

## Opinion

# Socio-economic costs of legalising MSP

Jagadish Shettigar/Pooja Misra | Updated on February 16, 2021



A legal guarantee for minimum support price is bound to benefit just the rich farmers and worsen rural inequality

With the stalemate between the Centre and the agitating farmers continuing, it is time to debate on the socio-economic cost of making the Minimum Support Price (MSP) mandatory. The farmers are demanding a repeal of the three farm laws and enacting an MSP law that will make the support price their legal right.

The world-over the rationale governing the MSP is that farmers are assured of a minimum price to ensure that they can recover their cost of production and make reasonable returns on their investment. Thus, the MSP is aimed at protecting farmer interests when market prices crash. It is obvious that the government cannot afford to do away with this scheme.

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Indeed, even after bringing in the MSP ordinance in May 2020, the government has revised the MSP upwards and procurement at a higher MSP has taken place. The Cabinet Committee on Economic Affairs (CCEA) had, in June 2020, approved an increase in the MSP for kharif crops of 50-83 per cent more than the cost of production to ensure that farmers get a remunerative price for their produce.

### Appeasement strategy

On the flip side, it can be argued that procuring farm produce at an MSP has become more of an appeasement strategy to cultivate a vote-bank. Data show that procurement of foodgrains by the Food Corporation of India (FCI) in January 2021 has overshoot the buffer-stock limit and the country's foodgrains reserves are more than 2.7 times the norm. This is more than the country's demands for food security and welfare schemes such as distribution of free wheat and rice under the PM Garib Kalyan Ann Yojna.

As on July 1, 2020, the FCI had excess grain stocks of at least 50 million tonnes. Analysts have shown that even at a conservative estimate, the economic cost of excess rice and wheat with the FCI beyond the buffer-stock norm is a whopping ₹1,50,000 crore. Not to forget the losses borne by the FCI due to mountains of wheat and rice spoiling as the stocks exceed its total capacity protected and scientific storage capacity.

Interestingly, procurement of wheat from Punjab at the MSP amounts to 99.5 per cent of the total stocks offered by farmers for sale. In Madhya Pradesh and Haryana, the government has sourced nearly 99 per cent and 95 per cent of the market arrivals. So, what will be the consequence of making the floor price into a law, as suggested by the agitating farmers?

As it is farmers from Punjab, Haryana and Western UP, who keep producing wheat and paddy regardless of what the market actually demands, and with successive governments continuously raising the MSP and procuring many times of what is actually required, it will

be a waste of the taxpayers' money. This is not very different from the US resorting to dumping excess foodgrains supply into the sea in order to balance market forces to the advantage of their farmers.

Also, it should not be forgotten that apart from increased procurement and ever-rising MSP, farmers of these States, who feel hurt by the reforms, also get power and water free unlike their brethren in other States.

Further, if the MSP is made the floor price for the market as a whole, and the private sector offers, say, ₹100 more, would the FCI be able to procure foodgrains even for the welfare schemes? Any failure to procure the required minimum to run the public distribution system, would mean putting the PDS into jeopardy and consequently adversely impacting the poor.

If the government agency fails to procure sufficient quantities, how can the consumer interest be protected if market forces create havoc? For instance, if traders resort to hoarding during period of supply constraints, how would the government come to the rescue of consumers if it has no buffer-stocks? Moreover, agriculture would never become a “buyer’s market”. It would continue to be a “seller’s market” unlike industry, which got transformed as a result of the liberalisation and reforms of 1991.

Agriculture productivity will fail to be competitive compared to international norms. For instance, India is the largest producer of pulses but ranks 138th in the world in terms of productivity.

## The environmental costs

Not to forget the environmental cost, especially due to depleting water-table and stubble burning. According to analysts, Punjab’s current cropping pattern of growing paddy, which is a water guzzler (one kg of rice requires 2500-5500 litres of water), is economically unsustainable and groundwater depletion is a serious concern (the groundwater level on 92 per cent of Punjab farms has depleted by over 0.60 metres annually).

Last, but not the least, data show that hardly 6 per cent of farmers are able to benefit from the MSP. Thus, making it a law will keep a substantial section of small and marginal farmers outside this privilege and lead to socio-economic inequality apart from geographical imbalance.

Also, rich farmers who benefit from free water and electricity, guaranteed procurement and dynamic MSP also enjoy tax-free income, further worsening the socio-economic inequality between the rich and the small/marginal farmers.

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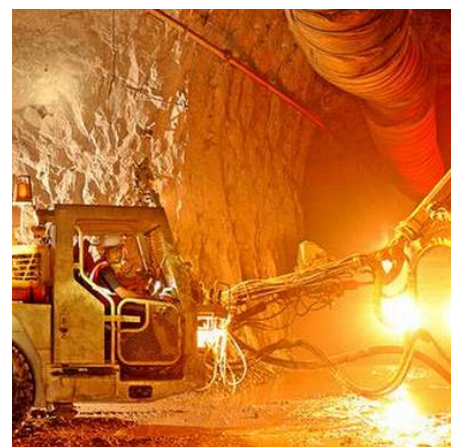
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