Price Deficiency Payment

Why in news?

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The Niti Aayog, has recently released a three-year action agenda for the Centre suggesting the 'Price Deficiency Payment' (PDP) system among other reforms.

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What is Price Deficiency Payment system?

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- Under this, farmers will be compensated for the difference between the MSPs for select crops and their actual market prices.
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- For crops such as rice and wheat where MSP is effective now, the same will continue.
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- For other targeted crops, price deficiency payments system will be introduced.
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- However, notably there may be a cap on the extent to which the Centre will bridge the gap between MSP and market price.
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- A farmer would have to register with the nearest APMC mandi and report the total area sown, to avail this benefit.
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- The subsidy would be paid via Direct Benefit Transfer (DBT) into the farmer’s Aadhaar-linked bank account.
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What are the benefits?

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- **Subsidy Bill** - The government has been accumulating large food grain stocks in its godowns over and above the buffer requirement, leading to

storage and wastage costs.
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- Under the new system, the government can pay in cash to farmers, the difference between the support and market prices.
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- This will actually reduce the need for the government to procure food crops, transport and store them, and then dispose of them under PDS.
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- Resultantly, as Niti Aayog proposes, this system can keep India’s bill on food subsidies, and storage and wastage costs under check.
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- It can also address to an extent the world nations' concern on India’s procurement subsidies being trade-distorting.
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- **MSP** - The MSP system has many flaws in execution which include:
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i. limited geographical coverage.
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ii. actual procurement being restricted to a few crops such as paddy and wheat despite announcements for 20-plus crops.
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iii. skewed cropping pattern in favour of rice and wheat as a result of this.
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iv. soil degradation and susceptibility of crops to pest as a result of this monoculture, leading to higher usage of chemical fertilisers and pesticides.
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- The PDP system is expected to address these shortfalls and negative results of MSP scheme.
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- As, it could be more effective than MSPs in ensuring that cropping patterns in India respond to consumer needs and that farmers actually benefit from price support.
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Source: BusinessLine

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