

MARKET FAILURE: THE HINDU EDITORIAL ON AGRICULTURE SECTOR REFORMS

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

The ambitious initiative of the Narendra Modi government to bring about far-reaching reform in agriculture has run into severe weather, mainly over fears that the free market philosophy at its core could spell the end of MSPs for produce that has so far been centrally procured by the government. An allied party's Minister, [Harsimrat Kaur Badal \(Akali Dal\) has resigned in protest](#), and there is a strong pushback from farmers against [three Bills that seek to replace ordinances issued in June, on key aspects of the farm economy](#) — trade in agricultural commodities, price assurance, farm services including contracts, and stock limits for essential commodities. The opposition to the Bills, particularly on trade, flows from the position, articulated by Punjab, that agriculture and markets are State subjects, and there should be no tinkering with the MSP and Agricultural Produce Market Committees (APMC), that form the backbone of existing trading arrangements. Several States have already liberalised agricultural marketing, amending their APMC Acts, and some have allowed regulated private commerce including direct marketing. Yet, provisions in the Farmers' Produce Trade and Commerce (Promotion and Facilitation) Bill, 2020, providing for unfettered commerce in designated trade areas outside APMC jurisdictions without levy of any fee, and more generally, empowering the Centre to issue orders to States in furtherance of the law's objectives, have alarmed States. A challenge has been mounted by Rajasthan, declaring central warehouses as procurement centres under its APMC Act, and therefore required to pay a market fee to the State.

[Mr. Modi has characterised the arguments as misleading](#), promising that the [MSP system will continue](#). This is welcome, but the new dispensation cannot bring cheer to small farmers, who form the majority and whose access levels to markets under the APMC system are at the rate of one for an area of 434.48 sq. km on average — well below the recommendation of the National Commission on Farmers (NCF), at one market for 80 sq. km. There is evidence also that mere liberalisation does not lead to private investment in new markets. When Bihar removed the APMC system, markets suffered loss of fee revenue, with no significant private investments in the sector. If the Centre's intent is to strengthen competition, it should massively fund the expansion of the APMC market system, removing trade cartels, and providing farmers good roads, logistics of scale and real time information. Rather than opt for heavy centralisation, the emphasis should be on empowering farmers through State Farmers Commissions recommended by the NCF, to bring about a speedy government response to issues. Without strong institutional arrangements, *laissez-faire* policy may harm lakhs of unorganised small farmers, who have been remarkably productive and shored up the economy even during a pandemic.

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