Mitigating Farmer distress

What is the issue?

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Poor earnings of the farmers result in an unending distress in the agricultural sector and there is need for an appropriate policy response.

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What is the current scenario?

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- Agricultural prices are rising less than others and as a result, the rural wages are depressed.
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- 70% of India's recent disinflation has been led by the fall in rural inflation.
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- When incomes are low, the demand for some food items such as milk and protein tends to be weak, leading to a fall in their prices.
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- Chronic income crunch is pushing farmers into a debt trap, leading to a clamour for loan waivers and higher MSPs.
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What are the concerns?

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- **MSP calculation** – The National Commission for Farmers had recommended that MSP for crops be fixed at 50% above the C2 cost.
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- But the government is still using 50% margin of Cost A2 or maybe cost A2+FL, which is lower than cost C2.
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- **Pricing** - The arbitrarily fixed prices tend to cause distortion in production, perpetuating a glut and depressing prices to the detriment of producers.
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- Efficient, transparent, competitive and hassle-free marketing is a must to ensure reasonable prices to the growers.
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- This will ensure demand-driven production, thereby, restricting surpluses and shortages to manageable levels.
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- **Focus on productivity** - Most of the agricultural development schemes aim largely at boosting crop productivity and production.
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- It disregards the negative impact of higher output on prices in a surplus situation.
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- **External trade policy** - These are focused more on managing inflation than on maintaining the price line to safeguard the farmers' interests.
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- An export window is usually denied for farm products by imposing import and export curbs, which makes it difficult to mitigate domestic surplus.
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- Frequently modifying duties and minimum export prices on the pretext of controlling inflation add to the woes.
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What should be the future course of action?

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- The focus has to be shifted from farm income to farmers' income.
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- A recent discussion paper brought out by the **NITI Aayog** reveals that about two-thirds of rural income now comes from non-agricultural sources.
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- Also, **70th round of NSSO** finds that wage employment is the principal source of income for 56% of small and marginal farmers.
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- Clearly, expanding job avenues in and around rural areas is imperative to boost farmers' earnings.
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- Promoting relatively lucrative allied activities of agriculture such as horticulture and floriculture also helps boost farm incomes.
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- Thus, a multifaceted income-generation plan, rather than MSP hikes and loan waivers, can mitigate farmers' disquiet.
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Source: Business Standard

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Quick Facts

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MSP calculation

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- The Commission for Agricultural Costs and Prices (CACP), gives three definitions of production costs: A2, A2+FL and C2.
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- A2 costs - It basically cover all paid-out expenses, both in cash and in kind, incurred by farmers on seeds, fertilisers, chemicals, hired labour, fuel, irrigation, etc.
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- A2+FL costs - It cover actual paid-out costs plus an imputed value of unpaid family labour.
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- C2 costs - These costs are more comprehensive, accounting for the rentals and interest forgone on owned land and fixed capital assets respectively, on top of A2+FL.
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- The M.S. Swaminathan Committee report had recommended a minimum support price of 50% profits above the cost of production classified as 'C2' by the CACP.
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