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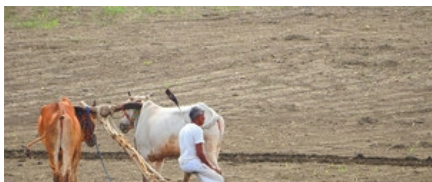
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Budget 2018: Focus on MSP ideal for tackling farm distress

Synopsis

The forthcoming budget should accord top priority to measures that translate into remunerative prices for farm produce with immediate effect.



By Ramesh Chand

The agriculture sector and farmers are passing through a difficult phase. The

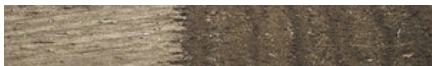
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Non-price factors like technology, market reforms, infrastructure and institutions take time to deliver results.

16 followed by low and depressed farm level prices during 2016-17 and kharif 2017, mainly due to global price trends.

This has intensified the demand for

ensuring MSP (minimum support price) and raising MSP.

The forthcoming budget needs to take a call to launch effective measures to address the agrarian distress, with emphasis on measures that deliver immediate results. This includes price as well as non-price factors.

Non-price factors like technology, market reforms, infrastructure and institutions are quite important to raise growth and farmers' income, but they take time to deliver results and thus are important for medium and long term, whereas better prices result in immediate effect on farmers' income and also on productivity and growth. In the light of this the forthcoming budget should accord top priority to measures that translate into remunerative prices for farm produce with immediate effect. MSP is one such instrument.

The government notifies MSP for 23 commodities and FRP (fair and



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under cultivation in all the seasons of a year. About 5% area is under fodder crops which are not amenable for MSP-type intervention. Thus, the present list of MSP crops covers close to 90% of the cultivated area. The system of MSP, if implemented fully, will leave only a very small segment of producers without price benefit.

This system is facing two serious issues. One, MSP is notified for 23 crops but effectively ensured only for two-three crops. Two, given the low scale of production, attributable to small size of holdings, the margin over cost in the prevailing system of MSP does not generate reasonable surplus (income) for the farmers. Not surprisingly, farmers have been demanding effective implementation of MSP for all the crops and keeping MSP 50% higher than cost.


MSP can be implemented in two ways. One, physical procurement of commodity and two, cash payment to farmers to compensate for the difference between MSP and price received by them. While the central government bears responsibility for ensuring MSP and procurement of wheat and paddy/rice, some states have been undertaking limited procurement of MSP crops other than wheat and paddy to ensure MSP for farmers. Implementation of MSP in all the crops requires coordinated efforts and cost sharing between states and the Centre. Private sector can also be involved to

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The second issue relates to making MSP adequately remunerative. Farmers or return over cost seems adequate, the term "cost" in agriculture involves complexity.

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Agriculture being a family-based business and using mostly own resources involves two types of investments – costs which are actually incurred and costs which are not incurred by farmers but are imputed.

To maintain this distinction between paid out costs and costs not actually incurred by the producers, CACP uses two broad concepts, namely Cost A2 and Cost C2. Cost A2 includes all expenses paid by farmers in cash or kind in production of the crop like seed, fertiliser, manure, chemicals, hired human, bullock and machine labour, irrigation expenses, maintenance cost, etc. It also includes imputed cost of own seed, manure, bullock and machine labour, rent paid for leased in land, depreciation of assets and interest on working capital. Cost C2 is arrived at by adding to Cost A2, imputed cost of farmers' own family labour, interest on fixed capital and rental value of own rent.

Now, the question is: What cost should be considered for giving margin of 50% — A2 or C2? Logically, margin is estimated or provided on costs and investments actually incurred, like Cost A2 in agriculture. In India, 88% land is

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paying it while doing self-cultivation.

MSP must cover land rent and interest on fixed capital but there is no justification of any sort to pay further margin on the imputed value of land rent and interest on fixed capital.

There is some justification for giving 50% margin on farmers' own family labour used in the production for consideration of managerial and entrepreneurial skill. Thus, there is a strong rationale to give margin on Cost A2 plus imputed value of family labour (Cost A2+FL) at prevailing wage rate.

It is concluded that ensuring MSP for all 23 crops with 50% margin over Cost A2+FL will be a significant and giant step in meeting long-pending demand for remunerative MSP for farmers, addressing agrarian distress and moving towards the goal of doubling farmers' income by 2022

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Why Modi's roll back of three farm laws may not be enough to pacify protesting farmers

expressed here do not reflect the views of www.economictimes.com.)

By Archana Chaudhary & Bibhudatta Pradhan, Bloomberg Last Updated: Nov 27, 2021, 04:32 PM IST

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Budget 2018 Farm Crisis Agrarian Crisis Agricultural Sector Minimum Support Price

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Synopsis

India currently fixes the rates for two dozen farm commodities, including some grains and pulses, and procures limited volumes for its welfare programs at those levels. Private

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Modi's surprise move to scrap three contentious farm laws may not be enough to stem a yearlong protest movement by farmers, with the two sides yet to close the gap on another crucial issue -- guaranteed prices for crops.

COMMENT

The farmers' continued anger could carry a political cost for Modi, who announced his biggest policy reversal since assuming power in 2014 by scrapping the farm laws earlier this month ahead of some state elections.

The protesters plan to march to the capital New Delhi on Monday, when

parliament reconvenes for its winter session, to push ahead with their demands that include setting up of a mechanism to ensure farmers get

minimum support rates for all harvests. *(The farmers have suspended the march to Parliament and will hold a meeting next month)*

biometrics, for your body airport system will be riddled with turbulence before giving any verdict.

India currently fixes the rates for two dozen farm commodities, including

some grains and pulses, and procures limited volumes for its welfare programs at those levels. Private players buy agricultural goods at market-determined prices.

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The government has said it will form a group to find ways to make the system “more effective,” but that’s not enough for the protesters. They demand a new law to make it illegal to buy crops below the state-set prices.

“We are not fond of sitting on the streets,” Samyukt Kisan Morcha, an umbrella group of farmers’ associations, said in a letter to Modi dated Nov. 21. “We too desire that after resolving these other issues as soon as possible, we return to our homes, families and farming. If you want the same, then the government should immediately resume talks.”

Political Price

The farmers’ continued anger could carry a political cost for Modi, who announced his biggest policy reversal since assuming power in 2014 by scrapping the farm laws earlier this month ahead of some state elections. It could dent Modi’s image as a strong and decisive leader.

Analysts say that establishing a price guarantee system for agricultural goods would be impossible, both logistically and fiscally, given India’s annual output of food grains alone of about 300 million tons, the risk of inflation and the government’s stretched budget due to the pandemic.

“The real reason behind the farmers’ demand is their desire for some stability and certainty in their incomes,” said Shoumitro Chatterjee, assistant professor of economics at Pennsylvania State University. But given India’s budget

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Modi’s retreat on farm laws has already cast a shadow on the pace of reforms that his administration had promised. Farmers form a powerful voting bloc in the country, where agriculture supports about 60% of its 1.4 billion people.

“Our agriculture sector is crying for massive reforms,” said Atul Chaturvedi, president of the Solvent Extractors’ Association of India. “Current high MSP can never be sustainable as it would hurt consumers big time.”

The government buys mainly rice and wheat for its welfare programs, mostly from states such as Punjab, Haryana and Madhya Pradesh. Any rise in government purchases would worsen an already wide fiscal deficit, seen at 6.8% of India’s GDP in 2021-22.

Ballooning Subsidy

Buying more at government-set prices could cause the food subsidy bill, which may exceed \$33 billion in 2021-22, to balloon further. It could also lead to over-production of crops in India, the world’s biggest grower of cotton and the second-largest producer of wheat, rice and sugar.

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of surplus,” said Suyash Rai, deputy director and fellow at Carnegie India. If more and more is bought through the public-procurement system, “how will we handle that?”

But farmers say the government only buys from a few states that have good transport network. Price instability is the biggest concern in India, where 86% of farmers cultivate plots of about 2 hectares (5 acres) or less.

“The government procures only in Punjab, Haryana and Western Uttar Pradesh. That too only rice and wheat. So farmers everywhere sell to traders at a lower price,” said Ashok Dhawale, president of the All India Kisan Sabha, a group representing farmers. “The MSP has meaning only when there is a government procurement machinery,” he said.

--With assistance from *Vrishti Beniwal, Pratik Parija and Abhay Singh.*

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