EDITORIAL

On the Farmers' Protests in India

The farmers' protests in India over three Farm Acts passed by the Union Government has entered a crucial phase. As we write this editorial, the agitation is spreading, more farmers are marching to Delhi, talks have failed, and the Central Government is caught in a bind.

In essence, the three Acts pertain to the reversal of a number of public support structures institutionalised in Indian agriculture since the green revolution of the 1960s. First, they aim to replace the dominance of regulated market structures (*mandis*) with private markets or with direct purchases by large retail chains. Secondly, they aim to provide a regulatory framework for contract farming in Indian agriculture. Thirdly, they aim to remove the stock limits for traders, processors, and exporters of agricultural products in order to attract more private investment in storage and warehousing.

The most important criticism against these Acts is that they may not be constitutionally valid. Agriculture is a State subject as per Entry 14 in the State List of the Indian Constitution. This apart, Entry 28 in the State List refers to "markets and fairs." In other words, any reform of the Agricultural Produce Market Committee (APMC) system comes under the legislative purview of States. Thus, the Centre appears to have usurped the role of the States in enacting the three Farm Acts. Many petitions have already been filed in the Supreme Court of India questioning the constitutional validity of the Acts.

But the content of these Acts have also received considerable criticism. The claims of the government have been contested by both scholars and farmers' organisations.

First, the government claims that the Acts offer freedom of choice to farmers in respect of the sale of their produce. The fact is, however, that *mandis* have no monopsony in agricultural markets. Most of the sale of farmers' produce happens outside *mandis*. In 2012–13, only 29 per cent of paddy and 44 per cent of wheat produced were sold by farmers directly to a *mandi*. This "freedom" exists, *de facto*, for two reasons. One, there are not enough *mandis* in India. Far from the recommendation of one *mandi* per 80 sq. km (given by the 1976 National Commission on Agriculture), there was only one *mandi* per 463 sq. km in 2015. Two, most small and marginal farmers do not produce enough to be able to afford the transport costs of taking the produce to a *mandi.* This situation is unlikely to change even if private markets are established.

Secondly, the government claims that the establishment of private markets that purchase directly from farmers will eliminate middlemen. Available evidence shows that this is unlikely to happen. Private markets and private collection centres incur significant transaction costs in purchasing small quantities of produce from thousands of small and marginal farmers. These large transaction costs act as a disincentive for private players to invest in rural markets. A possible solution is the aggregation of farmers' produce by farmers themselves. However, the avenues for such aggregation are limited. Further, the experience of States where APMC reforms have been undertaken do not inspire confidence in the possibility of private investment flowing in. A good example is that of Bihar, which annulled its APMC Act in 2006. Here, formal and regulated trade in the erstwhile *mandis* was replaced by informal and unregulated trade, leading to poorer product prices for farmers.

Thirdly, the government claims that farmers would receive higher prices because of competition between *mandis* and private markets. We have already referred to the unlikeliness that private markets will replace *mandis.* But even if private markets were established, the possibility of higher prices for farmers would depend on whether private transactions costs are likely to be lower than the existing *mandi* taxes. If transaction costs are higher than *mandi* taxes, which is likely because we have to add margins to costs, these expenses are likely to be transferred either to farmers as lower prices or to consumers as higher prices.

Fourthly, the government claims that effective regulation will boost contract farming. However, the overall criticism has been that the present Act is more *promotional* than *regulatory.* It is true that contract farming offers one way of tiding over price risks faced by farmers. At the same time, experience with contract farming shows that private companies often breach contracts. One may argue that farmers can take companies to court. However, farmers are, in general, unable to challenge the legal prowess of private companies. The present Act has no effective means of disincentivising companies from breaching contracts.

Fifthly, the government claims that private investment will flow into storage and warehousing once stock limits on trade are removed. The fact, however, is that higher levels of private investment are unlikely to enter the sector in the near future. At the same time, a few private corporate players are likely to create a foothold in certain crops and regions where favourable conditions prevail. In the long run, if the procurement system is thus weakened and the *mandis* wither away, the stranglehold of large agribusiness in agricultural marketing will tighten and the bargaining power of small and marginal farmers will decline.

The overall fear with regard to the three Farm Acts is the growing clout of private corporations in Indian agriculture. India's agrarian system is dominated by small and marginal farmers, and their ability to effectively engage with a corporation-dominated market system is rightly expected to be poor. This is one reason why the protests have spread across States and attained a pan-Indian dimension.

It is unclear how the protests will end. It is also unclear if this will be a watershed moment in the history of farmers' movements in India. But what is clear is that the struggle has captured the imagination and attracted the solidarity of large sections of Indian society and posed a formidable challenge to the government in power. In our view, it is advisable that the Government of India repeal the three Farm Acts. As the Constitution correctly envisaged, the issues involved in such legislation are best left to the States.