Implications of Enhancing Crop MSPs

What is the issue?

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- The hike in MSPs is a big step, but it will not benefit all farmers.
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- Comprehensive reforms are essential to address prevalent agrarian distress.
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What is the extent of change in the MSP rates?

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- The Centre has recently cleared a hike in the Minimum Support Prices (MSPs) for the “kharif summer crop”.
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- The rise ranges from a modest 3.7% increase for urad to as much as a 52.5% for the cereal ragi over the previous season.
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- ‘Commission for Agricultural Costs and Prices’ (CACP) is said to have gone by this cost-plus-50% principle - in accordance with government’s promise.
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- Significantly, for some crops the prices were considerably higher than the 50% mark - for Bajra, it was 97% above production cost.
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- On an average, the MSP hike notified for 17 kharif crops is about 25% higher and constitutes the biggest hike since 2013-14.
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- For MSP calculations, production costs were estimated by calculating the cost of farm inputs, and adding it to the value of unpaid family labour involved.
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What are the implications?

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- **Political -** The announcement was clearly to appease farmers, who over the past year spearheaded widespread protests over the rural distress.
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- NDA government was hawkish towards MSPs in its initial years, and also cautioned state governments against doling out populist farmer schemes.
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- But with elections approaching, the current announcement is a clear indication that it has loosened its string and has subdued its concerns regarding inflation.
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- **Economic -** The impact of these hikes on 'Consumer Price Inflation' (CPI) is expected to vary between 0.5% and 1% by the end of 2018-19.
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- The Centre's fiscal arithmetic may not be affected much if the outlay on procurement is around Rs. 15,000 crores (0.1% of GDP).
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- But these costs could mount based on the procurement strategy and the new mechanism for MSP enforcement.
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What needs to be done further?

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- **Structural -** MSP mechanism is primarily enforced through official procurement only for wheat and paddy, and not other crops.
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- Hence, mere announcement of prices for other crops is unlikely to suffice in ensuring farmers get those returns.
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- The Budget speech had promised that Niti Aayog would work with centre and state governments to work out a mechanism to cover all crops.
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- While the status of this is not clear, it is speculated that it may include some sort of a 'gap-funding mechanism' to farmers if market rate falls below MSP.
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- **Markets -** Rural incomes may rise because of enhanced MSPs, but

reforms to free agricultural markets are vital to prevent a distortion due to MSPs.
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- Easing onerous stockholding limits under the “Essential Commodities Act” and avoiding frequent curbs on farm exports are other things to be done.
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Quick Facts:

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Commission for Agricultural Costs and Prices (CACP):

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- It is an attached office of the “Ministry of Agriculture and Farmers Welfare”.
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- It is mandated to recommend “Minimum Support Prices” (MSPs) and incentivize cultivators to adopt modern technology, and raise productivity.]
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- CACP submits its recommendations to the government in the form of ‘Price Policy Reports’ for 5 categories of crops every year.
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- The categories are - Kharif crops, Rabi crops, Sugarcane, Jute and Coconut.
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- Importantly, while CACP recommends MSPs, it is the “Cabinet Committee on Economic Affairs” (CCEA) of the Union government takes a final decision.
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Source: The Hindu

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