

FIELDS OF CONCERN — ON MSP FOR KHARIF CROPS

Relevant for: Indian Economy | Topic: Issues related to direct & indirect Farm Subsidies and MSP

Within months of announcing generous hikes in the minimum support price (MSP) for several crops in the kharif summer season, the NDA government on Wednesday approved an increase in the MSP offered for rabi crops. These increases mark a sharp change from the cautious approach adopted by the Narendra Modi government in raising MSPs during the first half of its tenure. The latest hikes are generous, even if they are moderate compared to those fixed for the kharif crop. By way of comparison, the highest increase over the previous kharif season's MSP was 52.5% for the cereal ragi. Now the highest season-on-season hike for the rabi crops is 20.6% for safflower. The MSP for wheat has been raised 6.1%, or 105 a quintal. For mustard, gram and masur dal, the increases are between 5% and 5.3%. The government says that with these prices, it has delivered on its promise that farmers will get a price at least 150% above their cost of production, and that their incomes will be doubled over time. The rabi crop will be planted in November, by which time Madhya Pradesh and Rajasthan (large producers of wheat and mustard, respectively) will be firmly in campaign mode. The BJP, which has to deal with anti-incumbency in both these States, has faced some flak over the Madhya Pradesh government's handling of farmer agitations. Clearly, it is now riding on the hope that the new MSPs will bolster its farmer-friendly credentials and further its prospects at the hustings.

It is no coincidence that the hikes were announced a day after thousands of angry farmers descended on New Delhi, stopped only by the use of water cannons and teargas. This is the latest in a long string of instances that signals the existence of underlying agrarian distress. But it is not merely the lack of adequate prices for farm output that has led to restiveness — the rise in costs of inputs such as fertilizers and diesel is also a reason for this. India's farm sector has multiple stress points, and ground-level procurement often does not take place at stipulated support prices. Barring paddy and, to a lesser extent, wheat, the MSP formula doesn't work for most crops in the absence of substantial direct procurement by the government. Market prices for cotton are currently close to the MSP, but this is largely because of traders betting that export demand will rise due to the U.S.-China trade war. A robust mechanism that actually helps farmers get the declared MSP for a crop is being pursued through a price deficiency payment scheme and a private procurement plan. But this is still in a nascent stage and is not adequate. There needs to be a holistic reboot of the agriculture sector, particularly to address the restrictive trading policies and excessive government interventions that deter productivity enhancements.

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