

Issues with MSP hikes

Why in news?

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The union government recently has announced a hike in the Minimum Support Price (MSP) for wheat.

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What is MSP?

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- Minimum Support Price is the price at which government purchases crops from the farmers.

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- Commission for Agricultural Costs and Prices (CACP) recommends Government of India to fix MSP before sowing season.

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- The objective of the MSP is to ensure remunerative prices to the growers, by encouraging higher investment and production.

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- At present, the MSP covers 24 crops, which includes cereals, pulses, oilseeds, copra, raw cotton, raw jute and tobacco.

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What are recent hikes about?

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- Union government has hiked the MSP to 6.8%, which is slightly higher of compared with a 6.6% increase in FY17.

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- In aggregate, the weighted average increase for winter crops of an estimated 7.4% is slightly lower than the hike of 8.5% for FY17.

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- While the government has implemented modest hikes just 4% between FY14 and FY16 this year.

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- The combined hike is slightly higher, at 6.6% compared with 6.4% in FY17.

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What are practical difficulties with MSP?

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- Despite the 12% hike in the MSP of five pulses in 2016-17, the 40% rise in output, primarily, ensured prices were not just below the MSP in most mandis.

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- Price fell 8% and profit margins contracted 16%, the fall in profits was as much as 30%.

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- The government did procure a record 1.6 million tonnes of pulses, but this was too small to make a difference farmers moved away from the crop and sowing fell by close to 4% this year.

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- A mere 5-6% of farmers benefit from MSPs and, equally important, the costs of the system are getting oppressive.

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- More than half of the big jump in the country's wheat production in the five years to 2013 was due to extra output in Madhya Pradesh (MP).

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- It was driven by MSPs and bonuses provided by the state.

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- Farmers, across MP, devoted more acreage to wheat, reinvesting the increased earnings in improving productivity.

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What alternative mechanisms can be followed?

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- In the past, there was no other option to MSPs and FCI to deliver rations, now with Aadhaar the government can move to targeted cash payments.
- Using Aadhaar-based bank transfers government can save Rs 38,000 crore every year.
- In which case, farmers could also be given cash transfers per acre of holdings and this, in turn, would make them more attuned to the market.
- Greater market access for farmers not just locally but also to markets overseas is also a better way to ensure they get a higher price for their produce.
- Easing rules to ensure organised retailers can purchase from the farm-gate will give farmers better realisations, and FDI in multi-brand retail is critical here.
- Extending the futures and options market to agricultural crops too would facilitate better price discovery.

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Way forward

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- The concept of Minimum Support Price is fading, but Union government is unwilling to find new possibilities.
- MSPs make no sense unless there is significant procurement, but with FCI so inefficient, that drives up costs significantly.

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- The Costs of MSP-FCI system now prohibitive, thus union government must try better alternatives.

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Source: Financial express

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