SHANKAR IAS PARLIAMENT
Information is Empowering

Assessing Agri-Pricing Policies

What is the issue?

\n\n

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

\n\n

What is the existing scenario?

\n\n

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

\n\n

What is the policy shortfall?

\n\n

\n
- Agri-prices, and therefore farm incomes, are not free-market driven.
\n
- They are kept artificially low, through use of pricing policy instruments.
\n

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

\n\n

What is the policy on MSP?

\n\n

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

remunerative.
\n

\n\n

What are the concerns with MSP?

\n\n

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

\n\n

What is the demand-supply mismatch?

\n\n

\n
- MSP of Paddy for the 2018-19 kharif season will have to be raised 11-14%, cotton 19-28%, and jowar 42-44%.
\n
- These are the projections if the MSP pricing formula of 1.5 times the cost is employed.
\n
- A rational response of farmers would be to sow more jowar in the next

season.
\n

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

\n\n

What should be done?

\n\n

\n

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

- Over the longer term, deep reforms in pricing policy would be the alternative.
\n

\n\n

\n\n

Source: The Hindu

\n