

FAQ on farm sector reforms

A. GENERAL

India's agriculture policy process is deeply flawed

For many decades India's farmers, as entrepreneurs in their own right, have suffered from lack of understanding or focus on their regulatory needs for production and marketing. The regulation imposed on them has choked their production and marketing efforts. Much of this regulation is sheltered in Schedule 9 of the Constitution: away from judicial scrutiny. Regulation is intended to reduce any harm caused by an entrepreneur's action, but in the case of farmers, regulation has itself been the cause of harm both to the farmers and to the environment. Many of India's farmers are desperate for renewed, not less, focus on reforms – particularly market freedom and technology freedom.

Regulation must reduce harms but for agriculture, excessive regulation (much of it sheltered in Schedule 9 of the Constitution) is choking farmers' production and marketing efforts. Let farmers produce and buy and sell as they think best.

Unfortunately, there has been a tendency to bulldoze policies without adequate consultation and education of the country. The farm laws fiasco is attributable to the fact that India does not follow a robust policy development process of the sort followed by developed nations. Policy shortcuts invariably derail policy or lead to bad policy. Reforms which affect a large number of people require broad-based consensus. That there are no shortcuts to good public policy.

Agriculture policy should be reviewed in its entirety as part of a [White Paper](#). Farmers need far more fundamental reforms to increase market and technology freedom; and compensation for decades of negative subsidy.

A robust policy process for making new farm laws would involve establishing a Committee with representation of all views. The Committee would prepare a White Paper that considers costs and benefits of options, consults widely and recommends a way forward. The legislation resulting from such a process would be acceptable to India's long-suffering farmers. Let the government set up a Committee to prepare a White Paper on agriculture to explore the state of affairs and consider the costs and benefits of various options. Let there be wide consultation. And let new laws be created that facilitate enterprise. The MSP should be reviewed as part of this process. The legislation resulting from such a process would be acceptable to India's long-suffering farmers.

Sequencing of reforms must include the waiver of farmer loans (once the reforms are implemented) so that the negative subsidy for agriculture is at least partially compensated. Further, the White Paper must consider the total suite of reforms, not in a piecemeal manner like these three farm laws had done.

India needs to focus on its own culture of *Shubh Labh* (which considers honestly made profit to be a good thing) and aspiration for *Ram Rajya* in which the king does not operate banks, run public buses and hotels, trade in foodgrains, or produce cement. India's culture contains the key principles of good economic policy that were discovered thousands of years later by the West. For instance, Kautilya's *Arthashastra* elaborates upon free trade and good regulation as the pillars of prosperity.

The core message of India's tradition is *Jahaan Ka Raja Ho Vyapaari, Vahaan Ki Janata Bhikhari*. This means that where the king is a trader, the people are beggars. Unfortunately, since independence,

India's governments have aped Karl Marx's hatred for profit and have choked innovation and entrepreneurship. They should focus only on their prescribed duty, their prescribed *Dharma* – which is to ensure justice, security and infrastructure. We need *Minimum Government, Maximum Governance*. Instead, we have *Maximum Government, Minimum Governance*.

Why can we say that farmers are bonded labourers of the government?

This is best understood by reading Amar Habib's book, [Anti-Farmer Laws](#).

We continue to live in a heavily regulated system that effectively makes farmers into government's bonded labours. Much of the regulation is sheltered in Schedule 9 of the Constitution: away from judicial scrutiny. The control these laws give to the government allow it to make random interventions into exports and exports, each time reducing the profits of the farmers. Not just the farmer, even the environment has been harmed because of these laws.

The majority of Indian farmers want market and technology freedom.

Why import-exports don't help farmers?

The government's control over imports and exports is one of the main reasons why farmers have been losing out since independence. The government makes sure that farmers never get a high price. It stops them from exporting when they can get a higher price abroad, and it dumps the country with cheap imports when domestic prices are high. In both cases the farmer loses. This is part of the negative subsidy that farmers have been getting in India.

Reform needed is to prohibit the government from interfering in the export or import of agricultural produce.

Haven't APMC reforms in Bihar failed?

Devinder Sharma has said that in Bihar, where the APMC Act was removed back in 2006, farmers were supposed to get higher prices but didn't. It is unclear whether he has conducted a statistically robust analysis to support his claim, but this much is clear: as agricultural productivity increases, relative prices will tend to fall even as the total output and revenue increases. Farmers in Bihar and other states in which APMC mandis are not mandatory for trade are likely producing more and selling their produce where they get the highest value.

But the more important issue is that the Bihar reforms are nowhere close to the kinds of reforms India needs. Using the strawman of half-baked "reforms" in Bihar to reject fundamental reforms, is a sure way to ruin India's farmer.

A [vast set of reforms](#) are needed before India's farmer can be genuinely liberated from the clutches of the government. A White Paper is the need of the hour.

B. MSP

Is MSP a viable policy?

We must not oppose MSP in principle, but it should be used only where it has proven to be the best way to achieve a national objective.

The harms of MSP must also be taken into account. MSP is given only for a few crops which means there is excessive production of these at the expense of other crops that may be more nutritious and could earn us export revenues. This distorted focus also depletes the water table. There is a demand

to expand MSP to more crops. That would make things much worse. Even setting the price for MSP is fraught, for only markets can truly determine any price, not bureaucrats.

We must also take into account the effects of MSP on equity. Poor farmers get virtually nothing from MSP because they have little or no surplus: many subsist as agricultural labourers. Some farmers do benefit on occasion, maybe in a few states, but the largest chunk of the funds allocated to MSP is siphoned off by the government's machinery.

MSP may have a few positives but it has many negatives and should be deployed only with great circumspection.

Shouldn't MSP be backed by legislation, having been a "long-standing policy"?

There has never been any policy rationale to buy all agricultural output at a guaranteed price. Policy must not be made in an ad hoc manner. It must be made on the basis of careful consideration of the rationale, options and costs and benefits. Just because there has been a policy for MSP doesn't mean it should be legalised.

Why is legislated MSP not workable?

MSP in its present form itself represents a huge misallocation of national resources. Today, around Rs 2 lakh crores is locked up in stocks that exceed the buffer norms – norms which are, in any case, too high. We don't need 100 million tonnes of foodgrain sitting around, rotting in the rain, being eaten by rats. And since our prices are not competitive globally, neither can we export these mountains of foodgrain.

The demand is that the private sector should be forced to buy at the support price.

We know that governments can use taxpayer funds to buy high and sell low, but even they can only do so till they bankrupt the nation (e.g. our gold was forced by the socialists to be flown to London in 1992). But no trader or stockist has this luxury. A legislated guarantee will create a black market. The farmer will be forced to surreptitiously sell at a price even lower than an already low market price. The Inspector Raj will look like heaven compared to the situation if traders are jailed for buying below MSP: that will lead to unprecedented corruption and the food distribution system will collapse.

A legislated MSP guarantee is entirely unimplementable and extremely dangerous. Making MSP legal for some crops will provoke farmers of all other crops to demand a similar arrangement, apart from the fact that a guaranteed MSP is simply not implementable. India will be bankrupted on an even bigger scale than the Fabian socialists did to us in 1992.

Isn't MSP essential to achieve food security?

MSP is intimately linked with food security. MSP for wheat started in 1966-67 to build a food reserve. But today there are many better options to achieve that goal. Futures market and free imports and exports can help along with maybe some contractual arrangements with the private sector to ensure high quality storage and delivery. We don't need an FCI that creates mountains of foodgrains (around 100 million tonnes) that rot in the rain and are eaten by rats. Further, if after policy analysis MSP is still required, it must be in moderation to achieve its goal, no more. No guarantees.

Isn't MSP the lifeline of all of India's farmers?

Don't fall into the trap set by liars like Avik Saha who wrote that "for farmers who are roughly two-thirds of the nation, MSP represents a lifeline". The 2015 Shanta Kumar Committee found that only 5.8% of farmers actually sell their crops at MSP. Even if we take a broader view, only a fifth of farm output potentially comes under the purview of MSP. Most farmers have never sold anything at MSP. Anil Ghanwat, a farmer all his life, and former head of Shetkari Sanghatana, has not once benefited from MSP.

Some detail: While 23 commodities are under MSP (a few cereals, pulses, oilseeds and four commercial crops – copra, sugarcane, cotton and raw jute), the government buys only a few of these through APMC mandis. Only 40% of India's farmers sell through APMC mandis, and only a third of farm output that is covered under MSP is sold through such mandis. Only about 30 percent of the wheat and rice produced in India is procured (not necessarily at MSP) and about 6-7 percent of other crops. Horticulture, livestock and fishery – that form 60 percent of agricultural output – are almost entirely outside the purview of mandis and MSP. Let's stick to the purpose of MSP: it is not designed to be anyone's "lifeline".

Isn't MSP a constitutional right?

Avik Saha has claim that a guaranteed MSP is a "right of farmers" that "stems from the constitutional fundamental right to life and livelihood". He argues that since there is a legislative guarantee to food (the National *Food Security Act* 2013), so there must be legislated MSP for farmers.

Such an argument will be thrown out by any Court. It is one thing to provide food through PDS to the poor (although there are more efficient ways to do so) and quite another thing to purchase farmers' output at a guaranteed price. And if MSP is a constitutional issue how can it be argued only on behalf of some farmers? Why not all farmers (beef, onion, fish, chicken, eggs, pepper)? And what about every other poor person? If insufficiency of food for the poor is the issue, that's a separate policy matter, not an MSP issue.

Won't MSP help to alleviate poverty?

Misdirection of the nation's scarce resources through mandatory MSP is the worst way to reduce poverty. The main answer to farmers' poverty is for the [government to get out of their way](#). Today, farmers are bonded labourers of the government through over-regulation. Let's get rid of Schedule 9 and other unconstitutional laws. Further, for the removal of any residual poverty, let's provide a direct transfer of funds into the bank accounts of the poor. For less than the amount we spend on MSP, we can lift hundreds of millions of the poor above poverty by transferring funds into their bank account.

Sadly, misguided opponents of liberty like Yogendra Yadav and Avik Saha want to hand over even greater control to government in the lives of farmers. Their failure to understand economics and liberty is fatal to their intended objective itself: the welfare of the poor. Let them learn basic economics. I have written a short book, "Seeing the Invisible", available freely online, for precisely such a purpose.

Doesn't MSP help to alleviate price volatility?

If our objective is to reduce farm price volatility, then direct funds transfer to the poor can partially address that objective along with a well-regulated, trustworthy and accountable crop insurance system – definitely not of the sort that exists today.

Why is it not possible to assure farmers of 50% profit?

The government lodged an affidavit with the Supreme Court in 2015 that it was not possible to increase the minimum support price (MSP) for foodgrains and other farm produce on the basis of input cost plus 50% as it would distort the market. [\[source\]](#)

Why can't the government provide a subsidy between the market rate and MSP if it can't purchase directly?

If this is accepted it will become the biggest corruption programme in the history of the world, in which every single purchase has to be recorded and has to be certified by "independent" third parties who are themselves corrupt; the subsidy has then to be approved through a corrupt process and released by yet other corrupt process.

Why can't the government buy even 10% of the crops, so prices will automatically rise up to the level of the MSP?

This proposal is at least an improvement from the rigid demand of his union that all output be purchased via MSP. But the price of any crop depends upon the slope of its demand curve (and the supply situation). The supply and demand for a crop varies in each season. There is no guarantee that prices will rise up to the level of the MSP.

Didn't Modi himself recommend mandatory MSP in 2011?

On 2 March 2011, Mr Modi, as Chairman of the Working Group on Consumer Affairs, submitted the Report of Working Group to the then Prime Minister Dr. Manmohan Singh. Under the terms of reference item "Reducing intermediation costs and for reducing gap between farm gate and retail prices", the report recommended "Enforce MSP: Since intermediaries play a vital role in the functioning of the market and at times they have advance contract with farmers. In respect of all essential commodities, we should protect farmer's interests by mandating through statutory provisions that no farmer – trader transaction should be below MSP, wherever prescribed".

MSP was not even tangentially relevant to the terms of reference of the Working Group which was focused on consumer welfare, so the MSP recommendation was entirely uncalled for. Moreover, no connection was made between an assertion about intermediaries and the MSP recommendation. There is no evidence that Mr Modi personally advocated mandatory MSP at any time, either.

Congress was in power till 2014 and did not implement this "statutory MSP" recommendation of Modi since it did not make sense. Likewise, Modi has been in power since 2014 and has not implemented "his own" 2011 recommendation since it makes no sense.

But today, Congress has flipped not just on MSP but also from its 2019 manifesto, which said: "Congress will repeal the Agricultural Produce Market Committee Act and make trade in agricultural produce — including exports and inter-state trade — free from all restrictions". Further: "We will establish farmers' markets with adequate infrastructure and support in large villages and small towns to enable the farmer to bring his/her produce and freely market the same". Basically, the Congress foreshadowed the 2020 reform bills which it now rejects.

Dirty political games are being played. Absolutely none of these parties or unions – Congress, BJP, BKU – cares for the farmer. There is no consistent policy within the various branches of the BKU or within any of the major parties.

When Rakesh Tikait blames Modi for not following up on his MSP recommendation of 2011, he should ask, instead: Why did Congress not implement that recommendation in 2011 and why did it want to open up the market in exactly the manner that the 2020 laws did? Congress also needs to explain why it lied to voters in 2019 about its policies and why (if it is genuinely wedded to it) it did it not implement mandatory MSP in 2011.

Rakesh Tikait has recently said: "Our main demand is the MSP. If this demand is not met, we will oppose the Bharatiya Janata Party". The entire drama is about politics and power. Rakesh Tikait was a failed politician: he is looking for a safe seat.