

How Minimum Support Price (MSP) Affects Farmers and Markets

Akash Biswas¹, Kuntal Mondal², Suraj Sarkar³, R. K. Mishra⁴, Rahul Ashad⁵

¹Ph.D Scholar, Department of Agricultural Economics, Uttar Banga Krishi Vishwavidyalaya.

²MBA in Agri Business Management, Department of Agribusiness Management, KIIT School of Rural Management.

³SMS (Plant Protection), Cooch Behar KVK, UBKV.

⁴Assistant Professor, Department of Forestry, Doon (PG) College of Agriculture Science and Technology Camp Road Selaqui Dehradun Uttarakhand.

⁵Ph.D Research Scholar, Department of Agricultural Economics, Uttar Banga Krishi Vishwavidyalaya.



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*Corresponding Author
Akash Biswas*

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INTRODUCTION

Agriculture remains the backbone of the Indian economy despite rapid industrialization and urbanization. More than half of India's population still depends directly or indirectly on agriculture for livelihood. However, Indian farmers often face severe challenges such as fluctuating market prices, rising input costs, climate uncertainties and exploitation by intermediaries. These issues frequently lead to unstable farm incomes and financial distress. To address these concerns, the Government of India introduced the Minimum Support Price (MSP) system. MSP acts as a price assurance mechanism whereby the government guarantees procurement of crops at predetermined prices if market prices fall below that level. The policy is primarily intended to safeguard farmers against price crashes during bumper production years. Over time, MSP has become not only an economic tool but also a political, social and food security instrument. It significantly influences production decisions, market behavior, procurement policies and public distribution systems.

What is Minimum Support Price (MSP)

Minimum Support Price refers to the predetermined price announced by the Government of India before the sowing season for specific crops. Farmers are assured that if market prices fall below the MSP, government agencies will procure their produce at the announced price. The concept was introduced in the mid-1960s during the Green Revolution to encourage food grain production and ensure national food security. The MSP is recommended by the Commission for Agricultural Costs and Prices (CACP) and announced by the Government of India.

Objectives of MSP

The MSP system was introduced with several important objectives:

Objective	Explanation
Income Security	Protect farmers from sudden decline in crop prices
Encouragement to Production	Motivate farmers to adopt improved technologies and increase production
Food Security	Ensure sufficient food grain availability for the country
Market Stabilization	Prevent excessive price fluctuations
Protection from Middlemen	Reduce exploitation by traders and intermediaries
Procurement for PDS	Maintain buffer stocks for the Public Distribution System

Crops Covered Under MSP

Currently, MSP is announced for 23 crops, including cereals, pulses, oilseeds, and commercial crops. Among these, wheat and paddy receive the highest government procurement support.

Category	Crops
Cereals	Paddy, Wheat, Maize, Barley
Pulses	Gram, Tur, Moong, Urad, Lentil
Oilseeds	Soybean, Mustard, Groundnut, Sunflower
Commercial Crops	Cotton, Jute, Copra

How MSP is Determined

The CACP considers several factors while recommending MSP:

While determining the Minimum Support Price (MSP), the government considers several important economic and agricultural factors to ensure fair pricing for farmers as well as market stability. These factors include the cost of cultivation incurred by farmers, demand and supply conditions of agricultural commodities and prevailing market price trends. The government also examines inter-crop price parity to maintain a balanced relationship among different crops and evaluates the terms of trade between agriculture and non-agriculture sectors. In addition, the likely impact of MSP on consumers and inflation is carefully assessed to avoid excessive price rise in food commodities. International market prices are also taken into consideration so that domestic agricultural products remain competitive in the global market. The government generally aims to fix MSP at least

1.5 times the cost of production, based on recommendations from agricultural experts.

Role of MSP in Protecting Farmers

1. Income Stability

MSP provides a guaranteed minimum return to farmers even when market prices decline sharply. This is especially important during years of bumper harvests when oversupply lowers prices. For small and marginal farmers, MSP acts as a financial safety net that reduces uncertainty and income instability.

2. Reduction in Distress Sales

Many farmers are forced to sell produce immediately after harvest due to debt obligations and lack of storage facilities. During such periods, market prices often decline significantly. MSP procurement helps farmers avoid distress sales and provides bargaining power against traders.

3. Encouragement for Investment

Price assurance through the Minimum Support Price (MSP) system encourages farmers to invest more confidently in modern agricultural

inputs and technologies. With the assurance of receiving a guaranteed price for their produce, farmers are more willing to purchase high-quality seeds, fertilizers, irrigation facilities, farm machinery and advanced technologies to improve crop production. This financial security reduces the risk associated with farming and motivates farmers to adopt scientific farming practices.

4. Boost to National Food Security

MSP played a major role during the Green Revolution by motivating farmers to cultivate wheat and rice. India eventually transformed from a food-deficit nation into a food-surplus country. Government procurement under MSP also supports the Public Distribution System (PDS), ensuring food availability for economically weaker sections.

Impact of MSP on Agricultural Markets

Positive Impacts

The Minimum Support Price (MSP) system has several positive impacts on agricultural markets and the rural economy. MSP helps stabilize market prices by preventing a sharp decline in crop prices during periods of high production, thereby protecting farmers from heavy financial losses. Assured returns encourage farmers to cultivate MSP-supported crops and adopt improved farming practices, which ultimately increases agricultural production. The procurement system associated with MSP also strengthens national food security, as government agencies maintain buffer stocks of food grains to manage supply during shortages or emergencies. Furthermore, higher and more stable farm incomes increase rural purchasing power, stimulate local businesses, and contribute to overall rural economic growth and development.

Negative Impacts

Although the Minimum Support Price (MSP) system benefits farmers, it also creates several

challenges. Assured procurement of crops like wheat and paddy discourages crop diversification and reduces cultivation of pulses, oilseeds and horticultural crops. MSP benefits are unevenly distributed, mainly favouring states such as Punjab, Haryana, and western Uttar Pradesh, while many other regions receive limited support. The system also places a heavy financial burden on the government due to high procurement, storage and subsidy costs. Furthermore, continuous cultivation of water-intensive crops has caused environmental problems such as groundwater depletion, soil degradation, and loss of biodiversity, especially in northwestern India.

MSP and Small Farmers

India has more than 85% small and marginal farmers, but many of them are unable to fully benefit from the Minimum Support Price (MSP) system. Several factors limit their access to MSP benefits, including distant procurement centres, lack of awareness about MSP policies, small quantities of marketable surplus, transportation difficulties and dependence on local traders or middlemen. Due to these challenges, many farmers are forced to sell their produce in local mandis at prices lower than the declared MSP, reducing the effectiveness of the price support system.

MSP and Food Inflation

MSP influences food prices across the economy. When MSP rises sharply:

- Procurement prices increase
- Market prices may rise
- Food inflation can increase

However, moderate MSP hikes are often necessary to compensate farmers for rising input costs. Balancing farmer welfare and consumer affordability remains a major policy challenge.

MSP and Agricultural Sustainability

The MSP system has raised concerns regarding sustainability.

Major Sustainability Issues

Issue	Impact
Monocropping	Reduced crop diversity
Excessive groundwater use	Water scarcity
Chemical-intensive farming	Soil degradation
Paddy dominance	Methane emissions

MSP and Farmers Movements

Minimum Support Price (MSP) became a major national issue during the farmers protests of 2020–2021 against the three farm laws introduced by the Government of India. Farmers across the country demanded a legal guarantee for MSP, continuation of the mandi system and protection from possible corporate exploitation in agricultural marketing. The large-scale protests reflected the deep emotional, economic and political significance of MSP for rural communities, as many farmers viewed it as an essential safeguard for their livelihood and income security.

Challenges in the MSP System

Despite its importance, the Minimum Support Price (MSP) system faces several operational and policy-related challenges. Although MSP is announced for 23 crops, effective procurement mainly focuses on wheat and rice, limiting benefits for farmers growing other crops. Poor infrastructure, including inadequate storage facilities and limited procurement centres, also affects smooth implementation of the system. In addition, many farmers lack awareness about MSP rates and procurement procedures, preventing them from accessing full benefits. The system may also create market distortions by interfering with natural demand and supply mechanisms through artificial price support. Furthermore, international organizations such as the World Trade Organization (WTO) have expressed concerns over India's large agricultural subsidies and their impact on global trade.

Reforms Needed in MSP Policy

Several reforms are needed to improve the effectiveness and inclusiveness of the Minimum Support Price (MSP) system in India. Procurement networks should be expanded to remote and underserved regions so that more farmers can access MSP benefits. Greater emphasis should also be placed on procuring pulses, oilseeds, millets and other nutri-cereals to promote nutritional security and sustainable agriculture. The use of digital procurement systems can increase transparency, improve efficiency and reduce corruption in the procurement process. Strengthening Farmer Producer Organizations (FPOs) can further help small and marginal farmers collectively market their produce and gain better access to MSP facilities.

Future of MSP in India

The future of the Minimum Support Price (MSP) system will depend on achieving a balance between farmer welfare, market efficiency, and environmental sustainability. As agriculture faces challenges such as climate change, rising input costs and growing food demand, MSP is expected to remain a key component of Indian agricultural policy. Future reforms may focus on introducing smart procurement systems, providing direct income support to farmers, promoting decentralized procurement mechanisms, integrating digital agricultural markets and encouraging sustainable and climate-resilient crops through targeted incentives.

CONCLUSION

Minimum Support Price has played a transformative role in Indian agriculture by protecting farmers from price volatility and ensuring food security. It has contributed significantly to the success of the Green Revolution and stabilization of agricultural markets. However, the current MSP system also faces serious challenges related to regional

inequality, environmental sustainability, fiscal burden and limited farmer coverage. For MSP to remain effective in the future, reforms are necessary to improve inclusiveness, promote sustainable agriculture and strengthen market efficiency. A balanced and transparent MSP system can help ensure stable farmer incomes while supporting national food and nutritional security.