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Why are Indian Farmers Protesting the Liberalization of Indian Agriculture?

Shoumitro Chatterjee and Aprajit Mahajan

Farmers in India fear that new laws will enable corporations to exploit them. The most vocal protests have been in the states of Punjab and Haryana. The roots lie in the Green Revolution of the 1960s.

Indian farmers on tractors protest against new agricultural laws in Delhi, India.

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As the second wave of the Covid-19 pandemic ravages India, thousands of farmers continue to protest the new farm laws that seek to liberalize Indian agriculture. While various groups of farmers have expressed discontent with these laws, those most visible have been farmers from the states of Punjab and Haryana. They have been protesting at the gates of New Delhi for over six months. In the 1960s, these two states were the primary sites of India's Green Revolution which turned India from a nation having a chronic food deficit to one that has a food surplus.

Supporters of the new farm laws argue that these reforms are necessary to transform Indian agriculture. Like the economic liberalization of 1991, these reforms will supposedly open-up agricultural markets to private competition and investment and thus increase farmer incomes.

Two questions arise. First, why are farmers protesting the very reforms that would presumably increase their incomes? Second, is the geographical variation in the extent of the protests informative about underlying heterogeneity in the effects or scope of the new laws?

India's agricultural markets are not well understood, and thus neither are the scope and reach of these laws. Several scholars, including one of us, have already written in depth about the laws, so we will not rehash those arguments here.

Instead, we will start by summarizing the new laws within the context of the history of agricultural market regulation in India. Subsequently, we will draw a relationship between the laws, India's agricultural history, and the geographic concentration of the protests.

Agricultural Marketing Regulation in India: A Brief History

The genesis of the current system of agricultural markets can be traced back to the report of the Royal Commission on Agriculture (1928) in colonial-era India. At its heart was the principle that a network of well-regulated local, physical markets is the best way to discipline the first transaction between farmers and buyers of agricultural produce. The commission's thinking was a direct transplantation of the ideas to bring order to the unruly wheat and meat markets of early 20th century Britain.

The goal of market integration was to protect farmers from the exploitative practices of traders such as collusive price setting, adulteration, fraudulent weighing and quality assessment, delayed payments, and more. In order

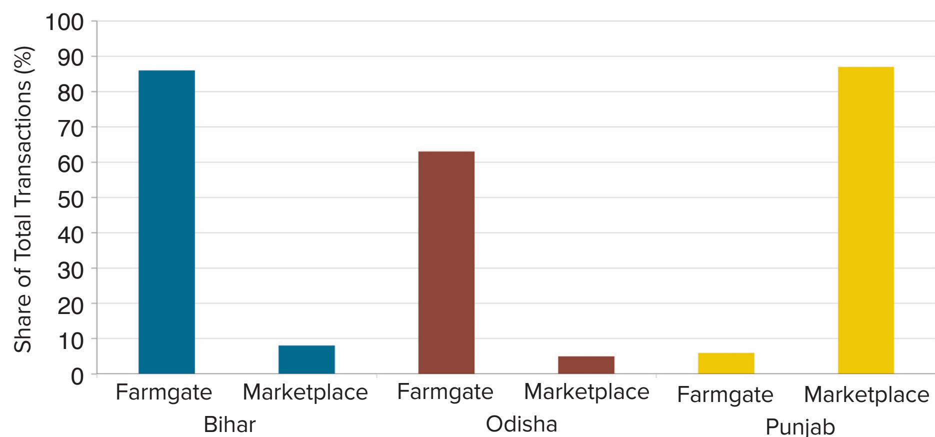

Figure 1. Fraction of All Transactions Conducted at Various Sites

Source: Chatterjee et al., (2020)

to address these malpractices, regulated markets were supposed to hold open auctions, disseminate information, use standardized weights, and take punitive actions against dishonest traders.

In independent India, each state adopted versions of the committee's recommendations to design its own Agriculture Produce and Marketing Committee (APMC) act to regulate the marketing of agricultural produce, particularly the first transaction. Central to implementing the regulations was the creation of local, physical market sites (known as mandi), intended to function as primary spot markets enabling competitive price discovery.

Elected committees, with representatives from farmers and traders, were tasked with dispute resolution and ensuring fair trade practices. The states invested, to varying degrees, in constructing marketing infrastructure and regulating trade. Starting from 286 regulated markets in 1950, there are now about 6,746 regulated market sites operating nationwide under different state APMC acts.

However, there is much regional variation within this aggregate story. First, many states like Kerala and Manipur never legislated an APMC act. Second, in other states, depending on commodity and region, many market sites continue to be unregulated. Third, many market sites exist only on paper, with no sign of a functioning market.

Finally, while in many states (e.g., Punjab, Haryana, Karnataka, Madhya Pradesh, and Uttar Pradesh) APMC markets are the dominant sites of exchange, this is not the case in many others (e.g., Bihar and Odisha) where physical APMC markets largely never developed. In these regions, the first transaction is farm-gate sale to itinerant traders (see Figure 1). Even in states with well-established APMC markets, small farmers commonly sell at the farm gate to traders who then sell in regulated markets.

Post-Independence Reforms

While the establishment of market sites and regulations initially improved price discovery, challenges remained. The old APMC acts restricted sales to licensed traders operating inside the regulated markets. Obtaining new licenses was a bureaucratic nightmare. Incumbent traders formed cartels and more generally exerted market power.

The states enacted several reforms in response to these challenges, including creating alternative marketing channels (outside of the regulated markets) and enabling direct purchases from farmers. By the summer of 2020, most farmers had legal access to multiple buyers inside and outside of regulated markets because the states either 1) never enacted APMC acts; 2) they had repealed these acts completely; or 3) they reformed existing acts.

However, there was a widespread view that the reforms were incomplete and slow. Many reforms remained on paper and lacked implementation on the ground. For instance, states were slow and corrupt in awarding licenses for direct procurement, and new licenses for trading across markets had higher fees. Moreover, many states were not investing enough in agricultural marketing. In this context, the central government took the view that agricultural marketing needed to be further deregulated to facilitate the entry of private corporations, as this would increase farmer incomes because of increased competition and investment.

The 2020 Farm Laws

In the summer of 2020, the central government introduced three pieces of legislation that were formalized as laws in September 2020. The first law allows trade to occur in any place outside APMC regulated markets and free movement of goods across state lines. Importantly, states are prohibited from regulating and taxing transactions outside of the APMC markets. The second law is a contract farming law that provides a legal framework for farmers to enter into pre-arranged contracts with buyers.

Under both laws, dispute resolution is to be handled by a government-appointed bureaucrat, and the laws specifically prohibit farmers from going to court. The third law removes all legal stocking limits on food.

Farmer Protests

At a broad level, farmers and farmer organizations have expressed concerns about a potential loss of the existing systems of livelihood and trade. Their

concerns are rooted in their experience of successive governments reneging on earlier promises. For instance, every year the government announces a minimum floor price for 23 crops, though in reality, an overwhelming majority of farmers do not obtain it because the government does not establish procurement infrastructure in most regions and for most crops.

Farmers also worry that regulated market sites will become defunct because private actors would prefer to buy outside of these markets (where they are not subject to any taxes or regulation). Farmers would thus lose the public goods provided by the regulated markets, such as dispute resolution, use of proper weights, and timely payments. In that scenario, both small intermediaries and corporations would exert even greater market power. That being said, there is a great deal of regional heterogeneity both in the intensity of, and the reasons behind, the protests.

Why Are the Protests Geographically Concentrated in Punjab and Haryana?

The reasons why farmers from Punjab and Haryana are the most vocal are rooted in the extant agricultural systems and their evolution since the "Green Revolution" of the 1960s.

Two aspects are worth highlighting. First, the Green Revolution greatly increased the demand for credit to cover input costs (fertilizers, pesticides, and mechanization). While access to institutional credit has increased since then, nearly all farmers still rely on informal credit. Commission agents (locally known as arhatiyas) are the single largest source of informal credit for farmers in these states. While under the APMC Act, the commission agents are licensed intermediaries who facilitate the sale of farmers' produce; it is their informal lending activity that makes them crucial. They are also dependable sources of finance during emergencies, and for social expenditures (for which it is impossible to obtain formal credit). Often farmers borrow from them to repay formal loans with rigid repayment schedules.

The second aspect is related to public procurement. To incentivize the adoption of Green Revolution technology, the government instituted a policy of procurement at a floor price (the minimum support price or the MSP) to reduce price risk. The key lies in the mechanism of procurement. In these states, government agencies procure paddy (rice still in the hull) and wheat at the regulated markets through the commission agents. The government then pays these agents the MSP plus a percentage commission, and they, in turn, pay the farmers. Farmers are thus solely dependent on these agents for selling and receiving payments.

Given the incentive structure, agents ensure that all farmers—including sharecroppers—can access the procurement apparatus. Consequently, public procurement of paddy and wheat in these two states is nearly universal, and farmers receive the MSP.

For nearly half a century, this is the only system these farmers have seen and trusted. All these years, farmers have followed a monocropping cycle of growing paddy and wheat and this has had disastrous consequences on the agroecology, especially groundwater levels. Yet, in the short-run, it is rational for individual farmers to continue business-as-usual. The current system guarantees a fixed price, reliable credit, and timely payments through the commission agents.

This is not the case in the rest of the country, where procurement is limited, is conducted outside of regulated markets, (without commission agents), and payment is made directly to the farmers, often with delays. Importantly, farmers are aware that in much of the rest of the country—with less developed markets and limited procurement —farmers face substantially more uncertainty and worse conditions.

The new laws threaten the existence of these regulated markets if (as is likely) state procurement agencies, in order to reduce procurement costs, prefer to trade outside these markets. Farmers have concluded that this will eventually lead to the closure of the regulated markets and the disappearance of the commission agents. Once that happens, they fear they will lose the protection of guaranteed public procurement and access to credit. Even if the state continues to procure outside the markets, they may become more selective —rejecting poor quality produce or undocumented farmers—as is the case in other states.

Hence, farmers in Punjab and Haryana have much to lose. The MSP is 30–40% higher in Punjab and Haryana than the market price in other states like Bihar that have negligible procurement. The lack of clear alternatives and years of mistrust has led to understandable anxiety among farmers, explaining why we see them protesting with such force.

Rest of India

There has been opposition to, and protests against, the reform laws in most parts of the country. Primarily, farmers view the laws as providing large corporations unregulated access to agricultural markets and severely reducing their bargaining power. Large corporations are viewed with considerable skepticism as they have contributed to reducing farmers' incomes in several countries, including the United States.

Furthermore, there have been well-publicized instances in India where private firms reneged on contracts. The fact that the laws explicitly restrict farmers from approaching the courts has considerably increased farmers' anxieties. Yet, these protests are limited (when compared to those by the farmers of Punjab and Haryana) for a number of reasons.

First, unlike Punjab and Haryana, where almost every farmer cultivates

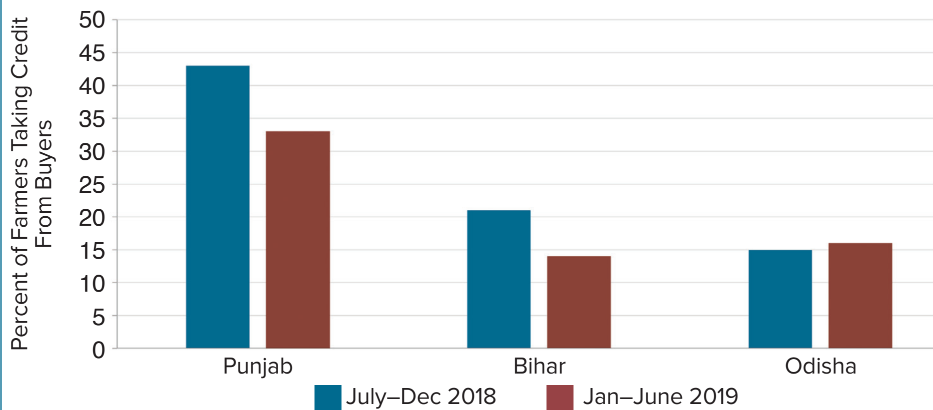

Figure 2. Percentage of Farmers Who Took Credit From the Buyers of Their Produce

Source: Chatterjee et al., (2020)

to sell, many farmers in the rest of the country are subsistence farmers. Estimates suggest that out of approximately 150 million cultivators nationwide, only about one-third obtain a major source of their income through agriculture. This is worse in the eastern states, where few farmers have any marketable surplus. Second, in the many states without regulated markets like Bihar and Odisha, the new laws bring little change and, unsurprisingly, do not evoke much of a reaction.

The third reason for the limited protests outside Punjab and Haryana is the differences across states in public procurement. Farmers in Punjab and Haryana have been the longest beneficiaries of the procurement program. In recent years, the scope of procurement has increased in other states, yet many farmers remain untouched. Procurement has mainly been limited to paddy and wheat, with some procurement of cotton and pulses in a few states. In Odisha, where about 60% of paddy produced is procured, operational problems such as delayed procurement or a preference for large farmers, exclude a majority of farmers. In the rice-producing states of Bihar, West Bengal, and Assam, less than 10% of the production is procured. In Maharashtra, a key cotton-producing state, less than 30% of the cotton is procured at MSP. In other states like Madhya Pradesh, regulated markets are not the site of procurement.

Fourth, in other parts of the country farmers rely much less on intermediaries for credit (Figure 2). In Bihar and Odisha, for example, the main source of credit is cooperative agencies.

In summary, the new laws do not immediately impact the largest group of farmers, for whom the regulated market is either not a site for public procurement or sales. Those who have realized the benefits of regulated markets are acutely aware of the potential losses they face. However, no group has benefited as much as the farmers from Punjab and Haryana, due to assured procurement. Thus, despite the fears of a corporate takeover, protests in other parts of the country are relatively muted but not absent. A sizable number of farmers have also used the opportunity to voice their demand for a legally guaranteed MSP for all crops in all regions by incorporating this into the new farm laws.

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Authors' Bios

Shoumitro Chatterjee is an assistant professor in the Department of Economics at Pennsylvania State University and a Visiting Fellow at the Center for Policy Research, New Delhi. Aprajit Mahajan is an associate professor in the Department of Agricultural and Resource Economics at UC Berkeley. They can be reached at sc20@psu.edu and aprajit@berkeley.edu, respectively.

For additional information, the authors recommend:

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