



## LEGAL BACK UP FOR MSP - GS III MAINS

**Q.** India's growth momentum has sustained, yet it has entered a phase of 'premature deindustrialisation'. Discuss the issues associated with industrialisation in India. (15 marks, 250 words)

**News:** *Protesting farmers want MSP law: How would such a guarantee work?*

### What's in the news?

- After days-long demonstrations and several talks with the Centre, the farmers protests have entered their fifth day. One of the key demands of the protesting farmers is a legal guarantee of minimum support price (MSP).

### MSP:

- The Minimum Support Price (MSP) for a commodity refers to the price at which the government is obligated to purchase the produce from farmers in the event that the market price falls below this threshold.

### Significance of MSP Guarantee Law:

#### 1. Financial Security:

- Legally guaranteed MSP would ensure farmers fixed remunerations to the farmers by financially securing them against the vagaries of price instability in the market.

#### 2. Risk Cover:

- Legal guarantee to MSP would provide security to farmers from the risk of crop failure due to climate change, pests attacks and crop diseases.

#### 3. Promotion of Crop Diversification:

- MSP law would promote crop diversification as farmers would be incentivised to grow less water-intensive crops like pulses and millets rather than water guzzling crops like rice, wheat and sugarcane.

#### 4. Baseline or Benchmark Price:

- MSP sends a price-signal to the market that if merchants don't offer higher than MSP prices, the farmer may not sell them his produce. Thus, it ensures that the market prices will not be drastically lower than MSP.

#### 5. Solution to Rural Economic Distress:

- Minimum Support Price (MSP) can help in injecting financial resources into the rural sector.
- This will help in solving the problem of rural economic distress, which has been exacerbated due to demonetisation and COVID-19.
- For example, increase in MSP would increase the disposable income of farmers and agricultural labourers which in turn would boost the economy.



## 6. Right to Farmers:

- According to the Shanta Kumar Report, only 6% of the farm households are able to sell wheat and rice to the government at the MSP rates.
- MSP Law would give legal rights to farmers to sell their produce to Govt agencies like FCI at MSP, in case they fail to get commensurate prices from the market.

## Concerns in Legalising MSP:

### 1. Huge Fiscal Burden on Govt Exchequer:

- Legal guarantee to MSP would put a huge fiscal burden on the Govt exchequer.
- This would increase the fiscal deficit of the Government and will have deleterious effects on the economy.
- For ex- According to an estimate, Rs. 5 trillion (₹11 lakh crore) would be required for implementation of MSP Law.

### 2. Risk of Undervaluation of Crops with Low Yields:

- It would change the production pattern of crops in the country as farmers would try to grow crops with higher yields even if they are not suitable to their region.
- For examples, Farmers growing Cotton (Kharif crop) instead of millets in the drought prone region of Marathawada.

### 3. Increase in Food Inflation:

- Higher procurement cost due to MSP will result in increased prices of foodgrains, which would eventually affect the lower middle class and the poor.

### 4. Market Distortionary and Economically Unsustainable Practice:

- Legal guarantee to MSP will push away private traders whenever production is more than demand.
- This, in turn, will lead to the government becoming the de-facto primary buyer of most MSP - farm produce, which will be economically unsustainable.
- For example - Withdrawal of the Maharashtra government 2018 order, which made it illegal for a private trader to purchase any agricultural produce below the government-fixed MSP.

### 5. Adverse Impact on India's Farm Exports:

- If the MSP is higher than the prevailing rates in the international market, it will adversely affect India's farm exports, which has seen remarkable growth in recent years.

### 6. Violation of WTO Subsidies Principles:

- MSP law would lead to violation of the WTO subsidies principles and India would face opposition in the WTO dispute settlement bodies by the developed nations.
- For example - US win against China at WTO in 2019 in case related to China's MSP support to its agricultural sector.

### 7. Induce MSP Demands from other Agri-allied Sectors:

- Farmers engaged in agri-allied sectors like dairy, horticulture, pisciculture will start demanding MSP, if the Centre makes a law to guarantee 100% MSP procurement for the crops.

### 8. Storage and Disposal Problems:

- MSP guarantee will create storage and disposal problems for crops such as Niger seed, Sesamum or safflower which will have few takers through PDS system.



## WAY FORWARD:

### 1. Price Deficiency Payment Schemes:

- Both NITI Aayog and Economic Survey have recommended Price Deficiency Payment schemes, in which the government pays the farmers the difference between modal rate (the average prices in major mandis) and the MSPs

### 2. Market Intervention Scheme:

- Under it, the state government procures perishable commodities like vegetable items to ensure minimum assured price to the farmers.

### 3. Creation of Agriculture Infrastructure:

- To enable farmer participation in the market by creating modern world-class agriculture infrastructure like Cold Storage facilities.

### 4. Support to the Farmers Producers Organisations

- Adequate financial support to FPOs, would result in better price realisation for farmers.

### 5. Gradual Expansion of Crops under MSP:

- The government can gradually expand the list of crops eligible for MSP support, to encourage crop diversification and reduce the dominance of rice and wheat.





**Go back to basics:**

**Farmer's Demand:**

**Here's a list of their demands:**

- **MSP:** Enactment of a law guaranteeing MSP for crops all crops. When they agreed to withdraw their agitation against the now-repealed farm laws in 2021, the farmers set MSP enactment as a condition.
- **Debt waiver:** Implementation of Swaminathan Commission's recommendations to provide debt waivers.
- **Land Acquisition:** Compensation for land acquired by various authorities for developmental projects, and reservation of 10 per cent of residential plots on developed lands for their families.
- **World Trade Organisation (WTO):** Withdrawal from WTO and imposition of ban on all Free Trade Agreements (FTA).
- **Lakhimpur Kheri massacre:** Punishment of perpetrators of the massacre and delivering justice to farmers.
- **Pension:** Allocation of pension to farmers and farm labourers.
- **Electricity Amendment Bill 2020:** Scrapping the bill because farmers fear the growing privatisation of electricity and don't trust the state governments to pay subsidies on time.
- **Compensation for life loss during 2020-2021 agitation:** Monetary compensation to families of farmers who died during the 2020-2021 agitation. The demand also includes employment for one family member.
- **MGNREGA:** 200 days of employment per year with a daily wage of Rs 700.
- **National Commission for Spices:** Formation of the commission for different spices.
- **Protection of rights of indigenous people:** Protection of land, forests and water sources belonging to tribal communities.
- **Seed quality:** Improving seed quality by penalising companies which produce fake seeds, pesticides and fertilisers.

**Further Reference - [MSP](#)**