

**INTERNATIONAL JOURNAL OF LAW**  
**MANAGEMENT & HUMANITIES**

**[ISSN 2581-5369]**

---

**Volume 4 | Issue 3**

---

**2021**

© 2021 *International Journal of Law Management & Humanities*

Follow this and additional works at: <https://www.ijlmh.com/>

Under the aegis of VidhiAagaz – Inking Your Brain (<https://www.vidhiaagaz.com>)

---

This Article is brought to you for “free” and “open access” by the International Journal of Law Management & Humanities at VidhiAagaz. It has been accepted for inclusion in International Journal of Law Management & Humanities after due review.

In case of **any suggestion or complaint**, please contact [Gyan@vidhiaagaz.com](mailto:Gyan@vidhiaagaz.com).

---

**To submit your Manuscript** for Publication at **International Journal of Law Management & Humanities**, kindly email your Manuscript at [submission@ijlmh.com](mailto:submission@ijlmh.com).

---

# MSP Legal or Not? Fallacy in Its Implementation and Remedies

---

TRILOK CHOUDHARY<sup>1</sup>

## ABSTRACT

*This article explored importance of MSP in the Indian Agriculture sector, tracing back its origin from 1975 to how it is calculated now, the paper has also tried to tackle the question of giving legal status to MSP by taking in context the available storage capacity and the fiscal cost associated with the whole process. A brief overlook is also taken to understand the fallacies with implementation of current MSP system and ends with some possible complimentary solutions which could work in the direction of rejuvenating the MSP mechanism and making it more effective and holistic in nature.*

**Keywords:** MSP, Legal Status, Implementation, Deficit Payment.

## I. INTRODUCTION

Previous year and the beginning of this year saw huge protests and rallies organized by the farmers of our country. Farmers are the cornerstone of any country and the survival of its citizens depends on the crops which they grow. They work tirelessly just so that we don't go to bed with empty stomach. So farmers are indeed significant especially for the Indian economy which is largely agriculture based. Given their importance Central government has launched several initiative and measures overtime to support them. One such incentive is the Minimum Support Price.

## II. WHAT IS MSP?

The Minimum Support Price or the MSP is the amount given by the Central government at the time of procuring the harvest from the farmers. Primary intention behind it is to provide a safety cover to farmers and protecting them when prices come down due to reasons like imbalances in the Supply – Demand chain, changes in weather, natural disasters, lack of market integration etc. For e.g. if there is abundance of wheat in a particular harvesting season, leading to the excess supply of wheat in the market as is the case after every Kharif season, prices decrease sharply consequent to it and many farmers are not able to sell their produce at a fair price. It is in situations like these that the government steps in and helps in buying the leftover crop at a

---

<sup>1</sup> Author is a student at Gujarat National Law University, India.

fixed price called MSP. This MSP not only provides financial support to the farmers but also encourages them to grow more freeing them from the fear of lack of profit.

### **III. HISTORICAL BACKGROUND**

MSP actually came into scene during colonial rule, when it was introduced in the form of rationing system. Later the Ministry of Food was set up in 1960s. It was a rough decade for agriculture sector as due to the prevailing famine like conditions country was facing the problem of food scarcity and also the unfavorable import prices didn't help much. Learning from this experience, government adopted various scientific methods such as use of pesticides and fertilizer, specialized seeds and innovative irrigation techniques due to which India saw a huge boost in the production of staples such as wheat and rice marking this period as the green revolution. However experts were of the opinion that solely using these techniques would not be enough and there was a requirement of additional support, which came after the Central government decided to buy the crops at a specific rate and in turn selling them at an affordable rate through PDS. For the purpose of deciding this specific rate government set up Agriculture Prices Commission in mid 1960s, whose name was later changed to Commission on Agriculture Costs and Prices in 1985, it was tasked to make recommendations concerning such policies, which ultimately lead to the concept of MSP, which developed in its entirety by 1975.

### **IV. THE FRAMEWORK OF MSP**

Now it becomes equally important for us to understand that how government or in this case CACP derive the MSP in modern context and for that we have to understand how it is calculated, what factors are considered while calculating and the parties concern with it.

### **V. CALCULATING OF MSP**

For the calculation of MSP, the Central government set up the National Commission on Farmers in 2004 also known as the Swami Nathan committee. The committee developed following variables for calculating the MSP.

- 1. A2 Variable:** Which consists of expenditure on workers, seed and other services
- 2. A2+FL Variable:** It consists of value allocated to the non-paid family labor
- 3. C2 Variable:** It consists of decline in income on land and other fixed assets of farmers

### **VI. FACTORS IN CONSIDERATION AND STAKEHOLDERS**

While these are broadly the 3 variable introduced by the committee which were to be taken into consideration while calculating the MSP, the CACP also considers other factors like

production cost, cost of living, general degree of prices, subsidies, prices of inputs, prices of export and import, demand and supply chain, cultivation and production price per hectore or per quintal in different regions of the country and other relevant factor for calculating the MSP. Today MSP has become a very wide spread mechanism used by the government as it includes a total of 23 crops under its ambit including wheat, jowar, bajra, ragi, maize, at least six types of pluses, mustard seeds, coconut, tobacco and its working affects various stakeholders other than farmers like social activists, farmer's groups and unions, research establishment and trade unions etc.

Now that we have understand what MSP is and how important it is for our farmers and for the whole agriculture sectors, the question arises as to why the farmers are protesting. Well it is because they fear the removal of MSP due to no mention of it in any of the 3 farm acts passed by the parliament and the protests have been ongoing since November 2020 with no conclusion in reach. This research paper aims to tackle the question raised by the farmers as why there was no mention of MSP in the newly passed acts and that it should be given the legal status, also we will talk about the current implementation of MSP and how it is skewed to some crops and to some states which not only makes it an discriminatory mechanism but also results in many environmental problems too and in the end we will talk about the solutions and complimentary practices which can be adopted by the government to make MSP more effective and more holistic mechanism.

## **VII. COULD MSP BE GIVEN LEGAL STATUS OR NOT?**

Now the question as to the legal entitlement to MSP and making it the justiciable right meets with two major constraints, that is

### **(A) Physical Storage Capacity**

Now if MSP is given the legal status, then the government will be bound to purchase the produce of each and every farmer who is not getting the fair price in the open market but it is not possible because government simply do not have the capacity to store all the produce. For e.g. the total production of 14 major crops including rice and wheat, pulses and oilseeds was 321 MT in 2019-2020. Assuming that a part of it is kept by farmers for home consumption, then by using the Marketable Surplus ratios (MSR), the expected market surplus (MS) works out to 261 MT. But the storage capacity available with the FCI and other agencies is only about 98 MT as per the committee for strengthening Negotiable Warehouse Receipts (2015). Given this storage capacity also includes the existing grain stocks, it is not possible for the government to procure more than 30 percent of the MS i.e. about 78 MT.

**(B) Fiscal Costs**

Now as we know that rice and wheat are purchased by the government and then distributed through PDS at a subsidized price of Rs 3/Kg and Rs 2/kg respectively while the actual purchase cost is about Rs 36/kg and Rs 24/kg respectively. The difference between 2 prices is the food subsidy which is bared by the government. If the MSP is legalized, the remaining crops would also need to be purchased by the government and this assured purchase will likely induce much larger supply in short run because of which this crops may need to be sold at subsidized prices. Assuming that the ratio between the market cost and the MSP of these crops is same as that of wheat and rice i.e. 1.78 and the crops are disposed at 50 percent of their MSP, the subsidy which has to be paid by the government works out to be Rs 2,56,250 crore annually, now this figure only represents the purchase of 30 percent of the total produce for the year, as that is the storage capacity with the FCI and it is already more than the food subsidy budgeted in the 2021-22 Union budget which is Rs 2,42,836 crore. The rest 70 percent of the produce would also need to be handled by the government as it will be bound by the law to do so, thus giving us the idea as to how difficult it is to give legal status to MSP as it is neither affordable nor efficient plus a more suitable option is already available about which we will discuss later in the paper.

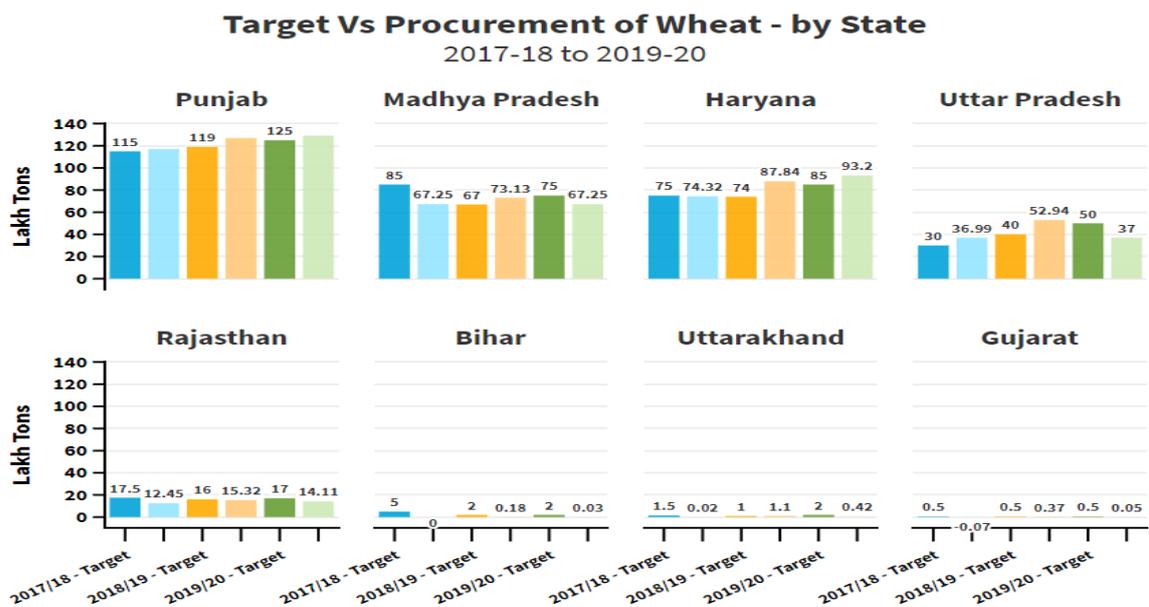
**(C) Fallacies in Implementation of MSP**

Now the current MSP procurement system has its own set of challenges including the number of farmers availing the benefits limited to few states, lack of infrastructure, more than needed procurement by the government distorting the market, limited to some select crops like wheat and rice and we will discuss each of these problems here.

The more than needed procurement of rice and wheat under NFSA for e.g. last year FCI procured 51.4 MT of rice and 39 MT of wheat, which is far more than required under the NFSA. Also this procurement was limited to few states as for wheat almost entirety of it was procured from 5 states and the top 7 states accounted for 81 percent of rice procurement. The total grain stock as on 1 July 2020 was 94 MT as against the requirement of 41.1 MT and the same scenario continued for the rest of the year. These high stock of food grain are not just a financial burden on the government, but they also create inflationary pressure in market due to the absence of food grain from open market. Furthermore last year government also introduced the Open Market Sales Scheme to offload the existing stock of grain and to regulate the market price but this only had a counter effect of lowering the prices of grain in non-market season when farmers expected to fetch higher prices. Also, the skewed regional procurement has

caused environment imbalances, with farmers in Haryana and Punjab continuing to grow rice and wheat despite soil and water depletion and same is the situation with the sugarcane growers in Maharashtra.

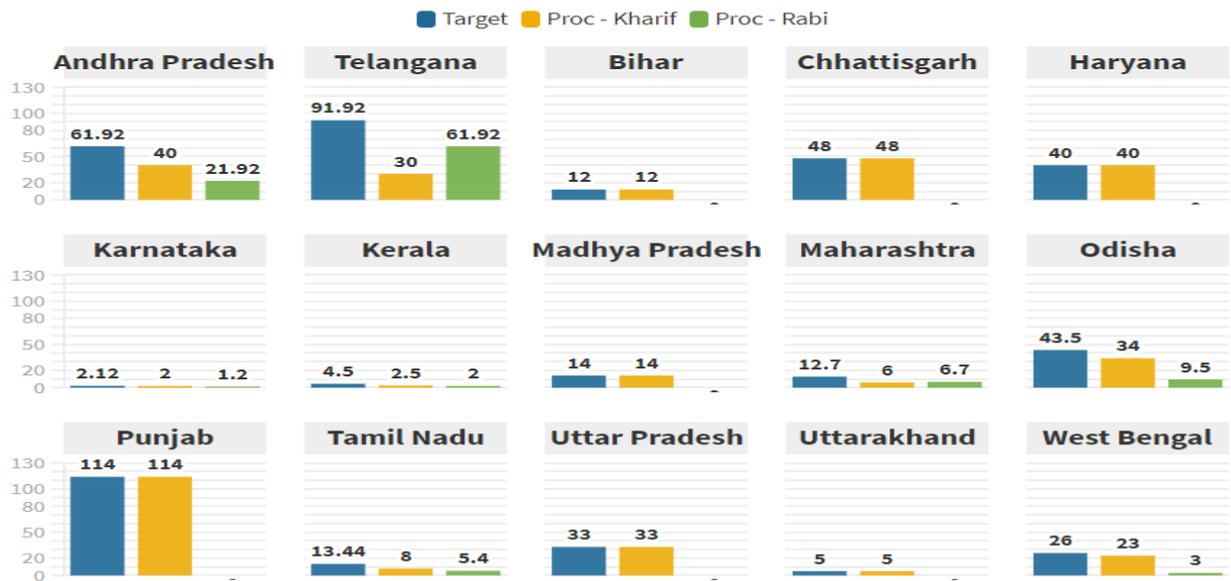
The skewedness in the procurement of grains from different states is due to the fact that each state is responsible to send information on expected production of food grains for the year and based on this information, the Central government announces the procurement target for the marketing season. However most of the time this information displays an uneven trend for e.g. Uttar Pradesh and Madhya Pradesh fall short of the expected target in 2017-18 but exceeded the target in 2018-19 but again failed in 2019-20. The situation is same with Rajasthan which not only have lower procurement target but also those targets are not often met. The shortfall from the expected targets in these states are met with the additional procurement from Punjab and Haryana, which not only results in exerting the water tables in these states but also creates an income disparities between the farmers of these states.



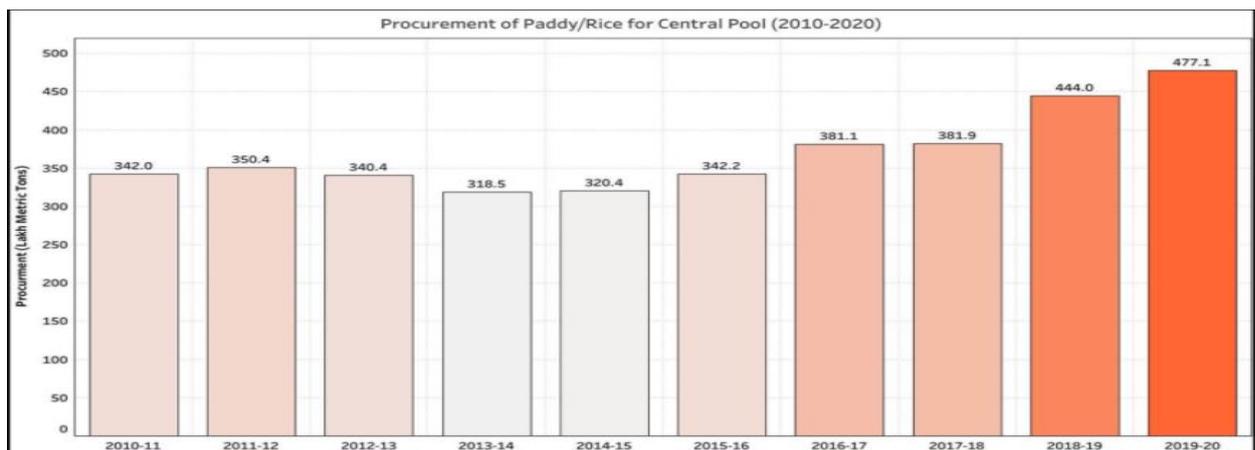
(Fig 1) Source: Food Corporation of India

While analyzing the fig 1 we can see that as procurement decreases in Madhya Pradesh and Uttar Pradesh, there is a consequent increase in the procurement from Punjab and Haryana. The four other states fails to ease of the pressure on the leading states. The situation is same with the procurement of rice with Punjab again taking the lead in the procurement followed by Andhra Pradesh and Telangana as can be seen in Fig 2.

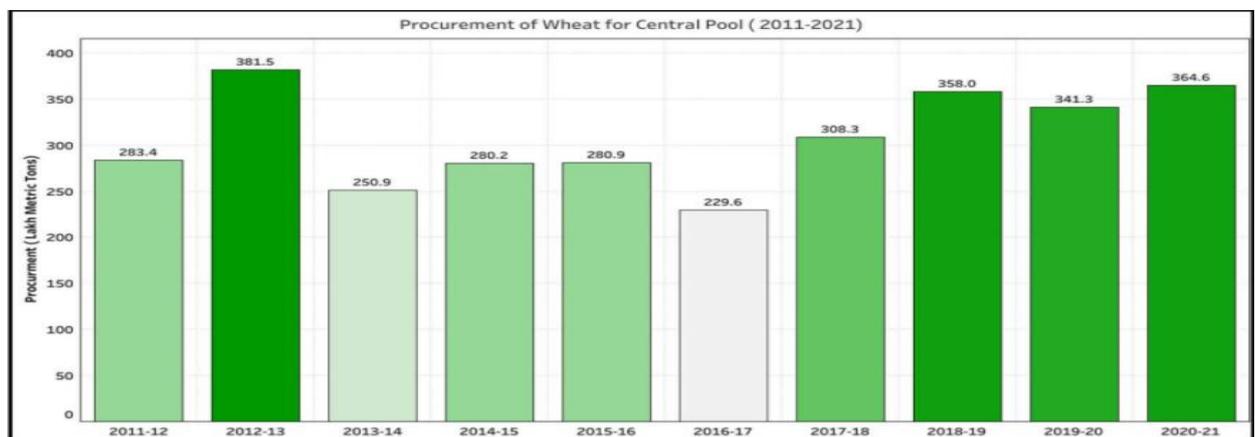
**Target Vs Procurement of Rice - by State in 2019-20**



(Fig 2) Source: Food Corporation of India



(Fig 3) Source: Food Corporation of India

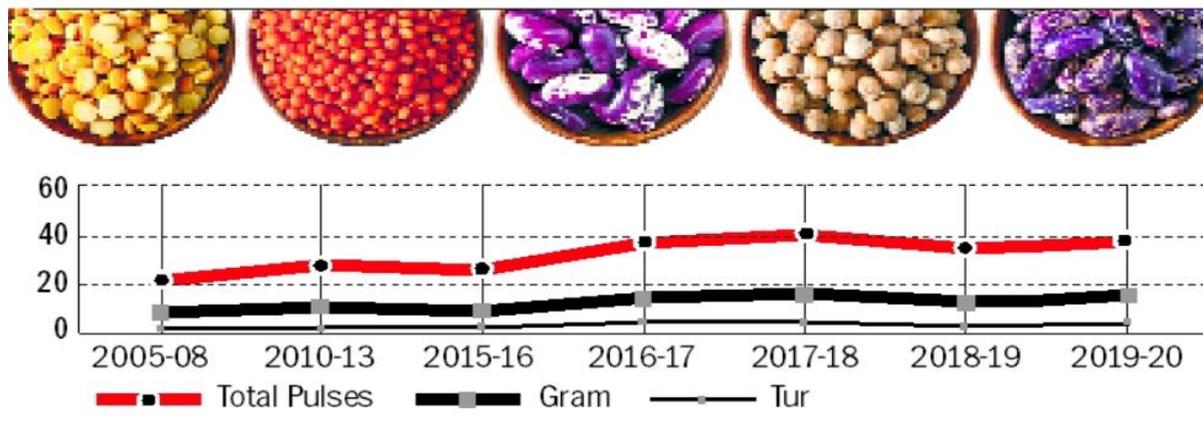


(Fig 4) Source: Food Corporation of India

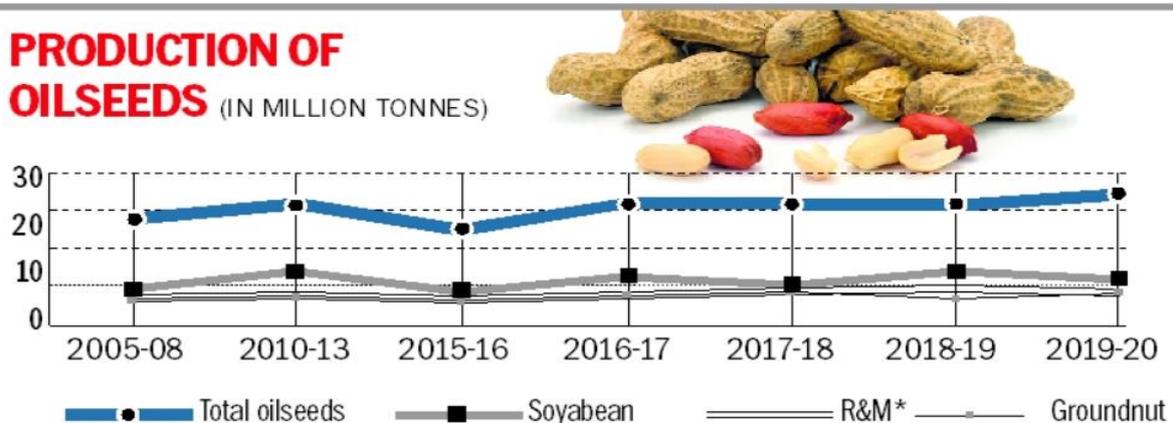
However the skewedness in procurement does not stop here, but continuous to what kind of

crop is procured. For e.g. according to the data available as on 3<sup>rd</sup> July 2020, a total of 361. LMT of wheat and 416 LMT of rice was procured for the central pool compare to mere 40 LMT of pulses and 28 LMT of oilseeds (2019-20). The primary reason for this is that government steps in for procurement of only 2 or 3 crops and fails to show the same effectiveness in procuring other crops because of which farmers are often forced to sell their crop below the MSP. As in the case of maize with the MSP of Rs 1850/ quintal was being sold between Rs 1100 to Rs 1350/ quintal in the past 3 months, bajra fetched the price of Rs 1340 this January as against the MSP of Rs 2150. Due to the low prices being offered for these crops, farmers are forced to change the cropping pattern, take the case of Punjab which had 48.99 percent of its area under wheat and rice in 1970-71 and the rest accounted for gram (7.63 percent), bajra (4.41percent), maize (11.82 percent) and cotton (8.47 percent), today has 90 percent of its area under wheat and rice cultivation. This change in cropping pattern not only enhance the micro nutrient deficiency in people but also have ill effect on environment.

**PRODUCTION OF PULSES** (IN MILLION TONNES)



**PRODUCTION OF OILSEEDS** (IN MILLION TONNES)



(Fig 5) Source: Ministry of Agriculture and Farmers welfare

**VIII. STEPS THAT COULD BE TAKEN**

**(A) Deficit Payment**

The deficit payment here refers to the difference between the MSP and the average actual market price of the crop, as this is what would cost the government if it procures the crops higher than the market price. The table below uses the data from 2017-18, the average market price is derived from the average daily price in the market across the country during the entire season. The table covers the data for the 13 out of 23 crops for which MSP is declared. Now if government were to declare deficit payment for all the 13 crops, the total would still be around Rs 47,764 crore which is lower than the MGNREGA budget of that year. The table also takes into account the 50 percent hike in the MSP as recommended by the MS Swami Nathan commission, even then the price is lower than this year's Union budget for MSP and easily be managed if cost is shared between Centre and State. The method of deficit payment is not only affordable as it cost less than say buying the whole leftover produce as discussed earlier in this paper and it is even more economical than purchasing only 30 percent of the produce but also efficient as now government is spending less and still farmers are able to sell their produce at the MSP.

<b>Crop</b>	<b>MSP in 2017-18 (Rs./qtl)</b>	<b>Avg Market Price</b>	<b>Quantity (Million Tonnes)</b>	<b>Price Deficit for existing MSP</b>	<b>Higher MSP (C2+50%)</b>	<b>Price for higher MSP</b>	<b>Deficit</b>
<b>Paddy*</b>	1550	1382	21.55	₹3,620 Cr	2226	₹34,116 Cr	
<b>Maize</b>	1425	1159	25.29	₹6,727 Cr	2094	₹23,647 Cr	
<b>Wheat*</b>	1735	1634	21.95	₹2,217 Cr	1884	₹10,079 Cr	
<b>Bajra</b>	1425	1113	6.25	₹1,949 Cr	1917	₹5,023 Cr	
<b>Tur</b>	5450	4158	3.75	₹4,844 Cr	6918	₹10,347 Cr	
<b>Urad</b>	5400	3072	2.16	₹5,028 Cr	6775	₹8,000 Cr	
<b>Moong</b>	5575	4625	1.20	₹1,140 Cr	8550	₹4,710 Cr	
<b>Chana</b>	4400	3758	10.23	₹6,568 Cr	5289	₹15,662 Cr	
<b>Masur</b>	4250	3749	1.47	₹735 Cr	5590	₹2,701 Cr	
<b>Soybean</b>	3050	2680	11.63	₹4,303 Cr	4381	₹19,788 Cr	

<b>Groundnut</b>	4450	3758	8.41	₹5,820 Cr	6133	₹19,980 Cr
<b>Mustard</b>	4000	3515	7.57	₹3,670 Cr	4629	₹8,429 Cr
<b>Cotton*</b>	4320	4128	5.95	₹1,142 Cr	6564	₹66,256 Cr
<b>TOTAL</b>				₹47,764 Cr		₹228,738 Cr

(Fig 6) Source: Computed by Kiran Vissa and Naveen Ramiseti based on GoI data from Agmarknet and the Ministry of Agriculture.

However it is to be noted that the method of deficit payment is not new and had already been tried in Madhya Pradesh as the Bhavantar Bhugtan Yojana, but it failed due to its poor design. It should be designed afresh, with sufficient funds and right implementation.

### **(B) Crop Diversification**

Procurement should be expanded to include other crops like pulses oilseeds and millets as it would not only help in meeting the nutrition need of crores of families but also to sustain the ground water and soil quality. Also procurement should not be concentrated to few states.

### **(C) Timely Intervention**

Government could expand the operations of existing agencies like NAFED with better funding, marketing and storage capacities, so that they could timely intervene whenever the market prices fall below the MSP. Just by purchasing 10 to 20 percent of the crop its value can be restored.

### **(D) Improvement in Procurement Facilities**

Procurement facilities could be upgraded to allow smooth functioning of procurement. Setting up more warehouses and employing more members near the farming regions can lead to reduced food wastage during transportation easing the trouble for farmers.

## **IX. CONCLUSION**

The Minimum Support Price is an integral part of the Indian agriculture sector. Even though many solutions can be suggested for its flaws, all those solutions are complimentary in nature and can never replace the MSP, MSP not only safeguards the country in the times of crises by helping in building the food grain stock but also shields an individual farmer from the vagaries of market in ordinary times. But it is also the time for government to take all necessary measures to enhance this policy as change is the only constant and the MSP should be kept up

to date with the latest agriculture trends.

\*\*\*\*\*

## X. REFERENCES

- Mint. 2021. *An MSP guarantee won't solve the problems of Indian farmers*. [online] Available at: <<https://www.livemint.com/opinion/columns/an-msp-guarantee-won-t-solve-the-problems-of-indian-farmers-11602168111030.html>> [Accessed 2 June 2021].
- Verma, A. and Kancharla, B., 2021. *What are the issues with increased MSP Procurement by the government?* [online] FACTLY. Available at: <<https://factly.in/data-what-are-the-issues-with-increased-msp-procurement-by-the-government/>> [Accessed 2 June 2021].
- The Print. 2021. *Can India actually afford MSP for farmers? It's a question of political will*. [online] Available at: <<https://theprint.in/opinion/can-india-actually-afford-msp-for-farmers-its-a-question-of-political-will/588793/>> [Accessed 2 June 2021].
- Tribune India News Service. 2021. *Procurement at MSP key to self-sufficiency*. [online] Available at: <<https://www.tribuneindia.com/news/features/procurement-at-msp-key-to-self-sufficiency-206294>> [Accessed 2 June 2021].
- Pradhan, M., Roy, D. and Saroj, S., 2021. *Perception, Reality and Optimality: The MSP Composite - TheRise.co.in*. [online] TheRise.co.in. Available at: <<https://therise.co.in/5226/perception-reality-and-optimality-of-msp/>> [Accessed 2 June 2021].
- The Financial Express. 2021. *The way forward on MSP: Important to explore fiscally prudent, administratively convenient options*. [online] Available at: <<https://www.financialexpress.com/opinion/the-way-forward-on-msp-important-to-explore-fiscally-prudent-administratively-convenient-options/2203774/>> [Accessed 2 June 2021].
- Niti.gov.in. 2021. [online] Available at: <[https://www.niti.gov.in/writereaddata/files/writereaddata/files/document\\_publication/MSP-report.pdf](https://www.niti.gov.in/writereaddata/files/writereaddata/files/document_publication/MSP-report.pdf)> [Accessed 2 June 2021].

\*\*\*\*\*