

# ESSENTIAL COMMODITIES ACT IS OUTDATED, MUST GO

Relevant for: Indian Economy | Topic: Issues of Buffer stocks and Food Security

The Centre's imposition of stock limits in a bid to control the soaring prices of onions over the last few months actually increased price volatility, according to the Economic Survey 2019-20 tabled in Parliament on Friday.

The finding came in a hard-hitting attack in the report against the Essential Commodities Act (ECA) and other "anachronistic legislations" and interventionist government policies, including drug price control, grain procurement and farm loan waivers.

"The Essential Commodities Act has been in existence since 1955, when the economy was very different from what it is today," said Chief Economic Advisor Krishnamurthy Subramanian, speaking to journalists after the Survey was tabled. "It was an economy ravaged by famine and food shortages. The mindset was very different. What we have shown is evidence of interventions not working... It's important to make the distinction between storage and hoarding."

In July 2019, the NITI Aayog set up a panel of Chief Ministers to suggest agriculture reforms, whose mandate included possible amendments to the ECA. However, just a few months later, in September 2019, the Centre invoked the Act's provisions to impose stock limits on onions after heavy rains wiped out a quarter of the kharif crop and led to a sustained spike in prices.

## Increase in volatility

Although the restrictions on both retail and wholesale traders were meant to prevent hoarding and enhance supply in the market, the Survey showed that there was actually an increase in price volatility and a widening wedge between wholesale and retail prices.

The Survey argued that if the government had not intervened, traders would have stored part of their produce to ensure smooth availability of the commodity at stable prices throughout the year. "In the long term, the Act disincentivises development of storage infrastructure, thereby leading to increased volatility in prices following production/ consumption shocks — the opposite of what it is intended for," it said.

The Survey argued that the Drug Price Control Order issued under the ECA also distorted the market and actually made medicines less affordable. Estimates showed that the prices of drugs that came under DPCO, 2013, increased Rs. 71 per mg of the active ingredient, in comparison to just Rs. 13 per mg for drugs unaffected by the order.

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