# From plate to plough: The MSP smokescreen

The finance minister (FM) has made a smart move by announcing in the Union budget speech that the government has already fulfilled its election promise of giving minimum support prices (MSPs) of at least 50 per cent higher than their costs in rabi crops, and this principle will be followed with other crops too. But this statement has also created a smokescreen and, perhaps, blinded the Opposition temporarily with a tear gas shell. We look at it closely to gauge what it means for farmers.

The whole issue boils down to what was the cost considered in the BJP’s election manifesto in 2014. For those who are not familiar with the exercise of MSP recommendations, there are several cost concepts that the Commission for Agricultural Costs and Prices (CACP) considers while recommending MSPs of 23 crops. There are the costs the farmer actually pays out of his/her pocket for buying various inputs ranging from seeds to fertilisers to pesticides to hired labour to hired machinery or even leased-in land, which are all put under the cost A2 concept. However, in agriculture, farmers also use a lot of family labour and if their cost is imputed and added to cost A2, that concept is called cost A2+FL. But then there is also a comprehensive cost (cost C2), which includes not only imputed costs of family labour but also the imputed rent of owned land and imputed interest on owned capital. It is 50 per cent margin over C2 which has been at the centre of the farmers’ demand, and also the M S Swaminathan Commission’s recommendation. But what the FM seems to have suggested in his budget speech when he said the government has already given at least 50 per cent margin in rabi crops, is that they have covered cost A2, or maybe cost A2+FL, as MSPs are still lower than cost C2.

But it bothers those who have ploughed the fields for long when this 50 per cent margin of MSP over cost A2+FL is being touted as a big game-changing decision which no other government in the past could undertake. That is simply not true. Even in the last year of the UPA government, in 2013-14, the MSPs for all rabi crops were way above 50 per cent over cost A2+FL. For example, in wheat, the margin was 106 per cent and in rapeseed-mustard 133 per cent. For the current year of the NDA government, the margins are 112 per cent for wheat and only 88 per cent for rapeseed-mustard (see Figure 1). And this has been more or less the same for more than 10 years. So, the current government has done nothing earth-shaking in this regard.

What was this election promise of 50 per cent margin over cost about when margins were already far higher in rabi crops in 2013-14? Certainly, it was not cost A2+FL. it was cost C2, though this was never spelt out in detail. However, like the previous government, which rejected the Swaminathan Commission’s recommendation on this issue, and rightly so, this government too found that it was impractical to give 50 per cent margin over cost C2 in all crops. This would have required massive increases in MSPs (for example, paddy MSP would have to go up by 46 per cent; cotton by 52 per cent and so on; see Figure-2). But the government was in a fix about honouring its election promise. So it simply changed the reference cost from C2 to A2+FL without uttering a word about it. It may be noted that cost C2 is normally 35-40 per cent higher than cost A2+FL. So, by lowering the reference cost drastically, the government could claim that it has fulfilled its election promise in case of rabi crops and can do so for kharif crops soon. This is a smart sleight of hand. But saying that it is a game-changer and will be a major step towards doubling farmers’ incomes is going overboard and may soon boomerang if the Opposition is smart enough to see the issue through.

Although the current proposed increase would still need an upward revision in MSP, of say paddy by about 11 per cent, cotton by 18 per cent, moong by 20 per cent and hybrid jowar by 41 per cent etc, the real question is whether this would reduce farmers’ woes given that less than 10 per cent of the peasantry has ever benefited from an MSP regime in the past. Does the government plan to go for price deficiency payments (PDP) at an all-India level for 23 crops? The Madhya Pradesh experiment in PDP shows that market prices are prone to manipulation by traders, and can end up helping traders more than farmers.

Given that agri-GDP growth has plummeted to just 1.9 per cent in the first four years of the Narendra Modi government compared to 3.8 per cent in the first four years of the UPA-I government, the Modi sarkar seems to be heading towards “India shining” days of NDA-I — a lot of over-confidence, but with feet of clay in the agri-rural sector. Politically, that may prove costly.

It may also be mentioned that cost plus pricing of MSPs, be it cost A2+FL or C2, is fraught with dangers as it totally ignores the demand side. The terms of reference of CACP rightly require it to consider demand-supply, cost of production, price trends in domestic and international markets, terms of trade, inter-crop price parity, etc before recommending the MSP. If the MSP is to be determined just by adding 50 per cent margin over cost A2+FL, better abolish CACP and let any babu in the Department of Economics and Statistics, which estimates the cost of production, fix MSPs.

END