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Evaluation of agricultural price support systems: A comparative analysis of MSP implementation in Bihar and Punjab states of India

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Abstract

Agriculture is critical in India, serving as both a source of livelihood and a developmental component in creating and maintaining a higher National Gross Domestic Product. The study on Evaluation of Agricultural Price Support Systems: A Comparative Analysis of Minimum Support Price- Implementation in Bihar and Punjab States of India, discusses the impact of agricultural marketing on workforce, how farmers sell their products and the role of Minimum Support Price in the Agricultural Marketing. The paper analyses and compares the implementation and the impact of the Minimum Support Price in the states of Bihar and Punjab through review of existing literature, policy documents and statistical data. Bihar abolished Agricultural Produce Market Committee Act in 2006 opening up the state to private buyers, whereas Punjab is dependent on state procurement at Minimum Support Price for its two major crops-wheat and paddy. The comparative analysis of Minimum Support Price implementation in Bihar and Punjab highlights the crucial role of Minimum Support Price in supporting the farmers and stabilizing India's agricultural economy. Agriculture engages a vast workforce in India and efficient Agricultural Marketing is essential for economic stability. Minimum Support Price ensures fair prices, income security, food security and market stability. When agricultural harvest prices fall below minimum support price, the government must take proactive measures to facilitate purchase. Minimum Support Price policy should benefit all the states, not just the producers of major foodgrain crops.

Keywords: Minimum support price, Bihar, Punjab, APMC, APMR

Introduction

During the 1960s and 1970s, most of the states enforced Agricultural Produce Markets Regulation (APMR) Acts. All primary wholesale assembling markets were brought under the scope of these Acts. Well laid out market yards and sub-yards were constructed and, for each market area, an Agricultural Produce Market Committee (APMC) was constituted to frame the rules and enforce them. Thus an organized agricultural marketing came into existence through regulated markets. The purpose of implementation of MSP in India encompasses several key aspects which includes price support, income security, food security, market stability. Moreover MSP is linked to government procurement of crops, with agencies such as the Food Corporation of India to build buffer stocks and support public distribution systems. There fore MSP in India stands as a vital policy tool for supporting farmers and stabilizing agricultural markets.

Comparing the states of Bihar and Punjab in the context of MSP is particularly significant due to their contrasting agricultural profiles, economic dependencies, and policy implementations. This comparative analysis can yield insights essential for formulating more effective and fair agricultural policies. Several key factors underpin the significance of this comparison:

Firstly, Bihar and Punjab epitomize two distinct agricultural paradigms within India. Punjab is known for its high-yielding agricultural practices and substantial contributions to the nation's food grain production, particularly wheat and paddy, while Bihar's agriculture is characterized by smallholder farms, diverse cropping patterns, and a reliance on monsoon rains. Secondly, Punjab boasts a well-developed agricultural infrastructure with significant investments in irrigation and mechanization, leading to large-scale agricultural operations, whereas Bihar's agriculture is less mechanized and more reliant on labor-intensive methods, emphasizing the importance of MSP for the income stability of its predominantly small and marginal farmers. Thirdly, Punjab operates a robust MSP procurement system supported by extensive infrastructure, including storage facilities and efficient procurement processes, ensuring direct benefits for a significant proportion of farmers. In contrast, Bihar's MSP implementation faces challenges such as inadequate procurement infrastructure, limited awareness among farmers, and logistical issues, resulting in fewer direct benefits for farmers.

Furthermore comparing these states offers insights into

optimizing MSP policies for varied regional needs, identifying the strengths and weaknesses of MSP implementation, and understanding how MSP affects farmers in different agricultural contexts.

Methodology

The study area was selected after a thorough literature review of the concerned subject. Two crops- paddy and wheat were selected on account of being the most produced and procured crops in the selected areas. Relevant secondary data for the available years in the last decade was taken from Economics, Statistics and Evaluation Division, Department of Agriculture and Farmers' Welfare as well as Union Ministry of Consumer Affairs. MSP for the two crops was compared with the state wise cost of production. CACP calculates Cost A2+FL as all actual expenses incurred in cash and kind + imputed value of family labour. MSP is generally calculated at1.5 times Cost A2+FL. Comparative analysis was done using various statistical tools like graphs and percentages etc.

Findings and Discussion

The Minimum Support Price for various crops including Paddy, Wheat, Arhar, Gram, Lentil, and Mustard, has experienced notable changes from the fiscal year 2010-11 to 2023-24. Figure 1 indicates that during this period the MSP for Paddy and Wheat exhibited a gradual increase from approximately 1000 Rs/Q and 1100 Rs/Q in 2010-11 to about 2200 Rs/Q and 2100 Rs/Q in 2023-24 respectively. Conversely the MSP for pulses has shown a substantial rise with Arhar increasing from roughly 3000 Rs/Q in 2010-11 to nearly 7000 Rs/Q in 2023-24 respectively. Similarly Gram increased from around 2200 Rs/Q to about 5500 Rs/Q and Lentil from around 2500 Rs/Q to approximately 6000 Rs/Q during the same period. This trend signifies a concerted government effort to enhance domestic pulse production and decrease imports as the increase in MSP for pulses surpasses that of staple grains.

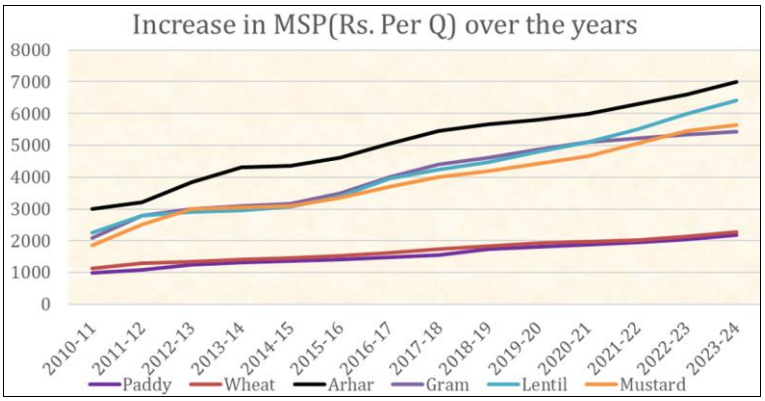
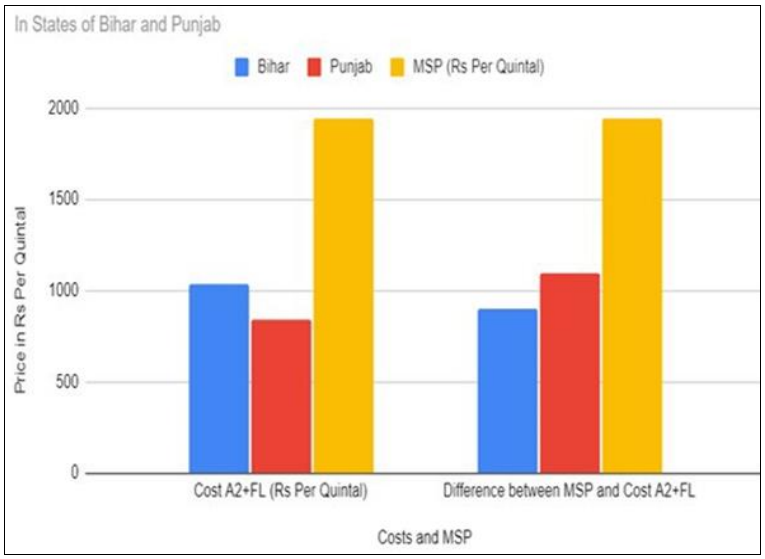
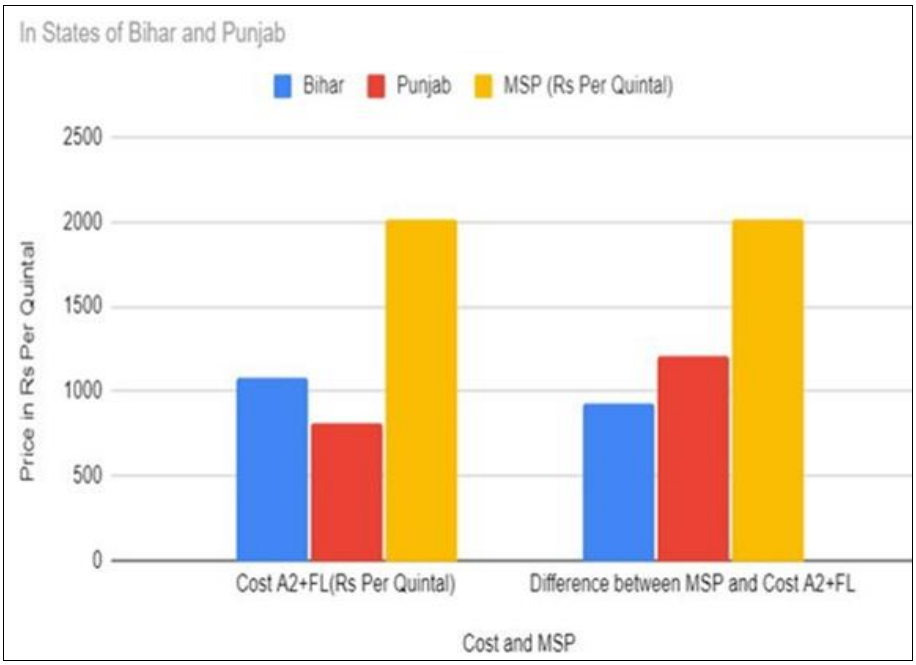


Fig 1: Minimum Support Price (MSP) for various crops

Graph 1 represents the cost of production and Minimum Support Price of paddy in the year 2021-22 and Graph 2 represent the cost of production and Minimum Support Price of wheat in the year of 2021-22 respectively. On the basis of these graphs comparison of cost of production (Cost A2+FL) and MSP for paddy and wheat and Bihar for the year 2021-22 shows a disparity between production costs in the two states. Cost of production per quintal of paddy was Rs. 1037 for Bihar and Rs. 840.55 for Punjab. The same for wheat was Rs. 1084 per quintal for Bihar and Rs. 812.29 per quintal for Punjab. The differences in average land-holding, access to irrigation and farm-mechanization of the two states can account for this disparity.



Graph 1: Comparison cost of production and Minimum Support Price for paddy in 2021-22



Graph 2: Comparison cost of production and Minimum Support Price for wheat in 2021-22

Table 1 indicates that the wheat procurement by Central and state government agencies in the rabi marketing season of 2020-21 in Bihar accounted for less than 1% of the total wheat procured. The wheat procurement situation in Bihar has been suboptimal for numerous years, with minimal procurement during the last five to six years.

Table 1: State wise wheat procurement for the year 2020-21

State	Quantity Procured (Lakh million tonnes)
Madhya Pradesh	129.35
Punjab	127.12
Haryana	73.98
Uttar Pradesh	35.77
Rajasthan	22.2
Bihar	0.22

FCI highlighted that the state's food grain requirement is predominantly met by external purchases, emphasizing the longstanding challenge of insufficient wheat procurement within the region. One crucial element contributing to this phenomenon is the reduction in the quantity of procurement facilities within the region, which was recorded at approximately 9,000 in the fiscal year 2015-16, yet plummeted to 1,619 by 2019-20. Consequently, due to the diminished presence of procurement centers, merely a minute proportion of the overall agricultural producers in the state have the opportunity to sell their produce at the minimum support prices stipulated by the central government.

Meanwhile for Punjab with decreasing labor costs over the years, farmers are able to maintain their income solely relying on MSP. In the year 2017-18 100% of Punjab's rice was procured at MSP. In the year 2020-21 Punjab, Haryana and Madhya Pradesh accounted for 87% of the total wheat procurement. This lopsided proportion of procurement percentages also reflects the state of farmers and their incomes in this state(Union Ministry of Consumer Affairs, Food and Public Distribution). While the MSP mechanism for rice and wheat seems to be working in the favor of farmers crop diversification is a challenge in a state like Punjab.

Comparative Analysis: Punjab benefits from a highly efficient procurement system ensuring that almost all produce is sold at MSP, whereas Bihar struggles with minimal procurement, leaving many farmers without fair market prices for their crops. Punjab's farmers enjoy more stable incomes due to guaranteed MSP procurement, while Bihar's farmers are often forced into distress sales at significantly lower prices, exacerbating poverty and economic instability in the region. The reduction in procurement facilities in Bihar directly impacts farmers' access to fair pricing mechanisms, while Punjab's extensive procurement infrastructure supports its agricultural economy. However, while Punjab's procurement system is robust, it creates a dependency on a narrow range of crops, making crop diversification a significant challenge.

To summaries while Punjab excels in government procurement and ensuring stable incomes for its farmers, it faces challenges in crop diversification. Conversely, Bihar struggles significantly with inadequate procurement infrastructure and low farmer incomes, highlighting the need for systemic reforms to improve agricultural support and sustainability.

Conclusion

The comparative analysis of MSP implementation in Bihar and Punjab highlights the crucial role of MSP in supporting farmers and stabilizing India's agricultural economy. Agriculture engages a vast workforce, and efficient agricultural marketing is essential for economic stability. MSP ensures fair prices, income security, food security, and market stability.

Bihar: Abolished the APMC Act in 2006, resulting in minimal government procurement (<1% of wheat production in 2020-21). Farmers often resort to distress

sales due to inadequate procurement infrastructure, despite having fertile land and water resources.

Punjab: Relies heavily on state procurement at MSP, achieving nearly 100% procurement for wheat and rice. This ensures stable farmer incomes but poses challenges for crop diversification. The state has advanced agricultural infrastructure but faces issues of soil degradation and water over-extraction.

Punjab's strong procurement system ensures stable incomes but limits crop diversification, while Bihar's inadequate infrastructure leads to low farmer incomes and distress sales. Effective MSP implementation tailored to regional needs can enhance agricultural stability and farmer welfare in India.

Policy Implications

Based on the examination of the two states, key policy changes can be made to address the gaps in MSP policy. The state of Bihar needs to invest in storage and transportation infrastructure to facilitate better market access and lessen post-harvest losses. The abolishment of APMC act in the state should have been followed by strengthening alternative market structure such as cooperatives and Farmer Producer Organizations. MSP policy should benefit all states, not just food grains and major producers. States like Bihar can benefit from broadening MSP coverage to include more crops. While Punjab's reliance on wheat and paddy procurement ensures stable income, the state must take steps to incentivize farmers to diversify into more sustainable crops. Both states can benefit from programs that increase farmers' awareness of market and procurement processes, crop diversification and sustainable agricultural techniques.

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