MSP, Agrarian Crisis and Reform

Despite agriculture occupying a major portion of Indian economy and the election manifestos of political parties, it is disheartening to see the rising incidences of farmers' suicides and agitations in various parts of the country. While we have managed to excel in almost all the sectors of the economy and are matching pace with technological advancements around the world, our expertise and innovation seem to have failed the small and marginal farmers.

With the announcement of 50% increase in Minimum Support Price (MSP) by the government, the topic of what has been done and what needs to be done for curing the agrarian crisis in India has picked up the debates once again.

History of India's Food Policy

India's food policy evolved out of the Bengal famine of 1943 which killed more than a million people, with starvation caused mainly by lack of adequate supplies of foodgrains than the lack of production. Foodgrains Policy Committee 1943 was appointed under the chairmanship of Sir George Theodore which emphasized on rationing to overcome such situation in the future.

L. K Jha Committee 1964 prescribed the first price policy in the matter of foodgrains and recommended the establishment of Agricultural Prices Commission (APC) which announced Minimum Support Prices and Procurement Prices. Later, Procurement Prices were abolished and only MSPs are announced by the government, presently.

After the economic liberalisation in 1991, under tremendous pressure by the World Bank, the PDS was restructured into Revamped PDS (RPDS) and later Targeted PDS (TPDS). TPDS divided the population into "Below Poverty Line" (BPL) and "Above Poverty Line" (APL). Over the years, the amount of foodgrains distributed through the PDS has increased enormously.

Institutions controlling Agricultural price:

- **The Commission for Agricultural Cost and Prices (CACP):** This is a renewed version of the erstwhile Agricultural Price Commission (APC). It is the chief advisory body on agriculture price policy.
- **Food Corporation of India (FCI):** The FCI was set up in 1964 through an act of parliament. Its primary responsibility is to undertake purchase, storage, transportation, distribution and sale of foodgrains. It also aims to ensure that the primary producer gets the minimum price set by the government and that the consumer is protected from the vagaries of speculative trades.

MSP, Rationale, Determination and Present Scenario

- The **rationale** for 'minimum' support price lies in two factors:
  Protection of farm income in years of abundance through purchases by the government at minimum prices and building up of stocks; and
- Maximum price would imply protection of consumer interests in years when there is crop failure. This is because the food price acts as a base in the determination of both agricultural and industrial costs.

The following **factors** are taken into account while determining MSP for foodgrains:

- Cost of production
- Changes in input prices
- Input-output price parity
- Trends in market prices
- Demand and supply
- Inter-crop price parity
- Effect on industrial cost structure
- Effect on cost of living
- Effect on general price level
- International price situation
- Parity between prices paid and prices received by the farmers.
- Effect on issue prices and implications for subsidy

Types of Production Costs

According to The Commission for Agricultural Cost and Prices (CACP), there are three types of production costs:

- A2=A2 costs basically cover all paid-out expenses, both in cash and in-kind, incurred by farmers on seeds, fertilisers, chemicals, hired labour, fuel, irrigation, etc.
- A2+FL= It covers actual paid-out costs plus an imputed value of unpaid family labour.

- C2=C2 costs are more comprehensive, accounting for the rentals and interest forgone on owned land and fixed capital assets respectively, on top of A2+FL

Present Scenario

- The Abhijit Sen Committee on Long-term Grain Policy recommended that the MSPs that CACP recommends must be based on its projection of the full C2 cost.
- The National Commission on Farmers (NCF) constituted in November 2004 and chaired by Professor M.S. Swaminathan also recommended the use of C2 to determine MSP.
- However, the government has announced to keep MSP at 50% more than A2+FL, which is lower than C2. Many farmers organizations and experts have expressed their dissatisfaction over this.

Issues related to MSP Hike

- C2 includes income rather than cost: As C2 includes imputed rent for own land, this shouldn't be counted as a cost rather as an income for the farmer which he earns by not having to pay rent on land.
- Net income to farmers is justified: The new announcement will give 50 per cent net return to farmers over cost C2 when rent on own land and wages for family labour are treated as a return to the farmer.
- Fiscal deficit: As the global demand for cereals and other crops under the ambit of MSP is low, keeping prices at a very high level will cause fiscal deficit.
- Inflation: Giving unrealistically high prices to farmers will also push inflation. This will make domestic prices much higher than global prices, which will strongly hit exports and make way for cheaper imports.
- Decline in market competitiveness: If the MSP crops are procured at prices far higher than other crops, there will be little incentive for efficiency and diversification in the crop sector. This will also impact the competitiveness of the market negatively.
- Other areas of agricultural reforms need to be focussed upon: Instead of focussing on price interventions only, there is a need for regulatory reforms, institutional changes, and the development of appropriate infrastructure to promote the evolution of the agricultural market system.

The crisis in agriculture

- **Demographic pressure on land:** With the increasing population, the size of landholdings has been declining due to land fragmentation. The landless and marginal farmers account for more than 80% of rural households. Agriculture is unable to sustain these households.

- **Shortage of money:** The small and marginal farmers face an acute shortage of money to buy more land or invest in infrastructure viz. irrigation, farm machinery, storage equipment etc. This leads to lesser output which again makes farming a non-viable option.
- **Risks:** One-third of India's agriculture is dependent on rain-fed farming. The unpredictability of monsoon combined with lack of preparedness on the part of farmers and government make farming more of a gamble than occupation. Moreover, the farmers who produce perishables are prone to rotting and wastage due to lack of storage facilities.
- **Dominance of large traders in APMC:** Most of the small and marginal farmers have to sell their produce in the local market at prices much lower than the MSP. Farmers have to sell their produce through auctions in regulated markets controlled by cartels of licensed traders, whose licences give them oligopolistic market power. These cartels fix low purchase prices, extract large commissions, delay payments, etc. Thus, the real benefit of MSP is skimmed off by the large traders. Farmers typically get as little as 25% of the price that consumers finally pay.
- **Rise in input costs:** Despite various subsidies, the rise in the prices of inputs like fertilizers, machinery etc. pushes the farmers into the vicious cycle of debt and distress.
  Migration of rural youth: As agriculture is increasingly not being seen as a viable means of livelihood and year-round sustenance, the tendency to migrate to urban areas is escalating the rural youth, where they work majorly as informal labourers.
  Price hikes for minor foodgrains: The largest price increases have been announced in the case of coarse cereals like jowar, bajra and ragi, which account for less than 5% of the Kharif foodgrain output.

What needs to be done?

Looking at the state of affairs, it is clear that agriculture in India needs an overhaul right from the policy aspect to reforms in agri-market.

- **Cooperative agriculture** is one of the key areas which can help small and marginal farmers to pool their resources and empower themselves. For example, Amul Dairy Cooperative is an outstanding example of the success of cooperative agriculture. Recent success stories in the Kudumbashree programme in Kerala, the Society for Elimination of Rural Poverty in Andhra are some other such examples.

- A series of essential steps are required to **raise agricultural productivity.** To increase productivity, progress is required along four dimensions:
  (i) Quality and **judicious use of inputs** such as water, seeds, fertilizer and pesticides;
  (ii) Judicious and safe exploitation of **modern technology i**ncluding genetically modified (GM) seeds; and
  (iii) Shift into **high-value commodities** such as fruits, vegetables, flowers, fisheries, animal husbandry and poultry.
  (iv) In the longer run, productivity enhancement requires **research** toward the discovery of robust seed varieties and other inputs, appropriate crops and input usage for a given soil type and effective extension practices.
- To **free agricultural markets** from the clutches of large traders and oligopoly of large traders, it is important that
  (i) **APMC Act of 2003,** which introduced all-around marketing reform, is implemented genuinely.
  (ii) **National Agriculture Market or eNAM,** an online trading platform for agricultural commodities in India is an important step in this direction. The need of the hour is to make it reach every corner of the country.
- **Farmers** are frequently affected by natural disasters such as droughts, floods, cyclones, storms, landslides, hails and earthquakes. Though crop insurance schemes like **Pradhan Mantri Fasal Bima Yojana** covers crop failures, still there is a need for more broad coverage of natural calamities affecting crop produce.
- We need to pay special attention to the **problems of farmers in eastern states.** Given fertile land and abundant water resources, these states have a high potential in agriculture. Yet, their productivity in various crops lags behind the national average. Therefore, a concerted effort is required to bring the Green Revolution to these states.

Apart from it, the government should shift its focus from providing only price support to farmers and focus on **building better infrastructure, minimizing the gap between farmers and the market, land reforms, policy reforms to increase flow of credit to farmers, establishing food-processing industries for perishable goods, providing better irrigation facilities** etc so, that agriculture emerges as a viable means of sustenance.