

## Farmers' protests: MSP and beyond

By Gopal Naik & Gopi Sankar G | Feb 27, 2024

We need to recognise that the ongoing farmers' protests are a manifestation of a persistent agrarian crisis that has not received adequate attention for a long time

---



[CAPTION]There is empirical evidence to show that a well-functioning procurement system has positively affected returns to farmers. Image: Ajay Verma / Reuters[/CAPTION]

Farmers' protests have again hit the national headlines. The past few days have seen farmer protests, even marked by a few unfortunate incidents. A primary demand of the protesting farmers is a legal guarantee of Minimum Support Price (MSP) for their crops.

\_RSS\_MSP is the price at which public procurement happens. The public procurement operations as they exist today commenced in the Green Revolution era with two main objectives: ensuring food security and extending farmers' price support. The price support

was a policy instrument encouraging farmers to adopt modern production technologies. MSP was expected to serve as a floor price for the surplus generated. Public procurement is limited to a few crops and a few regions. The quantity procured is also limited. Though MSP is announced every year for 23 crops (including sugarcane), its implementation is effective for only a few crops. The crops most actively procured are rice, wheat and, to some extent, pulses and cotton. Regional distribution of procurement by public agencies is highly skewed. In 2019-20, around 80 percent of the rice procured was from seven states, whereas almost all wheat procurement was from just five states. Public procurement is central to organising agricultural markets in Punjab and Haryana, to the extent that any diversification in cropping patterns is discouraged. At the same time, the procurement system is nearly absent in the eastern states.

Furthermore, the largest procurement operations are not necessarily in states that are the largest producers of rice and wheat. West Bengal and Uttar Pradesh, the largest producers of rice and wheat, respectively, in 2019-20, accounted for less than 12 percent of the total public procurement of these two crops. In several states, there is a wide gap between the quantity produced and the quantity procured by public agencies. Estimates suggest that only a minority of farmers benefit from public procurement operations and MSP.

Despite these limitations, there is empirical evidence to show that a well-functioning procurement system has positively affected returns to farmers. In districts where procurement operations are effective, the average market price of paddy is found to be higher than MSP by at least 4 percent. It provides a feasible option for farmers to dispose of their produce. Farmers are worse off in districts where they do not have access to public procurement. In the absence of public procurement, the bargaining power of farmers is likely to be weakened. In recent years, there has been an expansion of procurement activities in terms of both geographies and quantity. Actual procurement exceeded targeted quantities in several states. A few states have recorded significant improvements in public procurement. For instance, wheat procurement in Madhya Pradesh has drastically increased since 2007-08. Some scholars argue that smallholders have been the major beneficiaries of the expanded procurement operations. Yet, they acknowledge large farmer bias at the national level.

Is MSP the solution? MSP may be somewhat effective for the crops included in the PDS basket. In such cases, the government agencies need not depend on their trading effectiveness. Yet procurement from all regions of production may not be guaranteed. There is a strong argument for making MSP and public procurement broad-based. Though there is merit in this argument, the appropriateness of having MSP as the instrument for addressing agrarian distress is questionable. Merely announcing MSP is not enough. It needs to be followed up with effective procurement operations. The absence of this can create a widening gulf between expectations and actual realisations by farmers. Higher MSP may lead to supply response and a larger surplus for at least a few crops. If the procurement is not augmented proportionally, there could be significant price falls owing to inelastic demand. To pre-empt such undesirable circumstances, the government must respond with greater procurement quantities, obviously an added burden on the exchequer. In addition, the amounts procured will result in accumulated stock, which will eventually have to be disposed of through the market channels. Poor storage infrastructure, below-par trading capabilities of state agencies, and the inability to dispose of the surplus stock on time may

result in huge losses. Thus, whether procurement is done at MSP or not, it can lead to a lose-lose outcome in the long run. At best, what MSP can offer is temporary relief with limited reach in terms of crops, geographies, and size class of farmers.

We need to recognise that the ongoing farmers' protests are a manifestation of a persistent agrarian crisis that has not received adequate attention for a long time. Agriculture is increasingly becoming unviable. Estimates based on the NSS Situation Assessment Surveys (NSS SAS) suggest that the share of income from cultivation in the total household income of agricultural households has declined over the years for all size class categories. There has been a steady decline in the average size of land holdings. According to the Agriculture Census 2015-16, the average land holding size is 1.08 hectares. The importance of having a minimum viable size of agricultural land was recognised as early as 1949 in the report by the Congress Agrarian Reforms Committee but never materialised. Our agricultural productivity for major crops produced is much lower compared to several other countries. There has been a drastic decline in the input use efficiency, leading to a higher cost of production. Lower productivity and higher cost of production render Indian agriculture non-competitive in the global market. Poor physical and institutional infrastructure make it worse. A large share of smallholders is still outside the formal marketing arrangements. Public investment in agriculture, including extension services and research and development, has been declining.

A much less discussed aspect is the risks agricultural households face and the effectiveness of available mitigation mechanisms. Agricultural households are faced with idiosyncratic and covariate risks. Some of these risks arise from sources outside of agriculture and can have cascading effects. The surge in production and price risks owing to climate change and globalisation are well documented. The risk management instruments have proved to be largely ineffective. Despite several interventions, credit availability from formal sources remains a concern. The closure of rural branches and relaxation of limits for priority sector lending has adversely affected rural credit with smaller ticket sizes. Land titling is still incomplete in many parts of the country.

While MSP is a significant measure to reduce price risks to a certain extent, albeit with limitations, the farmers' protests shall not be reduced to a discussion on whether MSP shall be there or not. We need to think beyond MSP. It shall be taken as an opportunity to comprehensively address the livelihood concerns of farmers on a mission mode. In addition to creating opportunities for viable livelihood activities and enhancing their asset base, there is a need to build the capabilities of agricultural households to lead sustainable livelihoods.

*Gopal Naik, Jal Jeevan Mission Chair Professor at IIM Bangalore*

*Gopi Sankar G, Assistant Professor at Azim Premji University, Bangalore*