Q3

What do you mean by Minimum Support Price (MSP)? How will MSP rescue the farmers from the low income trap? (150 Words, 10 Marks).

UPSC Civil Services Mains 2018 · GS III · 10 marks · Crops, Irrigation and Marketing

Major crops - cropping patterns in various parts of the country; different types of irrigation and irrigation systems; storage, transport and marketing of agricultural produce and issues and related constraints; e-technology in the aid of farmers.

Core demand of the question

- Define Minimum Support Price and how it is announced
- Explain how MSP can lift farmers out of a low income trap
- **State limits:** procurement, crop mix, and A2+FL versus full cost

Revision summary

MSP is a Union floor price for notified crops, based on CACP cost estimates and Cabinet approval.

Budget 2018-19 set MSP at 1.5 times A2+FL for those crops.

FCI procurement and PM-AASHA (price support, deficiency payment, private stockists) are how the floor becomes cash.

A real MSP can cut distress sale and fund the next crop, which is the exit from a low income trap.

Without procurement, and for crops outside the list, the trap remains.

Introduction

Minimum Support Price (MSP) is a floor price that the Union announces before the season so that, in theory, the farmer need not sell below it in distress. It is the State's answer to a **low income trap**: weak price, high cost, and no surplus to invest in the next crop. MSP rescues only where it is **actually paid**, not where it remains a press-note number.

Body

What MSP means

- MSP is the **procurement price floor** recommended by the **Commission for Agricultural Costs and Prices (CACP)** and approved by the Cabinet Committee on Economic Affairs for mandated **kharif and rabi** crops (cereals, pulses, oilseeds, copra, raw cotton, raw jute).
- CACP uses cost concepts such as **A2** (paid-out costs), **A2+FL** (paid-out costs plus imputed family labour), and **C2** (comprehensive cost including rent and interest on owned capital).
- **Union Budget 2018-19** announced MSP at **1.5 times A2+FL** for the notified crops, which raised the political floor even where C2 is higher.

- The **Food Corporation of India** and State agencies buy rice and wheat at MSP for the public distribution system; pulses and oilseeds need extra windows.
- **PM-AASHA (2018)** added price support, **price deficiency payment**, and private procurement-cum-stockist routes so MSP is not only an FCI wheat-rice story.

How MSP can rescue the low income trap

- A credible floor cuts **distress sale** to the village trader right after harvest, when the farmer's cash need is highest.
- Assured price raises **expected income**, so the household can repay kisan credit, buy seed and keep a child in school instead of selling land or labour cheap.
- For cereals, MSP plus **open-ended procurement** in surplus States has historically shifted income from the market to the farm, at a fiscal cost.
- Coupled with **PM-KISAN**-type income support and crop insurance, MSP is a price tool inside a wider income package.
- If deficiency payments work, even a farmer who sells in the mandi can receive the **gap** up to MSP without the State stacking grain.

Limits

- MSP without **procurement or deficiency payment** does not raise the cheque the farmer cashes.
- The trap continues for **perishables and most horticulture**, which sit outside the classic MSP list.
- Heavy MSP on rice and wheat can lock farmers into those crops and **groundwater stress**, which is another trap.
- A2+FL at 1.5 times is not the same as covering **C2**; some farmers still see cost above the cheque.
- Tenants and those without marketable surplus often miss MSP altogether.

Flow diagram

CACP cost -> MSP announcement

MSP announcement -> FCI wheat rice buy

MSP announcement -> PM-AASHA pulses oilseeds

FCI wheat rice buy -> Higher farm income

PM-AASHA pulses oilseeds -> Higher farm income

Higher farm income -> Exit distress low income trap

Conclusion

MSP is a pre-announced floor meant to stop harvest distress and raise farm income. It rescues the low income trap only when agencies buy, or pay the deficiency, and when the crop mix is not only rice and wheat. Budget 2018's 1.5 times A2+FL and PM-AASHA are the present tools; they need last-mile purchase, not only a higher number.

Facts & figures

CACP

Commission for Agricultural Costs and Prices: recommends MSPs using cost of cultivation and other factors.

A2+FL

Paid-out cost plus imputed family labour; Budget 2018-19 linked MSP to 1.5 times this measure.

C2

Comprehensive cost including imputed rent and interest on owned land and capital; often higher than A2+FL.

PM-AASHA

Pradhan Mantri Annadata Aay Sanrakshan Abhiyan (2018): price support, price deficiency payment, and private procurement for pulses and oilseeds.

FCI

Food Corporation of India: main buyer of rice and wheat at MSP for food security stocks and PDS.

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