Checkpoint - 3

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India is a country in which 70% of the population depends on agriculture. But now the whole agricultural system is facing problem. Although India's Agricultural Produce Marketing Committee legislation was enacted with the noble intention of increasing farmers' income, it has had the opposite effect over the years. It has restrained farm income. The failure arises from the basic structure of the legislation, which creates the incentives for middlemen to collude against the farmer.

The Agricultural Produce Marketing Committee (APMC) laws go back to the founding of the Republic in the 1950s. The government's intent and justification behind setting up the APMCs, as seen in promotional videos from that era, was to protect farmers from commission agents – the middlemen. The idea was that these markets would be fair, more efficient, and offer better remuneration to the farmers. Since markets are a state subject under the Constitution, the states had to enact APMC laws. Most states have enacted and amended them from time to time.

The Act empowers the government to declare certain areas as market areas – the entire geographical area over which a market set up under the APMC law has a ‘monopoly’ on. This designated market is run by a committee of elected traders and farmers (from the area), with some representatives from the government. The committee then sets up a market yard with storage facilities where the trading of agricultural goods takes place. There may be sub-yards set up too, and these are covered by the same rules that govern the yards. All traders who buy agricultural goods are required to get licences from the market committee. To fund itself, the committee charges fees on all trade that takes place within the market area.

The original idea behind creation of APMC laws – to bring the traders under one roof for easy monitoring and prevent them from cheating the farmers – seems lost now. The law almost achieves precisely the opposite of its intended objective. To understand how the APMC ends up harming the farmers, let’s take a look at the law and the economics behind it.

The government’s attempts at modernising APMCs ignore principal economic drivers in the APMCs. Any legislation which coerces farmers to sell in a specified area or reduces the supply of traders through licensing will lead to exploitation of farmers. Even if the APMCs laws start without such coercion, the creation of statutory APMC automatically creates a constituency of traders who then lobby the government to close other channels of selling.

Even the modernised ‘model APMCs’
of 2003 and 2017, which have been suggested by the government as part of its measures to reform the legislation and which it wants the states to enact, retain two provisions that give rise to cartelisation: trader licensing and market monopoly. Therefore, economics predicts that monopolistic behaviour by the market committees and cartel formation by the traders will ensue – and that is because the model APMC laws suffer from the same defects that the old laws do.

APMCs are not an Indian phenomenon, variations of this law (initially promoted by the World Bank) was implemented in many countries. However, over the years, informed by experience and economic thinking, South Africa, New Zealand, Australia and others have repealed such laws. It is high time India abandoned this fundamentally flawed legal policy in all its forms.

We are coming across the farmers protest in the India. We have studied about their problems in brief and we have came up with a easy solution , by which government can establish peace with the farmers and also by which farmers can get more profits. This can be solved by three methods

1)Strong regulation by the Government

2)Prevention of entry of middlemen

3)Solution to flaws in APMC and MSP system

1)**Solution to flaws in APMC and MSP system:**

Nowadays it has been a common point that APMC's rules are outdated and they should be changed. Increase MSP will solve half of the problem of the farmers. The below ones are some important points.

->Government must regulate the excessive power in the hands of the committee : So far the markets are controlled by the APMC. If a trader or retailer were to procure crops from the markets, they are required to obtain a license. This led to a lot of malpractices, where licenses were sold for money and soon anyone could purchase a license. So we believe the government should regulate the power of the APMC.

->Investigation into the various cartels among traders influencing prices of crops : The markets are influenced by group of traders forming alliance or cartels, in which they would collectively agree to not purchase crops at a certain price, from the farmers, forcing them to sell at just nominal prices or losses.

->Huge distance(increase costs) between farmers and markets can be solved by direct procurement : The markets are usual in state level and are quite far away from farm lands. The farmers have to bring in the crops themselves and yet sell their crops at marginal or no profit at all.

2)Strong regulation by government:

Government plays a vital role here, as it is the main decision maker . It should concentrate on solving this problem. And Government can take the points below into consideration to solve the problem.

->Strict monitoring on distribution of licenses to traders: By this many illegal trades can be tackled and farmers can get a fair price and this will control the commission that middlemen get.

->Provision for farmers to better represent themselves in front of law: PepsiCo sued a few farmers for cultivating a potato variety grown exclusively for its popular Lay's potato chips, leading to an outcry and protest. They could not hold up to the influence of major companies and have no choice left to them. The government need to provide more power to the farmers to convey their point of view on an equal platform.

->Strong laws to prevent formation of monopoly by private companies : Huge private companies with teams of lawyers find loop holes and discrepancies in the system and use it to exploit the farmers and profit themselves. The people at loss are only farmers who do not have the money to hire good lawyers or are forced to keep quiet.

3)Prevention of entry of middle men:

Middlemen are the key persons who are causing a lots of loss to the innocent farmers . They are just making themselves rich and they earn more profit than farmers by just mediating the transfer of crops from farmers to the sellers. Middle men intervention can be avoided by the following methods:

<u>->Procuration of crops directly from farm lands, hence increasing MSP : </u> By doing this the farmer do not have to worry about transportation of crops to the markets and can save on transportation charges minimum support price.

<u>->Provision for transportation and hubs for cold storage of produced materials : </u>The government can collect crops from the farmers directly and store them in hubs in different districts. This

<u>->Create a community or government run e-commerce platform to sell directly to consumers :</u> As technology is advancing, more and more people are using the internet and the adapting to system of having the comfort of getting things done sitting at home. We can use e-commerce to get crops directly delivered to peoples homes.