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Who gains from agricultural "reform"?: Understanding the 2020 farm laws and protests

By C. P. Chandrasekhar[1]

Over 2020-21 India witnessed protests by farmers that became a movement, triggered by the passage of three laws relating to agricultural production and trade. The movement was fronted by a large and rotating group of farmers at the capital's barricaded borders, seeking to reach the central seat of power. Just short of a year after Indian farmers went on protest demanding the withdrawal of the three farm laws—the Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act (FAFSA), the Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act (FPTCA), and the Essential Commodities (Amendment) Act (ECAA)—the Prime Minister announced in November. 2021 the government's decision to repeal them.

The changes sought to be introduced through legislation were first instituted through three ordinances issued on June 3, 2020. Soon thereafter, these were made into bills that were not sent for discussion in parliamentary committees but rushed through both houses of parliament during September 2020, despite opposition and no clear evidence of majority support for the bills in the upper house. This disregard for conventional procedure aside, there were many surprising features of the stand-off. First was the scale and duration of the protest against the laws and the resilience of the protestors. The second was the unwillingness of the government for almost a year to yield and rescind the laws, given. Their unpopularity and the fact that implementing them had become difficult because of a temporary Supreme Court stay. Third was the. fact that this prolonged stand-off occurred after many state governments had amended state level laws (APMC Acts) and rules along lines similar to these central laws. The protesting farming community seemed convinced that the laws must go lock stock and barrel, and the government, while stating that it is willing to consider the odd compromise, was clear that the laws must stay. Finally, the demands of the protestors included one for legislative sanction for a remunerative minimum support price (MSP) at which the government must offer to procure agricultural products, even though that does not feature in the farm laws. They also wanted an assurance that those prices would be computed as per the 'Swaminathan formula' (cost C2+50%), that provides a 50 per cent mark up on costs of cultivation calculated to include the imputed cost of capital and the rent on the land. In the light of these surprising features this paper examines the nature and drivers of this stand-off, using evidence mainly on production and trade in wheat and rice.

The laws

The simultaneous introduction of the three bills covering different aspects of supply and distribution was not coincidental. Rather, together, these laws were clearly aimed at near completely dismantling a regime that had been gradually put in place after the agricultural crisis of the mid 1960s, when food shortages plagued the country. FAFSA defined a national framework for contract farming that facilitated the entry of corporate groups into contract farming arrangements to acquire produce directly from the farmers. Though contract farming has a long history in India it was restricted to a few, mainly commercial crops (indigo, opium, tobacco, cotton, horticultural products like tomatoes, and sugarcane). The entry of corporates into the food processing sector and organised retailing has increased interest in contract farming. But entering into such arrangements was constrained because in many states Agricultural Produce Market Committee (APMC) Acts confined the sale of agricultural

[1] Comments on earlier drafts of the paper from Vikas Rawal, Jayati Ghosh, Madhura Swaminathan and Abhijit Sen are gratefully acknowledged.

produce to designated markets (*mandis*) through licensed traders and commission agents. FAFSA not only allowed agri-business firms to procure farm produce directly from the farmers but also sought to keep the courts out of the resolution of disputes between agents entering into contract farming arrangements, restricting it to a conciliation board and two layers of appeal to the bureaucracy (sub-divisional magistrate and collector). The government that facilitates corporate farming into contract farming becomes the adjudicator.

The FPTCA sought to put in place a substantially deregulated agricultural marketing system that permits unregulated trade, exempt from the levies, cesses or taxes imposed in APMC markets. The government wanting to facilitate corporate entry into agricultural production and trade had been pushing for reforms of the APMC Acts and circulated a model APMC Act in 2003, which after many iterations was finalised in May 2018. As a culmination of this process, FPTCA sought to put in place a centrally mandated deregulation of the agricultural marketing system, over-riding state laws. Under the unregulated regime, prices were to be negotiated between buyer and seller with no role for state intervention, allowing economic clout and market power to determine the outcome.

Finally, since large scale private procurement would result in long periods of stockholding facilitated by corporate investments in warehousing, cold storage facilities, etc. restrictions on the holding of stocks had to go. The Essential Commodities Act of 1955 allowed state governments to impose limits on stockholding and restrict movements of designated essential commodities, to curb hoarding and speculation. The ECAA, which amends the ECA, sought to dilute regulation of stockholding by those engaged in the agricultural trade and restrict it to only extraordinary circumstances such as war, famine, natural calamities or a surge in prices.

These far-reaching changes in the regulatory regime governing agriculture amounts to a shift in agricultural strategy, which unlike when the Green Revolution strategy was launched in the mid-1960s, was not driven by any crisis in the food economy or collapse in agricultural production, though the viability of crop production is under challenge. That challenge, the farmers argue, requires more state intervention and support and not a greater role for markets and corporate interests. While the government argued that the farm laws would increase and stabilise farmers' incomes by providing the farmers with more marketing choices, the view of the protesting farmers was that the changes introduced through these laws were meant to facilitate engagement of corporate interests in the agricultural sector and a withdrawal of state action that would depress prices and challenge the viability of cultivation.

While diluting or dismantling state control and regulation, the changes introduced through these laws do convey the impression that they are meant to facilitate engagement of corporate interests in the agricultural sector. Contract farming under laws which permits corporate entry and limits the role of courts in resolving disputes between farmers and corporates[2] clearly shifts the balance in favour of corporate interests. Undermining the role of the Agricultural Produce Market Committees (APMCs) by allowing private markets to function free of cesses raises fears that these unregulated markets would attract corporate players and displace regulated markets, especially in foodgrains. And the amendment of the Essential Commodities Act to further liberalise the trade in seven groups of commodities,

[2] Section 15 of the FPTCA states: "No civil court shall have jurisdiction to entertain any suit or proceedings in respect of any matter, the cognizance of which can be taken and disposed of by any authority empowered by or under this Act or the rules made thereunder."

including foodgrain, by making controls on stockholding the exception rather than the rule, strengthens the ability of the private trade to influence market prices.

This effort to intensify deregulation and liberalisation underlay the unusual standoff between farmers and the government. Normally it is private producers in an area, which in this case would be the farmers, who would be interested in the dilution or removal of domestic regulation and control, while the government would be interested in keeping those in place. In this instance, however, it was the government that was stubbornly intent on deregulation and decontrol, whereas the 'private' farmers were strongly opposed to the changes that have been passed into law and awaited implementation. The private interests who were in favour of the changes, and who ostensibly would be the beneficiaries, were corporate "outsiders".

However, as noted earlier, these laws are not the only factors motivating the farmers' protest. As, if not more, important is the demand that the practice of government procurement, at minimum support prices that are set at acceptable 'remunerative' levels, must be made permanent by providing it legislative sanction. Farmers want a legal guarantee that the practice of setting minimum support prices (MSPs) for different crops at which, in principle, whatever share of the produce is on offer will be procured by state agencies, would stay. They also want a clear declaration that those prices would be computed as per the 'Swaminathan formula', that provides a 50 per cent mark up on costs of cultivation calculated to include the imputed cost of capital and the rent on the land. In response to this the government has provided an "assurance" that the MSP would stay but is unwilling to provide a legislative guarantee that it would. That leaves open the option of reneging on the assurance. And given past experience discussed later, farmers are not convinced that the government will not exercise that option. So, despite the repeal of the farm laws, farmers organisations have declared that their struggle has not ended but will continue till such time as a law guaranteeing procurement at a remunerative price is passed.

Early intervention

The practice of determining minimum support prices and procuring supplies on offer at that price, was a mid-1960s innovation. Its introduction marked a transition in the Indian government's food policy from one focused on managing supplies and stabilising prices paid by the end-consumer, especially in urban areas, to one aimed at enhancing domestic output through a combination of measures aimed at incentivising food grain production. A crucial incentive was the assurance that producers could sell their output to government agencies at a remunerative cost-plus price. This transition was forced by economic circumstances.

At Independence India's food economy was under severe strain. Agricultural stagnation in the decades preceding Independence and substantial monsoon dependence meant that per capita production (and available marketed surplus) was low in good years and abysmal in bad years. In the short run, some system of rationing by the state was inevitable to ensure affordable and minimal access to food to the poor and even middle classes. But that had to be accompanied by an agricultural strategy that enhanced productivity and raised per capita output and availability of food.

India's post-Independence government inherited a system of food administration that did seek to ensure minimum supplies to consumers in deficit states and areas at prices considered reasonable. After identifying the extent of surplus or deficit in a state, the government attempted to procure under statute stocks from surplus regions to provide minimum access to food to consumers in deficit areas. But this posed two challenges. The first was that quantities procured, even at prices that were

considered favourable, were often not adequate to cover the minimum supply promised to targeted consumers at relatively low or reasonable prices. The second was that prices charged at the ration shops may not be adequate for the government to cover in full the cost it incurs in procuring and distributing the grain.

The first of these challenges could partly be resolved through imports but, given the drain of scarce foreign exchange this involved, there were limits on the extent to which domestically procured surpluses could be enhanced with supplies from abroad. This necessitated stringent rationing in many years. Second, even with such rationing, the government had to outlay rupee resources to finance the subsidy needed to cover the difference between the cost of acquisition/procurement and distribution and the price charged to consumers. These financing costs would be higher if the price of imported food rules high and rises when India enters the market to acquire stocks.

Despite this, India relied considerably on imports in the immediate post-Independence years. The commodity boom that accompanied the Korean War that began in mid-1950 led to a spike in prices in India, and increased hoarding and profiteering. The government resorted to procurement to address the shortage, but that proved difficult to implement and inadequate to the task. Imports and demand for food assistance followed, with the United States providing a wheat loan of around 2 million tonnes. While that helped, it was a strain on the government's foreign exchange reserves and budget. Moreover, it kept agricultural prices down and disincentivised private investment in the production of food grain.

Yet, interestingly, this dual policy of resorting to imports and relying on procurement to enhance supplies available for distribution continued through the 1950s, even though the end of the Korean War boom and a couple of good harvests in 1952-53 and 1953-54 brought food prices under control. This was partly because the import option turned 'attractive' following a change in US trade policy. The US decision to dispose of surpluses produced by its farmers through a scheme approved by the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480 or PL 480) allowed access to imported supplies without any foreign exchange outgo. The Act permitted provision of these surpluses to developing countries in return for payment in local currency. This delivered a solution to the foreign exchange financing difficulties that food administration placed on the government of India. Moreover, since these supplies were made available on concessional terms, even the rupee bill incurred on these imports was favourable (Laxminarayan 1960).

A period of dependence on imports followed. Reduced output and speculation triggered inflation again in 1955-56. The government announced in April 1956 a decision to import 2.03 million tonnes of rice from Burma over five years and signed an agreement with the US in August 1956 to import 3.15 million tonnes of wheat and 0.19 million tonnes of rice under PL 480 over three years (Dandekar 1994). This began a process where for a relatively long period imports, especially under PL 480, were seen as a central instrument in the management of the food economy. The consequences this would have for agricultural growth and productivity increase were ignored in the drive to stabilise food prices.

Food grain production fell again in the later 1950s and early 1960s. To address the resulting inflation in food prices, food distributed through the public distribution system was rapidly enhanced from 4.1 million tonnes in 1962, to 4.8 million tonnes in 1963, 8.4 million tonnes in 1964, and 9.8 million tonnes in 1965. According to Dandekar (1994), "almost 75 per cent of the supplies to the public distribution system came from imports." The easy access to imports also meant that procurement by the government did not reach high levels before the 1970s. Procurement as a percentage of net

production fluctuated between negligible levels (1956) and a maximum of 8.2 per cent between 1951 and 1970 (Chart 1). The government, by increasing supply with imports rather than enhanced production, was intervening in ways that shifted the terms of trade against farmers and agriculture. That had implications for the rural-urban distribution of income as well. That experience made clear that the terms of trade between different sectors and classes were determined not by the 'market' but by state policy. Since agriculture, industry, rural and urban are not homogenous sectors, there were of course multiple terms of trade between different classes and segments of the population. But policy also favoured the urban relative to the rural elites.

Impact on production

The policy of relying on imports to dampen domestic food prices was seen by many as serving to disincentivise investment and productivity advance in agriculture, and of being indicative of an "urban bias" in policy making in the period prior to the mid 1960s. There were, inter alia, three leading components identified as reflecting that bias. The first was the creation of an environment in which agricultural prices tended to be depressed despite limited increases in supply, through resort to excess imports. Nirmal Chandra (1973), for example, estimated excess imports facilitated by food aid (including through PL 480) as amounting to one-half to two-thirds of the total imports of food, and argued that it "may have held back agricultural progress for quite some time." Laxminarayan (1960: 1443) had noted that "import of so large a quantity of foodgrains as 4.35 million tons a year is bound to have a depressing effect on food prices. Since our normal food deficit would be of the order of 3 million tons, the pressure on prices will primarily come from the additional imports of 1.25 million tons." K.N. Raj (1966) had in his study of the determination of agricultural prices between 1949 and 1965 identified the demand-supply balance as being the force fixing the level of agricultural prices. But the impact of imports on prices would be stronger since they directly contributed to the marketed surplus, and "it is not so much the imbalance between supply and demand for foodgrains which is responsible for price changes as the behaviour of marketed surplus" (Laxminarayan 1960: 1443). Excess supply ensured through imports meant that the structural disincentives to invest were strengthened.

The second indicator of the so-called urban bias was an inadequate emphasis on raising public, and therefore, private capital formation in the agricultural sector, especially investment in irrigation, drainage and flood control. Policy, Sukhamoy Chakravarty (1987) argued borrowing a phrase from S. R. Sen, treated agriculture as a "bargain sector" which could deliver increased output through institutional adjustments (land reform combined with cooperativisation) without a substantial step-up in investment, which was a requirement seen as imperative in the industrial sector.[3] And the third was the failure to implement land reforms in full across much of the country perpetuating a situation where the actual cultivators, subjected to onerous (often informal) tenancy contracts, had neither the means nor the incentive to invest in yield-enhancing and land-augmenting technical change, limiting agricultural growth and making it dependent on expansion of acreage by bringing new land under cultivation (Patnaik 1986). This perpetuated a situation where the growth of food grain production did not keep pace with demand, necessitating imports. It also revealed that the "urban" and "rural" where not homogenous regions, and the adverse effect of policy on agricultural growth was also because of an alliance of the urban elite with the rural rich that constrained agricultural investment by protecting land monopoly.

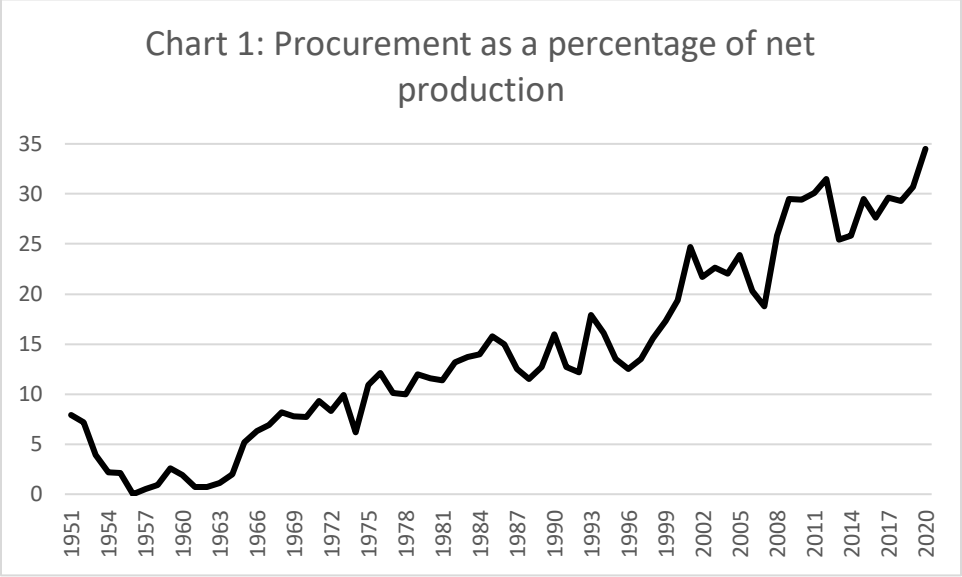
[3] See also Patnaik (1995).

The mid-1960s crisis

But the resulting agrarian crisis also subverted the strategy of state led industrialization. Food price inflation forced fiscal contraction in an economy dependent on state expenditure as a stimulus for growth, as well as directly compressed demand for manufactured mass consumption goods by forcing allocation of a larger share of income to access a basic necessity like food. The agricultural and food policy regime in place after Independence changed only when the consecutive droughts of 1965 and 1966 precipitated a severe crisis and drove home the consequences of the neglect of agriculture in the post-Independence government's development strategy. Shortages in the drought years and the overall inflationary and balance of payments crises that accompanied them led the government to develop a plan to enhance domestic food production, encouraged by prospects of raising yields significantly. With the Food for Peace Act replacing PL 480 after the outbreak of the war with Pakistan in 1965, India lost the advantage of imports paid for in rupees. Managing supply proved more difficult and required appropriate interventions.

It is now a well-known strand of India's post-Independence economic history that following the mid-1960s crisis, the effects of which were accentuated by the drying up of foreign aid and a severe shortage of foreign exchange, the government sought to address the consequences of the neglect of agriculture by promoting the adoption of Green Revolution technology and incentivising farmers to shift to the new technology. Wanting to exploit the significant step up in productivity made possible by the new high-yielding varieties (HYVs, initially for wheat, and subsequently for rice and other crops), the government relied on a package of measures that included access to HYVs and subsidised agrochemicals, increased public investment, credit to support the transition to cultivation of the new varieties, provision of extension services to farmers, and, last but not least, procurement of output at a cost-plus price that was remunerative and ensured the economic viability of crop production. The Ministry of Agriculture's 1965 document titled *Agricultural Production in the Fourth Five Year Plan: Strategy and Programme*, called for a long-term programme to "fix prices of agricultural commodities on remunerative basis" and the creation of the Food Corporation of India to "ensure the availability of this price to the farmers". The setting up of the Agricultural Prices Commission to recommend remunerative prices keeping in view, *inter alia*, "the need to provide incentive to the producer for adopting improved technology and for maximising production", was accompanied with measures to ensure that the state could acquire reasonable quantities of food grain stocks to prevent shortages. Zonal restrictions and statutory rationing were part of the policy mix.

However, while in the immediate aftermath of the mid-1960s crisis food shortages ensured that procurement was compulsory, that soon segued into a policy that assured farmers of "support" in the form of procurement of foodgrain at a cost-plus price, while leaving them the option of selling in the open market if they so desired. But farmer reliance on sale to the procurement agencies rose sharply, starting in the 1970s and continues even today. Having first touched 10 per cent of net production after the 1970s, procurement percentages then moved up sharply to 15, 20, 30 and 35 per cent in individual years (Chart 1). This transition also marked a change in the role of procurement in India's food economy. By acquiring a part of the *marketed surplus* at a cost-plus price the government was signalling that it would work to shift the terms of trade between non-agriculture and agriculture in favour of the latter, or at least to moderate any tendency for the terms of trade to shift against agriculture. This was central to the market mediated effort to relax the agrarian constraint on India's development.



Dealing with the procured surplus

Having decided to incentivise farmers with a cost-plus price, the government had to address two collateral questions. First, what would it do with the surpluses it procured? And second, how would it neutralise the effects of incentivising agricultural production on the prices paid by net purchasers of food, especially the urban poor? The answers to these questions took the form of the establishment of an elaborate food storage, transportation and public distribution system consisting of the Food Corporation of India, an associated set of warehousing facilities and a network of ration shops through which specified quantities of food would be made available to a target population at prices significantly below the economic cost of procuring, carrying and transporting food grains, with the difference covered by a subsidy that was to be financed largely from the central budget. From being focused on mobilising surpluses to feed the ration shops, even with imports that disincentivised agricultural investment and production, food policy shifted to building a distribution network that could absorb the surpluses procured through a strategy aimed at boosting agricultural production. The intention was to distribute the procured food, retaining a buffer stock to meet contingencies that are especially likely in a still rain-dependent agriculture. Thus, under this policy regime, multiple objectives were to be pursued simultaneously: agricultural production was to be incentivized, farmer incomes were to be stabilized, surpluses were to be procured and distributed, and consumers were to be protected against agricultural price inflation. The public distribution system and the subsidies it absorbed was a food policy pillar needed to hold up the policy aimed at boosting production.

It was indeed true that the actual implementation of procurement was uneven across states and districts. In the case of rice, 5 states—Andhra Pradesh (including Telengana after 2014), Chhatisgarh, Haryana, Odisha and Punjab—contribute around three-fourths of grain procured, and, in the case of wheat four states—Haryana, Madhya Pradesh, Uttar Pradesh and Punjab—contribute as much as 95 per cent of the grain procured. Many factors contribute to this concentration of marketed surplus and procurement. First, the differences in cropping pattern across a geographically and climatically diverse country. Second, uneven growth of yield and production of individual crops across states in which they are grown, often for historical reasons related to the spread of irrigation (Bagchi 1976). And, third, the early focus on building a procurement network in the surplus states. Pushing the Green Revolution in

states that had the wherewithal to deliver surpluses to feed the public distribution system also implied that these were the states in which the procurement apparatus was developed most.

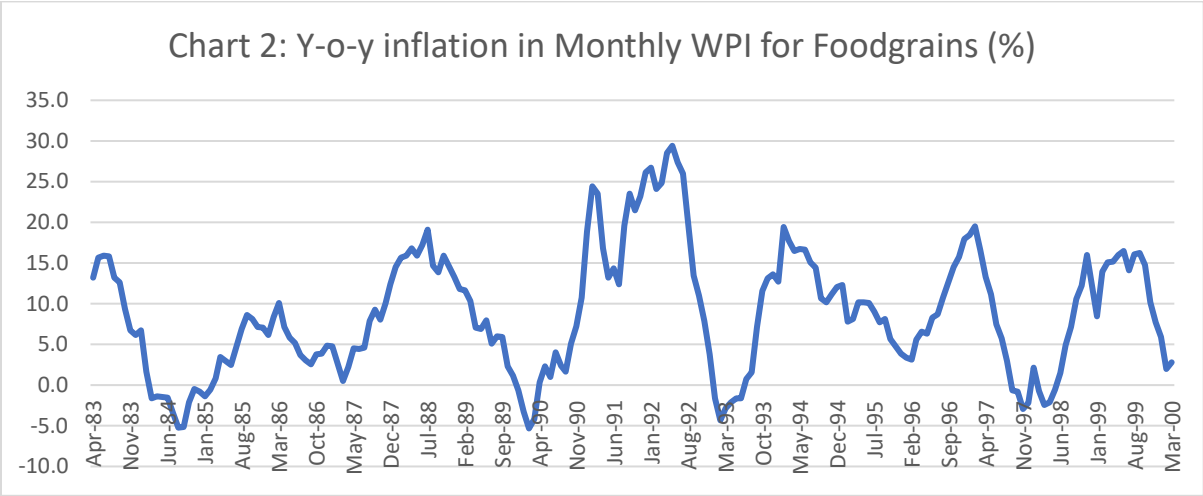
Despite this concentration, the practice of procurement had a salutary effect, and the reach of the system was extended over time, especially with the introduction of the decentralised procurement scheme, introduced in 1997-98, under which procurement and distribution was undertaken by state governments that are reimbursed pre-approved costs by the central government. For example, till 2008 Madhya Pradesh accounted for only around 2-3 per cent of total national wheat procurement. That figure rose sharply subsequently and has been well above 20 per cent in most years starting 2012-13. The combination of the Green Revolution strategy and procurement helped shift the terms of trade in favour of agriculture for a few years, improved investment in the agricultural sector and ensured that agricultural growth remained at or near the levels it had touched in the decade and half before the mid-1960s crisis despite the exhaustion of possibilities for expansion of acreage, because yield increases made up for the shortfall resulting from that source.

Price determination and the terms of trade

From the point of view of price determination there were two noteworthy aspects of the new environment. The first was that the manner of price determination in the food. grain market changed. Prior to the mid-1960s, price formation in India appeared to reflect the well known Kaleckian dichotomy: agricultural prices were by and large demand determined, given fluctuating supply; industrial prices were cost determined. The MSP regime introduced a cost-plus element in agricultural price determination, by setting a cost-plus floor price. Open market prices were still influenced by demand-supply balances, but if the system worked, those prices had a floor defined by the MSP. And since the MSP was supposed to rise with costs, there was an element of food price inflation built into the system. This was reflective of a state-mediated effort to regulate the terms of trade between agriculture and non-agriculture. In an insightful analysis, based on differences in the treatment of different crops, Ashok Mitra (1977) argued that, at that time, farmer power played a role in the creation and functioning of the price setting mechanism and the impact it then had on terms of trade movements.

The second aspect was related to an abiding feature of the post-Independence mixed economy in which state spending was a leading driver of aggregate demand in the system, and therefore of the demand for food grain in the system. So long as spending was high, the base tendency should be for open market food prices to rise, and for sale to procurement agencies to be a less attractive option.

What is noteworthy is the declining importance of imports in influencing domestic prices. There were periods such as 1974-75, 1983 and 1988 when poor or indifferent harvests resulted in enhanced imports. But starting from the 1990s India turned into a net exporter of foodgrain. The decade of the 1980s was one in which government spending, financed with borrowing, rose sharply. Paradoxically, however, this was not a period when there was any explosive rise in food grain prices (Chart 2), with prices only displaying the volatility characteristic of a still monsoon-dependent agricultural sector. One factor contributing to this price trend was the government's ability to resort to enhanced imports of food grain as in 1983 and 1988, to counteract the adverse effects of a shortfall in supply because of a bad or indifferent harvest.



But the tendency for prices to remain within a comfortable band persisted through the 1990s, when India had turned an exporter of food grain. This was possibly because other factors depressing aggregate demand and dampening agricultural, especially food grain, prices, came into play. Changes in the economic policy regime, especially since 1991, had changed the pattern of growth in ways that have transformed the nature of inter-sectoral linkages (Chandrasekhar 2007). The use of more capital-intensive techniques, greater reliance on imported inputs and synthetic substitutes, and changes in the pattern of demand (with shifts in favour of metal and chemical based industries) have meant that the derived demand for agricultural products (as wage goods or inputs) from a unit rise in industrial output has declined over time. This reduction in the dependence on agriculture of the non-agricultural sector has been intensified by the high rate and peculiar nature of growth of the services sector in India. While services accounted for 43 and 48 per cent respectively of the increment of GDP at current prices in the 1970s and 1980s, the figure rose to 60 per cent and more during the 1990s and 2000s. Given the much lower agricultural input dependence of services, this would have strengthened the tendency noted above. Moreover, the expansion of the services sector has been accompanied by the growth of services (such as business and financial services) where revenue growth is far ahead of employment growth and the share of higher-paid employees is larger. As a result, even the derived demand for agricultural wage-goods would grow at a much lower rate than output partly because of the slower growth in employment and partly because increases in per capita incomes accrue to those whose demand for food is satiated.

These indirect effects of the pattern of growth on demand for agricultural commodities, including food grain, were substantially strengthened by the deflationary fiscal stance that was adopted as part of fiscal reform, especially after 2003, when the Fiscal Responsibility and Budget Management (FRBM) Act was passed. A lenient tax regime adopted as part of the effort to incentivise private savings and investment combined with efforts to rein in the fiscal deficit strengthened by the FRBM Act have resulted in a deflationary environment overall. Finally, there is evidence that even among the relatively poor the share of income allotted to food consumption is being squeezed by the growing requirements set by expenditures on health, fuel, transportation and education. The reform-driven collapse of public provision in some of these areas, requiring purchases from private suppliers, and the increase in prices in others with increases in user charges, are responsible for an enforced shift away from food consumption in the household budget.

Actual prices vis-à-vis the MSPs

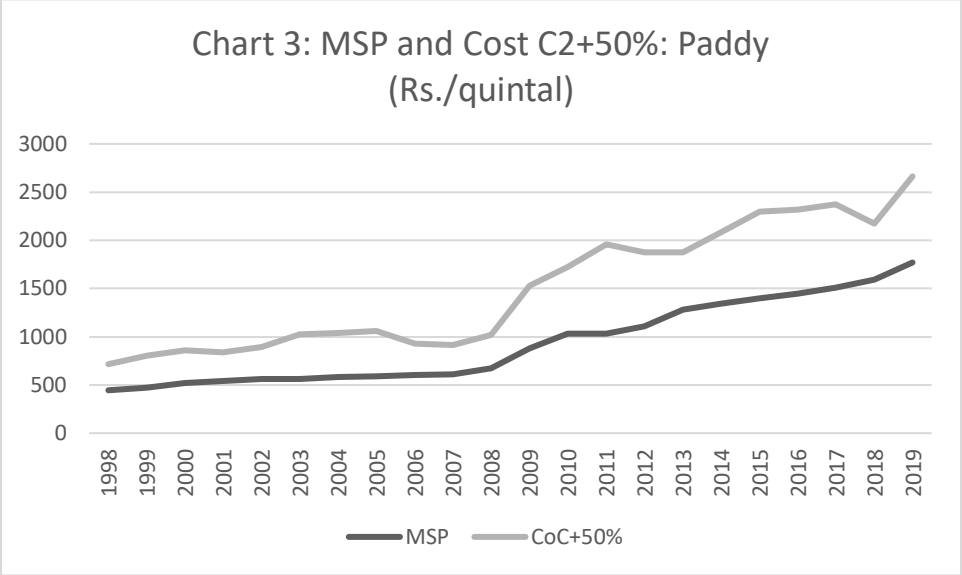
The net result of all this was that even when growth accelerated, as it did starting in the 1980s, the resulting demand for food did not drive up prices to an extent where market prices ruled significantly higher than the MSPs, which would have encouraged farmers to sell to open markets rather than the procurement agencies. Subsequently, in the 1990s and after, India appeared to be entering a phase when the underlying tendency was for the terms of trade to move against agriculture, making MSP and procurement crucial to surplus producing farmers. Thus, there appears to be a macroeconomic context that led to this outcome. Farmer reliance on procurement and the "remunerative price" it offered has remained high because of an overall deflationary environment that kept the long-term demand and the prices of food grain relatively low.

However, sales often occurred even at prices below MSP partly because of tardy procurement and partly because trade and other policies depressed market prices in good harvest years. The latter transpired, for example, because the government, which fears inflation that may hurt corporates and vocal urban consumers, often chose to address production shortfalls and actual or potential price increases by releasing accumulated stocks. This dampened price inflation. On the other hand, in good harvest years, neither are minimum support prices necessarily raised adequately to ensure a floor price that covers costs and offers a remunerative return, nor is enough procured to ensure that even the MSP offered serves as a floor for market prices.

Thus, the fact that farmers were driven to rely increasingly on official procurement channels did not mean that they were adequately compensated. As Singh and Bhogal (2021) note: "The MSP announced by the government for 23 crops is inadequate; first, because the declared MSP is not generating sufficient returns over cost; and second, because the MSP is not effective for all crop produce, as only 6% of the value of the agricultural produce across the country is procured at MSP. The rest face stiff price competition and receive meagre prices."

The M. S. Swaminathan Commission submitted its last report in October 2006, recommending inter alia that the "MSP should be at least 50% more than the weighted average cost of production". There was, however, disagreement on which cost was being referred to here. Later Swaminathan himself made clear that MSP should be calculated to cover C2+50%.[4] Yet there have been only brief periods, notably around 2007-08, when this principle was adhered to (Charts 3 and 4). Even after the government acknowledged the C2+50% principle, the evidence seems to be that the rule was not applied to announced MSPs, as in 2020-21 (Table 1). This meant that market prices too remained depressed relative to what would be remunerative for the farmer. While the global commodities boom provided some relief in terms of increased relative prices favouring agriculture during the 2006-10 period, that was just about adequate to reverse the decline in the period after the 1997 Southeast Asian financial crisis (Chart 5).

[4] In 2015 the Ramesh Chand committee recommended an enhanced version of the C2 cost which: (i) treats the head of a farm household as a skilled worker rather than a manual worker when imputing wages; (ii) provides for interest on working capital for a whole as opposed to a half season; (iii) considers actual land rent paid without any ceiling; and (iv) includes post-harvest costs such as those for cleaning, grading, drying, packaging, marketing and transportation. It also recommended adding on a 50 per cent margin to this enhanced cost when computing the MSP.



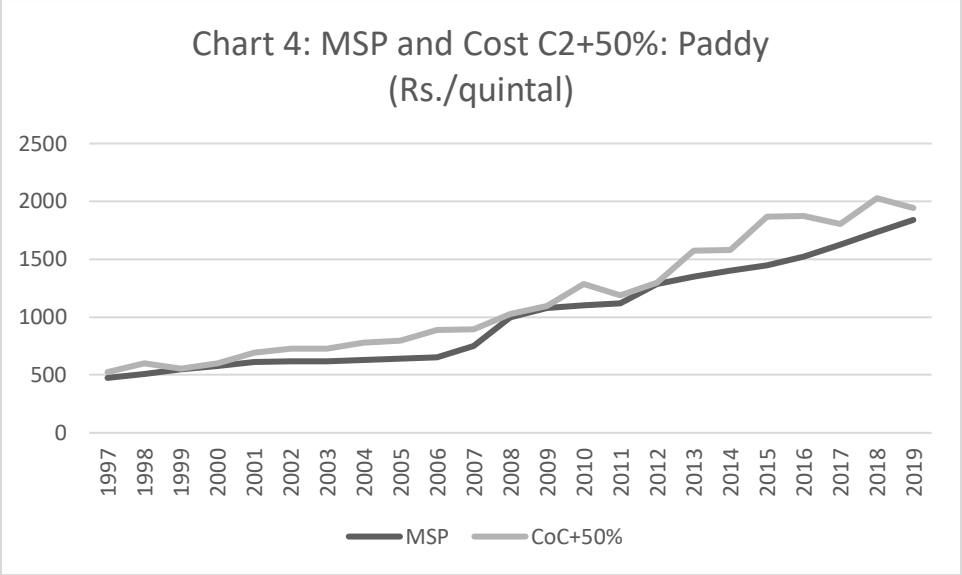
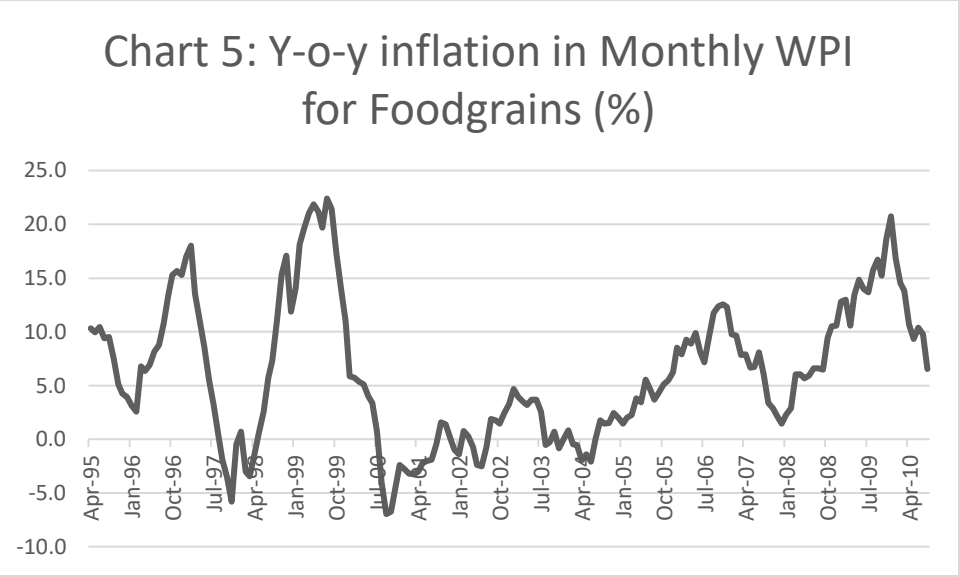


Table 1: Crop-wise margin of MSP Over Costs, 2020-21 (Rs/qtl)					
Crop	A2+FL	C2	MSP	Margin over A2+FL (%)	Margin over C2 (%)
Wheat	923	1425	1925	108.56	35.08
Gram	2801	4023	4875	74.04	21.18
Rapeseed & mustard	2323	3401	4425	90.49	30.11
Paddy	1245	1667	1868	52.51	15.19
Maize	4797	6289	7196	50.01	14.42
Moong	4797	6289	7196	50.01	14.42
Cotton	3676	4935	5515	50.03	11.75
Source: Singh and Bhogal (2021)					

Actual role of the MSP

Yet, the combination of an MSP and procurement clearly played a crucial role in the surplus producing regions. In principle, the offer to procure at the MSP should make that price the floor for open market prices. Farmers are likely to obtain more from sale in the open market, which should reduce their desire to sell to the procurement agencies. In practice, as we noted earlier, the reliance on sale to procurement agencies only increased when measured by the proportion of net production that was sold to these channels. Clearly, circumstances were such that even the limited support of farmer incomes that came from the declared MSPs was crucial.

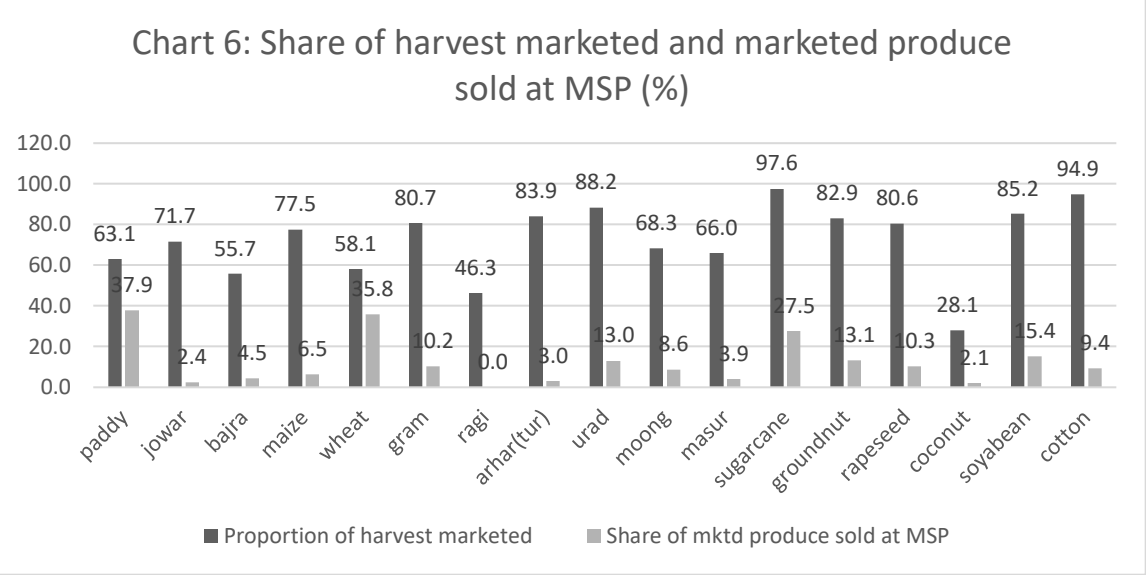


But, at the "aggregate average" level, household participation in the MSP regime is low. The Situation Assessment Survey for 2019, covering the July 2018-December 2018 and January 2019-June 2019 agricultural seasons, provides us a picture of the relevance of the MSP. The survey estimates the number of rural agricultural households (HHs) at 93.1 million or 54 per cent of all rural households and land used solely for crop production (excluding mixed use holdings for cultivation and grazing, say) at 74 million hectares or 82 per cent of operated area.

Paddy and wheat (the principal staples) are by far the most popular crops for farmers, with 62.5 per cent of agricultural households reporting cultivation of paddy (in either season) and 41 per cent reporting cultivation of wheat. The only other crop with more than 10 per cent of agricultural HHs engaged in production is maize. Not surprisingly, rice and wheat account for 29.6 per cent and 18.7 per cent of the total value of the harvest of a set of selected MSP-receiving crops of Rs. 6.98 billion over agricultural year 2018-19. These crops matter greatly for the livelihood of the farming community.

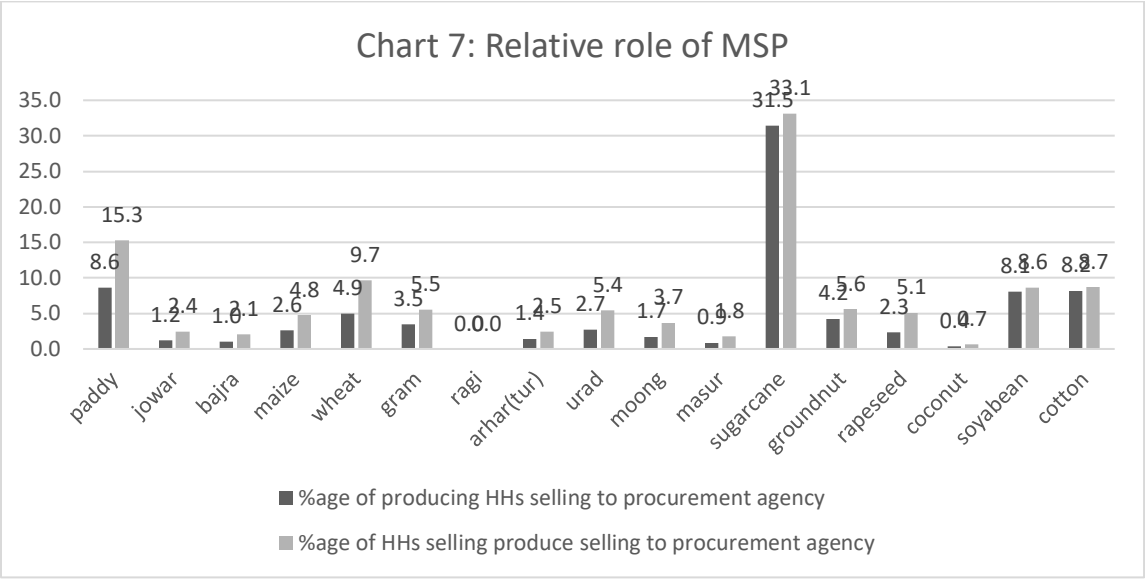
But, not all of the crop harvested is sold. Of the combined total of agricultural households reporting cultivation of paddy and wheat in each of the seasons, only 54 per cent reported sale of part of their crop. The proportion of the harvest sold in either season amounted to 63 per cent for paddy and 58 per cent in the case of wheat. Of the output sold, that which was sold under MSP amounted to 37.9 per cent in the case of paddy and 35.8 per cent in the case of wheat (Chart 6).

Only 8.6 per cent of agricultural households cultivating paddy sold to a procurement agency, with the figure for wheat at a low 4.9 per cent. If we exclude households cultivating solely for self-consumption, however, the proportion of households selling to a procurement agency among those selling any part of their crop at all stood at 15.3 per cent in the case of paddy and 9.7 per cent in the case of wheat.



One reason for more than sixty per cent of the marketed crop not being sold under the MSP appears to be a lack of awareness of the operation of the scheme. This could reflect the inadequate coverage of the public procurement system. Indeed, even among those aware, the absence of local access to the procurement system played a role, as did an inadequately remunerative level of the procurement price in the case of many crops. But even when procurement prices were unremunerative, the open market did not always provide a better alternative. The proportion of households selling a part of their crop and aware of the procurement system, which said they did not sell to a procurement agency because they could get a higher price than the MSP, was close to negligible. If farmers do have access to local procurement and are aware of the system, they do take advantage of MSP-based procurement facilities, even if mediated by middlemen/traders.

This is not true of just paddy and wheat. As Chart 7 shows, marketed surpluses are high in a number of the crops benefiting from a support price. The share of marketed surplus sold at the MSP was close to 30 per cent in the case of sugarcane and above 10 per cent in the case of gram, urad, groundnut, rapeseed/mustard and soyabean. In all probability, the reason the reliance on a procurement agency was not higher in most crops, was the absence of procurement facilities on the ground or a support price that was not attractive enough.



There is also wide variation in the significance of procurement across states. In the case of paddy for example, the proportion of marketed output sold under the MSP scheme was 84.7 per cent and 68.7 per cent during the first and second seasons of 2018-19 in Chhatisgarh, 82.8 and 73.6 per cent in Kerala, 33.4 per cent and 41.3 per cent in Telangana, and 34.1 and 41 per cent in the case of Odisha, as compared with the national average of 23.7 and 24.7 per cent. In the case of wheat, the figure for Madhya Pradesh was 37.8 per cent, that for Haryana 32.9 per cent, for Himachal Pradesh 32.5 per cent, and Punjab 31.8 per cent, whereas the national average stood at 20.8 per cent (Table 2). So, there is widespread and active procurement in some parts of the country, with some but no significant change in regional variations. Studies indicate that a push from the state government and state level agencies accounts for much of the difference.

Table 2: Percentage of output of marketing HHs sold under MSP			
	1st season	2nd season	2nd season
	Paddy	Paddy	Wheat
Andhra Pradesh	18	10.8	
Arunachal Pradesh	1.5		
Assam	0	0	
Bihar	5.3	3.1	
Chhatisgarh	84.7	68.7	0.8
Gujarat	5.6		6.7
Haryana	21.3		32.9
Himachal Pradesh	10.6		32.5
Jammu & Kashmir	1.3		
Jharkhand	2		
Karnataka	1.3	2	
Kerala	82.8	73.6	
Madhya Pradesh	34		37.8
Maharashtra	4.8		1.8
Manipur			
Meghalaya	19.4	39.1	
Mizoram			
Nagaland			
Odisha	34.1	41	
Punjab	30.4		31.8
Rajasthan			7.9
Sikkim			
Tamil Nadu	1.7	35.1	
Telangana	33.4	41.3	
Tripura	4.9	10.6	
Uttarakhand	22.3		4.8
Uttar Pradesh	7.6		9
West Bengal	13.5	10.8	

Table 3 reveals the high proportion of paddy and wheat that was sold at prices below the MSP in different states during recent marketing seasons. All this goes to show that farmers are not trapped into selling to the government through the APMCs, undermining farmer choice in terms of markets, buyers and prices. Rather most farmers are kept out of the government's procurement network which would, assuming MSPs are set and revised suitably, actually be the chosen channel of the farmers. Their anger reflects the fact that, instead of extending the coverage of areas and crops in which that choice can be exercised, circumstances that can shut off that option are being created.

Costs and prices

The cost-plus principle underlying the MSP is even more attractive because of the effects of the neoliberal regime on prices and profits. Indian agriculture is experiencing a margin squeeze and associated non-viability of crop production, with costs rising and prices not keeping pace. A number of factors are responsible for this. One is the increase in input prices, resulting partly from the government's effort to reduce the subsidies provided on a number of inputs varying from fertiliser, power and diesel to irrigation. Another is the unwillingness of the government to offer significant increases in the official 'support prices' for a number of commodities, which often serve as the floor for market prices. And finally, in many areas trade liberalisation is having a dampening effect on prices.

Table 3: Proportion of paddy and wheat sold at price below the MSP.

States	Paddy (Common), Marketing Season 2019-20	Wheat, Marketing Season 2020-21
Uttarakhand	39.8	82.1
Punjab	73.6	12.6
Haryana	68.9	7.0
Uttar Pradesh	56.1	56.4
Rajasthan	61.3	76.3
Madhya Pradesh	64.3	60.8
Gujarat	55.7	88.4
Maharashtra	90.4	62.9
Karnataka	82.3	8.0
Tamil Nadu	90.7	--
Telangana	75.1	--
Odisha	56.3	--
Chhattisgarh	77.0	92.3
West Bengal	71.5	58.5
All States	68.9	54.2

Notes:

- These estimates cover only the *mandis* registered in the Agmarknet database. They exclude procurement in *mandis* and procurement centres (such as, PACS) that are not covered in the Agmarknet database as well as purchases by traders outside the *mandis.*
- These estimates are based on the assumption that all produce sold in a *mandi* on any day is sold at the modal price in that *mandi* for the day. That is, if on a particular day, the modal price in a *mandi* was lower than the MSP, it is assumed that all produce on that day was sold at a price less than the MSP. Similarly, if the modal price was equal to (or higher than) the MSP, it is assumed that no produce was sold at less than MSP in such a *mandi* on that particular day.

Source: Estimates based on Agmarknet data

For example, over the 13-year period 2004-05 and 2017-18 while the prices paid by farmers for intermediate goods increased by 184.9 per cent, the prices received for their outputs increased by only 147.9 per cent. Between 2011-12 and 2015-16 the prices of fertilizers rose by 21 per cent and of cattle feed and fodder by 52 per cent and 68 per cent respectively, while the increase in the price indices for rice and wheat were only 35 per cent and 28 per cent respectively. The increase in the price of fertilizer was largely due to the adoption of the Nutrition Based Subsidy in 2010 that decontrolled the prices of phosphatic and potassic fertilizers. More recently, repeated increases in the central duties on petrol and diesel have raised prices sharply, pushing up transportation costs and the costs of operating pump sets.

In the event, farmers hit by falling prices and/or rising costs find their net returns and income squeezed. An estimate based on the official National Accounts Statistics, which presents an otherwise comfortable picture of growth, suggests that over the three-year period 2014-15 to 2016-17, the income per heard of the agriculture dependent population increased by 16 per cent in nominal terms. Over the same period inflation based on the Consumer Price Index for rural India rose by 16.3 per cent (Chandrasekhar and Ghosh 2018). This implies that the real, inflation-adjusted incomes of the agriculture dependent population have stagnated. A consequence is that farmers taking working capital and/or consumption loans, as well as loans for investment, are unable to pay off their debts.

But what needs to be noted is that these concerns and accompanying resentment did not turn farmers against intervention. Rather, what the farmers were looking for was enhanced state support, since the evidence was clear that the dilution of state support only made matters worse. Their case is that appropriate agricultural policy intervention is crucial to ensuring the viability of crop production and preventing worsening terms of trade for agriculture and income distributional shifts away from agriculture. This understanding within the farming community, especially sections with surpluses to market, explains the farmer position in the stand-off over farm laws. With the President approving the three new farm bills on September 27, 2020, the influence of private players in different segments of the agricultural value chain on the supply and distribution of marketed agricultural commodities was set to increase. Combined with the government's ambiguous position when it comes to legally guaranteeing the MSP, the Acts were being seen by the protesting farmers as an attempt to transform the agricultural policy regime in a manner that would influence the extraction and deployment of economic surplus, that is against their interests, and in favour of large agribusiness corporates belonging to India's big business groups.

The farmers' fear is that the drive to corporatize agriculture will have as its collateral effect the atrophy of the procurement regime with MSPs, undermining the principal counter to shifting the terms of exchange against farmers, as happened before the mid-1960s. The impact this would have on the viability of crop production will lead to land alienation and farmer exit from cultivation, which the new or amended farm laws would then facilitate.

The MSP scheme matters not because it has benefited all farmers or benefited even those it has touched adequately, let alone substantially. It matters because the policy framework it was part of was seen as moulded by an effort to protect farming from not just market forces that are not benign, but a policy regime that was not geared to ensuring the viability of crop production. So, the most important component of the regime was the promise to procure at a pre-specified, cost-plus remunerative price any supplies of identified crops that farmers chose to sell to the government at that price. Though not featuring in any of the three farm laws, the protesting farmers feared that the implementation of the laws will end the MSP regime, with the government withdrawing from procuring output at a remunerative cost-plus price. The impact this would have on the viability of crop production will lead to land alienation and farmer exit from cultivation, which the new or amended farm laws would then facilitate. Hence, the farmers wanted both the laws that corporatize agriculture to go and the MSP and procurement to be guaranteed by law.

The fear that MSP would end has been heightened by the response of the government and advocates of reform that sale at the MSP is resorted to or available only to a few farmers. That opportunity, it is argued, would continue to exist under the new regime, which would also offer alternative, lucrative marketing opportunities for farmers. The notion that only a few farmers avail of the MSP when marketing their produce has been in circulation for some time, strengthened by the assertion of the Shanta Kumar Committee that only a "miniscule of agricultural households in the country" benefit from procurement. That conclusion was based on the evidence from the National Sample Survey's Situation Assessment of Agricultural Households of 2013 that only 6 per cent of agricultural households recorded sales of paddy and wheat at the MSP. Besides the fact that there are many other crops that have seen increasing procurement by government agencies, this assertion was misleading because it referred to an average across the country, whereas the figure in states where procurement had been implemented well touched much higher levels.

In sum, the problem with the MSP is definitely not that it is of marginal or no benefit to farmers, except in a couple of crops and in a couple of states. The problem lies in the inadequate spread of the procurement apparatus to cover more crops and a larger geographical region, the timing of the procurement operations (which are often delayed and too short for farmers to benefit) and in some cases in the prices offered, which may not be adequately remunerative. That is why any perception that even the current inadequate regime of procurement may be dismantled stirs protest from an already beleaguered farming community.

Such fears are intensified by opinions from expert sources that a guaranteed MSP would be fiscally suicidal and would skew agricultural production in the ecologically-unsustainable direction of water intensive crops. There are many problems with such views. They ignore the fact not all of production is marketed whether at the MSP or some open market price; that the role of the MSP policy is not to procure whatever output is being marketed but enough to ensure that prices for the crop are at or above the cost-plus remunerative level; and that if more crops (than the 'chosen' four, consisting of paddy, wheat, cotton and sugar) are brought into an effective, MSP-based procurement scheme, the

tendency for production to be skewed in favour of a few crops can be pre-empted. (Damodaran 2021; Himanshu 2021).

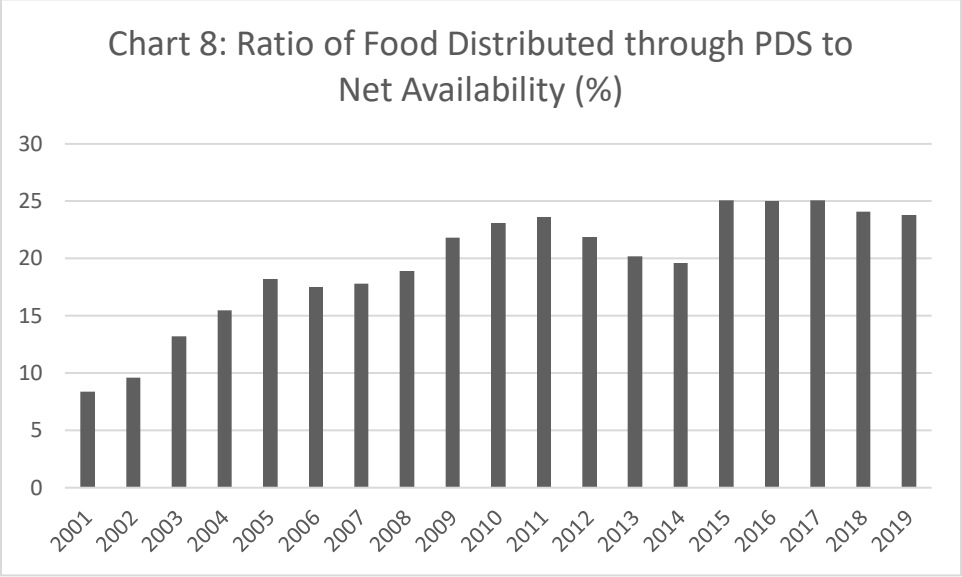
Many years have passed since the MSP system was first put in place, so country-wide coverage across crops should have been ensured and the government must have accumulated enough experience to implement it without difficulty. The result should have been a viable agriculture and satisfied consumers. So, the evidence that crop production is increasingly unviable is indeed surprising.

What seems to be the problem more recently is that annual increases in the MSP have been smaller with farmers complaining that support prices have not kept pace with costs. Since support prices, at which the government offers to procure as much as farmers want to sell, influence the level of market prices, the latter too have been depressed. The net result according to farmers is a closing of the gap between costs and prices, despite the claim that MSPs are computed on a cost-plus basis by the Commission for Agricultural Costs and Prices.

One difficulty that could arise if procurement at a cost-plus MSP is guaranteed by law is that it could be challenged as violative of the WTO Agreement on agriculture. While how any such challenge would play out is yet to be seen, the option to a guaranteed MSP is farmer conviction that through a multi-pronged strategy (involving some combination of investments, access to reasonably priced inputs, price and market intervention, and, possibly, income transfers) the government would work to ensure the viability of crop production and pre-empt an erosion of rural incomes as a result of terms of trade shifts. The farm laws sent out the opposite signal.

This leaves the question as to why the government was so adamant about keeping in place the farm laws despite the persisting and widespread resentment against them. One reason is the difficulty it is facing in achieving its goal of curtailing the allocation for food subsidy in its budget, as part of the neoliberal agenda of reining in the fiscal deficit even while offering tax concessions to the corporate sector. The food subsidy bill rose from Rs. 258 trillion in 2004-05 to Rs. 584 trillion in 2009-10 and Rs. 1394 trillion in 2015-16, despite the fact that reduced budgetary allocations were being resorted to as a means of trimming the PDS. It subsequently came down, but partly because the government has not been paying sums due to the Food Corporation of India and was getting it to finance the bill with its own borrowing. That clearly is not sustainable. So, the government has been looking for ways to rein in the expenditure on this account. The problem, however, is that this expenditure is not being curtailed by reducing the benefit being offered to buyers from the PDS, either by raising prices of food distributed or reducing quantities provided to each buyer or the number of consumers by changing rules and resorting to targeting. When experimented with, such measures only decrease offtake from the PDS and increase stocks held by the FCI or other procurement agencies, since the gap between stocks procured and food distributed widens. With the FCI having procured the stock and spent on transportation and storage, payment of a subsidy can be avoided only if the stock can be sold through open market sales or exported at a price equal to economic cost. That has not been possible because of the level of market prices.

Despite some evidence of a trend increase in the ratio of food grain distributed through the public distribution system to the net annual availability of food grain starting in the early 2000s (Chart 8), at least till 2015, partly influenced by the introduction of Antyodaya Anna Yojana in 2002 and the passing of the National Foods Security Act in 2013, the stocks of food grain with the government have tended to rise over time (Chart 9).



For a fiscally conservative government committed to neoliberalism, this is proving to be a problem. A lenient tax regime is limiting revenue growth, but expenses are rising, not least on account of the food subsidy bill. One option would then be to reduce or get out of both procurement as well as guaranteed provision through the PDS. For that, increases in the MSP should be reined in and access to procurement channels reduced. Doing that directly may be politically damaging. So, dressing up the process in a change in agricultural strategy ostensibly meant to benefit farmers may be an alternative route to achieving the intended goals. The three laws without including a reference to a guaranteed C2+50% price appear to have been designed to achieve this end.

But to the agitating farmers this explanation may appear as going too soft on the government. This is because it does not consider the fact that unlike the old system of food economy management in which farmers were part beneficiaries, the benefits of the new system would have accrued to private operators and corporate groups that would have been able to participate to different degrees in agricultural production and the trade. In the view of the farmers, it is not the fiscal bind that neoliberalism creates for the government that forces it to reinvent food policy, but the neoliberal objective of rigging the terms of the food trade in favour of corporate capital and engineering a transfer of income and wealth from the farming community to a chosen few in the corporate sector that takes it in that direction. There does appear to be a prima facie case here. Hence the resilience of the farmers movement. And, possibly, the adamance of the government to implement a regime that was being rejected by the very interests the government claims it will serve.

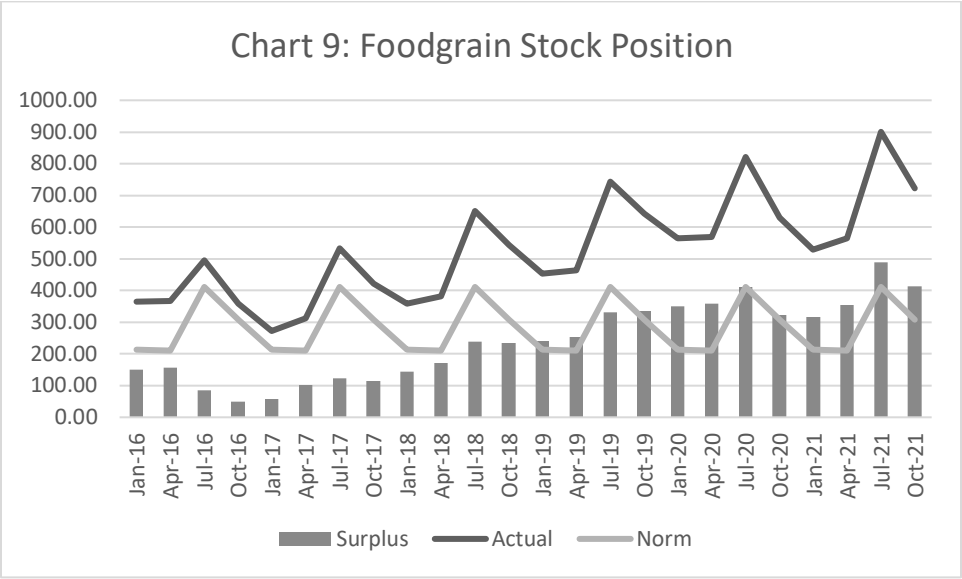


Chart 9: Foodgrain Stock Position
1000.00
900.00
800.00
700.00
600.00
500.00
400.00
300.00
200.00
100.00
0.00
Jan-16
Apr-16
Jul-16
Oct-16
Jan-17
Apr-17
Jul-17
Oct-17
Jan-18
Apr-18
Jul-18
Oct-18
Jan-19
Apr-19
Jul-19
Oct-19
Jan-20
Apr-20
Jul-20
Oct-20
Jan-21
Apr-21
Jul-21
Oct-21
Surplus
Actual
Norm

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