Farmer’s Demand for Legalizing MSP

For Prelims: **Supreme Court of India**, **Minimum Support Price**, **1991 Economic liberalisation**, **World Trade Organisation**, **Food inflation**, **Pradhan Mantri Annadata Aay SanraksHan Abhiyan**, **Pradhan Mantri Fasal Bima Yojana**

For Mains: Agricultural Policies in India, Economic Challenges in Agriculture, Farmer Protests, Agriculture Diversification and Sustainability

Source: LM

Why in News?

The **Supreme Court (SC) of India** recently criticized the Central Government for failing to engage with protesting farmers and address their grievances.

- The court urged the Centre to consider the demands of farmers while responding to a fresh plea seeking a **legal guarantee for Minimum Support Price (MSP).**
- This development follows the prolonged protests by farmer groups at the **Punjab-Haryana border.**

What is the Petition for MSP Guarantee?

- **Petition:** It seeks a legal guarantee for MSP on crops, based on promises made during the **2021 farmers' protests** after the **repeal of the farm laws.**
  - The petition demands that the **MSP must be enshrined as a legal right to ensure stable incomes** for agricultural producers.
- **SC's Response:** The SC while not issuing a direct order, the **Court suggested using the High-Powered Committee** to resolve the issue and asked the Centre to respond immediately.
  - The SC’s involvement adds legal weight to the ongoing protests, suggesting the need for a more systematic and legal solution.

Why are Farmers Protesting in India?

- **Reasons For Farmers Protests:** The protests stem from long-standing grievances dating back to **India’s 1991 economic liberalisation**, which prioritised industrialisation over agriculture.
  - This has led to increasing distress in rural areas, where farmers struggle with low crop returns and rising input costs.
  - Though the **government sets MSP for many crops**, **implementation is limited,** with procurement mostly for rice and wheat.
    - Farmers, especially in **non-major cropping areas,** often sell produce below production costs.
  - The **World Trade Organisation (WTO)** agreements, which are often seen as **promoting free trade,** limit India’s ability to **impose trade restrictions or provide subsidies to farmers.**

        - This, according to the protesters, hinders India's ability to control procurement policies and subsidies for farmers.
- **Key Demands of Farmers:** The primary demand is for a law that guarantees MSP for all crops.
    - This is based on the [**Swaminathan Commission Report**](), which recommends a 50% profit margin over the cost of production, using the **'C2+ 50%' formula.**
        - The **comprehensive cost (C2)** includes all **paid-out expenses,** the imputed value of unpaid family labor, rentals, and interest foregone on owned land and fixed capital.
        - While **MSPs are currently fixed at 50% above A2+FL**, which includes paid-out expenses and unpaid family labor.
    - **Other Key Demands**: **Full debt waiver for farmers and labourers.** Compensation and pensions for farmers, particularly for those affected by protests or agricultural distress.
        - Better working conditions and wages for agricultural labour.
        - Protection of **indigenous peoples' rights** over land and water.
- **Government's Position:** The central government has repeatedly stated that a legal **guarantee for MSP would be unfeasible,** citing logistical challenges and the high cost of procurement.
    - The government is also concerned about the **economic implications of such a policy,** including [**food inflation**]() and **budgetary constraints.**

What are the Arguments For and Against the Legalization of MSP?

- **Arguments for the Legalization of MSP:**
    - **Addressing Farmer Distress**: Legalizing MSP ensures farmers **receive fair prices for their crops,** addressing low returns from market fluctuations and providing **financial security** by covering production costs and guaranteeing fair returns for farmers.
        - **Agriculture's share in India's economy has dropped to below 15%,** with **minimal income growth for farmers** despite industrial and services sector growth.
            - Legalizing MSP can bridge this gap by ensuring fair prices and supporting agricultural development.
    - **Promoting Formal Markets**: Legalizing MSP could promote **formal market transactions,** reduce reliance on **informal markets,** and align with the government's goal of enhancing **transparency through** [**digital agriculture.**]()
    - **Stable Market Prices**: Legalizing **MSP can reduce price volatility** in the agricultural market, stabilizing both farm incomes and consumer prices.
    - **Cost Calculation Methods:** The **current methods of cost calculation often fail to reflect the true cost of cultivation,** leading to prices below farmers' expenses.
        - A more accurate pricing model, such as the C2+50% method, could better align agricultural prices with other sectors.
    - **Agricultural Investment**: Legalizing MSP would **provide farmers with a predictable income,** encouraging investment in agriculture and improving productivity through **sustainable practices and green technologies.**
- **Arguments Against the Legalization of MSP:**
    - **Logistical Challenges**: Implementing MSP across all crops nationwide is **difficult due to inadequate infrastructure,** such as the **mandi system,** which is not functional in many states.
    - **High Costs for Government**: Procuring all crops at **MSP would require massive financial resources**, leading to budgetary constraints and potential economic strain.
    - **Food Inflation**: MSP could lead to **higher food prices,** affecting consumers, especially if the government is forced to buy all crops at MSP.
    - **Market Distortion**: A legal MSP could **disrupt the natural dynamics of supply and demand** in agricultural markets, leading to inefficiencies.
    - **WTO Constraints**: International trade agreements like the **WTO limit the ability of the** government to provide subsidies or impose restrictions on agricultural trade, which could undermine the effectiveness of MSP legalization.

What Can be Alternatives to Legalizing MSP Nationwide?

- **Targeted Approach**: Legalizing MSP for a smaller percentage of crops could stabilize prices

without straining the procurement system.
  - This can be supported by **Pradhan Mantri Annadata Aay Sanraksan Abhiyan (PM-AASHA),** which ensures fair prices for farmers through MSP and price deficiency payments.
  - Some states, such as **Madhya Pradesh, Chhattisgarh, and Odisha, have successfully expanded procurement systems**.
    - Instead of a **nationwide rollout, state-specific legislation for legalizing MSP, tailored to local conditions,** could be considered to address regional agricultural challenges effectively.
- **Cooperatives' Role**: One alternative being considered is the **promotion of cooperatives and FPOs,** which have been successful in some sectors **like milk production.**
- **Supportive Infrastructure**: A robust legal framework, modern storage facilities, and improved infrastructure are essential for cooperatives and FPOs.
  - The **Pradhan Mantri Kisan Sampada Yojana (PMKSY)** can complement this by enhancing infrastructure and reducing **post-harvest losses.**
- **Contract Farming**: Encouraging **contracts between farmers and corporations** or cooperatives, where farmers can secure a guaranteed price for their produce.
- **Crop Insurance Schemes**: Expanding and improving crop insurance to protect farmers against losses due to natural disasters or market fluctuations through initiatives like the **Pradhan Mantri Fasal Bima Yojana (PMFBY).**
- **Diversification:** Encouraging farmers to diversify their crops and income sources, reducing their dependence on a few crops that may be subject to market volatility.

MINIMUM SUPPORT PRICE (MSP)

The rate at which the govt. purchases crops from farmers; based on a calculation of at least 1.5x the cost of production incurred by the farmers

RECOMMENDED BY

Commission for Agricultural Costs & Prices (CACP) (recommends MSPs for 22 mandated crops and Fair and Remunerative Price for Sugarcane)

22 MANDATED CROPS

(14 Kharif, 6 Rabi and 2 Other Commercial crops)

- **7 CEREALS** Paddy, Wheat, Barley, Jowar, Bajra, Maize And Ragi
- **5 PULSES** Gram, Arhar/tur, Moong, Urad And Lentil
- **7 OILSEEDS** Groundnut, Rapeseed/mustard, Soyabean, Sunflower, Sesamum, Safflower And Niger Seed

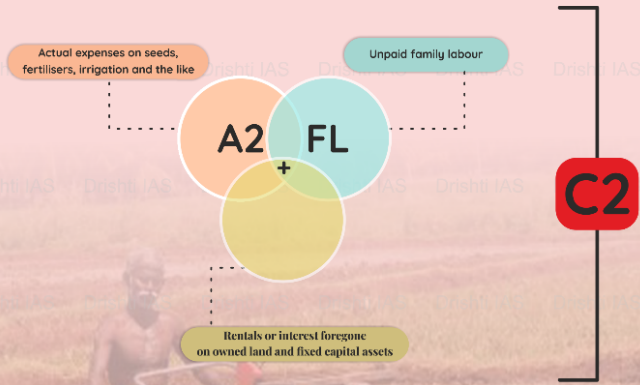
RAW COTTON **RAW JUTE** **COPRA**

MSP is the price at which the govt. is supposed to procure the mandated crops from farmers if the market price falls below it

FACTORS FOR RECOMMENDING MSP

- Cost of cultivation
- Demand-Supply situation for the crop
- Market price trends
- Inter-crop price parity
- Implications for consumers (inflation)
- Environment (soil and water use)
- Terms of trade b/w agri and non-agri sectors (ratio of farm inputs and outputs)

Considers both A2+FL and C2 costs



MSP has no statutory backing — a farmer cannot demand MSP as a matter of right

Drishti Mains Question:

Discuss the implications of legalizing the Minimum Support Price for all crops in India. Should it be considered a sustainable solution to address agricultural distress?

UPSC Civil Services Examination, Previous Year Question (PYQ)

Prelims:

Consider the following statements: (2020)

1. In the case of all cereals, pulses and oil-seeds, the procurement at Minimum Support Price (MSP) is unlimited in any State/UT of India.
2. In the case of cereals and pulses, the MSP is fixed in any State/UT at a level to which the market price will never rise.

Which of the statements given above is/are correct?

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

Ans: (d)

Mains:

Q. What are the reformative steps taken by the Government to make the food grain distribution system more effective? **(2019)**

PDF Refernece URL: https://www.drishtiias.com/printpdf/farmers-demand-for-legalizing-msp