Will Legal MSP Guarantees Drive the Government to Bankruptcy?

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Demand for a law guaranteeing MSPs for crops in markets has once again surfaced with renewed farmers agitation. Of late, several articles in news media and TV debates about the dangers of providing a legal sanctity to the Minimum Support Price (MSP). Dr. Ashok Gulati (TOI, 14th February, 2024), Dr. Ramesh Chand (Niti Ayog, 2023) are major proponents of this argument. They argue that purchase of all crops (23 of them) at guaranteed MSP would drive the government to bankruptcy and leave little money left in budget for infrastructure and development.

Farmers reviving the agitation for guaranteed MSP and other demands complain that this is an implementation problem. They say the announced MSPs are notional, as government procurement is limited and majority of farmers in various states are often getting prices quite below the MSPs in markets. Hence farmers demand a law legally guaranteeing purchase of 23 crops at MSPs across the country in markets.

Will the guaranteed MSPs drive the government finances to go bankrupt? Let’s examine the case.

Cost of Procurement and Burden

As reported by Business Today the total value of all agricultural produce in 2020 is Rs. 40 Lakh crores. This however includes diary, meat, sugarcane, cotton and other minor crops. And the value of cereals i.e. paddy, wheat and maize that enters market is valued around Rs. 7 lakh crores (Kiran Vissa and Yogendra Yadav) or Rs. 8 lakh crores (Harsh Damodaran) and Rs. 10 lakh crores (Business Today). It may not be necessary for government agencies to buy every grain produced by farmers. As the overwhelming majority of small and tenant farmers (owning less than 1 ha of land), keep aside nearly 30 percent of produce for family, seed needs and nearly 74 percent of harvested 23 crops enters the markets. With assurance of legal guarantee (price above MSP) government agencies are not purchasing what all grain brought to markets but 10 percent. Backed by legal guarantee, this is sufficient to raise the price benchmark above the MSP in open markets.

This will stabilize markets and private traders will be bound to purchase at the raised market price. Yogendra Yadav and other economists opine that extra cost of government only an additional Rs 47,764 crores (2017-18 data) if legal guarantee is provided. MSP of a crop should not be treated as a “reserve price”, below which no trade is allowed legally. As guarantee law assures prices are regulated in market and does not mandate government to purchase market surplus or every grain. Government buys regularly quantities required for PDS distribution under Food Security Act. In the end government will get back later more than two thirds of purchased expenditure from PDS and buffer stock sales in the market.

Economists and news media supporting Niti Ayog's government version claim the expenditure is too big and burdensome and simply leave the government with no money for infrastructure building, defense and other needs. Extra expenditure of Rs. 10 lakh crores (inflated figure by government). They further argue, simply would derail the economy at a time nation is aspiring to reach $ 5 trillion economy. In reality, as shown above, the extra expenditure for stabilizing prices in context of legal guarantee will not exceed Rs 74 to 80,000 crore rupees. The argument that any rise in MSPs will increase prices for consumers is fallacious. Because farmer's share in every rupee on purchase of agricultural produce is only 30 paisa and the rest is being pocketed by middle men and big agribusiness corporations like Adani's Fortune or ITC and supermarkets.

The argument that the government will have to procure all the produce that enters the market is and may go bankrupt is unscientific and fallacious. Market intervention when they get overheated is not new. Intervention of RBI to regulate FOREX reserves or to cool prices when steel is dumped from overseas are not new.

Tapping Resources

Of the Rs 5.2 lakh crores, required from public expenditure government is already been spending on crop procurement by FCI and other government agencies of Union government.

Rest of the extra expenditure can be met through three sources of public finance.

1. Withdraw undue reduction in corporate, income and wealth taxes given to rich industrialists during the last decade. Corporate tax reduction should be restored to 33 % (currently at 27 %) and income tax to 29 % (currently 22 % after reduction). Note that as per data in Union budget presented by Finance minister, shares of Corporate and income tax in Gross Tax Revenue make up to 27 % and 29 % respectively. By readjusting, an extra revenue of nearly 4.5 Lakh will be available which can be readily used to meet Guaranteed MSP expenditure.

2. Impose tax on individuals whose wealth exceeds Rs 10 crore.

3. Rise the statutory Liquidity ratio of public sector banks to meet the funds required for guarantee MSP expenditure.

Similar arguments were raised when MNREGA rural employment or Food Security Act for PDS were introduced during previous UPA governance. Subsequently, the results were proven falicius as stress from rural employment and price rise was alleviated. Provision of crop price above MSP will provide some relief to debt ridden small farmers and put some money in to their pockets. Production incentive scheme, tax discounts (Rs 1.97 lakh crores for the former and drastic cuts in Corporate and wealth taxes) to big industry, did not result in private investments or job creation. The fiscal benefits were not invested to expand manufacturing and new job creation and were invested by capitalists in speculative share markets to boost their profits.

Income Security, Economic, Ecological Benefits:

Unlike them, any extra money derived from crop sales a small farmer immediately enters the market and enhances demand. He invests on more t buy crop inputs, bicycles or on daughter's marriage ceremony. The increased demand in turn improves manufacturing and improves the health of economy.

Crop Diversification and Ecology:

Provision of guaranteed prices to pulses, millets and oil seeds along with rice and wheat imparts confidence in farmers and they move away from rice- wheat mono culture by cultivating other crops as well. This not only provides nutritional security to rural India but also brings an array of ecological benefits such as restoration of ground water levels, paddy straw burning, less pests and diseases apart from decrease in use of chemical fertilizers and pesticides.

Swaminathan Commission has recommended apart from scientific calculation of crop MSPs, other important measures to rise rural incomes, land reforms, food & nutritional security, old age pensions, sustainable farming and other environmental proposals. Legal MSP law is just a temporary relief to small farmers and these other recommendations must be addressed in combination immediately to alleviate small farmer stress and increase food production thereby attaining universal food security through PDS.

Corporate Encroachment of agriculture (input supply, production, credit, cut in subsidies, eNAM markets and food market value chains) is the primary cause of small farmer distress. The three farm laws introduced by government in 2020 were part of corporate encroachment in to small farmer agriculture. Besides corporate farming, lifting ban on private mass storage of produce, surrender to WTO sanctions on subsidies are directly aimed at handing over total food production to domestic agribusiness and imperialist global grain traders. In the current negotiations between agitating farmers and Union government a new proposal to contract purchase of pulses and other crops with fixed price for next 5 years. Farmers in Punjab, for example for the last 15 years had bitter experience of contract purchase agreements entered with Pepsi company for Potatoes and tomatoes. Against the terms of contract agreement, farmers were often denied original contract price on the grounds-lack of demand or inadequate quality. Similarly, the new proposal of Contract crop purchase (without consideration of guaranteed MSPs not considering the Swaminathan formula of Cost of Production + 50 %) is yet another Jumla (Ploy) by the government to deceive farmers just before the Lok Sabha elections.

Farmer agitations for guaranteed MSP law and other demands will help to provide certain relief to distressed farmers. However, farmers and workers should continue to fight against corporate encroachment in to agriculture, food markets and public assets. But the final objective of this united struggle should be liberation of toilers from exploitation of domestic capitalism and global imperialism and attainment of public ownership on means of production possible under socialism.

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