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Will it address agrarian distress?

BY INVITATION

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Wednesday's much awaited announcement on minimum support prices (MSPs) for Kharif (monsoon) crops has increased the MSP of paddy by ₹200 from ₹1,550 to ₹1,750, a 13% increase over last year. The increase for other crops varies between 3.7% for moong bean to 45% for niger seed. But it is paddy where the increase will be the most significant. For most other crops, MSP announcements have little value unless the government also proactively enters the market and procures them. This has not been the case so far and procurement has been limited to paddy in the Kharif season and wheat in the Rabi (winter) season with little to no procurement of the rest of the crops. There has been some increase in the procurement of pulses after the collapse of pulse prices in the domestic market and ensuing farmers' protests. But the procurement has proved insufficient to stop the collapse of pulse prices. The result has been the sharpest decline in pulse acreage despite record procurement.

While the decision to hike the MSP has come later than the usual first week of June, it is welcome relief for a farming community that's faced severe distress because of a collapse of agricultural commodity prices and lack of demand in the economy, much more in the rural economy. This is now confirmed by several factors including a sustained decline in real wages in the agricultural sector over the past four years and a general sense of joblessness among the young. Some of this is also captured in the GDP deflator (a measure of inflation across the economy), which shows a sharp fall from more than 5% in 2016-17 to only around 1% in 2017-18. But what has added to the uncertainty is also the monsoon this year, which remains deficient by 7% nationally, but with large regional variations. Almost 50% of the country is still rainfall deficient as of date. It has already impacted sowing of Kharif crops with overall Kharif sowing lower by 23% compared to last year. Sowing of coarse cereals is down by 30% and paddy by 10%. But the largest shortfall is for pulses, which farmers hit by lower price realisation last year are avoiding. The area sown has declined by 40% for pulses.

A woman separates grain from the husk in a paddy field in Mayong village on the outskirts of Guwahati. AP FILE

The demand of farmers, based on the M.S. Swaminathan committee's recommendations, was MSP at 1.5 times the comprehensive measure of cultivation costs that includes the imputed cost of capital and the rent on land (called C2) to give farmers 50% returns. The government has used a narrow measure that takes into account the costs incurred by the farmer and the value of family labour (A2+FL). A2+FL for paddy was ₹1,117 per quintal and C2 was 1,484 per quintal in Kharif 2017. Making suitable adjustment for inflation at the current consumer prices at 5%, the adjusted costs are ₹1,173 and ₹1,558 per quintal for A2+FL and C2 respectively.

The MSP is barely covering 1.5 times the A2+FL cost but will give a return of only 12% over C2 as against the demand of 50% over C2. But what is surprising is also that the announced MSP is significantly lower than the average wholesale price of paddy at ₹1,950 per quintal in April 2018. These have declined from ₹1,980 per quintal in April last year but are still higher than the MSP announced.

Despite these concerns, the announcement of the increase in MSP is not just timely but also a much needed respite at a time of rural distress. If properly followed through by adequate procurement, it can certainly raise agricultural commodity prices and also inject much-needed demand. But it would also require the government to loosen its purse strings beyond what was promised in the budget of this year. Surprisingly, the announcement of MSP at 1.5 times cost was made in the budget but was not backed by adequate budgetary provisions. The budgetary provision for price support operations has actually seen a decline in budget allocation from ₹950 crore in 2017-18 to only ₹200 crore in 2018-19. The increase in food subsidy by ₹25,000 crore in 2018-19 is barely sufficient to cover the increase in procurement required to fulfil the needs of the National Food Security Act, leave alone for any of the other crops. Take the example of pulses. The government is already sitting on a stock of 5 million tonnes of pulses. It is unlikely that it will procure any more pulses with no avenues for redistribution. So is the case with nutri-cereals, almost all of which have seen little or no procurement in the last three decades.

The announcement of increase in MSP is not just a question of a government belatedly fulfilling its promise of MSP at 1.5 times the cost. Even though the government has been disingenuous in interpreting the demand and its promise, the real question is whether it will pull the rural areas and agriculture out of the deep distress that they have fallen into for the last four years. More importantly, will it raise the general level of demand in the rural economy, which will eventually raise wages of casual workers?

Since the announced MSPs are still 20-25% lower than the prevailing wholesale prices of many crops, its impact on farmers' income is uncertain. With rise in input costs such as diesel and electricity it may not contribute to any real increase in the short run. While it will take time for these to translate into real gains for farmers and rural workers, these will definitely contribute to some upward pressure on inflation and wages even though the extent of this is not clear. But it is unlikely to be the remedy for all the ills that plague the rural sector or the agricultural sector. It certainly does not substitute for the decline in real investment at more than 3% per annum in agriculture during this government's tenure. Nor does it compensate for the decline in credit availability for farmers beset by rising farm loans. It also does not compensate for the export-import policy adhocism which is the trend so far.

The problems of the agrarian sector are not just a result of weather fluctuations and international price movements; a large part of it has been government's own failure to acknowledge the distress and its flawed approach to resolving some of these. The solution most often has been to deal with the symptoms and that too when pressed to the wall. The flurry of loan waivers is one such example. So is the case of MSP. Neither of them will resolve the long standing issues of neglect and apathy towards the agricultural sector by successive governments. Nonetheless, both serve an important purpose other than bringing temporary relief to the farming community. That it is difficult to ignore farmers' unrest when elections are around the corner. It may be a small victory for farmers but it is a victory nonetheless.

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