Balancing Procurement and Distribution - MSP and PDS

What is the issue?

- Farmers are dissatisfied with government's Minimum Support Prices (MSPs) programme.
- Procurement (MSP) and distribution (PDS) of commodities must be studied in tandem to determine the actual benefits to farmers.

What is the concern?

- Minimum Support Price is the price at which government purchases crops for the farmers, to safeguard the interests of the farmers.
- It is fixed to set a floor below which market prices cannot fall.
- In case the market price for a commodity falls below the announced MSP, the government purchases it from the farmers at the MSP.
- However, government's procurement of key grains under its MSP is not being able to lift the open market prices of those commodities and benefit the farmers.
- The policymakers and economists fail to recognise that MSP procurement is not an end in itself.
- It has to be understood holistically, taking into consideration the distribution of such procurement under Public Distribution System (PDS) as well as how it works at cross- purposes.

What is the effect of procurement?

- It is generally assumed or hoped that once the MSPs are increased, the open market prices will also rise.
- But in reality, such procurements hardly create incremental demand.
- Any procurement by government agencies at any price leads to a twist in the normal demand scenario.
- Due to the government's initial extra demand, the total demand increases.
- But eventually, once the government supplies the same through the PDS, the effect is neutralised.
- In effect, the market price will settle at a point which is way lower than the

MSP.

- So it is fundamentally wrong to think that hiking the MSPs from the current levels will result in higher open market prices.

What effect does PDS create?

- The crops procured under the MSP are used in supplying them at cheaper (than free market prices) cost through the PDS to end-consumers.
- This has the effect of changing the supply scenario.
- It lowers the open market price, which may even settle at levels lower than the initial free market price.
- As a result of these operations, the total quantities bought and sold expand.
- This is because production will increase due to price support and so will consumption as lower PDS prices make it affordable to many.
- The difference between procurement and PDS supplies will be addition to/reduction from buffer stocks.

What is the way out?

- The quantities procured should be increased year-on-year to make a beneficial impact on open market prices; mere yearly MSP increases will have nil or negligible impact on open market prices.
- It is to be noted that the production of agri-commodities has been surplus to requirements for several years running.
- The buffer stocks with the FCI are far more than norms.
- One way would be to export the surpluses and not supply the same back in home markets through the PDS.
- Another way is to sell it to private sector for food processing.
- Alternatively, it can allow food processors and exporters to procure crops at the MSPs and reimburse the difference between market price and the MSPs to them.
- This way, at least the handling/storage loss for the government can be reduced.
- Simultaneously, the government should reduce the size of the PDS physical distribution.
- It should instead reimburse the consumers through Direct Benefit Transfers, even if the consumers buy through the open market.
- In all, both the MSP and the PDS implementation should be rationalised to balance the effects, and benefit farmers at all levels equally.

Source: Business Line

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