Crop Prices and Farmers' Unrest*

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Farmers' unrest across the country, and particularly across several BJP-ruled states, appears to have caught the central government by surprise. But it should really not have done so. Ever since candidate Narendra Modi in 2014 promised the farmers "acchhe din" in the specific form of doubling of farm incomes in five years and public procurement at prices ensuring 50 per cent return over costs as recommended by the Farmer's Commission headed by MS Swaminathan, farmers have been waiting for these promises to be fulfilled. Three years down the line, they feel cheated. And of course, they might feel betrayed by the whammy of demonetisation and its prolonged effects on rural markets, which have depressed all crop prices and not allowed them to reap the benefits of a bountiful monsoon.

Several issues are at stake here, which need to be considered if we are to understand the farmers' demands for immediate relief from debt burdens and for properly remunerative prices. The BJP's pre-election promises struck such a chord among farmers because for some time now the issue of the viability of cultivation has been a pressing one. The first UPA regime in the decade of the 2000s went some way towards mitigating the agrarian crisis that was affecting the countryside, but since around 2012, many of the problems, which had essentially been patched over rather than comprehensively addressed, reappeared with even greater intensity.

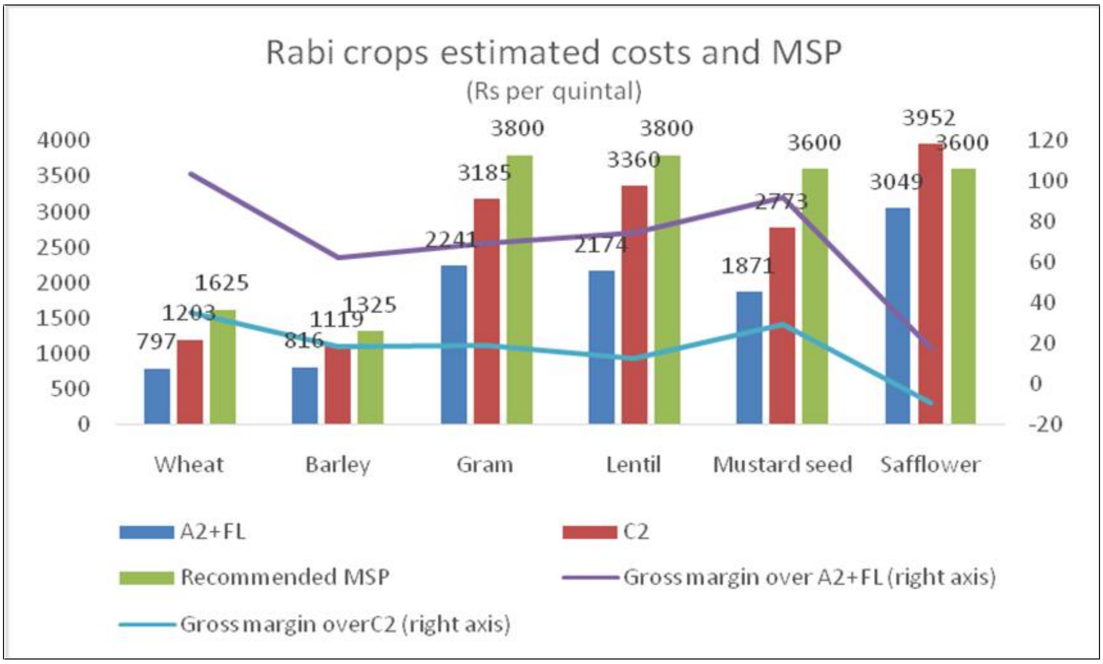
Indeed, this is what creates the difficulties in debt servicing that farmers are facing across the country, which in turn has given rise to promises of loan waivers in several BJP-rules states. This is a knee-jerk reaction to a deeper problem of farm viability that is still not being addressed, and it is likely to create even more problems especially when it becomes clear that the actual waivers will be much more limited than promised.

The background is that promise of procurement prices at 50 per cent higher than total cost has not been fulfilled by the current government over the past three years. First, the declared MSPs have not been at the promised levels; and then the poor implementation of even these prices in government purchases has meant that they have not operated as floor prices for agricultural markets.

Chart 1 provides the CACP estimates of costs and recommended MSP for the rabi season 2017-18 (the current season), for the crops in which there is public procurement. The cost A2+FL refers to the actual paid out cost plus imputed value of family labour, while C2 is the comprehensive cost including imputed rent and interest on owned land and capital. Note that both these costs do not include interest payments on working capital, which must be paid out of the margins.

Note further that the costs are calculated as weighted averages across states, and there are many states for which the costs exceed these averages. So the MSP may not even cover costs in some states, much less provide a margin over them. For example, in the case of wheat, the CACP's estimated average cost of Rs 1203 covers a range from a low of Rs 1100 per quintal in Punjab to a high of Rs 2200 per quintal in West Bengal, with Maharashtra showing a cost of Rs 1900, well above the MSP. In the case of gram, the average cost of Rs 3185 incorporates a low of Rs 2550 in Rajasthan and a high of Rs 3800 in Karnataka. Cultivation costs of mustard seeds go from Rs 2200 per quintal in Madhya Pradesh to Rs 4500 per quintal in West Bengal, with the national weighted average at Rs 2773. And so on.

Chart 1: MSPs have not provided the promised margins over cost



Source: CACP Report for Rabi Season 2017-18

The CACP Report for the rabi season of 2017-18 admits that "the pricing policy is not rooted in the 'cost plus' exercise, though cost is one of its important determinants", since it also takes into consideration other factors such as inter-crop parity, which must necessarily be a subjective exercise. Even so, it is apparent from Chart 1 that the recommended prices for the crops do not come anywhere near the promise of 50 per cent above the total costs if C2 is considered. In the case of at least one crop, safflower seed, the recommended MSP is actually below C2, and provides a margin of only 18 per cent over the cost A2+FL.

But then there is the further issue of whether these recommended MSPs actually function as floors to the market prices that farmers face. This highlights the ineffectiveness of procurement policy in different states. The fact that farmers' unrest has been especially marked in BJP-ruled states does not reflect 'political conspiracy' as has been alleged, so much as that these state governments seem to have been quite poor in ensuring that market prices stay at or above the MSP, which is an essential function of the procurement process.

Consider the data provided in Table 1 on actual mandi prices in two states that have witnessed much of the anger of cultivators, Maharashtra and Madhya Pradesh. Three crops are examined here: wheat, gram and lentil. The prices are a simple average across mandis in the states, and in some mandis, the prices were much lower than the average even on those dates.

In any case, it is apparent that for wheat, market prices in Madhya Pradesh have been well below the MSP on both 31 May and 15 June. Compared to the state average low price of Rs 1599 and high price of Rs 1565 on 31 May, Laundi mandi recorded a low of Rs 1390 and a high of only Rs 1425 per quintal, while Satna showed a low of Rs 1400 and a high of Rs 1516. Several dozen other mandis showed rates well below the MSP.

In Maharashtra, minimum prices were below the MSP on both dates, and even the modal average price barely crossed the MSP on 15 June. The mandi-wise variation once again indicates that farmers in some districts faced even lower prices: on 31 May, the state average low price was Rs 1599, but mandis in Parola and Sarangpur showed rates of Rs 1300 per quintal, while several others showed Rs 1400 per quintal. Once again, many mandis had rates well below the MSP.

Table 1: Minimum Support Prices and Actual Mandi Prices
(in Rs per quintal)

		MSP	Price on 31 May		Price on 15 June		
(average of mandis across state)		Min	Max	Mode	Min	Max	Mode
		Wheat					
Maharashtra	1625	1599	1860	1729	1557	1771	1673
Madhya Pradesh		1489	1640	1565	1508	1568	1532
		Gram					
Maharashtra	3800	4899	5458	5156	4774	5089	4981
Madhya Pradesh		4494	5166	4905	4534	5066	4637
		Lentil					
Madhya Pradesh	3800	2990	3362	3227	3053	3304	3152
Mandsaur, MP		2800	3500	3150			

Source: Calculated from data on http://farmer.gov.in/marketprice.html, accessed on 18 June 2017

The case of gram (chana) appears to be somewhat better, with both states recording market prices (both minimum and maximum) well above the MSP. But for lentil, the failure of the procurement policy to provide an adequate floor for market prices in Madhya Pradesh – which incidentally provides 44 per cent of the country's lentil output – is once again evident. Mandi prices across the state have been well below the procurement price, not just the average but even the maximum prices recorded. Once again, some districts and mandis have shown even lower rates. Thus Mandsaur, the epicentre of some of the recent protests showed a modal price per quintal of Rs 650 below the MSP, with the minimum obviously even lower.

Currently there are also problems in soyabean and cotton markets, where prices are ruling well below the declared MSP for the previous kharif season. And the demonetisation-induced collapse in rural liquidity has meant low prices for perishables like fruit and vegetables.

Clearly, farmers have good reason to be angry. And hasty and ill thought-out loan waivers, while unavoidable given the policy-made circumstances, will not relieve either their distress or their anger.

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