

6. Impact of Minimum Support Prices on Agricultural Economy: A Study in Karnataka

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Most of the reviews of the Price Policy have touched upon only the theoretical aspects of the policy and, surprisingly, the empirical studies have been able to uphold the theoretical scaffoldings firmly. In the entire process, the ground realities pertaining to the intended impact of the Price Policy were relegated to the backyard or were taken for granted. The Price Policy emerged in the context of institutionalising the agricultural price monitoring mechanism under the recommendations of the Jha Committee Report. The instruments of Price Policy were thus framed under the heavy shadow of food insecurity as well as distribution mechanism (rationing system) prevailing during those years. After the experience of a quarter of a century, in the implementation of the market intervention scheme, recognising the oncoming changes, Prof. Dantwala (an architect of the price policy) wrote during the early nineties urging recognition of the changing role of Minimum Support Prices (MSP) and market intervention.

The present study focuses on the effectiveness of the Minimum Support Prices and documents its impact on various parameters of the agricultural economy. These parameters include growth, distribution aspects, decision-making in the allocation of resources, environmental effects and, above all, analysis of its role as an operational instrument of the price policy. We have also attempted here to analyse the very existence of MSP as a tool of price policy in the context of its effectiveness. The study is expected to highlight the factors responsible for the success of MSP as a tool of price policy as well as the parameters responsible for its failure.

Effectiveness is viewed here from five distinct angles, viz., (i) impact on the fluctuations in prices, (ii) role of MSP as an incentive price, (iii) its impact on cropping pattern, (iv) distribution parameters, and (v) operational effectiveness of MSP. The study also incorporates analysis of the administrative process in the implementation of MSP. The study is based on secondary data at the state and district levels, and primary data collected through a survey of households from three districts viz., Gulbarga, Mandya, and Belgaum.

Karnataka State has a typical composition having a large share of its area under severe climatic constraints with a highly diversified agricultural sector. The State has the largest share of drought-prone areas of the country and exceeds the country's share of poor. Yet, the State has achieved better rates of reduction in the poverty ratio. The high density of low-value and high-risk crops typifies the State agriculture. The crop economy of the State has a few typical characteristics. It has a predominantly cereal-dominant crop pattern with coarse grains having the largest share of area. These crops generally have low yield rates and lower prices, and thus commercial crops are taken to support the agricultural economy. The pattern of growth depends upon the performance of the monsoon and the availability of water. Therefore, the price incentive structure for these

crops becomes an important component of agricultural policy in the State.

The effectiveness of Price Policy at the State level involves the availability of market infrastructure at the State level and the initiative taken by the State governments to create an institutional structure for monitoring agricultural prices. In the case of Karnataka, the State government has recently constituted an Agricultural Price Commission. The Government of Karnataka, in its order establishing the Price Commission, states that the Commission on Agricultural Prices is constituted to recommend standard prices, those which could be sustained in the market, and support prices at which the State government should intervene in the agricultural market. Therefore, at the institutional level, the State government has taken a bold step towards formalising a price monitoring system, whereby it has given a fillip to organising a Price Policy at the State level. This institutional initiative will go a long way in building the price policy at the State level.

The trends in MSP across crops indicate growth of about 10 per cent per annum but there are variations across crops and regions. A comparison between MSP and market prices clarifies this point further. Such comparison helps us in analysing not only the relative behaviour of MSP but also its influence on price trends in the market. As a policy tool, Minimum Support Prices are expected to be below the Wholesale Prices. But this does not seem to hold in the field. In the case of sunflower, groundnut, and jowar, the Wholesale Prices have either coincided with or gone below the Minimum Support Prices. The relationship between Minimum Support Prices and Farm Harvest Prices also indicates that the trends in Minimum Support Prices have a little difference than the Farm Harvest Prices. An interesting point emerging from this analysis is that the distance between market-determined prices and Minimum Support Prices has been very little and hence the MSP is probably playing a role of sticky base prices with which the market prices get closely identified. One tends to wonder if the MSP is providing a sticky base level for the market prices and whether the market prices are closer to MSP by design than responding to the market-induced upper fluctuations? In other words, are the fluctuations upward getting minimised under the influence of Minimum Support Prices? If so, this certainly is not welfare augmenting for the producers.

The relative neglect of jowar, ragi, maize and groundnut compared with wheat and paddy comes is evident from the relative prices of these crops in relation to administered prices of paddy and wheat. Similarly, market imperfection and fragile market integration are evident from the analysis wherein it is pointed out that the price differences prevail 2-3 times in the markets separated by about 150 kms and at times even less than that for the same crop in the same month. Similarly, it is also pointed out that the farm harvest prices and wholesale prices do not bear a strong lead or lag relationship with the Minimum Support Prices. Further, it is located that MSP does not bear any consistent and statistically significant relationship with either wholesale prices or farm harvest prices. This is indicative of the fact that quite contrary to the policy expectations, MSP fails to influence trends in market prices or even act as a guide price.