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Significance of Hike in MSP

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Why in News: The Centre recently announced the Minimum Support Price (MSP) for this year's summer (kharif) season crops, hiking prices between 5-10% from last season, "to ensure remunerative prices to growers for their produce and to encourage crop diversification."

A Brief about MSP

About: The MSP, which is a part of the government's agricultural price policy, is the price at which the government offers to procure farmers' produce during the season.

Determination of MSP: The government's Commission for Agricultural Costs and Prices (CACP) recommends MSP for various crops based on factors such as production costs, market prices, demand and supply, and overall agricultural policy objectives. The MSP is announced annually by the government before the sowing season.

Commodities covered: MSP is primarily applicable to major crops such as rice, wheat, pulses, oilseeds, cotton, and other essential agricultural commodities. The list of crops eligible for MSP is periodically revised based on market conditions and policy considerations.

Price support mechanism: When the market prices of agricultural commodities fall below the MSP, government agencies such as the Food Corporation of India (FCI) and state procurement agencies intervene by purchasing the produce directly from farmers at the MSP. This helps ensure farmers receive a remunerative price and prevents distress sales.

Market intervention and buffer stocks: The government procures and maintains buffer stocks of food grains through MSP operations. These buffer stocks serve various purposes, including maintaining food security, stabilizing prices, and meeting emergency requirements such as distribution through the Public Distribution System (PDS).

Price support and public welfare: The MSP policy is seen as a crucial measure to protect the interests of farmers and ensure their income security. It also helps in maintaining stable agricultural production, promoting self-sufficiency in food grains, and ensuring food availability for the country's population.

Recent hike in MSP

Recently, the government announced the MSP for 17 'kharif' crops, like paddy, pulses (moong, arhar, urad), oilseeds like groundnut and soyabean and cotton, for the marketing season of 2023-24.

These were approved at a meeting of the Cabinet Committee on Economic Affairs (CCEA). According to the government statement, the increase in MSP is in line with the Union Budget 2018-19 announcement of fixing the MSP at a level of at least 1.5 times the all-India weighted average cost of production, which aims at a reasonably fair remuneration for the farmers.

Food Minister Piyush Goyal said the increase in MSP of kharif crops for this year is the highest compared to previous years.

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Food grain Stock:

As per third advance estimates for 2022-23, total food grain production in the country is estimated at a record 330.5 million tonnes which is higher by 14.9 million tonnes compared to 2021-22.

This is the highest increase in the last five years, according to government data. The total stocks of rice and wheat held by Food Corporation of India (FCI) and State agencies as on May 1, 2023, was 555.34 lakh tonnes comprising 265.06 lakh tonnes of rice and 290.28 lakh tonnes of wheat.

Challenges in MSP

It works as a tool to stabilise production and to control consumer prices, yet farmers across the country have been facing problems of selling their produce at the MSP.

Delays in establishing procurement centres, exploitation at the hands of commission agents, who most of the time buy the produce from farmers below the MSP, and a lack of awareness about the MSP among a large section of farmers, are some of the challenges growers have been facing for years now.

Against this background, farmers have been demanding a 'legal status' to the MSP. The government, including the Centre and States, ought to come up with a system to set up an 'assured market mechanism,' point out farmers. The MSP has little meaning unless farmers' produce is procured/purchased at the assured price.

Several farmers' outfits have expressed their discontentment over the latest MSP for the summer crops, terming it as insufficient.

According to the All India Kisan Sabha, the declared MSP is "unfair, belies the hopes of the farmers and inflicts huge losses in their incomes."

Rising input costs coupled with unfair MSP will push large sections of farmers, especially the small, marginal, and middle-level farmers, as well as tenants into indebtedness

The longstanding promise made by the ruling Party in 2014 that the MSP will be given according to the Swaminathan Commission recommendation of C2+50% (C2 or comprehensive cost of production) remains an unfulfilled election promise

The Bharatiya Kisan Union (Ekta-Ugrahan), one of the largest farmer unions in Punjab and a member of the Samyukta Kisan Morcha (SKM), the umbrella body of around 500 farmer outfits, has dismissed the MSP hike, saying that the government's notion of ensuring 1.5 times the cost of production on crops does not help in addressing the farmers' plight as it does not provide remunerative price.

Noted economist Dr. Ranjit Singh Ghuman points out that the past track record shows that only three to four crops (mainly wheat, paddy and cotton and at times some pulses), were being procured at MSP while the remaining crops were being procured at much below the MSP.

Ineffective implementation of MSP and 'non-procurement' of all the crops at the MSP is also one of the main concerns of farmers.

The Way ahead

The MSP attempts to strike a balance between the interest of growers and consumers. The government's price support policy attempts to provide a fair return to farmers while keeping in view the interest of consumers in a way that prices of food and other agricultural commodities are kept at a reasonable level.

Farming over the years, for the majority, especially small and marginal farmers, has not turned out to be remunerative. A rise in their income could be the long-term answer to farmers' financial distress.

To ensure this rise in income, the government should focus on setting up an effective system to provide assured purchase and returns to farmers for all major crops at the MSP, as is done in the case of wheat and rice or extend subsidies on input costs.