

## A political ploy: on the hike in MSPs

The Centre has cleared a [hike in the minimum support prices \(MSPs\) for the kharif summer crop](#), ranging from a modest 3.7% increase for urad to as much as a 52.5% for the cereal ragi over the previous season. The NDA government says this 'redeems' its promise of assuring farmers a price at least 150% of the cost of production. The Commission for Agricultural Costs and Prices is said to have gone by this cost-plus-50% principle, in line with the farm sector strategy announced in this year's Budget. While making calculations, it relied on estimates of input costs actually paid by farmers and the imputed value of unpaid family labour engaged in the field. Yet, the final hikes announced for some crops are even higher – with the MSP for bajra pegged 97% over estimated costs. On an average, the MSP hike notified for 17 kharif crops is about 25% higher and constitutes the biggest hike since 2013-14. All in all, the announcement is an olive branch to farmers who over the past year spearheaded widespread protests over the rural distress. With less than a year to go for the general election, the NDA government has clearly opted to reverse the abundant, inflation-weary caution it had exercised while fixing MSPs. In fact, soon after assuming office in 2014, it had even admonished State governments for granting bonuses over and above the MSPs.

### Modi's MSP bonanza to farmers hindered by funds, storage

Given that the MSP mechanism is primarily enforced through official procurement only for wheat and paddy, mere announcement of prices for other crops is unlikely to suffice in ensuring farmers get those returns. Anticipating this, the Budget had promised that Niti Aayog would work with the Centre and States to put a fool-proof mechanism in place so that farmers get adequate remuneration if market prices slip below the MSP. This could be through government purchases or a gap-funding mechanism whereby the difference between MSPs and market prices is transferred to farmers. Little is known on the status of this endeavour, or the Centre's procurement strategy for this year. As things stand, the impact of these hikes on consumer price inflation is expected to vary between 0.5% and 1% by the end of 2018-19. On the other hand, the Centre's fiscal arithmetic may not be too adversely affected if its outlay on procurement is around 15,000 crore, about 0.1% of GDP. But these costs could mount based on the procurement strategy and the new mechanism for MSP enforcement. While rural incomes may rise from this farm-friendly gesture, concomitant reforms to free agricultural markets are vital to prevent a distortionary effect on farmers' choices on account of MSPs. Easing onerous stockholding limits under the Essential Commodities Act and avoiding frequent curbs on farm exports are key.

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