



## Farmer's Demand for Legalizing MSP

**For Prelims:** [Supreme Court of India](#), [Minimum Support Price](#), [1991 Economic liberalisation](#), [World Trade Organisation](#), [Food inflation](#), [Pradhan Mantri Annadata Aay SanraksHan Abhiyan](#), [Pradhan Mantri Fasal Bima Yojana](#)

**For Mains:** Agricultural Policies in India, Economic Challenges in Agriculture, Farmer Protests, Agriculture Diversification and Sustainability

**Source:** [LM](#)

### Why in News?

The [Supreme Court \(SC\) of India](#) recently criticized the Central Government for failing to engage with protesting farmers and address their grievances.

- The court urged the Centre to consider the demands of farmers while responding to a fresh plea seeking a **legal guarantee for [Minimum Support Price \(MSP\)](#)**.
- This development follows the prolonged protests by farmer groups at the **Punjab-Haryana border**.

### What is the Petition for MSP Guarantee?

- **Petition:** It seeks a legal guarantee for MSP on crops, based on promises made during the [2021 farmers' protests](#) after the **repeal of the [farm laws](#)**.
  - The petition demands that the **MSP must be enshrined as a legal right to ensure stable incomes** for agricultural producers.
- **SC's Response:** The SC while not issuing a direct order, the **Court suggested using the High-Powered Committee** to resolve the issue and asked the Centre to respond immediately.
  - The SC's involvement adds legal weight to the ongoing protests, suggesting the need for a more systematic and legal solution.

### Why are Farmers Protesting in India?

- **Reasons For Farmers Protests:** The protests stem from long-standing grievances dating back to [India's 1991 economic liberalisation](#), which prioritised industrialisation over agriculture.
  - This has led to increasing distress in rural areas, where farmers struggle with low crop returns and rising input costs.
  - Though the **government sets MSP for many crops, implementation is limited**, with procurement mostly for rice and wheat.
    - Farmers, especially in **non-major cropping areas**, often sell produce below production costs.
  - The [World Trade Organisation \(WTO\)](#) agreements, which are often seen as **promoting free trade**, limit India's ability to **impose trade restrictions or provide subsidies to farmers**.

- This, according to the protesters, hinders India's ability to control procurement policies and subsidies for farmers.
- **Key Demands of Farmers:** The primary demand is for a law that guarantees MSP for all crops.
  - This is based on the [Swaminathan Commission Report](#), which recommends a 50% profit margin over the cost of production, using the '**C2+ 50%**' formula.
    - The **comprehensive cost (C2)** includes all **paid-out expenses**, the imputed value of unpaid family labor, rentals, and interest foregone on owned land and fixed capital.
    - While **MSPs are currently fixed at 50% above A2+FL**, which includes paid-out expenses and unpaid family labor.
  - **Other Key Demands: Full debt waiver for farmers and labourers.** Compensation and pensions for farmers, particularly for those affected by protests or agricultural distress.
    - Better working conditions and wages for agricultural labour.
    - Protection of **indigenous peoples' rights** over land and water.
- **Government's Position:** The central government has repeatedly stated that a legal **guarantee for MSP would be unfeasible**, citing logistical challenges and the high cost of procurement.
  - The government is also concerned about the **economic implications of such a policy**, including [food inflation](#) and **budgetary constraints**.

## What are the Arguments For and Against the Legalization of MSP?

- **Arguments for the Legalization of MSP:**
  - **Addressing Farmer Distress:** Legalizing MSP ensures farmers **receive fair prices for their crops**, addressing low returns from market fluctuations and providing **financial security** by covering production costs and guaranteeing fair returns for farmers.
    - **Agriculture's share in India's economy has dropped to below 15%**, with **minimal income growth for farmers** despite industrial and services sector growth.
      - Legalizing MSP can bridge this gap by ensuring fair prices and supporting agricultural development.
  - **Promoting Formal Markets:** Legalizing MSP could promote **formal market transactions**, reduce reliance on **informal markets**, and align with the government's goal of enhancing **transparency through digital agriculture**.
  - **Stable Market Prices:** Legalizing **MSP can reduce price volatility** in the agricultural market, stabilizing both farm incomes and consumer prices.
  - **Cost Calculation Methods:** The **current methods of cost calculation often fail to reflect the true cost of cultivation**, leading to prices below farmers' expenses.
    - A more accurate pricing model, such as the C2+50% method, could better align agricultural prices with other sectors.
  - **Agricultural Investment:** Legalizing MSP would **provide farmers with a predictable income**, encouraging investment in agriculture and improving productivity through **sustainable practices and green technologies**.
- **Arguments Against the Legalization of MSP:**
  - **Logistical Challenges:** Implementing MSP across all crops nationwide is **difficult due to inadequate infrastructure**, such as the **mandi system**, which is not functional in many states.
  - **High Costs for Government:** Procuring all crops at **MSP would require massive financial resources**, leading to budgetary constraints and potential economic strain.
  - **Food Inflation:** MSP could lead to **higher food prices**, affecting consumers, especially if the government is forced to buy all crops at MSP.
  - **Market Distortion:** A legal MSP could **disrupt the natural dynamics of supply and demand** in agricultural markets, leading to inefficiencies.
  - **WTO Constraints:** International trade agreements like the **WTO limit the ability of the government** to provide subsidies or impose restrictions on agricultural trade, which could undermine the effectiveness of MSP legalization.

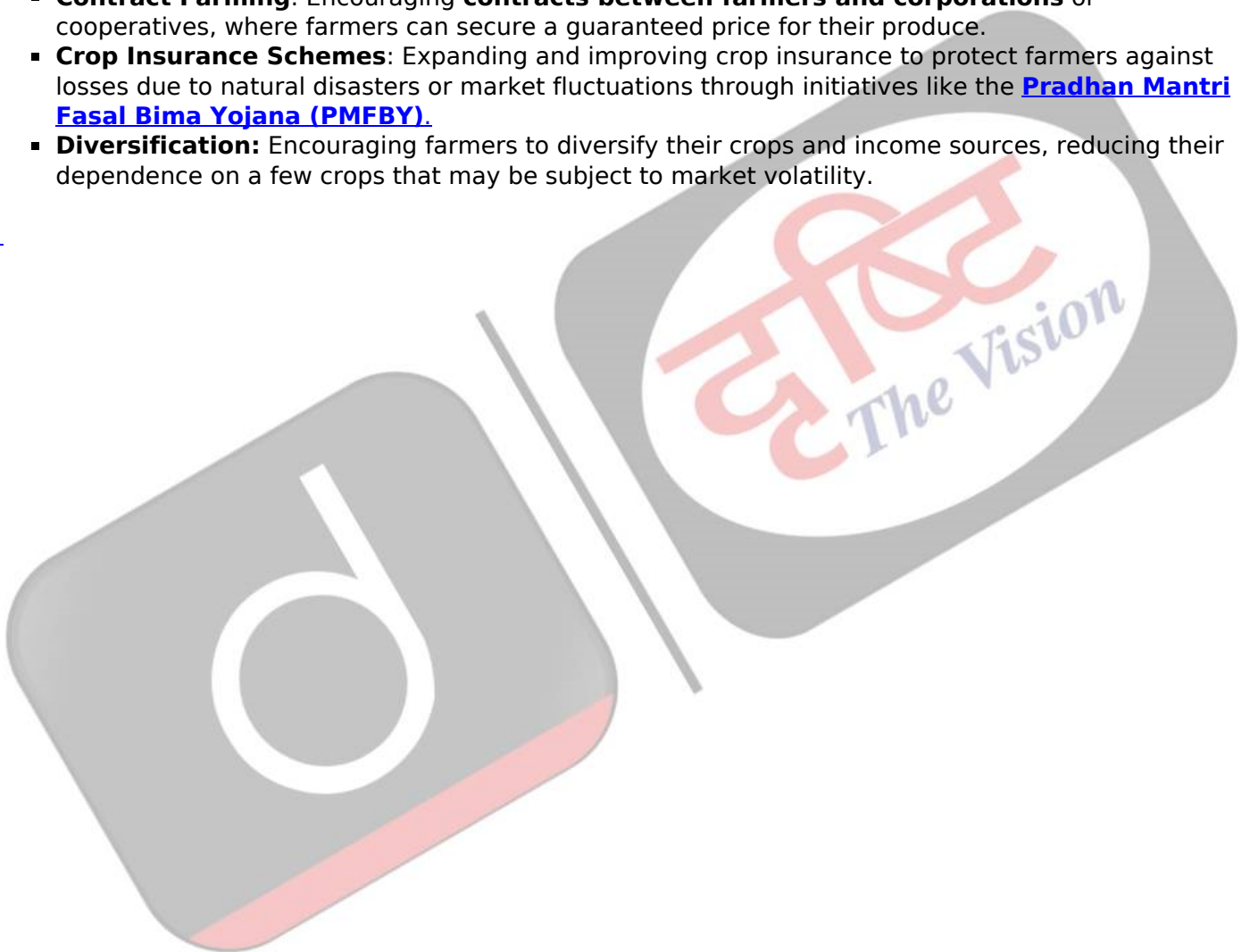
## What Can be Alternatives to Legalizing MSP Nationwide?

- **Targeted Approach:** Legalizing MSP for a smaller percentage of crops could stabilize prices

without straining the procurement system.

- This can be supported by [Pradhan Mantri Annadata Aay Sanrakshan Abhiyan \(PM-AASHA\)](#), which ensures fair prices for farmers through MSP and price deficiency payments.
- Some states, such as **Madhya Pradesh, Chhattisgarh, and Odisha, have successfully expanded procurement systems.**
  - Instead of a **nationwide rollout, state-specific legislation for legalizing MSP, tailored to local conditions,** could be considered to address regional agricultural challenges effectively.
- **Cooperatives' Role:** One alternative being considered is the **promotion of cooperatives and FPOs,** which have been successful in some sectors like [milk production.](#)
- **Supportive Infrastructure:** A robust legal framework, modern storage facilities, and improved infrastructure are essential for cooperatives and FPOs.
  - The [Pradhan Mantri Kisan Sampada Yojana \(PMKSY\)](#) can complement this by enhancing infrastructure and reducing [post-harvest losses.](#)
- **Contract Farming:** Encouraging **contracts between farmers and corporations** or cooperatives, where farmers can secure a guaranteed price for their produce.
- **Crop Insurance Schemes:** Expanding and improving crop insurance to protect farmers against losses due to natural disasters or market fluctuations through initiatives like the [Pradhan Mantri Fasal Bima Yojana \(PMFBY\).](#)
- **Diversification:** Encouraging farmers to diversify their crops and income sources, reducing their dependence on a few crops that may be subject to market volatility.

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# MINIMUM SUPPORT PRICE (MSP)

The rate at which the govt. purchases crops from farmers; based on a calculation of at least 1.5x the cost of production incurred by the farmers

## RECOMMENDED BY

**Commission for Agricultural Costs & Prices (CACP)** (recommends MSPs for 22 mandated crops and Fair and Remunerative Price for Sugarcane)

## 22 MANDATED CROPS

(14 Kharif, 6 Rabi and 2 Other Commercial crops)

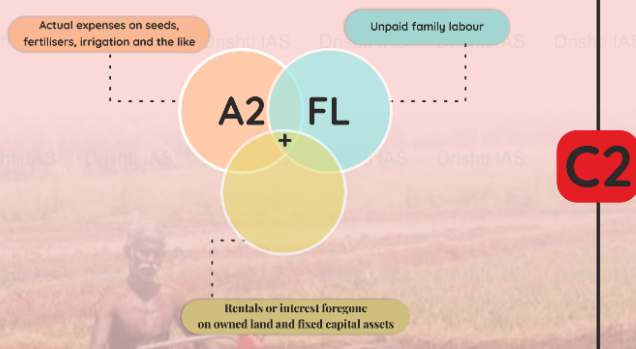
<b>7 CEREALS</b>	Paddy, Wheat, Barley, Jowar, Bajra, Maize And Ragi				
<b>5 PULSES</b>	Gram, Arhar/tur, Moong, Urad And Lentil				
<b>7 OILSEEDS</b>	Groundnut, Rapeseed/mustard, Soyabean, Sunflower, Sesamum, Safflower And Niger Seed				
<b>RAW COTTON</b>		<b>RAW JUTE</b>		<b>COPRA</b>	

MSP is the price at which the govt. is supposed to procure the mandated crops from farmers if the market price falls below it

## FACTORS FOR RECOMMENDING MSP

- ▶ Cost of cultivation
- ▶ Demand-Supply situation for the crop
- ▶ Market price trends
- ▶ Inter-crop price parity
- ▶ Implications for consumers (inflation)
- ▶ Environment (soil and water use)
- ▶ Terms of trade b/w agri and non-agri sectors (ratio of farm inputs and outputs)

Considers both A2+FL and C2 costs



MSP has no statutory backing — a farmer cannot demand MSP as a matter of right



Drishti IAS

**Drishti Mains Question:**

Discuss the implications of legalizing the Minimum Support Price for all crops in India. Should it be considered a sustainable solution to address agricultural distress?

**UPSC Civil Services Examination, Previous Year Question (PYQ)**

**Prelims:**

**Consider the following statements: (2020)**

1. In the case of all cereals, pulses and oil-seeds, the procurement at Minimum Support Price (MSP) is unlimited in any State/UT of India.
2. In the case of cereals and pulses, the MSP is fixed in any State/UT at a level to which the market price will never rise.

**Which of the statements given above is/are correct?**

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

**Ans: (d)**

**Mains:**

**Q.** What are the reformative steps taken by the Government to make the food grain distribution system more effective? **(2019)**