EXPLAINED ECONOMICS

Full circle on farm reforms

From the farm laws that tried to free agricultural trade, the Modi govt has reverted to controls and curbs. This is pretty much on the lines of an earlier short-lived experiment at decontrol, back in 1947-48

HARISH DAMODARAN

With Gandhi lending his weight, Nehru's govt on December 10, 1947 announced a programme of 'planned, gradual and progressive decontrol'. *Wikimedia Commons*

MORE THAN three years have passed since the Narendra Modi government enacted its three farm reform laws — first through ordinance in June and then Parliament in September 2020. It was billed as the "1991 moment" for Indian agriculture.

The laws basically freed the trade in agricultural produce: farmers had the choice to sell to anyone and anywhere in the country, with the trade area no longer confined to state government-regulated market yards or mandis. Traders, retailers, processors and exporters could also buy directly from farmers, including via contract cultivation and supply agreements. There would be no barriers to movement or limits on how much of produce they could purchase and stock.

Following protests by farmer unions — they viewed these as leading to the withdrawal of the state from minimum support price-based procurement operations — the reform laws were repealed in November 2021. They have ceased to exist in letter.

In spirit too

The last one year and more have seen even the spirit of the farm laws die. And it's been courtesy of not the unions, but the government itself.

In May 2022, the Modi government banned wheat exports. It also moved export of sugar from the "free" to the "restricted" category, while capping the total quantity that could be shipped out in a year. In September 2022, broken rice exports were prohibited, and a 20% duty imposed on shipments of other non-parboiled non-basmati varieties.

The wheat export ban continues, even as no sugar has been allowed to leave Indian shores after May this year. In July, it was decided to completely stop export of all non-parboiled non-basmati rice.

But it isn't external trade alone.

The Modi government, this June, clamped stock limits on *tur* (pigeon pea) and *urad* (black gram). No wholesaler or big chain retailer was permitted to hold more than 200 tonnes of either pulse, with these set at five tonnes for ordinary stores and 25% of annual installed capacity for dal millers.

Similar limits — contrary to the provisions in the Essential Commodities (Amendment) Act, one of the three now-repealed farm laws — were extended to wheat in the same month.

In short, the wheel has come full circle. From enacting legislation supposed to usher in liberalisation and structural transformation of Indian agriculture, it's back to controls.

The policy reversals cannot be attributed just to Rakesh Tikait, Joginder Singh Ugrahan and other union leaders. These have come from the government itself, as the overall supply situation in produce — including stocks of wheat, rice and sugar with the Food Corporation of India (FCI) and mills — has turned from surplus to finely balanced.

A historical parallel

Such policy flip-flops aren't new to India.

The oldest, and probably the most interesting one, dates back to 1947-48, when the country had just attained independence. It had to do with a short-lived experiment at decontrol of the foodgrains trade, the push for which came from none other than Mahatma Gandhi.

At a prayer meeting on December 8, 1947, Gandhi called for decontrol, so as to "make our life natural". Controls imposed from above "are always bad" and when they are lifted "people will have a feeling of freedom". Gandhi was essentially advocating dismantling of the system of food rationing, introduced during World War II, starting with Bombay in 1943 and extending to large parts of India over the next few years.

In August 1947, some 60 million people — a little under 18% of the population — were under direct rationing, getting 10 ounces (0.28 kg) of cereals per capita per day on an average. While below the originally envisaged one pound (16 ounces or 0.45kg) daily ration required to deliver 1,600 kcal of energy, the system had become physically, financially and administratively difficult to maintain.

India those days wasn't self-sufficient, forget surplus, in foodgrains. In 1944-45, it imported grain worth Rs 14 crore, rising to Rs 24 crore, Rs 89 crore and Rs 110 crore in the following three financial years. Apart from imports of around 2.3 million tonnes (mt), the government had to procure another 5.5 mt internally to meet the requirements of rationing during 1947.

These entailed both draining of foreign exchange and forced levy on farmers, which applied to any production in excess of, say, one tonne — the assumed yearly consumption of a family — and had to be delivered to the government. The compulsory levy was combined with controls over the private trade and movement, which ensured that prices stayed down and the grain remained in the producing areas for the government to skim off the surplus.

Not for nothing the then Finance Minister RK Shanmukham Chetty, in his 1947-48 Union Budget speech, warned of a "serious threat of a breakdown of [the] rationing system".

Decontrol and roll-back

In October 1947, a Foodgrains Policy Committee, having three leading industrialists (Purshotamdas Thakurdas, Ghanshyam Das Birla and Lala Shri Ram) among its members, recommended a reduction in India's dependence on food imports as well as cutting down on rationing.

The proposal was consistent with Gandhi's own philosophy of self-reliance. The government "must teach people how to face shortages" and work towards increasing domestic production. For that, it needed to keep in mind the interest of farmers. "The peasant [mostly] consumes what he grows. He sells his small surplus in order to buy the other necessities of life. One consequence of controls [is] that the peasant [realises] only a very low price from the market for his produce," he said.

With Gandhi lending his weight, Jawaharlal Nehru's government on December 10, 1947 announced a programme of "planned, gradual and progressive decontrol". States were told to reduce their rationing commitments in stages and rely on internal procurement rather than imports to meet any remaining needs. The Centre would import grain, but only to hold as an emergency reserve of 0.5-1 mt for market intervention. Price control at an all-India level would end.

The Agriculture Minister Rajendra Prasad (later President of India) anticipated decontrol to result in prices going up initially. But with higher and freer prices, the produce held back or hoarded by farmers and traders would come into the open. Prices would eventually "settle down to a reasonable level".

It didn't happen quite that way. Between November 1947 and July 1948 alone, wholesale prices of food articles soared by nearly a third. By September 1948, the government had to roll back India's first ever food decontrol experiment, which lasted all of nine months.

The lessons

The 1948 decontrol was attempted at a time when India could not produce enough food to feed a growing population. It was destined to fail, notwithstanding Mahatma Gandhi's exhortations "to make our life natural". The Nehru government tried again during 1952-54, when good crops emboldened it to relax movement controls and cut rationing. But towards the late 1950s — especially post the 1957 drought — it was realised that decontrol and free trade wasn't sustainable for a structurally food-deficit country.

Cut to 2020, when the farm laws were passed. These were advertised as giving farmers greater "freedom of choice" through opening up of alternative marketing channels for their produce. Unlike in 1948, India had now entered a regime of "permanent surpluses" in most crops, with the FCI's godowns bursting at the seams. The situation couldn't have been riper for decontrol.

Subsequent events have proved that decontrol and making "life natural" remain unrealised ambitions. When it comes to food and agriculture, even the most reformist governments tend to develop cold feet — reverting to controls at the slightest hint of shortages or price pressures. The Modi government has been no exception to the rule.