MSP Reform

Why in News?

Recently, the Centre has procured record 1.37 mn tonnes of soybean under MSP scheme.

What is MSP?

- **MSP** – Minimum support price for a crop is the price at which the government is supposed to procure/buy that crop from farmers if the market price falls below it.
- **Floor price** - MSPs provide a floor for market prices, and ensure that farmers receive a certain "minimum" remuneration so that their costs of cultivation (and some profit) can be recovered.
- **Introduction** - MSP system was introduced by the Centre with the setting up of the Agricultural Prices Commission (APC) in January 1965.
- **Reason for introduction** – To boost the production of paddy and wheat for which India was import dependent in the 1960s.

  India was importing 10 million tonnes (MT) of wheat in the mid-1960s under PL 480 from the US against rupee payments.

- **CACP**- MSP is set by Cabinet Committee on Economic Affairs (CCEA) based on the recommendations of Commission for Agricultural Costs and Prices (CACP).
- It considers the views of State Governments and Central Ministries/Departments concerned and other relevant factors.
- **MSP deciding factors** - CACP considers various factors
  - Cost of production
  - Overall demand-supply situations of various crops in domestic and world markets
  - Domestic and international prices
  - Inter-crop price parity
  - Terms of trade between agriculture and non-agriculture sector
  - Likely effect of price policy on rest of economy
  - Minimum of 50 per cent as the margin over the cost of production.
- **MSP Crops** - MSP is given for 22 mandated agricultural crops, including 14 Kharif crops, 6 Rabi crops, and 2 commercial crops.

	Khariff Crops	Rabi Crops	Commercial Crops
1	Paddy Common & Paddy (Grade A)	Wheat	COPRA (Milling and Ball)
2	Jowar (Hybrid) & Jowar (Maldandi)	Barley	JUTE
3	Bajra	Gram	

4	Ragi	Masur (Lentil)	
5	Maize	Rapeseed & Mustard	
6	Tur/Arhar	Safflower	
7	Moong		
8	Urad		
9	Groundnut		
10	Sunflower seed		
11	Soyabean(Yellow)		
12	Sesamum		
13	Nigerseed		
14	Cotton (Medium Staple) & (Long Staple)		

What is the need for reforming MSP system?

- **Changed condition** - India is food surplus nation now not in the same situation as it was in the mid-1960s as food importing nation.

  India is the largest exporter of rice in the world.

- **Increasing buffer stocks** - The Food Corporation of India has mountains of rice stocks that are almost three times the buffer stock norms.
- **Expanded MSP basket** - The basket of crops under MSP has expanded over time, largely due to political pressures.
- **Imbalance in production basket** - Surplus rice and wheat is being produced primarily because of open-ended procurement , free power pricing and highly subsidised fertiliser prices.
- **Environmental issues** – Monopoly of wheat ,rice cultivation is leading to groundwater depletion, soil degradation, and greenhouse gas emissions — an ecological disaster.
- **Economic risk**- The competitive populism to give free food, power, or highly subsidised fertilisers, or pocket money in the name of Ladli Behna, is a race to the bottom.
- **Disrupts market forces** – Many a time, governments interventions to control prices, caused messing up the system leading to huge inefficiencies.
- **Inefficiency** - A highly regulated land market, and the pricing of inputs and some outputs (rice and wheat), with massive procurement, is leading to huge inefficiencies in the system.

What reforms can be made?

- **Changing government role** – Government should make sure that markets work well by investing in information symmetry and physical infrastructure.
- **Building efficient value chains** - Bring institutional innovations that minimise the price spread between farmers and consumers.

- **Promote futures markets and options** - Help farmers make planting decisions based on what future prices are likely to be, rather than basing them on last year's prices.
- **Land reform** - Land markets need to be opened up, starting with land lease markets.
- **Direct benefit transfer** - Given that India has digitalised much of the food system, both at the consumer's end and the farmer's end, it will be much more frugal and efficient to move towards direct cash transfers to targeted beneficiaries, who really deserve support.
- **Subsidy reform** - The aggregate input subsidy support should be provided to needy farmers on a per hectare basis.
- This should be accompanied by freeing up the pricing of food as well as inputs like fertilisers and power.

Reference

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