Where is the line of MSP?

Kaushlendra Srivastava, Ashwani Kumar Verma, and Kuldeep Maurya
Department of Agricultural Economics, Acharya Narendra Deva University of Agriculture and Technology, Kumarganj, Ayodhya (U.P.)
*Corresponding Author:

Abstract

In this article, we examine the role of Minimum Support Price (MSP) in India and whether its legalization is necessary or not. While MSP has been effective in surplus states like Punjab, Haryana, and Western Uttar Pradesh, it has been less impactful in deficit states. Data shows that only 23.72% and 20.04% of rural agricultural households are aware of MSP for their crops during the kharif and rabi seasons. Given the ongoing debates and protests around MSP legalization, we explore both sides of the argument. MSP is vital for ensuring farmers' welfare and securing India's agricultural future.

Introduction

The Minimum Support Price (MSP) is the guaranteed price paid to farmers by the government for their produce. It is determined by the Central Government based on recommendations from the Commission for Agricultural Costs and Prices (CACP), which considers factors like production costs, market trends, and demand-supply dynamics. Established in 1965, the CACP operates under the Ministry of Agriculture. MSP is announced at the start of India's two main cropping seasons, Rabi and Kharif, to ensure farmers receive a fair price for their crops, as per recommendations from the Jha Committee, accounting for the cost of cultivation.

When calculating the MSP, both implicit costs like family labor & rent and explicit costs are considered. In technical terms, these are represented by variables A2 (paid-out costs), FL (family labor), and C2 (comprehensive costs), ensuring farmers receive a fair price for their crops. The Commission considers these variables for Agricultural Costs and Prices or CACP in the following manner:

1. **A2**: Covers expenses for chemicals, fertilizers, seeds, and hired labor for crop maintenance.
2. **A2 + FL**: Includes A2 costs plus implicit costs for family labor.
3. **C2**: Includes A2 + FL costs plus fixed capital assets and rent.

The National Commission on Farmers (NCF) suggested that the government fix the MSP at 50% over the C2, but the Cabinet proposed that the MSP should be fixed at 50% over A2+FL (NCF, 2006). Shankar (2009) pointed out that MSP does not give any profit to farmers as the price is fixed based on the cost of cultivation.

MSP Minimum Support Price (MSP) is a key element of India's agricultural price policy, designed to support farmers and offer affordable prices to consumers through the Public Distribution System (PDS). MSP helps procure food grains from surplus states for distribution and maintain buffer stocks, addressing the demand-supply gap. It aims to prevent exploitation by private traders and stabilize prices. MSPs should be flexible, set conservatively, and aligned with demand-side factors to motivate private businesses to market produce. Overall, MSP ensures farmers' food security, employment, and income, playing a crucial role in the agricultural sector *(Chand 2003; Dev and Rao 2010; NITI Aayog, 2016)*.

Green Revolution and MSP

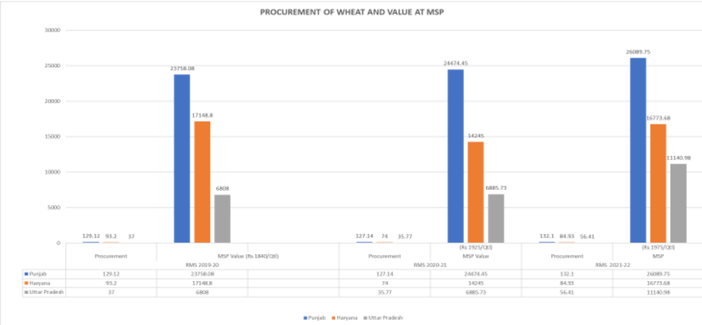
In 1965, the government of India launched the Green Revolution with the help of a geneticist, now known as the father of the Green Revolution (India) M.S. Swaminathan. The movement of the Green Revolution was a great success and changed the country's status from a food-deficient economy to one of the world's leading agricultural nations.

The Green Revolution within India led to an increase in agricultural production, especially in Haryana, Punjab, and Uttar Pradesh. Major milestones in this undertaking were the development of a high-yielding variety of seeds of wheat and rust-resistant strains of wheat.

Food surplus exists in many states, not just Haryana, Punjab, and Uttar Pradesh, but procurement is mostly limited to these regions *(planning Commission 2005)*. This has led to regional income imbalance. The MSP system benefits only those areas with stronger procurement support, primarily favoring rice and wheat over other crops like pulses and oilseeds. As a result, regions producing these lesser-supported crops often face economic disadvantages.

As you can see in this graph the maximum procurement is from Punjab and Haryana, So we can say that the majority portion of MSP is going to Punjab and Haryana. The highest-producing wheat state is

Uttar Pradesh but the procurement from this state is very low.



So, the question is, why there is a maximum difference between Panjab and Uttar Pradesh in the case of procurement? This is because of the green revolution, the area that was chosen then has now become the maximum claim of MSP.

Benefited From MSP

Farmers from Punjab, Haryana, and western Uttar Pradesh are the primary beneficiaries of the Minimum Support Price (MSP) system, particularly for wheat and rice. Despite this, only 14% of farmers currently benefit from MSP, leaving 86% dependent on market prices and often receiving less for their produce. Legalizing MSP has been a persistent demand from these regions, as they receive the most support through government procurement. Data consistently shows that Punjab farmers are major beneficiaries of MSP, which strengthens their call for policy legalization.

The 6% figure often cited comes from the Shanta Kumar headed High-Level Committee on Restructuring of the Food Corporation of India (FCI). Their 2015 report noted that only 5.21 million out of 90.2 million agricultural households sold paddy and wheat to government agencies in 2012-13, indicating less than 5.8% coverage. This analysis was based on the National Sample Survey Office's (NSSO) Key Indicators of Agricultural Households report, which highlighted that 44.84 million households grew paddy and 35.23 million grew wheat. Given that 43.4% of rice/paddy and 36.2% of wheat were procured by the government, MSP benefits should exceed the Shanta Kumar report's 5.8% figure. The Food Ministry's data for 2019-20 shows 11.06 million paddy and 4.06 million wheat farmers benefited from MSP, far surpassing the Shanta Kumar estimate when accounting for double-counting in Punjab and Haryana.

Non benefited from MSP

While Minimum Support Price (MSP) schemes in India aim to provide stability and security to farmers by guaranteeing a minimum price for their produce, the ground reality often reveals a significant gap in its implementation, leaving a sizable portion of farmers without its benefits.

➤ **Understanding the Issue**

Despite the intentions behind MSP, a sufficient number of farmers, particularly those who are doing traditional agriculture, find themselves left out from its benefits. This is because of various factors like - including inadequate infrastructure, limited government procurement facilities, lack of awareness, and administrative inefficiencies.

➤ **Challenges Faced by Non-Beneficiary Farmers**

i. **Limited Procurement Infrastructure:** In remote areas, inadequate procurement facilities prevent farmers from accessing government centers, forcing them to sell at lower market prices.

ii. **Lack of Awareness:** Many smallholders and marginalized farmers are unaware of MSP schemes or lack knowledge on how to access them, resulting in missed benefits.

iii. **Administrative Inefficiencies:** Bureaucratic obstacles can interrupt MSP implementation, causing difficulties in registration and payment delays for non-beneficiary farmers.

iv. **Market Dynamics:** Market fluctuations may undermine MSP effectiveness, leaving some farmers unable to sell at MSP rates during surplus periods.

Protest

In 2021, farmers ended their protest after the government repealed three controversial farm laws. While they sought legal MSP guarantees, they settled for the repeal, warning they'd return if demands weren't met. In 2024, farmers' primary demand is MSP's legal guarantee as per the Swaminathan Commission Formula.

➤ **Arguments for MSP**

1. **Financial Security:** A legally guaranteed MSP would provide farmers with a fixed payoff, protecting them from market price fluctuations and ensuring financial stability.
2. **Risk Cover:** MSP would shield farmers from risks associated with crop failure due to climate change, pest attacks, and diseases, offering greater security.
3. **Promotion of Crop Diversification:** Legally guaranteed MSP would encourage farmers to diversify crops, supporting the cultivation of less water-intensive crops like pulses and

millets over water-heavy crops like rice, wheat, and sugarcane.

4. **Benchmark Price:** MSP acts as a market benchmark, ensuring that prices offered by merchants are competitive. If market prices fall below MSP, farmers are less likely to sell their produce, helping to stabilize market prices.
5. **Right to Farmers:** The Shanta Kumar Report indicates that only 6% of farm households sell to the government at MSP rates. A legal MSP would grant farmers the right to sell their produce at MSP to government agencies if market prices are insufficient.

➢ **Arguments Against MSP**

1. **Huge Fiscal Burden:** Implementing a legal guarantee for MSP would significantly increase the fiscal deficit, placing a heavy burden on the government's finances. For instance, an estimated Rs. 5 trillion would be required for this law.
2. **Risk of Undervaluation:** A legal MSP guarantee might lead farmers to grow high-yield crops unsuitable for their region, disrupting local production patterns. For example, in drought-prone Marathwada, Maharashtra, farmers might opt for cotton over millets.
3. **Increase in Food Inflation:** Higher procurement costs due to MSP could drive up food grain prices, adversely affecting the lower middle class and the poor.
4. **WTO Subsidies Violation:** MSP law might breach WTO subsidies principles, leading to disputes with developed nations. For example, the US won a WTO case in 2019 against China's MSP support.
5. **Induced MSP Demands:** If MSP is guaranteed for crops, farmers in agri-allied sectors like dairy, horticulture, and pisciculture may also demand MSP, leading to broader economic implications.

Line of MSP

This line of MSP means the Baseline or Border where both Farmers and Government come without any dispute. This line may be defined by government initiatives, programs, schemes, and many things. Here, are some points that can also be used to determine the LINE OF MSP in my opinion.

a. **Price Flooring:** A Floor price is the minimum price at which a commodity can be sold legally. Floor price if fixed above the equilibrium price, serves the purpose of welfare of the producers (say, farmers). In this, the government procures the produce to maintain the buffer stock and continue the PDS system. By this, the government can fix the MSP of the produce to increase the farmers' income at some point.

b. **WTO:** The World Trade Organization (WTO) enforces rules that all member countries must follow to ensure fair competition. If MSPs are set too high, farmers may only sell to government agencies, violating WTO rules that limit subsidies to 10% in developing countries. Excessive subsidies can lower commodity prices, making them attractive to foreign buyers and disadvantaging other developing nations seeking to sell their products. Therefore, the government should align MSP and subsidies with WTO guidelines, keeping them under the 10% limit to avoid disrupting international trade and maintaining fair market access for all countries.

c. **Small and Marginal Farmers**: Most government schemes focus on helping small and marginal farmers through income growth, cooperative farming, and storage subsidies. However, the government needs to improve MSP procurement to prioritize them. Large farmers can store their produce and wait for better prices, but small farmers need more support to benefit.

d. **Other States:** As we can see above, the main focus of procurement of produce is from Panjab, Haryana, and Western Uttar Pradesh. So the government has to ensure that an equal proportion or percentage of the production of produce should be procured by them from every state. For this government (central and State) has to develop storage facilities. Many state governments have their own scheme to procure the produce of their state people but central government also takes responsibilities.

e. **Balanced Agricultural Pricing Policy:** The government must come up with a suitable transition of an agricultural pricing policy that ensures fair prices for produce through mechanisms like MSP and direct income support. Key recommendations include:

- **Enforce Swaminathan Committee Recommendations:** MSP should be set at least 50% above the weighted average cost of production (C2 cost), as per the committee's suggestion.

- **Expand MSP Criteria:** Include the average farmer's expenditure on education and health when determining MSP.
- **Implement Price Deficiency Payments (PDP):** Instead of purchasing crops, the government should pay farmers the difference between the market price and MSP if the market price is lower, based on the quantity sold to private traders.

Conclusion

Minimum Support Prices (MSP) are a key element of India's Agricultural Price Policy, designed to provide price security to farmers. This article examines MSP's evolution from the Green Revolution to the present, analyzing its impact on beneficiaries and non-beneficiaries and evaluating MSP announcements. MSP establishes a floor price for major crops to shield farmers from market fluctuations, but legalizing it imposes a significant economic burden. The government should make MSP announcements mandatory each season and ensure that small and marginal farmers receive a profitable return. Continuing the MSP policy supports farmers during unfavorable market conditions, promotes food security, drives economic growth, and fosters social equity. Investing in agriculture and farmers' welfare is crucial for India's future prosperity.

References

Minimum support price in India: what determines farmers' access? Research paper by Raya Das

Awareness About Minimum Support Price And Its Impact On Diversification Decision Of Farmers In India By K. S. Aditya, S. P. Subash, K. V. Praveen, And Akriti Sharma

Effectiveness Of Minimum Support Price Policy For Paddy In India With A Case Study Of Panjab By Shayequa Z. Ali, R. S. Sindhu, And Kamal Vatta.

* * * * * * * *