

# **IMPACT OF MINIMUM SUPPORT PRICES ON PRODUCTION OF PADDY IN INDIA**

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## **ABSTRACT**

Minimum Support Prices have been an integral part of Indian Agricultural policies since the 1960's food crisis. It has been crucial for the economy for its move towards self-sufficiency from the very initial level. Almost half of the labour force finds employment in the primary sector even today. There have been many studies regarding how MSP as an instrument has been helpful in providing a better life to the farmers – the real heroes behind a powerful nation. This paper is a small attempt to look at the supply side response of the MSP to analyse whether the price support mechanism works to stimulate the output of the crops. The research has been conducted on paddy, the chief staple crop of the nation. Using a panel data across ten selected states over a period of fifteen years (2000-2015) the study sets a different mark from the past works in the same field. Most of the previous works concentrated on earlier data and estimated response of actual production to prices. This paper takes a closer look on the response of the growth of production on price growth over the period of study using GMM estimation to tackle the endogeneity problem and serial correlation problem. Share of rice in the total area and log of MSP have been used as instruments in the equation.

Results indicate significant response of production growth to price growth, when controlled for other factors. It clearly shows that annual growth in production, represented by the difference in the natural logs of production over previous year is influenced by the annual price growth in farm harvest prices, which is closely related to MSP. Hence, it may be concluded that though farmers immediate production decisions may not be directly influenced by MSP, in the long run, both prices and MSP may have an impact at some level which stimulates production. Further research on district level data at a greater depth is required.