

# MSP in a Changing Agricultural Policy Environment

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The minimum support price and the public procurement system are indispensable for national food security, public distribution system, farmer livelihood and welfare, and agricultural growth. Over time, the MSP regime has been beleaguered with weaknesses. Thus, agricultural reforms are essential to rectify these primarily by firming the government's role in agricultural marketing to ensure farmer welfare. However, the new farm laws foster a policy environment based on the *laissez-faire* approach that will be inimical to farmers' interests.

India's stride towards food self-sufficiency and agricultural growth, fostered by the green revolution, was reinforced by institutional and policy support. The primary components of the wide-ranging policy action for farmer welfare ever since the 1960s have been the minimum support price (MSP) and the public procurement system (PPS). However, the new agricultural policy—defined by the new farm laws—is laying a foundation for an environment wherein the MSP and PPS are likely to become redundant. The three legislative acts, namely: (i) the Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020; (ii) the Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Service Act, 2020; and (iii) the Essential Commodities (Amendment) Act, 2020, have attracted attention to the much-debated portended outcomes. The government presents that these laws would remove agricultural trade restrictions to boost the agricultural sector and generate additional gains for farmers.

Contrastingly, there are also accusations of such laws being packed with political chicanery. Farmers, and a large section of the intelligentsia, believe that these acts will prompt an irrevocable course of development based on *laissez-faire*, thereby subjecting the farmers to merciless market forces, driven mainly by private/corporate business agendas and, thus, in ensuing farmers' protests and resentment across the country. The MSP is the main point of contention in these laws; the farmers fear the discontinuation of the MSP. Such apprehensions are not hypothetical, but are based on the wide discourse of government representatives towards such intentions.

Over time, the policies have failed to focus on the perpetuating issues plaguing the agricultural sector: unremunerative

MSP and absence of effective public procurement. Despite this, the new policy environment is set to create an exploitative free market that will be fatal for the peasantry. Also, the provisions of these laws would diminish the Agricultural Produce Market Committee (APMC) *mandi* business by setting up parallel private markets that will attract buyers due to the provision of tax-free purchase, thereby reducing state revenue that is currently generated from businesses in public mandis. Experts believe that this would inadvertently abbreviate the role of state governments in mass welfare, rural developmental activities and agricultural viability. Above all, this would impinge the constitutional rights of states and weaken the federal structure of the country. In reality, the political promise of doubling farmer income now seems to be only a gimmick, which entails grave consequences. The demand for making the MSP a legally binding price and repealing these laws is being echoed by farmers, agricultural workers, farm traders, intellectuals and various state governments across the country. As a remedy, some state governments—Punjab, Rajasthan, Chhattisgarh, Delhi and Kerala—have passed bills in an attempt to counter these new central farm laws. In general, the state bills have been drafted to ensure that purchase of crop produce, both public and private, is at par or above the MSP. Nevertheless, the effectiveness of the MSP would still largely be subservient to policies of the central government.

## Effectiveness of Remunerative MSP

The MSP announced by the government for 23 crops is inadequate (NABARD 2020); first, because the declared MSP is not generating sufficient returns over cost (Bhoi and Dadhich 2019); and second, because the MSP is not effective for all crop produce, as only 6% of the value of the agricultural produce across the country is procured at MSP. The rest face stiff price competition and receive meagre prices (GoI 2015a). As a ramification of low prices of farm produce, the agrarian distress is intensifying, and it is visible through escalating farmer indebtedness

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and suicides (GoI 2019; Singh et al 2014). Therefore, for the overall sustainability of farming, it becomes even more crucial to strengthen MSP and increase its outspread to all farmers and all crops.

For MSP to be remunerative, farmers across the country have been demanding the fixation of MSP as per M S Swaminathan's formula, ever since 2006. Increasing MSP by pegging it at cost plus 50%—the idea being drawn from M S Swaminathan's formula for the computation of remunerative MSP—was a primary component of the original multifaceted government plan towards doubling farmer income. However, policy planners have reneged on the promise, as the current MSP is less than as recommended by Swaminathan's report and is highly mismatched with the actual cost of production (COP).

Given the criticality and inadequacy of MSP, this article elaborates on the formulation of the existing and proposed remunerative MSP, the existing deficiencies, and the political economy behind the fixation of MSP.

### MSP: Basis and Implementation

Cost of cultivation, as suggested by the Jha Committee, was the foundation for the calculation of MSP (Kadasiddappa et al 2013). Over time, the concept of such cost has become complex, resulting in divergent views about the computation and estimation of MSP. The explanation of actual computation and the promised

computation is crucial since these concepts are generally unknown or misunderstood. Varied concepts of cost of cultivation are shown in Figure 1.

### Cost Concepts and Basis of MSP

**MSPs—Swaminathan and existing formulas:** The Swaminathan report had suggested a hopeful solution for the ailing farming community (GoI 2006). It recommended that the MSP should be computed by incorporating almost all actual farm costs as  $c_2$ —the base/reference of the MSP estimation—along with an additional 50% margin. Likewise, the union government in the budget speech of 2018 announced an MSP that would be 1.5 times the COP. The government used the formula  $A_2 + FL$  and a 50% margin on it. The margin on COP that is calculated by the formula of  $A_2 + FL$  was already more than 50% when the government promised to give so. Thus, such an increase in the revenue of farmers did not make much sense. Furthermore, a comparison of the cost computation methodologies (existing and Swaminathan) shows that there exists a difference between existing MSP calculated with reference cost  $A_2 + FL$  and that calculated with reference cost  $c_2$  for the main crops (Table 1). In other words, the promised margin of 50% over  $A_2 + FL$ —the current basis for MSP—barely brings about an increment in farmer income in actual. Therefore, Swaminathan's proposed MSP formula— $c_2$  plus 50%—is

relatively a better approach towards providing farmers with the deservedly higher value for their produce.

**Table 1: Crop-wise Margin of MSP over Different Costs in India, 2020–21** (₹/Qtl)

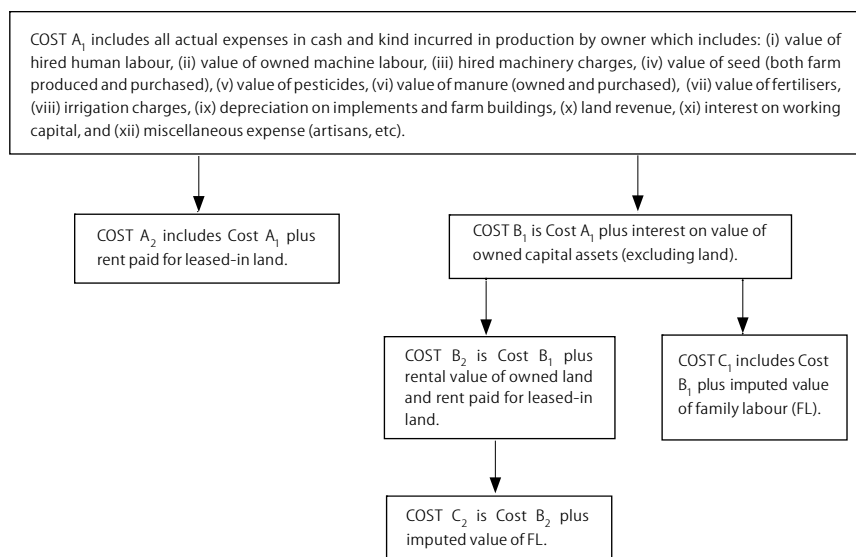
Crops	$A_2 + FL$	$C_2$	MSP	Margin over $A_2 + FL$ (%)	Margin over $C_2$ (%)
	(1)	(2)	(3)	(3)-(1)	(3)-(2)
Wheat	923	1,425	1,925	108.56	35.08
Gram	2,801	4,023	4,875	74.04	21.18
Rapeseed and mustard	2,323	3,401	4,425	90.49	30.11
Paddy	1,245	1,667	1,868	50.04	12.06
Maize	1,213	1,606	1,850	52.51	15.19
Moong	4,797	6,289	7,196	50.01	14.42
Cotton	3,676	4,935	5,515	50.03	11.75

### Cost calculations for MSP—Ramesh Chand Committee:

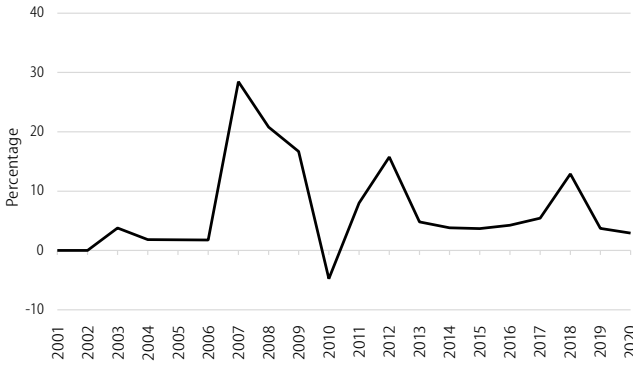
Another committee under the chairmanship of Ramesh Chand suggested some additional cost aspects that needed to be incorporated in  $c_2$  (GoI 2015b). The key additions were: (i) the head of the farm households should be considered as a skilled worker rather than a manual worker as is prevalent; (ii) interest on working capital should be accounted for the whole season in contrast to the prevalent practice of estimating it for half season; (iii) actual land rent to be accounted without any ceiling rate; and (iv) engendering post-harvest costs like cleaning, grading, drying, packaging, marketing and transportation costs. Also, the committee recommended that the cost  $c_2$  so formulated should be raised by 10% to account for the risks incurred and managerial services of a farmer.

However, it is proposed that to bolster the financial well-being of farmers, the reference cost should be taken as  $c_2$  (as estimated by CACP and used as a reference price by the Swaminathan formula) plus aforementioned costs as recommended by the Ramesh Chand Committee (RCC). As per a field survey undertaken to estimate the cost of cultivation across Punjab, it was found that if the costs recommended by RCC are taken into consideration and added to the cost  $c_2$  (as calculated by CACP), the proposed  $c_2$  will increase by 30.38% and 24.61% for wheat and paddy, respectively. Therefore, considering COP as per RCC would be a prominent step towards realising the improved welfare of farmers.

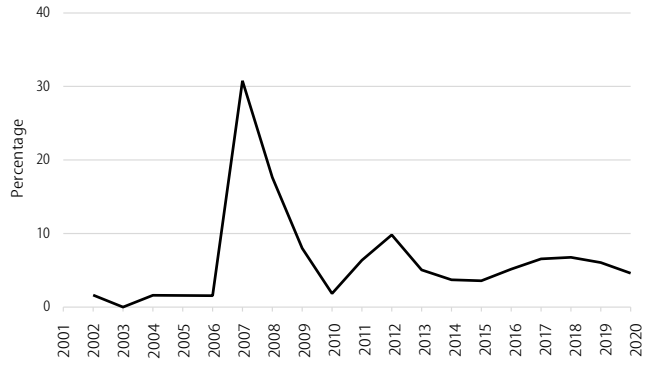
**Figure 1: Varied Cost Concepts Used for Fixing MSP**



**Figure 2a: Change in MSP of Paddy**



**Figure 2b: Change in MSP of Wheat**



As seen from Table 2, as per the Swaminathan report, the MSP, suggestions ( $C_2 + 50\%$ ) for wheat and paddy for the year 2020–21 should be ₹2,138 and ₹2,501, respectively. If RCC formula ( $C_2 + 10\%$ ) is adopted, then the MSP should be fixed at ₹2,044 and ₹2,285, respectively. However, for its true effectiveness towards farmer welfare, MSP should be fixed by estimating  $C_2$  as per RCC rather, with an addition of 50% margin. Accordingly, the MSP for wheat would be ₹2,787 and paddy ₹3,116, which is higher than the existing MSP by about 45% and 67%, respectively.

**Factors that Limit MSP**

Besides the cost of cultivation, many economic and non-economic factors at both national and international levels play an important role in the determination of MSP.

**Global Factors Determining MSP**

(i) **WTO:** The neo-liberal economic policies initiated in India in 1991 exposed Indian agricultural sector to a rather debatable development—the enforcement of Agreement on Agriculture (AoA)—World Trade Organization (WTO) at Marakesh, Morocco in 1994. As per the terms, the developing countries were required to reduce the de minimis (minimal amount of the permitted trade-distorting support extended

by the government) to 10% of the value of production of agriculture by 2004. In other words, India along with other countries was directed to limit its agricultural subsidies and/or for fixation of crop prices by including the cost of all price-distorting support/subsidies. This threatens India’s agricultural viability, national food security programmes, and domestic and foreign trade. A temporary peace clause, which protects developing countries from punitive action by WTO members if subsidy ceilings are breached for national food security, was put into effect during the 2013 WTO meeting in Bali (Indonesia), but set to expire in 2017. Subsequently, through the new farm laws, the Indian government is machinating to comply with the restrictions imposed by WTO—AoA; as is evident from the minimisation of the government’s role in agricultural marketing. This very well explains the government’s obstinacy despite the intensifying farmers’ protests against the three farm laws.

(ii) **International price competition:** International price competitiveness is often propounded as a reason to limit the increase in the MSP. International market prices of agricultural produce are volatile. The CoP for both wheat and paddy has been on a rise in India. However, a perusal of both national and international prices shows that

international prices of wheat declined in 2019 and underwent a negative rate of change in comparison to the year 2018; and the international prices of rice grew by merely 1% in 2018 (Table 3). However, many a time, the rate of increase in international prices was higher than the rate of change in the announced MSPs in our country. Thus, subjecting decision of fixation of the MSP based on volatile international prices and the escalating CoP at home would be detrimental. Therefore, securing farmer welfare with assured remunerative prices and procurement is incontestable.

**Table 3: National and International Price of Wheat and Rice**

Year	National Wheat Prices (₹/Qtl)	International Wheat Prices (\$/MT)	National Paddy Prices (₹/Qtl)	International Rice Prices (\$/MT)
2016	1,525 (-)	143.2 (-)	1,510 (-)	388.3 (-)
2017	1,625 (6.56)	145.3 (1.47)	1,550 (2.65)	399.1 (2.78)
2018	1,734 (6.71)	186.1 (28.08)	1,750 (12.90)	403.1 (1.00)
2019	1,840 (6.11)	162.45 (-14.72)	1,815 (3.71)	410.95 (10.02)

Figures in parentheses show percentage change from previous year.

Source: International Monetary Fund, <https://www.imf.org/en/Research/commodity-prices> and CACP.

**National Factors Determining MSP**

(i) **Election issue:** Political factors play a central role in the determination of MSP. Figures 2a and 2b depict that the percentage increase in MSP of wheat and paddy was largely higher in the years preceding Lok Sabha elections—in 2004, 2009, 2014 and 2019—than in the succeeding years. Hence, MSP is not always based on CoP but is often driven by political objectives. While ensuring remunerative prices is often an important

**Table 2: Estimation of Proposed MSP in India, 2020–21**

Crops	Existing MSP	Existing $C_2$	MSP as per Swaminathan ((2)+50%)	As per Ramesh Chand Committee Report*			% Difference between Proposed MSP and Existing MSP ((6)-(1)) (7)
				$C_2$	((4)+10%)	((4)+50%)	
	(1)	(2)	(3)	(4)	(5)	(6)	
Wheat	1,925	1,425	2,138	1,858	2,044	2,787	44.77
Paddy	1,868	1,667	2,501	2,077	2,285	3,116	66.80

\* Cost estimation as per field survey of Punjab farmers by authors, 2019–20.

election plank, successive governments have failed to implement the recommendations of Swaminathan and RCC Committees set up by the United Progressive Alliance government in 2004 and 2013, respectively. Ostensibly, the intention behind forming such committees was to gain political mileage.

**(ii) Fiscal deficit and inflation:** Rise in fiscal deficit is often proclaimed as a negative consequence of increased MSP, thereby refuting the desirable hikes. However, in 2018, the government justified a notable MSP increase and claimed that its impact on fiscal deficit and inflation was manageable. Besides, the adverse impact of higher MSP on rising food prices for poor people is often explained as the rationale behind keeping MSP low. However, to counter the inflation for the poor and improve farm viability via remunerative MSP, the government should bring not only the poor but all the weaker sections under the public distribution system (PDS) to be able to avail subsidised food. Giving subsidised food to the poor should anyways be the responsibility of the government. Therefore, the aforementioned factors should not controvert the desirable and recommended MSP.

**(iii) Buffer stock:** Surplus food stocks—actual procurement exceeding the buffer stock quantity norms—is also propounded as a justification for dispensability of MSP and PPS. However, the factors like inefficient PDS, lack of purchasing power of the vulnerable and inadequate coverage of population under the targeted PDS, are the reasons for the mounting food stocks. It is pertinent to note that hunger is a serious concern for our country; India ranks 94th among the 107 countries (2020). Thus, improving the efficiency of the PDS and increasing the scale of food stock distribution is the need of the hour.

### A Policy Priority

There is no doubt that the MSP regime is beleaguered by issues related to its adequacy and effectiveness. But, through the new farm laws, the policymakers are endeavouring to create an environment where the MSP and the PPS will become

inconsequential. This will engender a struggle for farmers as their source of livelihood and welfare will become riddled with ambiguity. The policy action towards ensuring a remunerative MSP is falling short of the expectations since the determination of MSP is driven by national politics and international geopolitics, with multifarious factors in play. It is crucial to thwarting these factors and represses their impact on fixation of MSP. The fact that there is hunger in India and that the United Nations continues to raise an alarm of the apparent world food shortage, India's food security is of paramount importance. Additionally, considering the economic hardships due to the COVID-19 pandemic that is likely to persist, agriculture needs special focus with the government playing the key role.

The neo-liberal economic environment, which is subject to sways by private players, is unforgiving; therefore, exposing the peasantry to the ulterior corporate objectives and ruthless market forces would be disastrous. If the government's professed objective for the economic upliftment of farmers is sacrosanct, the course of action should be to strengthen the MSP and its outreach. Besides, strengthening the public marketing infrastructure, reducing farm costs, improving market efficiency, enhancing price discovery, and advancing other aspects of the farmer and rural welfare is essential. Furthermore, optimal crop plans need to be designed and crop choice is made as per cost and ecological advantage. The government needs to announce MSP for all crops, and specify and enlist specific crops for effective procurement from different states. This would not only ensure crop diversification but would also settle farmers' apprehensions regarding farm viability, and also effectuate maximisation of given national natural

resources and ensure agricultural sustainability. Additionally, avenues for rural non-farm employment need to be generated to supplement farmers' income. Also, in the scenario of the promotion of other crops, the government needs to encourage agri-processing units. Prioritisation of these would ensure a market for the produce of non-assured price crops and improve value addition, adaptability of new crops and agricultural growth. The onus is now on our leadership to seize the reins, manoeuvring economic policies towards prioritising farmer welfare over all other considerations and prove its mettle domestically and internationally.

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