

Minimum Support Price: A Lifeline for Farmers or a System in Need of Reform?

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Abstract

The Minimum Support Price (MSP) system is a vital component of India's agricultural policy, offering price stability and safeguarding farmers from market fluctuations. Introduced during the Green Revolution, it primarily benefits crops like rice and wheat but faces challenges such as limited crop coverage, regional disparities, and procurement inefficiencies. While only a small percentage of farmers benefit from MSP, many advocate for expanded coverage and improved calculation methods. Proposed solutions include opening markets to private players, implementing Price Deficiency Payment (PDP) schemes, and diversifying crop procurement. Strengthening the MSP system alongside these reforms is essential for a resilient and equitable agricultural future.

Introduction

Agriculture is the backbone of our nation. Yet, our farmers, the very hands that feed us, face uncertainties that threaten their livelihoods. So here comes the Minimum Support Price (MSP) system in India a crucial aspect of agricultural policy aimed at supporting farmers and stabilizing agrarian markets. For millions of Indian farmers, the Minimum Support Price (MSP) is a beacon of hope, promising a fair return for their toil. What is MSP? How did it come into place? It was introduced in the 1960s, particularly during the Green Revolution, to address concerns about increased production leading to market price crashes. The MSP is set by the Cabinet Committee on Economic Affairs (CCEA) based on recommendations from the Commission for Agricultural Costs and Prices (CACP). In the early 1960s, when India faced an enormous shortage of cereals, new agricultural policies were born marking the start of the Green Revolution. In 1964, the government set up the Food Corporation of India (FCI) to procure food grains from farmers at remunerative prices, and through the public distribution system, distribute them to consumers and maintain buffer stock for food security. To buy food grains, there had to be a policy on pricing. In 1965, an Agricultural Prices Commission was set up, to advise on the pricing policy for agricultural commodities. It was then that

the Price Support Policy of the Government came in, providing a solution to farmers against a sharp fall in farm prices. The minimum guaranteed prices are fixed to set a floor below which market prices cannot fall. If no one else buys it, the government will buy the stock at these minimum guaranteed prices. This is what came to be known as the minimum support price or MSP. This policy took its final shape around 1974-76. The MSP serves as a long-term guarantee for investment decisions for farmers. MSP was introduced to provide financial stability to the agricultural system and encourage production. So, MSP is a type of insurance that the government offers to farmers if a price fluctuation could directly impact their production. Not all crops are equally blessed with MSP support. Currently, 24 crops fall under this umbrella, encompassing essential staples like rice and wheat, protein-rich pulses like chickpea and green gram, oilseeds like groundnut and soybean, and even commercially important crops like sugarcane and cotton.

Importance of Minimum Support Price

The Minimum Support Price (MSP) system in India plays a critical role in providing stability and support to farmers while maintaining the agricultural sector's health. Over the years, food grain procurement has significantly increased, from 761.40 lakh metric tonnes in 2014-15 to 1062.69 lakh metric tonnes in 2022-23, benefiting over 1.6 crore farmers. MSP acts as a safety net by guaranteeing a minimum price for crops, shielding farmers from the adverse effects of market fluctuations, and preventing significant financial losses during low market price periods. Announced before the sowing season, MSP helps farmers make informed decisions about which crops to plant, optimizing their choices based on factors like land size, climate, and irrigation availability. Furthermore, the assurance provided by MSP encourages farmers to invest in modern farming practices, technology, and quality inputs, thereby improving productivity and crop quality. MSP also plays a vital role in ensuring food security by maintaining a steady supply of essential crops at stable prices, preventing market volatility. It balances the interests of both farmers and consumers by

ensuring farmers receive fair compensation while keeping food prices in check. Small and marginal farmers benefit particularly from MSP, as it guarantees them a minimum income and shields them from market uncertainties. The system also promotes economic stability in rural areas by providing a predictable income source for farmers, which, in turn, benefits related sectors such as agribusiness and transportation. Additionally, through government procurement and distribution, MSP ensures access to affordable food for the wider population, especially vulnerable groups, by distributing crops through public distribution systems

Challenges Associated with the Minimum Support Price (MSP) System in India

The Minimum Support Price (MSP) system in India plays a crucial role in stabilizing agriculture, but it faces several challenges that need to be addressed for it to become more effective and inclusive. Currently, only about 6% of Indian farmers benefit from MSP, with just 5 to 6% of the total agricultural output being sold at MSP, primarily in northern states like Punjab and Haryana. One major issue is its limited coverage, as the government mostly procures rice and wheat, leaving many farmers who grow other crops outside its benefits. While MSP rates are periodically increased, they often fail to keep pace with rising input costs, leading to dissatisfaction among farmer groups. Additionally, the implementation of MSP varies widely across states, with states like Punjab and Haryana benefiting more due to better procurement infrastructure, while farmers in other regions struggle. Farmers are increasingly demanding MSP coverage for all 22 crops, with some pushing for it to become a legal right, to ensure fair prices for all crops and regions. Another challenge lies in the method used to calculate MSP, which currently includes factors like A2 (comprehensive cost) and FL (family labor), but farmers want additional factors like interest on capital and land rent, as recommended by the Swaminathan Commission. Expanding MSP to cover all crops, however, could impose a significant financial burden on the government, potentially running into several lakh crores, and critics warn that such an expansion could disrupt market forces and lead to overproduction. Additionally, logistical challenges such as the storage and distribution of procured crops could create inefficiencies and wastage. There are also concerns about how MSP might impact India's

agricultural exports, as higher domestic prices could reduce the competitiveness of Indian produce globally, while domestically, it could contribute to inflation. Addressing these challenges is essential for the future of Indian agriculture, which depends on balancing the benefits of MSP with broader economic, environmental, and logistical considerations to build a resilient and equitable agricultural system.

Way Forward: Proposed Solutions and Alternatives

The introduction of new farm bills aims to create an open agricultural market, allowing farmers to sell directly to buyers, which encourages competition and better pricing. Opening the agricultural sector to private players is expected to enhance efficiency, offer better prices to farmers, and ensure that food grains remain affordable for consumers. However, balancing the need for fair farmer prices with affordable food for the general public is a complex challenge requiring thoughtful policy planning and implementation. One alternative solution is to explore income models beyond MSP to boost farmers' earnings. The Market Intervention Scheme (MIS) serves as a counterpart to MSP, enabling state governments to procure perishable commodities such as vegetables. Another approach is the Price Deficiency Payment (PDP) system, recommended by NITI Aayog and outlined in the Economic Survey. In this system, the government compensates farmers for the difference between the market rate (the average prices in major mandis) and MSP. States like Madhya Pradesh, through the Bhavantar Bhugtan Yojana, and Haryana, with the Bhavantar Bharpai Yojana, have already introduced such schemes to address price deficits. Additionally, stock diversification is crucial for ensuring food security. The government should focus on stocking a diverse range of essential food items, not just rice and wheat, to ensure a well-balanced supply that meets the needs of the population and supports a variety of agricultural products. Implementing these alternatives could create a more sustainable and resilient agricultural system, benefiting both farmers and consumers.

Conclusion

The Minimum Support Price (MSP) system has both advantages and challenges. It ensures price stability for farmers, promotes agricultural growth, and contributes to food security by providing essential

commodities at reasonable prices for consumers. However, its effectiveness is limited by factors such as narrow coverage, regional disparities, inefficiencies in procurement, and market distortions. Addressing these challenges is essential for a more inclusive and efficient MSP system. Farmers are the backbone of the nation, and they deserve robust support. By strengthening the MSP system alongside broader agricultural reforms, we can empower farmers and fortify the foundation of Indian agriculture.

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