PUNE INTERNATIONAL CENTRE

A 2020 Vision of India's Farm Market Reforms

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Executive Summary

Concern for farmers and market facilitation by the State is as old as Indian civilization. One finds references to these concerns in Indian epics, Kautilya's Arthashatra and also in ancient and medieval Indian treatises on agriculture. While the British colonial administration was concerned with farm markets that ensured seamless dispatch of raw material to England, the post-Independence era saw farmers' concerns being addressed by provision of market-yards through APMC Acts of the State Governments. The Central Government too played a role with announcements of minimum support prices (MSP) for quite a few crops.

Over decades however, these initiatives had their unintended consequences. APMC markets became monopsonies preventing remunerative price realization by farmers. Central Government too could not commit itself to buying farm produce at MSP from all farmers except perhaps from a few States such as Punjab and Haryana. Contract farming was successful in a few States and for a few products; however, it never reached a threshold in most States. Therefore, it became necessary to find alternatives to generate remunerative prices for the farmers. In this context, I discuss the institutional structure of the Indian farm markets and the sequential policy reforms initiated over the past few decades, including the latest farm market Acts introduced in 2020.

Through the latest Acts, the Government has got the 'science' of the farm market reforms right. However, it needs to hone the 'art' of the policy implementation through staggered reforms in various commodity groups within the agricultural sector.

1. Introduction

In September 2020, the Indian Government signalled farm market reforms by enacting two new farm bills and amending another related Act. A protracted agitation against the Acts since then in the outskirts of New Delhi has spotlighted the efficacy of the reforms and farmer welfare. The issues pertaining to the agitation are quite a few – whether or not farmers will receive remunerative prices if they are freed from the restriction of selling their produce in the Agricultural Produce Marketing Committee (APMC) yards nearest to their farms; whether or not minimum support price (MSP) procurements will continue to operate; whether or not promotion of contract farming will help farmers and protect their lands; and whether ending restrictions on private stock holdings of farm produce will help the farm sector. The Acts, the concerns and the prolonged agitation have underscored the civilizational importance of political economy of agriculture going back to many millennia.

India is one of the few countries in the world where agriculture as a formal occupation has had a continuous multi-millennial existence. If one finds instances of growing and export of cotton from the Sarasvati Sindhu civilization that existed circa at least 2500 BCE, one also finds references to agricultural management in the Indian epic Mahabharata. Later, the economic treatise Arthashastra written by Kautilya circa 320 BCE also talks of agricultural policy. For example, in Mahabharata, among other things about agriculture, sage Narada advises King Yudhishthira that farmers be given loans and seeds at affordable prices. Kautilya too had clearly identified the role of the superintendents of agriculture and markets. They were to create physical market infrastructure for sale of farm produce and check collusive behaviour of the traders (Deodhar, 2019; p. 49, 117). There is also documentation of crop management in treatises such as Krishi Parashara circa 100 CE, Kashyapiya Krishi Sukti circa 800 CE and Vriksha Ayurveda circa 1000 CE. Among other things, Kashyapiya Krishi Sukti mentions the supportive role of the king to farmers in terms of market facilitation through traders and giving subsidies to the deserving farmers.Yet another work on agriculture is by Dara Shikoh circa 1650 CE titled Nuska Dar Fanni-Falahat (Ayachit, 2002, pp. v &132).

In the post medieval period, documentation of the agricultural produce and market regulation evolved with the need of the British colonial rulers to procure cotton for the mills in Manchester. In 1928, the Royal Commission on Agriculture recommended regulation of marketing practices in Indian agriculture. By 1938, a model bill was prepared and circulated in various Presidencies in India with a view to regulate trading practices and create market-yards in the countryside.

Later, when India became independent, Schedule 7 (Article 246) of the Indian Constitution made agriculture a State subject and put the sector in the State list. This was done to accommodate matters of regional and local importance and diversity of interest at the State level. This set the stage for enactments during 1960s and 1970s of Agricultural Produce Markets Regulation Acts in States. The sale of farm produce at the wholesale level was brought under the ambit of these State Acts and Agricultural Produce Market Committees (APMCs) were set up with dedicated market-yards for the sale of agricultural produce.

2. Monopsony in APMCs

Importance attached to this institutional development of APMCs was not surprising since share of agriculture in India's GDP averaged about 45 per cent during the 1960s and 1970s (GOI, 2011). Today, although this share has more than halved, the livelihood of about 58% of India's population still depends on agriculture. There are about 146 million landholdings in India and the average land size is just about 1.08 hectares. Importantly, more than two-thirds of these holdings are marginal, i.e., landholdings of less than 1 hectare (Agricultural Census, 2016). Clearly, a representative farmer in India is not well-off and the physical infrastructure of the APMC markets at district levels was created to protect the interests of the small and marginal farmers. As per the State Acts, all farmers in the neighbouring areas have had to mandatorily sell their produce in the nearest APMC market, where only licensed commission agents operate as middlemen to purchase farm produce. A market (APMC) fee and commission of the agents was required to be paid for concluding the deals between farmers and the buyers.

It so happened over the years that only a few traders would specialize in the purchase of different kinds of farm produce by getting the requisite licences to trade in specific APMCs. The APMC, therefore, resembled an oligopsony market structure, with distinct possibilities of monopsony emerging due to collusion among the few traders. With many farmer sellers, a few buyers, perishability of the produce, restriction on selling produce in the local APMC itself and the eagerness of farmers to return home with cash for the harvest festivals, the markets seemed to display the stylized 'monopsonistic exploitation,' a situation described by the late British economist Joan Robinson. The outcome of the APMCs was therefore just the opposite of what they were instituted for – generating remunerative prices for the farmers. When markets are competitive and allow farmers the possibility of selling produce where the prices are high, it results in spatial equilibrium where the law of one price would prevail. Studies on farm produce prices across APMC markets revealed that the markets were not integrated and the law of one price did not prevail (Deodhar, et al, 2006). Thus, spatial arbitrage was not taking place, the benefits of which would have gone to the farmers. The Swaminathan Committee (2006, p. 161) had also suggested opening up of the APMCs for inter-State marketing and participation of cooperatives and corporations at APMC.

3. MSP and FCI

With a view to buttress remunerative prices for farmers, procure food crops for buffer stocks and give incentives to produce more using modern technology, the Central Government has been announcing minimum support price (MSP) for quite a few crops since 2010. Currently, MSP is announced for about 23 crops based on the recommendation made every year by the Commission on Agricultural Cost and Prices (CACP) of the Ministry of Agriculture. Since the announcement of the union budget of 2018-2019, the Central Government has mandated that the MSP will be 1.5 times the cost of production. CACP defines A1 as the cost of cultivation that includes all out-of-pocket expenses for farming operations and consumables. A2 cost of cultivation includes A1 plus rent paid on leased land. For the last two years, MSP is calculated as 1.5 times (A2 + imputed value of family labour). In the calculation of MSP however, opportunity cost of owned land (rent) and interest on value of fixed capital assets is not included. What this means is that the mark-up of 50 per cent is mostly the producers' surplus, which includes returns to fixed factors and economic profit of the farmer. Farmer groups of course will always claim that opportunity cost of their owned land and fixed capital assets should also be included in the cost of production to arrive at the MSP.

The Central Government was able to take a lead in announcing MSP although agriculture is a State subject. This is because the Concurrent List of Schedule 7 of the Indian Constitution provides both the Centre and the States, powers to control production, trade, commerce, supply and distribution of goods of any industry, including agriculture. In fact, when it comes to foreign trade, it is the Central Government which must negotiate on customs duties and subsidies on agricultural products at forums such as the World Trade Organization (WTO). If the Central Government must announce MSP for various crops, it is imperative that it has to be higher than the market-clearing equilibrium price. For, if the MSP is lower than the market clearing price, it will become redundant and farmers will sell their produce in APMC markets at a higher price. However, when MSP is higher than the prospective market-clearing equilibrium price, private traders are likely to buy less at that higher price (if MSP is enforced well, that is). Therefore, it must become the Central Government's responsibility to buy the excess supply. Announcing high MSP and then not buying the excess supply from all over India is a sacrilege – promising something and then not honouring the promise. In fact, the Central Government neither has the finances not the storage capacity to buy all the excess supply at the announced MSP from all farmers. To complicate matters further, an in-house Niti Aayog (2016, p. 82, 85) study shows that while MSP must be announced to farmers well in advance so that they can plan their crop choices better,

quite often it gets announced after the sowing season. Barely 10 per cent of the farmers get an idea of the MSP at the time of sowing.

Of course it is true that the Government of India buys some produce at MSP for the purpose of buffer stocks through the Food Corporation of India (FCI). It also buys for the sale of FCI grains to poor through fair price shops, popularly known as ration shops. However, buffer stock procurement happens mostly from the States of Punjab, Haryana, Western UP and lately Madhya Pradesh and MSP does not mean much for rest of the States. In fact, administrative delays at the APMC in food grain procurement leads farmers to sell their produce outside APMC at lower rates and middlemen end up selling the same produce at higher MSP to FCI. Moreover, the buffer stock requirement of the government is limited. For example, on 1 March 2020, FCI rice stock was about 31 million tonnes, close to 3 times larger than the norm for the quarter starting April 2020 (CACP, 2020; p. xxiii). If one has observed, stocks of foodgrain gunny bags lie in unhygienic conditions at railway stations and on occasion, news of stocks getting gutted in fires, are instances of lack of State capacity. A study on evaluation of Mid-Day Meal Scheme had found the presence of uric acid in the food grain supplied to Government schools (Deodhar *et al*, 2012). As FCI stocks get old, food grain quality deteriorates in terms of safety and nutrition. By its own admission, old and spoiled food grain stocks of FCI are diverted for other purposes such as production of ethanol for fuel and feed. Production of ethanol at times becomes a euphemism for producing alcoholic fluids. Spoiled grains being used for making fuel, feed or alcoholic fluids, is an inefficient and wasteful use of grains, making cost of MSP very high for the nation.

4. Contract Farming and Storage

Providing remunerative prices for farm produce in general has been a vexed issue and the MSP also has had a limited success. However, in a limited way as early as 1990s, Punjab Government had initiated an innovative approach to bolster incomes of farmers by circumventing both the APMCs and the MSP. In those days, beverage manufacturer PepsiCo was allowed to sell soft drinks in India on the condition that it would export processed foods from India. For this purpose, PepsiCo signed a memorandum of understanding (MOU) with the Punjab government to set up a fruit and vegetable processing plant in Hoshiarpur as early as in 1989-90. For the processing plant, it would buy green chillies and tomatoes on contract farming basis from the farmers. PepsiCo would give all the necessary technology assistance and buy the produce from farmers at a pre-determined forward contract price. It was a win-win situation where the firm got assured supply of quality produce, farmers received remunerative prices and local youth were employed in the processing plants. Later, PepsiCo and Punjab farmers engaged in contract farming of potatoes and such contract farming arrangements have continued for the last 30 years (Kumar, 2020). Today, many others firms such as McCain and HyFun Frozen Foods have entered contract farming in a few other states such as Gujarat. They have facilitated cost-saving mechanization of planting, sowing, harvesting and other technologies. Today, PepsiCo buys about 3 lakh tonnes of produce accounting for a transfer of about ₹300 crore to nearly 24,000 farmers. However, the share of corporate investment in agriculture is still just about 2% as compared to 14% by the government and the rest coming from farmers (Fernandes, 2019).

The few exceptions to procurement of agricultural produce through APMCs are not limited to the above-mentioned commodities. Co-operatives such as Amul procure milk directly from its members for milk and other processed dairy products. For more than two decades, Britannia Industries too is in dairy business. In Maharashtra alone, the company directly collects up to 25,000 litres of milk daily and plans to expand to hundreds of collection centres (Rakshit, 2019). Safal, a subsidiary of National Dairy Development Board (NDDB) which has retail outlets for fruits and vegetables in Delhi and Bangalore, also has food processing plants and importantly, it is associated with 8000 farmers all across India. It has also helped establish 93 small-holder grower associations (Mother Dairy, 2021). Farmers have benefited from their long association with these food processing firms.

This also brings up the question of stock holding of the produce. When corporates engage with agriculturists, they are bound to store-up large amounts of farm produce in the supply chain –

either for processing, storage for future production, or for trading. Storage serves the purpose of time arbitrage of agricultural commodities. In the absence of warehousing either by government or by private players, prices received by the farmers would tumble during the harvesting season and shoot-up in later months prior to the next harvest. However, traditionally, Government of India had put restrictions on private stockholding of food grains. In the post-independence period leading to the Green Revolution of the 1970s and 1980s, India had witnessed severe shortages of food supplies. It was the result of such prolonged periods of shortages that the Government had put limits on stockholding by private players. The Essential Commodities Act of 1955 had allowed Government to include any agricultural commodity under stock limits if it sensed shortages and price rise. Post Green Revolution, particularly in the new millennium, shortages were passé. Moreover, we have observed in the previous section that State capacity to store, store efficiently and maintain quality of stored produce is limited. The private sector needed to be given a free hand in stockholding, which would serve the purpose of efficient inventory management of farm produce, both in terms of quality and quantity. Unlocking of restrictions on private sector would also attract private investments in agriculture. In fact, small-size farms make modern investment in vertical farming much more attractive to Indian farmers.

5. Farm Reform Initiatives Prior to 2020

The issues of monopsonistic market structure in APMCs and the lack of remunerative prices for small farmers were noticed by policy makers and politicians for quite some time. For example, a study on apple marketing from the state of Himachal Pradesh through APMC Delhi and to retail stores in Delhi's Khan Market is a case in point. In the final consumer rupee, marketing margins and cost accounted for a whopping 67%, leaving only the rest to the apple grower (Deodhar, Landes, Krisoff, 2006; pp. 29-30). The 67% share does not represent any value addition as such but is a result of cascading margins of commission agents, wholesalers, sub-wholesalers and retailers. To address such issues, as an exception, contract farming and direct purchases by food processing firms were allowed in some select commodities and in some select States such as Punjab and Gujarat. It is also known that on many occasions, the Government ends up announcing MSP after the sowing season begins, which does not help farmers make informed choices. Moreover, even if the prevailing price at an APMC is lower for a crop as compared to the price in other regions of India or the MSP, a farmer is neither allowed to sell the crop in other regions nor does the Government have the finances and physical infrastructure to buy all the produce at MSP. To correct these lacunas, successive Central Governments had slowly but steadily taken a lead to reform the farm markets. The sequencing of these initiatives is as follows:

Model APMC Act of 2003

An inter-ministerial task force suggested amendments to the APMC Acts in 2002. In response to this, the Central Government in consultation with State Governments came up with a model APMC Act 2003 for possible adoption by the State Governments. This Act provided for direct sale of farm produce to contract farming partners and creating special markets set up by farmers, consumers and/or other private entities outside of APMCs. Moreover, licensing in each APMC was to be replaced with registration of market functionaries and allow trade in any market area within the State. Importantly, market committees were expected to use their funds to improve produce handling infrastructure and create grading, standardization and quality certification. However, many States did not amend their APMC Acts accordingly or the amendments were only partial. Even if amended, the minimum limits for setting private markets were too high and small producers could not have come together to form alternative markets. Moreover, even if farm produce was sold outside of APMCs or through contract farming, model APMC Act retained the mandatory requirement of buyers having to pay the APMC fees. Furthermore, this Act did not promote market integration even at the State level, since APMCs or the private markets were not connected to each other in terms of information flow and trading.

APMC Amendments in Maharashtra (2005)

The State of Maharashtra was an exception to this static inertia, where important and substantive amendments to State APMC Act were made as per the Model Act of 2003. In 2005, Government of Maharashtra introduced a provision in APMC Act to facilitate contract farming. To bring competition and professionalism in APMCs, private markets were allowed to operate. Sixty private markets have come into existence because of this provision. About ₹12,000 crore annual turnover accounting for 25 per cent of total APMC turnover takes place through these markets. Moreover, sugarcane and soybean have been allowed to be purchased directly by processors for a long time. Importantly, no fee is charged by the concerned APMCs on these transactions. Traders are allowed to purchase produce directly from farmers outside of APMC and participate in auctions in any APMC in the State provided they procure a licence from Director of Marketing. Perhaps it would have been better to allow such trading only through registration rather than through issuance of licenses, for licensing invites side-payments. Furthermore, a provision was made in the State Act for direct sale of produce by farmers to consumers in farmers' markets. For such markets, local institutions provide the physical space, parking, drinking water and other facilities. The annual turnover of these farmers' markets is estimated to be about ₹3000 crores. And, currently, marketing of fruits and vegetables is allowed without any restrictions and without any market fee or agent fee (Apte, 2021). In fact, farmers from Nashik take their produce directly to Surat to get a better price. So there is no ban on cross border marketing as well.

Working Group Suggestions of 2011

With the exception of a few states like Maharashtra, since the model APMC Act was not being proactively used to amend the State Acts, Planning Commission (2011) formed a working group for seeking suggestions for improving the functioning of farm markets for the 12th Five Year Plan of 2012-2017. The working group report reiterated the advantages of setting up private markets other than APMCs and allowing direct linking of farmers to processors, retailers and exporters. Importantly, it underscored the formation of farmer producer organizations (FPOs) to bolster the collective bargaining power of small farmers vis-a-vis the farm produce buyers. Moreover, to bring efficiency in the farm markets, it suggested treating warehouses and big silos themselves as markets (mandis). What this would promote was avoiding multiple movements and wastage of farm produce and trading taking place through sale and purchase of warehouse receipts alone. Furthermore, to give incentive to expand storage and warehouse capacity, the working group suggested categorising loans for warehouse investments into priority sector lending. This would lower the cost of credit for augmenting storage capacity. Finally, it also mooted the idea of creating virtual spot exchanges for farm produce by linking APMCs and private markets.

State Ministers' Reform Committee of 2013

Following the Planning Commission working group, 'Committee of State Ministers, In-Charge of Agriculture Marketing to Promote Reform' was formed to take inputs from State governments, their marketing boards, farmers and trade and industry representatives. The final report of the Committee had expressed gratitude to the then Union Agriculture Minister for his valuable guidance to the committee. This committee of State ministers was also of the opinion that State Governments should modify their State APMC Acts on the lines of the Model Act. To promote competition among buyers of farm produce, it also upheld the suggestion of opening private wholesale markets and create options for contract farming for the small farmers. In fact, the committee was of the view that to create more competition among traders and provide remunerative prices to farmers, a trader who does not have a shop in APMCs could also operate in APMCs. The committee also suggested that farmer groups could directly sell produce to consumers and that if farm produce moved from one State to another through multiple APMCs, market fee be charged only for the very first transaction.

E-NAM Initiative of 2016

The idea of virtual spot markets mooted by the Planning Commission working group was concretized further in April 2016 when the Central Government initiated an electronic trading portal for the APMCs called National Agricultural Market, popularly known as E-NAM. Small Farmers' Agricultural Consortium (SFAC) formed under the Ministry of Agriculture took the lead in rolling out the electronic marketing platform. Those APMCs which would join the initiative through amendments to their State APMC Acts were provided with online marketing software, installation and free training by SFAC (SFAC, 2015). Now farmers could sell produce in the nearest APMC or any APMC of the State using their mobile application. The State too would be required to issue a single registration for private entities to deal in any of the APMCs in their respective States. Only a single market fee would be charged irrespective of where the produce was sold in the State. This was in line with the recommendation of the State Ministers' Reform Committee (2013). This opened the possibility of intra-APMC electronic trading and intra-State integration of farm markets for better price discovery by farmers. This concept was first introduced in the Karnataka APMCs. While many APMCs joined this initiative if their APMC Acts permitted, the prospect of entertaining buyers on the portal directly from other States also existed. There are about 7000 or more APMCs in India and about 1000 of them from 21 states and union territories have participated in the E-NAM initiative with various degrees of integration (ET, 2020).

6. The New Farm Acts of 2020

The new farm Acts passed in Indian parliament in 2020 were a culmination of the sequential efforts made both at the State and Central Government level to reform farm markets – the reforms had begun slowly with a few State Governments making exceptions for a few commodities in their APMC Acts in 1990s to allow contract farming and private markets. The inter-ministerial committee proposed a Model APMC Act in 2003; Swaminathan Committee (2006) also suggested inter-State sale of farm produce, Planning Commission working group suggested a broader liberalization in APMCs in 2011, State Ministers' Reform Committee reiterated the suggestions in 2013 and E-NAM initiative was launched to create a national electronic market for farm produce in 2016.

Amendment of Essential Commodities Act 1955

While contract farming was allowed in the 2003 Act and even if some States would have amended their Acts to this effect, there would have been limitations on stocking of produce by private entities including large food processors due to restrictions imposed by the Essential Commodities Act of 1955. Since the era of chronic shortages of food was long over, limitations on private stocking of agricultural produce were not required. I also referred to the inefficiencies and absence of State capacity for public stockholdings earlier on. Therefore, Essential Commodities Act of 1955 was amended in September 2020. The amended Act stipulates that stock limits do not apply to processors and value chain participants if their stockholdings do not exceed their overall ceiling of installed processing capacity or the export demand. This is only fair from the perspective of inventory management and smooth conduct of the food processing operations. Of course, over and above such stocks, supply may be regulated by Government, but only under conditions of war, famine, grave natural calamities and extraordinary price rise. Price rise is considered extraordinary if there is 100 per cent rise in retail prices of horticultural products and 150 per cent rise in prices of other non-perishable foodstuff. The price rise is compared to the prices prevailing 12 months ago or the average retail price of last 5 years, whichever is lower (GOI, 2020).

Contract Farming Facilitation

In addition, two new Acts were passed by the Government of India in September 2020. Building on the amendment to stockholdings, The Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, 2020 provides for contract farming agreement between farmers and food processing firms for a period of up to 5 years. It can be more than 5 years where

production cycle is longer. The contract will be in terms of price, quality, quantity of produce to be purchased and the farm input and technology services that will be offered by the buyer. The contract could also include aggregators who would collect the produce from small famers. Farmer producer organizations (FPOs) can act as aggregators under this Act. Important features of this new Act are that the contract cannot be in derogation of sharecroppers' rights, it cannot include any transfer, leasing, or mortgage of farmers' land and no permanent modifications will be done by the purchaser to the farmers' land. If such modifications are done, then they will be dismantled by the buyer if required. Contracts are of course expected to be complete, creating very few dispute possibilities. However, if they arise, for quick redressal, the Act provides for a conciliatory board consisting of the parties to the agreement. If the board cannot resolve the issues, they could go to the sub-divisional magistrate and the appellate authority headed by a collector, in that order. The dispute must be resolved by the appellate authority within one month. Such arrangement is expected to eliminate inordinate delays caused when matters are taken to courts. With this Act, it is hoped that the early success of a few contract farming initiatives in a few States would get generalized throughout India and it will contribute to remunerative prices, higher income and substantive private investments in the farm sector.

Facilitation of a National Market

Of course farmers should be free to choose whether or not they would like to go for contract farming. Importantly, they should have the primary alternative to sell their produce at arm's length at the nearest APMC or to any buyer across India who will give them a remunerative price. To promote competition among buyers which would benefit farmers, the Central Government has brought-in one more Act in regard to sale and purchase of farm produce across Indian States. Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020 was also brought-in simultaneously in September 2020 (GOI, 2020). This Act allows farmers, cooperatives and FPOs to trade farmers' produce across and within states of India and if a trader wishes to do the same, he/she must have a permanent account number (PAN) allotted under the Income Tax Act of 1961 or a similar document notified by the Government of India. An additional feature of this Act as compared to the Model APMC Act of 2003 is that it also allows electronic trading and transaction platforms to buy and sell farm produce across States. By doing this, the Government has allowed private electronic platforms on the lines of E-NAM platform instituted by Union Government in 2016[1]. Under this Act, any area such as farm gate, silos, warehouses, cold storages and factory premises can act as trading area which would be outside the APMCs. The dispute settlement mechanism is the same as that in the contract farming Act. No APMC fee will be charged by the State APMCs in such trading areas.

It would be pertinent to note that in the early 2000s, in the financial sector there were more than 20 stock exchanges in India and they were not connected to each other with real time information flow. If stock of a company was traded in those exchanges, there would be significant price difference as spatial arbitrage possibilities were limited despite the stock being a homogeneous product. By 2015, most of these stock exchanges were closed. With electronic platforms that disseminate information transparently and in real time, now there is a healthy competition between the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). Therefore, the seller of stock does not get a raw deal. Similarly, there are about 7000 or more APMCs in India. The new Act will facilitate trading across States for an agricultural produce with a given specification and introduction of electronic platforms will facilitate information flow across markets. These developments will offer remunerative prices to farmers.

7. Reform Canvas and Political Economy Challenge

The latest farm reform Acts introduced in September 2020 are likely to end the monopsony of buying agents at the APMC markets. Farmers are expected to get remunerative prices from the nearby markets or the distant markets, from the APMCs or the non-APMC markets. The possibilities of selling in any market increase the bargaining power of the farmers. Moreover, contract farming creates yet another option for farmers and this will lead to more competition among buyers offering better prices to farmers. In fact, contract farming has been successfully introduced decades ago in some States for some crops. The new laws extend this scope all over India without compromising farmers' land ownership or the rights of the sharecroppers. This has a potential for significant investments coming into agricultural sector. With small-size farms in Indian agriculture, investments in vertical farming may become very attractive in near future. Furthermore, the reforms may lead to efficient management of stockholding of farm produce by private entities and save losses of various kinds that arise due to unmanageable storage by FCI.

The canvas of the Indian farm policy reforms however, has been much broader. The above prospective developments are well complemented by some of the policy initiatives taken prior to the promulgation of the new Acts. For example, farmers have been given direct benefit transfers (DBT) of ₹6000 per household per year by the Central Government directly into farmers' bank accounts. In addition, in States like Orissa, even the sharecroppers are getting such DBT from the state government. Such DBTs have certainly offered a crucial safety net for the destitute farmers. An important tax reform was introduced in India a few years ago when all indirect taxes were merged into a one Goods and Services Tax (GST). This GST does not get levied on the services offered to the farmers at the APMCs and it is also not levied on the produce sold by the farmers at APMCs or elsewhere. Moreover, the farm reform Acts and the above complementary initiatives are well ensconced between the two oldest and the latest policy measures - the oldest policy measure is the exemption of income tax for all farmers including subsistence farmers, marginal farmers as also the tractor-owning and tractor-leasing farmers. The latest policy initiative has come in the 2021-22 union budget making APMCs eligible for the Agricultural Infrastructure Fund (AIF) of ₹1 lakh crore and making provision for electronic connectivity of additional 1000 APMCs through E-NAM.

Despite the overwhelming positives of this broader canvas, the question arises as to why some of the farm stakeholders, especially in Punjab and Haryana continue with their agitation in the outskirts of New Delhi. The need for reforms was felt over the decades, the current farm reform Acts were the culmination of the decades-long efforts and the policy makers and politicians of all ideological views wanted to bring the changes to help the poor farmers. However, it is being perceived that the Acts were passed in a hurry without consultations with farmer groups. Whenever there are welfare enhancing policy changes, gains to winners are much more than the losses to losers. Nonetheless, if losers are a few in numbers and much better organized, then they are able to lobby harder. Perhaps those who benefit from the status quo are at the forefront of the protests. One more reason could be that quite a few State Governments are likely to lose revenue since they will not get market fee from transactions done outside of the APMC system. Add political considerations and foreign debilitating interests and the farm market reforms become a vexed issue.

The political economy challenge on hand seems to be a case of government following 'good' science but falling short in the 'art' of economic policy making. With hindsight, it appears that the political preparations and economic measures for the transition management got ignored. The maximum impact of the transition to the new paradigm was on the food grain producers from Punjab, Haryana and the Western UP as they have been successfully working under the APMC-MSP policy regime for many years. The old policy had helped the nation to come out of food shortages and farmers had got used to the system. When this is slated to change suddenly, there are apprehensions galore. Therefore, policy maker needs to understand who will lose in the short-run, give them a fair warning to adapt, negotiate with them to change their worldview and also modify reforms in non-fundamental ways to reduce the pain on the losers through some other instruments (Kelkar and Shah, 2019; p. 165-187).

To give benefit of doubt, during the languid year of Covid pandemic, parliament and the people could not meet for discussions. Perhaps, therefore, to avoid the long period of inaction, the Government brought the new farm bills by issuing an ordinance which was subsequently passed in the parliament. However, in the process, the Government seems to have lost on the 'art' of policy implementation. Issuing of ordinance was construed as the unwillingness of the government to hold political consultations with members in the parliament, State authorities and the stakeholders who were to lose out due to the new policies. In fact, the incorporation of the new farm Acts should have been accompanied by a medium term structural adjustment programme to enable the farmers from these regions to move to the new production system which would also be ecologically sustainable. As pointed out by distinguished agricultural economist and Padma Bhushan awardee Dr. Sardara Singh Johl, (2021), MSP, free electricity and other subsidies have had deleterious environmental impact on the present food grain production system. Monoculture of wheat and rice would lead to desertification of Punjab region. Farmers need to be weaned away

slowly to other crops such as pulses and oilseeds and food grain production needs to be moved to the Gangetic plains.

How does one wean away the farmers from food grains and MSP? A medium-term structural adjustment programme could be announced where the farm reform Acts get fully implemented in non-food crops first and they get extended to fruits, vegetables and other horticultural crops within a few years. Government could also buy time to slowly shift the focus of MSP and APMC away from food grains and towards the much needed pulses and oilseeds. Importantly, government could pre-announce easing-out of MSP and APMC policy towards food grains in about 7 years' time for a smoother transition of crop selection by farmers. A calibrated stage-wise implementation of the farm reform on such lines would have an acceptable, durable and welfare augmenting impact over a period of time.

8. Concluding Observations

Indian agriculture has had a multi-millennial, long recorded history. Concern for farmers found expression in the Indian epics, in Kautilya'sArthashatra and in ancient and medieval Indian treatises on agriculture. During the British colonial administration, Government was concerned with farm markets that ensured seamless dispatch of raw material to England. In the post-Independence era, Central and State Governments attempted to protect farmers' interests through MSP and State APMC Acts. The model of APMC-MSP incentive worked well for a few States like Punjab and Haryana, for the Government wanted to end the chronic food shortages in India. Over the decades, however, as the food shortages became passé, excessive involvement of government resulted in unintended consequences. APMCs became monopsonies, administration of MSP became quite cumbersome and despite the absence of physical infrastructure to buy farm produce at MSP from all over India, the FCI began to accumulate stocks that were many times more than the buffer stock requirements. This has led to wastage of farm produce both in quality and quantity. Only a few States such as Punjab and Haryana and their farmers seemed to benefit from MSP. In fact, any solemn assurance of purchases at MSP from all Indian farmers in future would have been disastrous. An alternative had to be found to generate remunerative prices to all farmers in all States.

Reforms in farm market laws began with some States making amendments to their APMC Acts for some commodities. Union Government too gave nudges to states to reform their Acts through the Model Act of 2003 and subsequent reports from Planning Commission in 2011 and the report of the Committee of State Ministers in 2013. E-NAM initiative brought in the introduction of technology into farm markets. All these slow and steady efforts culminated in the recent farm reforms Acts passed by the parliament in September 2020. The essence of the reforms is allowing the liberty to farmers to sell anywhere in the country in spot-markets where they get remunerative prices, allowing the liberty to negotiate contract farming if it is beneficial to the farmer, creating electronic platforms for farm markets for efficient transactions and relaxing the shortage-era legacy of stockholding limits.

While the 'science' of this economic policy was very good, the Government seems to have fallen short on the 'art' of policy implementation. The new farm reform Acts cannot be compared with the watershed event of economic liberalization of 1991; however, the way they were brought-in, they may have created an impression in the minds of some stakeholders of a sea-change in the farm policy. Economic agents are not inanimate objects. Therefore, with those who may lose out,

government may negotiate and give fair warning to adapt and change their world view. Reforms may be modified in non-fundamental ways to reduce the pain on the losers through some other instruments. A staggered multi-year approach of implementing the new farm Acts may work – first for non-food farm produce, followed by horticultural crops, and later, with sufficient pre-announcement for food grains.

Endnote

[1]Once the electronic spot transaction platforms become well-functioning and stakeholders get experience of the electronic exchange, futures trading can also be initiated. Futures market has the potential to bring about spatial and temporal integration of markets and ensure better price stability over a medium to long run. However, adequate storage and financing against warehouse receipts may have to be ensured (GOI, 2008).

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