



An MSP Scheme to Transform Indian Agriculture

(*Swati Mehta, Meenakshi Attri, Ranjeet Singh Bochalya and Nida Abdul Rashid Patel)

**Sher-e-Kashmir University of Agricultural Sciences and Technology, Chatha,
Jammu-180009 (J&K)**

* swatimehta1909.sm@gmail.com

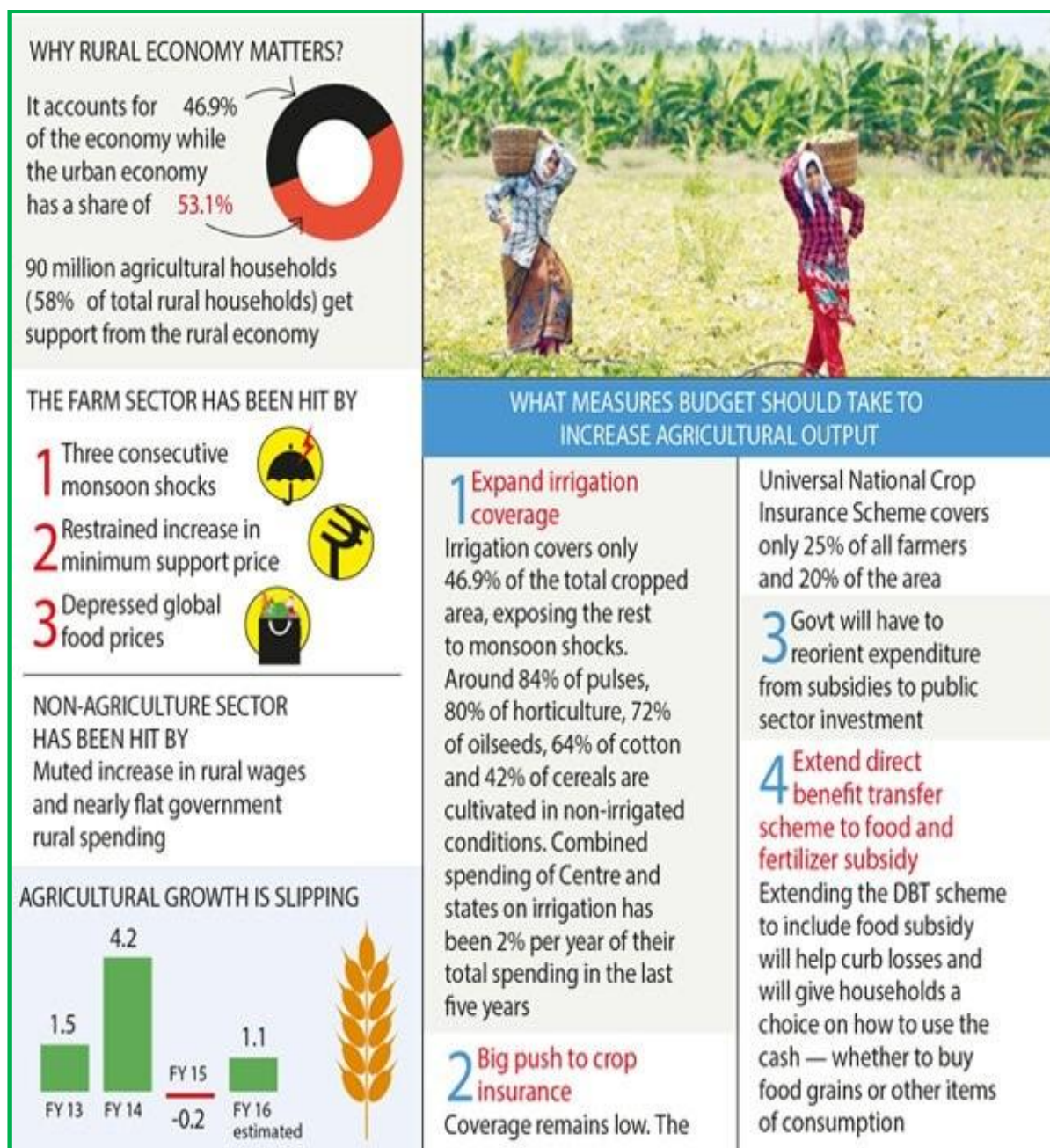
Minimum Support Price (MSP) is a form of market intervention by the Government of India to insure agricultural producers against any sharp fall in farm prices. The minimum support prices are announced by the Government of India at the beginning of the sowing season for certain crops on the basis of the recommendations of the Commission for Agricultural Costs and Prices (CACP). MSP is price fixed by Government of India to protect the producer - farmers - against excessive fall in price during bumper production years. The minimum support prices are a guarantee price for their produce from the Government. 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.

Historical Perspective of MSP

The Price Support Policy of the Government is directed at providing insurance to agricultural producers against any sharp fall in farm prices. The minimum guaranteed prices are fixed to set a floor below which market prices cannot fall. Till the mid 1970s, Government announced two types of administered prices:

- Minimum Support Prices (MSP)
- Procurement Prices

The MSPs served as the floor prices and were fixed by the Government in the nature of a long-term guarantee for investment decisions of producers, with the assurance that prices of their commodities would not be allowed to fall below the level fixed by the Government, even in the case of a bumper crop. Procurement prices were the prices of *kharif* and *rabi* cereals at which the grain was to be domestically procured by public agencies (like the FCI) for release through PDS. It was announced soon after harvest began. Normally procurement price was lower than the open market price and higher than the MSP. This policy of two official prices being announced continued with some variation upto 1973-74, in the case of paddy. In the case of wheat it was discontinued in 1969 and then revived in 1974-75 for one year only. Since there were too many demands for stepping up the MSP, in 1975-76, the present system was evolved in which only one set of prices was announced for paddy (and other *kharif* crops) and wheat being procured for buffer stock operations.



Introduction

The ongoing struggle of farmers is not for political power. It is a struggle to transform Indian agriculture and the livelihoods of the farming majority which are in ruins in most parts of the country. The compulsion of our time is to give a new direction to a peaceful peoples' movement to generate momentum in small peasant agriculture, which in turn could give real content to our democracy.

A Background

1. The massive solidarity (despite deeply divisive social fault lines) seen in the recent farmers' movement has already shaken the Himalayan arrogance of the Government.
2. Maintaining that solidarity is essential, which means MSP must look especially into the requirements of farmers and the landless.
3. MSP could serve, in principle, three purposes:

1. Price stabilization in the food grains market,
2. Income support to farmers, and also
3. As a mechanism for coping with the indebtedness of farmers.
4. The price stabilization policy for food grains in India evolved over time, first with the Essential Commodities Act in 1955 to counter price rise due to speculative private trading and then MSP in the 1960s.
5. A buffer stock policy with the public storage of food grains for market intervention was developed over time to involve different kinds of mechanisms such as:
 1. Setting cost-based minimum procurement price;
 2. Paying the difference between procurement price and market price;
 3. Storing the procured surplus for sale through the Public Distribution System (PDS) at issue price, and
 4. Market intervention to stabilize price when deemed necessary.
6. These induced farmers to shift to a high-yielding varieties cropping pattern during the Green Revolution, while ensuring food security for citizens.
7. This task required interlinking procurement, storage and distribution with more centralized investment and control of each of these tasks.

Determination of MSP

In formulating the recommendations in respect of the level of minimum support prices and other non-price measures, the Commission takes into account, apart from a comprehensive view of the entire structure of the economy of a particular commodity or group of commodities, the following factors:-

- Cost of production
- Changes in input prices
- Input-output price parity
- Trends in market prices
- Demand and supply
- Inter-crop price parity
- Effect on industrial cost structure
- Effect on cost of living
- Effect on general price level
- International price situation
- Parity between prices paid and prices received by the farmers.
- Effect on issue prices and implications for subsidy

The Commission makes use of both micro-level data and aggregates at the level of district, state and the country. The information/data used by the Commission, inter-alia include the following:-

- Cost of cultivation per hectare and structure of costs in various regions of the country and changes there in;
- Cost of production per quintal in various regions of the country and changes therein;
- Prices of various inputs and changes therein;
- Market prices of products and changes therein;
- Prices of commodities sold by the farmers and of those purchased by them and changes therein;
- Supply related information - area, yield and production, imports, exports and domestic availability and stocks with the Government/public agencies or industry;
- Demand related information - total and per capita consumption, trends and capacity of the processing industry;

- Prices in the international market and changes therein, demand and supply situation in the world market;
- Prices of the derivatives of the farm products such as sugar, jaggery, jute goods, edible/non-edible oils and cotton yarn and changes therein;
- Cost of processing of agricultural products and changes therein;
- Cost of marketing - storage, transportation, processing, marketing services, taxes/fees and margins retained by market functionaries; and
- Macro-economic variables such as general level of prices, consumer price indices and those reflecting monetary and fiscal factors.

Partial Coverage of Agricultural Crops through MSP:

1. The procurement and PDS from the Green Revolution period provided assured price incentives for rice, wheat and sugar (the flagships of the Green Revolution), but left out some 20 crops now under discussion for MSP including millets, coarse cereals, pulses and oilseeds.
2. As a result, this partial MSP coverage skewed the cropping pattern against several coarse grains and millets particularly in rain-fed areas.
3. The area under cultivation of rice and wheat from the time of the Green Revolution till recently increased from 30 million hectares to 44 million hectares and nine million hectares to 31 million hectares, respectively, while that of coarse cereals plunged from 37 million hectares to 25 million hectares.
4. Although part of the diet of many people across the country, these left-out crops (grown mostly in rain-fed conditions) were not made available in ration shops.
5. Almost 68% of Indian agriculture is rain fed and the crops grown in these regions are usually more drought resistant, nutritious and staple in the diet of the poorer subsistence farmers.
6. This has been a particularly vulnerable point of our food security system; greater coverage of all 23 crops under MSP is a way of improving both food security and income support to the poorest farmers in rain-fed regions.

Economic Cost

1. The centralized mechanism for ensuring distribution of the procured stock of rice and wheat at MSP entails bringing the procured grains to centralized Food Corporation warehouses.
2. Here they are milled, made ready for consumption and sent back to each district/province, and from there to villages/slums/wards for distribution through fair price (ration) shops at an issue price fixed by the government which is below the market price to make it affordable for poor households.
3. The total economic cost involving subsidy for selling below market price along with procurement costs, distribution costs of freight, handling, storage, interest and administrative charges along with costs borne due to transit and storage losses would be around ₹3 lakh-crore.
4. Sugarcane comes under a separate category because all this is organised through private sugar mills and is often plagued by delays.
5. If price is charged in a range according to harvest conditions, the total economic cost will vary within a price “band”.

As a Band of Maximum and a Minimum Price Depending on Harvest Conditions

1. MSP has to be conceived as a list of some 23 crops with a more flexible arrangement.

2. Each crop within a band of maximum and a minimum price depending on harvest conditions (i.e. higher price in a bad and lower price in a good harvest year in general) will have its price set in the band.
3. The price of some selected coarse grains can be fixed at the upper end of its band to encourage their production in rain fed areas.
4. In this way, the objectives of income support to farmers, price stabilization and food security and inducing more climate-friendly cropping patterns can be combined to an extent.
5. Wide coverage of MSP through income support to farmers would generate massive positive economic externalities through raising industrial demand especially for the unorganised sector.
6. This will help in extending solidarity among farmers and non-farmers while creating a chain reaction of demand expansion through multipliers for the whole economy.
7. For estimating the additional cost of a wider MSP; of the total grains produced some 45%-50% is for farmers' self-consumption and the rest is marketed surplus.
8. This marketed surplus sets the upper bound of total procurement cost from which must be deducted the net revenue recovered through the PDS (if all these crops are sold through ration shops).
9. This expenditure will benefit more than half the population directly and another 20%-25% of the population indirectly in the unorganised sector — over 70% of India's citizens.
10. A real breakthrough in the recurring problem of agricultural debt can be made by the linking of selling of grains under MSP to provision of bank credit particularly for small farmers.
11. The farmer can get a certificate selling grains at MSP which would be credit points proportional to the amount sold; this will entitle them to a bank loan as their right, and calibrate the fluctuations between good and bad harvest years by storing the certificates for later use.
12. This mechanism would go a long way not only in addressing the indebtedness in the farming community but also has the virtue of great administrative simplicity in disbursing bank loans.

Agriculture lies at the backbone of Indian economy. Therefore, more sustainable solutions lie in augmenting productivity, diversifying to high-value crops, and shifting people out of agriculture to the high productivity sector.

Conclusion

It needs emphasizing that how effectively such an MSP scheme could be implemented would depend largely on decentralizing the implementing agencies under the constitutionally mandated supervision of panchayats.

The near miracle we have witnessed in organizing and unifying the farmers' movement across caste, class and gender through the panchayat and maha-panchayat system in Punjab, Haryana and West Uttar Pradesh raises hope that they will turn their attention to decentralizing the MSP implementation mechanism.

The movement enabled massive and effective mobilization through these decentralised bodies. Therefore, they are capable of doing it again.

References

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