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ANALYSIS**

TOPIC

**DEBATE ON LEGALISING MINIMUM
SUPPORT PRICE (MSP) IN INDIA**

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DEBATE ON LEGALISING MINIMUM SUPPORT PRICE (MSP) IN INDIA

In Context

- The debate on the legalisation of **Minimum Support Price (MSP)** has intensified in recent years. While the intention behind this move is to safeguard farmers' incomes, its implementation carries significant economic, logistical, and systemic risks.
 - ♦ A balanced assessment of its benefits and drawbacks is crucial for informed policymaking.

Understanding MSP

- **Definition:** MSP is a government policy to protect farmers from sharp price falls by ensuring a minimum price for their produce.
- **Implementation:** Announced at the beginning of the sowing season for specific crops based on recommendations by the **Commission for Agricultural Costs and Prices (CACP)**.
- **Objective:** Income and food security, incentivizing production, and ensuring market stability.

Historical Context

- **1960s:** MSP was introduced during food shortages to encourage agricultural production and achieve food security.
- **K. Jha Committee:** Advocated for MSP to shield farmers from market volatility.
- **Evolution:**
 - ♦ Initially focused on wheat and rice but now covers **23 crops**, including cereals, pulses, oilseeds, and commercial crops.
 - ♦ Special provisions for **sugarcane pricing** evolved into the **Fair and Remunerative Price (FRP)** system in 2009.

Arguments Against Legalising MSP

- **Fiscal Unsustainability:** A universal MSP-backed procurement system could cost over 17 lakh crore annually, straining India's fiscal capacity.
 - ♦ Current MSP procurement is limited to wheat and rice, and expanding it to all crops would be unsustainable.
- **Market Distortions: Overproduction:** Farmers may focus on high-MSP crops, leading to surpluses of water-intensive crops like paddy and shortages of essential crops like pulses.
 - ♦ **Inefficient Resource Use:** Encourages water-intensive farming in water-stressed regions.
- **Storage and Infrastructure Challenges:** Insufficient **warehousing capacity** to handle excess produce, leading to wastage.
 - ♦ Logistical hurdles in transport, storage, and distribution, especially for perishable commodities.
- **Encouragement of Inefficiency:** Guaranteed purchases may deter farmers from adopting modern agricultural practices or diversifying into high-value crops.
 - ♦ Reduced competitiveness of Indian agriculture in global markets.
- **Inflationary Pressures:** Higher government procurement costs could lead to increased food prices, disproportionately affecting low-income households.
- **Administrative Complexities:** Managing procurement for millions of farmers could result in inefficiencies, corruption, and delays.
 - ♦ Past experiences with the **Public Distribution System (PDS)** highlight risks of leakages and operational challenges.
- **Impact on Trade:** MSP-driven exports could become uncompetitive in global markets, reducing India's share in agricultural trade.

- **State Policy Variations:** Agriculture is a **State Subject** under the Constitution, and state-specific policies make a one-size-fits-all MSP approach impractical.

Arguments Supporting Legalising MSP

- **Financial Security:** Ensures stable incomes for farmers, protecting them from market volatility.
- **Risk Coverage:** Provides a safety net against risks like climate change, pest attacks, and crop diseases.
- **Crop Diversification:** Inclusion of less water-intensive crops like pulses and millets under MSP could promote sustainable agricultural practices.
- **Market Stabilisation:** MSP acts as a benchmark price, discouraging exploitative practices and ensuring fair compensation for farmers.

Alternative Solutions

- **Strengthening Crop Diversification:** Promote sustainable cropping patterns to reduce overdependence on certain crops.
- **Expanding Crop Insurance:** Broaden the scope of **Pradhan Mantri Fasal Bima Yojana (PMFBY)** to cover price risks and climate shocks.
- **Investing in Infrastructure:** Develop cold storage facilities, efficient transport networks, and post-harvest processing units.
- **Encouraging Contract Farming:** Foster public-private partnerships for better market linkages and guaranteed returns.
- **Modernising Agricultural Practices:** Provide training and subsidies to encourage the adoption of advanced farming techniques.

Conclusion

- While legalising MSP aims to enhance farmer welfare, its potential economic and systemic repercussions cannot be ignored. A **comprehensive reform strategy**, focusing on infrastructure, diversification, and market efficiency, is a more sustainable approach. Legalising MSP may offer short-term relief but could undermine the long-term growth of agriculture and the economy.

Source: IE



Mains Practice Question

Despite being a cornerstone of agricultural policy for decades, analyze the arguments against legalizing MSP in India, considering its impact on market distortions, fiscal implications, and its potential to hinder agricultural growth and development.