

# Impact of MSP on Agriculture Sector and Food Security

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## Abstract

Agricultural development to a great extent depends on the price. The farmer receives for his product or in other words, agricultural prices have a vital role in policy in the development of agriculture. Agricultural price policy plays an important role in achieving growth. The price policy is to protect both producers and consumers. This paper analyzes the impact of Agricultural price policy, MSP, and Procurement prices effect on agriculture. And provide some suggestions for MSP and food security through the public distribution system. The government's price policy for agricultural produce is to set remunerative prices with a view to encouraging higher impertinent and production. Finally, it concluded that the Agriculture price policy is for economic growth and providing the optimal crop mix. The present study is undertaken with the focus on the effectiveness of the Minimum Support Prices. And MSP impact on the agricultural economy.

**Keywords:** Employment, Agriculture, Domestic Product.

## Introduction

Agriculture is a science and practice of producing crops and livestock from the natural resources of the earth. Agriculture is an important sector of the Indian economy. It contributes to the Gross Domestic Product (GDP) 23.9% and employs over 60% of the population. The agriculture food grain production has increased from 291.95 million tons during 2019-20. India stands for the production of various agricultural commodities like Paddy, Wheat, Pulses, Groundnut, Tea, Jut, Cotton, Tobacco, etc.

Agricultural development to a great extent depends on the price. The farmer receives for his product or in other words, agricultural prices have a vital role in policy in the development of agriculture. Agricultural price policy plays an important role in achieving growth. The price policy is to protect both producers and consumers. Agricultural price is one of the important instruments in achieving food security by improving the production, employment, and income of the farmers. The government's price policy for agricultural produce is to set remunerative prices with a view to encouraging higher impertinent and production. The agriculture price policy is for economic growth and providing the optimal crop mix.

## Introduction of Agriculture Price Policy

The agriculture price policy was established in 1964. It was extended to deficit states. In a situation of shortage, unregulated purchase and movement of food grains by private trade lead to an indiscriminate and speculative rise in prices by the movement of surpluses of the producing regions to the area of high purchasing power. In that situation, the government takes several decisions. On 1st august of 1964, the govt. appointed a committee under the chairmanship of Shri L. K. JHA, secretary to the then Prime Minister on the determination of the prices of rice and wheat for the 1964-65 seasons. The committee has suggested the prices of food grains. The committee submitted its report related to prices on 24 September 1964. And the agency to advice on price policy and price structure 24 December 1964. The agriculture price commission was set up on 1st January 1965 with the basic objective of assuring fair prices for farm produce and to advise the govt. on price policy of major agricultural commodities. The policy in 1965 was to meet the overall needs of the economy and with due regard to the interest of the producer and the consumer. Then, the highest priority was to maximize production since the country was passing through a critical shortage of food grains.

Agricultural prices determine the demand, production, investment, and income pattern in the economy. When agricultural prices are too high,



**Santosh Kumar**

Research Scholar,  
Dept. of Applied Economics and  
Commerce,  
Patna University,  
Patna, Bihar, India

the demand for agricultural products would fall, leading to failure in production, income, and investment in the economy.

Agriculture price policy includes the following instruments-

1. MSP (Minimum support price)
2. Procurement price
3. Public distribution system
4. Zonal restrictions

### **Objectives of the Study**

Following are the main objectives of the present research:

1. To examine the need for revisiting of Minimum Support Price.
2. To study the procurement price of wheat in leading wheat-producing states.
3. To understand the importance of the public distribution system and food security.
4. To define the necessity of the effects of agricultural price policy.

### **Methodology**

This research is a consolidated study covering the research reports and papers prepared. The states include Bihar, Madhya Pradesh, Punjab, Uttar Pradesh and West, Punjab, Haryana, and Rajasthan. Naturally, the instruments of price policy have not been uniformly effective in achieving the targeted intentions of the government policy. The paper uses the exploratory research method based on past literature from respective journals, reports, newspapers, and magazines covering a varied collection of academic literature on agriculture price policy. According to the objectives of the study, the research design is descriptive in nature. Available secondary data was extensively used for the study.

### **Review of Literature**

Many researchers have conducted a study on agricultural price policy from different perspectives and reasons. And the review of researchers is likely to provide a bird's eye of the study conducted on the subject matter. For conducting this research, I have gone through the following past studies:-

NITI Aayog (2016) examined in this report that the MSP is an important policy of the government. To determine the price of the majorly produced agriculture produces every year for protecting the farmers from the middlemen and fluctuating conditions of the market. The MSP has succeeded in providing Flora rate for the major crops. The report also included that MSP has been playing a critical role in stabilizing market prices in addition to helping the beneficiaries in the adoption of modern technologies in farming.

Singh, et al (2015) concluded that the government's intervention to support price agriculture and farmers' price of India by introducing MSP has been lumbering on for decades, there are no evident signs of it doing adequately enough. This study has tried to examine the effectiveness of MSP on the income of farmers of the Chittorgarh district of Rajasthan. Found that MSP for wheat did not affect much the farmers in the area. Farmers are not aware of the support price of the wheat and other crops.

Pandey (2014) concluded that a price increase and improvement in the terms of trade of agriculture after 2004-05 have revived agriculture in Uttar Pradesh. The performance has varied across regions within the state and among crop groups. Price policies in favor of cereals discourage land diversification.

Members of Parliament (2013) concluded that The Government's Price Policy for agricultural produce seeks to ensure remunerative prices to growers for their produce to encourage higher investment and production as well as safeguarding the interests of consumers by making available supplies at reasonable prices. The price policy also seeks to evolve a balanced and integrated price structure from the perspective of the overall needs of the economy. It decides on the support prices for various agricultural commodities taking into account the recommendations of the CACP, the views of State Governments, and Central Ministries as well as other relevant factors as are considered important for the fixation of support prices.

Narayanamoorthy and Ali (2013) argued that the cost of cultivation of sugarcane has gone way beyond the fair and remunerative prices announced by the Government & thus, there should be an increased procurement price for the crop. The author mentioned that distressed farmers from the state of Maharashtra, Tamil Nadu, Andhra Pradesh, and Haryana have been urging the State government to raise sugarcane price as suggested by the National Commission on Farmers headed by M.S. Swaminathan, which recommended a price of 50 percent more than the cost of cultivation (C2 cost).

### **Need For Revisiting Minimum Support Price (MSP)**

The initial emphasis of the Agricultural Prices Commission (APC) was on reducing the fluctuations in food grain prices to protect the consumers against the price increase. Providing price incentives to the producers and suggest the producers adopt new technology for agriculture. As seen earlier, during the mid-eighties, the emphasis of the price policy, however, transformed substantially due to the subsequent changes in the agricultural economy. These changes brought forth modifications in the objectives of price policy as well as its emphasis. Consequently, the focus of analytical issues also changed during this period. MSP is now viewed as a form of market intervention on the part of the State and also as one of the supportive measures to the farmers. The issues that dominate the current work include reasons for the continuation of the price support scheme. Its effectiveness in terms of the objectives outlined in the 1986 document and support price vis-à-vis remunerative price approach. A more pertinent problem relates to the effectiveness of the implementation of the policy of MSP. In sum, the context of price policy has changed substantially over the years and so also the direction and effectiveness of price policy as a tool to influence the agricultural economy. This provoked many social scientists to argue for a fresh look at MSP as an instrument for interacting with some of the important parameters of the agricultural economy. Initially, its role was

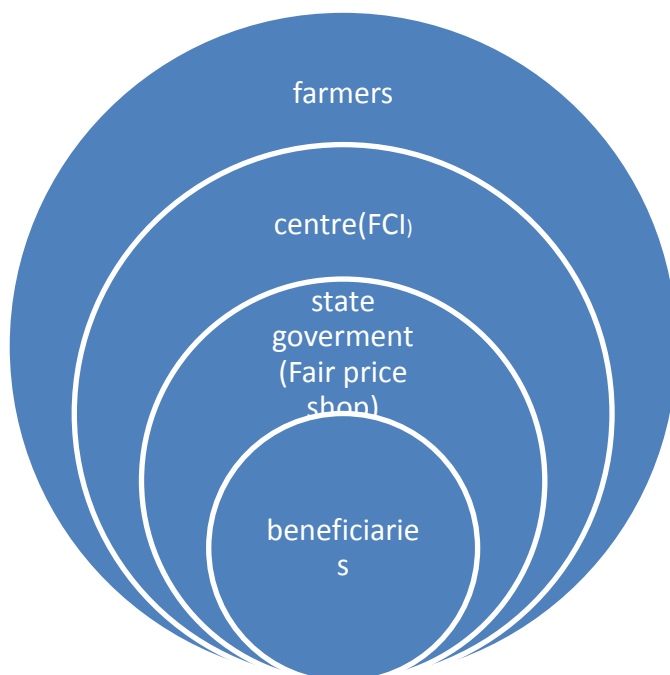
perceived more from the view point of incentivizing farmers to adopt the new seed-water-fertilizer technology. The initial role of MSP as an incentive to adopt technology comes out very clearly in the writing of Professor Dantwala, who was one of the founding architects of India's price policy. The focus should essentially be towards the creation of value addition for the cultivators. Therefore, it becomes necessary to review the implementation process and the effectiveness of MSP as an instrument on this background.

After a review, the Committee on Long Term Grain Policy has recommended the continuation of the Minimum Support Prices but at the same time also provided other instruments for achieving similar results as that of MSP. Among the alternatives discussed by the Committee insurance against income loss caused by depressed prices below the Minimum Support, Price has been one such effective instrument. The scheme should provide insurance coverage to the farmers in the event of price collapse by allowing indemnity to the extent of the loss incurred due to the price of yield loss (the difference between yield and price received as compared to average yield and price of the last three years). However, such a scheme may have implementation bottlenecks. Apart from that, it will be a difficult instrument to be operated by private insurance firms without State support. The problems of moral hazard and the siphoning out the money to the undeserving groups will emerge significantly.

It has been noted in the recent past that the growth pattern is changing in favor of certain crops due to various reasons. At times questions are raised about the suitability of area allocated to such crops and the aggregate welfare implication of this changing crop constellation.

**Public Distribution System And Food Security**

The below diagram shows the relationship among farmers, center (FCI), state Government (fair price shops), and beneficiaries. In new initiatives, many State Governments have initiated their food procurement operations. So they can afford more food for the poor household and provide them food security and safety. More such initiatives are likely in the future. It is conceivable that some of Central agency FCI's godowns are transferred to the State Governments. In this context, the task of maintaining buffer stocks will become a responsibility of Central and State both the Governments. There is also a possibility that FCI plays a more active role in undertaking open market operations within a prescribed price band. It can release stocks in the open market when shortages are prevalent and prices are high. The FCI could also become an active player in the international food grains market. Below diagram shows the relations among farmers, centre, state government and beneficiaries. Farmers provide their crop to government through MSP and government provide food grain to the beneficiaries through public distribution system on affordable price.



**Source- Primary source**

**Procurement of Wheat in Leading Wheat Producing States**

Procurement and procurement as a percent of production and marketed surplus of wheat in leading wheat-producing states during RMS 2018-19 to RMS 2020-21. Madhya Pradesh surpassed Punjab to become the second-largest wheat producer and the largest contributor to procurement in the country this

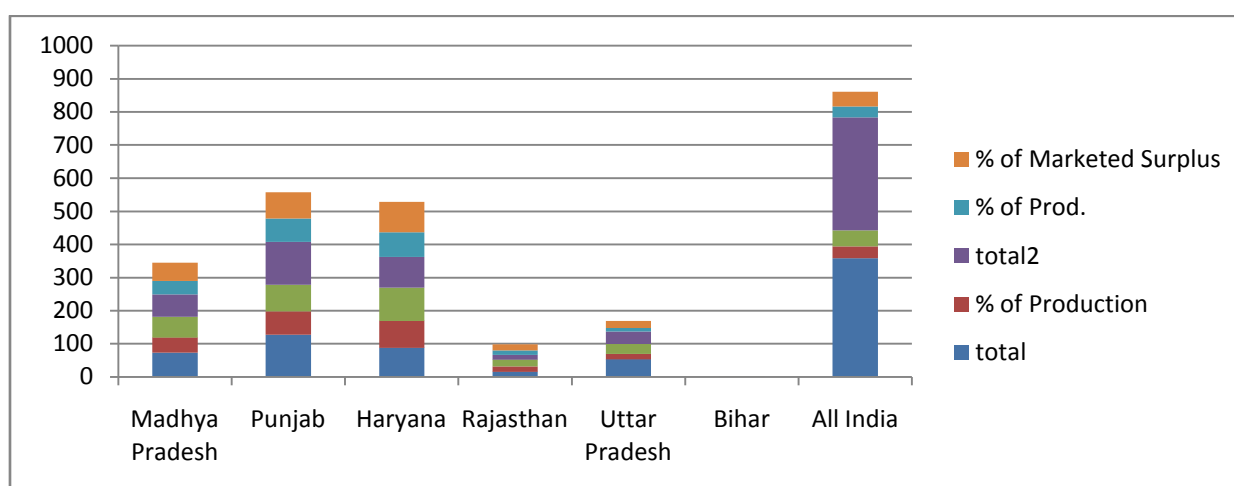
year, taking over the top ranking in procurement for the first time in the history. Madhya Pradesh recorded the highest increase (92.2%) in procurement from 67.3 lakh tones in RMS 2019-20 to 129.3 lakh tones in RMS 2020-21. Punjab was the second largest contributor with a total procurement of 127.1 lakh tonnes, marginally lower than the last season. Nearly 70 percent of total wheat production was procured by

government agencies in both States. In the case of Haryana, there was a significant decline in procurement, from 93.2 lakh tonnes in RMS 2019-20 to 74 lakh tonnes in RMS 2020-21, a decline of 20.6 percent. Uttar Pradesh, the largest producer of wheat, also registered a decline in procurement and only 11.1 percent of the total wheat produced in the State

was procured. Rajasthan recorded a significant increase in wheat procurement during RMS 2020-21, 57.9 percent higher than the last season. In Bihar, which contributes nearly 6 percent to total wheat production, Government procurement has been negligible due to institutional and infrastructure constraints.

**Table: 1 Procurement of Wheat in leading Wheat Producing States (lakh tonnes)**

States	Procurement (2018-19)			Procurement (2019-20)		
	Total	% of Prod.	% of Marketed Surplus	Total	% of Prod.	% of Marketed Surplus
Madhya Pradesh	73.1	46.0	62.5	67.3	40.7	55.3
Punjab	126.9	71.2	80.2	129.1	70.7	79.7
Haryana	87.8	81.6	100	93.2	74.1	91.9
Rajasthan	15.3	16.4	20.9	14.0	13.9	17.7
Uttar Pradesh	52.9	16.6	30.3	37.0	11.3	20.6
Bihar	0.2	0.3	0.4	0.3	0.5	0.6
All India	358.0	35.8	48.6	341.3	32.9	44.7



Source: Food Corporation of India

#### Important Effects of Agricultural Price Policy Are As Follows

1. The agriculture price policy has also resulted in a considerable benefit to the consumers by supplying the essential agricultural commodities at a reasonable price regularly.
2. The agricultural price policy has also benefitted the agro-industries of the country, like sugar, cotton textile, vegetable oil, etc. By stabilizing the prices of agricultural commodities, the policy has made provision for an adequate quantity of raw materials for the agro-industries of the country at reasonable prices.
3. Agricultural price policy has been providing a necessary incentive to the farmers for raising their agricultural output through the modernization of the sector. The minimum support price should be determined effectively by the government which will safeguard the interest of the farmers. Accordingly, the minimum support price of food grains fixed by the government increased from Rs 388.26 per quintal in 2003-04 to Rs 429.27 in 2007-08 and then to Rs 829.94 (at average) in 2012-13
4. The agricultural price policy has provided the necessary benefit to the farmers by providing necessary encouragement and incentives to raise their output and also by supporting its prices. All these have resulted in an increase in the level of income of farmers as well as their living standards.
5. The agricultural price policy has resulted in a considerable change in the cropping pattern of Indian agriculture. The production of wheat and rice has increased considerably through the adoption of modern techniques by getting the necessary support from the Governments. But the production of pulses and oilseeds could not achieve any considerable change in the absence of such price support.
6. The agricultural price policy has stabilized the prices of agricultural products to a large extent. It has become successful to contain the undue fluctuation of prices of agricultural products. This has created a favorable impact on both the consumers and producers of the country.

**Suggestions for Rationalisation of Agricultural Price Policy****Expansion of the Price Policy**

The agricultural price policy should be extended to cover more commodities over and above the 15 commodities covered at present. The commodities like pulses, potato, onion, and other important vegetables and fruits may also be covered.

**Rationalization of Price Fixation**

The prices of agricultural commodities should be fixed most rationally so that it could cover the entire costs of production. While fixing the prices, the increasing cost of agricultural input should be taken into consideration.

**Protection of Consumers**

The agricultural prices should be so determined that it can also protect the interest of the general consumers.

**Modernization**

The agricultural price policy should be framed in such a manner so that it can induce the farmers to go for modernization of their agricultural practices.

**Improvement in Agricultural Marketing**

To ensure the success of the agricultural price policy, the improvement of the agricultural marketing system is very important. The farmers should be set free from the clutches of middlemen and all intermediaries.

**Improvement of PDS**

The public distribution system should be improved to ensure success in the operation of agricultural price policy. The operation of fair price shops should be streamlined and be made more efficient and transparent.

**Founding of Some More Agencies**

Apart from the Food Corporation of India, some more agencies should be set up for ensuring the rational prices of other agricultural products and also for procuring other agricultural products.

**Conclusion**

The present study is undertaken with the focus on the effectiveness of the Minimum Support Prices (MSP) and its impact on various aspects of the agricultural economy. Aspects are including growth parameters, distribution aspects, decision making in the allocation of resources, environmental effects and above all MSP as an effective operational instrument of the price policy. The average annual growth rate in real terms in agriculture as well as its allied sectors has remained static in the last six years, in turn impacting farmers' income, the Economic Survey 2019-20, released on January 31, 2020, has said. The annual growth rate in real terms in agriculture and its allied sectors was 2.88 percent from 2014-15 to 2018-19, according to the Survey. The estimated growth rate in 2019-20 is 2.9 percent.

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