



## MINIMUM SUPPORT PRICES IN INDIA

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**ABSTRACT** MSP is a tool which gives guarantee to the farmers, prior to the sowing season, that a fair amount of price is fixed to their upcoming crop to encourage higher investment and production of agricultural commodities. The Minimum Support Prices are announced by the Government of India for the first time in 1966-67 for wheat in the wake of the Green Revolution. At present the Government of India covers 24 commodities including Statutory Minimum Prices for sugarcane. The initial philosophy behind this was the adoption of the new technology and becoming self-sufficient in foodgrains. Recently, the Cabinet Committee on Economic Affairs has announced a substantial increase in the minimum support price of crops. It is considered that an increase in MSP will give a major boost for the farmers' income. Bhavantar Bhugtan Yojana (BBY), a price deficiency payment (PDP) scheme will also lessen the farm distress as it is easy and simple method. Further, to incentivise cultivation of pulses and oilseeds, Government has announced a bonus which is payable over and above the approved MSP. It is argued that a rise in MSP would be beneficial only to tiny section of farmers as most of them have to sell their production to moneylenders in the villages to repay their loans. What is required is to provide subsidised inputs; cheap credit facility; development of rural infrastructure and generation of rural employment opportunities. In this light, this paper focuses and analyses the effectiveness of MSP as a supportive mechanism in India.

**KEYWORDS :** Minimum Prices , Supportive ,Crops ,Farmers

## INTRODUCTION

Agriculture has been a way of life. It not only provides food and raw material but it continues to be the single most important livelihood of the masses. 50 percent of its population is dependent on agriculture. Though the share of agriculture in National income has come down yet it accounts for 14 per cent. But if we compare it with developed countries, it is still very high. This contribution is very low in developed countries. On an average, it is 5 percent in UK, 4 percent in US, 14 percent in France, 16 percent in Australia, 21 percent in Japan and 32 percent in Russia. Agri exports accounts for 10.5 percent of total exports. Agriculture and its related goods contribute about 38 percent in total exports of the country. The performance of the agricultural sector influences the growth of the Indian economy.

Series of institutional reforms were undertaken to augment the agricultural production, to modernize the farming practices and to boost the conditions of farmers: land reforms, structural changes in the agricultural administrative arrangements, agricultural extension schemes, initiation of price support policies, introduction of new technologies (the green revolution), and strengthening of agricultural research, etc.

But when we look at the condition of Indian farmers, picture does not look very encouraging. Agrarian distress had led farmers to commit suicide. The challenges facing Indian agriculture and its tens of millions of farmers have been well recognized. Lack of Access and adequacy of institutional credit and opportunities for assured and remunerative marketing have led to agrarian distress.

Recently in order to tackle agrarian distress, NITI Aayog has put forth a four point action plan to double the incomes of India's farmers: Remunerative prices for the farmers, Raising productivity, Reforming agriculture land policy and relief measures.

## REVIEW OF STUDIES AND OBJECTIVES

The price support system was conceptualized during pre-green revolution period as an institutional mechanism for incentivizing farmers to adopt new technologies (Planning Commission 2005). Initially, on the recommendation of the Jha Committee, the Agricultural Prices Commission was constituted.

Kamat and Kamat, (2007) mentioned that MSP is now viewed as a form of market intervention on the part of the State and also as one of the supportive measures to the agricultural producers. Iqbal and Merwe (2010) mentioned that production of wheat and rice were increased due to rise in MSP by the Government.

A study in Punjab (Singh and Bhogal 2015) found widespread presence of commission agents in the state's agricultural markets and interlinked credit, input and output markets which took place due to the credit linkage these agents provide to farmers. Tripathi 2013 has

pointed out that MSP is leading to regional disparity in incomes as it is effective only in few states where it is backed by procurement. Mittal & Hariharan 2016 have pointed out that MSP is also said to have favoured crop specialization in with rice and wheat at the cost of pulses and oil seeds. Mitra (1977) had argued that an increase in foodgrain prices, with a shift in the terms of trade in favour of agriculture, would reduce the non-food expenditure of the urban and rural poor. A NITI Aayog (2016) study found that in certain states and for certain crops, MSPs are lower than the wholesale prices.

The issue that emerged is the relationship between cost and price after the announcement by the Cabinet Committee on Economic Affairs about a substantial increase in the minimum support price of crops. It is considered that an increase in MSP will give a major boost for the farmers' income. The objective of the study is to study MSP, analyse hike in MSP and to study Price Deficiency Payment Scheme (PDP) and PM Kisan Samman Nidhi yojna MSP as a supportive mechanism in India under the Umbrella Scheme "Pradhan Mantri Annadata Aay Sanrakshana Abhiyan" (PM-AASHA).

## MINIMUM SUPPORT PRICE

Minimum Support Price (MSP) Policy has been one of the supportive mechanisms. MSP is a tool which gives guarantee to the farmers, prior to the sowing season, that a fair amount of price is fixed to their upcoming crop to encourage higher investment and production of agricultural commodities. The MSP is in the nature of an assured market at a minimum guaranteed price offered by the Government.

The Minimum Support Prices were announced by the Government of India for the first time in 1966-67 for wheat in the wake of the Green Revolution. At present the Government of India has implementing MSP policy as tool to intervene in agriculture produce markets and regulate agro-market in India. The minimum support prices (MSP) covers 25 commodities including Statutory Minimum Prices (SMP) for sugarcane. The crops are; Paddy, Jowar, Bajra, Maize, Ragi, Arhar, Moong, Urad, Cotton, Groundnut, Sunflower seeds, Soyabean, Sesamum, Wheat, Barley, Gram, Masur, Mustard, safflower, Torai, Copra, De-husked Coconut, Jute and sugarcane.

## WHY MSP?

1. The initial philosophy behind the Agricultural Price Policy was more directed towards the adoption of the new technology and making available foodgrains to the large number of consumers for ensuring the food security.
2. The farmer is at receiving end both in factor and product market. He remains at the mercy of the operators in these markets. MSP is viewed as a safety net to ensure price security for a long-term investment decision to farmers.
3. Our population is increasing at less than one percent while food production is growing at more than 3 percent. So there will be surpluses leading to fall in prices and income of the farmers. Therefore farmers need to be supported.

4. The prices of agricultural commodities are inherently unstable - a very good harvest in any year results in a sharp fall in the price of that commodity during that year which in turn will have an adverse impact on the future supply as farmers withdraw from sowing that crop in the next/ following years.

#### RECENT INCREASE IN MSP

The Commission for Agricultural Costs and Prices during 60s followed the cost of production approach to arrive at the MSP and procurement prices .Till the mid 70, Govt announced two types of administered prices ; MSP and Procurement prices .MSP served as the floor prices whereas procurement prices were the prices at which the grain was to be domestically procured by the govt for release through PDS . Recent increase in MSP and bonus of pulses and oilseeds is shown in the following table .

But this increase is not going to double the farmers' income . All farmers do not have access to the government's minimum support price .Life of the Indian farmer is full of uncertainties and plight .The transmission of crops from the fields to markets is not very easy .Only 6 percent of the crops are purchased on MSP .Remaining agricultural crops fetch 10-30 percent less price in the market.

Farmers 'concern is just not about MSP but its implementation .A close look at the declared prices revealed that the prices have not been fixed accordingly to the formula recommended by Swanminathan Commission . The farmers were demanding MSP should be 1.5 times of C2 and not the 1.5 times of A2+FL method .

Rabi crop	2017-18	2018-19	% increase	Kharif crop	2017-18	2018-19	% increase
Wheat	1735	1840	6.1	Paddy	1550	1750	12.90
Barley	1410	1440	2.1	Jowar	1700	2430	42.94
Gram	4400	4620	5	Bajra	1425	1950	36.84
Masoor	4250	4475	5.3	Maize	1425	1700	19.30
Rapeseed/ Mustard	4000	4200	5.0	Ragi	1900	2897	52.47
Safflower	4100	4945	20.6	Arhar	5450	5675	4.13
<b>Kharif Crop</b>							
Sunflower seeds	4100	5388	31.42	Urad	5400	5600	3.70
Soyabeen	3050	3399	11.44	Cotton	4320	5450	26.16
sesamum	5300	6249	17.91	Groundnut	4450	4890	9.89

The basic structure of moneylenders, middlemen and government procurement is exploitative .It is argued that a rise in MSP would be beneficial only to tiny section of farmers as most of them have to sell their production to moneylenders in the villages to repay their loans .

The economy will face more corruption and high prices . It will worsen droughts .Delay in payment may hamper the liquidity . Moreover they do not have storage capacity .The private players had to pay more to attract farmers to sell to them . It will lead to fall in the supply in the open market . Most of the farmers will be net buyers of foodgrains . This implies that they have to pay more . A rise in the prices of agricultural commodities will lead to a rise in the prices in the economy -- More farmers suicide .

Commission announces the MSP of 25 crops but only four crops are being procured by the Govt. (Wheat ,Rice ,Sugarcane and Cotton ).Escalation of area under wheat and paddy was mainly because of MSP .

#### BHAVANTAR BHUGTAN YOJANA (BBY)

BBY, a price deficiency payment (PDP) scheme will also lessen the farm distress . Bhav means Price Anter means difference ( current price of crop and base price fixed by the Govt) Bharpai means compensation if farmers will sell below base price .the farmers would have to register themselves with the regulated market of the area .The benefits of this scheme is as follows :

- To give right price of crops
- Easy and simple method
- Protect the farmers from losses suffered on account of distress sale
- Farmers can take a risk and try some innovative farming seeds and use some new technology

- More farmers would be covered under the scheme
- Govt would pay only differential amount ,increase in saving of exchequer
- It will reduce the wastage of crops in transportation ,storage and handling . Farmers will have to carry their produce only to Mandis

#### PM-KISAN SAMMAN NIDHI YOJNA

This scheme was announced on 24 Feb 2019 .It is Direct Income Support Rs 2000 every four months a year which equals to Rs 6000.It will be transferred directly into the farmers 'bank accounts.Under this , Rs 6000 will be paid to 12 crore small and marginal farmers holding cultivable land of up to two hectares.It will help in buying farm inputs . They will not depend on money lenders .With this cash flow ,they can have more credit by using microfinance .It is very significant tool to influence agricultural economy .This will help in supplementing the producer support as there are surpluses in food grains .

#### CHALLENGES

- Announcing schemes after schemes is not required .What is required is to provide subsidised inputs ; cheap credit facility ; development of rural infrastructure and generation of rural employment opportunities Digital connectivity and upgrading of Primary agriculture cooperative societies need to be strengthened . Expansion of the outreach of the formal credit and crop insurance cover is required .

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