

Repeal of Agriculture Reform Laws: Tactical Retreat by the Indian Government

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Summary

In September 2020, the Indian Parliament passed three Bills seeking amendments to the existing farm laws. These were seen as progressive steps but met with resistance from farmers in Punjab and western Uttar Pradesh (UP). The government engaged with various farmers' groups in several rounds of discussions and even deferred the implementation of these laws. Repeated attempts by the government could not persuade the farmers to accept the amended Acts. The agitation has continued for a year with neither side willing to step back. The government has now announced a repeal of the Acts. It is surmised that the decision to resile was taken in the light of perceived reverses for the Bharatiya Janata Party in the upcoming elections in UP and Punjab. However, it is hoped that the tactical retreat is merely to assuage a section of farmers and that the long-term intent for economic reforms will continue to be pursued through more robust and informed debate in parliament.

Introduction

The introduction of the three laws relating to reforms in the agriculture sector was seen as a major initiative by the National Democratic Alliance government to bring about a revitalisation of the private market for better price discovery and not compel farmers to sell only to government agencies at fixed prices. The attempt was to integrate markets to provide sellers the freedom to decide when and at what price to sell. To provide a perspective, the first law permitted farmers to sell their produce anywhere and not be constrained to sell only in designated *mandis* (market yards). The second law provided a framework for contract farming agreements between sellers and buyer entities. The third law exempted certain commodities from the purview of the Essential Commodities Act (ECA) and restricted its applicability in extraordinary circumstances. When promulgation of the laws met with resistance from farmer bodies from Punjab, the government redoubled its efforts to explain the benefits to the farmers and counter the narrative that the laws were a sell-out of farmers' interests to corporates. Soon, the government started a series of dialogues with farmer associations. Eleven rounds of negotiations were held but the farmers agreed to nothing but repealing the laws. The protests prolonged and even turned violent leading to loss of lives. Despite all attempts, both sides appeared to dig their heels in. The protest soon spread from Punjab to western Uttar Pradesh (UP).

Farmers Mis(guided)

The narrative that seems to have 'mis(guided)' the farmers is that the Agriculture Produce Marketing Committee (APMC) would be disbanded leaving them at the mercy of large

buyers; that the new laws would gradually lead to withdrawal of the Minimum Support Price (MSP); and that their holdings would be taken over by large companies. Since the government had not done widespread advocacy of the benefits of these laws before introducing them in parliament, and as there was minimal debate in both Houses on these aspects, an effective counter narrative could not be built to disabuse the farmers of these misgivings. The suspicion that seems to have settled in the minds of farmers is that the government had an ulterior motive in introducing these laws so that large corporates could take control of their lands. Meanwhile, the Supreme Court had been approached by some farmer's association to have the laws withdrawn. The apex court had even set up a panel of experts to suggest a way forward.

The government, on its part, had offered to make concessions on certain substantive portions of the law. It had even deferred implementation. Remaining steadfast on its intent to not repeal the Acts signalled the government's firm resolve in implementing the reform package. It was also felt that with these reforms, capital would flow into a sector which was crying for capital intensive initiatives, be it in cold chains, warehousing or agro-processing. The laws were in fact designed to enable private sector participation in the farm sector to give farmers greater freedom of choice on timing and price of the sale of their produce.

An objective analysis would indicate that the laws were a progressive decision, designed to benefit farmers across the country and encourage the investment of capital in building up agro-infrastructure. The fear of the archaic ECA, introduced in a food shortage era, inhibits equity investors since in times of price surge, holding stocks make them vulnerable to prosecution under the Act. The new Act permitted farmers to decide on when and whom to sell, while still retaining the government's mandate to intervene in wholesale trade in extraordinary times.

Farmers Insist on Statutory Support for MSP

The government announced its intent to repeal the laws since the farmers did not appear to be convinced of the benefits that would accrue under the Act. However, the agitating farmer associations from UP, Haryana and Punjab have announced their decision not to call off the agitation unless, inter alia, the government commits a statutory guarantee for the MSP and withdrawal of the Electricity Amendment Bill. There is need to delve deeper into why the farmers are so adamant on this issue.

The Food Corporation of India (FCI) statistics for wheat and paddy procurement indicate that 95 per cent of paddy procured in 2021-22 was from Punjab and Haryana.¹ The facility of free power for agriculture operations² in these two states has provided farmers with the easy option of pumping out rapidly depleting groundwater to cultivate paddy and offer it to the FCI at the MSP. Besides the fact that optimally, paddy should be cultivated in water rich

¹ Kanika Datta, "The big shocks, a Pyrrhic victory for protesters & more", *Business Standard*, 22 November 2021, https://www.business-standard.com/article/opinion/best-of-bs-opinion-the-big-shocks-a-pyrrhic-victory-for-protesters-more-121112200048_1.html.

² "Why give free power to rich Haryana and Punjab Farmers: HC", *The Times of India*, 21 May 2019, <https://timesofindia.indiatimes.com/city/chandigarh/why-give-free-power-to-rich-haryana-and-punjab-farmers-hc/articleshow/69421203.cms>.

states like West Bengal and Bihar, procurement under the MSP makes the financing of inefficient farm subsidies unsustainable for the Union budget in the long term. It also ends up subsidising undeserving rich farmers who benefit from free power and easy access to the MSP. It is probably for continuance of this undeclared benefit that the farmers have decided to continue their protest till the MSP is given statutory protection, despite the government announcing to roll back the laws in the forthcoming session of parliament. The FCI is already holding much more food grain stocks than the prescribed buffer. Excess stock holding has led to a deterioration in quality besides incentivising a sub-optimal cropping pattern. Farmer leaders will never encourage this aspect to be transparently discussed as to how a major proportion of the farm subsidies is being cornered in these two states. They have diverted the narrative towards more “eye-catching” optics such as their being placed at the mercy of corporates or that gradually the MSP would be withdrawn or that they would have to sell at prices determined by large companies. The government has not succeeded in countering that narrative effectively.

The Reform Process Should be Led by States

It is of significance that much before the central government decided to amend the three laws, as many as 23 states had permitted the direct purchase of food grains from farmers. Some of these states had allowed e-trading, single point levy of market fee and had issued single trading licenses for the entire state.³ These states had permitted contract farming, private wholesale markets and even exempted fruits and vegetables from APMC regulation. It is thus clear that the felt need for reforms has been exactly along the lines that the central government had proposed, and state governments have been implementing such flexibility as the central laws proposed. It would, thus, make ample sense to have the states lead the reform process and formulate policies as is the consensus with farmer groups in each state. This may make ground-level implementation more assured and acceptable. It would also serve to isolate states or farmers’ groups not acceding to reforming the process in their state, thereby denying them benefits of capital infusion, infrastructure creation and higher price realisation. Taking this route would, at least, not deprive progressive farmers of other states the benefits which should have accrued under the proposed central reform laws. This may provide a demonstration effect to the dithering set of farmers when they see the benefits accrue to those of neighbouring states. The government had earlier announced investments in the farm sector to link farmers with markets to enhance price realisation by the farming community. It would provide the impetus to reforms if incentives and technology extension services are made accessible to farmers to wean them away from cultivating traditional varieties of grains and guide them towards superior varieties of higher value crops.

Polls in UP and Punjab Instigated the Rollback

The states of UP and Punjab are due to have assembly elections in early 2022. The prospect of the oncoming elections was seen as a major opportunity by the agitating farmer groups

³ Sanjeeb Mukherjee, “Centre looks to take the state route after repeal of three farm laws”, *Business Standard*, 20 November 2021, <https://www.business-standard.com/author/search/keyword/sanjeeb-mukherjee>.

to continue to build pressure on the government. The Bharatiya Janata Party (BJP) seems to have assessed the seriousness of the protests and the extent of erosion it could cause to its share of votes in the poll. There were clear indications of farmer angst against the BJP on these farm laws. This angst spread fast from districts in western UP to the foothills of Uttarakhand and nullified the caste based favourable ground level support that the BJP had choreographed for itself. On the other hand, in Punjab, there were indications of a washout of its support base which in any case was not substantial. In Haryana, the present government seems to be losing its grip on the populace though the farmers' agitation was not too virulent there. In the ultimate analysis, the BJP was faced with a rather bleak prospect in the oncoming polls. There appeared to be huge political costs if the BJP were to stay the course on the Acts.

This feedback appears to have made the BJP have a major rethink. A dispensation not known to ever resile from its public stand has announced its intention to repeal all the three Acts in the forthcoming parliament season.

Only a Tactical Retreat

The rollback should not signal a setback for the future of similar reform related decisions and inhibit foreign investors from rethinking application of their capital. The fear of a determined group of vested interests being successful, in derailing government decisions, may cause a temporary dent in the credibility of the ruling dispensation. However, it is not for the first time that governments, including the present government, have been known to withdraw proposed legislations in the face of protests from citizens. In 2015, the Narendra Modi government had issued a legislation to replace an ordinance issued by its predecessor government to pass a law to facilitate easier land acquisition for infrastructure and industrial purposes. However, that Bill was allowed to lapse as it faced stiff opposition from opposition forces. While that issue was not taken up again, the government did pursue other major initiatives such as the Goods and Services Act and other such reform measures. To that extent, the tactical retreat by the Modi government, in the face of sustained protest even if it were for political expediency, should serve to reinforce trust in the democratic process for important legislative intent. There is optimism in the hope that the ruling dispensation will not lose sight of long-term economic reforms that it is committed to.

Political considerations aside, an interesting admission made by Modi while announcing the decision to withdraw these laws, was that the government had been unsuccessful in persuading a *section of the farmers* about the benefits of the amendments. He also stated that a committee would be set up to *examine cropping pattern changes* and to make the *MSP system more effective* (author's emphasis). This makes it clear that the government has not abandoned its intent in pursuing the reform path. That intent provides a silver lining in the entire imbroglio of introducing the reforms through an ordinance and, replacing it with a legislation with minimal debate inside and outside parliament, prior to the law introduction. The fact that deserving farmers need to be subsidised is undeniable. However, to continue with an inefficient food procurement system under the MSP, the benefits of which have skewed application, needs to be revamped. Added to this aberration is the mindless pumping out of groundwater for an unsustainable cropping pattern. Perhaps the government needs to initiate a nation-wide debate involving farm leaders from other parts

of the country, knowledgeable political leaders and agriculture experts to build up widespread consensus on the way forward rather than to have summarily pushed the package. The agitation was led only by a small cross section of farmers and the prime minister indicated this by stating that the government had been unsuccessful in convincing a section of the farmers. Thus, broad basing the consultation process could bring well-informed and objectively inclined farmers into the process, thereby injecting an element of objectivity in the decision-making.

The Moral: Introduce Reforms after Intensive Debate in Parliament

How much the pull back by the government will benefit the BJP in the forthcoming polls is yet to be assessed but the long-term economic damage needs to be curbed. “Agitational politics” should not be permitted a free run as the forum for discussion and debate over policy issues in any democracy is the Parliament. It will go to the credit of the ruling dispensation if it provides ample opportunities in parliament for discussion on policies of national level significance. On the other hand, the opposition will earn the citizens’ trust if, instead of resorting to disruptions in parliament, it engages the treasury benches in informed debates so that legislations which genuinely improve citizens’ welfare and bring about sustainable economic development are passed.

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