

What should be the true price of farm produce?

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All of us irrespective of our financial situation need food to survive. We cannot eat nuts and bolts or software but only food. Hence for our survival food is the most important thing.

And yet we hardly give a thought for farmers who provide us food. Hence we do not give adequate compensation for the farm produce with the result that farmers' situation in the country is really bad which ultimately results in their suicides and farmers unrest. [Recent events of farmers agitation all over the country](#) attests to this. Farming today is completely nonremunerative and no farmer's children would like to go into farming. This decline of farming community will have a serious impact on farm productivity and may imperil our food security.

In order to alleviate the crisis on farm front, it is necessary that we should think about and debate the mechanisms by which farmers are adequately compensated for their labor.

For this to happen we need to calculate the correct price of farm produce. Presently the prices of food grains and other farm produce are decided by minimum support price (MSP) given by Government of India (GOI). However this is only valid when the GOI procures and lifts the grains and produce from mandis. With over- flowing and rat-infested government godowns this mechanism of procuring grains at fixed prices is non-functional and collapsing under its own weight. Secondly only a few food grains are procured by GOI and hence fixing MSP for various commodities has no meaning.

The prices of farm produce are therefore mostly fixed by middlemen who buy and sell the commodities in mandis. It is just like share market where the actual price of

commodities has no relationship with the cost of production and their utility. It is more of a gambling.

I would like to propose a novel pricing structure which is based on the importance of food in our lives and also based on the amount of energy spent in producing them.

Basis of calculations

When we go into an average restaurant we do not think for a minute or bat an eyelid when our bill comes to Rs. 400-500/head. We normally eat 300-500 g of food and this translates to our paying on an average Rs. 1000 for one kilogram of food consumed! And yet an average farmer gets only [Rs. 15-20/kg for his produce](#).

Since our survival and well-being depends on food we eat, we should seriously think of giving at least 7-10% of restaurant bill back to farmers as cost of their produce! This should bring cheers to the farmer's life. Thus all farm produce (grains and oilseeds) should be priced between Rs. 70-100/kg. This costing is not far-fetched and is borne by other calculations as well.

Around [85% of the farmers in India own less than 2 ha of land](#) and the average land holding is about 1.18 ha from which he/she produces mostly cereals and oilseeds. Thus about [80-85% of cropped land area in India is used for growing food grains and oilseeds](#) whereas only 6-7% is used for fruits and vegetables. The prices of grains and oilseeds fluctuate anywhere between Rs. 16-35/kg and are wholly inadequate to make farming remunerative. From his 1.18 ha a farmer earns anywhere between Rs. 70,000 to 80,000/year. For raising a family of 4 or 5 this is wholly inadequate.

Another peculiar aspect of farming is that the farmer gets remuneration for only 25-40% of his produce (grains, seeds, fruits, etc.). The rest 60-75% (bulk of his produce) are residues which are mostly burned in the fields. The farmer needs to be compensated for it since all the farm inputs are used up in the residue production also. The [residues can be used for producing energy](#) (via combustion and digestion) or excellent fertilizer via composting it. With proper pricing a farmer can earn about Rs. 15,000/ha per year from residues alone. This can increase his income to almost Rs. 90,000/year which is still inadequate and in poverty regime.

Average wage of a factory worker in India is ~ Rs. 400-500/day. He or she spends 7-8 hours doing physical work. These factory workers mostly produce white goods such as cars, two wheelers, smart phones, refrigerators, etc. We define our quality of life by owning variety of such goods. Farmers who produce food, which is far more important than white goods, should be at least paid factory wages. In fact farmers do much harder work while standing in the sun and work for longer hours than the factory workers and yet are paid much less.

Hence with factory wages norm the farmer family (husband and wife) income can be Rs. 3.6 lakh/year. On an average the [yield of grains/oilseeds combination from a marginal farm is 2000 kg/ha per season](#). So for two seasons and from 1.18 ha a farmer can produce ~ 4720 kg of food grains/oilseeds per year. If the factory wages are given to him then it will translate into ~ Rs. 76/kg for his produce.

We can also calculate the produce cost by taking into account the energy cost of farming as compared to that of white goods. On an average the [energy of producing white goods is ~ 55 MJ/kg](#). Calculations show that we pay on an average Rs. 10-20/MJ for white and industrial goods. I feel we should give the same payment for the most essential item - the food. The specific energy for food grains and oilseeds [production is around 6-8 MJ/kg](#) and with white goods energy cost of Rs. 10-20/MJ applied for food we again arrive at price of around Rs. 100/kg for food grains and oilseeds!

Thus I feel that MSP for food grains and oilseeds should be around Rs. 100/kg and should be raised periodically based on inflation.

How should the farmers be compensated?

Most of the farm produce is sold through auctions in mandis all over the country. The traders then ship it all over the country depending on the demand. Fruits and vegetables are also sold through these mandis, but as they are perishable items hence are generally consumed in nearby areas. Besides their quantities are much smaller as compared to that of food grains.

GOI can play an important role of a being a regulatory authority in these mandis so that the middlemen are forced to buy the produce from farmers at MSP or at enhanced rate of Rs. 100/kg. It is not an easy exercise but a regulatory structure may force the traders to comply. The cost of production of farm produce is dependent on local factors and hence MSP should be fixed locally at state level. A general country-wide MSP is not very useful.

GOI gives a subsidy of about Rs. 7.6 lakh crores to the weaker sections of society. This subsidy includes that given for [PDS, LPG, electricity, fertilizer, kerosene, MNREGA](#), etc. and also includes [periodic farm loans write off](#). Very little of this subsidy (25-30%) actually goes to the poor people and most of it is siphoned by corrupt officials and system.

I feel that the entire subsidy should be given to the farmers directly through bank transfers. Farmers are the engine of growth. With their increased income **they can also provide employment to the poorest of poor landless laborers in rural areas**. This direct payment will also induce those farmers who presently are not farming to start farming again. Cost calculations show that payment from subsidy together with their present produce will give the marginal farmers an income of about Rs. 1.5 lakh/yr. This is almost half of what they will get if they are given factory wages but still it is a start.

There are also estimates that GOI gives sops, tax write-offs, etc. to [corporate sector to the tune of Rs. 5.32 lakh crores/yr](#). The corporate sector has not been shown to be a paragon of virtue and their growth is quite slow. Besides this “subsidy” only benefits a few. If this subsidy is diverted to the marginal farmers then their total subsidy can become nearly Rs. 13 lakh crores/yr. (7.6 + 5.32).

According to the latest GOI figures these are close to [100 million individuals with farm holdings of less than 2 ha](#). If all of these farmers are given the total subsidy of Rs. 13 lakh crores/year then the average income of a marginal farmer from subsidy and produce will be about Rs. 2 lakh/yr. This is similar to what an average sugarcane farmer gets presently from his farm. Such income will bring in cheer to the marginal farmer.

The wealth of a country comes from its land. Around 55% of India's population is connected with farming. If the farm income can be increased by the above mechanism then it can benefit a huge chunk of the population and can have a multiplier effect on the Indian economy.

Too often politicians in recent past have said that farmers should do something else besides farming to alleviate their suffering. This is a cop out and a lazy person's statement. In fact we should double our efforts in making farming modern through [precision](#) and [container agriculture](#) so that the productivity and income from the farm increases.

Also it is worth pondering on the fact that for majority of farmers, farming is a way of life. Even if they are given an alternative employment they prefer to farm and if given adequate income they will be happy to do so year after year. After all producing something from the land is a very creative and enjoyable act.

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