Empty Promises*

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The timing of the Modi government's announcement of a hike in the minimum support prices for kharif crops suggests that this may be another of its tall claims not backed by the financial allocations needed to deliver on them.

According to a recent Cabinet decision of the National Democratic Alliance (NDA) government, a large proportion of India's farmers are to be offered the opportunity to sell their crops to the government at a minimum support price (MSP) that covers costs and provides for a margin of 50 per cent, starting with this kharif season. Together with measures like loan write-offs offered by some Bharatiya Janata Party-ruled (BJP) States and an ostensibly much-improved crop insurance scheme in the form of the Pradhan Mantri Fasal Bima Yojana (PMFBY), this hike in MSPs is seen to have confirmed the pro-farmer tilt of the Narendra Modi government.

What needs noting is that with the exception of the PMFBY, the other measures were introduced towards the end of the tenure of the Modi government, and that too in response to strong farmers' agitations in many States and the coming together of different farmers' organisations on one platform with a clear charter of demands. Evidence that Indian agriculture was languishing and that the farming community was under stress had been present ever since this government came to power. So, its belated decision to announce measures such as those mentioned was driven by protests from farmers and the fear that farmers may turn against the NDA in the impending State elections and the Parliamentary election due less than a year from now.

The political motivation implicit in the timing of the expressions of concern for the farming community suggests that the promises that the BJP is making may not be fulfilled. If it wins the 2019 elections again, it can postpone implementing the new measures in full for possibly another four years. If it does not, the task devolves on the parties forming the next government.

The possibility that the farmers will not get what they are being offered by this government is high because the BJP-led NDA has built a reputation for making tall promises and not providing the financial allocations needed to deliver on them. The National Health Protection Scheme announced in the last Budget is an example of this attempted use of deception for political ends. The scheme, announced with much fanfare but few details, and which, according to the Finance Minister, was to be "the world's largest funded health care programme", is unlikely to be kicked off before the elections. The money to start the programme is nowhere in sight.

Fasal Bima Yojana

Even when a scheme is begun and is part of intense pro-government propaganda, it may not proceed very far for lack of commitment and funding. Consider, for example, the PMFBY. It was supposed to offer farmers crop insurance in return for them paying two per cent of the total premium in case of the kharif crop, 1.5 per cent in the case of rabi and five per cent in the case of horticultural crops. Much of the premium was to be covered by the Centre and the States. The idea, as in the case of the health protection scheme, was to hugely extend the reach of scheme in terms of proportion of farmers and area covered. It has been more than two years since the scheme was launched, but it has not made much headway. The area covered was to touch 40 per cent of the gross cropped area by the end of 2017-18 and 50 per cent in the financial year ending before the 2019 elections. In practice, the area covered actually fell from 30 per cent in 2016-17 to 24 per cent in 2017-18, and the number of farmers insured has fallen as well.

There are reasons to believe that the fallout of the Cabinet decision to hike the MSPs for all covered crops beginning this kharif season would be similar. To start with, what is on offer is not what the government and the Prime Minister had promised farmers. The government had agreed to implement the recommendation of the National Commission on Farmers (NCF). According to M.S. Swaminathan, the Chairman of the NCF, that recommendation was to set the MSP at 1.5 times the comprehensive cost of production, labelled "C2" by the Commission for Agricultural Costs and Prices (CACP), which covers all paid-out costs, the imputed wages of family labour applied, and the imputed rent and interest of own land and capital deployed. The idea, clearly, was to give farmers a price that would include a surplus that provides both the means and the incentive to make productivity-enhancing investments.

However, the government, while announcing a hike in MSPs, has decided to set those prices at 1.5 times the "A2+FL" cost computed by the CACP, which included only paid-out costs and the imputed cost of family labour. If this principle is adopted, the MSPs for almost all crops cultivated in this kharif season would be set between 20 and 30 per cent below the price based on C2 costs. This not only varies from what the NCF considered appropriately remunerative, but does not tally with what the Prime Minister had promised farmers in his speech at the Krishi Unnati Mela 2018, in which he stated that confusion was being created as to what costs of production the MSP would be based on, and clarified that besides costs paid out by farmers (for seeds, water, fertilizer, pesticides, equipment, and so on), the computed cost of production would include the imputed cost of family labour and capital assets owned by them deployed in cultivation.

That having been said, it is true that since MSPs have been raised only marginally during the first years of this NDA government, the prices recently announced incorporate a significant increase. The price at which the government now promises to procure the common variety of paddy, for example, has been raised from Rs.1,550 per quintal to Rs.1,750, an increase far higher than most previous seasons, and definitely in years when NDA governments have ruled. If the government purchases all marketed surpluses on offer at these higher support prices, then the open market prices would rise at least to that level, and perhaps rule even higher. The MSP would serve as the floor price available to farmers.

But this implies that the government would not just be paying a much higher price for the produce procured, but would be offered, and must buy, much more of the crop at its procurement centres. It is true that the procurement network is unevenly distributed across the country and many farmers do not even have access to this channel. But despite that, procurement is bound to rise when compared with the recent past. That would, in turn, mean that the government would have to allocate much more to procure produce of eligible crops.

Government expenditure may also rise because of an increase in the subsidy bill. Being an election year, the government may prefer not to raise the prices that consumers are charged in order to compensate for the procurement price increase. That would directly increase the subsidy on the larger volumes passing through the public distribution system (PDS). Further, if the government does raise prices paid by PDS customers, the off take might decline, and that would increase costs on account of storage and losses in storage. So, substantially increased expenditure relating to the procurement and distribution of agricultural commodities, especially food crops, seems inevitable.

The problem the government would face, however, is matching this new need with its obsession with reining in the fiscal deficit. With the government clearly wanting to appease big business, it is unlikely to go back on its promise of reducing corporate taxes. Further, unless it plans and manages to short change the States when sharing revenues from goods and services tax (GST), indirect tax collections, too, are unlikely to be hugely buoyant. Finally, the option of garnering non-debt creating capital receipts from disinvestment have already been stretched to the extreme.

If, therefore, the government chooses to stick with its current fiscal stance on both taxation and the deficit, it will not be able to finance procurement based on the new prices, even though they fall short of what was originally promised to, or at least expected, by the farming community. In the circumstances, it is more than likely that the level of procurement would be held back to match the resources that the government is willing to advance. That would result in an exclusion of an even larger set of farmers from the ambit of procurement. This is easily ensured in States that the BJP controls. And where it is not in power, if procurement exceeds what the Centre is willing to entertain, the State governments concerned will not be compensated.

This disconnect between policy and scheme announcements and financial allocations for the same has, as noted earlier, been true of other commitments made by the BJP government to farmers. It has also been starkly true of the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), which, for political reasons, the BJP had to reluctantly accept was a flagship programme. In the 2018-19 Budget, allocations for the programme were kept at the same level of Rs.55,000 crore provided for in the Budget for 2017-18. The 2017-18 allocation was not even fully spent in 2017-18, despite the overwhelming evidence that the demand for jobs under the scheme was large and wages were in arrears.

As the 2019 elections approach, programme announcements that make it appear that the BJP's concern for the "common man" is for real are more than likely. But the likelihood that most such announcements would be in the nature of empty promises not backed with financial resources is even higher.

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