The Real Confusion over MSP*

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Speaking at the Krishi Unnati Mela 2018, Prime Minister Modi reportedly complained that confusion is being spread about the announcement on minimum support prices (MSPs) made in the Finance Minister's 2018 budget speech. The speech had assured farmers that they would in future be able to sell the output of notified crops to the official procurement agencies at prices to be set at a minimum of 1.5 times the cost of production. The confusion being created according to the Prime Minister relates to how costs of production would be calculated. In an attempt to clarify, he stated that beside costs paid out by farmers (for seeds, water, fertilizer, pesticides, equipment, etc.), the computed cost of production would include the imputed cost of family labour and of the capital assets owned by them deployed in cultivation. This type of cost computation is not new but corresponds to what the Commission for Agricultural Costs and Prices identifies as cost of cultivation C2, as opposed to A2 which covers only actual paid-out expenses (and in an alternative version—A2+FL—ALSO the imputed cost of family labour).

Given these definitions of alternative costs, there need be no confusion if the government had specified in its budgetary announcement, which of the definitions it plans to adopt. It did not. There are, also, other sources of confusion. These relate to why, despite the existence of a system in which "cost plus" minimum support prices are routinely computed and declared, the viability of crop production in the country is in question resulting in an inability to service debt, in farmer suicides, and the in the farmers' agitations that erupt with increasing frequency. Reports have not only made clear that hitherto MSPs have been way short of the 1.5 times C2 cost that would make them remunerative, but that most famers don't even have access to the declared MSPs and often end up selling at market prices that rule below the MSP. So that raises three questions. First, why despite routine calculation of C2 costs, the government has chosen not to offer farmers a price well above that cost, which gives them a decent return? Second, why has sale of production at the declared MSPs eluded many farmers? And third, why have market prices tended to rule below MSPs in certain years and for certain crops, inflicting much damage on farmers' livelihoods?

Since C2 costs are being calculated for the crops notified as eligible for MSP, it must be the case that the government has thus far consciously chosen not to set MSPs at 1.5 times those costs or even higher. In fact, while this was true even under the previous UPA governments, the evidence suggests that the MSPs set under the UPA were closer to the remunerative price recommended by the M S Swaminathan-chaired National Commission on Farmers than those set by this government have been. And annual increases in the various MSPs have shrunk recently. According to CRISIL, "While the average annual growth [in MSP] between agriculture year 2009 and 2013 was 19.3 per cent, it was only 3.6 per cent between 2014 and 2017." The reason for this reluctance to offer farmers a remunerative price is not difficult to fathom. The government has chosen to incentivize private investors with a lenient tax regime and remains obsessed with fiscal consolidation and deficit reduction, because it is keen to showcase its commitment to neoliberal economic policies and establish that it is the 'most reformist' government that India has seen. In the event, it does not have the money to finance a farmer-friendly procurement regime, which offers them remunerative prices.

Offering farmers a remunerative price would mean that, unless prices of grain and other products sold by the government through fair price shops and other outlets are raised, the subsidy required to sustain the system would have to be larger. Moreover, if to rein in the subsidy, selling prices are raised, offtake tends to fall, raising stock held by the government over any period of time. That means higher carrying costs and larger losses in storage, and therefore, lower net realization as and when sales do occur. That too would increase the subsidy bill. It is clearly to keep subsidies down that a fiscal deficit obsessed government unwilling to mobilize additional resources through taxation has chosen to keep MSP's low and limited the pace at which they are adjusted upwards to cover rising costs.

While prices are lower than warranted, costs have also been rising rapidly because of the government's adherence to neoliberalism. The fiscal conservatism associated with neoliberalism affected agriculture in multiple ways. Public investment in agriculture has been in long-term decline. The extension system aimed at reaching new agricultural technologies and information on better farming practices to India's agriculturists has either been dismantled or allowed to degenerate. Agricultural research, which served India well during the Green Revolution years, has been given inadequate attention and resources. All of these have adversely affected productivity and kept unit costs higher than they should be. On the other hand, prices of inputs such as fertiliser and, in some states, power used for irrigation have been raised to curtail subsidies or reduce public sector losses. With costs rising and MSPs lagging behind, margins tend to be squeezed.

Moreover, even to the extent that MSPs could have served as floor prices and offered farmers some protection, they have not reached all farmers. Procurement is concentrated in crops like wheat and rice and in a few states of the country. Based on figures relating to January to June 2013, an official committee estimated that just 5.21 million out of 90.2 million agricultural households, or less than 6 per cent of them, reported sale of rice and wheat to the procurement agencies. Clearly, the same factors that encourage the government to keep MSPs low are holding it back from giving the benefit of even this price to a majority of farmers. Some state governments have sought to enhance the level of procurement. But most, deprived of funding because of inadequate revenues from the tax sharing between Centre and states mandated by the Finance Commissions and limited revenue raising capacity of their own, have not been able to. In the event, MSPs do not serve as floor prices for most crops.

If there is no floor, in years in which harvests are good, or even normal, open market prices tend to fall sharply. The result is the bizarre spectacle where market prices are below MSPs in some seasons. Meanwhile, trade liberalisation has linked domestic market prices to international prices, and domestic MSPs are increasingly calibrated keeping international prices in mind. This was not a problem when international prices were ruling high because of the commodity price boom. But it has been a problem in recent years when international prices have been low since farm output cannot be diverted to export markets to benefit from higher prices. But even in bad harvest years, when international prices rule above domestic market prices, farmers do not benefit. The comfortable foreign reserves of the country, generated by capital inflows facilitated by capital account liberalisation and no or low taxation of capital gains, encourages the government to allow and even arrange for imports in bad harvest years, while discouraging exports by imposing minimum export prices, in order to rein in inflation in the prices of essentials. So prices remain subdued even when production is low, affecting earnings adversely. As a result, in good, indifferent or bad harvest years, the farmer is often a loser. An estimate, based on the official National Accounts Statistics, indicates that over the three-year period 2014-15 to 2016-17, the income per head of the agriculture-dependent population increased by 16 per cent in nominal terms. Over the same period inflation based on the Consumer Price Index for rural India rose by 16.3 per cent. This implies that the real, inflation-adjusted incomes of the agriculture dependent population have stagnated.

Thus, the system has been heavily loaded against the farming community, not in spite of, but because of the combination of neoliberal policies adopted by the NDA government. It has taken a spate of farmers' movements and a set of election losses for the government to wake up to the political implications of this fact. Put simply, empty promises of doubling farmers' incomes by 2022 are not working and rural India is turning its back on this government and its policies. But given the fact that the government privileges its reformist image above all else, it is hard put to find a solution. Which is possibly why the Prime Minister is blaming the opposition for spreading confusion among farmers and the public. However, the confusion, if any, lies in the agenda and policies of those in government.

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