



Mains Practice Question

Q. Critically evaluate the need and feasibility of legalizing Minimum Support Price (MSP) in India. (250 words)

28 Feb, 2024 GS Paper 3 Economy

Approach

- Start the answer with a discussion that sets a context for the question.
- Discuss the need for legalizing Minimum Support Price.
- Discuss the Key Challenges in legalizing Minimum Support Price.
- Conclude suitably.

Introduction

Minimum Support Price (MSP) in India is a price floor set by the government to ensure that farmers receive a minimum price for their agricultural produce. The government announces MSPs for 22 mandated crops and Fair and Remunerative Prices (FRP) for sugarcane.

Body

Some points arguing the need for legalizing Minimum Support Price :

- **Ensuring Financial Viability of Agriculture:** Legalising MSP guarantees that farmers receive a minimum price for their produce, protecting them from market fluctuations and ensuring fair returns on their investments and labor. MSP is the minimum price of agricultural produce that is necessary to keep agriculture financially viable.
- **Reducing Debt Burden on Farmers:** The debt burden on farmers is rising due to minimal increase in MSPs and because they do not receive the declared MSP. If the farmer has to sell his produce at a price lower than the promised MSP, the latter becomes meaningless for the farmers. Therefore, a legal guarantee of MSP is necessary.
 - The total outstanding loan on farmers increased from Rs 9.64 lakh crore on March 31, 2014, to Rs 23.44 lakh crore in 2021-22.
- **Supporting Farmers' Livelihoods:** Legalising MSP helps support the livelihoods of millions of farmers, particularly small and marginalized farmers who are vulnerable to market uncertainties.
 - The livelihood of about 50% of the country's population depends on agriculture and agriculture-related activities.
- **Risk Mitigation:** Natural disasters and market forces are hurting farmers. Climate change is increasing the complexity of farming. The farmer cannot be left at the mercy of weather and market forces.
 - Legalising MSP provides a safety net, reducing the risk of income loss for farmers during unfavorable market conditions.
- **Addressing Disparities:** The Shanta Kumar Committee concluded in 2015 that only 6% of farmers benefited from the support price scheme. Legalizing MSP can help mitigate these issues by providing a guaranteed uniform price directly to farmers.
 - In 2019-20 alone, three states — Punjab, Haryana, and Madhya Pradesh — accounted for 85% of the wheat procurement.

The Key Challenges in Legalising MSP:

- **Financial Burden:** Procuring crops at MSP requires substantial financial resources, and sustaining such procurement operations may strain government finances.
 - Legal MSP cannot work if not supported by demand and supply side factors.
- **Disincentive for Investment:** MSP legalization may discourage private investment in agriculture, particularly in crops covered under MSP.
 - Private players may hesitate to invest in sectors where government intervention in pricing is prevalent, limiting innovation and modernization efforts.
- **Exacerbate Water Scarcity:** MSP-supported crops like paddy and sugarcane are water-intensive, leading to overexploitation of water resources in regions where they are cultivated extensively.
- **Neglect of Non-MSP Crops:** Legalising MSP may result in the neglect of non-MSP crops, leading to decreased cultivation of nutritious food crops, pulses, and oilseeds.
 - This can have negative implications for food security, dietary diversity, and nutritional outcomes, particularly among vulnerable populations.
- **Trade Disputes:** Legalizing MSP may lead to trade disputes with importing countries, especially if the government provides subsidies or other forms of support to maintain MSP prices.

Several measures can be considered as a way forward :

- **Balanced Agricultural Pricing Policy:** The government must come up with a suitable transition to agricultural pricing policy to ensure remunerative prices for agricultural produce through mechanisms like MSP and direct income support schemes.
 - **Enforce Swaminathan Committee Recommendation:** The commission recommended that the MSP should at least be 50% more than the weighted average cost of Production (CoP), which it refers to as the C2 cost.
 - **Expansion of MSP Criteria:** The average expenditure incurred by the farmer on education and health services for his family must also be factored in when MSP is determined.
 - **Price Deficiency Payments (PDP):** It entails the government not physically purchasing or stocking any crop, and simply paying farmers the difference between the market price and MSP, if the former is lower. Such payment would be on the quantity of crop they sell to the private trade.
- **Enhancing Farmers' Income:** The government should bring agriculture activities within Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) and also increase the daily wages.
 - Encourage crop diversification and promote high-value and climate-resilient crops to increase farmers' income opportunities.
- **Investing in Agricultural Infrastructure:** Increase public investment in rural infrastructure such as irrigation facilities, roads, electrification, and storage capacities to enhance agricultural productivity and market access.
 - Promote technology adoption and innovation in agriculture through research and development, extension services, and access to modern farming inputs and practices.
 - Public investment in agriculture and irrigation must increase at 14% per annum as proposed by the Ashok Dalwai Committee. In addition, the capital use efficiency of the existing major-medium irrigation projects must improve.
- **Empowering Farmers:** Strengthen farmers' organizations, cooperatives, and producer groups to enable collective bargaining, access to markets, and participation in decision-making processes.
 - Expand social safety nets and insurance schemes to provide income and livelihood support to vulnerable farming households during periods of distress, such as crop failures, natural disasters, or market shocks.

Conclusion

Prioritizing the needs of farmers in India is essential for ensuring food security, stimulating economic growth, and fostering social equity in India. By investing in agriculture and ensuring farmers' welfare, India can build a more resilient and prosperous future for all its citizens.

