

# Agricultural Price Policy and Minimum Support Prices in India

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## I. Agricultural Price Policy in India

The Indian economy faces turbulence in the form of price inflation and price crashes very regularly. A prime example of the same is the prices of onions and its extreme fluctuations that affect the individuals (farmers, sellers and consumers) as well as the overall economy (trade and distribution), occurring as recent as in November 2019. While these inflationary shocks act as a relatively heavier burden on rural poor on one hand, the lack of remunerative prices for farmers is another challenge faced by the agrarian economy, as the farmers' protests have justified in their charter of demands. The peasant movement has been demanding the Minimum Support Prices (MSP<sup>1</sup>) to be 50 percent over the C2 cost of production. Various studies have depicted the *decline in farm income as the prime source of agrarian crisis in India*. To enquire the empirical justifiability of the farmers' demand and the government's stance on the same, we need to understand the long-term trends in the agricultural price policy.

The price policy in India has a dual working mechanism, which, on the one hand provides for the remunerative prices to the farmers as MSP and on the other to ensure food security, through Public Distribution System (PDS), to meet the challenges of hunger and poverty in rural India. The key objective of the agricultural price policy, when constituted was to focus on improving the production conditions and adjust prices in relation to that to enhance food production across the country. The **Commission for Agricultural Cost and Prices** (CACP) was set up in 1965 to study the prevailing production conditions in Indian agriculture and use the cost of production analysis to determine recommendations for price policy decisions.

CACP has been implementing a Comprehensive Scheme for Studying the Cost of Cultivation of Principal Crops (CCPC) in India since 1970-71 to generate estimates of cost of cultivation/production of the principal crops in order to meet cost of cultivation data requirement<sup>2</sup>. The price policy constitutes 24 crops<sup>3</sup> and the CACP covers limited number of states to assess the cost structure. The direction of the price policy had been majorly around food grains as it is also linked to the Public Distribution System (PDS) in India. The procurement of produce from farmers to provide them remunerative prices and selling to poor households at subsidized rate was implemented to *address both agrarian distress and hunger*.

<sup>1</sup> Minimum Support Prices are the prices set by government that are provided to the farmers for selling their agricultural produce to the government agencies. It is a form of insurance to protect farmers from a sharp fall in farm prices

<sup>2</sup> Cost of cultivation/production (Cost A2 & Cost C2) comprises the cost of owned and hired labour (human, animal, machine), inputs (seeds, fertilizers, pesticides, insecticides), rent, irrigation and other miscellaneous costs that occurs in crop production

<sup>3</sup> Major crops covered are Cereals (7), Pulses (5), Oilseeds (8), Cotton, Jute, Coconut, and tobacco; *Paddy and Wheat are the most procured and protected crops*

## II. Price Policy: Considerations and Contradictions

The agricultural price policy in India is bounded around a multiplicity of factors that are given weightage while making price policy measures in the economy. The direction of price policy decisions and the context around it needs to be focused, as there can be periods where the state is pressurized to take decisions in favour of the interest groups. The **key politics is to increase or control Minimum Support Price (MSP)** in the policy of price scissors. This duality of contradiction to increase or control MSP has twofold dilemmas:

**If the MSP is increased, the market prices of food grain commodities shall rise.** Food grains being essential wage goods, the rise in prices of them shall affect the interests of consumers in general, but for urban consumers specifically. Also, the industrial costs shall also be increased if the MSP of cotton, jute, oilseeds etc. is raised. This *increase in MSP has certain growth conditions, and shall lead to inflation for a short-term period*. If the industrialists choose to maintain their margins and extends the burden on to the consumer of industrial goods, the demand shall be affected (negatively). If the industry maintains the costs instead, and as a result decreases their profit, their growth shall be affected. In order to protect the industry, the government might provide with a subsidy. This will affect the fiscal and monetary concerns in the economy<sup>4</sup>.

**If the MSP is not increased as relative to inflation in costs, the profitability shall remain low in agriculture and as a result the market prices (Farm Harvest Prices) shall remain low.** There will be decreased investment in capital resources as the limited or negative incomes earned shall affect the capacity of agricultural growth. As a result, the *distress shall only magnify with a decrease in the growth of MSP*. The terms of reference, considering price policy decisions, must consider these points critically before making recommendations.

This dual policy mechanism was effectively controlled by state, till 1990s, but post structural reforms period, the relations between the producer and the consumer changed drastically in Indian economy. The *structural reforms adopted by the government fabricated the integrated price structure* that was formulated to address the overall needs of the economy. The methodological considerations were adopted with a multi-factor criterion to derive on the MSP. The government moved away with the procurement prices and provided the scope for bonus<sup>5</sup> before harvesting season. Thus, the weightage of government's intervention was enhanced and the scope of CACP got limited to a certain extent, as the final MSP could be anything above the number recommended by CACP. Further ahead, the number of factors that affect price policy decisions increased and as a result, the economic orientation of the price policy was swayed into neo-liberal market considerations.

As discussed about political compulsions, a lot of times, the recommendations made by CACP are not accepted by the government due to fiscal and monetary measure, as stated by the government economists. But in recent times, the demands of raising MSP has been quite constant across many states over past one decade in India, especially in the rising peasant struggles across the countryside.

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<sup>4</sup> Raghavan, M. 2011. "Political Economy of Farm Price Fixation: A Historical Sketch." *Social Scientist* 39 (3/4): 23-36.

<sup>5</sup> Bonus is an incentive that can be provided by the respective state governments over and above the decided MSP for a particular crop during a poor agricultural season, say droughts, floods etc.

### III. Major Shifts in Minimum Support Prices (MSP) since 1997

The shifts in the growth rate of MSP can be due to a multiplicity of factors. The government has authority on increasing the actual procurement price through particular measures. During the agricultural season affected by droughts in the region, which is becoming a more common phenomenon in drought-prone areas, the government sometimes approves the payment of '**Special Drought Relief Price**' to provide for enhanced benefits of remunerative prices to distressed farmers. This was done particularly during the 2003 drought and crisis in agriculture for Paddy cultivators.

The practice of *adding bonus on to the already announced MSP* is an economic concern which many a times is converted to serve the political interests of the ruling party in government. During the period of 2006-08, many states announced special bonus ranging from **Rs. 50 per quintal to Rs. 100 per quintal**. This was done both in the case of Wheat and Paddy. The incentives provided serves the political purpose of the ruling party, especially if the election season is approaching. The **UPA-I government appeased a lot of agrarian voters over the premise of remunerative prices** and loan waivers in India. Sometimes, these bonuses are required to be provided due to the protests and discontent against the situations at many regions. The interest groups mobilize farmers and negotiate for increasing prices for certain crops.

<b>MSP</b>			
<b>Year</b>	<b>Wheat</b>	<b>Paddy</b>	
		<b>Common</b>	<b>Grade-A</b>
<b>1997</b>	380	380	395
<b>1998</b>	475	415	445
<b>1999</b>	510	440	470
<b>2000</b>	550	490	520
<b>2001</b>	580	510	540
<b>2002</b>	610	530	560
<b>2003</b>	620	550	580
<b>2004</b>	630	550	580
<b>2005</b>	630	560	590
<b>2006</b>	640	560	590
<b>2007</b>	700	620	650
<b>2008</b>	850	745	775
<b>2009</b>	1000	900	930
<b>2010</b>	1080	1000	1030
<b>2011</b>	1100	1000	1030
<b>2012</b>	1285	1080	1110
<b>2013</b>	1350	1250	1280
<b>2014</b>	1400	1310	1345
<b>2015</b>	1400	1360	1400
<b>2016</b>	1450	1410	1450

Table 1 - Minimum Support Prices, Nominal Rates, Wheat and Paddy (Common and Grade-A), across major states, 1997-2016

Another aspect to consider while looking at price measures is the **backlash in the form of buffer stocks**. The increased interventions by the governmental measures led to distortions in the market of Wheat crop, the most protected crop by the state. The stocks of Wheat rising in the Warehouses of the Food Corporation of India (FCI), while the rural poor suffers from hunger and poverty is a typical example of *policy fatigue* in this arena of public policy in India. The larger food grain policy has remained under the question of fiscal/monetary economics due to the same. The costs of the FCI have been ever-increasing and the crisis of plenty developed over it. Right after the period of noted stagnation in growth of MSP during the 2004-06, the government announced increased MSP for good three years. The design and delivery architecture of the procurement policy has remained poor mostly, and as a result the stock problem appears to be the government's problem. This argument was detailed by demonstrating the theorizations that, "*undirectional movements in price policy lead to supply-demand imbalances in the economy and extreme volatility in buffer stock cycles*" (Chand 2009)<sup>6</sup>.

#### **IV. How Remunerative are Prices?**

The key demand by farmers' groups has been to provide remunerative prices by the government based on the **Swaminathan Commission's Recommendation, which asked to provide for MSP 50 percent over the C<sub>2</sub> cost of production**. C<sub>2</sub> cost is the comprehensive cost which effectively comprises the value of all the factors included in production, including imputed value of family labour and own land (see *National Policy for Farmers, 2007*). An analysis of 5 major crops – rice, wheat, jowar, cotton, arhar is presented in the figures 1-5 across the states the respective crop is cultivated. These crops are selected primarily because, rice and wheat, being one of the key crops grown by farmers across the country (especially northern belt) and the other three as they are produced in western, central and southern regions. The analysis covers the Gross Value of Output<sup>7</sup>, cost A<sub>2</sub> (which covers all paid out costs but excludes cost of family labour and rent on own land) and cost C<sub>2</sub> of these crops in 2015-16 for all the States producing the crop with the MSP declared in the year.

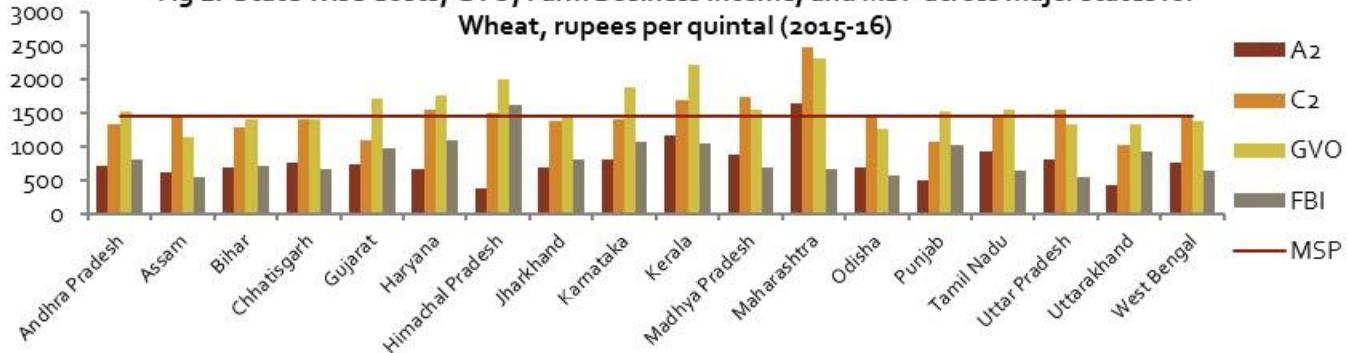
In figures 1-5, it is clearly visible that the MSP is almost equivalent (around) the C<sub>2</sub> cost component. In fact, in many of the states, the **MSP does not cover the C<sub>2</sub> costs** while the contention is to provide for prices more than 50 percent of the cost of production. Let us take the example of wheat. In states, such as Haryana, Kerala, Maharashtra, Madhya Pradesh, Uttar Pradesh, the MSP does not cover C<sub>2</sub> costs. In states such as Himachal, Odisha, Tamil Nadu, West Bengal, MSP just about covers C<sub>2</sub> cost. The worse part of the story is that in many states such as MP, Maharashtra, Odisha, UP, West Bengal, the gross value of output is lower than C<sub>2</sub> and the MSP. This means that **farmers are incurring net losses due to high cost of production and low output prices**. In states where GVO per quintal is lower than MSP, it signifies that **farmers do not even receive the declared MSP when they sell the crops**. This is primarily due to the poor state of procurement in the states. We can continue this exercise for all the crops. It is interesting to note that in case of Arhar, Cotton and Jowar, the MSP covers C<sub>2</sub> costs in very few states.

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<sup>6</sup> Chand, Ramesh. 2009. "The Wheat Market: Distortions Caused by Government Interventions." *Economic and Political Weekly* 44 (12): 41-46.

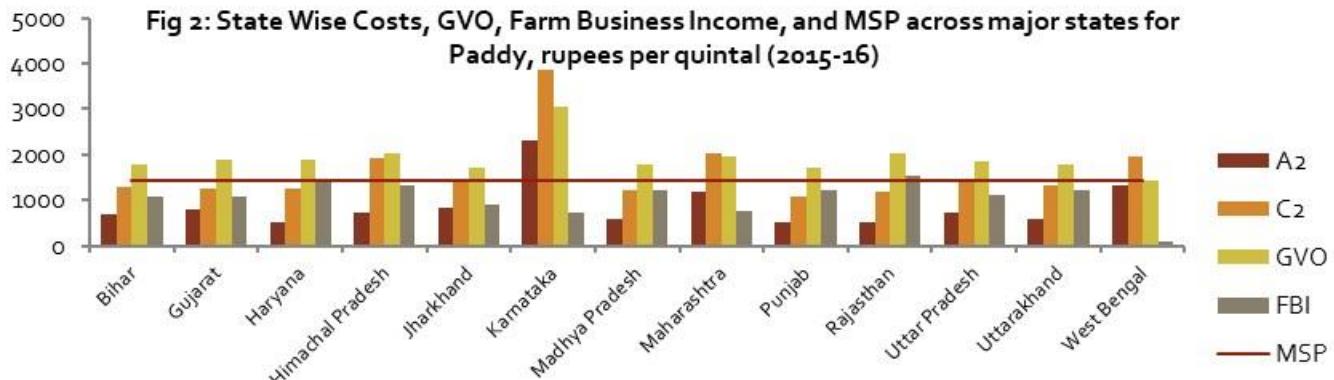
<sup>7</sup> GVO refers to the value of total production. It includes the value of the main product as well as of by-products

**Fig 1: State Wise Costs, GVO, Farm Business Income, and MSP across major states for Wheat, rupees per quintal (2015-16)**



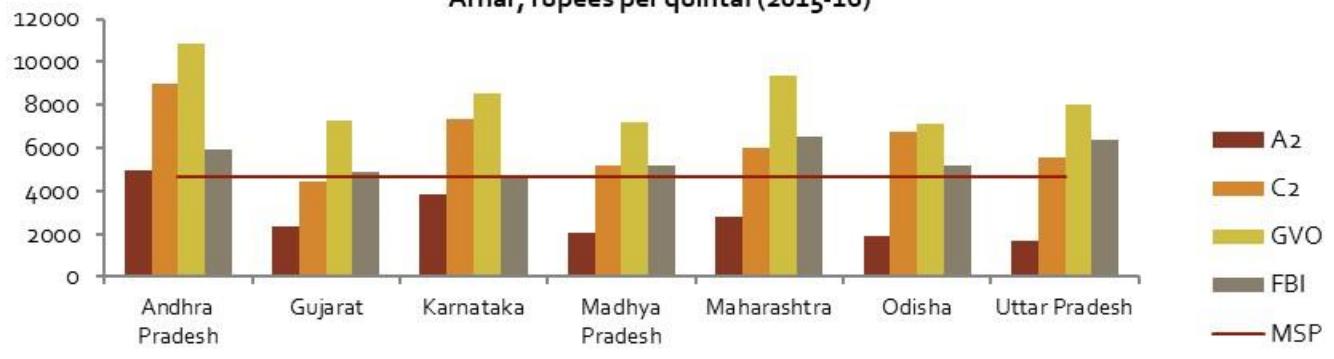
Source: Cost of Cultivation data, released by CACP (Computed by the author)

**Fig 2: State Wise Costs, GVO, Farm Business Income, and MSP across major states for Paddy, rupees per quintal (2015-16)**



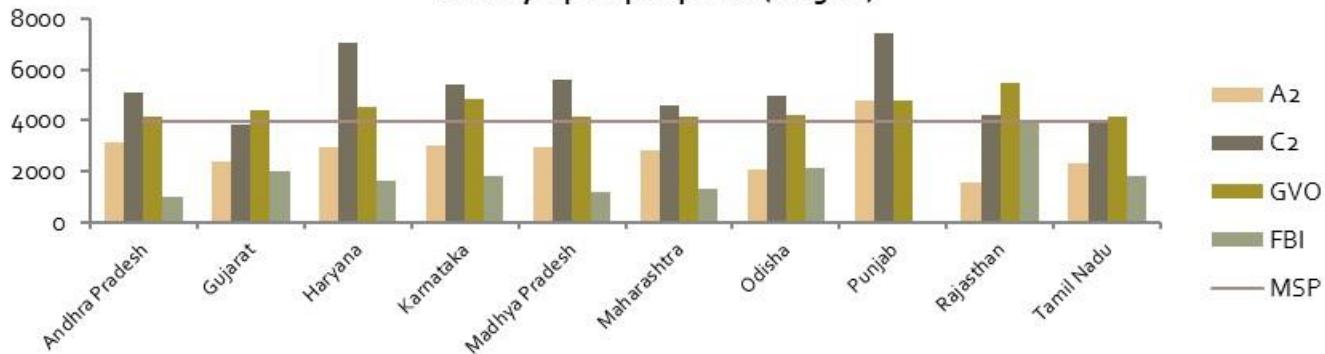
Source: Cost of Cultivation data, released by CACP (Computed by the author)

**Fig 3: State Wise Costs, GVO, Farm Business Income, and MSP across major states for Arhar, rupees per quintal (2015-16)**



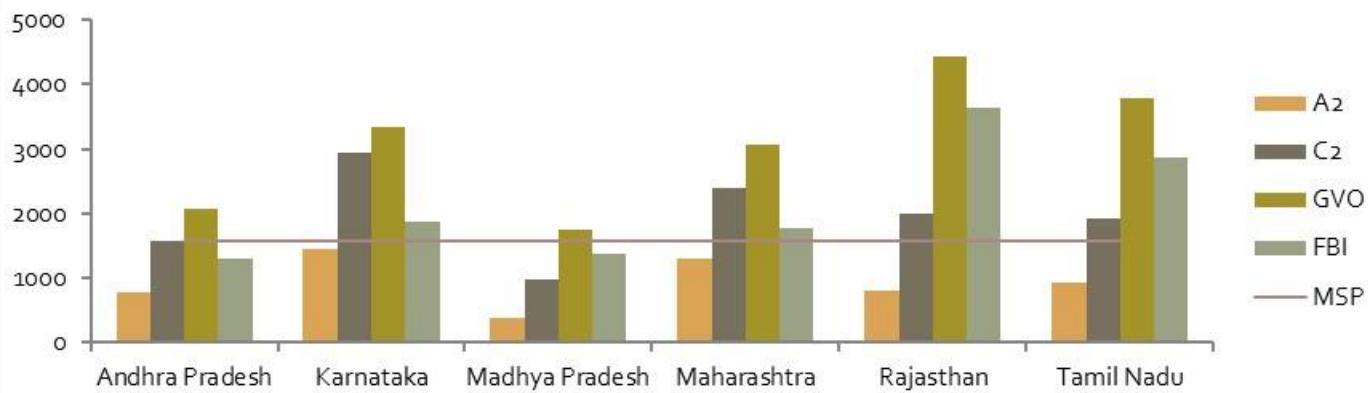
Source: Cost of Cultivation data, released by CACP (Computed by the author)

**Fig 4: - State Wise Costs, GVO, Farm Business Income, and MSP across major states for Cotton, rupees per quintal (2015-16)**



Source: Cost of Cultivation data, released by CACP (*Computed by the author*)

**Fig 5: - State Wise Costs, GVO, Farm Business Income, and MSP across major states for Jowar, rupees per quintal (2015-16)**



Source: Cost of Cultivation data, released by CACP (*Computed by the author*)

## V. Spatial Variations in Cost, Prices and Incomes

The point of MSP is to provide farmers with remunerative prices with margins over the cost of production. Table 2 and 3 show the extent to which the MSP has covered the cost of production, using the commonly expected and demanded cost formula of 50 percent over the comprehensive (C<sub>2</sub>) cost of production. There exists a **regional variation in the profitability levels**, if measured over cost C<sub>2</sub>, across states over the minimum support prices as provided by the government.

*For Paddy, the support price provided by the state does not cover the expected returns from cultivation* (Table-2). Except for the instance in 2008 & 2009 in Bihar, the C<sub>2</sub>+50 percent returns are not provided for in any of the states across the period of 1996-97 to 2015-16. The National Commission for Farmers gave its recommendation in 2006 to compulsorily provide MSP over the C<sub>2</sub>+50 percent cost formula. In the case of Wheat, it was only in the 2012-14 period that the MSP remained around the 50 percent formula for some states (Table-3).

It is important to locate the **spatial bias in a common farm price policy** through tables 2 & 3. The states with lower per unit and per area cost of production receive marginally improved benefits over the C<sub>2</sub> cost. This is a noticeable trend for both Paddy and Wheat crops. **In Paddy, the states of Bihar and Uttar Pradesh incur fewer costs as compared to other states.** The MSP is derived using the weighted average formula from cost of production across states and therefore, it naturally follows that some states will eventually gain more over the announced MSP. For Wheat, this is true for the states of Bihar and Madhya Pradesh. **During the years 1997-2007, the profitability levels for the respective states ranged roughly around 5-15 percent over the cost. After 2007, the levels of remuneration over C<sub>2</sub> cost increased to provide above and around 20-25 percent of the comprehensive cost measure in Bihar, UP for Paddy, and 25-35 percent in Bihar, MP for Wheat.**

There exists further differentiation amidst the states with higher and equivalent level of costs in per unit and per area analysis. **MSP has remained a remunerative measure only in Punjab (both Paddy and Wheat)**, where anyways other government's agricultural support mechanism has been working effectively than many other states. For Rajasthan, the per hectare costs are higher but there exists profitability over MSP as the yield levels are higher. Improved yield levels benefit states like Punjab and Rajasthan to cover costs and earn greater profit compared to the other states. The periodization of the first decade till around 2005-06 being less remunerative is a true phenomenon in the case of Wheat analysis of MSP. Since 2007, the profitability levels increased but then show a sharp decline again in the past three years (in congruence with the pattern noticed previously).

<b>MSP over C2 Paddy</b>					
<b>Year</b>	<b>Bihar</b>	<b>Punjab</b>	<b>TN</b>	<b>UP</b>	<b>WB</b>
<b>1997</b>	1.01	1.09		1.23	1.00
<b>1998</b>	1.10	1.16		1.14	0.97
<b>1999</b>	1.19	1.08	0.99	1.14	0.90
<b>2000</b>	1.04	1.27	0.88	1.20	0.97
<b>2001</b>	1.08	1.32	1.00	1.23	0.99
<b>2002</b>	1.23	1.35	0.93	1.18	1.05
<b>2003</b>	1.13	1.10	0.89	0.99	0.99
<b>2004</b>	1.17	1.24	0.92	1.20	1.00
<b>2005</b>	1.02	1.25	0.91	0.97	0.96
<b>2006</b>	1.13	1.15	0.81	0.99	0.96
<b>2007</b>	1.11	1.30	0.98	1.01	0.99
<b>2008</b>	1.63	1.47	1.07	1.24	1.11
<b>2009</b>	1.53	1.34	1.01	1.15	1.23
<b>2010</b>	1.04	1.29	1.11	1.19	1.16
<b>2011</b>	1.02	1.20	1.06	1.24	0.98
<b>2012</b>	1.25	1.19	0.97	1.12	0.99
<b>2013</b>	1.16	1.32	1.00	1.23	1.01
<b>2014</b>	1.13	1.26	1.04	1.27	0.96
<b>2015</b>	1.29	1.25	0.97	0.92	0.96
<b>2016</b>	1.11	1.33	0.98	0.91	0.99

**Table 2 - Minimum Support Prices as a proportion of Cost C2, for Paddy (Common), across major states, 1997-2016**

Source: CACP and MSP data, computed by the author

<b>MSP over C2 Wheat</b>						
<b>Year</b>	<b>Bihar</b>	<b>Haryana</b>	<b>Madhya Pradesh</b>	<b>Punjab</b>	<b>Rajasthan</b>	<b>Uttar Pradesh</b>
<b>1997</b>	0.90	1.09	0.77	1.03	0.97	1.01
<b>1998</b>	1.04	1.19	1.00	1.14	1.21	1.29
<b>1999</b>	0.97	1.38	1.04	1.26	1.23	1.30
<b>2000</b>	1.12	1.37	1.01	1.38	1.17	1.27
<b>2001</b>	1.14	1.26	0.98	1.33	1.14	1.28
<b>2002</b>	1.11	1.26	1.03	1.32	1.31	1.31
<b>2003</b>	1.02	1.27	0.95	1.24	1.29	1.21
<b>2004</b>	1.02	1.21	1.11	1.24	1.26	1.29
<b>2005</b>	1.06	1.19	1.08	1.26	1.31	1.05
<b>2006</b>	0.89	1.08	0.88	1.14	1.20	0.97
<b>2007</b>	1.02	1.17	0.96	1.12	1.23	1.08
<b>2008</b>	1.37	1.24	1.09	1.29	1.31	1.29
<b>2009</b>	1.48	1.37	1.23	1.23	1.45	1.28
<b>2010</b>	1.33	1.26	1.33	1.31	1.49	1.28
<b>2011</b>	1.42	1.39	1.32	1.25	1.60	1.34
<b>2012</b>	1.60	1.48	1.51	1.43	1.53	1.36
<b>2013</b>	1.56	1.29	1.41	1.38	1.47	1.27
<b>2014</b>	1.53	1.33	1.30	1.44	1.35	1.30
<b>2015</b>	1.13	1.12	1.23	1.28	1.18	0.92
<b>2016</b>	1.11	1.16	1.19	1.32	1.22	1.01

**Table 3 - Minimum Support Prices as a proportion of Cost C2, for Wheat, across major states, 1997-2016**

Source: CACP and MSP data, computed by the author

**For West Bengal, MSP provided does not even cover the C<sub>2</sub> cost, rest aside the 50 percent argument.** West Bengal is a labour intensive economy with more usage of hired and family labour and relatively more fragmented structure of operational holdings. This implies that the labourers and small farmers are suffering at the other end of the policy. The case of West Bengal is a tragic one, with respect to the expectations of remunerative prices from government. The MSP has been profitable to them only for 7 years in the twenty-year period of analysis, and more so it did not cover more than 10 percent of the costs during these 7 years except for one instance.

The case of *Tamil Nadu also shows farmers losing out on incomes* (table – 3). But Tamil Nadu has relatively highest cost and growth in cost over the period than compared to other states. The yield levels are not being increased, but the costs remain increasing. As a result, the levels of profitability remain low over MSP as the mechanized production process might not have led to improved yields in the region. This is a typical example of inherent spatial variations (read as bias) in price policy.

Table 4, which shows the MSP as percentage of two different costs. **The A<sub>2</sub>+FL is the cost determined by the government to decide the MSP, while the C<sub>2</sub> cost is the one demanded by farmers' groups to be implemented.** For rice and wheat, the MSP still provides for somehow positive returns from cultivation over the A<sub>2</sub>+FL cost formula, but none of the states demarcate more than 50 percent returns from cultivation over cost C<sub>2</sub>. **For Jowar, Arhar and Cotton, the MSP hardly even covers the C<sub>2</sub> cost in almost all of the states incurring losses faced by farmers,** not arguing for the percentage profits over cost of production. These crops are one of the most grown by number of cultivators and are also priority of the CACP in the prices policy. The reflection of such losses in these principal crops predict even *bleaker chances of profitability for other crops*.

The analysis of farm income over the comprehensive cost further show declining income, negative income in some cases, to be the reality of farm crisis (see Table 5). The meager incomes over C<sub>2</sub> cost is also the depiction of the severity of the farm income crisis. The profitability for cotton shows the exact picturization of the distress as also evidence from increasing suicides by cotton cultivators prevalent in India, as *huge losses per quintal are incurred by cotton cultivating farmers*. Even for the most state-protected crops of Paddy and Wheat, there are visible losses, especially for Assam, MP, Maharashtra, Odisha, UP and West Bengal. These high levels of spatial variations are needed to be considered for a protective price policy mechanism otherwise it shall lead to increased regional inequality in production conditions.

	Paddy		Wheat		Jowar		Arhar		Cotton	
	MSP/A2+FL	MSP/C2								
<b>Andhra Pradesh</b>	168%	109%	-	-	173%	100%	78%	51%	106%	78%
<b>Assam</b>	138%	102%	-	-	-	-	-	-	-	-
<b>Bihar</b>	164%	114%	165%	111%	-	-	-	-	-	-
<b>Chhattisgarh</b>	148%	104%	-	-	-	-	-	-	-	-
<b>Gujarat</b>	172%	132%	151%	116%	-	-	142%	104%	132%	103%
<b>Haryana</b>	163%	94%	223%	116%	-	-	-	-	81%	56%
<b>Himachal Pradesh</b>	136%	98%	110%	75%	-	-	-	-	-	-
<b>Jharkhand</b>	153%	105%	141%	102%	-	-	-	-	-	-
<b>Karnataka</b>	155%	103%	49%	38%	86%	54%	93%	63%	110%	72%
<b>Kerala</b>	116%	87%	-	-	-	-	-	-	-	-
<b>Madhya Pradesh</b>	114%	84%	194%	119%	274%	162%	153%	89%	92%	71%
<b>Maharashtra</b>	71%	59%	94%	71%	90%	66%	116%	77%	113%	86%
<b>Odisha</b>	128%	100%	-	-	-	-	107%	69%	104%	80%
<b>Punjab</b>	248%	137%	256%	132%	-	-	-	-	67%	53%
<b>Rajasthan</b>	-	-	180%	122%	105%	79%	-	-	129%	93%
<b>Tamil Nadu</b>	137%	101%	-	-	130%	82%	-	-	126%	100%
<b>Uttar Pradesh</b>	134%	94%	158%	101%	-	-	174%	83%	-	-
<b>Uttarakhand</b>	238%	145%	196%	110%	-	-	-	-	-	-
<b>West Bengal</b>	132%	102%	92%	73%	-	-	-	-	-	-

**Table 4 - MSP as proportion of various costs across states for major crops, 2015-16 (computed using CACP data)**

Source: CACP and MSP data, computed by the author

States	Paddy		Wheat		Jowar		Arhar		Cotton	
	FBI	Net Income								
	GVO - A2	GVO - C2								
<b>Andhra Pradesh</b>	809	184	-	-	1308	497	5904	1866	967	-933
<b>Assam</b>	528	-283	-	-	-	-	-	-	-	-
<b>Bihar</b>	706	117	1070	470	-	-	-	-	-	-
<b>Chhattisgarh</b>	647	4	-	-	-	-	-	-	-	-
<b>Gujarat</b>	960	603	1094	633	-	-	4898	2833	1973	538
<b>Haryana</b>	1079	203	1383	645	-	-	-	-	1604	-2513
<b>Himachal Pradesh</b>	1617	506	1322	121	-	-	-	-	-	-
<b>Jharkhand</b>	788	88	907	304	-	-	-	-	-	-
<b>Karnataka</b>	1061	454	721	-812	1870	381	4744	1247	1796	-612
<b>Kerala</b>	1048	532	-	-	-	-	-	-	-	-
<b>Madhya Pradesh</b>	674	-180	1212	575	1382	776	5207	2017	1205	-1452
<b>Maharashtra</b>	662	-173	758	-94	1777	684	6538	3352	1330	-427
<b>Odisha</b>	562	-208	-	-	-	-	5173	345	2130	-742
<b>Punjab</b>	1010	441	1216	629	-	-	-	-	5	-2659
<b>Rajasthan</b>	-	-	1532	852	3639	2440	-	-	3931	1272
<b>Tamil Nadu</b>	624	99	-	-	2862	1868	-	-	1795	196
<b>Uttar Pradesh</b>	526	-222	1130	413	-	-	6352	2495	-	-
<b>Uttarakhand</b>	914	321	1206	476	-	-	-	-	-	-
<b>West Bengal</b>	622	-53	104	-544	-	-	-	-	-	-

**Table 5 - Farm Incomes, over different cost formulas across states for major crops, rupees per quintal, 2015-16**

Source: CACP and MSP data, computed by the author

## VI. Deficiency Payments Mechanism (*Bhavantar Bhugtan Yojana- BBY*)

A key policy based on price supportive measures that was introduced as a pilot in the state of Madhya Pradesh, advocated by many economists and policy makers, is that of **Bhavantar Bhugtan Yojana**. The **key objective of the same is to stabilise farm incomes** over the period. This can be done through two measures: Deficiency Payments and Storage Subsidy. The deficiency payments shall be entitled to all the farmers selling to the government at a price lower than MSP, though only during a particular notified period. Otherwise, the farmer can choose to sell when the prices rise, and a storage subsidy is provided for the same. The working procedure for deficiency payments is designed such that a subsidy is provided to the farmers in the bank account linked directly to their aadhar card, in case the market prices fell below the MSP provided by the government.

The study conducted by Sekhar et al. (2018)<sup>8</sup> depict that availing of benefits of storage subsidy was absent in the region. The working process of policy implementation involves many stakeholders including the farmer, trader/commission agent, mandi board functionaries, department of revenue, state treasury and banks. Every day, the quantity, minimum, maximum and modal price of each mandi is sent to the central mandi boards. On the basis of weighted average, a monthly average modal price is calculated. The farmers receive the difference between the MSP and the sale price or the modal price (whichever is higher).

The functioning of the policy of deficiency payments seems simple and feasible. But it is mostly only after the implementation of the policy that we are able to locate the inherent problems in the design and delivery architecture of the policies, especially an economic policy with price measures. Firstly, the *delay in payments* is huge and is strongly contested time and again by farmers. Secondly, the limitation around *crops and notified period restricts the farmers' choices*. Thirdly, the *weighted average problem as usual, undermines the yield potentials* of certain regions. Moreover, the administrative problem of *mismatch between the area reported* by the farmer and by land revenue department's documentation is a serious concern. The land use data management and its' synchronization from cultivator to village to national level should be an integrated system that lacks and confines the scope of such policy measures in India. Fourthly, the *quality of produce as provided* under BBY is marked to be inferior by both government officials as well as traders.

Important drawback of the BBY is that its **key objective of stabilising farm incomes did not play an effective role**. This was primarily due to the *political interests of the trader class in the market*. The traders purchased from farmers at low prices and did not sell to government. They withheld the stocks until the prices crash in the market and then sell it to the APMC to gain the increased margin per quintal. Other measures to control price variability also failed with increasing instances of quality control problems. The BBY scheme is linked to market prices and production choices. Therefore, it involves a certain kind of risk and needs to locate the spatial bias, if looking for alternative measures of attaining MSP like a differentiated price policy mechanism. The design and delivery architecture of the scheme needs further emphasis to remove major loopholes.

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<sup>8</sup> Sekhar, CSC, Amarnath Tripathi, and Yogesh Bhatt. 2018. "Ensuring MSP to Farmers: Are Deficiency Payments an Option?" *Economic and Political Weekly* 53 (51): 50-57

## VII. Conclusion

The price policy as an economic policy supports the farmers, but the shadow of fiscal and monetary risks built around it needs to be demystified. The political compulsions leading to increase in MSP as a populist move is a noticeable pattern in Indian politics. The analysis above clearly indicates that apart from political disorientation (which is out of the ambit of economists mostly), there are some evidence of inherent economic bias in the price policy i.e. spatial bias. The methodology to choose the MSP over the cost formula is never clearly discussed by the government, and as discussed above, there exists a spatial bias in the price policy. The MSP does not cover much over the margins of C2 cost and in many states the negative incomes is a trend for many years.

While locating the opportunities for doubling farmers' income by 2022, the government prioritized diversified means to achieve the same<sup>9</sup>. But the evident reality of increasing cost of cultivation clearly shows that the supportive prices haven't actually been supportive to farmers as the incomes are decreasing during the recent times. This situation is primarily for principal crops, though for other non-cash crops, the profitability levels are even poor. It is the cause of this grim reality that was depicted in the Situational Assessment Survey, 2013 that most of the farmers do not want to continue cultivating crops and prefer to move out of agriculture, if given opportunity<sup>10</sup>. The government's policymakers need to realise the gravity of the situation and focus on both price and non-price measures to boost farm income. Structural changes in the agricultural policy with controlled input costs, enhanced extension mechanisms and stable market prices should also be the aim to control farm costs, and thereby enhance farmers' income.

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<sup>9</sup> Chand, R. (2017, March). Doubling Farmers' Income. *NITI Policy Paper(1)*.

<sup>10</sup> Key Indicators of Situational Assessment of Agricultural Households. 2013. MoSPI. NSSO 70<sup>th</sup> Round