

Problem of plenty: on devising a sound agricultural policy

There appears to be no end in sight to the cycle of boom and bust in the prices of agricultural goods. Over the last few weeks, across India the price of potatoes has fallen sharply after a year of bumper production. With the price of a kilogram of potato dropping as low as under a rupee in certain wholesale markets, many [distressed farmers have left their produce to rot on the roads](#), and in cold storage facilities. Curiously, potato prices were many times higher just months ago amid scarce supply. Last year, the price of other produce like red chilli, tur dal and tomato witnessed a similar trend of steep falls compared to the previous season. The sharp swing in prices has been explained by the Cobweb phenomenon. Farmers tend to increase the production of certain crops in response to their high prices during the previous season, which in turn leads to a supply glut that causes prices to crash. The cycle repeats each passing year, with the lag between price and production causing a huge mismatch between supply and demand. The present fall in potato prices comes against the backdrop of a slowdown in the rural economy. According to advance GDP estimates released by the government last week, farm growth is expected to drop from 4.9% in 2016-17 to 2.1% in 2017-18.

Given the humanitarian and political costs of agricultural distress, particularly in a year when many big States go to the polls, local governments could turn towards populism to satisfy their rural voter base. This could come in the form of fiscal measures such as farm loan waivers, a higher minimum support price for farm produce, or some combination of the two. The next Union budget may well be focussed on the rural economy through fiscal measures. Such relief measures that temporarily ease the pain on farmers, however, will fail to make a significant difference to their lives in the long run. Any permanent solution to the problem of agricultural distress will have to deal with the challenge of price fluctuations. The boom-and-bust cycle is the result of a broken supply chain that is over-regulated. In the absence of a robust market for buying and selling forward-looking contracts, farmers are left to fend for themselves against severe fluctuations. In addition, the domination of the wholesale market by cartels prevents farmers from receiving a fair price even when their produce is sold at much higher rates to consumers. The government must resolve to address these structural issues, and not limit itself to *ad hoc* policy measures in firefighting mode. There is a need to give farmers not just a better, but also more stable, return on their crops.

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