realized by farmers that is showing mostly it's been greater than MSP for both crops but growth rate in price realization above the MSP has been more for wheat compare to rice particularly in the second half.

Cost , price realized

- Data tell us price realized for rice has been higher than it's cost of production up to 2001 but after that margins remains very insignificant.
- But for the wheat ratio of price realized to cost of production has always been higher and increased particularly after 1994 onwards and more so since 2005.

COP , WPI, MSP

1) Data on cost of production and wholesale price tell us that index of COP and WPI was moving together until 2001-02 for rice. But last five years COP has gone up higher than WPI for rice. With respect to MSP , growth in it been similar to COP until 2001-02 after that spikes of COP greater than MSP but for the last two years MSP was much higher than COP & WPI.

2) But for the wheat MSP , COP and WPI were similar till early 1990s but margins went high for wheat significantly after 1997-98.

Examining the profitability

- When we look to the ratio of Gross value of output (GVO) to cost of cultivation for rice it is falling overtime.
- Whereas it is increasing for wheat
- Considering COC we can say return over rice was around 7% over COP for rice but for wheat it was around 26%.
- If we consider only paid cost it will give a return of 50% over wheat crop but for rice it is around 13% only .
- For last seven years of study wheat farmers were enjoying 23% return over the cost compare to rice farmers getting only 7% of the return .