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EDITORIAL ANALYSIS

The MSP Guarantee Demand – Why India Cannot Afford to Ignore It

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SUBJECTS COVERED**ECONOMY****SOCIAL ISSUES****GS PAPERS****GS3****GS2****CURATED & WRITTEN BY****Bharat Choudhary**

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GS3

GS2

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MAINS RELEVANCE:

GS Paper 3

GS Paper 2



INTERVIEW ANGLE

"Farmers' unions have demanded a legal guarantee of MSP since the 2020-21 protests. What would be the economic, fiscal, and political consequences of making MSP a legal entitlement? Is there a middle path?"

The revival of Madhya Pradesh's Bhavantar Bhugtan Yojana brings back into focus a question that India's agricultural policy establishment has been quietly circling for years: can the country afford to not give farmers a meaningful price floor? The debate over a legal MSP guarantee is not merely a political negotiation — it is a question about the architecture of India's rural economy.

THE PRICE DISCOVERY FAILURE

India's agricultural markets have a fundamental problem: they do not produce fair prices for small farmers. This is not primarily because of price ceilings or procurement failures — it is structural.

A farmer with 2 acres of soybean in Vidarbha or Malwa faces a **monopsonistic market** locally. One or two commission agents (arhatias) or trading companies effectively set the local purchase price. The farmer lacks:

Storage capacity to wait for better prices

Market information to know prices in distant mandis

Capital reserves to repay input loans if she waits to sell

The result: distress sales at 30–40% below MSP are the norm, not the exception, for non-wheat, non-rice crops in most states. Madhya Pradesh's soybean farmers — the largest soybean-farming community in the country — have documented this repeatedly.

WHY THE LEGAL GUARANTEE DEMAND IS COMPLEX

When farmers demanded a **legal guarantee of MSP** during the 2020–21 protests, the government’s primary objection was fiscal: extending legal MSP to all 23 notified crops, at C2+50% as recommended by the Swaminathan Commission, would cost the exchequer an estimated **₹10–17 lakh crore annually**. This number, while contested in its assumptions, captures the scale of the commitment.

But the fiscal objection conflates two very different models:

Physical procurement at MSP for all crops — government becomes buyer of last resort for all produce; requires massive storage, logistics, working capital

Price deficiency payments (BBY model) — government pays only the price gap; much lower cost; market remains primary buyer

The Bhavantar model’s fiscal cost in MP — even in worst years — is a fraction of what full physical procurement would require. A **national Price Deficiency Payment guarantee**, legally enforceable, would cost significantly less than critics of MSP legislation claim.

THE POLITICAL ECONOMY OF INACTION

Successive governments have avoided a legal MSP guarantee for two reasons beyond fiscal cost:

First, WTO compatibility. India’s agricultural support under the **Agreement on Agriculture (AoA)** is capped at 10% of the total value of agricultural production (developing country “de minimis”). Legal MSP guarantees, if structured as trade-distorting “amber box” measures, could expose India to WTO disputes — particularly from the US, EU, and Australia, which have historically challenged India’s procurement-linked support.

Second, market distortion. Making MSP a legal floor for all crops could:

- Encourage excess production of supported crops relative to market demand

- Create market distortion that private traders and processors find difficult to operate in

- Entrench a two-tier market (MSP-supported government channel vs. private market)

India has managed this for wheat and rice — but extending it to 23 crops across all states would require an entirely different administrative architecture.

WHAT WOULD A MIDDLE PATH LOOK LIKE?

A credible middle path might include:

National PDPS — legalise the Price Deficiency Payment mechanism at the central level for all 23 MSP crops; make payment automatic and timely via DBT

APMC registration reform — ensure all farm sales are captured in digital mandi records (not just those at physical mandis), making more farmers eligible for BBY-type payments

Crop insurance enhancement — strengthen PMFBY to cover price risk (in addition to production risk), converting it into a partial income guarantee

Procurement expansion for pulses + oilseeds — NAFED-led procurement at MSP in years of price crashes, with strategic buffer management

This is not a perfect solution — no MSP mechanism is. But it would provide farmers a **credible floor** without the fiscal and WTO risks of full physical procurement.

THE ELECTORAL CONTEXT

The MSP debate is not separable from India’s electoral politics. State governments that cannot deliver MSP prices face farmer anger — Madhya Pradesh’s BBY revival is partly electoral insurance ahead of state assembly cycles. The central government’s committee on MSP guarantee — constituted as part of the settlement of the 2020–21 protests — has met repeatedly but delivered no binding recommendations.

The Bhavantar revival is a reminder that the problem has not gone away. Farm income distress remains one of India’s most persistent and politically explosive structural challenges. The Price Deficiency Payment model, imperfect as it is, is likely to be the practical solution that eventually achieves national scale — not because it is ideal, but because physical procurement of 23 crops is impossible.

UPSC RELEVANCE

BBY, MSP, PDPS, PM-AASHA, PM-KISAN, NAFED, APMC, WTO AoA, de minimis, C2+50%, Swaminathan Commission.

MAINS GS-3:

Agricultural price policy; MSP reform; farm income support.

GS-2:

WTO constraints on India’s agricultural support.

ESSAY:

“The question is not whether India can afford MSP guarantee, but whether India can afford not to have one.”

★ FACTS CORNER — KNOWLEDGEPEDIA

MSP SYSTEM:

Notified crops: **23** (14 kharif + 6 rabi + 2 others + sugarcane)

Formula (current): **A2+FL** (actual costs + family labour)

Swaminathan recommendation: **C2+50%** (includes rent on land + fixed capital interest)

Legal status: **Advisory** — not legally enforceable; no right of farmers to sell at MSP

COST OF LEGAL MSP:

Estimated cost (full physical procurement, all 23 crops, C2+50%): **₹10–17 lakh crore/year** (contested)

PM-AASHA budget (2022-23): ~₹1,500 crore (far lower due to limited implementation)

MP BBY expenditure (worst year): ~**₹1,500 crore** (state-level, one state)

WTO CONSTRAINTS:

Agreement on Agriculture (AoA): India's "amber box" support capped at **10% of agricultural GDP** (developing country de minimis)

India's support at MSP (wheat+rice) already close to WTO limits

"Green box" subsidies (not trade-distorting): R&D, extension, infrastructure — unlimited

India's position: Food security must override WTO caps; developing countries need special and differential treatment

KEY INSTITUTIONS:

NAFED: National Agricultural Cooperative Marketing Federation; procures oilseeds, pulses at MSP

FCI: Food Corporation of India; procures wheat and rice; maintains buffer stocks

CACP: Commission for Agricultural Costs and Prices; recommends MSP annually

APMC: Agricultural Produce Market Committee; state-level mandi regulation

2020-21 FARM LAWS + PROTESTS:

Three laws passed Sept 2020; repealed Nov 2021

Key demands: Legal MSP guarantee + repeal of Farm Laws

Government response: Constituted committee on MSP guarantee; no binding output

OTHER RELEVANT FACTS:

PMFBY (Pradhan Mantri Fasal Bima Yojana): Crop insurance; covers production risk, not price risk

eNAM (National Agriculture Market): Online trading platform linking APMCs across states; ~1,000+ mandis integrated

Farmer suicides: Average ~11,000/year (NCRB data); debt and price collapse are leading causes

India's agriculture: Employs ~46% of workforce; contributes ~18% of GDP

Sources: The Hindu, Economic Times, PIB

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