

3. Essential Commodities Act is Outdated, Must Go, says Economic

Survey

Prelims Level: Governance - Policies

Mains Level: GS-II Government Policies and Interventions for Development in various sectors and Issues Arising out of their Design and Implementation.

Why in News?

- The recent Economic Survey 2019-20 has found that the Centre's imposition of stock limits in a bid to control the soaring prices of onions over the last few months has actually resulted in increased price volatility.

About Essential Commodities Act, 1955:

- ✓ India is a market economy where prices are ostensibly decided by demand and supply, certain laws empower the Centre to intervene in the market to protect consumer interests. The Essential Commodities Act (ECA) is one such key law.
- ✓ The **Essential Commodities Act, 1955** is used by the Government to regulate the production, supply and distribution of a whole host of commodities, which it declares as 'essential' in order to make them available to consumers at fair prices.
- ✓ The list of items under the Act includes drugs, fertilisers, pulses and edible oils, and petroleum and petroleum products. The Centre can include new commodities as and when the need arises, and takes them off the list once the situation improves.

How does the law works?

- If the Centre finds that a certain commodity is in short supply and its price is spiking, it can notify stock-holding limits on it for a specified period.
- The States act on this notification to specify limits and take steps to ensure that these are adhered to.
- Anybody trading or dealing in a commodity, be it wholesalers, retailers or even importers are prevented from stockpiling it beyond a certain quantity.
- A State can, however, choose not to impose any restrictions. But once it does, traders have to immediately sell into the market any stocks held beyond the mandated quantity. This improves supplies and Brings Down Prices.
- State agencies can conduct raids to get everyone to toe the line and the errant are punished. The excess stocks are auctioned or sold through fair price shops.

The Recent Findings:

- The recent findings of the Economic Survey 2019-2020 is a part of report against anachronistic legislations and interventionist government policies such as Essential Commodities Act (ECA) and others including drug price control, grain procurement and farm loan waivers.
- In September 2019, the Centre invoked the ECA 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.
- 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.
- This is due to the fact that ECA act fails to differentiate between hoarding and Storage.
- The report found that lower stock limits must have led the traders and wholesalers to offload most of the kharif crop in October itself which led to a sharp increase in the volatility from November, 2019, onwards.
- 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.
- Thus 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.
- The report finds that the ECA has been enacted in the year 1955, when the economy was ravaged by famine and food shortages. The government should note that today's scenario is much more different.

Similar Examples:

- ✓ 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 ₹71 per mg of the active ingredient, in comparison to just ₹13 per mg for drugs unaffected by the order.

Way Forward:

- Farmers should be given ample rights to sell any quantity of their produce to anybody, both domestic and international and at any time.

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- The Essential Commodities Act, which has proven a disincentive to large investment in agricultural technology and infrastructure, should be replaced with a modern statute that balances the interests of farmers and consumers.
 - A law should be formulated that restricts the powers of the Department of Consumer Affairs or Director-General of Foreign Trade to impose curbs on any agricultural commodity at the slightest instance of price rise.
 - Only the Parliament should have the right to impose curbs on agricultural commodities that too under exceptional circumstances of war or nationwide calamity as opposed to executive orders issued in "Public Interest".

