

# India's MSP Policy

What Legal Guarantees Could Mean for Farmers and the Economy

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When thousands of farmers marched to the Shambhu border in February 2024, they carried more than just their produce. They carried a decade of frustration over unpredictable farm incomes, rising input costs, and a simple demand: make the Minimum Support Price (MSP) a legal

## What is MSP?

The Minimum Support Price is a floor price set annually by the central government for 23 notified crops, designed to protect farmers from steep market price falls. Announced by the Commission for Agricultural Costs and Prices (CACP), MSP aims to ensure that farmers receive a minimum return on their harvest. The government, primarily through the Food Corporation of India (FCI) and state agencies, procures crops at MSP to build buffer stocks for the Public Distribution System and other food security programs.

## At a glance: Recent MSP facts

**Strong procurement this season:** The Food Corporation of India procured 26.6 lakh metric tonnes (266 million tonnes) of wheat during the Rabi Marketing Season 2024-25, surpassing the previous year's 262 lakh metric tonnes and marking the highest procurement in four years. More than 22 lakh farmers benefited, with ₹61,000 crore directly credited to their bank accounts. States like Uttar Pradesh and Rajasthan showed significant improvements in procurement quantities.

Rice procurement also remained robust, reaching 53.11 million tonnes during October 2024 to June 2025, a marginal 1.1% increase over the previous year. States like Telangana, Odisha, West

right. For 62-year-old Ram Singh from Punjab's Sangrur district, the protest wasn't just about policy it was about survival. "We need assurance that when we sow our crops, someone will buy them at a fair price," he said, echoing the sentiment of millions of farmers across India.

While MSP is declared for crops including cereals, pulses, oilseeds, and commercial crops like cotton and sugarcane, actual procurement at MSP happens predominantly for wheat and rice, and mostly in states like Punjab, Haryana, and Madhya Pradesh. Other support mechanisms exist alongside MSP, including state-level bonuses, direct income support through schemes like PM-KISAN (which provides ₹6,000 annually to small and marginal farmers), and crop insurance under the Pradhan Mantri Fasal Bima Yojana.

Bengal, and Bihar reported procurement growth, though Punjab and Haryana saw declines.

**Protests and demands:** The 2024-25 farmer protests, which began on February 13, 2024, at the Shambhu and Khanauri borders between Punjab and Haryana, list legal MSP guarantee for all crops as their primary demand. Other demands include complete farm loan waivers and implementation of the Swaminathan Commission's recommendations.

**State-level gaps:** Despite MSP declarations, implementation gaps persist. In Haryana, farmers reported selling paddy (MSP: ₹2,389 per quintal) at ₹1,750-2,200, millet (MSP: ₹2,775) at ₹1,500-2,000, and cotton (MSP: ₹8,100) at ₹6,500-7,000

due to lack of government procurement. The Haryana Pradesh Vyapar Mandal accused the state government of failing to purchase crops at MSP, forcing farmers into distress sales.

- **Government stance**

The central government maintains that MSP is an effective policy instrument and that procurement serves national food security objectives. However, it has been cautious about creating a legal guarantee that would compel the government to purchase all notified crops at MSP from all farmers. In December 2024, Agriculture Minister Shivraj Singh Chouhan told Parliament that the government had fixed MSPs to allow at least 50% returns to farmers and would purchase all farm produce at these rates, calling it "the Modi government's guarantee".

Yet official statements emphasize practical concerns. A legal MSP would impose a massive fiscal burden on the exchequer estimates suggest

fiscal support could increase three to four-fold if procurement were extended to all districts and crops. Storage infrastructure would need dramatic expansion to handle the volume of produce the government would be obligated to buy. There are also concerns about market distortion: if the state becomes the compulsory buyer at MSP, private traders might exit the market entirely, leaving farmers with no alternatives when government procurement centers are inaccessible or when crops exceed quality specifications.

The government has held multiple rounds of talks with farmer unions but negotiations have remained inconclusive. Instead of legal guarantees, the government has offered state-level bonuses, expanded procurement operations in new regions, and strengthened direct benefit transfer schemes to supplement farm incomes.

### What experts say

#### Arguments FOR legal MSP:

Farmer unions and agricultural activists argue that legal MSP provides essential price certainty, particularly for small and marginal farmers who constitute over 85% of India's farming community. With input costs fertilizers, seeds, diesel, and labor rising consistently, farmers face mounting financial stress. A legal guarantee would protect them from market crashes and prevent distress sales during harvest season when prices typically plummet.

"Legal guarantee on MSP is the key demand," states Via Campesina, an international farmers' advocacy group. "This is not the issue of two states it is the collective demand of food growers

from every corner of the country," said Jagjit Singh Dallewal, senior leader of the Samyukta Kisan Morcha, at a Kisan Mahapanchayat in August 2025.

Supporters also cite the Swaminathan Commission's recommendation that MSP should be set at C2 cost plus 50% (where C2 includes actual paid-out costs, imputed family labor, and imputed rent on owned land and capital). While the Commission did not explicitly call for legal MSP, farmers interpret its recommendations as supporting remunerative pricing that ensures reasonable profit margins.

#### Arguments AGAINST legal MSP:

Prominent agricultural economist Ashok Gulati and other policy analysts warn that legally guaranteeing MSP for all crops could create fiscal chaos and unintended consequences. "Normally, prices are decided by demand and supply. If MSP is made legal and production of a particular commodity is 100 but demand is 70, then what will happen? Nobody will touch the remaining 30. It will stay with the farmers,"

Gulati explained in an interview with India Today.

Making MSP legally binding would create market inefficiencies. Traders would refuse to buy crops at prices above MSP for fear of legal penalties, effectively turning MSP into a ceiling rather than a floor. The government would be compelled to purchase vast quantities of surplus produce, straining budgets and storage capacity. Studies show that extending MSP procurement

across all districts could increase fiscal outlays by three to four times the current levels.

Gulati also notes that only about 28% of agricultural produce is currently covered under MSP, with real implementation limited primarily to wheat and rice in five to six states. "You go to Bihar for the last 50 years, their prices of paddy are 15 to 25% lower than MSP. So why don't you go and procure there?" he asked, highlighting the logistical and administrative challenges of universal procurement.

"Legal MSP is the bare minimum but the consequences of a blanket buy-back demand real policy solutions," Gulati stated, advocating instead for price stabilization funds and market reforms.

- **Human angle: Voices from the field**

Ram Singh's story is not unique. In Haryana's Hisar district, Bajrang Garg, president of the Haryana Pradesh Vyapar Mandal, described farmers selling their produce far below MSP. "Paddy with an MSP of ₹2,389 per quintal is being sold between ₹1,750 and ₹2,200. Farmers are incurring huge losses because the government promised to purchase every grain but has failed to do so," Garg said at a trade representatives' meeting in October 2024.

In contrast, states with robust procurement infrastructure tell a different story. In Punjab, despite some decline in absolute procurement volumes, farmers generally manage to sell their wheat and rice at MSP through well-established mandi systems and FCI purchase centers. The state's procurement bonus Chief Minister Nayab Saini had announced paddy procurement at ₹3,100 per quintal was meant to incentivize farmers, though implementation fell short of promises.

In Madhya Pradesh, expanded MSP coverage led to increased farmer incomes for both rice and wheat. State procurement officials credit better coordination between state agencies and FCI, along with timely announcements and payment systems, for improved farmer satisfaction. A procurement official from Bhopal noted, "When farmers know they can sell at MSP within their

district, they invest more confidently in quality seeds and inputs".

These contrasts illustrate a fundamental reality: MSP's effectiveness depends less on the policy itself and more on state-level implementation, procurement infrastructure, and political will.

- **Policy options and trade-offs**

Experts and think tanks have proposed several alternatives to universal legal MSP, each with distinct advantages and challenges:

**Targeted deficiency payment schemes:** Under this model, the government compensates farmers only when market prices fall below MSP, paying the difference directly into their bank accounts through Direct Benefit Transfer (DBT). Madhya Pradesh implemented this for soybean during Kharif 2018-19, benefiting over 6.2 lakh farmers with ₹5,719.5 crore in MSP value. This approach reduces procurement, storage, and transportation costs while still protecting farmer incomes.

**Enhanced crop insurance:** The Pradhan Mantri Fasal Bima Yojana (PMFBY) provides coverage against crop loss due to natural calamities, pests, and diseases. Scaling this program to 100 million hectares and linking payouts to income levels rather than just production costs could provide comprehensive risk protection. However, awareness remains low and claim settlement processes need improvement.

**Better procurement coverage:** Rather than making MSP legally binding everywhere, expanding procurement infrastructure to underserved states like Bihar, West Bengal, and eastern Uttar Pradesh could bridge regional disparities. This requires investment in storage facilities, mandi infrastructure, and state agency capacity.

**Direct income support expansion:** Increasing PM-KISAN support from ₹6,000 to ₹10,000 annually, as suggested by some economists, would provide baseline income security without distorting markets. Combined with deficiency payments, this could achieve farmers' income stability goals more efficiently than universal procurement.

Each option involves fiscal and administrative trade-offs. Legal MSP offers simplicity and

certainty but at potentially unsustainable cost. Deficiency payments are fiscally efficient but require robust digital infrastructure and transparent price monitoring. Crop insurance

### Conclusion

The debate over legalizing MSP touches the core of India's agricultural future and the livelihoods of over 140 million farming households. Farmers' demand for a legal guarantee reflects legitimate concerns about income security in an era of volatile markets, climate uncertainty, and rising costs. Their protests are not merely about policy they're about dignity, survival, and the recognition that feeding the nation deserves reliable economic protection.

Yet the path forward requires balancing farmer welfare with fiscal sustainability and market functionality. A blanket legal MSP may provide short-term relief but risks long-term distortions surplus production, market exit by private traders, fiscal strain, and inefficient resource allocation. More nuanced approaches deficiency

spreads risk but depends on accurate assessment and timely payouts. Direct income support is universal but may not sufficiently compensate for market price crashes.

payments, expanded procurement infrastructure, robust insurance, and enhanced direct income support could achieve the same goals more sustainably.

The question facing policymakers and citizens alike is not whether farmers deserve price protection they clearly do but how best to design that protection. Can India create a system that ensures farmer incomes without bankrupting the state or distorting agricultural markets? The answer will shape not just farming policy but food security, rural prosperity, and the social contract between the nation and those who feed it. As farmer leader Jagjit Singh Dallewal reminds us, this is not just Punjab and Haryana's issue it's India's challenge, and the stakes have never been higher