

Support Price (MSP) Policy for twenty four major crops. The Commission for Agriculture Costs and Prices (CACP) recommends levels at which MSP should be fixed based on several considerations like cost of cultivation overall shortage of grains and the need to keep in check the rate of inflation in the consumers interest. Although MSP is supposedly based on a cost plus formula, its fixation by the government is influenced by various non-economic factors such as demands from chief ministers of grain-surplus states and rising expectations of rich farmers represented by politically strong farm lobbies. There are several issues relating to the price policy of India.

- Even when the world prices declined in the late 1990's the policy of high procurement prices with open ended purchase continued. Food Corporation of India (FCI) procured more than what is required for food security. Low volumes of food grains available through private trade lead to higher market prices during lean seasons, with large stocks in storage go unutilized. The food security system has become expensive and unsustainable.
- The concept of minimum support price, which was originally based on the variable cost of production was enlarged to take into account full cost of production. The MSP had to be increased year after year, and the past ten years witnessed large increases in the MSPs of rice and wheat, that resulted in a large gap between the cost of production and the MSP.
- The support price policy was benefiting only few states like Punjab, Haryana, U.P and Andhra Pradesh and crops like rice and wheat only.
- State level sales tax and mandi fees on procurement operations in Punjab and Haryana inflate the economic cost of the food grains. The average consumers in all states and the states who are not buyers of foodgrains bear the incidence of state sales tax and duties. There is a need to discourage these two states from imposing such levies.
- The levy system-indirect tax on millers during shortage times, is not relevant in today's situation, it should be phased out gradually.
- Price stabilization is an important function of food policy, F.C.I operations should be limited to price stabilization with open market purchases along with private sector.
- The government price policy focuses mainly on rice and wheat. Extension of price stabilization measures to crops other than rice and wheat is important for promoting diversification as there has been a shift in consumption patterns of Indian population (including the poor) from cereals to non-cereal food.
- In contest of liberalization, the price policy has to take into account domestic and world price conditions rather than only production costs.
- The inefficiency of FCI also led to increase in issue price. Private sector can be involved in storage and distribution of food grains with some regulations.

2. Subsidies and Investments: Subsidies are effective in pushing agricultural growth, but it is important to make sure they do not become a permanent feature of the Indian economy. Agricultural subsidies are fiscally unsustainable and encourage misuse of resources and adversely the overall agricultural growth in India.