Indian Economy · GS - III

What do you mean by Minimum Support Price (MSP)? How will MSP rescue the farmers from the low income trap?

EXAM YEAR	PAPER	SUBJECT
2018	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Definition of MSP; CACP recommendations; government price assurance; income security; market-risk reduction; procurement limitations; agricultural reforms

Model Answer

Introduction

Minimum Support Price (MSP) is the price announced by the Government of India for specified crops to protect farmers against sharp market-price declines and encourage agricultural production.

Meaning and Determination

The government announces MSPs after considering recommendations of the Commission for Agricultural Costs and Prices (CACP). Factors include production costs, demand and supply, market prices, inter-crop parity and wider economic considerations.

How MSP Can Help Farmers

1. **Price assurance:** It provides a benchmark against which farmers can assess expected returns.
2. **Income protection:** Effective procurement at MSP can prevent distress sales when market prices fall.
3. **Investment incentives:** More predictable returns can encourage investment in seeds, irrigation and technology.

4. **Creditworthiness:** Greater income stability can improve farmers' ability to access institutional credit.
5. **Food security:** Procurement of important crops supports public distribution and buffer stocks.

Limitations

- Procurement is concentrated in certain crops and regions.
- Many farmers cannot sell their produce to procurement agencies at MSP.
- Benefits are less accessible to small and marginal farmers in remote areas.
- Crop concentration may encourage water-intensive cultivation and reduce diversification.

Way Forward

Expand accessible procurement where appropriate, strengthen markets and storage, promote Farmer Producer Organisations, and improve crop insurance and agricultural value chains.

Conclusion

MSP can reduce income uncertainty, but it cannot alone end the low-income trap. Broad-based procurement, diversification and higher farm productivity are essential.

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