MSP for all crops is fiscally unfeasible

What is the issue?

Providing legal guarantee for MSP will not only mess up the economy but will ultimately turn out to be anti-farmer. It may be better to use an income policy to directly transfer money into farmers' accounts.

Is legality of MSP a good option?

- **History -** The MSP regime had its genesis in 1965 when India was hugely short of basic staples and living in a "ship-to-mouth" situation.
- It was an indicative price (not a legal price).
- Procurement of rice and wheat was done to support farmers when they were adopting new seeds (HYV technology) and domestic procurement was to feed the PDS.
- **Not good for farmers -** The legality of MSP means that no one is allowed to buy a crop below its MSP.
- It ignores the basic logic that prices are decided by the overall demand and supply.
- In the case of surplus production during harvest time, prices fall to clear the market.
- If MSP is above that market clearing price, no one from the private sector will be willing to buy.
- This will not only mess up the economy but will ultimately turn out to be anti-farmer.
- In that case, the government will have to become the buyer of last resort, or else farmers will be left with no buyers for their produce, making farmers worse-off.

Why government cannot provide MSP for all crops?

- The issue is how much the government can buy, of how many commodities, and what will be its cost.
- As of today, the government declares MSP for 23 crops
    - 7 cereals (paddy, wheat, maize, bajra, sorghum, ragi and barley)
    - 5 pulses (tur, moong, chana, urad and masur)
    - 7 oilseeds (soybean, groundnut, rapeseed-mustard, sesamum, safflower, sunflower and nigerseed)
    - 4 commercial crops (sugarcane, cotton, jute and copra).
- **Fiscally not feasible -** The main procurement, however, happens largely for rice and wheat to feed the Public Distribution System (PDS).
- The PDS issue prices of rice and wheat are subsidised by more than 90% of their economic cost to the government.
- In 2020-21, the food subsidy bill was 30% of the net tax revenue of the central government, reflecting clearly a huge consumer-bias in the system.
- Giving a better deal to farmers is likely to blow up the fiscal position of the central government.
- **Market prices will stay below MSP –** Now, as granaries are overflowing with rice and wheat, there is a need to rethink and redesign the procurement policy.

- For the crop year 2020-21
    - Food Corporation of India (FCI) procured about 60 million metric tonnes (MMTs) of rice and 43 MMTs of wheat.
    - NAFED procured about 0.66 MMTs of pulses.
- Even after procuring more than 50% of the marketed surplus of rice and wheat, the market prices of rice and wheat remained below MSP in several states.
- For example - prices of paddy in Chhattisgarh were below the MSP by Rs 300/quintal.
- This situation prevailed widely in Bihar, Jharkhand, Assam and many eastern states also.
- Similarly wheat sold below the MSP in UP and MP, the largest wheat producing states.
- In this case extending the system to cover 23 crops under MSP will need much deeper thought.
- Assuming that only 10% of the production of remaining crops (excluding sugarcane) is procured, it will cost the government about Rs 5.4 lakh crore annually to procure the remaining MSP crops.
- But it appears that despite this, market prices may stay below MSP, especially during the harvest time.
- This cost is estimated on the basis of economic costs of operation that are usually about 30 per cent higher than the MSP (in case of rice and wheat it is 40 per cent).
- It also raises the question why only these MSP crops, why not other agri-produce, say milk, the value of which is more than the value of rice, wheat and sugarcane combined.

Can price deficiency payments (PDP) solve the issue?

- Instead of physical procurement, one may use price deficiency payments (PDP)
- Here the government pays to farmers the gap between the market price and MSP, whenever market prices are below MSP.
- Madhya Pradesh adopted this scheme (Bhavantar Bhugtan Yojana) in kharif 2017 for eight crops (maize, tur, urad, moong, soybean, groundnut, sesamum, and nigerseed)
- They had to give up the very next season as traders gamed it, widening the gap between market prices and MSP
- It was traders who benefited massively from this scheme, while the government incurred heavy expenditure.

What needs to be done?

- PDS should be reformed by restricting the subsidies to the bottom 30% of the population, or raising the issue prices to say half the economic cost of rice and wheat,
- It may be better to use an income policy on a per hectare basis.
- Directly transfer money into farmers' accounts without distorting markets through higher MSPs or PDPs.
- This can be improvised by better identification of tenants and owners through transparency in land records. There is no easy substitute to "getting the markets right"
- Research tells us that the best way to support agriculture in a sustainable and competitive manner is to invest in agri-R&D, agricultural-extension systems, and connect farmers to lucrative markets, domestic and external, by building efficient value chains.
- Giving farmers their right to choose the best technologies and the best markets is fundamental to the robust functioning of agri-systems and augmenting farmers' incomes.

Reference

1. https://indianexpress.com/article/opinion/columns/crops-msp-farmers-income-support-money-transfer-7680783/

