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EDITORIAL

The Minimum Support Prices

Why in News?

- Farmers are demanding legal guarantee for Minimum Support Prices (MSP), along with various other demands.

What is MSP?

- MSP is a simple mechanism to ensure the price stability of essential agricultural commodities. Minimum Support Price (MSP) is the lowest rate at which government procurement agencies buy crops from farmers. It shields farmers from market fluctuations, offering stability and income security.
- MSP is crucial for ensuring fair prices for farmers and is determined by the Commission for Agricultural Costs and Prices (CACP), considering factors like production costs, market trends, and demand-supply dynamics.
- The major objectives are to support the farmers from distress sales and to procure food grains for public distribution. In case the market price for the commodity falls below the announced minimum price due to bumper production and glut in the market, government agencies purchase the entire quantity offered by the farmers at the announced minimum price.
- Government The Government of India fixes Minimum Support Price (MSP) for 22 mandated agricultural crops on the basis of the recommendations of the Commission for Agricultural Costs & Prices (CACP), views of State Governments and Central Ministries/Departments concerned and fair and remunerative price (FRP) for sugarcane.
- The mandated crops are 14 crops of the kharif season, 6 rabi crops and two other commercial crops. In addition, the MSPs of toria and de-husked coconut are fixed on the basis of the MSPs of rapeseed/mustard and copra, respectively.

MSP and Farmers' Protest

- Despite political consensus, with most parties and unions supporting such a legal guarantee, successive governments have dithered on legalizing this mechanism. The primary reason has been the fear of excessive fiscal requirement to meet the cost of such a guarantee.
- According to some estimates, MSP benefits less than seven per cent of farmers in the country. This aligns with other evidence indicating that officially procured crop output accounts for around 11 per cent of total crop output and seven per cent of total agricultural output. This underscores the challenge of ensuring fair prices for the remaining 90 per cent of produce, according to the NITI Aayog data.
- Despite calls from farmer organizations for MSP to be legally guaranteed, the majority of agricultural households in India remain unaware of this concept. For most crops, the percentage of output sold under MSP varies widely, from 0 to 24.7 per cent, with sugarcane being an exception.
- Paddy and wheat-growing households are most familiar with MSP and tend to sell a significant portion of their output through this mechanism according to the NSS 77th round survey. The survey found that not even 50 per cent of households growing crops for sale are aware of procurement agencies.



- The NITI Aayog paper mentions that government intervention through procurement-backed MSP is needed and justified in selected cases like staple foods for food security. However, expanding MSP through procurement to all crops involves hefty fiscal costs - nearly one-third of MSP to back MSP through procurement.

Challenges in MSP

- In 2018, the Maharashtra government passed an amendment to the Maharashtra Agriculture Produce Marketing Act, 1963, enabling penalties for traders buying farm commodities below the MSP. The amendment stipulated that trader in designated markets, regardless of licensing status, could be subject to imprisonment for up to one year, a fine of up to ₹50,000, or both, based on the seriousness of the violation.
- However, in response, traders boycotted markets, leading the state to retract the amendments. As open market prices were lower than the MSP levels declared by the State, traders refused to trade and there was a stalemate.
- The Lok Sabha Secretariat's 2018 Reference Note highlighted the challenges in MSP, including low procurement of crops other than wheat and paddy, delays in MSP announcements, inadequate awareness among farmers about MSP, high transportation costs, and insufficient storage facilities.
- A guaranteed MSP may not solve the farmers' problems. But it offers a good opportunity to rectify the imbalances in MSP and procurement system. Procurement today is restricted to certain geographical locations and limited to rice and wheat.

Way Forward

- A regionally diversified and expanded MSP to cover the larger basket of crops is necessary to bridge regional imbalances in agricultural productivity. It will ensure investment, expansion and strengthening of storage management along with crop diversification, which is necessary for natural resource management.
- Price Stability will also protect the average consumer from the vagaries of inflation and at a time when rural economy is struggling with deficient demand and rising inflation, protecting the income of farmers will also help revise the rural economy.
- Therefore, the demand for Minimum Support Price (MSP) among farmers is multifaceted and influenced by various factors such as crop prices in the market, input costs, government policies, and socio-economic conditions. While some farmers advocate for higher MSPs to ensure better income security and protection against market fluctuations, others argue that MSPs may distort market forces and discourage crop diversification. Ultimately, the conclusion about MSP demand among farmers depends on the specific context and perspectives of different stakeholders within the agricultural sector.

The MSP Fallacy

- Key issues : The demand of farmers for the legalization of Minimum Support Prices for Agricultural crops.

Key Points of the Argument:

- The large figures to the tune of Rs 10-18 Lakh crore have been floated as the cost of the guarantee. Most of these assumptions are based on a poor understanding of agricultural markets or the role of MSP in stabilising prices.



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- The belief that a guarantee to implement MSP would mean that the government will have to procure all the agricultural produce is a fallacy for two reasons:-
 - (I) Only a fraction of the produce is available in the market, generally referred to as the marketable surplus.
 - (II) Even in case of marketable surplus, government intervention is only needed in case the market price of a commodity is lower than the MSP.
- Farmers are only getting the minimum value of their hard-earned produce and nothing more. For remaining of crops which are not part of NFSA bundle, procurement by the government is not a cost unless the government sells it with a subsidy.
- The cost for the government is only the difference between the economic cost of procured grain and the issue price. For the remaining crops, which the government does not sell by subsidizing, the cost is zero with the entire expense being recovered.
- The government can also make profit by selling the procured produce at a minimal mark-up in the domestic and international markets when market prices are higher. This will not only cool down domestic prices when there is an inflation surge but will also help stabilise market prices.
- For several years in the recent past, the government has not only undertaken open market operations but also exported stocks to benefit from higher international prices.
- A diversified MSP will also ensure investment, expansion and strengthening of storage management along with crop diversification, which is necessary for natural resource management.
- While it is difficult to estimate the cost of such a guarantee, it will certainly be less than the cost of inflation management that the economy has to pay in terms of higher interest payments and rise in cost of capital.



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