

LET'S NOT WASTE A CRISIS

Relevant for: Indian Economy | Topic: Agriculture Issues and related constraints

By passing its farm bills, Punjab has fired the first salvo against the pieces of legislation enacted by Parliament last month. Other states in which the Congress holds office, Rajasthan and Chhattisgarh, could follow suit soon. Notwithstanding whether President Ram Nath Kovind gives his assent to the state bills that undermine the central ones, the important issue is to sift the grain from chaff — how much of this conflict is about economics aimed at helping farmers and how much sheer politics. My take on this episode is that it is 90 per cent politics and only 10 per cent economics — if at all. Let me explain.

Punjab's farm bills prohibit private players from buying wheat and paddy below the MSP (minimum support price) even outside the APMC (agriculture produce market committee) markets. Anyone trying to do so will end up with three years in prison, and also levied a hefty fine. The point is that this pertains only to wheat and paddy. Why not do it for other crops, say maize, cotton, pulses and oilseeds that are under the ambit of the central MSP system? Or even extend it to milk and vegetables by declaring local MSPs for them? Because the state government is smart and knows full well that it will create a fiasco in agri-markets, which might boomerang on it politically.

Would a law for only wheat and paddy help farmers? Not really, as the Centre already buys more than 95 per cent of Punjab's wheat and paddy at MSP through the Food Corporation of India (FCI) and state procurement agencies. So, where is the economic gain for the Punjab farmer? Much of the uproar is about the Rs 5,000 crore that the state government (Rs 3,500 crore) and arhtiyas (Rs 1,500 crore) squeeze annually from the FCI for wheat and paddy procurement.

Let me get to the economic roots of this politics. My reading is that the Congress and many social activists who demand that MSP be made a legal instrument (rather than indicative) actually exhibit deep distrust of the private sector and markets. This line of thinking goes back to about 50 years. It may be worth recalling what late Indira Gandhi did to wheat and paddy traders in 1973-74, when she was at the peak of her popularity. Recall that in 1971, she had won the war with Pakistan (that gave birth to Bangladesh), abolished the privy purses of the families of erstwhile princely states, given the catchy slogan of "Garibi hatao", and nationalised commercial banks in 1969. All this was part of the socialist era, although the word, "socialist", was inducted in the [Preamble](#) of the Constitution only in 1976.

In October 1972, Indira Gandhi announced an important agri-marketing policy step — that the wholesale trade in wheat and rice (paddy) will be taken over by the government as traders were being unscrupulous in not giving farmers their due MSP and manipulating prices. The first marketing season of the government takeover of wholesale wheat trade, in 1973-74, saw a major fiasco. Market arrivals dropped, and wheat prices shot up by more than 50 per cent. It was a bitter lesson. But Indira Gandhi learnt, and gave up the policy the very next year.

In Punjab's farm laws, I find resonances of the wheat trade takeover of 1973-74 — that was also the period of "licence raj" in industry with marginal income tax rates going as high as 98 per cent. Do we want to go back to the economic philosophy of those days in the early 1970s that gave us what my teacher, the famous agri-economist, Raj Krishna, described as the "Hindu rate of growth" or 3.5 per cent GDP growth?

It is to the credit of the Congress Party leadership under then Prime Minister PV Narasimha Rao

that it supported the economic reforms package prepared by [Manmohan Singh](#) and his team of trusted economists in 1991. The reforms took some time to yield results, but, by the 2000s, India was taking 7 per cent GDP growth as its new normal — double the “Hindu rate of growth” of the 1970s socialist era of Indira Gandhi. But even the 1991 economic reforms bypassed agriculture marketing reforms.

It was only under the leadership of the late PM Atal Bihari Vajpayee that agri-marketing reforms became high on the agenda. It was triggered by the bulging stocks of wheat and rice with the FCI. In 2003, a model act on agri-marketing was circulated to the states. Vajpayee’s style of functioning was an accommodative one, as he was leading a large coalition government. But that model act did not go far enough. The NDA lost the general elections in 2004.

The UPA government, from 2004 to 2014, did not pursue any major agri-marketing reforms. In food, they again turned socialist, enacting the National Food Security Act in 2013, giving 5 kg wheat or rice to 67 per cent of the population at Rs 2/kg and Rs 3/kg. One may well ask what happened to “Garibi hatao” of 1971, if 67 per cent of the population was still food-insecure in 2013?

The NDA government under Prime Minister [Narendra Modi](#) set up a high-level committee (HLC) under Shanta Kumar in 2014 to restructure the grain management system. The committee suggested major changes, including cash transfers in the public distribution system, and overhauling the FCI’s operations with a good dose of free markets to make the system more efficient. But the Modi government could not muster courage to undertake bold reforms, except some marginal tinkering of labour rules in the FCI. It also tried going the Vajpayee way through model acts on agri-marketing reforms. But again, they did not go far enough.

The [COVID-19](#) crisis opened a window of opportunity to reform the agri-marketing system. The Modi government grabbed it — this is somewhat akin to the crisis of 1991 leading to de-licensing of industry. Patience and professionalism will bring rich rewards in due course, not noisy politics.

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