The lowdown on the MSP road map

Amid the increasing agrarian distress across the country, the Union Budget 2018-19 proposed to give farmers a minimum support price (MSP) 1.5 times of the production cost. The agriculture sector provides food security to 1.3 billion people, absorbs 54% of the workforce and touches the lives of two-thirds of the rural population. Yet it is lagging, resulting in widening disparity between the farm-dependant population and those working in the other sectors.

The Union government introduced public procurement of paddy and wheat at the MSP in 1965-66 to address grain shortage. For calculating production cost, two broad concepts — Cost A 2 and Cost C 2 — are used. Cost A 2 includes all expenses paid by the farmer in cash or kind such as seed, fertilizer, farmyard manure, pesticides, hired labour, machine labour and irrigation and maintenance costs. It also includes rent paid for leased-in land, depreciation of assets, interest on the working capital and the imputed cost of owned seed, farmyard manure and machine labour. Cost C 2 is calculated by adding to Cost A 2 the imputed cost of family labour, the interest on fixed capital and the rental value of owned land. The question being raised from several quarters is whether the proposed increase will be based on the formula for MSP recommended by the National Commission on Farmers, 2006.

Dr. M.S. Swaminathan, in his report submitted to the Central government in 2006, recommended that MSP be based on production cost (C 2 cost) plus a 50% margin. The government submitted a written reply in the Supreme Court against this formula. However, Union Finance Minister Arun Jaitley, in his budget speech, announced the MSP fixation on the basis of production cost plus a 50% margin. The technical detail in this regard, though, was missing in the speech. Production cost means all paid-out costs, including the rent paid for leased-in land and the imputed value of family labour.

Baldev Singh Dhillon, Vice-Chancellor of the Ludhiana-based Punjab Agricultural University, a pioneer of the Green Revolution in India, points out that the Finance Minister announced that the MSP for the Rabi crops for the crop year 2017-18 had been fixed on the basis of production cost plus a 50% margin, which is not borne out by data. That indicates that the Central government may be working on some other definition of production cost rather than the C 2 cost. “Although remunerative prices are required for a desirable level of living for the farmers, MSP is no panacea for all problems as 85% of the farmers in the country are small farmers (owing less than 5 acres) and have little marketable surplus. Hence, the inputs subsidy policy should have been formulated to watch the interests of these farmers. The staggered MSP is another option for reducing the glut in the market during the harvesting season, easing the role of procurement agencies and minimising storage losses and costs. But these issues are missing from the budget,” he says.

The Ramesh Chand Committee, constituted to examine the methodological issues in fixing MSP, suggested that for calculating production cost, family labour head should be considered a skilled worker. Further, it said the interest on working capital should be given for the whole season against the existing half season, and the actual rental value prevailing in the village should be considered without a ceiling on the rent. Moreover, post-harvest costs, including cleaning, grading, drying, packaging, marketing and transportation, should be included. The committee recommended that the cost C 2 should be raised by 10% to account for the risk premium and managerial charges. Many experts believe that to address the current agrarian crisis, MSP should be fixed on the basis of the Ramesh Chand Committee’s report.

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