



# The Indian Journal for Research in Law and Management

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## Minimum Support Price (MSP) and Its Issues

### Introduction:

The COVID-19 pandemic has had a significant impact on the farming sector across the globe, including in India. With changes in demand, rules and regulations, and other factors, the farming industry has seen a marked increase in protests by farmers. These protests have brought attention to the need for reform in the sector to ensure fair prices for farmers and a stable food supply for consumers. Post-COVID, significant changes occurred in the farming sector in the years 2020–21 with the introduction of farm bills<sup>123</sup>. A huge uproar erupted across India against the bills, labelling them anti-farmer. As a result, after a lot of protests and drama, the bills were repealed, leading to the calling off of the protests. However, the demands related to Minimum Support Price (MSP) remained active. Consequently, the Minimum Support Price (MSP) system has been the subject of many issues.

### MSP and Farmer Protests:

Opposite to MRP, which is aimed at protecting consumers, MSP is designed to protect farmers by setting a minimum price for the crops they produce. This scheme provides security to

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<sup>1</sup> The Farmers' Produce Trade And Commerce (Promotion And Facilitation) Bill, 2020, No. 113, Acts of Parliament, 2020 (India).

<sup>2</sup> The Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Bill, 2020, No. 112-C, Acts of Parliament, 2020 (India).

<sup>3</sup> The Essential Commodities (Amendment) Bill, 2020, No. 111, Acts of Parliament, 2020 (India).

farmers for their cultivation by setting a guaranteed minimum price that they can receive for certain crops that are eligible under the MSP scheme. MSP is declared before the sowing season, which helps to protect farmers from being exploited by corporations. The main goal of MSP is to support farmers financially, stabilize agricultural prices, and ensure food security by encouraging the production of essential crops.

During the farmer protests of 2020-21, farmers in India demanded a legal guarantee for MSPs to safeguard against market volatility and ensure stable incomes. They called for higher Minimum Support Prices (MSPs) that could cover their production costs and ensure profitability, or the implementation of Swaminathan Commission recommendations to fix MSPs at 50% above production costs<sup>4</sup>. Additionally, they requested the inclusion of other crops in the MSP scheme, timely revisions of MSPs to reflect proper input costs and market conditions, and easier access to procurement centers, including the establishment of more such centers in needy areas.

### **Let's explore the complexities surrounding the Minimum Support Price (MSP):**

The heavy reliance on crops covered by the Minimum Support Price (MSP) scheme, has led to significant challenges in India's agricultural sector. Farmers primarily concentrate on MSP-supported crops like rice and wheat, neglecting other crucial crops. This imbalance results in shortages of essential food items, forcing India to import them and stressing foreign exchange reserves. Furthermore, the government's commitment to purchasing surplus produce at MSP, irrespective of market demand, leads to wastage and burdens taxpayers. While the MSP system aimed to ensure farmers' income security, it has unintentionally caused overproduction of certain crops, resulting in market distortions.

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<sup>4</sup> National Commission on Farmers, Swaminathan Report, PRS INDIA (March 30, 2024), <https://prsindia.org/policy/report-summaries/swaminathan-report-national-commission-farmers>

The Food Corporation of India (FCI) is burdened with a debt of 2.5 lakh crores due to MSP operations<sup>5</sup>, highlighting the financial burden caused by the current system. Inefficient storage and distribution infrastructure worsen the issue, leading to substantial quantities of grains decaying in FCI facilities, resulting in a loss of food resources and taxpayer money. The MSP for wheat often surpasses international prices, making it more cost-effective to import wheat rather than produce it domestically. This inconsistency creates incentives for farmers to focus on MSP-covered crops rather than diversify. Importing wheat at lower global prices could save costs for consumers and the government, which procures surplus grains at MSP.

### **Will it lead to an economic crash?**

The main argument against implementing or legalization of the Minimum Support Price (MSP) scheme often revolves around concerns about having enough resources. Critics say the government doesn't have the money or infrastructure needed to support MSPs. But let's take a closer look at these concerns.

First, although implementing the MSP scheme would require significant funding from the government, claims that it would cost Rs 10 lakh crore per year<sup>6</sup> may be exaggerated and misleading. The actual cost would depend on factors such as the number of crops covered and the amount of support they require. Additionally, comparing its cost to total infrastructure spending can be misleading since MSPs concentrate on a specific section of the economy.

Second, worries about not having enough warehouses for MSP procurement are reasonable but not impossible to solve. The government might not have enough warehouses for everything right now, but focusing on grains and pulses first could help. Plus, investing in storage

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<sup>5</sup> Sandip Das, "A fiscal crisis: Why FCI needs provisioning in food subsidy budget," DOWN TO EARTH (March 30, 2024), <https://www.downtoearth.org.in/blog/food/a-fiscal-crisis-why-fci-needs-provisioning-in-food-subsidy-budget-73670>

<sup>6</sup> Business Today, "Farmers' protest: MSP guarantee to cost additional Rs 10 lakh cr, almost equal to infra spending," Business Today (March 30, 2024), <https://www.businesstoday.in/india/story/farmers-protest-msp-guarantee-to-cost-additional-rs-10-lakh-cr-almost-equal-to-infra-spending-417318-2024-02-13>

buildings, better transportation, and managing crops after they're harvested can help expand what the government can buy over time.

The idea that India would run out of money because of adjusting the Minimum Support Price (MSP) to match market prices isn't true. Calculations for the 2017-18 period showed that it would cost the government Rs 47,764 crore to bridge this gap. That's just 1.6 percent of the Union Budget for that year and less than 0.3 percent of the Gross Domestic Product (GDP). Even if the MSP went up to the level suggested by the Swaminathan Commission, it would cost about Rs 2.28 lakh crore. That's around 7.8 percent of the Budget and 1.2 percent of the GDP<sup>7</sup>. These numbers show that the financial burden of aligning MSPs with market prices is doable and wouldn't crash India's economy.

## **Conclusion;**

Addressing these problems means we need to rethink the MSP policies so they match the actual costs and market situations. This way, we can encourage a more sustainable and market-driven approach to farming. To make this happen, we should bring in some changes like policy updates, investing in farming infrastructure, and training farmers. The government can help out by offering price boosts, easier access to loans, and educational services to motivate farmers to grow crops that are in demand abroad. Also, supporting food processing businesses and improving supply chains can make Indian farm products more competitive globally. If we align farming methods with what people want to buy, we can have more sustainable farming, better food security, and less pressure on the MSP system's finances. Nowadays, many experts think we should base farming more on what people need and what's available, instead of just depending on MSP. By keeping an eye on global demand trends and opportunities, the government can inspire farmers to grow different crops that both local and international markets want. This change could cut down on waste, ease the burden on taxpayers, and help farmers earn more by selling to profitable foreign markets.

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<sup>7</sup> Vissa, Kiran and Yadav, Yogendra. Can India actually afford MSP for farmers? It's a question of political will, The Print (March 30, 2024), <https://theprint.in/opinion/can-india-actually-afford-msp-for-farmers-its-a-question-of-political-will/588793/>