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## Agriculture Reforms: What is in the Farmers' Interest?

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# **Agriculture Reforms: What is in the Farmers' Interest?**

ICT India Working Paper #41

Abhishek Beriya

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## **Abstract**

The Government of India brought two new laws and amended an earlier one, all the three dealing with Agriculture in India, in 2020. The two new laws seek to promote barrier-free inter-state and intra-state trade in agricultural produce and allow farmers to engage with processors, aggregators, wholesalers, large retailers, exporters in the form of contract farming. The third is an amendment to the Essential Commodities Act to liberalize the regulatory environment around stock holding limits for food items. These changes seek to pave the way for greater private investment in agriculture value chains and modernise Indian agriculture. The government of India claims that these reforms were long pending and will hugely benefit Indian farmers while some farmers' groups vehemently contest these claims. In this paper, we detail the issues involved and review both sides of the argument. We find strong rationale behind these reforms and believe that these reforms are a step in the right direction for the future of Indian farmers.

## 1.0 Introduction:

1.1 Our project—‘Towards a New Indian Model of ICT Led Growth and Development’, being undertaken by the Centre for Sustainable Development, Columbia University, New York and TERI, New Delhi, has Agriculture as one of its focus areas and thus we follow developments in Indian Agriculture. This paper tries to analyse the recent reforms introduced by the government of India in the agriculture sector and whether these reforms are in the Indian farmers’ interests.



Highway wall painting on the GTK road in Haryana a few kms from the New Delhi border remembering “Deen Bandhu, Rehbar-e-Azaam” (angel of the poor), Sir Chhotu Ram, a great farmer leader from pre-independence India. Roughly translated, it quotes him: ‘For a farmer, financial freedom is the real freedom’

1.2 The Indian government promulgated 3 ordinances related to Agriculture in June 2020 and the Indian Parliament passed these into laws in September 2020. The laws are the following:

i. The Farmers’ Produce Trade and Commerce (Promotion and Facilitation) Act, 2020: An Act to provide for the creation of an ecosystem where the farmers and traders enjoy the freedom of choice relating to sale and purchase of farmers’ produce which facilitates remunerative prices through competitive alternative trading channels; to promote efficient, transparent and barrier-free inter-State and intra-State trade and commerce of farmers’ produce outside the physical premises of markets or deemed markets notified under various State agricultural produce market legislations; to provide a facilitative framework for electronic trading and related

matters. (Source: Gazette of India, 2020) For the sake of this simplicity, in this paper, we refer to this law as the ‘unrestricted agri-marketing act’.

ii. The Farmers (Empowerment And Protection) Agreement On Price Assurance And Farm Services Act, 2020: An Act to provide for a national framework on farming agreements that protects and empowers farmers to engage with agri-business firms, processors, wholesalers, exporters or large retailers for farm services and sale of future farming produce at a mutually agreed remunerative price framework in a fair and transparent manner and related matters. (Source: Gazette of India, 2020) For the sake of this simplicity, in this paper, we refer to this law as the ‘contract farming act’.

iii. The Essential Commodities (Amendment) Act, 2020 to amend the Essential Commodities Act, 1955. (Source: Gazette of India, 2020)

**1.3** Since late November 2020, a large number of Indian farmers, primarily from the states of Punjab and Haryana have marched to the Indian capital city of New Delhi and blocked major highways (GTK road, NH 44 & Singhu border etc.) leading into the city, protesting against the enactment of the above laws. As we write this, the protesting farmers and the government of India have had 8 rounds of negotiations, with the most recent round on the 8th of January 2021. But talks between the government and the farmer unions opposed to these new agriculture laws have failed to make any headway as we write this because the unions are insistent on repeal of the laws, while the government wants them to suggest an alternative other than repeal (Ndtv 2020, Indian Express 2021).

**1.4** In the following sections, we elaborate on the reform agenda in Indian agriculture, the background, genesis and reasoning for the reforms carried out and arguments of both sides before concluding.

## **2.0 The background of the institutions and concept under discussion due to the reforms:**

**2.1** Before we elaborate on these changes, it is pertinent to delve into the history of the institution and concept most in discussion due to the changes. That is the institution of the Agriculture Produce Market Committees (APMCs) and the physical market yards under their management commonly referred as APMC ‘mandis’ and the concept of the minimum support price (MSP).

**2.2** Damodaran (Indian Express, 2020) has written that Sir Chhotu Ram, the legendary farmer leader in pre-independent India, as a minister in the then provincial government of Unionist party got the Punjab Agricultural Produce Markets Act passed in 1939. This Act provided for the constitution of market committees, which had 2/3rd farmer representation to oversee the functioning of the markets (called mandis in the local language). This is how APMC mandis came into being in almost all Indian states, when state after state enacted their own acts to regulate agricultural marketing. Further, the chief agriculturalist of USAID mission to India

and an adviser to the Indian food ministry, Dr Frank W Parker, an American, suggested to the Indian government in 1959 to “establish minimum or support prices for all major crops at least one year before harvest”, because “one of the greatest economic incentives for production is a satisfactory and dependable level of prices”. In 1964, the Food and Agriculture Minister, C Subramaniam implemented the MSP. The report adds that the imperative for MSPs was in the fact that India was “leading a ship-to-mouth existence — cereal imports totalled over 19 million tonnes (mt) in 1965-66 and 1966-67, both drought years”. Subramaniam was also instrumental in the founding of the Agricultural Prices Commission (renamed as the Commission for Agricultural Costs and Prices or CACP in 1985) and the Food Corporation of India (FCI), in 1965. The CACP recommends MSP based on detailed study of cultivation costs, to this day and the FCI is responsible for procurement, storage and distribution of foodgrains under the public distribution system (PDS). (Damodaran, Indian Express, 2020)

### **3.0 India’s unfinished agriculture reform agenda:**

**3.1** Gulati et al (March 2020) identify 4 areas critical for reforming Agriculture in India to achieve its full potential.

- Shift in focus from production per se to farmers’ livelihoods
- Agricultural policies should improve the allocation and efficiency of land and water use in agriculture as these are rapidly shrinking critical resources
- Reforms to help farmers cope with weather risks and price volatility
- Open agricultural markets with better infrastructure and more competition. This will ensure that the post harvest agriculture value chain is made efficient so that farmers realise better prices without rise in end consumer prices

To achieve the above, they have suggested the following steps:

Freeing of agricultural land markets, especially land lease markets so that farmers are free to lease land and are not compelled to sell their land. Present land laws in India don’t allow for legally leasing out agricultural land. Hence reforms in laws allowing farmers to lease out their land for solar or industrial use in areas with low productivity agriculture can ensure a steady income for the farmer, which is better compared to his income from low productivity farming. At the same time, if the farmer desires, this also facilitates and opens up avenues for his movement outside agriculture to explore other avenues to earn income but at the same time maintaining his asset security and ownership over his land.

They also pitch for tweaking the process of transferring subsidies to farmers, specially input subsidies and suggest that the agriculture inputs like free electricity for irrigation, fertilisers, power, agri-credit, and canal waters fees should be made available through vigorous competition with many suppliers and thus charged at market rates. The resultant savings, they argue should be used towards investments for agricultural R&D, irrigation, marketing

infrastructure, and building the agriculture value chain and involving and strengthening farmer collectives (Farmer producer organisations (FPOs)). Also, they support cash support to farmers in lieu of subsidies (including free electricity) to be provided via direct transfers to bank accounts of farmers. To avoid overexploitation of groundwater and conserve water and energy and to facilitate a shift towards less water intensive crops, they suggest that procurement should be diversified from water intensive crops to crops like pulses and millets and free electricity should be stopped.

They also hold the Essential Commodities Act (ECA) responsible for lower private investment in export infrastructure such as warehouses and cold storage systems because the private sector is discouraged to invest in storage infrastructure due to the fear of arbitrary control limits. They suggested doing away or substantially pruning the ECA to spur private investment in the purchase and storage of crops.

They also suggest organising farmers into collectives like FPOs to enhance farmers' bargaining powers but only a regulatory and incentivizing role for the government as opposed to forming and controlling them.

They also state that government action around export controls and sudden imports can have major unexpected impacts on farmer incomes and contribute significantly to financial risks in agriculture. Hence a predictable and stable policy in this regard would stabilize farmer financial risks to some extent.

They note that “farmers must have the freedom to sell what they want, where they want, and when they want without any restrictions on sale, stocking, movement, and export of farm produce” and thus suggested that APMC markets must be opened to competition from multiple channels like cooperatives, private corporations, local traders, physical and electronic spot markets etc. Further, farmers should have access to these multiple marketing channels and “specially to inclusive multi-buyer local wholesale markets that operate around the agricultural year.”

Finally they are clear on 3 aspects:

- Farmers' interests must not be sacrificed to keep consumer prices low and
- At the same time, the farmer need not be patronized but should be viewed as an entrepreneur who needs supportive institutional and policy frameworks to thrive
- Environmental concerns, particularly regarding water, need to be addressed and thus agriculture policies should discourage over-use and waste of water.

Thus they suggest linking issue price of subsidised grains under the National Food Security Act (NFSA), 2013 to the MSPs and not keeping it constant at Rs 1-3/kg irrespective of the cost government incurs to procure and supply them; direct income transfers to farmers to be accompanied by reducing damaging subsidies in power, water, and fertiliser and get a



significant proportion of farmers out of farming to employment outside agriculture because the tiny and fragmented Indian farms are a severe constraint on absolute farmer incomes.

**3.2** Chand (2019), in his study, states that Indian agriculture requires a shift in approach and thinking from “pushing for incremental change” to “transformational change”. On the policy aspects, according to this study, “the most serious problem is faced in agricultural market and prices”. The existing laws governing agricultural marketing, have hindered much needed corporate investments in agriculture which is a major reason why in the post 1991 reforms period in India, agriculture sector has not kept pace with the growth of other sectors of Indian economy despite potential for higher growth. As per this study, investments to GDP ratio in agriculture is very low at 13.3%. Most of the investment in agriculture is from farmers themselves (78.2%), while public investments is 19.4%. Private corporate sector accounts for less than 2.5 per cent of investments in agriculture sector. Further, out of total corporate investments of Rs.18.7 trillion in the economy during 2016-17, agriculture received only 0.42% (Rs. 7.987 thousand crores). At the same time, even public investments in agriculture are showing a declining trend of 0.4% between 2011-12 and 2016-17. Marketing and other restrictions act as a deterrent for corporate investments, the lack of which is the main “reason for slow change in agriculture, dominance of traditional marketing channels and weak linkage between pre and post-harvest agriculture.”<sup>[1]</sup> Thus, reforms in APMC system and provisions for contract farming are inevitable to attract the much-needed modern private sector investments into Indian agriculture production as well as marketing.

Next, the study points to the high incidence of oral land leasing for agriculture and the problem it causes for such farmers leasing in the land. They can't access institutional credit, crop insurance and other government benefits. Thus, legal recognition to land leasing and protection of ownership rights over land of the landowner can facilitate movement of willing farmers out of agriculture to other economic sectors while at the same time ensure that the actual cultivators can access the benefits intended for them.

Thus, for transformation of Indian agriculture, substantial increase in farmers' incomes, enhanced role of private sector in both pre and post harvest phases, liberalized output market, active land lease market, and emphasis on efficiency are needed.

**3.3** Although the reforms suggested in the 2 studies cited above broadly cover the wide spectrum in Indian agricultural and are almost comprehensive, following areas are also important in the reform of Indian Agriculture.

**3.4** No landholding ceilings apply for most indirect agricultural subsidies in India (free electricity for irrigation, fertilisers and other input subsidies etc.) and in that sense these subsidies are unlimited. Thus, if a farmer with 1 acre land growing a particular crop receives benefits worth Rs. x as input subsidies, a corresponding bigger farmer with 50 acres land growing the same crop receives benefits worth almost Rs. 50x. In the absence of direct taxation on agricultural income, such an arrangement of subsidised inputs is inequitable and not progressive. Hence, all individual farmers should receive all kinds of subsidies (in DBT mode)

upto a certain predefined landholding and the resultant savings should be used to enhance the subsidy for those eligible for it. This would ensure, diversification of agriculture along with rationalisation of scarce resources. At the same time, this has to be done in such a manner that the livelihoods and basic income security of smaller farmers is protected. To elaborate this aspect, it is perhaps logical to assume that in a given context and geography, generally a sufficiently bigger farmer (say owning more than 15 acres land) would be better suited to take some risks such as diversifying from the usual crop choices as compared to his lesser landowning counterpart (say owing land upto 5 acres). And when this is implemented, policy should not seek to subdue farm gate prices through tariffs, and import and export bans, among other things. Without a comprehensive approach and policy stability, expecting farmers to take risks to diversify is not fair to the farmers. Thus, this policy should seek the optimum mix of providing livelihood security to all the farmers and also incentivize the capable farmers to take risks and be rewarded.

**3.5** The NCAER Land Records and Services Index (N-LRSI) 2020 ranks India's States and Union Territories on the extent of digitisation of land records and registration process, and the improvement in key citizen services and quality of land records brought about by it (NCAER, 2020). It finds that despite three decades of successive programmes on the digitisation of land records and the registration process across States/ Union Territories, only 11 out of total 33 states/UTs cross the midway score in the overall index score of 100. Thus, for any meaning intervention on direct benefit transfer and land leasing reforms, the process of digitization of land records and registration processes has to be speeded up. It has to be accompanied by changes in laws that protect the landowner in the event of leasing out of land.

**3.6** All of the above, together with institutional bottlenecks coupled with an unabashedly political lens have harmed Indian agriculture and stalled much needed reforms so that Agriculture can leverage capital, and hence technology, and also markets. The most common and an easy manifestation of institutional challenges is the lack of a key and foundational database with details of Farm Identification, Farmer Identification and mapping of the crops grown by the farmers (an Indian AgriStack). As mentioned above, the lack of robust databases hinders any serious reforms on the subsidies, financing and information processes in agriculture whereas such databases can spur innovation, increase efficacy as well as efficiency of agricultural processes, contribute in the development of scientific decision support systems for farmers and also help with better market intelligence for production planning. Hence there is a need for an AgriStack on the lines of IndiaStack, an open and public database (of course with adequate individual privacy protection) that covers Farm, Farmer and Crop level data. (Beriya 2020)

#### **4.0 The genesis of the recent agricultural reforms:**

In our earlier work, we have referred to and elaborated on structural issues in Indian Agriculture due to which it has not been able to realise its full potential. Opaque market practices that lead to low farm gate prices, growth that is far below industrial and service sectors, disguised unemployment with low agricultural incomes are considered the big problems in Indian agriculture. Piecemeal attempts to reform policies to solve these challenges have been made but not too many changes have happened on the ground to make material difference to the sector or the farmer. (Saroja V and Beriya, 2019) The above is the genesis of the changes made to agricultural laws in India by the federal government.

#### **5.0 Reasoning behind the new legislations:**

**5.1** The Economic Survey of India for 2014-15 had a chapter on ‘A National Market for Agricultural Commodities’ and elaborated on the associated existing issues with agricultural marketing and the possible trajectories to sort these issues. The primary argument of the chapter is that Agricultural Produce Market Committees (APMCs) constrain the market for farmers and compel the farmers to sell their produce only to licensed buyers within the APMCs, thus depriving them of a competitive price more often than not. Further, these APMC markets are geographically defined and the APMC acts of states notifies cereals, pulses, edible oilseed, fruits and vegetables and even chicken, goat, sheep, sugar, fish etc., and stipulates that first sale by the farmers in these commodities can be conducted only under the aegis of the APMC through the commission agents licensed by these APMCs.

Secondly, the APMCs levy different charges and fees: a market fee of buyers, a licensing fee from the commissioning agents who mediate between buyers and farmers, other licensing fees from a whole range of functionaries like warehousing agents, loading agents etc. and various other levies and charges which vary significantly across different states. Moreover, the commission agents also charge commission on transactions between buyers and farmers.

The above fragmentation of markets even within a state is the main barrier to the creation of a competitive national common market for agricultural commodities. Multiplicity as well as state wise variability of charges renders these markets and their mechanism inefficient for the farmers. It is pointed out that the price offer to the farmers for their produce sold in these mandis by the buyers factors in these charges (because technically any of these charges, levies and tax cannot be collected from the farmer) thereby bringing down the price received by the farmer. There are also perceptions that due to rampant rent seeking and political patronage prevalent in these market committees, commission agents within the notified area form cartels, and wield monopoly powers to keep prices paid out to farmers low.

While the entire chapter is devoted to explaining and putting the rationale for reforms of the state APMC acts and Essential Commodities Act, it is the last section of this chapter that clearly states that if states don't heed to persuasion and reform agricultural marketing in their domain, the centre can make use of provisions and entries in "List III of the Seventh Schedule (Concurrent List) in the Constitution which can be used by the Union to enact legislation for setting up a national common market for specified agricultural commodities, viz., Entry 33 which covers trade and commerce and production, supply and distribution of foodstuffs, including edible oilseeds and oils raw cotton, raw jute etc. Entry 42 in the Union List, viz., 'Interstate Trade and Commerce' also allows a role for the union. Once a law is passed by the Parliament to regulate trading in the specified agricultural commodities, it will override the state APMC laws, paving the way for creating a national common market." The same section concludes, by adding for good measure, that this approach "could be seen as heavy-handed on the part of the center and contrary to the new spirit of cooperative federalism".

**5.2** Chand (2020) defends the agricultural legislations effected and states that despite repeated pleas and persuasions by successive governments at the Centre—for 18 long years, states did not reform their APMC acts, it was inevitable for the federal government to invoke its powers under the Constitution to bring these laws for the benefit of Indian agriculture and farmers.

**5.3** The Review of Agricultural Policies in India (OECD, 2018) notes the following about the changes needed in Agricultural policy in India. It finds the longstanding presence of the Essential Commodities Act and the rules under the ECA as a foundation of present structure of agricultural production and marketing in India. Both the ECA and the APMC Acts put major constraints on the agricultural marketing system and thus markets are highly fragmented, insufficient in number with inadequate physical marketing infrastructure, have high incidence of intermediation costs, marketing fees and charges, high post-harvest waste and restrictions in licensing. This leads to a monopoly and has prevented the development of a competitive marketing system resulting in less remuneration to farmers and high, market information asymmetry, and inadequate credit facilities.

It elaborates the efforts undertaken, primarily by the federal government to induce changes. These efforts began in 2003 when the federal government circulated a model State Agricultural Produce Marketing (Development and Regulation) Act to the states, which was followed by the model APMC rules in 2007. Most states adopted all or some provisions of the model Act but some did not. Kerala, Manipur and four UTs do not have APMC while Bihar repealed its Act in 2006. A summary of the progress of the other states in modifying their APMC Acts has been provided in table below.

Marketing reform	Adopted by number of states and union territories
Establishment of private market yards or private markets managed by a person other than a market committee	21
Direct sale in retail by farmer to consumer (establishment of farmer and consumer market by a person other than the market committee)	22
Direct wholesale purchase of agricultural produce at the farm gate by processor, exporters, or bulk buyer	22
Provision for contract farming	21
Single license or registration for transaction in more than one market	14
Provisions for e-trading	15
Single point levy of market fee across the state	17

**Table: Progress of reforms of agricultural markets as of February 2016**

**Table Source: Review of Agricultural Policies in India, OECD 2018**

At the same time, very significantly, the study finds that the government of India considers the changes adopted by the state governments to have been largely ineffective. The situation with regard to the status of each state's APMC Act and its implementation is thus highly differentiated across India's states.

On the MSPs, the study notes that MSPs are determined by the Union Cabinet in India based on the recommendations of the CACP and have no explicit relation to the international prices prevailing at the time of announcements of the MSPs and are many a times set at a level below the international price. The data for various crops reviewed by them for the period 2011-2016, both with respect to the MSPs declared and the domestic prices prevailing leads them to conclude that "for most of these and other crops the domestic wholesale price has tended to exceed the MSP, but there are episodes, usually less than year long, when the domestic wholesale price has stayed below even the MSP."

**5.4** In fact, in September 2017, it was reported (Economic Times, 26<sup>th</sup> September, 2017) that eminent agricultural economist Ashok Gulati declined NITI Aayog's invitation to be part of a panel of experts the premier think tank had constituted for reforming the sector by 2020. His reason for declining to be a member of the group was that he felt that four major reports of various committees by the then incumbent government on agri-food space had already been submitted, and another new group would not be expected to add much value in terms of recommendations and implementing the earlier recommendations was the key. It is interesting to note that these reports, as well as earlier committees have all been recommending changes in policies similar to the ones that have been brought about presently.

**5.5** Thus, the reasoning and rationale behind these decisions to amend the agricultural legislations by invoking constitutional provisions is absolutely clear; the existing state legislations were hindering the creation of a unified national agricultural market and the federal government considered it prudent to invoke constitutional provisions rather than waste more time in persuading states to carry out regulatory and legislative changes.

## **6.0 The opposing view:**

**6.1** There has been a lot of discussion, debate and commentary on these legislations and they have sharply divided the stakeholders, academics, political parties, government and the opposition, farmers' unions and groups into opposite camps with one side in favour of these changes and hailing them as long awaited and bold and the other side stridently opposed to these changes. Because these changes have been presented and bundled as a reform package, all the 3 laws which have been enacted/ amended are facing criticism, but in particular, it is the unrestricted agri-marketing act which is the target of the most strident criticism and the mobilization of farmers is primarily against the provisions of this act. (Indian Express, October 17, 2020)

**6.2** While the group that supports these changes, does so for the reasons we have listed in the foregoing sections, while the critics of the present changes in the laws have reservations that can be broadly listed into the following points:

- i. Agriculture in India is a state subject and the Federal government is encroaching into states' legislative authority and domain by legislating on these aspects. In the process, it is depriving the state governments of power and control over agriculture.
- ii. The way the changes in the laws have been brought about, in a heavy handed manner, without adequate consultation with farmers, farmer associations and state governments is problematic while the changes in themselves are not a problem.
- iii. These changes are a precursor to total withdrawal of the government from the agriculture sector in India and further and fully corporatize Indian Agriculture jeopardising livelihoods of millions of India's small and marginal farmers.
- iv. The dispute resolution mechanism introduced by these acts bars jurisdiction of civil courts in matters falling under the purview of these acts and instead specifies that the local bureaucratic chief, the sub-divisional magistrate and the District Collector as the Sub-Divisional Authority and the Appellate Authority, respectively, for deciding any disputes.
- v. The case of Bihar is also pointed out to demonstrate that doing away with the existing APMC mandis don't lead to any increase in prices received by farmers. Actually, Bihar had repealed its APMC act in 2006 and since then not much private investment has taken place in agricultural marketing there and farmers continue to suffer from low prices.

- vi. Minimum Support Prices and unlimited assured procurement, particularly for wheat and rice, as is being carried out now at MSPs, may be done away with by government. Hence the demand that MSPs should be made statutory and a legally enforceable right.

The first point above is in the domain of the Constitutional scheme of things in India and its legality or otherwise can only be adjudicated by the courts. Thus there are reports that some state governments opposed to these changes may approach the Supreme Court seeking redressal of their grievances. (News Report, Outlook India, 208 September 2020)

The second point above is again subject to the rules of Parliamentary procedures in India and interpretations of the same. At the same time, it is a matter of fact that the unrestricted agri-marketing act was passed by voice vote in the Rajya Sabha, the upper house of the Indian Parliament. (News Report, The Wire, 21 September, 2020)

The third criticism is ideological to a large extent and its advocates usually argue for a further enhanced role of the state in agriculture and increased public investments. This line of thought views these changes as mere window dressing that won't solve the problems of Indian farmers as most trade is at present happening outside the ambit of formal systems. The changes have been done to keep up the pretence that the government is working to double farmer incomes, a big promise of the incumbent federal government, when in reality the government lacks a cogent strategy for agriculture and has so far not been successful in effecting any meaningful increase in farmer incomes over the past 4-5 years. (Himanshu, Livemint, 2020 ;Zargar H, New Frame, 2020; Yadav Y, ThePrint, 2020)

The fourth point of criticism is regarding the primacy accorded to the bureaucratic machinery to settle disputes under these laws over the courts. Thus, the executive plays all the roles from enforcer to adjudicator and interpreter of the law which doesn't seem to follow this spirit of separation of powers, which is an important constitutional principle in India. (Pavani M., The Leaflet, 2020)

The fifth point above is the case of the abolition of APMC Act in Bihar in 2006. In this context, it is pertinent to refer to findings on the status of APMC mandis in Bihar from a study which found that in 2011, in the markets of Ara and Bhiya (Bhojpur district) in Bihar, both before and after the abolition of the APMC, farmers in the study village and neighbouring village continued to sell their surplus wheat and rice to village banias, who then made sales in Ara. Farmers, across different landholding sizes, did not take their produce directly for sale to commission agents or traders in the mandi. This practice did not change in any way after the abolition of the APMCs. Further the study notes, "Interestingly, the private mandi was the primary centre for trading activity in the earlier period as well, but it was allowed to operate on the basis of bribes to APMC functionaries to bypass the public." and many farmers seemed to have no idea that the state-regulated mandi/APMC in Ara had been closed down because the APMCs there had long been dysfunctional and the activities of regional grain markets there never directly involved the farmer (Kapur and Krishnamurthy, 2014). Thus, in the absence of

a well functioning mandi system in Bihar even prior to the abolition of the APMC Act, comparisons with Bihar in the present circumstances don't seem accurate.

Finally, the last point is also the one that has led to farmers taking to widespread protests in certain states in India against the new agricultural legislations. It has also generated a big political controversy with a political party, the Shiromani Akali Dal from Punjab, which was a long standing ally of the Bharatiya Janata Party (BJP) (the main party in the ruling coalition at the centre in India), quitting its berth in the Indian cabinet ministry as well as the ruling coalition. Since the issue of MSPs has generated such debate, we discuss the issue in detail below.

**6.3** The argument in the controversy around MSPs is as follows. Once private entities are allowed to set up markets and carry on trade outside the purview of the APMCs, initially, to attract farmers and capture market share, these entities would offer a price higher than MSPs and procure the produce from the farmer. Naturally, as the farmers would be receiving a higher price than in the mandis, they would flock to these entities and lesser number of farmers will sell at MSPs to the government in the mandi thereby weakening the existing system of procurement and structures in the APMC mandis. This will gradually lead to the fading away of these mandis. Once, the mandi system considerably weakens, the farmers would then be at the mercy of these private entities who would start monopolistic practices and offer low prices to farmers thereby affecting farmer income security. Mrs Harsimrat Kaur Badal, the ex-Minister who resigned over these changes was explaining this situation when she quoted a farmer who gave the example: "Jio came in, they gave free phones. When everyone bought those phones and got dependent on these phones, the competition was wiped out and Jio jacked up their rates. This is exactly what the corporates are going to do'". The reference is to Reliance Industries' telecom venture in India, Reliance Jio, which had, in the beginning of its service launch, offered free sim cards for mobile connections as well as free packages of calls and data for a significant period of many months, after which they started rolling out paid plans (News Report, Ndtv, September 19, 2020). Hence, to avoid the situation where private markets and corporates who set up these markets, can't exploit the farmer in future, there is the demand to make procurement at MSP by any buyer, a legal right of the farmer.

## **7.0 The rapidly changing positions of stakeholders with respect to these policy changes:**

**7.1** In India, it is often seen that stands of political parties on an issue can easily change according to their convenience and depending on the fact whether they are on the ruling side or in the opposition at a given point in time. The situation with the farm law changes is no different. There are many very easily identifiable instances (made easier with social media) when those political parties who are supporting these changes now were opposed to them and those supporting them in the past are vociferously opposing those same/similar changes now.



**7.2** Given how, as we have seen in the foregoing sections, more than 21 states in India already have these policies (specially the contract farming law and the marketing outside APMC), the speed with which the narrative with respect to these changes has moved once Parliament passed these laws in September, 2020 is very surprising. What is even more surprising is that eminent scholars seem to have changed their positions with respect to these laws. Panagariya (Times of India, 2020) notes, “the present episode has seen even some leading economists switch sides. Specifically, the last two Chief Economic Advisers (CEAs) under the United Progressive Alliance (UPA) government, who had both recommended reforms similar to those just enacted, have now come down heavily on them.” He is referring to the economic surveys of 2011-12 and 2012-13, which had advocated similar reforms for the Indian Agricultural sector.

**7.3** As far as the issue about MSP is concerned, it must be borne in mind that MSP is declared by the government for only 23 crops; and, barring sugarcane, wheat and paddy, no commodity has unlimited procurement provisions. Pulses, copra, cotton etc. are procured under the price support scheme at MSPs but with an overall ceiling of 25% of the total production of the commodity for that particular year/season (PSS Guidelines, Ministry of Agriculture). For some crops ceilings for individual farmers also apply for procurement. MSPs have never been declared for vegetables and fruits and thus it is incorrect to assume that all trading in all crops in the APMC regulated markets as well as elsewhere, used to happen at MSPs and now that will end.

Moreover, in the past, the farmers’ lobby has not raised the issue of making the MSP mandatory for all buyers, including private traders. (Sinha R., Business India, 2020) (Which is now the major demand of the farmers and organisations protesting these laws).

**7.4** Thus, what is puzzling is that these changes which had almost all-around consensus and which are broadly present in important agricultural states of India, should attract such changed and hardened positions.

## **8.0 Government Stand on MSP:**

Prof. Ramesh Chand, who is the Member (Agriculture) in the Niti Aayog, the policy think tank of the government of India has clarified on the new farm acts. He has noted that MSP reaches less than 7% of farmers in the country and the share of officially procured crop output is close to 11% in total crop output, and 7% in total agricultural output. Hence the challenge is to ensure remunerative prices for the remaining 90% of produce. The underlying intention of the new Acts, he states is to keep the MSP system intact for the produce already benefiting from it and at the same time create a policy environment that improves price realization for the remaining produce. He also clarifies that as per economic theory as well as experience the price levels that are not supported by demand and supply cannot be sustained through legal means and that is the difficulty in according legal status to MSP. He cites an example from Maharashtra when the government there imposed MSP on traders but as the market price was less than MSP, the

traders withdrew from the market due to fear of legal action and farmers had to suffer. Moreover, implementation and continuation of MSP is an administrative decision and in the case of rice and wheat it is part of the four pillars of food security, that include (i) procurement, (ii) buffer stock and (iii) PDS in addition to MSP. The system will collapse if one pillar is demolished. Hence the MSP system would continue as before and it has no relation to the new agricultural laws. (Chand 2020)

### **9.0 The use of Information and Communication Technology (ICT) in the new laws:**

Both the unrestricted agri-marketing act and the contract farming act permit the setting up and trade under “electronic trading and transaction platform”, which means a platform set up to facilitate direct and online buying and selling of farmers’ produce (only condition is that each such transaction should result in physical delivery of farmers’ produce). This is an enabling and welcome provision and greatly enhances the role of ICT in agriculture. Further, the unrestricted agri-marketing act empowers the Central government to provide for a system for electronic registration for a trader, modalities of trade transaction and mode of payment of the scheduled farmers’ produce in a trade area and to make rules in this regard. Similarly, the contract farming act, empowers the State Governments to notify a Registration Authority to provide for electronic registry for their State that provides facilitative framework for registration of farming agreements.

### **10.0 Conclusion:**

In this paper, we have tried to objectively lay the facts around the new agricultural legislations enacted by the government of India in the areas of unrestricted agricultural marketing, contract farming and amendments to the Essential Commodities Act. Based on these facts, we conclude the following:

Perhaps the government should have gone for a more comprehensive and ambitious agenda with respect to direct benefit transfer of indirect subsidies in agriculture on per unit landholding basis while limiting the maximum subsidy allowed to an individual farmer based on a land ceiling (anywhere between 4-10 hectares. [In India, farmers with landholding more than 10 hectares are classified as large farmers and constitute only ~0.58% of all landholdings as per agri census 2015-16]. This is because the changes effected via these 3 laws are being protested so vociferously in spite of these being already in existence in some form in almost all major agricultural states in India, that any government would prefer status quo rather than taking any further action on the agricultural subsidies rationalisation agenda, for obvious reasons.

At the same time, there is no doubt that these changes make it possible for the agricultural market to be integrated for the entire country and these laws were a logical next step once the Indian market has been integrated for most other things due to the Goods and Services Tax

(GST). In any case, the widespread deregulation of the Indian economy in 1991 had not touched the agricultural sector and changes in agricultural policy since then have been slow, piecemeal, varied across states and had clearly run their course. The lessons from the industrial deregulation of 1991 are important in this case as well. At best, given the widespread protests and arguments against these reforms, it might be argued that these changes are a leap of faith; but the critics would do well to remember that even during 1991, Dr Manmohan Singh as the then Finance Minister and the then government were attacked severely and even some of the then leading industrial houses were also insecure with the opening up of the economy. It is very likely that like in the case of the 1991 reforms, when a decade-15 years later, the reforms started showing results and proved to be a decisive and positive shift in Indian economy, the same happens with Indian agriculture due to these reforms.

Regarding MSP, legalizing it would be absolutely counterproductive for farmers, crop diversification and ecological concerns. The fears around the dismantling of the procurement system at MSP also ironically stem from the potential success in agricultural marketing that these changes would trigger. Thus it is not advisable to legalise MSP as demanded by those protesting against these reforms.

Hence, in keeping with the thoughts of Sir Chhotu Ram, introduced in the beginning of this paper, in order to understand whether the recent agricultural reforms are beneficial for the farmer or not, we have to seek an answer to the question whether these reforms enhance or constrain the financial freedom of the farmer. It is clear that the new laws enhance farmer choices, have the potential to increase incomes, reduce price uncertainty and risks, for all farmers. They definitely deserve a chance.

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