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Support vs procurement

How to fix the agricultural pricing mess

The government's move to get the mandate of the Commission for Agricultural Costs and Prices (CACAP) reviewed afresh by an expert panel needs to be viewed in a broader perspective - one that weighs political populism against economic logic. It has been argued that minimum support prices (MSPs) have been raised often - and supposedly partly for political reasons - during the United Progressive Alliance's tenure; and that this is a major contributor to food inflation. The committee set up for this purpose has, interestingly, been asked to revisit the methodology by which MSPs are computed in the light of complaints from farmers that their production costs are still not adequately recovered. Doubts are often expressed concerning determination of value of family labour, rental value of land, interest on capital, depreciation of fixed assets and some other tangible and intangible costs. Most of these aspects are, in fact, already covered under the CACAP's mandate; yet problems arise when its recommendations do not suit the ruling dispensation's political interests. The CACAP's suggestion to freeze wheat MSP this year at the last year's level is a case in point. The government has often overruled the CACAP's suggestions and raised MSPs by more than the recommended margins. The consequences of such populism are many and far-reaching: distorting the market and cropping patterns; fuelling inflation; and swelling the government's grain stockholding and subsidy burden.

Farmers' grouses are not always unfounded. Cultivation costs vary widely from one region to another; they are usually far higher in states such as Punjab, Haryana and Andhra Pradesh due to higher wages, land value and input use. A uniform MSP across the country, therefore, leaves farmers in the surplus-generating intensive farming areas dissatisfied. But administering region- or state-specific prices would be a political nightmare. Therefore, the market should play a more meaningful role in price determination.

The report of the National Commission on Farmers, headed by M S Swaminathan, alluded to the desirability of such a system when it called for distinguishing between support prices and procurement prices. This distinction has been totally eroded, thanks to the MSP becoming the de facto procurement price under the "open-ended" grain procurement system. The MSP should, in reality, be the bare minimum price that growers can call on to avert distress sales, while government procurement should be at market-determined prices. Such a mechanism will spur farmers into responding to demand- and supply-driven price signals. Together with lifting curbs on international trade, this will help solve India's agricultural pricing problem.