

Farmers' protest has moved MSP debate from 'why' to 'how'. Now we await final stage of 'when'

There are many who stick to textbook economics and ask why MSP should exist. But the debate has moved on to concrete discussions on how MSP can be realised.

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Farmers with their tractors and trolleys parked on a highway during the ongoing farmers protest over various demands, including a legal guarantee of minimum support price (MSP) for crops, at the Punjab-Haryana Shambhu Border, in Patiala district, Sunday, Feb. 18, 2024 | PTI

The latest farmers' protest marks a major shift in the debate on minimum support price in India. While the historic 13-month morcha in 2021 took the first step, from "what MSP" to "why MSP", the current protest has moved the debate from "why MSP" to "how MSP". We still await the final stage of "when MSP".

I remember visiting the editorial offices of many leading media houses in 2016 and 2017. Jai Kisan Andolan had carried out an MSP yatra through various mandis across states. We were shocked at the gap between the official minimum price and that at which crops were being sold in the official mandis, not to speak of purchase in the village itself. We also found that most farmers did not know that something called MSP existed except those in some regions where the government procured particular crops. We launched a daily tracker called "Kisan ki Loot" that published official statistics on the losses that farmers incurred because of selling crops at prices below the MSP. Much of this found no mention in the media, except for a few exceptional journalists.

That is how we landed up in the offices of newspapers and TV channels. What struck me were the blank looks — what's MSP? Most of those few mediapersons who had heard about it thought it was like MRP, though not universally enforced. They were scandalised when we presented them with sarkari statistics to prove that MSP was a rule that was observed only in its violation.

The 2020-21 kisan andolan was a turning point. While much of the focus was on the repeal of the three “black laws”, the second demand was related to MSP. Even after Prime Minister Narendra Modi backed down on the laws, farmers continued to protest for nearly a month to secure something concrete on their demand for a legal guarantee of MSP. Eventually, the government wriggled out with a vague promise of a committee that could not and did not deliver anything. But it achieved something historic: Most farmers got to hear about MSP, even if they did not know what the fuss was all about. An overwhelming proportion of farmer activists got to know that they are entitled to and are being denied fair prices called MSP, even if they did not understand the formula. And, most importantly, farmer leaders developed a consensus about what exactly they meant by their demand for MSP.

Three elements of consensus

This consensus within the farmers' movement had three elements: Higher rate, wider scope, and binding commitment.

First, the current method of fixing MSP is unfair; it should be changed to arrive at remunerative rates. This involves a number of changes, including technical changes suggested by the Ramesh Chand Committee that would have raised MSP without changing the formula. But the biggest change would be to adopt the formula suggested by the Swaminathan Commission: MSP should not be lower than comprehensive cost (C2 cost in officialese) plus 50 per cent.

Second, the demand for price support cannot be limited to the 23 crops that are presently covered by the government announcement. Price support must be extended to all agricultural produce, including fruits, dairy, and poultry.

Third, price assurance cannot remain just a verbal promise. The only way to make it effective is to turn this assurance into a law that places the responsibility for the realisation of MSP on the government. This three-fold demand is shared across all the shades of the farmers' movement, from leftist Kisan Sabhas to dozens of Bharatiya Kisan Unions to the RSS-affiliated Bharatiya Kisan Sangh.

The farmers' movement has also arrived at an understanding on how the MSP guarantee can be worked out. While this shift is yet to be formalised in a document, the articulation of the movement has moved away from some older and cruder versions that the critics continue to respond to.

Don't attack strawmen

In particular, the farmers' movement has moved away from two versions of the demand for legal guarantee of MSP that could be easily debunked.

On the one hand, there was a maximalist version that equated MSP with government procurement. Here, ensuring MSP to all farmers would mean that the government should offer to procure the entire produce of all the crops at the MSP rate. This version exposed the movement to valid criticism—that they were demanding something impossible. The government does not have the physical infrastructure and funds to procure the entire produce that sells below MSP. Even if it did, this would amount to state control of agricultural trade that would be terribly inefficient and, in the last instance, work against farmers. The farmers are not wedded to state procurement, they want the state to guarantee that they actually receive the MSP through whichever mechanism.

On the other hand, there is a minimalist version that reduced the legal guarantee to a punitive provision on the statute books. In this version, sometimes espoused by farmer leaders in the past, the government just needs to pass and enforce a law that would make any trading below MSP illegal. The naive assumption was that the farmers would automatically get MSP without the government spending anything. This defied economics and experience. Many states do have this provision in their Agricultural Produce Market Committee (APMC) laws, but they are impossible to implement. If the market price is substantially below the MSP, any punitive enforcement of MSP would only drive trading underground, forcing farmers to sell in the black market for a much lower price. This legal fiction provides an easy route for the governments to pretend that they have done something for the farmers.

The farmers' movement and its fellow travellers have moved beyond both these versions that continue to be soft targets for sarkari and darbari critics of MSP Guarantee. Instead, there is a growing consensus in favour of a bouquet approach that combines four or five policy instruments to achieve the desired result. Under this approach, MSP guarantee involves the state offering a legally binding assurance that the farmers are entitled to realise the MSP for their entire produce. The government shall institute and fund several schemes to this effect. In the eventuality and to the extent that it fails to do so and the farmers have to sell their produce below the MSP, the government shall compensate the farmers for the deficit.

A bouquet of mechanisms

This bouquet or package would include three broad categories of intervention to give effect to the legal guarantee of MSP.

First, the government could initiate some schemes that would require additional procurement of select crops. Expanding the scope of cheap ration under the Public Distribution System to include pulses and edible oil (already in operation in states like Tamil Nadu), increasing milk, egg and fruits in the midday meal scheme, promotion of millets, and incentivising the production of pulses are all policy measures that have been recommended to the government independent of the farmers' interests. Their implementation would lead to an increase in the existing levels of procurement of millets, pulses, and oilseeds, along with milk and eggs.

Second, the government could make selective but effective intervention in the market in multiple ways. Prices for perishable food produce can crash due to even marginal over-supply. In such a situation, the government has to purchase a small portion of the produce to shore up prices. This can be done via a well-funded Market Intervention Scheme, an existing scheme of the government of India that the present government has starved of funds. The same objective can be realised by modifying the existing Warehouse Receipt Scheme that supports farmers against distress sale by hitching it to MSP. Besides, the FPOs that offer MSP to the farmers can be incentivised. Finally, the government could tweak the import-export policy to do away with unnecessary restrictions on agricultural exports and encourage import, a policy that favours consumers and traders over producers.

All these measures would cost a fraction of the actual procurement cost and ensure that the prices do not fall below MSP.

The legal guarantee would come into play at the third level, should all the measures mentioned above fail to realise MSP for some farmers in the case of some crops. In this case, the government would undertake to make up the gap by way of deficit payment. This is the bhavantar route, already adopted in several states with varying degrees of success. Payout would be calculated based on seasonal market average and per acre average yield basis (without actual receipts etc) and transferred directly to the cultivator's bank account.

New institutional arrangement

All this would need a new institutional arrangement. Parliament will have to pass legislation that would identify the commodities that qualify for MSP, define a methodology for its independent determination, and specify a mechanism for realisation and legal redressal if this is not realised. The existing Commission on Agricultural Costs and Prices (CACP) would have to be replaced by an independent and statutory farmers commission to oversee its implementation and redress all

other issues faced by all categories of farmers. The government would have to set up adequate administrative mechanisms and set aside enough funds for this purpose.

The farmer's movement has moved the MSP debate forward. There are those who still don't understand what MSP is and those who deliberately conflate universal MSP with universal government procurement. And there are many who stick to textbook economics and ask why MSP should exist. But the debate has moved on to a concrete discussion on specific proposals of how MSP can be realised. Let us hope that the farmers' protests and the declaration by the Congress party can push the discussion to 'when'. Where there is a political will, there is a legal way.