

The Tragicomedy of Indian Agricultural Reforms

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Introduction to article on Indian agriculture reforms:

In this article I propose to make a case that if the Indian Government has the genuine interests of Punjabi farmers in mind, it makes perfect logic for the Government to pay each farmer, full cost of the foodgrains they may produce in the future and get a promise in return that farmers would not cultivate an additional bushel of rice or wheat. In short, pay farmers to do nothing.

You would be surprised at this comment that the Government should compensate farmers for grains they do not produce, but there is a list of reasons why this preposterous move would be the most beneficial. This essay will also highlight the socialistic and short-sighted nature of Indian agriculture. Doleouts, subsidies and lack of foresight has meant that Indian agriculture has deteriorated into a logjam of vested interests trying to push forward their interests at any cost, with little regard to the welfare of the poor farmers on the ground or their own future.

Farmer protest are nothing new in India. Farmer protests and Jat agitations have been historically led by the same group of leaders. In 1987, Mahendra Singh Tikait brought the Rajiv Gandhi Government to its knees by organizing a blockade of Delhi with 5 lakh people. This number is atleast 10 times higher than the number of farmers protesting today against farm laws. Mahendra Singh Tikait was a populist Jat leader, and certainly not a visionary. The concessions he got in terms of waiving electricity bills for farmers, waiving water charges, higher prices for sugarcane, and farmer loans writeoffs, may have pleased his followers in the short term but set in place a disastrous set of events, which further weakened the tottering Indian agricultural sector. The current condition of farmers is partly attributable to the lack of reform and logical thinking among the spineless leaders of the past.

It would be insightful to locate the origin of Indian agricultural woes. The history of Mandis and MSP goes back to the 1950's when India faced an enormous food shortage and India was begging every country in the west to send us foodgrains. The US did send ships laden with wheat, inspite of the fact that India was pro-USSR and opposed the US in the name of the defunct Non-Aligned Movement. To help find a long-term solution, the Indian Government worked with the Rockefeller Foundation and researcher Norman Borlaug to create high yielding rice and wheat varieties, colloquially called the Green Revolution in India. The Green revolution happened in the 1970's and was predominantly focused in regions like Punjab, Haryana, Uttar Pradesh and Delhi. These places were already well irrigated and close to the centre of power in Delhi. The Government invested heavily in procurement and storage in these regions. These farmer focused initiatives made Punjab the richest state in India by the 1970's. Even today, an average Punjabi farmer now possesses around a hectare of land worth 2.5 crores and get subsidies totaling 1.2 lakhs a year. But these actions also ended up ignoring agricultural realities in every other state outside this Delhi belt. The consequences of this neglect linger to this day.

The idea of Minimum Support Price (MSP) and Mandis came about in 1955 through the Essential Commodities Act, 1955. Monopoly was given to Mandis in 1965, to become the solely procurer of foodgrains in their defined regions, which typically span hundreds of square kilometers. This was probably an example of Nehruvian overreach to choke the private sector. This was also the same decade when the Monopoly and Restrictive Trade Practices Act came into the picture to choke private initiative with quotas and punish Indian industry if they dared to become efficient. The MRTP act is infamous for pushing India into near bankruptcy in the late 1980's, until Narasimha Rao and Manmohan Singh rescued India from the clutches of Nehruvian socialism. To argue that the present amendments in

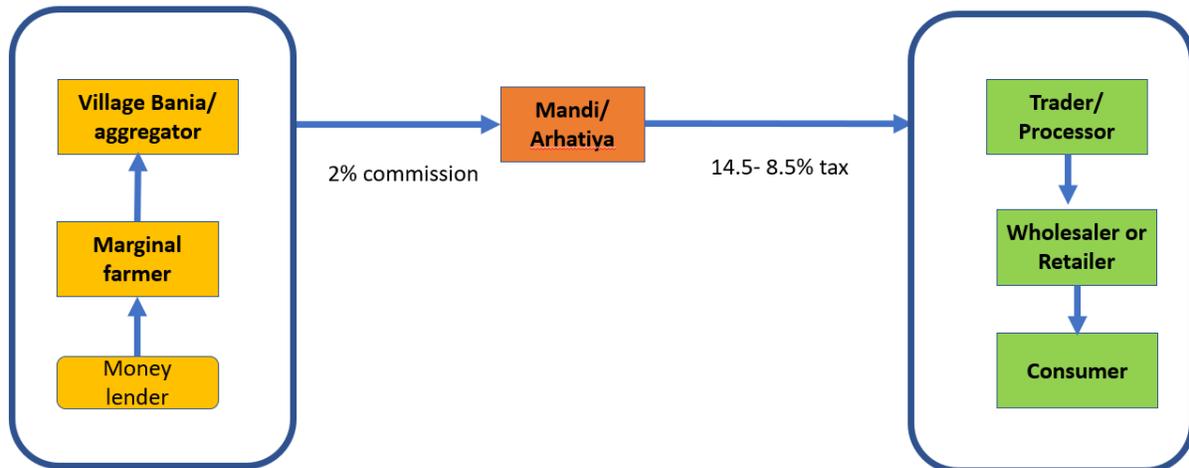
farmers laws should be repealed and that one should go back to the disastrous laws of 1955 and 1965 betrays a fundamental lack of understanding of the Indian economy.

Even during COVID, while every sector of the Indian economy has been hit by unemployment, the agriculture sector has been hurt the least. Contrary to expectations, they have done much better than every other sector and the new laws may have helped. After the farmer laws were amended, foodgrain arrival at mandis had fallen by around 20% in just 3 months. This means that while farmers have reduced selling at Mandis, they are already finding better options. Something is clearly working for farmers if they are not selling at Mandis which even promise MSP. Maybe they are getting better prices in the private sector. This possibility that Mandis are losing ground to the private sector offering better remuneration, may have been the real spur behind the current protests. Considering how dire the situation of Indian farmers is, opposition to every type of reform is making India the laughing stock in front of the world.

What is the current condition of Indian agricultural supply chains?

Currently there are 10,000 suicides a year among farmers in India. 70% of them are tenant farmers who do not even own their land. In the present system, 70-80% of the value is captured by middlemen. For example, a farmer in Nashik gets Rs 35 per kg of onion when the consumer pays more than Rs 100 per kg. While both consumers and farmers complain, the middlemen laugh their way to the bank. There have been times when farmers sell onions for Rs 5/kg and the consumer buys for Rs 100/kg. Economist Ashok Gulati notes that there is an additional 40% markup after passing through Mandis because of the intermediary administrative, procurement, distribution and stocking expenses.

Mandis and traders have been known to form cartels. 35% of India's onions passes through Asia's largest market in Nashik. 20% of onions procurement is controlled by just 1 firm. IT raids which broke this cartel in 2017 revealed that "a few traders purchased the onions at lower rates and then sold them at four to five times that rate" which ensured price fixing profits of 42 crores a day.



- **Increased inefficiency:** Currently if a farmer wants to sell his produce in an adjoining Mandi a couple of miles away, he is prevented by the Mandi system. He will have to sell wherever his regional Mandi is, even if it is hundreds of kilometers away. The entire cost of transportation and inefficiency will fall on the farmers. Hence, he needs to involve the aggregator (Bania) to pool in produce and transport to Mandis, adding to the farmer costs. Mandis in turn jack up the price of produce by 10-15% without adding any value. They charge hefty commissions from the farmers and exorbitant taxes from the traders. Even an unskilled Punjabi laborer in Mandis who does loading and unloading in a Mandi is currently paid an exorbitant salary of more than 1 lakh a month which more than what many IIM graduates make. Somebody is paying for all this inefficiency, either the farmer or the consumer.
- **Overproduction:** The government procures foodgrains from Mandis and stores them in FCI godowns. Because states like Punjab and Haryana keep overproducing wheat and rice every year and exclude every other crop, the Central government is stuck with foodgrain stock which it doesn't even have facilities to store. Compared to an annual uptake of 30-40 million tons, godowns are

overflowing with produce. The overall current stock is already around 97 million tons, around 2.5 times the annual uptake and well above international norms.

- **Wastage:** As per current trends, 25% of produce in godowns is being wasted or spoiled. This wastage is only bound to increase in the future as there is no additional storage facility left. This 25% wastage and rotting foodgrains translate to around 48000 crores. Tens of thousands of crores will be spent in buying grains nobody wants and will anyway go to waste. The government has made tall promises of more procurement next year without talking about enhancing storage or logistical facilities. This is what farmers need to be questioning.
- **Stagnancy and inability to change: Because** the government is spending around 1.5 lakh crores buying foodgrains every year, farmers too see no reason to change food crops as they have an assured buyer promising rates above market. Since the government can't sell the produce in the open market, without crashing the price of rice and wheat, the overall prices are also kept artificially high. The only option available to the government with their stock is to keep giving the foodgrains free in the public distribution system. But as the wealth of India improves, the poor will want to replace foodgrains with milk, poultry, fruits and vegetables. It is only a matter of time before the poor start demanding cash payments in lieu of foodgrains, so that they can buy the food they want. Once that happens, the government can pretty much dump all its excess unsold foodgrains straight to the ocean, so that at least the government can save on storage and inventory costs. Because farmers are short sighted, they fail to understand their best welfare is to notice economic trends in the market. They need to move towards less water intensive and more remunerative options like poultry, milk, fruits and vegetables like other agricultural economies. This would even fetch them higher profits compared to the small profits they make currently.

Long term consequences of no reforms

India is stuck in the past. Figure 2 shows that it is almost 200 years behind the rest of the world when it comes to moving out of agriculture, and transitioning to other sectors of the economy like manufacturing and services. When the British ruled India, they had an incentive in keeping India out of manufacturing. The only role for Indians was to be consumers of their manufacturing output.

Farmers are also saying that they are more comfortable doing farming (an occupation atleast 12000 years old) rather than move to modern sectors more suited for the technological age. Indian agriculture while it employs around 50% of the population only contributes 18% to India's GDP. Most of the farmers are doing work which creates little or no economic value.

Unwisely the Congress made disastrous choices in terms of making negligible structural reforms during the last 60 years. Indian agricultural reforms are stuck since 1955, not a good sign for any economy. The BJP in 2003 had taken some fledgling steps to reform the APMC through the model APMC act. Consultations on state wide reform had begun then and has been going on for 17 years. There has been some adoption though. Bihar ditched the APMC act in 2006. States like Andhra, Bihar and Madhya Pradesh who adopted the model APMC act saw an average agricultural growth rate between 5-7% after adoption and diversified their crops. Punjab which refused to make any reform, saw an average growth rate of 1.8% during this same period. Punjab has only itself to blame for its current state of problems.

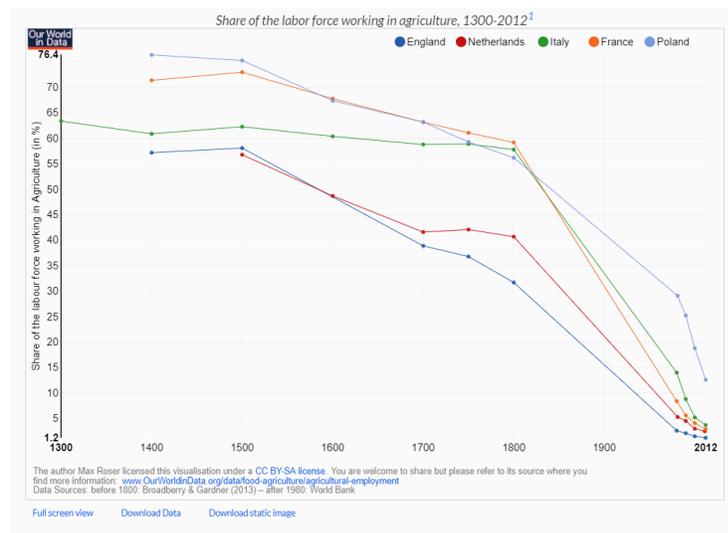


Figure 2: Global trends

China which faces problems like India, managed to move 60% of farmers out of agriculture in the last two decades, unlike India which has managed to move only around 30% of its people in the same time (Figure 1). Indian manufacturing is also miles behind Chinese manufacturing. Agriculture compared to services and manufacturing pays 10 to 30 times lesser, hence it is a question for farmers if they want to make 10 to 30 times more money or cling to low paying agricultural jobs at any cost. Agricultural survey indicate that farmer are not blind to their predicament - about 40-50% of children of farmers want to get out of farming and want nothing to do with it.

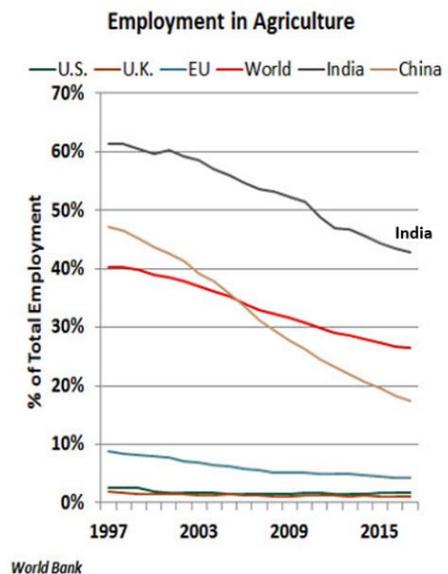


Figure 1: Percentage in Agriculture

- **Shrinking farm sizes:** Farm sizes are shrinking and farming for marginal farmers is a sure path to perennial poverty. The average farm size in India has shrunk 100% from 2 hectares in 1976 to around 1 hectare currently. It continues to shrink as people have more kids and land gets more fragmented. Other countries have broken this vicious trap of poverty by allowing cooperatives, contract farming and forward contracts, by roping in the private sector. But the archaic and Nehruvian era APMC act insidiously prevents any involvement of the private sector. The act ensures that while farmers are free to reach out to a third party to sell, the third party cannot procure from farmers without the approval from mandis. Mandis are also to be paid taxes of 8-14% for services they have not rendered. By becoming a supercop policing private players, Mandis have ended up becoming a mafia cartel, begging the already impoverished farmers and becoming fat cats in the process.
- **Water scarcity:** In regions outside Punjab and Haryana, there is a severe shortage of canals and irrigated water. Hence the farmer is always at the mercy of the monsoons. They indiscriminately use groundwater for cultivating water intensive crops like wheat and rice. This kind of use has caused an astounding 61% reduction in groundwater levels in India between 2007 and 2017. India is the biggest user of groundwater in the world even though it has 17% of the world's population living on 4% of the world's water reserves. It extracts more groundwater than China and the US (the next two biggest users of groundwater) combined. A Niti Aayog report released last year predicts Day Zero for 21 Indian cities by next year because of falling groundwater. Day Zero refers to the day when a place is likely to have no drinking water of its own. Big cities like Delhi are the most susceptible. India is living like there is no tomorrow.

Wheat and Rice are poor choices for India and totally unsuited. MS Swaminathan who worked with Norman Borlaug during the Green Revolution has pointed out that the harmful practices of farmers in Punjab and Haryana is creating a new set of "demographic, ecological and economic problems."

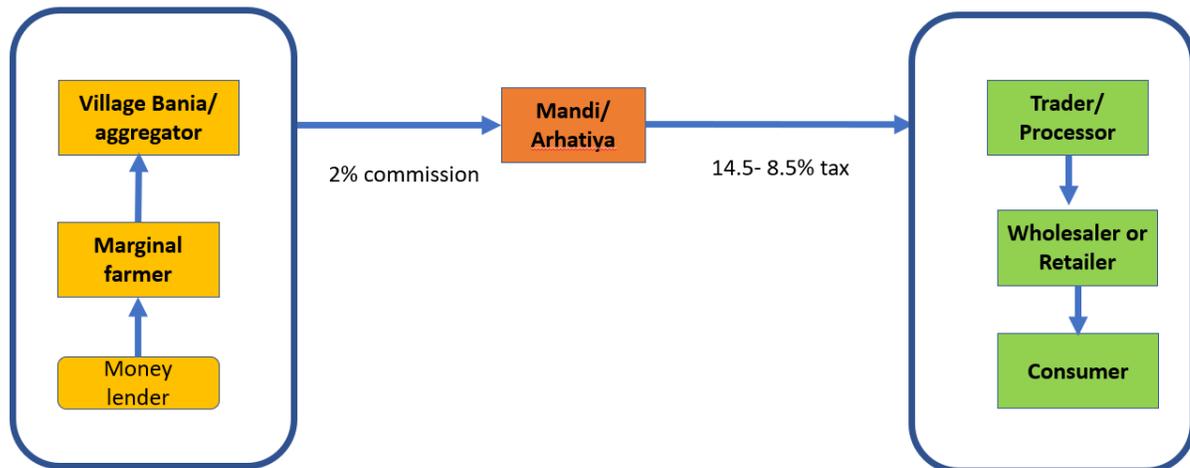
- **Fertilizer subsidies:** Farmers use large amounts of fertilizers which are given as generous subsidies from the central government. The fertilizers ruin the natural soil fertility balance and the land requires increasing doses every year. The chemicals further leach into the water table and cause all sorts of health issues.
- **Unsuitable crops:** One kg of Rice or Wheat each gobble 4000-5000 litres of water per kg. Back of the envelope calculations show that currently India uses as much groundwater for rice and wheat as the entire groundwater needed for its population of 1.4 billion. Farmers have noticed that they keep digging deeper and deeper borewells searching for water which doesn't seem to exist. They seem to still think that their present mode of farming will continue forever. In Punjab, 30 lakh pumpsets are being used compared to 17 lakh, 12 years back. This continues to increase. 80% of land is exploited in Punjab versus 50% in Haryana. The CNN reports that Punjab has turned into the cancer belt with high rates of cancer.
- **Electricity subsidies:** Free electricity in states like Punjab have ensured reckless usage of groundwater. The government is moving to a system of giving cash subsidies and making farmers pay for units they consume. In the current model, unscrupulous farmers can get away by pumping an infinite amount of groundwater. These subsidies comprise 10% of the budget of some states. When a voluntary scheme was launched to meter the connections, just 600 out of 12.5 lakh farmers participated, showing how resistant they are to change.

- **Disconnect with the market:** Because farmer produce foodgrains with no link to the market expectations, their products are not saleable in the external market and are also priced too high for any private player to get involved in. Most Indian farmers just want to produce three water hungry crops covered by MSP – wheat, rice and sugarcane, ensuring that every other crop takes a backseat. 26 crops are covered by MSP in India compared to an average of 3-4 crops in every other country. It is a luxury which a poor country like India cannot afford.
- **Diversification of crops** Why is it that nobody wants to talk about production of fruits, vegetables and milk which consume less water, are more suited for the Indian environment, more exportable and appeals to a growing middleclass. In spite of not being covered by MSP, these options have been very profitable for farmers. Basmati rice is not covered by government procurement, but is more remunerative and requires lesser water.
- **Farmers and NPA's:** Because of supply chain inefficiencies, farmers outside Punjab and Haryana get the short end of the stick. They typically find farming unsustainable as middlemen grab all the supply chain profits. In the past, they used to borrow from National Banks to pay for fertilizers, produce and also the usurious moneylenders. Trying to save farmers, governments started granting farm loan waivers. This ensured a perfect disaster. Most farmers stopped paying loans because they began expecting the state governments to waive it. Because farmers stopped paying, national banks stopped lending. Unwise decisions of lending to farmers under government pressure, Loan waivers and favoring handpicked corporates has meant that Non-Performing assets (NPA's) at many National banks are between 12-15% compared to 1-3% at private banks. Because the big banks don't lend, farmers began to borrow from cooperative banks which are loosely regulated. These banks have historically had close links with state politicians and sugar mills. Research shows that 56% of cooperative banks had chairmen who contested assembly and parliamentary elections between 1993 and 2005. Because of endless loan waivers, farmers don't pay back their loans too. This means that cooperative banks are stuck with NPA's of 18-29%. Next time you hear about your money in Punjab and Maharashtra Co-operative Bank or Lakshmi Vilas Bank being held up forever, you know that your money is compensating for the fact that rich farmers and big corporates either can't or don't want to pay back their loans.

Studies in the past have shown that two-thirds of all government farmer subsidies go to relatively well-off, mainly rich farmers. This is also the same group who don't like to diversify their crops away from wheat and rice, unlike small farmers who are way more diversified, and hence less impacted by MSP changes. Punjab farmers also don't want their waters to be diverted to lower riparian states and think that not diverting water will improve yields, which will enable them to make more rice and wheat.

It is because of all these reasons that I propose that the central government pays the farmers in Punjab for stock they do not produce. Otherwise, the government has to pay inflated electricity subsidies, the inflated procurement prices jacked by middlemen, foodgrain transportation and storage costs, and finally end up seeing foodgrains rotting in granaries because nobody wants them.

Who are the vested interests?



Private sector players like Amul, Suguna, Nestle, Hatsun, and ITC work directly with farmers and set up storage and collection facilities to procure directly. This simplifies the supply chain and makes the overall costs cheaper. But this clearly is not a good deal for the middlemen, moneylenders and loan sharks. They have every interest in ensuring a reliable and efficient source of produce. They have a vested stake in farmer welfare and would harm their own supply chain by exploiting farmers.

The middlemen (arhatiyas) are the most hurt through the farmer law changes. They used to get away charging 2% commission to the farmers and charging between 8.5%-14.5% from the traders without adding any value. In Punjab alone, 400 arhatiyas make around 1600 crores a year which translate to each arhatiya making 40 lacs a year. This pay is way more than what a IIT-IIM graduate with 10-15 of work experience makes in an Indian MNC. A sweet gig indeed for the middlemen. The much pilloried GST act actually brought down the taxes paid by traders to the middlemen from 14.5% to 8.5%. Hence the consumer was the net beneficiary through the GST act.

I don't blame the middlemen who hate losing their sinecure privileges. It would be interesting to look at data about how many of these rich arhatiyas actually end up immigrating to the west with all the excess income they have. 60% of Canada's immigrants come from just one Indian state - Punjab. When I looked at statewide data of SUV car sales per capita and % of foodgrains procured under MSP, the correlation across states is 0.7. If anyone understands even a bit of statistics, it would be obvious that there is a strong correlation between the procurement price paid by the government and the price paid by farmers to buy fancy cars.

The money lenders charge 60% rates of interest because the farmers are unable to reach the traders directly. Because national banks won't lend to farmers and because farmers default regularly, moneylenders have increased their rates of interest from 24-36% to 48-60% rates of interest per year. Hence it is clear where a chunk of the farm loan waivers goes, straight to the hands of moneylenders and repayment of their usurious rates of interest. They will stand to lose a lot if the farmers and traders work directly with each other. When the CNN writes that "eight out of ten farmers are in debt, and the

average amount a farmer owes is more than four times the average annual income”, the question nobody asks is why isn't there any clampdown on the moneylenders.

Are farmers from all over India protesting?

It is silly to say that Indian farmers are protesting. While much of the protests are political, most of the protests seem to be from one state, Punjab.

To understand why, it would help to understand that Punjab rice farmers sell 100% of their produce through MSP compared to say 1% in a state like West Bengal. Farmers from just 3 states – Punjab, Haryana and Uttar Pradesh account for 56% of all wheat and rice procurement by the Government. Hence Punjab enjoys something close to a monopoly when it comes to wheat and rice procurement from farmers. As is the problem with monopolies, they are not sustainable forever.

The Indian Government at some point will need to understand that India is bigger than just Punjab and Haryana. MSP procurement is meant for poor farmers in remote regions across India and is not an exclusive scheme for rich farmers in the richest states. Farmers in Punjab are the richest in India with an average monthly net income of Rs 16,020 (compared to an Andhra farmer who makes Rs 5842 or a Gujarati farmer who makes Rs 3523). Other states like Madhya Pradesh, Chhattisgarh and Telangana are already complaining of being discriminated against and the Government is turning its attention there by building storage and transportation networks.

Secondly, only 6% of produce are being sold under MSP. This means that more than 90% of farmers don't use MSP to sell their produce. If the huge majority of farmers are not using MSP to sell, why should they care about MSP guarantees. Clearly, nobody outside the Punjabi and Haryana farmers have much stake in the current farmer reform discussion. Why should they protest if they don't even avail the service?

Hence contrary to mischievous media reports that "All Indian Farmers are up in arms", it would be more accurate to say that "Rich Punjabi farmers, middlemen and loansharks are up in arms" against agricultural reform. Even their demands are uncompromising – stop all reform and go back to status quo, however terrible it may have been. Which sensible poor farmer would say that the previous system had the best possible outcome and reform should be stopped at all costs.

Are the protests non-political?

Just look at who is driving the protests in the enclosed list. We see the following – a bunch of purely political parties and the Bharatiya Kisan Union (highlighted in yellow). The President of the Bharatiya Kisan Union is Mahendra Tikait, the son of the same leader Mahendra Tikait who brought the Rajiv Gandhi government to its heels in 1988. Mahendra Tikait belongs to the Rashtriya Lok Dal, a Jat and farmer party, which has an alliance with the Samajwadi party in Uttar Pradesh and fought against the BJP. In the 2014 Lok Sabha elections, it was galling for him to lose his election deposits by getting just 9539 votes against the more than 5.2 lakh votes for the BJP. A person who got 9539 votes claims to represent all farmers in India and the media too gives him a free pass. It is fine for protests to be political as it is the job of the opposition to oppose, but protestors to claim no political bias is blatant hypocrisy.

List of protesting farmers' unions

Punjab (Non-political)

1. Krantikari Kisan Union
2. Bharatiya Kisan Sabha Dakaunda
3. Kisan Sangharsh Committee
4. Azad Kisan Sangharsh Committee
5. Jai Kisan Andolan
6. Kisan Mazdoor Sangharsh Committee
7. Kisan Sangharsh Committee
8. Bharatiya Kisan Union Ekta Ugraha
9. Bharatiya Kisan Union Krantikari
10. Bharatiya Kisan Union Sidhupur
11. Bharatiya Kisan Union Kadian
12. Bharatiya Kisan Union Rajewal
13. Bharatiya Kisan Union Doaba
14. Bharatiya Kisan Union Mansa
15. Majha Kisan Committee
16. Indian Farmers' Association
17. Lok Bhalai Insaaf Welfare Society
18. Doaba Kisan Samiti
19. Doaba Kisan Sangharsh Committee
20. Ganna Sangharsh Committee
21. Azad Kisan Committee
22. Kisan Bachao Morcha
23. Bharat Kisan Union

Punjab (Politically affiliated)

1. Kul Hind Kisan Federation (MCPI)
2. Jamhuri Kisan Sabha (Revolutionary Marxist Party)
3. All India Kisan Sabha (CPI-M)
4. Kirti Kisan Union (CPI-ML)
5. Punjab Kisan Union (CPI-ML)
6. Kul Hind Kisan Sabha (CPI)
7. Bharatiya Kisan Manch (Akali Dal)
8. Bharatiya Kisan Union Lakhowal (Akali Dal)

Haryana and Madhya Pradesh

1. Bharatiya Kisan Union Tikait
2. Bharatiya Kisan Union Chaduni (AAP)
3. Bharatiya Kisan Union Mann (Congress)
4. Rashtriya Kisan Mazdoor Mahasangh

Hypocrisy is abundant in Indian politics and academia. While the ruling party has accused the Congress, SAD and AAP of both promising and supporting changes in APMC earlier and now walking back on their word, these parties in turn accuse the BJP of the same hypocrisy of opposing farm law reform during Congress rule. Almost every party had agreed to agricultural reform in the past, and it is blatant politics to oppose it now.

Academia is no exception to the hypocrisy all around. Kaushik Basu and Raghuram Rajan, both chief economic advisors who had preached about APMC reform and private sector involvement now claim that private sector would exploit farmers and that the laws should be repealed. Rajan once said "The private sector should be allowed to operate in developing these market linkages." A pity that economists are worse than politicians and don't have any moral courage to say the truth.

Will farmers be screwed by privatization?

Indians have a paternalistic and socialistic approach to privatization. Nehru nationalized Indian Airlines hoping to provide top notch service and to make it accessible to everyone. Indira Gandhi did the same with Indian banks to make it accessible to the poor. The end result was extraordinary corruption, shutting the doors to the poor, rampant inefficiency and a bloated bureaucracy. Air India is an example of a guzzler which needs tens of thousands of crores a year to keep a bankrupt enterprise afloat.

It is rather inane to say that Mandis would shut down because of privatization as the Indian Government is duty bound to provide foodgrains to the very poor through the PDS in the foreseeable future. Hence, Governments will need to keep procuring. The question here is not of Government procurement, but of the extraordinary glut produced by farmers of produce, the market doesn't need. Should it rot in the granaries or should the private sector get it?

Rather than blame the previous leaders, it is perplexing to comprehend why present-day Indians mistrust industry and hope that Government intervention alone will solve all their problems. In India, whether making jam through Kisan or cars through Maruti, the government is expected to step in to provide every service. What people don't realize is that Governments worldwide have historically done an extremely poor job in replacing the private sector. The examples of Russia and Venezuela with food shortages and long lines waiting for food, are examples of how disastrous government control can be.

To be fair, some Indian private sector companies have been very corrupt and inefficient in the past. They have cunningly used Governmental socialistic restrictions on competition through licenses, to maintain their own monopolies. The reason why Indians got a bad deal is actually because of stunted competition and monopoly cartels. The solution will have to be more privatization and open market competition rather than less competition. Unless we learn to trust the average Indian to innovate and make profits, government control will never find a solution. We have already seen the havoc which government control has inflicted over 60 years, hence there is no hope in going back to status quo.

Take the example of South Korea. At one time, they were among the poorest countries in the world. President Park in the 1960's unleashed reforms to industrialize Korea and create a buzzing private sector. Because Korea was so behind the rest of the world, he divided the economy across conglomerates (chaebols) and gave them time, resources and space to grow. Within a couple of decades, companies like LG, Samsung, Hyundai and Kia Motors compare with the best of companies worldwide. Samsung alone contributes to 17% of South Korea's GDP.

Hence inordinate distrust of the private sector only keeps the people poor and foolish. An average South Korean makes around 31362 USD a year compared to 2009 USD a year for an average Indian. Infact the GDP per capita number for India of today is comparable to South Korea of 1980. We are 40 years behind the income trajectory of South Korea.

Why not give MSP prices to all farmers?

The people advancing this argument have absolutely no understanding of how markets work. Around 60-80% of foodgrain procurement in India currently happens through the private sector. Some pay the MSP prices but most do not. Forcing every private player to pay MSP will bankrupt them as the market doesn't demand it. This will destroy even the existing supply chain by making them go out of business. And if they go out of business, every other food crop will also be impacted and then the demand will be for the government to extend MSP to all foodcrops. The logic being that if MSP can be forced on 26 crops, why not extend it to every agricultural produce in the country?

The end result will be a majority of foodgrains (60-80%) will not be purchased by private players and will be being stuck with farmers because nobody wants their produce. Punjab is the most unequal state in India with small and marginal farmers have the smallest land holdings. Each one of the small and marginal farmers in Punjab and other states will then come close to penury and that will force the Indian Government to buy all the foodgrains which the private sector will not buy.

Currently buying even 20-40% of the rice and wheat costs the Indian Government around 1.5 lakh crores. Buying another 60-80% could set the Government back by 7.5 lakh crores just for wheat and rice. Accepting MSP for 26 crops means that the Government will need to end up buying all the produce of these farmers, if the private sector does not buy. If MSP is extended across all crops in India, the government can then just shut down completely. This is something the mischievous media refuses to discuss and protesting farmers seem to ignore. Where will the Government get the additional 6 lakh crores? Should the Government spend all its time on saving agriculture (18% of its GDP) and ignore every other sector (the balance 82%)? Should they be procuring produce which nobody in external or internal markets wants to buy. Because the MSP prices are uncompetitively priced higher than markets, it can't even be exported and will just rot in the granaries. Political interference in the laws of economic laws of demand and supply will only have devastating consequences.

One important reason for private companies not paying MSP is a structural issue which nobody, including farmers, wants to address. The catch is that unlike governments which absorb supply chain inefficiencies, the private sector has to pay an inordinate cost to store and transport foodgrains. There is negligible supply chain and storage infrastructure in India. Governments in the past have been ineffective in addressing these issues. They had unwisely sacrificed the long-term interests of farmers in favor of votebank subsidies like free power and increased MSP prices. Other than them being counterproductive, these subsidies go straight to the hands of the richest farmers. Why does less than 1% of India pay income tax? Why are the rich farmers who also get enormous subsidies, exempt from paying tax?

Sugarcane farmers already have a model where something akin to minimum MSP is expected from all procurers. Because of price guarantees, most farmers have stopped diversifying their crops and moved en-masse to making sugar for the mills. It has been a mess where the prices of sugarcane are well above international prices and extremely uncompetitive. Because Governments don't have funds to pay farmers the exorbitant prices, farmers keep waiting two years and more to get paid. Much of the Maharashtra suicides derive from unpaid sugarcane dues. When asked to diversify to more remunerative crops, their response is either "Sugarcane is the crop of our forefathers and we are

carrying forward the legacy. Why would we grow anything else?” or a misplaced sense of pride “A cane farmer has more respect than someone who grows vegetables.” Economic logic doesn’t seem to matter. Governments need to rethink why they would want to subsidize a crop which is overpriced in the world market and has no buyers. Why not just pay farmers directly for produce they don’t make?

Supply chain logistics can only be built by massive investments in storage, roads and transportation. It requires deep pockets to finance these enterprises. While sectors like the internet economy and agricultural supply chains need enormous resources, rich countries like the United States managed this by massive government investments in the beginning and later opening it to the private sector. But for poor countries like India which can’t afford the initial massive investments, either they sacrifice their short-term gain for the long-term benefits like what China did (a concept which most Indians don’t seem to appreciate or understand) or they lean towards corporates with deep pockets like Indian or MNC conglomerates.

Blind mistrust of corporates is dangerous. There are only 2 options for investments, Governments and the private sector. If governments have not delivered, it has to be the private sector. There are no further choices. While people seem to relish blaming the Ambani and Adani duo for corporate excess, they are among the few best in class Indian companies which have proven themselves over the years in energy and telecom. Reliance Jio created value where nothing existed. When nobody thought of investing in the Indian internet economy and when few Indians had access to the internet, today every tech company is tying up with Jio to enter India. It was impossible to think a couple of years back that Indians would lead most other countries in data usage. Once someone does the plumbing for infrastructure, only then can other players like the average entrepreneur enter the space and expand the pie.

What is the path forward?

These are the demands of protesting farmers. The prime concern seems to be mistrust of the private sector and questioning the intentions of the government. Much of the farmer opposition is based on “what if” scenarios which is based on wild speculation about their futures. Many are slippery slope arguments, and arguments on conjecture.

One must understand that democracy is fought through the ballot box and in the legislature and not on the streets. People in India voting in majority for a certain government repeatedly does mean that they are probably looking for reform. A couple of disgruntled elements, pulling together a crowd of tens of thousands of people, cannot either reflect the aspirations of 1.4 billion people or hold the future of everybody else to ransom.

By demanding more MSP and trying to finish the private sector by asking for mandatory MSP, can the farmers decide that India should stop investments in infrastructure, education, schools, defence, manufacturing and route all their funds only to farmers?

1. Repeal of three new agricultural laws.

I argue that demand 1) is disastrous because considering the nature of Indian democracy, this means that nobody can ever reform agriculture in the future. If the current dispensation cannot make any changes to agricultural laws, this will encourage everybody in the future. The current government also has a brute majority which probably will not happen for a couple of lifetimes. In the meantime, farmers will destroy both their livelihoods and those of everybody else in India because their current approach is not sustainable.

2. Guarantee of MSP to ensure procurement for all 26 crops

I have already argued that demand 2) belies a lack of understanding of even basic laws of economics. If you want to destroy the private sector which buys 94% of foodgrains and force the government to a single point agenda of buying foodgrains, please go forward replicating the blunders made by Russia and Venezuela to economic catastrophe and ruin. They had massive oil resources to back them up which India doesn't, which means that India will face even further deprivation.

3. Withdrawal of the Electricity (Amendment) Bill

4. End the fine and jail sentence for stubble burning

5. Slash diesel price for agricultural use by 50%

Demands 3), 4) and 5) are for the long-term sustainability of the Indian environment. If farmers want to adopt a scorched earth mentality of not caring for the future and destroying the future of everybody else in the bargain, they could go forward. It is difficult to make a case for continuing to burn stubble. But these are the supposedly non-political “farmers” who are choosing anarchy by destroying mobile towers and tool booths, to teach private players a lesson.

But again, to be fair, these reforms are not as pressing as the others. Implementation could wait a bit longer depending on how serious one thinks global environmental issues are.

6. More MSP as recommended by the Swaminathan Commission

7. Written assurance on MSP

Demand 6) will bankrupt the Centre eventually over time as more farmers move into making wheat and rice. They will buy foodgrains to rot in the granaries and will not be able to sell the produce in the open market except at a loss. Demand 7) is something the government could promise for its own procurement, but would be insensible for the government to promise on behalf of the private sector.

These demands will also prevent farmers from shifting to other crops which are more suited for India and are more remunerative. Farmers should ask for more access to the open markets and not for increased protection. They should be asking the government to step away rather than asking them to be more involved. Farmers should be asking for more logistical, supply chain and distribution help rather than asking for just pure MSP increases.

A perfect example of a hamheaded approach of the government is when it bans export of food staples and vegetables like onions at the slightest sign that prices for Indian consumers are shooting up. If farmers can get higher prices outside India, the exports should not be blocked. Governments are always trying to balance the interests of consumers and farmers. But asking for increased Government presence is typically an invitation to disaster. The IIM experience with the centre is a good example that governments interference can be counterproductive.

What will happen if other states also begin to demand MSP purchases like the situation in Punjab and Haryana. Since the Government granaries are full and there is no offtake, what will they do with additional stock? And don't farmers have nothing more profitable to do except produce foodgrains nobody wants? Where will the money for additional purchases of foodgrains come from? And if the groundwater reserves dry up, wouldn't all this madness will come to a stop immediately? Why are farmers asking questions about long term sustainability?

8. Centre should not interfere with state and decentralize

9. Withdrawal of cases against all activists, poets, intellectuals and writers

10. Release of accused booked under Delhi riots and Bhima Koregaon violence

Demands 8), 9) and 10) are very political demands and have no connection to agricultural law reform. Regarding demand 8), the Indian constitution guarantees a top-down administrative model. Nehru always wanted extreme centralization and was inspired by Stalin to create his vision of a socialist India. Neither Nehru or his scions were ever known for consultations with states on critical matters. The 1991 economic liberalization and other reforms were pushed by stealth and not by open discussion. Even parties like the BJP opposed liberalization at that time. To be fair, endless consultations prevent reforms when it is most needed. In spite of every party wanting agricultural reform at some stage, they become blatantly partisan when they are in the opposition. These bad faith positions ensures that discussions are typically forgotten when reforms are driven by different governments. This has been the bane of Indian democracy. There is very little appreciation of a long term strategic self interest.

While decentralization is a valid and sensible ask, the best way to make this happen would be through constitutional amendments. But since the central governments would never want to let go of their unrestricted monopolistic powers, there will be no easy solution. This demand will continue to be an unattainable goal. The police and judicial system should adjudicate on demands 9) and 10), and ways to restore faith in them should be found through reforming the structure of democratic polity, and not by bypassing them through Civil disobedience and instigated unrests.

The Central government is not totally blemish less in this episode. They have enough political goodwill to ensure that farmers rally to their cause. While the approach may look hurried, they should find a way to compensate atleast in the short term, those middlemen who are most impacted by the changes. Even the erstwhile royal families who were impacted by the privy purses act, both seceded to India and moved away from privy purses over time, as it was a gradual transformation. Moving from agriculture to another sector is a difficult ask and should be accompanied by changes in industrial laws, legal systems, investments in education, upskilling and breaking stranglehold of unions. Hopefully these changes are the beginning of meaningful changes in other sectors. However jerky the reform journey will be, Indians meanwhile have to decide whether they want to embrace change or become a relic of the past.

Ultimately prices are a tug of war between farmers and consumers. Under the existing model, only one of them can win at the other's expense. Either farmers get compensated well for their produce and consumers complain of high prices, or consumer get produce at dirt cheap prices where farmers get shafted. The only way to break the logjam is to remove the middlemen, dramatically improve efficiency, and make sure that both farmers and consumers benefit. Programs and packages to diversify crops will help.

If this is the way Indians embrace reform, it is sad. Even a baby who refuses to leave the protection of the mother for fear of the world outside will find its development severely stunted, and it will never be an adult. It is the same with the protesting farmers.