**Why is the government pushing farm laws despite so much protest?**

*(Farm laws and some conjectures)*

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Why is there so much protest by the farmers in the Delhi border? Why isn’t the government preserving its rural vote-bank? What makes them uphold the farm laws and promote their “reform agenda”? I teach the power of incentives in undergraduate economics. I urge my students to uncover the underlying incentives in economic activities by producers, consumers, and the government alike – promising them that these incentives will lead them to uncover reasons for their actions. In this piece, I explore the theory behind this government’s position on the Farm protests – potential conjectures which dictate their stance and help us understand this deadlock.

The economic motivation for introducing the laws is that the existing agricultural commodity markets, controlled by the government, are inefficient. This inefficiency hurts farm incentives and prevents growth in farm incomes. Hence the idea is that these laws would remove these inefficiencies and promote farm incomes, eventually make farmers better off. Then why is there so much protest?

This logic is based on two crucial presumptions. First, if a market is left to private players, it will be more efficient than one operated by the government[[1]](#footnote-1). Does the government admit its own inefficiency? Is this a case of improving existing institutions without necessarily a need to change the market structure? Perhaps it is. A move towards privatization of the produce market increases uncertainty involved in predicting the market structure when private players completely replace the existing system. Will the market be a private monopoly where farmer have lesser say in their incomes or can the farmers dictate private companies and bargain a higher price for their produce? This is anybody’s guess.

Second, when private companies are allowed to buy farm produce directly, will they ‘jump’ at this offer? They will enter the produce market only if they find it lucrative in comparison with other markets to which they could potentially expand. When they enter, the assumption is that their increase in profits would also benefit the farmers who might receive higher incomes. These benevolent companies will share their profits. Then why is there so much protest?

We assume that when these companies enter the market, they do not distort the market in any way possible. The protest is wary of the possibility that these markets would no longer remain competitive. Farmers will be at the whims of private procurement companies, who could eventually gain control of the primary produce market. In fact, it is rare to see markets remain competitive over time. A company’s growth (in stock prices or its acclaim) is tied to how it increasingly captures more and more market space.

This brings us back to the underlying economics of these farm laws. Even economists agree that there is far too much uncertainty to predict the implication of these laws on farm incomes. Then why should there be no protests? If we face the possibility of perhaps getting a salary reduction, we agitate and fight with human resources. When farmers agitate, they are fighting this very uncertainty. In fact, most developed world – US and EU especially have systematically kept agriculture protected with farm subsidies and tariff barriers to overcome this uncertainty.

There could be political motivations for implementing these farm laws – perhaps not everything is economics. The thrust with which these laws were introduced in the parliament indicate that it is in the political interest of the government to push this reform agenda. Surely none of us believe that “reform legacy” is the key motivation behind government’s push for these farm laws. It should be purely political and entirely perceptible to a student of economics too. We simply have to conjecture about the potential benefits to the government when these farm laws are operational. Again, this is merely a thought experiment which we all must do.

It is entirely possible to conjecture about the political benefits of creating newer and more lucrative markets – private procurement market in this instance. Corporate electoral support and potentially larger contribution in GDP for the agrarian sector. However, the flip side of this potential benefit is the threat to vote banks dominated by farmers. For India, it becomes tricky. Since a major part of the population is still either directly or indirectly dependent on the agrarian sector, the threat of persisting with farm laws could be a great electoral risk.

If the net benefit is positive and significant, then it is prudent to take the decision in favor of thrusting these laws within the ambit of a parliamentary democracy. The metric is simple and indicates a potential positive and sizable net benefit. One could also examine the observed response by the government to infer about their motivations. The spikes around the farmers protest and their intent to hold ground on the laws indicate their clear choice.

Has this been done before? Yes. Historically, there have been cases where government either erects legal or administrative institutions to ensure that private markets function properly or directly enters the market. The former ensures that investor confidence is not wavering while the latter makes the risk of market uncertainty public. [[2]](#footnote-2) These are routine features of certain public investment projects.

Why did these companies wait till 2020 to take part in private agricultural markets? Agriculture in the late 50s and early 60s was ridden with production uncertainties – crop failures, rainfall dependence etc. It was only after government intervention through the green revolution that private production could sustain and generate a food surplus. The presence of this surplus meant that production issues were systematically reduced by government intervention. With successive improvements in farming (debatable), fluctuations in agricultural production stabilized and it became lucrative to enter these markets.

The crucial question then is whether potential entrants into the produce market could predict this agitation. Perhaps they could and perhaps they believe that political motivations of this government in terms of electoral certainty through financial support could incentivize the government to stand firm. In theory, while the economics underlying these laws is as unpredictable as the weather, the motivations for persisting with these laws seem to favor political certainty. But this is still just a theory and we have to start asking questions.

1. [Ideas Explained: How APMC markets went from being a solution to a problem](https://indianexpress.com/article/explained/explained-ideas-how-apmc-markets-went-from-being-a-solution-to-a-problem-6864862/), 25 October 2020, Indian Express. The one operated by government previously involved de-centralized decision by state governments in which these states could set up their mandis and choose how to operationalize them. [How farmers view the existing mandi syste](https://www.newindianexpress.com/opinions/2020/dec/12/how-farmers-view-the-existing-mandi-system-2235123.html)m, 12 Dec 2020 in the New Indian Express takes an opinion poll from farmers and does not help us gauge the existing farm laws. [↑](#footnote-ref-1)
2. Look at this [paper](http://www.isigrowth.eu/wp-content/uploads/2015/11/working_paper_2015_2.pdf) which argues the role of government in creating markets. [↑](#footnote-ref-2)