

## **MINIMUM SUPPORT PRICES FOR FOODGRAINS: GUIDELINES FOR A POLICY AND A PROGRAMME\***

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1. The demand for a minimum support price for foodgrains comes from the producers of foodgrains. Naturally, in the minds of many, the demand for and the concept of minimum support price are closely associated with the notion of 'cost of production' of foodgrains. One of the reasons, possibly a minor one, for the failure to evolve a public policy and a programme in this field in the past has been the difficulty of knowing what the 'cost of production' meant in this context and an imperfect understanding of how it might be related, in concept and in operation, to a minimum support price. In this paper, we shall argue that 'cost of production' is only remotely connected to the notion of a minimum support price and that therefore an operationally meaningful policy and programme in this field can be evolved without an active reference to the notion of 'cost of production'.

2. We shall begin by distinguishing two rather different sets of circumstances under which the demand for a minimum support price is made. For convenience we shall refer to them as the short-term and the long-term considerations respectively. In the short-term considerations, the inputs or costs incurred by a producer in the process of production are supposed to be given. Nevertheless, the output is variable due to fortuitous circumstances such as weather. The price which the produce fetches in the market affects immediately the well-being of the producer. In the long-term considerations, the inputs or costs that a producer incurs in the process of production are variable and are determined by conscious production decisions by the producer in which his price expectations play an important part. The output is significantly related to the inputs. Therefore, the price that the output fetches in any year influences the future production decisions of the producer and hence also the production. Both sets of circumstances lead to a demand for a minimum support price. However, the two are different and need to be kept distinct. We shall first examine the demand for a minimum support price under the short-term considerations.

3. In a free market economy, the prices are determined by the conditions of supply and demand and the function of the market price

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