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'M' Means 'Minimum'

Farmers gathered in Delhi yesterday, again demanding legally guaranteed MSP. A law per se isn't a problem. Problem is farmers' definition of a good price

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Farmers mostly from states around Delhi held a *mahapanchayat* in the capital yesterday to put forth their demands on changes they want in agricultural policy. The core demand is about Minimum Support Price (MSP), the manner in which it's fixed and a legal backing for it.

Economics of MSP demand | When output increases well beyond the market demand at a price remunerative to producers, market prices decline. Therefore, in the absence of an effective price support policy, farmers are faced with a loss of income, depending on how much the price decline is. The farm distress has been partly on account of this situation, as the loss of income is beyond the ability of the small farmers to absorb.

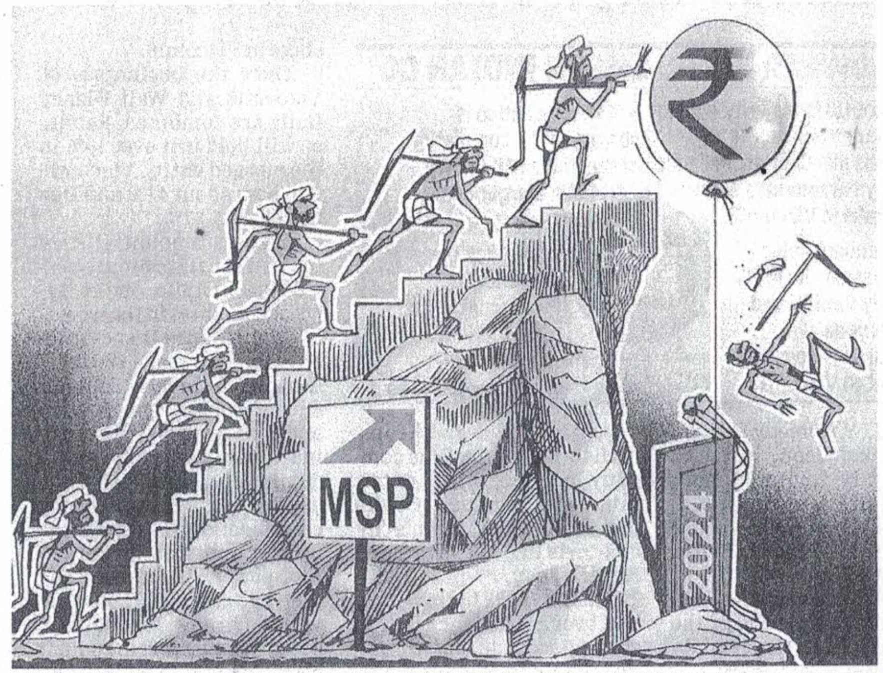
Legal guarantee possible | MSP scheme has been in existence for several decades and it is particularly effective for rice and wheat crops. The legal guarantee for MSP can be introduced. But, there are a few issues that need to be clarified before launching.

Twin benefits of PDS | In the case of wheat and rice, the prescription of MSP has been combined with total procurement of all the grains offered at that price and a public distribution system through which the procured grains are distributed.

Thus, it combines protection to producers with protection to consumers. PDS sale price is far less than the price at which the cereals are procured resulting in a huge subsidy to be borne by central govt. According to GOI's budget, food subsidies this fiscal will amount to a little over ₹2L cr.

Defining legal MSP | In this context, two questions arise. First, do we need to extend such a scheme to all crops? Second, in the context of a legalised MSP, which means that nobody can buy at a price lower than MSP, what should be the precise interpretation? We need to mark a distinction between 'remunerative price' and MSP.

Cereals are unique | What we have done with respect to wheat and rice cannot be replicated. A huge marketing structure, including storage facilities, will have to be built. There are alternative ways like limited procurement where private market will continue to have a role so that the two together will stabilise market price at MSP. As of now, besides wheat and rice, there are 21 other crops, including some commercial crops, for which MSPs are officially announced. But there is procurement only in some years.



Let's talk about costs | In fixing MSP, we need to consider three types of costs.

- A2: It represents the costs actually incurred by farmers.
- A2+FL: To the cost actually incurred by farmers, GOI assumes a value for the work a farmer's family puts in during a crop cycle.
- C2: C2 is truly comprehensive. It takes A2+FL and adds on an assumed value for interest on the fixed capital used in agricultural operations together with rental value of a farmer's own land. C2 represents the economic cost of growing a crop.

How MSP works | Presently, the government provides MSP that is equal to 50% above A2+FL. Farmers want MSP to be fixed at 50% above C2. C2 cost is 31% higher than A2+FL for paddy in 2023-24.

In the case of wheat, C2 cost over A2+FL is 46%. A very high margin of 50% over C2 cost will result in GOI becoming the only procurer. Such a situation would become unsustainable.

How to work out legal MSP | A legally binding MSP must have only a small margin of say 10%, if C2 is considered. It should take care of the price uncertainty induced by the markets. Otherwise, we are distorting the words 'minimum' and 'support'.

Don't forget interstate differences | MSP is fixed based on the weighted average cost for all India. However, the cost of production varies across states. The projected A2+FL cost of production for paddy was lowest at ₹864 per quintal in Punjab due to higher yield as compared to all-India cost of ₹1,455 per quintal.

Among top five producers of paddy in the country, which accounted for 52.5% production share of projected states during 2021-22, Punjab has the lowest A2+FL cost of production, while West Bengal has the highest cost of production at ₹1,766 per quintal.

Productivity matters | For the high-cost and low-yield states, legal MSP alone may not help. These states should reduce cost of cultivation and increase yields in order to have higher profit margins over costs. The institutional arrangements to ensure fair and competitive markets are also essential for MSP to play its role in providing a protective price environment for the farmers.

In conclusion, the real issue is not giving legal status to MSP. It can be done. But the most important decision is how we conceive the concepts 'minimum' and 'support' in MSP. The MS Swaminathan Commission recommendation of C2+50% needs some modification.

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