Decoding the MSP Formula

What is the issue?

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- Finance ministry has announced a hike in MSP for Kharif crops in budget 2018-2019.
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- Farmers are not satisfied with the announcement as the MSP formula used by the government is blurred.
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What are the cost concepts used for calculating MSP?

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- There are several cost concepts that the Commission for Agricultural Costs and Prices (CACP) considers while recommending MSPs of 23 crops.
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- Cost A2 - These are the costs the farmer actually pays out of his/her pocket for buying various inputs ranging from seeds to fertilisers to pesticides to hired labour to hired machinery or even leased-in land.
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- Cost A2 +FL - In agriculture, farmers also use a lot of family labour and if their cost is imputed and added to cost A2, that concept is called cost A2+FL.
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- Cost C2 - the Comprehensive cost (cost C2), it includes imputed costs of family labour, imputed rent of owned land and imputed interest on owned capital.
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- National commission on farmers head by M.S Swaminathan recommended a 50 per cent margin over C2, which is also being the demand of the farmers.
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What is the stand of the government in this regard?

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- In 2014 the union government has promised to offer 50 per cent margin over cost C2 but this was never spelt out in detail.
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- Recently Finance ministry has announced that the MSP will be in lines with its earlier announcement on Rabi crops.
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- For rabi crop the government is using 50 per cent margin of Cost A2 or maybe cost A2+FL, by this the MSPs given by the government is still lower than cost C2.
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- The ministry also claims that only the present administration offers 50% margin in cost A2+FL, but the fact is even in FY 2013-14, the MSPs for all rabi crops were way above 50 per cent over cost A2+FL.
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What are the challenges in hiking MSP?

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- The government senses it is impractical to give 50 per cent margin over cost C2 in all crops.
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- The C2 is normally 35-40 per cent higher than cost A2+FL, this would have required massive increases in MSPs.
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- For example, paddy MSP would have to go up by 46 per cent, cotton by 52 per cent and so on).
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- It may also be mentioned that cost plus pricing of MSPs, be it cost A2+FL or C2, is fraught with dangers as it totally ignores the demand side.
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- The terms of reference of CACP fails to consider demand-supply, cost of production, price trends in domestic and international markets, terms of trade, inter-crop price parity, etc before recommending the MSP.
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Source: Indian Express

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