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OPINION

Relevant for: Indian Economy | Topic: Issues related to direct & indirect Farm Subsidies and MSP

It is the season for pricing by diktat. Farmers have been assured a higher minimum support price (MSP) for 23 crops, no matter how low the market price may drop. The difference will presumably be paid to the farmer by the government's treasury (we the taxpayers). The state of Maharashtra toyed with an innovative trick. The state government said that any trader found to be paying anything less than MSP to a farmer would be sent to jail for one year. This is innovative because it passed the monetary burden of MSP from state exchequer to the wholesale or retail buyers of foodgrain. Clever isn't it? Why did they not extend this rule to all buyers, including retail consumers as well? That way the MSP burden would be diffused across millions of buyers. Anyone not paying a higher price for rice and wheat is an anti-national and must go to jail!

Thankfully this idea has backfired, and the state has withdrawn the order. It backfired not just because of protests from traders, but because of the possibility that the traders would simply boycott purchase of crop from farmers. If they purchase zero quantity, then they pay zero price, whatever the diktat. So, imposing MSP rules on intermediaries is unworkable. It is not clear how the central government is going the implement MSP without a quantity guarantee as well, and a mechanism to identify and compensate the difference between market price and MSP. As such, we have a glut in farm production across crops and MSP may have to be extended widely. Already, sugarcane farmers are also agitating for a higher price. The policy of guaranteeing a higher price for ethanol, to promote blending with petrol and diesel, will also help raise sugar prices and hence indirectly help sugarcane farmers.

The minimum price paradigm is being applied to exports as well. As the rupee has been sliding, imports surging and the current account deficit widening, the cabinet decided that it was time to cut out inessential imports. Who is to say what is inessential? Mobile phones constitute a big chunk of imports (and more generally electronic goods). Are phones inessential? An earlier National Democratic Alliance minister had coined the slogan, "*Roti, kapda, makaan* ***aur*** mobile"! So should we then say that basic phones are essential, but smartphones are not? Or that 16 GB memory is essential but anything more is inessential? The slope to price controls and determining what are inessential goods is slippery. One of the largest import items is coal, which fires electricity. Surely that cannot be inessential.

A third area where the minimum price regime is being applied is e-commerce companies. Suddenly, we are not comfortable with those steep discounts offered by Amazon and Flipkart. The draft policy for e-commerce regulation implies that discounting is anti-competitive. How? Economists will scratch their heads. If consumers are getting a super deal, why is that anti-competitive? Pricing and costing are two different things. Pricing responds to demand and costing responds to production and supply constraints. No company can continue to sell below the cost of production for a sustained period of time and remain in business. In general, it is very hard to determine the true variable cost of production. So, sending in pricing inspectors to examine whether the discounts can be allowed or not is a pointless exercise in a Kafkaesque bureaucracy.

Interestingly, the government's concern about discounting and predatory pricing in e-commerce does not seem to apply to telecom. The order of the Telecom Regulatory Authority clearly said that entrants cannot be guilty of predatory pricing. This was in a case where incumbents were complaining about nearly zero pricing offered by the new entrant. Never mind that the incumbents were struggling with their balance sheets, while the entrant seemed to have deep pockets to offer endless deep discounting. Consumers of course were happy to be wooed by free service (as economists would have told you so). The concept of predatory pricing is very difficult to define and operationalize. It may not really be below variable cost (which is difficult to measure anyway), it may be temporary and it may be simply an entry strategy and not an abuse of dominance. This was discovered to its dismay by cab operator Meru, when it filed a case of predatory pricing against Ola and Uber. The Competition Commission of India ruled that such pricing constitutes disruption and hence innovation and not abuse or anti-competitive practice. Indeed it may be very competitive.

However, what we believe in the context of a dispute between app-based taxis, we don't extend to imports from China. India has successfully initiated several cases of anti-dumping against import from China. There, the onus is on the litigant to prove that the producer is selling goods below the cost of production. Never mind if the consumer in India could be happy, enjoying cheap and high quality goods. Anti-dumping duty is a punishment for a crime and not merely a protectionist tool. Its application follows World Trade Organization rules, even if some diehard economists don't understand how cheap goods can hurt the consumer. Deep discounting is allowed in some sectors while price-raising duties applies in others. Is this inconsistency and muddled thinking, or just political economy?

Price controls have an irresistible charm for policymakers. Even after learning the hard way that they don't work (ask Richard Nixon about his wage and price controls), they are always in fashion.

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Comments are welcome at views@livemint.com

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