

## Assessing Agri-Pricing Policies

### What is the issue?

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- Excess supply, depressed market prices and mounting farmer losses are more a consequence of shortfalls in agri-pricing policies.

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- It calls for providing income support to at least the most vulnerable farmers.

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### What is the existing scenario?

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- Good rains, excessive sowing and bumper harvest last year produced excess supply in the market.

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- It resulted in a decrease in the prices of many crops and thus in farm incomes too.

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- Market prices for major kharif crops fell below the Minimum Support Prices (MSP).

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- The current farm crisis is largely due to the shortcomings in the pricing policies.

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### What is the policy shortfall?

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- Agri-prices, and therefore farm incomes, are not free-market driven.

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- They are kept artificially low, through use of pricing policy instruments.

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- This is done so that inflation does not erode the rest of the population's purchasing power.  
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- The economic tools for protecting farm incomes were not employed to the best advantage.  
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- These include -\n
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  - i. the price support scheme  
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  - ii. price stabilisation fund  
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  - iii. market intervention scheme  
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- Appropriate adjustments to the export and import rules could have arrested the price fall.  
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- It would have diverted the excess supplies to overseas markets.  
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- But imports were allowed as usual, which worsened the price situation.  
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## **What is the policy on MSP?**

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- The Budget promised that Minimum Support Prices (MSPs) would be at least 150% of production costs.  
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- Even if market prices fall below MSP, government will procure the produce on MSP.  
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- If it does not procure, it will provide a mechanism to ensure payments reach farmers.  
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- That would be equal to the gap between the MSP and the market price.  
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- Assuring 50% profit margin over the cost of production is to make farming

remunerative.

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## What are the concerns with MSP?

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- Farmer groups and government differ on the **formula** for calculating production costs for plugging into the MSP formula.
- But besides this, simply announcing higher MSPs will not raise farmer incomes.
- As, the **system** is not geared for scaling up **procurement** in the first place.
- MSPs are announced for more than 20 crops.
- But, noteworthy procurement is conducted just for three - paddy, wheat and sugarcane.
- For several crops, last year, the **quantities procured** were small portions of the total produce.
- Further, procurement frequently takes places at **prices** below the MSP, according to reports.
- Also, **small and vulnerable farmers** usually do not get paid MSPs at all.
- This is because they sell their produce to aggregators, not directly in mandis.

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## What is the demand-supply mismatch?

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- MSP of Paddy for the 2018-19 kharif season will have to be raised 11-14%, cotton 19-28%, and jowar 42-44%.
- These are the projections if the MSP pricing formula of 1.5 times the cost is employed.
- A rational response of farmers would be to sow more jowar in the next

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season.

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- But there is no reason that the demand for jowar would also rise.
- A demand-supply mismatch would be inevitable in this case.
- It would send the market prices for jowar way below the announced MSP.
- It would in turn call for significantly expanded jowar procurement at MSP.
- Thus, clearly, pricing policies distort market prices of crops.
- It sends the wrong signal to farmers on what to produce and how much.
- The policy system fails to correct such situations, which then goes out of control.

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## **What should be done?**

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- If the problem is volatile incomes, the solution must target incomes, and not prices.
- Income support payments, paid on a per hectare basis through direct transfers should be considered.
- It would offer an administratively neater, economically far less distortionary and politically more attractive solution.
- E.g. Telangana has announced such payments for farmers at the rate of Rs. 10,000/ha (Rs. 4,000/acre) per season.
- The cost projections for scaling up this model at national level are roughly same as the estimated bill for price differential payments.
- This is excluding the procurement of sugarcane, wheat and paddy, and non-MSP crops.
- Fiscal space must be found for providing income support this year to the most vulnerable farmers at least.

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- Over the longer term, deep reforms in pricing policy would be the alternative.

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**Source: The Hindu**

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