Farm Support Prices

Why in news?

At the recent NITI Aayog Governing Council meeting, much emphasis was laid on making the minimum support price (MSP) for crops more effective.

What is the issue with pricing in agriculture?

> *Agriculture accounts for 15-18% of our national GDP but provides livelihood for over 50% of the workforce.*

- **Risks-** Agriculture is subject to several risks including weather, production, quality, market, and price.
- **Seasonal nature**- Crop cultivation is seasonal and regional in nature.
- **Price collapse**- During the short marketing period, prices tend to collapse because of perceived surplus.
- **Global price reflection**- As our domestic markets are largely integrated with the global markets (through trade and investment routes) our crop prices often tend to reflect global trends.

What is the logic of MSP?

- The main objective of MSP is to assure a minimum price to ensure that the farmer recovers his cost of production and gets a decent return on investment.
- It is a deemed or unwritten options contract.
- The government has an obligation to buy from farmers if crop price falls below MSP but farmer is free to sell in the open market.

To know more about MSP, click here

What are the issues?

- **Role in crop production**- A routine hike in MSP season after season does little to drive crop production and productivity.
- **Crop diversification**- Over the years, MSP has ceased to be an instrument to encourage crop diversification.
- **Procurement issues**- MSP is not backed by a robust procurement system and is doomed to fail, especially in the context of a production centric approach.
- The organisations engaged in crop procurement seem to be unequal to the job in terms of quantities procured and geographies covered.
- **Environmental impact**- Mono-cropping of rice and wheat and open-ended

procurement at support price are leading to disastrous environmental impacts.

- **Consumption**- There is little policy effort to boost consumption of key food crops, despite the fact that our per capita availability is relatively low.
- There is a skew in the pattern of consumption.
- **Newer issues**- It includes worsening land constraints, looming water stress, climate change, etc.

What is the need of the hour?

- **Procurement system**- With MSP we need a robust procurement system that helps advance sustainability.
- **Trade and tariff policy**- Alongside, an appropriate trade (export/import) policy and tariff (customs duty) policy is necessary.
- The policies must seek to protect the interests of domestic growers, without compromising the interests of consumers.
- **Boosting consumption**- If our policies focus on boosting consumption as much as on production, the downward price pressure faced by growers will ease.
- We need to reimagine our farm policies and review the working of related institutions.

Reference

1. https://www.thehindubusinessline.com/opinion/farm-support-prices-are-not-a-panacea/article65784533.ece

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