



Minimum Support Price vs Market Price Who Really Benefits- Farmers or the System

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Agriculture remains the backbone of India's economy, supporting nearly half of the population directly or indirectly. However, farmers face constant uncertainty due to fluctuating market prices, climate variability, and rising input costs. To protect farmers from distress sales and ensure income security, the Government of India introduced the Minimum Support Price (MSP) system. MSP is the pre-announced price at which government agencies procure crops from farmers regardless of prevailing market rates. However, the debate continues: does MSP truly benefit farmers, or does the system benefit intermediaries, procurement agencies, and the government more? While MSP aims to guarantee minimum income, many farmers still sell below MSP due to limited procurement and market inefficiencies. This article critically examines MSP and market prices, comparing their benefits and limitations, and explores who actually gains from the system.

Concept of Minimum Support Price (MSP)

Minimum Support Price is the guaranteed price at which government agencies purchase agricultural produce from farmers to prevent losses when market prices fall below cost. The MSP system was introduced in the 1960s during the Green Revolution to ensure food security and protect farmers from exploitation.

Objectives of MSP

The main objectives of the Minimum Support Price (MSP) system are to protect farmers from sudden price crashes, ensure a minimum profit margin over the cost of production, and encourage farmers to continue crop cultivation without fear of financial loss. MSP also plays a crucial role in maintaining national food security by ensuring adequate production of essential food grains and enabling the government to build buffer stocks. In addition, it helps in stabilizing agricultural markets by preventing extreme fluctuations in crop prices. Reflecting its importance, the Government of India procured agricultural commodities worth approximately ₹3.33 lakh crore at MSP during 2024–25, which benefited around 16.8 million farmers across the country.

Market Price

Market price is the price farmers receive when selling crops in mandis, private markets, or directly to buyers. Market price depends on several important factors, including supply and demand, as higher production usually lowers prices while shortages increase them. Weather conditions also play a major role, as droughts, floods, or favorable rainfall directly affect crop yield and availability. In addition, government policies, such as export restrictions, procurement decisions, and subsidies, influence market behavior. Export and import trends affect domestic prices, as higher exports may raise prices while imports can reduce them. Storage availability is another key factor, since farmers with proper storage can wait for better prices, whereas lack of storage forces immediate sale at lower rates. Unlike MSP, market price is not fixed and fluctuates continuously depending on these dynamic factors.

Table 1. Difference Between MSP and Market Price

Feature	MSP	Market Price
Price nature	Fixed by government	Determined by demand and supply
Risk level	Low risk	High risk
Price stability	Stable	Highly volatile
Buyer	Government agencies	Private traders
Farmer protection	Guaranteed	Not guaranteed

Importance of MSP for Farmers

1. Protection Against Price Crash

Minimum Support Price (MSP) acts like a form of insurance for farmers when market prices fall below the cost of production. It provides a guaranteed minimum price, protecting farmers from financial losses during periods of low market demand or excess supply. For example, cotton prices in the market fell to around ₹6,700 per quintal, while the MSP was fixed at ₹8,110 per quintal. In such situations, farmers who are unable to sell their produce at MSP suffer heavy losses if they sell in the open market. This clearly shows that MSP serves as an important safety net by ensuring price protection and income security for farmers against unfavorable market conditions.

2. Income Stability

Minimum Support Price (MSP) plays an important role in ensuring stable income for farmers and reducing financial distress caused by price fluctuations. By providing a guaranteed minimum price, MSP protects farmers from selling their produce at very low market rates, thereby improving their economic security. Various studies have shown that MSP significantly contributes to increasing farmers' income. For instance, it has been reported that MSP increases the income of paddy farmers by about **23.2%** and wheat farmers by around **9.6%**, highlighting its positive impact on enhancing farm profitability and livelihood stability.

3. Encouragement for Crop Production

Minimum Support Price (MSP) motivates farmers to grow crops by assuring them a guaranteed minimum return, which reduces the risk associated with price uncertainty. This encouragement leads to increased production of essential food grains, thereby strengthening national food security. During the Green Revolution, MSP played a crucial role in promoting the cultivation of crops like wheat and rice by providing price assurance to farmers. As a result of this policy support, along with improved technologies and irrigation, India successfully increased its food grain production and transformed from a food-deficit country into a food-surplus nation.

Limitations of MSP System

Despite benefits, MSP has major limitations.

1. Only Few Farmers Benefit

One of the biggest criticisms of the Minimum Support Price (MSP) system is that only a small proportion of farmers actually benefit from it. Studies indicate that only about 15% of

paddy farmers and 9.6% of wheat farmers are able to sell their produce at MSP through government procurement. This means that the majority of farmers do not have access to procurement facilities and are forced to sell their crops in open markets, often at prices lower than the MSP. As a result, the intended benefits of MSP do not reach most farmers, especially small and marginal farmers, limiting its overall effectiveness.

2. Regional Inequality

Minimum Support Price (MSP) benefits are largely concentrated in a few states, particularly Punjab, Haryana, and Western Uttar Pradesh, where government procurement systems are well developed and procurement centers are easily accessible. Farmers in these regions are able to sell a significant portion of their produce at MSP, especially wheat and paddy. In contrast, farmers in many other states receive limited benefits due to inadequate procurement infrastructure, lack of awareness, and logistical constraints. As a result, a large number of farmers outside these major procurement regions are forced to sell their produce in local markets, often at prices below MSP.

3. Limited Crop Coverage

Another major limitation of the MSP system is its restricted crop coverage in actual procurement. Although MSP is announced for more than 20 crops, in practice the government mainly procures wheat and paddy on a large scale. These two crops dominate the procurement process because they are essential for maintaining buffer stocks and supplying the Public Distribution System (PDS). In contrast, other crops such as fruits, vegetables, pulses, and oilseeds receive very limited procurement support. As a result, farmers growing these crops often do not benefit from MSP and are forced to sell their produce in the open market, sometimes at prices below the announced MSP.

4. Market Price Often Below MSP

Many farmers are unable to sell their produce at the Minimum Support Price (MSP) and are forced to sell at lower market prices due to several practical constraints. One of the major reasons is the lack of adequate procurement centers, especially in remote and rural areas, which limits farmers' access to MSP procurement. Additionally, farmers often have an urgent need for money to repay loans or meet household expenses, forcing them to sell their crops immediately after harvest. The lack of proper storage facilities also prevents them from holding their produce until better prices are available. For example, the MSP of soybean was fixed at ₹5,300 per quintal, but the market price dropped to around ₹4,200 per quintal, resulting in significant financial losses for farmers who had no option but to sell at the lower price.

Market Price System: Advantages

Market price system also has benefits.

1. Free Market Efficiency

Market determines actual value based on demand. This promotes efficient resource allocation.

2. Opportunity for Higher Profit

When demand increases, market price exceeds MSP. Example: Pulses often sell above MSP due to high demand.

3. Encourages Crop Diversification

Farmers grow profitable crops instead of MSP crops.

Market Price System: Disadvantages

Major problems include:

1. Price Volatility

Market prices fluctuate frequently. Farmers suffer heavy losses.

2. Farmer Exploitation

Middlemen manipulate prices. Farmers receive lower share.

3. Distress Sale

Farmers often sell their produce immediately after harvest to repay loans and meet urgent financial needs. The lack of proper storage facilities also forces them to sell early, usually at lower market prices.

Table 2: Comparison of MSP and Market Price Impact on Farmers

Criteria	MSP System	Market Price System
Price stability	High	Low
Farmer risk	Low	High
Income security	Guaranteed	Uncertain
Profit potential	Moderate	High
Market freedom	Limited	Full
Beneficiary farmers	Limited	All farmers
Government role	High	Low

Farmers: Partial Beneficiaries

Farmers benefit from the Minimum Support Price (MSP) system, but only partially, as its advantages do not reach everyone equally. One of the main reasons is the limited procurement capacity, which restricts the quantity of produce that can be purchased at MSP. It has been observed that only about 24% of paddy and 21% of wheat surplus is actually sold through MSP procurement channels. As a result, a large number of farmers are forced to sell their produce in the open market at lower prices. Small and marginal farmers suffer the most, as they often lack access to procurement centers, transportation, and storage facilities, reducing their ability to benefit from the MSP system.

Government: Major Beneficiary

Government benefits in several ways.

1. Food Security

Minimum Support Price (MSP) enables the government to build and maintain adequate food grain stocks by procuring crops directly from farmers. These stocks are essential for ensuring national food security and are mainly used to supply food grains through the Public Distribution System (PDS) at subsidized rates and to support various government welfare schemes, such as food security programs for low-income and vulnerable populations.

2. Price Control

Government controls inflation using MSP stocks.

Middlemen and Traders: Major Beneficiaries

Middlemen and traders are often considered major beneficiaries of the MSP system, as they earn significant profits through their role in agricultural marketing and procurement. In many cases, they purchase crops from farmers at prices below MSP, especially when farmers are in urgent need of cash, and later sell the same produce at MSP or higher prices, earning substantial margins. Commission agents (arthiyas) also receive commissions for facilitating procurement transactions, further increasing their income. Additionally, there have been reports of procurement irregularities and scams involving intermediaries, where the system is misused for personal gain, reducing the direct benefits intended for farmers.

Consumers: Indirect Beneficiaries

Consumers also benefit indirectly from the MSP system, as it helps the government provide food grains at low and subsidized prices. The procured grains are distributed through the Public Distribution System (PDS) and other welfare schemes, ensuring food security for economically weaker sections. For example, wheat procured at MSP is supplied to consumers at a subsidized price of around ₹20 per kg, making essential food items affordable for millions of people.

Table 3: Example Comparison of MSP and Market Price of Crops

Crop	MSP (₹/quintal)	Average Market Price (₹/quintal)	Farmer Impact
Cotton	8,110	6,700	Loss (Sold below MSP)
Soybean	5,300	4,200	Loss (Sold below MSP)
Maize	2,150	1,700	Loss (Sold below MSP)
Wheat	2,275	2,400–2,600	Profit (Sold above MSP)

Major Problems in MSP System

Despite its importance, the MSP system faces several major challenges that limit its overall effectiveness. One of the key issues is limited coverage, as only a small proportion of farmers and crops are actually covered under effective procurement. There is also significant regional inequality, with the majority of procurement concentrated in a few states like Punjab and Haryana, while farmers in other regions receive minimal benefits. Additionally, MSP can lead to market distortion by interfering with natural price discovery and encouraging the overproduction of certain crops such as wheat and paddy. Furthermore, the system imposes a high fiscal burden on the government, as large financial resources are required for procurement, storage, and subsidy distribution.

Conclusion

Minimum Support Price plays a vital role in protecting farmers from price crashes and ensuring food security. However, its benefits are unevenly distributed. Only a small percentage of farmers actually benefit from MSP, while middlemen and the government often gain more advantages. Market prices offer higher profit opportunities but involve significant risks. Therefore, both MSP and market price systems have strengths and weaknesses. For truly benefiting farmers, MSP coverage must expand, procurement efficiency must improve, and market reforms must ensure fair price realization. A balanced approach combining MSP protection and efficient market mechanisms is essential for sustainable agricultural development.