

What will a legal guarantee of MSP involve?

Syllabus- GS 2- Government Policies and Interventions for Development in various sectors and Issues arising out of their Design and Implementation.

The story so far: After a year-long agitation, protesting farm unions have achieved their headline demand, namely the repeal of three farm laws seeking to reform the storage and marketing of agricultural produce. However, farmers are pushing for their **other major demand for providing a legal guarantee of MSP** (minimum support price).

What is MSP?

The MSP or Minimum Support Price is the minimum price set by the government at which farmers can expect to sell their produce for the season. **If and when market prices fall below the announced MSPs, procurement agencies step in to procure the crop** and 'support' the prices.

Who announces MSP?

- ❖ Every year, **at the beginning of each sowing season**, the **Cabinet Committee of Economic Affairs announces MSP** for various crops based on the recommendations of the Commission for Agricultural Costs and Prices (CACP).
- ❖ The CACP is an **advisory body**.

Status of MSP as of today:

- ❖ CACP calculates minimum support price (MSP) for **23 crops every year**, based on a formula of **one-and-a-half times production costs**. This takes into account both:
 - **paid-out costs (A2)** such as seeds, fertilizers, pesticides, fuel, irrigation, hired workers and leased-in land, and
 - The imputed **value of unpaid family labour (FL)**.
- ❖ Farm unions are demanding that a **comprehensive cost calculation (C2) must also include capital assets and the rentals** and interest forgone on owned land as recommended by the National Commission for Farmers.
- ❖ There is **currently no statutory backing** for these prices, nor any law mandating their enforcement.
 - Interestingly, **sugarcane is the only crop that has provisions for statutory MSP.**
- ❖ The government only **procures about a third of wheat and rice** crops at MSP rates (of which half is bought in Punjab and Haryana alone), and **10%-20% of select pulses and oilseeds.**

DO YOU KNOW

Of the **23 crops** that the government currently announces MSPs for every year, there are:

- ✚ **7 cereals** (paddy, wheat, maize, bajra, jowar, ragi and barley),
- ✚ **5 pulses** (chana, arhar, moong, urad and masur),
- ✚ **7 oilseeds** (groundnut, soybean, rapeseed-mustard, sesame, sunflower, niger seed and safflower) and
- ✚ **4 commercial crops** (sugarcane, cotton, copra and jute.)

- ❖ According to the Shanta Kumar Committee report, **only 6% of the farm households** sell wheat and rice to the government at MSP rates.
- ❖ Farmer unions want MSP based on a **C2+50% formula** “should be made a legal entitlement **for all agricultural produce**, so that every farmer of the country can be guaranteed at least the MSP announced by the government for their entire crop”.
- ❖ The Left-affiliated farm union has suggested a law which simply stipulates that **no one** — neither the Government nor private players — **should be allowed to buy produce from the farmer at a rate lower than MSP**.

Argument against the legalization of MSP:

- ❖ **Huge burden on public exchequer:** Legalising MSP would put the government under a legal obligation to buy every grain of the crops for which MSPs are announced. For this, the Union government will have to spend arguably **Rs 17 lakh crore**, according to the rough estimates.
 - Apart from expenditure required to procure the crops, the government will have to spend a **huge amount of money to create the facilities required to store the procured grain**.
 - Due to the existing MSP regime, the government procures 110 lakh tonnes of wheat and paddy, even though it has a buffer stock norm of just 41 lakh tonnes. The rate of procurement and the stock is also bulging up in the case of all other crops among the 23 MSP ones.
- ❖ If the Union government makes MSP a legal mandate to ensure that private players or government agencies buy the crops at least at the fixed price anywhere in the country, there will be a **price rise and increased inflation** in general.
- ❖ If MSP is made legal for the 23 crops, soon, **other farmers will also come up with the demand for their crops such as fruits and vegetables**.
- ❖ An MSP mechanism ignores law of demand and supply and creates market distortions. If it is not profitable for traders to buy at MSPs, then the private sector will exit the markets. In such a scenario, **the government cannot be a monopoly buyer**.
 - In any free-market economy, **the price of any goods and services produced in the country has to be decided by market forces** and not by the state.
- ❖ **Mandatory MSPs will render India's agri- exports non-competitive** because the government's assured prices are way higher than both domestic and international market prices.
- ❖ MSPs have also **incentivised foodgrains** over other crops, giving rise to imbalances of water and land resources and shifting land away from crops such as pulses and oilseeds, necessitating **costly imports**.
- ❖ **Surplus cereals can't be exported without a subsidy, which invites the World Trade Organization (WTO)'s objections**.
 - WTO rules cap government procurement for subsidised food programmes by developing countries at **10% of the total value of agricultural production** based on 1986-88 prices in dollar terms.