Three Bills That Shook India

Indian Agricultural Reforms, Lessons for Pakistan

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Keeping their electoral promise of reforming the Indian agriculture sector, the BJP government introduced agricultural reforms in the form of three farm legislative bills 2020 a few months ago. These bills intend to empower, protect, promote and facilitate Indian farmers. This is to be done by liberalizing the marketing structure of agricultural produce and by giving farmers direct access to consumers. These laws allow farmers to sell their produce to anyone outside state-owned 'mandis'(markets). They can also stock their produce as long as they want.

Before the introduction of the bills, the Indian government used to announce a minimum support price for certain crops, especially wheat, and would buy at least a part of the produce from the farmers at this price. This practice on one hand offered an assured price to the farmers and on the other hand, made essential agricultural commodities available to the government for supply to the citizens at an affordable price. In practice, this at times prevented the farmers from securing better prices in markets. Low profits for the farmers also discouraged them to produce more.

The new laws will allow farmers to get rid of three types of costs, transportation cost, commission paid to aarhti, and mandi fee (charged by the government). The farmers are not entitled to receive a minimum support price (MSP) as the government will not buy the produce.

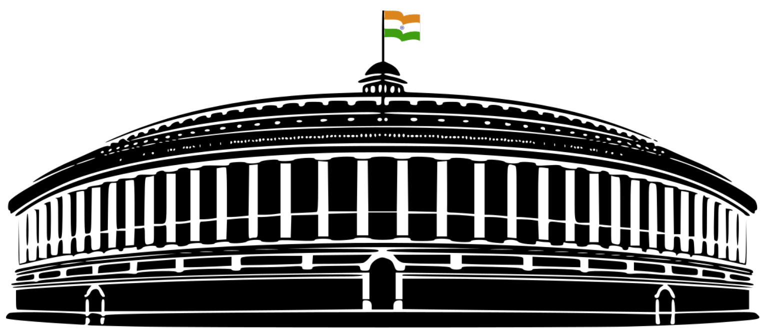
These bills allow free trade outside the state-owned mandis as the government will not impose any levy on the sale and purchase of farm produce outside the mandis. The government believes that this will transform Indian agriculture and attract private investment. Clearly, the legislation provides the farmers an opportunity to sell their produce at good prices outside the state-owned mandis, and this was the demand of farmers for many decades. However, due to the information gap between the government and the peasants, the legislation has not been well-received by the farmers. Hence they are agitating and demanding the laws to be repealed.

Through the inheritance system, the agricultural land has been sub-divided into small farms. Given fragmentation, it is not viable for owners of small farms to deploy modern technologies and productivity cannot be increased without using modern technology.

One of the objectives of the new bills introduced by the Indian government is to promote contract farming. The new legislation will enable farmers to enter into a pre-agreed price–contract with agribusiness companies or large retailers to sell their produce. Contract farming will transfer the risk of price volatility faced by small and marginal farmers, to large firms. Moreover, contract farming would enable small farmers to reap scale economies by using community farming. In India, cluster farming is already getting popular and the new laws will further boost cluster farming, which would increase the bargaining power of the farming community. The large firms buying the produce will have a strong incentive to facilitate farmers in using the latest technology and modern farming practices, which the government had failed to encourage.

The farmers apprehend that powerful corporate investors would dominate and may use the liability clauses included in the new laws against them. However, with a strong and fair judicial system in place unfairly blaming the farmers will not be easy. Moreover, farmers can always choose not to extend their contract with the contracting firms, if their practices are exploitative. The competition among different contracting firms will also make it difficult for the firms to exploit farmers.

The major losers of contract farming are the present 'commission agents' and they are playing a major role in organizing the protests and giving it the look of farmers' protest. Based on economic theory, we believe these changes will entirely transform the agriculture sector on modern lines.



PARLIAMENT OF INDIA

The government of Pakistan, just like India, also very actively intervenes in the agricultural market at various stages of production and distribution in an attempt to maintain low prices for consumers, particularly in the wheat and sugar markets. In 2020, the government strongly intervened in the wheat market by fixing the minimum support price (MSP) of wheat and releasing the stock as needed but still could not stabilize the price of wheat flour. Rather the market price reigned at almost twice the MSP fixed by the government. The efforts to control prices through (MSP have led to a circular debt of Rs.757 billion, as the government is borrowing from the banks to fund the purchase of wheat. The government does not find it easy to repay the banks. This shows that intervention in the wheat market is not a sustainable activity for the government. Moreover, the benefit of price increase is neither enjoyed by the farmers nor the government; rather it goes to the traders.

The Indian government has learned from experience and has taken bold steps to liberalize agricultural markets. These will serve the Indian economy and the farmers' community very well. The new laws introduced in India are quite relevant to Pakistan for improving the welfare of farmers and increasing the size as well as the yield of crops. Sooner or later Pakistan has to liberalize the agricultural markets after thorough planning and preparation.

One lesson from the Indian experience is that before we introduce the agricultural reform of the Indian kind, the stakeholders, especially farmers need to be taken on board through advocacy at a wider scale.