

## A Nexus between MSP and Farmer's Income in India: A critical Review

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### Abstract

One of the most contentious agricultural policy tools in India is still the Minimum Support Price (MSP). It was created mainly to shield farmers from price fluctuations and guarantee profitable returns, but it is also increasingly seen as a way to increase farmer's earnings. Nonetheless, there are still concerns about how much MSP actually helps the majority of Indian farmers in increasing their income. This review synthesises evidence from academic studies, government reports, and independent research institutions in order to critically assess the body of literature currently available on the relationship between MSP and farmer's income. The results show that although MSP prevents distress sales and is a useful tool for price stabilisation in procurement-intensive areas, the structural, geographic, and institutional constraints limit its potential substantially. The review identifies gaps that need more research, highlights important areas of agreement, and looks at the wider policy implications for improving the effectiveness and inclusivity of MSP.

Keywords: Agriculture, Agricultural policy, Cropping pattern, Farmer's income, Food security, MSP

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## **Introduction**

Since the middle of the 1960s, India's agricultural policy has been based on the Minimum Support Price. Over the years, the Minimum Support Price (MSP) framework has become the subject of sustained public and scholarly scrutiny. As the Indian farming is so complicated, landholdings are small and broken up, markets are spread out, and access to infrastructure varies widely it's important to ask if MSP really helps farmers make more money or if it just protects them from price swings. With this concern in mind, the present review examines the existing literature on MSP by focussing on how it relates to farmers' incomes, the practical limitations of procurement, differences in outcomes across crops and regions, and the broader institutional and policy context that ultimately determines how effective the scheme is in practice.

The Minimum Support Price (MSP) was first set up as part of a bigger plan to make sure farmers got fair prices for their crops and that there were enough food grains in stock through public procurement. The Agricultural Prices Commission (later called the Commission for Agricultural Costs and Prices, or CACP) was formed in 1965 to give advice on support prices based on real-world data. The costs of making the product, the state of the market, the balance of supply and demand, and the health of farmers are just some of the things that went into these suggestions. Even though the MSP system has grown from a small number of staple crops to include 22 mandated crops, most of the time it still buys more wheat and rice than anything else.

Notwithstanding its stated objectives, the MSP regime continues to be constrained by a set of structural limitations. A common finding in the literature is that MSP works more like a way to buy things than a full price guarantee system. This shows how policy intent and on-the-ground execution don't always match up. The Food Corporation of India (FCI) and state-level agencies do most of the public procurement. It mostly happens in a few states where there is enough infrastructure, administrative capacity, and established procurement practices to support large-scale operations. Consequently, the gains from MSP remain unevenly distributed across the country's highly heterogeneous agricultural regions.

## **Methodological Approach of the Review**

This review includes peer-reviewed journal articles, working papers from respectable organisations like ICRIER and IFPRI, government publications like the Doubling Farmer's Income Committee reports, the CACP's price policy reports, and the NSSO's Situation

Assessment Surveys (2013 and 2019). The research categorises the literature thematically into conceptual domains, including the direct impacts of MSP on income, indirect effects via markets, alterations in cropping patterns, regional disparities, welfare consequences, and critiques of the design and implementation of MSP. The review rigorously analyses the assertions, assumptions, and methodologies utilised in prior research instead of depending on primary data. This makes it possible to fully comprehend the paradoxes and similarities in the academic discussion of MSP and farmer's income.

## **Review of Literature**

### **Direct Impact of MSP on Farmer's Income**

Whether MSP directly increases farmer's income by guaranteeing higher and more compensating prices is one of the main questions in the literature. According to studies like Chand (2021) and Kumar et al. (2020), MSP has significantly boosted income growth in states like Punjab and Haryana that rely heavily on procurement. These states are characterised by well-developed procurement systems, dependable government purchasing, and entrenched paddy-wheat production patterns. Under such conditions, MSP effectively becomes the prevailing market price, allowing farmers to secure returns that are consistently higher than those available in largely unregulated markets. Empirical evidence suggests that the assured nature of procurement in these regions insulates farmers' incomes from cyclical volatility in both domestic and global agricultural markets.

At the same time, the literature broadly concurs that the share of farmers who benefit from such direct income gains remains limited. A substantial proportion of agricultural households—particularly small and marginal farmers—either face physical and institutional barriers to accessing procurement centres or generate too little marketable surplus to meaningfully participate in the MSP system. Researchers like Narayanan (2014) say that MSP is still mostly useless for most farmers because local vendors and unregulated markets, not government rules, set their real prices. The fundamental structural limitations of the MSP apparatus in increasing farmer's income on a large scale are reflected in this discrepancy between MSP announcement and actual procurement.

### **Indirect Impacts: Bargaining Power and Market Prices**

The indirect effects of MSP on market behaviour are the subject of another body of literature. MSP may also serve as a benchmark price that enhances farmers' negotiating leverage with

private traders, even in the absence of transactions through formal procurement channels. Several studies indicate that in areas with active procurement centres or more stringent enforcement of MSP standards, traders are likely to propose prices that are more in line with established support prices. In such contexts, MSP can help curb the bargaining advantage of intermediaries, particularly in years of surplus production when open-market prices typically experience sharp declines (Tripathi et al., 2018). Nevertheless, this price-signalling effect is far from uniform across regions. Aditya et al. (2017) document that a substantial share of farmers especially in eastern and central India remain either unaware of MSP provisions or unfamiliar with the procurement process itself.

### **MSP and Changes in Cropping Pattern**

The literature has repeatedly highlighted the influence of MSP on cropping decisions across India. On the positive side, assured procurement of wheat and rice has contributed significantly to national food security by guaranteeing timely payments to farmers and incentivising the adoption of high-yielding varieties. In states such as Punjab, Haryana, and parts of Madhya Pradesh, farmers have structured their cropping strategies around MSP-backed cereals to secure stable income streams and mitigate production-related risks. The provision of short-term income certainty is therefore among the most frequently acknowledged advantages of the MSP regime.

### **Regional Inequities and Exclusion of Small Farmers**

The uneven distribution of MSP benefits among socioeconomic groups and geographical areas is a recurring theme in the literature. Most of the MSP procurement comes from a small number of states that have strong procurement infrastructure and a political commitment to government purchasing. Bihar, West Bengal, and Odisha are all eastern states that grow a lot of rice, but they don't buy much of it. This means that farmers have to sell it for much less than the MSP. Kishore (2019) says that these structural differences make the playing field unfair, so the same national policy has very different effects in different parts of the country. Also, small and marginal farmers don't usually get MSP benefits because they don't have much extra to sell, they don't have enough space to store things, they don't have good transportation infrastructure, and it costs a lot to sell to procurement centres. Research indicates that larger farms generate greater profits due to their capacity and resources, enabling them to engage more efficiently in procurement processes. People are starting to doubt the MSP's reputation as a pro-poor policy and its fairness because so many benefits are concentrated in one place.

## **Critical Analysis of Literature**

A review of the literature reveals a number of general conclusions regarding the relationship between MSP and income. First, the way MSP is designed and implemented limits its ability to change farmer's income. Although MSP increases farmer's incomes in particular areas and crops, its scope is too limited to have a significant national impact. Second, the benefits of MSP are largely confined to states with strong procurement systems and to relatively larger farmers, thereby reinforcing existing regional and socioeconomic inequalities. Third, the policy's emphasis on water-intensive crops has generated both environmental and fiscal stresses, raising concerns about the sustainability of its long-term outcomes. Fourth, while MSP may not substantially raise incomes for the majority of cultivators, it continues to play a crucial role in stabilising earnings and reducing exposure to market volatility. Finally, the literature consistently underscores that MSP, by itself, is insufficient as a comprehensive strategy for enhancing farmer's incomes.

## **Gaps in the Literature**

There are still a number of gaps despite extensive research. Few studies measure the effect of MSP on income causally using econometric or rigorous quasi-experimental techniques. There is very little research on how MSP affects tenant farmers, women farmers, and workers who don't own land. There is still a lot of work to be done on the research that looks at how MSP, climate change, and the long-term health of agriculture are all connected. Furthermore, there exists a notable scarcity of thorough micro-level studies assessing the effectiveness of procurement mechanisms for oilseeds, pulses, and millets. These gaps present substantial opportunities for future research, particularly studies that employ contemporary datasets and sophisticated empirical methodologies to more precisely elucidate these dynamics.

## **Policy Implications**

The findings emerging from the literature carry important implications for policy design and implementation. Strengthening decentralised procurement systems particularly in eastern and central India is essential to enhance the relevance of MSP and address persistent regional disparities. Policy interventions should prioritise the expansion of village-level procurement centres, streamline procurement procedures, and improve farmers' awareness of MSP and related institutional processes to widen effective access. In parallel, procurement incentives need to be recalibrated to promote environmentally sustainable crops such as pulses and millets in order to mitigate the ecological stresses associated with current cropping patterns.

Ultimately, MSP should be positioned within a more comprehensive agricultural development framework that integrates market reforms, crop insurance mechanisms, diversification strategies, and investments in rural infrastructure.

### **Conclusion**

The review analysed the research that is already available that the Minimum Support Price affects farmer's incomes in India. The results show a much more complicated picture than what policy talk usually suggests. There is no doubt that MSP has helped keep prices stable and stop people from selling their goods in distress, especially when the market is uncertain. But the evidence also shows that these benefits have not led to big or long-term income gains for most farmers. Instead, the benefits of MSP are still mostly limited to a small number of crops, regions, and farmers who are well connected to procurement systems. A large number of farming households, on the other hand, are still not able to use it effectively. Structural problems in procurement, a lack of knowledge about MSP provisions, and rising environmental pressures caused by current cropping patterns all make it less effective as a policy that can raise farmer's incomes. In this light, MSP is still an important way to help, but it is not enough on its own to solve the bigger problems with Indian agriculture's income. So, to make farmer's lives better, we need to make big changes to our policies and come up with a bigger plan that goes beyond just price support. To fully understand the long-term effects of MSP and to make agricultural policy more effective and fairer, more research is needed that is based on more rigorous and detailed empirical analysis.

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