**Free enterprise in agriculture**

Swarna Bharat Party’s policies for farmers

*These policies should be seen in the context of the broader reform agenda outlined in* [*SBP’s manifesto*](http://swarnabharat.in/)*. Free markets require strong and effective governance. Without governance reforms detailed in the manifesto, that will build capacity and honesty in the government machine, the policies detailed below will not deliver the expected results.*

Farmers, some of our most skilled citizens, are continuously held back by a regime that restricts their freedom of action through barriers to accessing technology, bans on exports and on alleged ‘dumping’ from abroad, and through restrictions on the movement, storage and processing of agricultural commodities. Coercively low agricultural prices (often irrationally volatile) have impoverished farmers, resulting in rural poverty, indebtedness and unemployment. While food security is a major issue for India, shackling farmers is *not* the solution.

We are blessed with the world’s largest irrigated area and some of the most fertile land. India can, by unshackling agriculture, supply not only its domestic needs comfortably, but also meet the growing demands of China and Africa. Sadly, existing policies distort farm incentives, leading to low and volatile agricultural productivity. Our policies have led to decelerating productivity growth of farm inputs, excessive ground water withdrawal, poor soil fertility, insufficient use of farm-yard manure, rapidly declining agro-biodiversity and insufficient use of modern technology. These restrictions result in a net negative subsidy for the farm sector (a drain from famers to urban dwellers). (The Aggregate Measurement of Support (AMS) has been negative on numerous occasions in the previous years.)

But even subsidies intended to alleviate the negative effects of various restrictive policies do more harm than good, since:

* most subsidies end up in the pockets of the rich , e.g. companies that produce fertilisers, particularly urea; and politicians and bureaucrats involved in their approval and distribution. Subsidised fertiliser prices have prompted Indian fertiliser being smuggled to neighbouring countries, thus transferring Indian taxpayer funds to foreign countries;
* instead of creating incentives to use water-saving technologies such as drip irrigation and water harvesting, subsidised power leads to excessive groundwater use, risking our future food security. Crop production has shifted significantly towards water-hungry crops. While *bajra* and maize used to be extensively grown in north India, water hungry wheat and rice have now become the main crops;
* citizens ultimately pay for these subsidies, since government does not produce wealth; and
* the subsidies contribute to inflation through deficit financing. This erodes the value of the rupee, even of the farmers.

As a result of such policies, farmers are now heavily indebted and agriculture has become a losing vocation. Farmers are prematurely leaving the farm. But we need orderly structural change, not the massive structural shifts currently being experienced. At times, the consequences of these policies have been even direr, with high rates of farmer suicide.

## Inadequacy of M.S. Swaminathan’s recommendations

We have reviewed the recommendations of the National Farm Commission under the chairmanship of Dr. M. S. Swaminathan and have significant concerns about many of them. Most of its recommendations will increase farmer dependence on subsidies and create new bureaucratic programmes, instead of liberating agriculture. The report does not represent the fundamental shift in thinking or policy direction that is urgently needed. We believe the goals the report seeks to achieve can be best delivered through a suite of market-based reforms, outlined below.

## A market based agriculture policy

We will honour farmers by liberating them from shackles imposed by the government, and letting them compete in the open market. We will get the government out of agriculture almost entirely. We will remove all restrictions on the production, movement, and pricing of agricultural inputs; as well as restrictions on post-harvest treatment, including on marketing and exports. We will streamline regulation for the conservation of environment (e.g. water table and biodiversity) and the regulation of logistics, crop insurance and other support industries. Such market-based reforms will ensure that hundreds of millions of farmers get a new lease of life, with major innovation in the sector supported by large-scale private investments in logistics chains and crop insurance.

Some details are outlined below.

### Freedom to produce and trade

We will ensure untrammelled farmer access to relevant markets and technologies, through open free trade. All unnecessary regulatory restrictions on the farm sector will be removed, such as rules about a minimum distance between farm and mills.

The market offers in-built incentives for productivity and innovation. The free market looks ahead (e.g. futures markets) and stores food for emergencies. Any potential seasonal shortfall is best met by the free market through timely imports. Access to the global food market will allow both food exports and imports, putting competitive pressures for increased efficiency and innovation.

Having free trade is particularly important to farmers. Mill-owning lobbies often bribe politicians to block exports. This leads to a ‘switch on, switch off’ export policy which harms farmer, prevents long term planning, and brings India into disrepute. Indian agricultural businesses should survive under open competition, not through lobbying.

These reforms will allow farmers to re-prioritise to more valuable produce. One of the great opportunities in agriculture today is in China, with its increased appetite for meat. While we will regulate meat processing for humane animal slaughter and hygiene, flexibility in production options is crucial if farmers are to raise their standard of living. Through shifts to high value production, Indian farm prosperity will significantly increase, even as the sector undergoes rapid restructuring, with many farmers choosing to re-skill and move to the cities.

### Strong property rights for farmers

Over and above our emphasis on a strong and corruption-free land records management system, we are committed to free entry and exit in the agricultural sector. Two key policies in this regard are:

1) **Conversion of land use**,particularly conversion of agricultural land to non-agricultural use, is the biggest barrier to a fair land market for farmers. While urbanisation is best undertaken on infertile land, restricting change in use of agricultural land is not the way to achieve either food security or better urbanisation. It is fundamentally wrong to take away the right of famers to sell their major asset at market value.

Only markets can determine the best use of a parcel of land. We will give farmers the right to dispose their land to anyone at any price without any zoning restrictions. The only restrictions will relate to the building permit/ compliance certificate requirements, depending on the size and type of construction. The rapidly increasing productivity of the farm sector will easily offset any loss of agricultural land through this process.

Private companies that wish to buy farmers’ land could give shares in their company to farmers (in addition to market value of the land) so the farmers can share in the future prosperity created by the company.

2) **Ceilings on land**, that preventa person from owning large parcels of land, are inconsistent with property rights and lead to enormous corruption and deceptive practices. All land ceiling laws will be repealed by removing the shelter provided to such laws through Schedule 9 of the Constitution.

3) In addition, we will facilitate private land exchanges to be established that support voluntary **consolidation of land**. Such exchanges will significantly reduce barriers to productivity. We will, however, also strongly preserve any existing *gochar* land (grazing land) in villages, and punish anyone who occupies the land illegally.

### Ending MSP, with total price deregulation in three years

The minimum support price (MSP) system has been a disaster. It has destroyed the entrepreneurial dynamism of the Indian farmer and, along with the system of agricultural subsidies, distorted farmers’ incentives and encouraged rice crops in water-scarce Punjab. We will create a well-regulated agriculture market, without any regulation of prices. As market signals freely transmit to farmers, they will seek the most competitive crops.

As a transitional strategy, we will retain a floor price in a few selected cases during a phase-out period of around three years. We expect the quick emergence of a robust futures market, where farmers can pass some of their price risk to market traders.

### Phasing out all agricultural subsidies and unnecessary interventions

We will phase out all agricultural subsidies, including irrigation (water) and electricity subsidies. In addition, we will phase out unnecessary interventions, such as the Food Corporation of India (FCI) and substitute it by well-regulated, market-based private marketing and warehousing networks.

Finally, as soon as the anti-poverty NIT-type programme has been rolled out, the public distribution system (PDS) supported by compulsory procurement will be repealed.

### Phasing out government loans

No new loans will be issued by the government (or supported by the government) to the agriculture sector. Instead, a well-regulated private loan markets will be encouraged. This will be embedded into legislation.

As regards existing loans, we will impose a moratorium on any coercive recoveries from farmers. Instead, we will sell these loans to the private market, with conditionalities on how these loans are to be recovered. No loan will be waived.

### A modern regulatory regime for agriculture

#### Abolition of Agricultural Produce Marketing Committees (APMCs)

APMCs function as wholesaler cartels in mandis. Some reforms have been initiated by the Modi Government. We will complete these reforms and abolish APMCs entirely.

Opening the markets will allow traders and farmers to buy and sell freely, and help make India a national market. We expect FDI in retail, and the private sector more generally, to set up cold chains to maximise the value of farm produce. Large retailers, for example, will directly purchase produce from farmers to minimise perishable goods losses.

#### Strong regulation of pesticides and fertilizer use

Excessive use of pesticides is harmful to humans and wildlife. We will significantly strengthen the regulation of pesticides to ensure that only the right quantities of pesticides are applied to crops, in accordance with international best practice. This may increase the regulatory burden, but would be offset by the benefit of reduced prevalence of cancer and other avoidable diseases.

#### Repeal of the Essential Commodities Act

The *Essential Commodities Act* is a draconian law that interferes with free movement and trade of food products across India. We believe there is no occasion for a government to interfere in the so-called ‘food black-market’ or ‘hoarding’ of food. The market will find a way out to attract sufficient food products, if left alone. This law will be repealed in its entirety.

#### Regulatory regime for genetically modified crops

We will take an evidence-based and strong regulatory approach to genetically modified organisms (GMO). There is, today, a misguided movement to prevent India from benefitting from modern science. We are equally concerned as anyone else that any genuine issues should be identified and addressed, but this should be based on scientific evidence, not on ideological pre-judgement. Regulation of food production and supply will include evaluation of any relevant research.

Bt cotton doubled India’s cotton output in five years and made us the world’s largest exporter. But in November 2009, Monsanto scientists found the pink bollworm had become resistant to the first generation Bt cotton in parts of Gujarat. Monsanto responded by introducing a second generation cotton with multiple Bt proteins, which was rapidly adopted. Bollworm resistance to first generation Bt cotton was also identified in Australia, China, Spain and the United States. Professor AK Gupta of IIM Ahmedabad notes that he has not come across a single Bt cotton field with refugia (i.e., non-Bt cotton rows on the border). The resistance to Bt gene is an obvious consequence.

There are some concerns regarding pesticide use associated with GMO, as well (such as the Round-up pesticide). This indicates that suppliers and users of GMO have a duty of care. Suppliers, in particular, need to educate and monitor farmers on the proper use of GMO. Farmers, too, need to abide by relevant GMO and pesticide use requirements.

#### Cooperative farming

We believe that farmers should have the option to access professional management and support. This requires more responsive cooperative farming regulation. Current regulation which allows cooperative department officials to engage in corrupt, whimsical actions, will be thoroughly overhauled. This reform will facilitate agro-processing and cold chains, thereby enhancing farm income.

#### Regulation of organic farming for authenticity of claims

There is a growing demand for organic produce despite the absence of any demonstrable differences in food quality. There is a need, however, for honest disclosure so customers are assured of the authenticity of the claims.

### Development of supporting markets

We will develop well-regulated markets in farm sector support services, such as:

* *private crop insurance markets*. Through honest disclosure of their circumstances, Indian farmers will thereby get the opportunity to avoid significant losses from unforseen contingencies;
* *private information networks* that offer internet access to villages; and
* *private laboratory networks* for soil testing and certification of produce, to validate compliance with relevant international standards.