Alternate to MSP – Telangana Model

What is the issue?

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The central government could adopt Telangana’s per-acre cash payments for farmers instead of a higher MSP plans.

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What are the existing problems with MSP?

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- The government recently made an announcement of increasing the minimum support price (MSP) of 14 kharif crops.
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- But the prices have not been fixed according to the formula recommended by **Swaminathan Commission**.
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- There are two formulae to calculate cost of production.
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- One is to include cost of seed, labour (human, animal and machine), fertiliser, manure, insecticides and other miscellaneous costs which is denoted as A2 and add to it the family labour (FL).
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- The other formula addition is the cost on imputed rent and interest on owned land to A2+FL.
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- So the final cost of production in the case of C2 would be equal to (=) A2+FL+cost imputed on rent and interest on owned land.
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- The farmers have been demanding that MSP should be **1.5 times of C2**, which was what the Swaminathan Commission had also suggested, and not 1.5 times of A2+FL.
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- Though the government claimed that the recent MSP announcement was based on C2, the calculation shows otherwise.
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- Not a single crop’s MSP turns out to be 1.5 times of the cost of production

using the C2 formula.
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- The difference between the MSP declared and the one calculated according to Swaminathan formula ranges between Rs 36 per quintal and Rs 2830.5 per quintal depending upon the crop.
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- Also, MSP system is increasingly crop-specific, primarily for wheat and rice, and state-specific, where it works in states that have already a robust procurement system in place.
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What is the problem with price deficiency scheme?

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- Under it, farmers are proposed to be compensated for the difference between the government-announced MSPs for select crops and their actual market prices.
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- Madhya Pradesh implemented it in the form of Bhavantar Bhugtan Yojana.
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- The traders in the state ensure that the price is lowered because they can receive higher government compensation if there is a high difference between mandi price and the MSP.
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- They forced farmers to sell at lower prices and pocketed the compensation from the government.
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- There is also a presence of **modal rate** which is lesser than the MSP.
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- If a farmer sells his produce to the trader in mandi at a price lesser than modal rate, then he would get the difference of his trading rate and modal rate and not trading rate and the MSP.
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- Most of the Kharif crops were sold at prices below modal rate, and therefore, the majority of farmers could never get the difference of trading prices and the MSP.
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- Besides, due to the restricted window periods of selling under the scheme, it had also led to extreme demand-supply mismatch leading to distress selling.
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- Finally, the scheme had to be rolled back as the state could not afford it.
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How could the Telangana model be a game-changer?

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- The state framed a 'farmer investment support scheme', under which every Telangana farmer would receive a total subsidy sum of Rs 4,000 per acre separately for kharif and rabi seasons.
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- It is targeted to cover about 72 lakh farmers to meet a major part of their seed, fertiliser, pesticide and field preparation expenses.
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- The subsidy will be applicable on the entire 1.62 crore acres' cultivable land of the state.
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- There would be an agricultural extension officer deputed for every 5,000 acres, who will report whether or not a farmer availing the benefit is growing a crop.
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- The flat per-acre subsidy will be extended to all farmers without any cap on holding size.
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- There will be distribution of land ownership passbooks which would serve as proof of land ownership, making the farmer eligible for any such subsidy/transfer scheme.
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- Also, if a well-to-do farmer is free to give up the subsidy entitlement,
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if he/she wishes to do so.

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- The subsidy will be in the form of cheques and not as direct benefit transfers to the bank accounts of farmers.
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- The decision to make payments in cheques would allow farmers to deposit these in the banks of their choice.
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- This will avoid a situation where the subsidy transferred into accounts is used by banks to recover outstanding loans owed by farmers.
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What are the advantages?

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- The scheme is unique, as they do not involve any physical procurement and stocking of grains from farmers.
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- Instead, farmers are being given income support through direct government payments, irrespective of which crop they grow and how much quantity gets sold and at whatever the price.
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- The scheme would benefit farmers without distorting farm practices and it can’t be manipulated by traders either, since per-acre cash does not affect the market price.
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- The incentives are also not crop-specific, hence making it WTO-compatible.
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What are the concerns?

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- The scheme leaves out tenant cultivators, who grow crops on land they don’t own and is taken on lease.
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- In most states, the land, agricultural pump-sets and electricity connections are often not in the tenant’s name.
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- This makes it further difficult for the tenant to show proof of cultivating a particular piece of land.
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- Also, the tenants keep moving and cultivate different plots from season to season.
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- The only hope is that the actual land owners would provide the rents on their lands against the per-acre subsidy drawn by them under the scheme to the farming tenants.
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- If that is done, it would solve all the existing issues of over piling of procured stock grains in the mandis, cartelisation of traders as in PDP scheme and the demand for higher MSP.

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Source: Financial Express, The Indian Express

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