

Has There Been an MSP Hike for Kharif Crops?*

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Much has been written by now exposing the fraudulence of the government's claims of a "historic" rise in the Minimum Support Price for kharif crops. It has been pointed out for instance that while the Swaminathan Committee had recommended that the MSP should be fixed at 50 percent above the cost of production C2 which includes rental on own land, a recommendation that the BJP in its 2014 election manifesto had promised to implement, the current MSP still falls way below that level. The claim that the government has fulfilled its campaign promise, made by the BJP and its subservient media, is based on taking a different cost concept from what the BJP itself had promised, namely, cost (A2+ FL) instead of C2. The former is considerably lower than C2 because it only covers paid out costs plus the imputed cost of family labour but not rental on own land.

The issue here is not a mere technicality. It is not just that several different concepts of cost exist and the government has chosen one instead of another, or that it has chosen a lower one instead of a higher one. The concept of cost given by (A2 + FL) lacks any rationale, which is why the Swaminathan Committee preferred the other concept C2. The reason is as follows. Consider two farms, one cultivates land that is entirely leased in and the other cultivates land that is entirely family-owned. And let us assume that they use the same inputs to get the same output, i.e. are identical in every other respect. Since the first farm pays rent, if the price covers its cost, it must ipso facto cover the cost of the second farm, and do so even when rent is imputed on own land (for that will only make the costs identical between the two farms). But if we take only the paid-out costs and family labour and average between the two farms, then at a price equal to this average the first farm will have to incur a deficit. Hence in any economy, where there are some farms that are purely tenant-farms, the only cost that is meaningful is C2, i.e. the one that takes imputed rental on own land into account, for that also ipso facto covers the tenant farms where rent is paid. So, the Modi government's not cognizing C2 in its MSP fixing, and taking (A2+FL) is fundamentally erroneous, since A2+FL has no rationale: it leaves out the poorest farms, the wholly tenant-farms cultivated by landless peasants.

It has also been pointed out that the announcement of an MSP means little per se, unless it is backed by adequate procurement; and it is a well-known fact that large sections of the peasantry, and in particular the poor peasants, who lack adequate holding capacity, have to sell their crop immediately after harvest at prices well below those announced by the government, because the procurement agencies arrive on the scene only later. Hence the mere announcement of an MSP does not mean that the bulk of the peasantry actually gets it.

It has also been argued that the increase that the government is claiming to be "historic" appears large only because in the last four years of this government the MSP has been kept down drastically. But in addition to all these, there is a further point, namely that there has been no increase in the MSP in real terms even for the forthcoming kharif season compared to 2013-14, just on the eve of the Modi government's coming to power.

Take the case of rice. The MSP for the Grade A variety of rice was Rs.1345 per quintal in 2013-14, and has now gone up for the 2018-19 season to Rs.1750 per quintal. If we take as the indicator of price-rise the increase in the consumer price index for agricultural labourers, then over the five year period 2012-13 to 2017-18, there has been a 33.45 percent inflation. If the producers had to be compensated for this inflation then to maintain the same real MSP in 2018-19 for rice Grade A as prevailed in 2013-14, the MSP should have been Rs.1795 per quintal, and not just 1750. It follows therefore that for Grade A rice there has been a decline in real MSP compared to what had prevailed in 2013-14.

In the case of the common variety of rice, it is true that there is no decline; but there is no increase either. The MSP for 2013-14 had been Rs.1310 per quintal which should have been Rs.1748 in 2018-19 to give same real MSP; the actual MSP announced has been Rs.1750, which represents virtually no increase at all.

In the case of maize, the same calculation would give an MSP of Rs. 1748 per quintal (since the MSP for maize was also Rs.1310 per quintal, the same as common variety of rice, in 2013-14). The actual announced MSP is Rs.1700 per quintal, which is way below this figure. In real terms in other words the maize MSP has fallen compared to 2013-14.

Of course government spokesmen have made much of the fact that the rise in MSP in the case of Jowar, Bajra and Ragi has been much larger, in excess of 30 percent in each case compared to the previous year; and the calculation of MSP in real terms would also show an increase in the case of these crops compared to 2013-14. But these crops are extremely marginal. For instance, according to the Government's own Economic Survey 2017-18, of the total coarse cereal production of 32.7 million tonnes in the kharif season of 2016-17, kharif maize alone accounted for 26.3 million tonnes. All the non-maize coarse cereals in the kharif season, taken together in other words, came to a mere 6.4 million tonnes, which is less than a fifth of total kharif output of coarse cereals, and a mere 4.6 percent of the total kharif foodgrains output.

In fact the cynicism of the government is best revealed by this fact, namely that impressive increases have been announced in the case of those crops which are marginal, and where the cost to the government is trivial. But in the case of crops which really matter because of their overwhelming importance, the increases announced are not even enough to give the same real MSP as prevailed in 2013-14. The idea obviously has been more to get propaganda mileage than to help the peasants. A lot of noise can be made about how large increases have been given for jowar, bajra and ragi, without many people noticing that these crops count for a very small proportion of output.

Some may feel that by restoring in real terms, at least for some crops, the MSP of 2013-14, the Modi government has made amends for its past sins of commission. But this too is not correct. Quite apart from the fact that this restoration has been done only for crops that account for a minuscule proportion of output, restoration delayed is restoration denied. In other words the MSP has to be adjusted to compensate for the inflation faced by the peasantry every year, and not just after a lag of several years. This is because when the producers' price is not continuously adjusted for inflation the peasants fall into debt. Most of them do not have enough margin to dip into for surviving the inflation that has occurred in the interim. And when they do fall into

debt, apart from the enormous damage to their social standing and personal well-being, there is a rise in their cost of production as well because of enhanced interest payments, which, again if one takes averages across farms for arriving at a cost concept, leads to an underestimation of costs. Even the C2 cost concept in such a case will not reflect the actual cost paid by the poorest of the peasants, those who are most vulnerable to inflation.

The Modi government's MSP hike in short is just a cynical ploy. There is not even a hike in real terms for major crops compared to the base year; and considering the fact that between the base year and now there has been a big drop in real MSP the interim adjustment the peasants would have made, by way of borrowing more, leaves a burden on their economy which goes unrecognized even when real MSP gets back to the base level. And when it does not, which is the case now for major crops, matters are obviously much worse.

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