

MSP: A SAGA OF POOR ECONOMICS

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ABSTRACT

Post India's independence in 1947, the agriculture sector has been facing a series of market distortions and a mounting fiscal deficit. On November 19, 2021, the three farm laws were scrapped by the ruling NDA government but the buck does not stop here. In the on-going farmer demonstrations that lasted for a year and a half, a large section of the farming community demanded that there must be a federally fixed Minimum Support Price [MSP], a system that guarantees farmers fixed prices for their produce through procurement. Many small farmers feel that this would benefit them in the long run. However, legalizing the MSP will only contribute to more ramifications for a majority of the farmers in India. For the past few decades, preceding governments have implemented the MSP for certain crops such as paddy and wheat which has only benefited a handful of farmers.

The authors of this research paper argue that codifying MSP would defy economic logic, create an imbalance between land and water resources, and separate land away from important food grains such as oilseeds and pulses which would only contribute to costlier imports. Furthermore, a higher MSP would only result in more inflation in food prices, thereby causing a huge rift in the country's economic growth. Codifying the MSP would only rub salt into the wound, as many farmers across the country would be at the mercy of middlemen and other lenders. Unfortunately in a country like India, "Politics and Nuance are strangers" and the general public is not bothered to take a nuanced analysis of the consequences of legalizing the MSP. In conclusion, the authors of this paper argue that the Union government must not implement the MSP as it fails to address the problem of food security under the United Nation's Second Sustainable Development Goal.

INTRODUCTION

A. THE HISTORICAL CONUNDRUM OF MSP

Way back in 1965-66, the Union government under the leadership of the then Prime Minister Lal Bahadur Shastri introduced the policy of Minimum Support Price (hereinafter referred to

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as ‘MSP’) to address the issue of food shortage that was plaguing the lives and livelihoods of farmers in Punjab and Haryana.

The MSP can be defined as ‘the minimum floor price at which the government procures for the farmers’². It is calculated on the basis of the average cost of production. During the critical years of the Green Revolution, the procurement and PDS from the Green Revolution ensured that farmers were given price incentives for crops like paddy, wheat and sugar, all of which enjoy a full coverage of the MSP³. There are twenty three agricultural commodities that are given partial coverage of MSP as notified by the Central Government every year.

Most Indians, whether they come from agricultural families or not believe that the MSP concerns only paddy and wheat – the two most important crops that require heavy chemical fertiliser- centric farming, euphemistically termed the ‘Green Revolution’ rests⁴.

These dangerous chemicals and fertilisers have contributed to the country’s environmental degradation over the past couple of decades. In fact, Punjab which was once known as the “Bread basket of India” has been prone to such environmental degradation. Additionally, other regions in the Northern belt such as Western Uttar Pradesh & Haryana have also witnessed the same. Of the 328.73 million hectares of geographical area in India, more than a third of land has degraded due to this environmental menace. As a result of this the biodiversity in the Northern belt has depleted due to the monocropping of Wheat and Paddy⁵. The authors would like to further state that the State of Punjab has been looted by the concept of the MSP. This will be explained in the next part of the paper.

PUNJAB: A STATE LOOTED BY MSP

² Udit Misra, What are MSPs and How are they decided? INDIAN EXPRESS (July, 13, 2022, 10:00 pm), <https://indianexpress.com/article/explained/everyday-explainers/farmers-crops-price-msp-explained-7789563/>.

³ T Ramakrishnan, The Architects of the Green Revolution from T.N. THE HINDU (July 13, 2022, 10:00 pm), <https://www.thehindu.com/news/national/tamil-nadu/the-architects-of-green-revolution-from-tn/article65210677.ece>.

⁴ K Nagiah, G Srimannarayana, Phaniraj G, India’s natural organic farming strategy for rice and wheat DOWN TO EARTH (July 13, 2022, 10:00 pm) <https://www.downtoearth.org.in/blog/agriculture/india-s-natural-organic-farming-strategy-for-rice-and-wheat-81961>.

⁵ Id.

The State of Punjab has always relied on the agricultural sector to meet its needs. This link between Punjab's agricultural economy and the MSP has only worsened Punjab's economic prospects and hence, there seems to be no light at the end of the tunnel. There are a plethora of reasons why the codification of the MSP will only cause more legal and economic ramifications for the farmers in the state. Firstly, the demand to codify the MSP will only shift the focus from what the market wants to grow to what the farmers want to grow, just to secure a safe income net, thereby causing an economic imbalance in the state. Furthermore, in a state like Punjab, out of the 7,830,000 hectares of cultivable land, at least 3,520,000 is under wheat and 3,103,000 hectares is under paddy⁶. In the fiscal year of 2018 – 2019, 75% of the crop production in the state of Punjab was made up of wheat and paddy. In fact, as per the 2019 State economic survey conducted in Punjab, this resulted in a major economic imbalance on the demand side.

In the heydays of the Green Revolution (1960s), the percentage of pulses in Punjab dropped from 19.1% to 0.4% in the fiscal year of 2018 – 2019. Similarly, the share of crops such as oilseeds nosedived from 3.9% to 0.5%, the share of Maize dropped from 6.9% in 1960 - 61 to 1.4% in 2018-19⁷. Punjab's farmers never bothered to diversify their crops due to their obsession for Paddy and Wheat. The 'love' for MSP has resulted in massive import bills for the country.

Secondly, as mentioned above, the demand for MSP has also resulted in severe environmental degradation. Unfortunately, this indiscriminate use of chemical pesticides and herbicides in a disproportionate manner has also led to horrific tales in Punjab from depleting water tables to the spread of cancer in Gurdaspur, a district in Punjab which has now been termed as India's cancer capital, is a very good example in this regard⁸. Thirdly, a guaranteed MSP regime would only push small and marginal farmers further into the clutches of such middlemen or 'Arhatiyas' as they are called in Punjab⁹. Fourthly, the MSP will only cause a

⁶ Harish Damodaran, Anju Agnihotri Chaba, How can Punjab achieve crop diversification?, INDIAN EXPRESS, (July 13, 2022, 10:00 pm) <https://indianexpress.com/article/explained/punjab-farmer-protests-paddy-wheat-farm-laws-7106605/>.

⁷ Jyotsna Singh, Punjab Cancer Capital of India, DOWN TO EARTH, (July 13, 2022) <https://www.downtoearth.org.in/news/punjab-cancer-capital-of-india-40255>.

⁹ Harish Damodaran, Anju Agnihotri Chaba, Who are arhatiyas, also part of the farmer's protest? What is their role? INDIAN EXPRESS, (July 13, 2022, 10:00 pm) <https://indianexpress.com/article/explained/the-arhatiya-business-7098629/>.

further hindrance to the role played by the private sector, thereby diminishing the country's long term growth prospects¹⁰. As a result of this, India's economy which is extremely reliant on the agricultural sector has massive import bills. In the fiscal year of 2017 -18, the import of pulses was estimated to be around Rs. 28,000 crores and Rs. 400 crore for oilseeds¹¹.

MSP REGIME: STATE SANCTIONED LOOT

The Food Corporation of India, the main nodal agency under the Food Corporations Act, 1964 is responsible for the purchase, storage, inter-state movement, transportation, distribution and sale of food grains and other food items. Its role has evolved from period to period from being an agency to procure food grains and distribute it to states for the operation of the public distribution system. In the recent years, it has also become a device of maintaining the MSP by procuring whatever is offered. Procurement by the FCI at MSP is primarily in two crops namely wheat and paddy and these benefits are accrued by less than two crore farmers in the country, mainly in the well-irrigated and prosperous belt of North India where farm sizes are large and water resources are abundant¹². However, this is not the case with the rest of the country. More than twenty crore farmers across the country are left out of the MSP regime, where water is scarce and farm distress is severe. Furthermore, it is imperative to note that more than three-fourths of FCI procurement is done from farmers who have more than ten acres of land, leading to more farm distress among the small and marginal farmers in the country¹³.

The government has budgetary limitations as far as procurement of food grains is concerned¹⁴. If private players have to procure crops at MSP, then a quality bench marking

¹⁰ Samyak Pandey, Why legal guarantee for MSP- the other demand of protesting farmers- is a lose – lose proposal, THE PRINT (July 14, 2022, 10:00 pm) <https://theprint.in/economy/why-legal-guarantee-for-msp-the-other-demand-of-protesting-farmers-is-a-lose-lose-proposal/770770/>.

¹¹ Baldev Singh Dhillon & Raj Kumar, Acreage under pulses, oilseeds needs a boost, THE TRIBUNE (July 14, 2022), <https://www.tribuneindia.com/news/features/acreage-under-pulses-oilseeds-needs-a-boost-407292>.

¹² Sandip Sen, Does MSP help reduce farm distress, THE HINDUSTAN TIMES (July 14, 2022), <https://www.deccanherald.com/opinion/in-perspective/does-msp-help-reduce-farm-distress-1033250.html>.

¹³ Id.

¹⁴ Rajalakshmi Nirmal, Guaranteed MSP will claim half of the budget, THE HINDU BUSINESSLINE (July 14, 2022) <https://www.thehindubusinessline.com/opinion/guaranteed-msp-will-claim-half-the-budget/article33357330.ece>.

system or a quality control institution is needed for the same. The MSP is anything but a white knight for rural distress, it has caused more hardship among farmers, partly due to some unsustainable policies carried out by the Food Corporation of India which has further led to an acute imbalance of demand and supply forces. These FCI godowns are overflowing with excessive stocks of rice and wheat as a result of which they are now being stored in open yards. On the other hand, the production of food grains such as oilseeds and pulses are resulting in costlier imports and inflationary prices that are contributing to the imbalance between food grains, thereby causing a huge rift in the country's economic growth. India has close to 6,300 cold storage facilities, with a capacity of 30.11 million tonnes. It has been stated that most of these refrigerated warehouses are suitable only to store potatoes, a commodity that generates only 20% revenue in the agricultural sector¹⁵.

Procurement of crops at the MSP goes against the vision of India's agricultural sector, thereby making it extremely counterproductive. As per the 2011 Census, India became a water deficient country when per capita water availability fell to 1,545 cubic metres per person. The same concern was also raised by the Central Water Commission, at the turn of the century, stating that over 85% of the total water was consumer for agriculture. At that period of time, the per capita available in India was 1,770 m³ per person, as against the global average of 6,000 m³ per person. Unfortunately, these warnings fell on deaf ears.

HIGHER MSPs DISRUPT ECONOMIC GROWTH

Another reason why legalising MSP will cause more disruption in the agricultural sector is primarily due to Higher MSPs, which will only lead to an increase in inflation of food prices in the country. As per the RBI's annual economic review, bringing certain crops under the MSP coverage will only have an adverse impact on inflation, thereby resulting in acute labour shortages in schemes like the MGNREGA and other agricultural schemes in the country. The report also goes on to further state that when wheat and paddy are removed from the list of 23 crops, then the impact on inflation is minor¹⁶. As per a study conducted by the

¹⁵ Ankita Chakraborty, Indian Cold Storage needs a boost, BUSINESS ECONOMICS (July 14, 2022) <https://businesseconomics.in/indian-cold-storage-needs-boost>.

¹⁶ Jitendra, MSP on crops has major impact on Inflation: RBI, DOWN TO EARTH, (July 14, 2022 10:00 pm) <https://www.downtoearth.org.in/news/agriculture/msp-on-crops-has-major-impact-on-inflation-rbi-61489>.

faculty of the Indian School of Business (ISB), increasing minimum support prices for wheat and paddy have led to rising food inflation, burgeoning procurement, buffer stocks and a growing food subsidy bill as well.

Higher MSPs make a prima facie case for higher inflation as they form a floor for food prices and rising food inflation can feed into inflation expectations and higher wages. The benefits of Higher MSPs is unlikely to accrue to a large section of farmers as states lack adequate storage facilities, working capital and manpower for undertaking large scale procurement of all commodities.

PRICE DEFICIENCY PAYMENTS: THE WAY FORWARD

The issue of legalising the minimum support price (MSP) has not just divided political parties and governments but also the large community of farm experts and leaders, economists as well as commentators. The authors suggest that a good and feasible alternative to the Minimum Support Price is the system of Price Deficiency Payments, a solution that has also been proposed by the Niti Aayog¹⁷. Under this system the plan is to compensate farmers by paying them the difference between the government prescribed Minimum Support Price and the actual market price for certain crops. This model will be accessible, transparent, cost-effective and easier to implement in the long run. In order to avail this scheme, a farmer must register himself/herself with the nearest APMC Mandi and report the total area that he has sown.

The amount will then be credited to the farmer's bank account through a direct benefit transfer. This scheme will decrease the government's burden to procure, transport and store crops. It will also make the cropping pattern in the country more responsive and efficient to the needs of the consumer. Lastly, this is also expected to keep India's expenses on food subsidies under control.

¹⁷ Rajalakshmi Nirmal, All you wanted to know about Price Deficiency Payments (July 14, 2022 10:00 pm) THE HINDU BUSINESSLINE, <https://www.thehindubusinessline.com/opinion/columns/all-you-wanted-to-know-about-price-deficiency-payment/article9872658.ece>.

MSP: A SILVER BULLET?

MSP is an obligatory exercise and not a statutory exercise. Demanding the government to procure farmers produce of twenty three crops for which an MSP exists, on the strength of a law that enforces open-ended procurement at the declared MSP, will not serve the interests of the farmers or the society in general. It would create an imbalance between natural resources, wastage of scarce resources, distorted market, skewed cropping patterns, discrimination between farmers who grow supported crops and farmers who still grow other crops, law suits, payment arrears and other fiscal problems¹⁸. The farmer unions demand to legalise MSP is a classic example of misinformed rebellion and the Union government must make its position very clear that the demand will not be entertained. A functional market does a few things beyond an exchange of goods for money. It articulates the level of demand and supply for any particular good.

It predicts efficiency gains on the part of certain producers, when they are liable to offer their produce at a lower price than those of competing suppliers. Through this efficiency will then spread. The possibility of drawing an additional custom by lowering price through superior productivity or of fetching a higher price by offering a superior product would lead producers to what research has to offer. This demand would increase investments in research & development. A system of fixed prices would rule out all such changes and Indian farmers would be left behind by foreign producers. If India has to keep cheap foreign produce out of the market, to be able to flog stocks of higher priced domestic produce, would be to raise the cost of food for the poor, raise wages and create a drag on Indian competitiveness, in general. The support prices India offers would be considered producer subsidy that falls foul of WTO norms. Indian exports would suffer from punitive tariffs and India would scupper all WTO deals on farm produce. All Economics is useless unless the politics and politicians of the day are in a position to implement reforms.

As Diane Coyle in her new book ‘Cogs and Monsters’ writes, ‘**Structural reform is... inherently political in the sense that it will pit the interests of some groups in society against others**¹⁹.’ This means that there are farmers who benefit from the current MSP system, though the society at large loses out with its continuation. In order to move towards a solution to end this long standing crisis, a country needs political will and trust between the

¹⁸ HT Correspondent, Why MSP is not a solution, (July 14, 2022 10:00 pm) THE HINDUSTAN TIMES, <https://www.hindustantimes.com/editorials/why-msp-is-not-a-solution/story-drNBDx2fYTL1JTWh5ye27K.html>

¹⁹ Vivek Kaul, How feasible is MSP as a legal right? The good, the bad and the impossible (July 14 2022, 10:00 pm) NEWS LAUNDRY, <https://www.newslaundry.com/2021/12/04/how-feasible-is-msp-as-a-legal-right-the-good-the-bad-and-the-impossible>

farmers unions on one hand and the Union government on the other. In the world's largest democracy, the trust factor is as important as political will.