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MSP hike won't help the bulk of rural folk, government advisors may just need to go back to the drawing board

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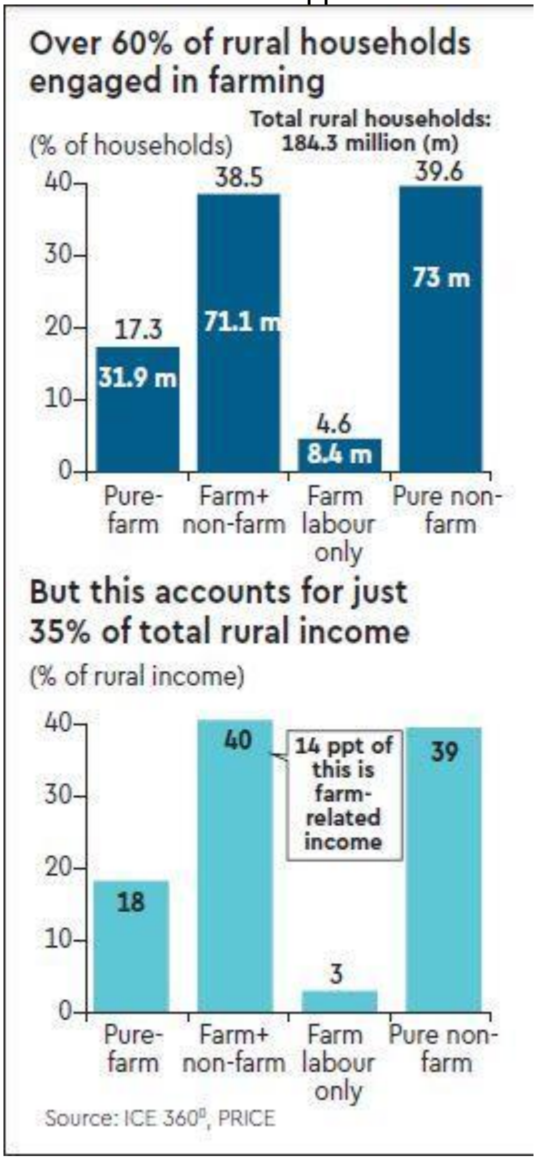
What matters more from the point of view of the impact of the MSP-based policy, though, is how much of rural India's incomes come from agriculture.

Even as it remains to be seen whether the government will be able to successfully implement its promise of buying all crops from farmers at a minimum support price (MSP) equal to 1.5 times their A2+FL costs, or make deficiency payments based on the MSP if they can't procure the crop, the latest report from Nabard—All India Rural Financial Inclusion Survey 2016-17—as well as Price's latest all-India survey add new perspective to the debate.

For one, of the 212 million rural households the Nabard survey talks of, just around 100 million are considered to be 'agricultural', effectively implying that the MSP-based policy will apply to just half of rural India. Indeed, the actual impact will be far less since Nabard defines an 'agricultural household' as one that earned at least Rs 5,000 from various crops in the last one year and has at least one person employed in the sector, even if just for a temporary period in the last year; so the benchmark for being 'agricultural' is very low.

Price's ICE 3600 survey defines this more sharply, and this shows (see graphic) that over 60% of all rural households in 2016 (its survey puts the total at 184.3 million households have some connection to agriculture. Around a fifth (21.9%) of households get all their income from the farm sector, and around 40% get no money from farming; the rest earn their living from the farm sector but supplement this by working in industry and services as well.



What matters more from the point of view of the impact of the MSP-based policy, though, is how much of rural India's incomes come from agriculture—that is, from people who either cultivate their land or work on someone else's land as daily workers. According to Price, in 2016, around 35% of the total rural income came from agriculture.

In other words, if the MSP-based policy works as per plan, it will, at best, affect just around a third of all rural incomes. In which case, prime minister Narendra Modi will do well to work on a different strategy if it is rural votes that he is looking for; a strategy of boosting industrial activity or rural BPOs, for instance, will pay a far greater dividend.

The Nabard report offers some more perspective since, at the end of the day, the MSP-policy will essentially apply to those families that have a marketable surplus—of course, if crop prices fall significantly below the MSP, as they invariably do, it is likely that the share of the crop that comes to the market may increase beyond just the marketable surplus as farmers may choose to buy back the crop for consumption later at a lower price.

According to the Nabard survey, the share of wage labour in annual household income tends to be a lot higher for those with smaller lots of land. So, for instance, farmers who have less than 0.01 hectares of land tend to earn 43% of their annual income from working on other people's fields and less than a fourth from cultivation and rearing livestock. Around six per cent of all rural agriculture households fall in this category. Agriculture households that own between 0.01 and 0.4 hectares earn around 44% of their income from labour and around 30% from cultivation and livestock; around 31% of agriculture households fall in this category. While these categories will benefit from the MSP-policy, how much they do will depend upon their marketable surpluses; rural wage levels are not determined only by MSP levels, so the impact of a hike in MSPs will matter far less for agricultural labourers.

Around a third of all agriculture households own more than one hectare of land (20% own 1-2 hectares and 13% above two hectares) and they earn around 55% of their incomes from cultivation and livestock (around 6-7% comes from livestock); this is the group that will benefit the most from a successful implementation of the MSP-based deficiency payments policy. At an overall level, Icrier's Ashok Gulati and Shweta Saini point out (bit.ly/2oa2azr) that the Nabard report shows a fall in the income-share that comes from cultivation and livestock over a period of time. While the Nabard study shows 35% of the income of all farmers came from cultivation and 8% from livestock in 2015-16—50% came from wages—this combined figure was a much higher 60% in 2012-13. The Dalwai committee, set up to suggest a strategy to double farmers' incomes by 2022, however, assumes that 69-80% of farmers' incomes by 2022-23 will come from cultivation and livestock. Achieving this will need agriculture and livestock incomes to grow many times faster than non-agriculture income (indeed, the latter may even have to contract!), so the chances of this happening, as Gulati and Saini point out, are slim. In which case, the government's advisors may just need to go back to the drawing board.