

General Studies-3; Topic: Issues related to direct and indirect farm subsidies and minimum support prices;

The MSP and Procurement Conundrum

1) Introduction

- The government has increased MSPs of 14 kharif crops to at least 50% above paid out costs of farmers including imputed cost of family labour.

2) Over Emphasis on MSP

- The overall approach to agriculture is marked by reactive, rather than clear-sighted, proactive thinking.
- Almost all policies are geared towards 'price'.
- It is assumed that getting this right is the panacea for all the problems.
- Increasing the MSP more to suit the interests of farmers rather than linking it with market dynamics has distorted the pricing system.
- While MSP is effective for rice and wheat, it is only indicative for other crops.
- The MSP has become an income-setter rather than a fair market price.
- Overemphasis on support prices distorts markets and creates storage issues.
- The FCI has often been flooded with surplus grain which leads to problems of storage and wastage.
- Higher MSPs are likely to make our rice exports globally uncompetitive, leading to further accumulation of stocks at home, and greater economic inefficiency.
- The focus has deflected from enhancing productivity, which is the right answer to most problems in agriculture.
- States like Uttar Pradesh announce a much higher state advised price for sugarcane, and we see mounting cane arrears, in turn making the sugar industry vulnerable.
- **Other Countries**
 - a. Setting procurement prices higher than global prices is not new in world history.
 - b. European Economic Community (EEC) did it earlier, leading to mountains of butter and lakes of milk.
 - c. China also raised MSPs of wheat, rice and corn substantially above world prices, leading to piling up of grain stocks touching 300 MMT in 2016-17.
 - d. But China is learning from its mistakes and since 2014, it has been reducing its MSPs for rice and wheat and has removed corn from price support.
 - e. On input subsidies, it has moved towards direct income support on a per hectare basis.

3) Problem of Over Production

- Farmers choose crops based on the previous year's prices.
- When a large number migrate to this crop as was witnessed with tur in 2016, prices come down sharply due to overproduction.
- The farmers' distress coexists with surplus production.
- The government is not in a position to absorb these surpluses as there is no system in place.
- The combination of MSP and absence of procurement has led to the present crisis in several parts of the country.

4) Loan Waiver Concerns

- Forgiving any loan creates a moral hazard, as it penalises those who are compliant.
- It acts as an incentive to default in the knowledge that there would be similar waivers in future.
- When farmers from all States demand loan waiver, it becomes catastrophic for the State finances.

5) OECD-ICRIER Report

- OECD-ICRIER report suggested to the government to launch new policy initiatives and accelerate existing reforms to achieve higher agriculture growth and ensure better income to farmers.
- The report 'Agriculture Policies in India' pointed out that the gross farm revenue declined 6% annually between 2014 and 2016 period because of low market prices even as farmers got large subsidies for inputs like fertilisers, power and irrigation.
- Farmers in India face complex domestic market regulations and import and export trade restrictions, which together lead to producer prices that are below comparable international market levels.
- The government should not resort to export curbs for creating stable and predictable market environment.
- The input subsidies provided through the budget should be frozen and then gradually withdrawn.
- This fund should be used for providing infrastructure and innovation in the sector.
- Encourage private sector in the domestic agri-market regulations.
- No sufficiently strong mechanism exists to bring state and central level policy makers together to discuss problems, design solutions and monitor performance.
- The challenges confronting the sector include prevalence of large numbers of smallholders, low productivity, climate change, pressure on natural resources, persistent food insecurity and an under-developed food processing and retail sector.

6) Way Forward

- Ensuring that farmers really get these MSPs will require a major coordination between the Centre and states.
- Procurement and price stabilisation has to be undertaken for other commodities like pulses, sugar and oilseeds.
- There is a need to have minimum stocks of all such vulnerable commodities.
- The incentives should be to increase productivity, which mean access to seed and irrigation.
- Contract farming or direct sale in towns and cities.
- Prices should be determined by the market to reflect the demand-supply dynamics.
- "Getting the markets right" will ensure better and stable prices for farmers as well as consumers, and also augment farmers' incomes in a sustained manner.
- The government should ensure that all crops are insured at least in the vulnerable areas.
- All farm loans should be linked with insurance so that the bank gets covered for loan loss while the government pays its share on insurance premium.
- Loan waivers should be the last resort and must always be made conditional so that there is no incentive to cheat.
- The criteria should be rigorous to ensure there is no adverse selection – which is a challenge.
- The entire approach to farming has to be revisited.
- Coordination is needed amongst union ministries dealing with agriculture, food, food processing, fertilisers, water, rural development, and trade to evolve a holistic approach to agriculture and farmers' incomes.
- The need for this coordination was also echoed in the OECD-ICRIER report, "Agricultural Policies in India".
- It is time for India to devise an income policy (DBT) for farmers.
- Telangana's Rythu Bandhu scheme with direct investment support is interesting. It can be refined and made WTO compatible.