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Reform agriculture marketing systems to address farm distress

The actual determination of MSP is driven by a 'business as usual' practice of incremental increases in line with past trend, combined with the political need for 'look good' optics

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Reform of agricultural marketing systems to squeeze traders' markup could provide far more remunerative prices for farmers

The recent increase in the minimum support prices (MSP) for major kharif crops has reignited the debate about food price policy. Some analysts believe that the increase has been excessive, that it will push up inflation, both directly and also indirectly via the fiscal burden of higher subsidies. Others maintain that the increase is not enough, that the government has not delivered on its promise of announcing MSPs that are 50% over cost, as had been recommended by the National Commission on Farmers (Swaminathan Commission). Who is right and who is wrong? Why do we need an agricultural price policy at all? And, most importantly, what does it all mean for the hapless farmer?

The question of why we need a food price policy is the one most easily answered. Foodgrains are basic necessities. Any sharp increase in their prices can be extremely stressful, especially for low income and poor households, leading in turn to heightened political tension. Conversely, any sharp drop in crop prices can cause widespread distress among the millions of small farmers for whom the proceeds of their marketed produce is the main source of their livelihood. Hence, the policy of maintaining relatively stable and reasonable prices has a long history going back to the Great Bengal Famine of 1943. The present food policy regime—consisting of the Food Corporation of India (FCI), which procures rice and wheat, along with some state agencies, the Commission on Agricultural Costs and Prices (CACP), which recommends procurement prices, and the public distribution system (PDS), which distributes foodgrains and a few other essential items at subsidized prices—was established following two consecutive drought years that led to severe food shortages in the mid-1960s.

Next, are the recently announced kharif procurement prices too high or too low? For an answer based on principles rather than rhetoric it is necessary go into some rather arcane issues about different ways of costing agricultural production. The government has in principle adopted the policy of fixing procurement prices at least 50% over what CACP calls cost A2 + FL. A2 includes the actual or imputed cost of all purchased or own inputs such as seeds, fertilizers, manure, bullock or machine labour + actual rent on leased in land + actual interest on working capital. FL is the imputed value of family labour. Thus A2 + FL excludes the imputed value of owned fixed capital, such as farm machinery, and the rental value of own land. Adding these components would give us cost C2, the cost on which the Swaminathan Commission had recommended a 50% markup for procurement prices.

In a recent article ("The Price Is Right", *The Indian Express*, 6 July), Ramesh Chand has argued that using C2 rather than A2 + FL is illogical. In fact, the reverse is true. Imputed values are the opportunity costs of both inputs and factors of production, such as land, labour or capital, meaning the costs that the farmer would have incurred if s/he had acquired these from the market or what s/he would have earned if she had supplied these owned resources to the market. It defies logic as to why the imputed value of own inputs and own family labour should be included in the costing (A2 + FL) but not the rental value of own land or interest on own capital. Further, as Prabhat Patnaik has argued earlier this week ("Has There Been An MSP Hike For Kharif Crops?"; *bit.ly/2NrZEzb*), the cost of production computations are an average across farms. So if the imputed rental value of owned land is not included in the reckoning then the average rental value factored into the costing would be less than the actual rental value paid by those who have leased their land, the large bulk of whom are marginal or landless farmers.

However, Chand mentions that the imputed value of family labour and imputed rental value of own land amounts to about 40% of C2. Assuming he is right, A2 amounts to about 60% of C2 and much of the difference would in fact consist of FL, the imputed value of family labour. Hence, a 50% MSP markup over (A2 +FL) would in fact imply a significant markup over even C2. Chand estimates that the recently announced kharif MSPs amount to markups over C2, ranging from 10% to 53%, depending on the crop. But, as Patnaik has pointed out, the largest price increases have been announced in the case of coarse cereals like *jowar*, *bajra* and *ragi*, which account for less than 5% of the kharif food grain output.

All that being said, it seems to me that the debate over different concepts of cost of production is largely an academic matter. Cost of production is only one of several considerations factored into the determination of MSPs, such as the estimated demand-supply balance, global prices, etc. Besides, announcing an MSP means nothing unless it is supported by public procurement at the announced MSP. Among food crops, FCI only procures wheat and rice along with some state agencies and the National Agricultural Cooperative Marketing Federation of India (Nafed) has now started procuring pulses. Moreover, my reading is that, as with many other fiscal and administered pricing policies, the actual determination of MSPs is driven by a "business as usual" practice of incremental increases in line with past trend combined with the political need for "look good" optics.

Take, for example, the MSP for the common variety of paddy, the largest item of kharif procurement. During the five-year period 2009-10 to 2013-14, the MSP for common paddy increased by 31% or at an annual rate of 6.2%. For the next four years, 2014-15 to 2017-18, it was raised at an average annual rate of only 3.5%. The current increase by ₹200, or nearly 13%, looks good politically and also marks a reversal towards trend. Including this the average annual MSP increase during the five-year period, 2014-15 to 2018-19, works out to 5.8%, just short of the 6.2% registered during the previous five years. However, comparing these nominal rates of MSP increase with the average CPI inflation rates of 6% for the period 2008-09 to 2013-14 and 4.5% for the period 2013-14 to 2017-18, it turns out that the MSP for common paddy was more or less constant in real terms during the earlier period while it has risen modestly during the latter, thanks mainly to the latest MSP increase. Balancing the compulsions of prevailing distress among farmers and foodgrain availability at reasonable prices, I would conclude that the increase is neither too high nor too low but just about right,

Finally, and most importantly, what does it mean for distressed farmers? MSPs are only one among a range of policies that impact farm revenues and costs. Organisation for Economic Co-operation and Development (OECD) uses two comprehensive indices of the net impact of all such policies on agricultural producers and consumers, respectively called the producer support estimate (PSE) and consumer support estimate (CSE). Reporting on an application of these indicators for India, based on very detailed commodity-specific exercises in all major states, Ashok Gulati and Carmell Cahill claim that Indian producers have suffered a net negative impact amounting to 14% of farm receipts on average for the period 2000-01 to 2016-17 ("Resolving The Farmer-Consumer Binary", *The Indian Express*, 9 July). This is in sharp contrast with the positive producer support of over 19% in the European Union, about 15% in China and 9% in the US.

This bias against producers would in fact be much more severe for the small, marginal and landless farmers who account for 80% of rural households and face multiple price and non-price risks on top of the non-viability of their tiny plots of land as I had explained in my column last year ("Agrarian Crisis: The Challenge Of A Small Farmer Economy", *Mint*, 21 July). Their circumstances also force them to sell their small lots of marketable surplus at prices way below the announced MSPs while having to buy their inputs at high prices. Nevertheless, I feel that the OECD approach of framing the policy impact question as support for producers versus support for consumers, counterposing the interest of farmers to that of consumers as if in a zero-sum game, is a false binary, at least in India.

This construct excludes a third key player, namely the class of traders who intermediate between producers and consumers. In the case of rice and wheat, large oligopolistic wholesale traders are able to buy the produce at rock-bottom post-harvest prices from small producers then sell them to FCI at much higher MSPs. For other commodities, cartels of these large traders who control the Agricultural Produce Marketing Committees (APMCs) again compel the small producers to sell at low prices then jack up their own selling price. Gulati's earlier work, which I also reported in my July 2017 article, indicates that poor farmers may typically get as little as 25% of the prices that consumers finally pay for their produce.

Clearly, reform of agricultural marketing systems to squeeze if not altogether eliminate the 300% traders' markup could provide far more remunerative prices for distressed farmers, freeing them from the clutches of money lenders, while at the same time making farm produce available to consumers at affordable prices. However, distressed farmers need not depend on the government to recover their viability. The Amul Dairy Cooperative is an outstanding example of how farmers empowered themselves through cooperation. There are more recent success stories in the Kudumbashree programme in Kerala, the Society for Elimination of Rural Poverty in Andhra, and embryonic cases in other states of such cooperation led by women's self-help groups, initially for mobilizing credit and later for other activities. These examples point to the power of aggregation and collective action in activities ranging from marketing and purchasing of inputs and machinery to land pooling, water management, organic agriculture, dairy, fishery and even some non-farm activities.

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