Assessing Agri-Pricing Policies

What is the issue?

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- Excess supply, depressed market prices and mounting farmer losses are more a consequence of shortfalls in agri-pricing policies.
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- It calls for providing income support to at least the most vulnerable farmers.
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What is the existing scenario?

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- Good rains, excessive sowing and bumper harvest last year produced excess supply in the market.
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- It resulted in a decrease in the prices of many crops and thus in farm incomes too.
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- Market prices for major kharif crops fell below the Minimum Support Prices (MSP).
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- The current farm crisis is largely due to the shortcomings in the pricing policies.
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What is the policy shortfall?

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- Agri-prices, and therefore farm incomes, are not free-market driven.

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- They are kept artificially low, through use of pricing policy instruments.
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- This is done so that inflation does not erode the rest of the population’s purchasing power.
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- The economic tools for protecting farm incomes were not employed to the best advantage.
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- These include -\n
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    i. the price support scheme
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    ii. price stabilisation fund
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    iii. market intervention scheme
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- Appropriate adjustments to the export and import rules could have arrested the price fall.
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- It would have diverted the excess supplies to overseas markets.
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- But imports were allowed as usual, which worsened the price situation.
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What is the policy on MSP?

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- The Budget promised that Minimum Support Prices (MSPs) would be at least 150% of production costs.
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- Even if market prices fall below MSP, government will procure the produce on MSP.
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- If it does not procure, it will provide a mechanism to ensure payments reach farmers.
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- That would be equal to the gap between the MSP and the market price.
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- Assuring 50% profit margin over the cost of production is to make farming remunerative.
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What are the concerns with MSP?

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- Farmer groups and government differ on the **formula** for calculating production costs for plugging into the MSP formula.
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- But besides this, simply announcing higher MSPs will not raise farmer incomes.
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- As, the **system** is not geared for scaling up **procurement** in the first place.
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- MSPs are announced for more than 20 crops.
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- But, noteworthy procurement is conducted just for three - paddy, wheat and sugarcane.
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- For several crops, last year, the **quantities procured** were small portions of the total produce.
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- Further, procurement frequently takes places at **prices** below the MSP, according to reports.
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- Also, **small and vulnerable farmers** usually do not get paid MSPs at all.
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- This is because they sell their produce to aggregators, not directly in mandis.
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What is the demand-supply mismatch?

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- MSP of Paddy for the 2018-19 kharif season will have to be raised 11-14%, cotton 19-28%, and jowar 42-44%.
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- These are the projections if the MSP pricing formula of 1.5 times the cost is

employed.
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- A rational response of farmers would be to sow more jowar in the next season.
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- But there is no reason that the demand for jowar would also rise.
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- A demand-supply mismatch would be inevitable in this case.
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- It would send the market prices for jowar way below the announced MSP.
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- It would in turn call for significantly expanded jowar procurement at MSP.
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- Thus, clearly, pricing policies distort market prices of crops.
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- It sends the wrong signal to farmers on what to produce and how much.
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- The policy system fails to correct such situations, which then goes out of control.
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What should be done?

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- If the problem is volatile incomes, the solution must target incomes, and not prices.
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- Income support payments, paid on a per hectare basis through direct transfers should be considered.
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- It would offer an administratively neater, economically far less distortionary and politically more attractive solution.
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- E.g. Telangana has announced such payments for farmers at the rate of Rs. 10,000/ha (Rs. 4,000/acre) per season.
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- The cost projections for scaling up this model at national level are roughly same as the estimated bill for price differential payments.
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- This is excluding the procurement of sugarcane, wheat and paddy, and non-MSP crops.
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- Fiscal space must be found for providing income support this year to the most vulnerable farmers at least.
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- Over the longer term, deep reforms in pricing policy would be the alternative.
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Source: The Hindu

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