

انڈس ہسپتال اینڈ ہیلتھ نیٹ ورک

انڈس ہسپتال اینڈ ہیلتھ نیٹ ورک کو زکوٰۃ و عطیات دے کر لاکھوں مرید

Indus Hospital

Wheat price game

Opinion | Nasir Iqbal | December 20, 2020

In the last few months, the exponential increase in wheat prices adversely impacted the poor class's consumption pattern in Pakistan. On the one hand, the Covid-19 pandemic adversely affected poor...

In the last few months, the exponential increase in wheat prices adversely impacted the poor class's consumption pattern in Pakistan. On the one hand, the Covid-19 pandemic adversely affected poor people's income. On the other hand, wheat inflation pushed them to face hunger and malnutrition.

Wheat accounts for 22 percent of the food expenditures of the poor, 20 percent in urban areas, and 22.9 percent in rural areas. In contrast, non-poor households spend 14.5 percent of food expenditure on wheat, 11.9 percent in urban areas, and 15.9 percent in rural areas.

Wheat is one of the most strategic crops globally, something that has always been a big challenge for many governments. Pakistan has failed to develop a competitive wheat market despite being the seventh-largest wheat-producing country globally. To ensure enough and smooth wheat supply, the country relies on the Pakistan Agricultural Storage and Services Corporation (PASSCO) to procure wheat at the Minimum Support Price (MSP) from the farmers.

The government determines the MSP based on the wheat supply and demand forecasts. This year the federal government has set Rs1650 per 40 kilograms as the MSP. Will the announced MSP solve the problem of the wheat crisis permanently? The answer is a big no, for several reasons.

One, the MSP is less than the respective prices in neighboring countries. The MSP varies from country to country. It is mostly determined by market indicators such as market price, cost of production, inter crop price parity, international market price, and cost of living. In Iran, the guaranteed purchase price was increased in March 2020 to nearly \$14 per 100 kgs. The MSP set for wheat in India is \$26 per 100 kgs in September 2020. The MSP for wheat in Nepal was set at \$24.47 per 100 kgs this year.

However, the MSP for wheat in Pakistan is \$8 in 2020, which is comparatively low as compared to other South Asian countries. At the same time, the global price of wheat is \$21 per 100 kgs. Therefore, the lower price and lower returns for farmers will only encourage the smuggling of wheat to neighboring countries and consequent price escalation in the local market.

Second, the MSP benefits only five percent of landlords. As the government buys only a fraction of the wheat produced at the MSP, the remaining 95 percent of farmers either do not sell wheat or are forced to sell at a lower price in the market.

Third, economic theory considers MSP inefficient because it puts an extra burden on all consumers at a few producers' costs. Fourth, the MSP involves subsidizing; procurement of wheat from farmers and its release to the millers. This puts a heavy financial burden on the federal budget, which the nation bears through taxes.

PIDE has extensively researched this subject over the last few decades. The current wheat procurement system, wheat storage by PASSCO, and distribution leads to periodic miscalculations and has inherent informational and market inefficiencies.

Research shows the following: one, wheat subsidy goes to only those farmers who own land; most of the farmers in Pakistan who do not own land are therefore not eligible for the bardana-brown bags – the bags used by the government to procure wheat. Thus, mostly the large landholders, the middlemen, and the millers, who operate in grey areas, benefit from the MSP. Small farmers cannot sell



Three, the wheat market has not developed due to excessive involvement of the government. It is not surprising that this market, off and on, exhibits a situation of either excess supply or excess demand every few years.

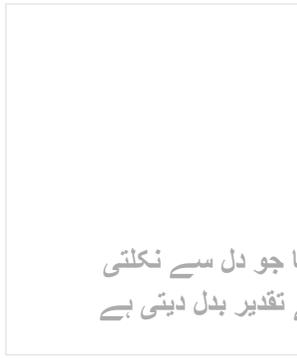
Four, to procure wheat from farmers, the government borrows from banks at a certain interest rate and does not have enough money to repay in a timely fashion. Thus emerges the circular debt of wheat, which is ultimately borne by the common man through regressive taxation.

What then is the solution to the wheat crises which emerge now and then? The government should gradually step out of the wheat market and let the market forces work. The amount spent on subsidizing wheat through the MSP can be put to alternate uses like developing physical infrastructure and agricultural research for better seed quality. However, to avoid extreme fluctuations in flour prices, the government will have to keep an eye on wheat supply and demand.

The government should withdraw from fixing the MSP for wheat. The government's role should be to encourage R&D, monitor quality, and maintain buffer stocks to stabilize the market in case of extreme shortages.

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