

Indian farmers call for free markets

At a time when some Indian business leaders have begun to make protectionist noises, it is significant that the Kisan Coordination Committee (KCC) has released a liberal eight-point charter of demands ahead of a meeting to be held in New Delhi this week of various members of the World Trade Organization. The farmers have called for the liberalization of agriculture, the end of government intervention in the farm economy, scrapping of the National Food Security Act, direct benefit transfers to the poor, free trade in farm products and the removal of restrictions of rural land markets. The legacy of Shetkari Sanghatana leader Sharad Joshi is still alive.

These demands deserve attention when the limitations of the recent cycle of higher procurement prices as well as farm loan waivers are evident. Joshi often said that the internal terms of trade discriminated against farmers, who were not allowed to export and had to operate under tight controls in the domestic market.

The first problem is the subservience of the farmer to the licensed trader in the mandi system. These traders collude to determine the purchasing price in a non-transparent fashion, virtually dictating terms to the farmer. This was apparent in Madhya Pradesh recently, where the price of commodities covered by the Bhavantar Bhugtan Yojana was depressed by the traders as the farmers were promised compensation for the shortfall by the government. This hegemony can be broken by allowing private mandis and delisting farm products from the Agricultural Produce Market Committee (APMC) Act, but there has been little progress on this front. For example, while many states have amended the APMC to delist fruits and vegetables, the rules are still to be notified and several entry barriers remain.

The government has established e-NAM (electronic national agriculture market) to create a national market and price discovery by trading. But the platform has not been successful as there is limited intra-state and negligible interstate trade. Given the massive disparity between producer and consumer prices, one would imagine that arbitrage would be highly profitable. But the slew of permits someone in Madhya Pradesh would have to furnish in order to bring a truck of tomatoes to Delhi would prevent any such attempt.

The second reason for the farmer's plight is the excessive risk he has to bear in order to do business. Government policy, through the Essential Commodities Act, restricts farmers and traders from transporting and storing their produce, in order to prevent alleged hoarding and profiteering in times of shortages. The stock-holding limits preclude investments in supply-chain as the food processing and retail companies need stocks in order to shield themselves from price shocks. Moreover, stock-holding allows a smooth supply of produce, reducing price volatility. Unfortunately, the Narendra Modi government started its term by bringing onions and potatoes under the Essential Commodities Act in 2014, reducing the likelihood and credibility of future reform.

Third, given the monsoon-dependent nature of farming, farmers are at a constant risk of falling into poverty and a number of measures can distribute this risk between peasants and traders. Futures markets, for example, would allow traders to incorporate information about seed purchase volumes, area under harvest, weather forecast, etc., to predict future shortages or glut and enter into pre-purchase agreements with farmers. Low futures prices will allow farmers to foresee a glut and shift production to substitute crops, preventing the yo-yo-ing of crop prices every alternate year. Contract farming and land lease laws will similarly allow farmers to share the risks associated with farming, and allow them access to cheaper credit and farm inputs.

Joshi had been demanding equal treatment for agriculture and industry since the 1980s. Yet

today, while the industrial policy remains stable in promoting exports, farmers are not free to do so. He supported foreign direct investment to integrate our farmers in the global supply chain and was fanatically in favour of the latest seeds and farm technology, arguing that these would improve productivity. In contrast to the political class, he didn't glorify the village life, and wanted farmers to have the freedom to exit. Alas, state land laws prevent the transfer of land to non-farmers, prevent formal land lease arrangements and enforce land ceiling. Finally, he was an optimist about free trade; an early advocate of WTO-led liberalization.

For decades, despite rising production, the Indian farmer has been at the mercy of government policy, which has transformed over the years from being directed at capital formation to providing subsidies and transfers. Joshi spent his life fighting this subservience, demanding, "We don't want alms, we want the price of our sweat and toil." Ultimately, his was a cry for their dignity. Realizing his dream would require trusting the farmer to make his choices, but that requires institutional changes that can allow price discovery and free avenues for trade.

Is liberalizing agriculture a solution to farmers' distress? Tell us at views@livemint.com

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