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MSP options no panacea for the farmers, say experts

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A villager inspects damaged paddy crop at a farm near village Ibn Kalan, after incessant rains lashed the region, on the outskirts of Amritsar, Monday, Sept 24, 2018. (PTI)

Three schemes unveiled on Sept 12 by the Modi government to ensure farmers get federally fixed minimum support prices (MSPs) are fraught with financial and operational challenges, experts say.

A growing number of economists are now pitching for a radical shift in the way government supports agriculture: from subsidies towards a direct income transfer, or a lump sum payment to each cultivator. India has 118 million farmers, according to Census 2011 data.

They have also made a case for increasing investments and tapering off subsidies. It is a well-known fact, they argue, that a rupee invested in capital assets in agriculture is far more effective in reducing poverty than a similar investment in manufacturing.

The Telengana government has become the first state to try a version of direct income support. Under its Rythu Bandhu scheme, the state gives 5.83 million farmers Rs 4,000 per acre per cropping season as a direct investment benefit.

One key question with the three schemes, which the government has branded Pradhan Mantri Annadata Aay Sanrakshan Abhiyan (PM-ASHAA), is whether it will be able to cover a majority of farmers as well as 24 key commodities.

MSP, or minimum support price is set by the government taking into account cultivation costs and is supposed to act as a floor price for private trade, thereby helping avoid distress sale.

The three schemes are essentially designed to intervene in agricultural markets by way of procurement, which refers to the government's purchase of commodities at MSPs in situations when markets fail farmers.

The first scheme, the price support scheme, is four-decades-old. The Modi government has pumped record money, rs 29,070 crore, in the 2017-18 crop season to buy 6.34 million tonnes of pulses and oilseeds from about 3.5 million farmers until June 22 to cushion a crash in prices, according to data from Nafed, the agency tasked with procurement.

This hasn't quite helped improve prices. On September 13, in the Ganj Basauda mandi in Madhya Pradesh's Vidisha district, urad (black lentils) sold for Rs 2,800 a quintal (100 kg) on September, 13, 2018, compared to last year's MSP of Rs 5,400 and this year's MSP of Rs 5,600, according to former agriculture secretary Siraj Hussain.

"Nafed has to quickly sell these stocks in the market to release working capital for the next round of procurement," Hussain said. Nafed's selling of these piling stocks further tends to depress prices, or worsen the situation Hussain said. Secondly, the agency buys food items at MSP and sells them below that price in the market, leading to losses.

Ashok Gulati, chair professor at the think-tank ICRIER said during a recent interaction with this correspondent, that farmers are tied to poor incomes mainly because of "higher spending on inefficient subsidies but declining capital investments, frequent ban on farm exports and low spending in research for new technologies in agriculture". His latest book Supporting Indian Farms the Smart Way argues for prioritising investment over subsidies.

According to Gulati, the government could also explore a direct income transfer. According to his calculations in an April 2018 paper, at the national level, such a scheme will cost "Rs 1.97 lakh crore under the assumption that all farmers get Rs 10,000/ha irrespective of what crops they are growing and whom they are selling". This is not much higher than the Rs 1.69 lakh crore food subsidy bill budgeted by the government for 2018-19.

Under the second scheme to ensure MSPs for farmers, the so-called price deficiency payment scheme, the government will pay farmers the difference between MSP and the average prices in two neighbouring states.

In Madhya Pradesh, which experimented with this scheme, evidence has emerged of traders colluding to artificially lower prices, since farmers would anyway be compensated by the government.

"Since the window for registration and bringing produce to the market is going to be short, it is likely to depress market prices unduly, with traders exploiting full advantage of it," according to a paper co-authored by Hussain and Gulati.

The government recently hiked MSPs to at least 1.5 times the cost of production. "Such hikes completely ignore the demand side," Gulati said. In other words, these higher prices of food items may not be matched by an equal demand in markets, in which case the hikes will remain notional.

The third scheme, which is a new concept, is to allow private firms to act as buyers on behalf of the government. But it is only meant to be a pilot project in very few districts.

"I think the idea of a condition-free direct payment to farmers is good in itself. But some obvious problems are, how to ensure tenant farmers who don't own land titles get it," said K Mani, head of agricultural economics at Tamil Nadu Tamil Nadu Agricultural University.

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