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EDITORIAL ANALYSIS

Beyond MSP: Why Farmers Need Income Support, Not Price Support

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Beyond MSP: Why Farmers Need Income Support, Not Price Support

The Indian Express 1 August 2026 GS3 GS2

INTERVIEW ANGLE

"If income support is analytically superior to price support, why has no Indian government been able to substitute one for the other? What does that political economy tell you about how such a transition would actually have to be sequenced?"

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THE LIFT LINE

A policy that pays farmers to grow rice in a state running out of water is not a farm-income policy that has a water problem. It is a water policy that has been written, accidentally, in the language of farm income.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

MSP reform is among UPSC's most reliably recurring GS3 agriculture themes, and the analytically strong answer is never "MSP good" or "MSP bad" but a precise account of what price support does that income support cannot, and vice versa. This editorial supplies exactly that comparison.

GS Paper 3: Issues related to direct and indirect farm subsidies and minimum support prices; public distribution system; issues of buffer stocks and food security; agricultural marketing.

GS Paper 2: Government policies and interventions for development in various sectors.

For **Prelims**, fix PM-AASHA and its Price Deficiency Payment component, the WTO Agreement on Agriculture's box classification, and FPOs.

CONCEPT	MEANING	WHY UPSC TESTS IT
Minimum Support Price (MSP)	A government-announced floor price at which it undertakes to procure specified crops	The central instrument of Indian price support; recommended by CACP, announced by the Cabinet Committee on Economic Affairs
Price Deficiency Payment (PDP)	Paying the farmer the gap between market price and MSP, without physical procurement	The key alternative mechanism; a component of PM-AASHA
WTO amber box / green box	Amber box covers trade-distorting support subject to reduction commitments, with a 10 per cent de minimis threshold for developing countries; green box covers minimally distorting support with no limit	Determines which instruments India can expand without trade-law exposure; the Bali peace clause shields public stockholding for food security from challenge
Farmer Producer Organisation (FPO)	A collective of farmers organised to aggregate produce and improve bargaining power in marketing	The institutional route to better price realisation without government procurement

BACKGROUND AND CONTEXT

India's MSP regime originated in the mid-1960s alongside the Green Revolution, when the binding national problem was food-grain deficiency and the policy objective was to induce farmers to adopt high-yielding varieties by removing price risk. It succeeded at that objective comprehensively. The problem is that the instrument has remained largely unchanged while the underlying situation, national food-grain surplus, severe regional groundwater depletion, and a farm-income crisis distinct from a food-production crisis, has inverted.

INSTRUMENT	MECHANISM	REACH
MSP with procurement	Government buys at an announced floor price	Effective mainly for paddy and wheat, in states with procurement infrastructure
PM-KISAN	Direct income transfer via DBT	Landholding-linked; excludes tenant farmers and landless labourers
PM-AASHA / Price Deficiency Payment	Pays the market-MSP gap without physical procurement; coverage raised to 40 per cent of a state's oilseed production, window extended to four months	Limited deployment; approval ran to March 2026 with the 15th Finance Commission cycle
FPOs	Collective marketing to improve price realisation	Growing but institutionally uneven

THE CORE ARGUMENT / ISSUE

The fiscal problem is not the largest problem

MSP procurement's fiscal cost is substantial, and the associated buffer stocks routinely exceed food-security norms, carrying storage and eventual disposal costs. But fiscal cost alone is a weak argument, since agricultural support is a legitimate public purpose and the relevant question is whether the money buys the intended outcome, not whether it is spent.

The ecological problem is the sharpest one

Assured procurement of paddy and wheat has entrenched a cropping pattern in north-western India that the region's groundwater cannot sustain. This is not an incidental side-effect; it is the direct, predictable consequence of guaranteeing a price for a water-intensive crop in a water-scarce region. Any policy that pays farmers reliably for paddy in Punjab and Haryana is, functionally, a subsidy for groundwater extraction, and no amount of separate water-conservation messaging will outweigh a price signal pointing the other way.

The distributional problem is the most politically awkward

MSP's benefit is contingent on procurement actually occurring, which requires mandi infrastructure, government purchase operations, and a crop the government procures at scale. Farmers in states without that infrastructure, and farmers growing crops outside the effective procurement basket, receive essentially nothing from the instrument that dominates the agricultural policy conversation. The paradox is that the loudest political defence of MSP comes from the regions where it works, which are not the regions with the deepest farm-income distress.

Why the counter-argument is stronger than it first appears

Income support does not do what price support does. A PM-KISAN instalment is a fixed annual sum; it does not rise when the harvest-time market price collapses, which is precisely the moment a farmer needs support most. Price support is, functionally, an insurance instrument as well as an income instrument, and removing it without building an equivalently credible risk-management mechanism, whether Price Deficiency Payment, crop insurance, or FPO-mediated forward contracting, would leave farmers exposed to volatility they cannot hedge.

HOW TO THINK ABOUT THIS (ANALYTICAL FRAME)

When comparing two policy instruments, identify every distinct function the incumbent performs, not just its headline purpose, before proposing a replacement. MSP is usually discussed as an income instrument, and against that single criterion income transfers dominate it. But MSP also performs a risk-management function and a production-signalling function, and a replacement that addresses only the income function will leave the other two unaddressed. This "enumerate all functions before substituting" discipline applies to any institutional-replacement argument, in agriculture, in welfare delivery, or in regulation.

THE DIAGRAM IN WORDS

Picture MSP as a single tool doing three jobs at once: it transfers income, it insures against price collapse, and it signals what to grow. Income support cleanly replaces the first job and does it better, reaching farmers the procurement network never touches. But set the tool down and two jobs are left uncovered: nothing now insures against a harvest-time price crash, and nothing now signals cropping choice, though in fairness MSP was signalling the wrong thing in water-scarce regions. The reform question is not whether to set the tool down, but what to pick up for the other two jobs first.

WAY FORWARD

1. **Renew and expand Price Deficiency Payment mechanisms**, noting that PM-AASHA's approval ran co-terminus with the 15th Finance Commission cycle to March 2026, so continuation into the 16th Finance Commission period is itself the first decision required.
2. **Index income transfers to inflation**, since a nominal instalment fixed across a five-year extension loses real value precisely as it is meant to provide stability.
3. **Extend income support beyond landholding-linked eligibility** to cover tenant farmers and landless agricultural labourers, addressing the sharpest equity gap in the current design.
4. **Strengthen FPO marketing capacity** so collective bargaining improves price realisation without requiring a government floor.
5. **Sequence the transition explicitly**, allowing procurement-based support to recede only as alternative risk-management instruments demonstrate they function at scale.

PYQ LINKAGE AND PRACTICE

UPSC has repeatedly tested MSP, farm subsidies, buffer stocks and agricultural marketing reform in GS3, and the PM-KISAN extension provides a current, dated hook for what is otherwise a perennial theme.

Practice question: "The Minimum Support Price regime performs three distinct functions, and income transfers replace only one of them." Examine this claim and discuss what a credible sequencing of agricultural support reform in India would require. (250 words, 15 marks)

Interview angle: If income support is analytically superior to price support, why has no Indian government been able to substitute one for the other? What does that political economy tell you about how such a transition would actually have to be sequenced?

Sources: The Indian Express, Ministry of Agriculture and Farmers Welfare, Commission for Agricultural Costs and Prices

Source: Beyond MSP: Why Farmers Need Income Support, Not Price Support — Ujiyari.com | Free UPSC & State PCS Editorial Analysis

KEY ARGUMENTS AT A GLANCE

India's Minimum Support Price regime, designed for a food-deficit economy, now produces fiscally unsustainable procurement, ecologically damaging cropping patterns, and benefits concentrated among a minority of farmers in a few states, making a shift toward income-based instruments analytically compelling even though it is politically difficult.

✓ SUPPORTING

- MSP-backed procurement operates effectively for only a narrow set of crops, principally paddy and wheat, and in a limited set of states with developed procurement infrastructure, so the majority of Indian farmers receive no meaningful benefit from a policy that dominates the agricultural budget.
- Assured procurement of paddy and wheat has entrenched a water-intensive monoculture in regions where groundwater depletion is now severe, meaning the price signal is actively steering cultivation away from what the agro-ecology can sustain.
- Income-based instruments such as PM-KISAN, Price Deficiency Payment under PM-AASHA, and strengthened Farmer Producer Organisations are crop-neutral, which means they support farm incomes without distorting the choice of what to grow.

⚠ COUNTER

MSP provides something income transfers do not: a floor price that reduces the risk of a price collapse at harvest, and for the farmers it does reach it is a considerably larger transfer than PM-KISAN's instalment; removing price support without an equivalently credible risk-management substitute would expose farmers to market volatility they have no instrument to hedge.

→ WAY FORWARD

Sequence the transition rather than substituting abruptly: strengthen Price Deficiency Payment mechanisms and FPO-based marketing capacity to build a credible risk-management alternative first, expand income transfers meaningfully in real terms, and let procurement-based support recede as the alternatives demonstrate they can bear the weight.

✍ MAINS ANSWER FRAMEWORK

QUESTION

Compare price support through Minimum Support Price with income support through direct transfers as instruments of agricultural policy in India. Examine the fiscal, ecological and distributional case for shifting the balance toward income-based instruments. (250 words)

INTRODUCTION

India supports agricultural incomes through two broad instrument families: price support, principally Minimum Support Price with assured procurement, and income support, principally direct transfers such as PM-KISAN, whose continuation to 2030-31 with a Rs 3.15 lakh crore outlay the Cabinet approved on 31 July 2026.

BODY

The case against the current balance rests on three distinct problems. Fiscally, MSP-backed procurement generates buffer stocks well beyond food-security requirements, with associated storage, carrying and disposal costs, while the WTO Agreement on Agriculture's amber-box disciplines constrain how far price support can be expanded without triggering trade-law exposure.
Ecologically, assured procurement concentrated in paddy and wheat has entrenched water-intensive cultivation in precisely the regions, notably north-western India, where groundwater depletion is most acute, meaning the policy signal actively opposes agro-ecological sustainability. Distributionally, effective MSP benefit requires functioning procurement infrastructure, which exists in a limited set of states and for a limited set of crops, so the majority of Indian cultivators, including most in eastern and central India, receive little from the instrument that dominates agricultural expenditure.
Income-based instruments avoid all three problems: they are crop-neutral and therefore do not distort cropping choice, they are Green Box-compatible under WTO rules, and being landholding-based rather than procurement-based they reach farmers regardless of whether a mandi with government procurement operates nearby. The serious counter-argument is that income transfers do not perform MSP's risk-management function, since a fixed annual instalment does not protect against a harvest-time price collapse in the way a guaranteed floor does.

CONCLUSION

The realistic path is sequential rather than substitutive: build credible alternatives, Price Deficiency Payment mechanisms, FPO-based marketing, expanded and inflation-indexed income transfers, until they can bear the risk-management function, and allow procurement-based price support to recede as they do, rather than removing the floor before the replacement exists.

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