Prices are often seen as information messengers on the functioning of a market economy. Just like prices, policies are viewed as performance messengers on the state of governance within that economy. Volatile price behaviour signals an ineffectively functioning market (sometimes resulting in a state of market failure), one, that is highly distorted either by excessive regulation through policy intervention or a lack of thereof.

**Augury of onions**

India is currently facing a scenario where excessive interference by the government has not only disrupted the functioning of markets across sectors, but this can also be observed in the context of areas like food consumption which are part of people's day-to-day existence. What's happening to the onion prices in recent months is a testament to this.

Over the last quarter, onion prices soured from around Rs 25-30 per kg to around Rs 120 per kg across major cities and semi-urban parts.
A subsequent rise in food inflation made the Reserve Bank of India cautionary in its Monetary Policy Committee meet as it decided not to cut interest rates any further and guard itself against a possible inflationary spike. This, especially at a time when growth is stumbling, wages are low and unemployment is at an all-time high. We must acknowledge how volatility of the onion market remains a function of a long history of government interference, starting from the Essential Commodities Act, 1955, that made procurement and distribution of 'essential commodities' like onion, food grains, etc, essentially a public function. The combined regulatory formula of the state-bureaucracy system distorted farm-based incentives and choked the agricultural market over time. Some of the states contributed to this by doing very little to improve local sourcing, warehousing and other infrastructure-based connectivity of markets for farmers. This forced people to either switch to other vocations or migrate. However, in the current scenario, it is more troubling to see the distributive impact of an already volatile market condition which makes the current spike in onion prices distressing for both, urban and rural households. We can break these down to three core issues.

Broadly, wages are continually falling in both urban and rural segments. And with declining (or stagnating) wage growth, consumption demand has already (and is likely to further) weakened as prices for goods under the necessary consumption basket are rising.

**Falling consumption**

Moreover, agriculture, is seeing one of its worst crises as farm incomes are contracting and price-based incentives remain mostly skewed to benefit intermediaries and retailers in the agriculture market. As prices rise and the government attacks cash-based economy, this has cut deep into the development of farm-based rural communities which were traditionally seen as part of the unorganised economy.

Three, the weakening of consumption demand, choking of credit supply from public sector banks (especially NBFCs), the aggregate production volume is slowing down further, which has been validated by recent growth numbers. Growth remains a function of a number of components. Since each of these segments has witnessed a slowdown, had it not been for government-based expenditure, the growth numbers could have reflected a real growth rate of well below 2-2.5 per cent. However, can the present government be blamed entirely for this scenario?

I have previously argued how the extent to which India's current growth situation, evolving over the last four years, has a direct causal link with the changing politico-
economic landscape, as the Modi government continues to take centralised, unilateral actions that are largely based on short-term political principles against longer-term market principles. Still, it would be unfair to put the entire blame on this government.

**Government holds the key**

There are structural concerns where investment and production patterns need to be altered. All economic agents (households, producers, financial institutions, external sector) must change their future course and plan of action. It needs to be envisioned from a broader canvas through a cohesive policy framework and legal interventions. Meanwhile, the latter would require a deliberative, decentralised approach from the government. More importantly, let some of the states take a more cautious (yet proactive) approach to revive their Gross State Domestic Product (GSDP) numbers.

With weak state fiscal capacity and a centralising government, this seems difficult. So, somewhere, both the source of the problem and its solution feature the Indian government as the anchor agent. It must be the cause of change it wants to see (especially with respect to its vision for the economy), and any action it takes (or doesn't take) must encourage other agents to gravitate towards this common desirable vision.

What many would like to know is what is the 'economic vision' that the government wants to embark on. As for now, the 'political vision' is taking precedence and crowding out any possibilities for the economy to see the light of dawn it so desperately needs to see.

(Courtesy of *Mail Today*)

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