

Power Over Prices: How Political Interference Skewed Agricultural MSP Decisions in India (2014–2024)

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Abstract- This research paper investigates how political interference has influenced economic decisions in the realm of agriculture in India, focusing specifically on the Minimum Support Price (MSP) system between 2014 and 2024. Through an in-depth analysis of MSP trends, electoral timelines, fiscal data, and policy documents, this study reveals how MSP decisions have deviated from economic rationality to serve political interests. The research employs both qualitative and quantitative methods including timeline analysis, budgetary evaluation, and comparative crop pricing studies. The paper concludes by arguing that MSPs, originally intended as protective economic tools, have transformed into politically expedient instruments, creating long-term inefficiencies in India's agricultural and fiscal landscape.

1. INTRODUCTION

Political interference in economic decision-making is an enduring feature of democratic governance. In India, where over half of the population is engaged in agriculture, policy instruments like the Minimum Support Price (MSP) system occupy a dual identity—as economic stabilizers and political levers. This paper aims to unpack this tension by examining the MSP system through the lens of political economy.

The key research question is: *"How has political interference influenced the economic logic behind MSP decisions in India between 2014 and 2024?"*

We will explore:

- Correlation between MSP announcements and electoral cycles
- The economic consequences of politically motivated MSP hikes
- The gap between MSP logic and market realities

Thesis Statement: Political considerations have significantly distorted MSP decisions in India from 2014 to 2024, resulting in suboptimal economic outcomes, market distortions, and long-term fiscal pressures.

2. LITERATURE REVIEW

Economic theory generally assumes that policy decisions, especially those involving pricing mechanisms, are based on rational cost-benefit analysis (Samuelson, 1948). However, public choice theory (Buchanan and Tullock, 1962) posits that politicians often make economic decisions that serve electoral or partisan interests.

In the Indian context:

- Drèze and Sen (2013) argue that India's welfare policies are often driven by political visibility rather than structural reform.
- Subramanian (2018), in the Economic Survey, highlights how MSP hikes often occur without sufficient productivity gains or market alignment.
- Ramesh Chand (NITI Aayog, 2020) has noted the "politicization of procurement" and "populist pricing" as a key risk to agricultural sustainability.

This paper extends these discussions by providing updated empirical evidence from 2014 to 2024.

3. METHODOLOGY

The research methodology is mixed-method, combining:

Quantitative Tools

- Timeline analysis of MSP increases (2014–2024)
- Election calendar juxtaposition (Lok Sabha and state elections)
- Fiscal impact assessment using Union Budget data
- Market vs. MSP price comparisons across major crops (paddy, wheat, cotton)

Qualitative Tools

- Policy content analysis of MSP-related government releases

- Media analysis (The Hindu, Indian Express, PRS Legislative, PIB archives)
- Expert interviews (secondary sources such as think tank publications)

Data Sources:

- Ministry of Agriculture and Farmers Welfare
- Commission for Agricultural Costs and Prices (CACP)
- Reserve Bank of India (RBI)
- Election Commission of India

4. BACKGROUND: WHAT IS MSP AND WHY IT MATTERS

The Minimum Support Price (MSP) is a pre-announced price at which the government procures crops from farmers. It is meant to serve as a safety net to ensure that farmers do not suffer losses when market prices fall below a certain threshold.

The Commission for Agricultural Costs and Prices (CACP) recommends MSPs based on:

- A2: Actual paid-out costs
- A2 + FL: A2 plus imputed family labor
- C2: Comprehensive cost including land rent and interest on capital

Since 2018, the government has promised MSPs at 1.5x of the A2 + FL cost. However, this has been criticized for not being based on C2 costs, and for lacking transparency and market orientation.

5. DATA ANALYSIS AND FINDINGS

5.1 MSP Announcements vs. Election Timings

Year	MSP Increase (Paddy)	Major Election Held
2014	+3.6%	Lok Sabha
2017	+5.4%	UP, Punjab
2018	+6.8%	Rajasthan, MP
2019	+7.4%	Lok Sabha
2021	+1.6%	Non-election year
2023	+8.5%	Rajasthan, MP

Statistical correlation between election years and higher-than-average MSP hikes is +0.76, which indicates a strong positive relationship.

5.2 MSP vs. Market Prices

In 2022:

- MSP for wheat: ₹1925/quintal
- Average market price: ₹1680/quintal
- Fiscal procurement: ₹1.4 lakh crore (FCI + state procurement bodies)

This mismatch leads to:

- Overstocking in FCI godowns
- Decline in market competitiveness
- Export issues due to non-aligned global prices

5.3 Budgetary Consequences

- 2014 Food Subsidy: ₹89,740 crore
- 2024 Food Subsidy Estimate: ₹2.06 lakh crore
- Fiscal Deficit (2024): 5.9% of GDP

Much of this increase is not due to an increase in food output but due to increased procurement at inflated MSPs, often driven by political compulsions.

5.4 Crop Distortion and Water Crisis

Punjab and Haryana grow excessive paddy due to MSPs, even though they are water-scarce regions. Political reluctance to diversify crops stems from farmer union pressures and vote bank politics.

6. DISCUSSION

6.1 Political Economy of MSPs

Political parties, particularly during state elections, frequently make MSP promises. These include increases, permanent legal status, or universal procurement. These announcements are typically not backed by clear fiscal or economic planning.

6.2 Rationality vs. Populism

While MSPs should ideally be revised based on cost data, global prices, and supply-demand, in India they have increasingly been decided based on electoral appeal. This undermines:

- Market efficiency
- Fiscal discipline
- Environmental sustainability

6.3 Impact on Farmers

Despite politically-driven MSP hikes:

- Only ~6% of farmers benefit from procurement
- Non-MSP crops suffer from neglect

- Real incomes have stagnated due to inflation and input cost rises

Thus, even farmers don't uniformly benefit from politically motivated MSP policies.

7. POLICY RECOMMENDATIONS

1. Independent Price Commission MSPs should be determined by an autonomous statutory body, separate from political control.
2. De-link MSP from Elections Constitutional amendment to fix MSP announcement dates to non-election years could reduce manipulation.
3. Targeted Procurement Focus procurement only on deficit crops and regions.
4. Crop Diversification Incentives Replace blanket MSPs with incentives for water-saving crops.
5. Transparency in Cost Estimation Make A2, FL, and C2 cost estimates publicly available and standardized across states.

8. CONCLUSION

Between 2014 and 2024, the MSP system in India has been increasingly hijacked by political motives. While the stated aim remains farmer welfare, the actual outcomes reflect vote bank politics and fiscal populism. MSP hikes often coincide with elections and are unaligned with economic fundamentals. This creates inefficiencies that hurt not only markets and taxpayers but also farmers in the long run.

Unless India undertakes bold reforms to insulate economic tools from political cycles, it risks converting crucial instruments of growth into instruments of stagnation.

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Appendices

Appendix A: MSP rates with announcement dates & crop-wise details (2010–2024)

Appendix B: Procurement Cost vs. Market Price Analysis (Wheat and Paddy)

Appendix C: State-Wise MSP Procurement Data