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Modi's Farm Produce Act Was Authored Thirty Years Ago, in Washington D.C.

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On December 18, addressing a Kisan Sammelan (farmer conference) in Madhya Pradesh by video conferencing, ***Narendra Modi*** *declared:*

> We are compelled to do things which should have been done 25-30 years ago.... The new laws that have been made for the farmers are in the news for some time now. These agricultural reforms have not come about overnight. Every government of this country has held wide-ranging discussions with the state governments in the last 20-22 years. (emphasis added)

It is true that things now being carried out by the Modi government were recommended nearly 30 years ago. It is true too that governments of various parties at the Centre have been discussing these measures over the last two or three decades, more or less as Modi says.

However, key provisions of the measures the Modi government announced in May 2020 as part of its 'Atmanirbhar Bharat' ('Self-Reliant India') package were in fact spelled out in a World Bank document of August 1991.

That World Bank document was titled *India: Country Economic Memorandum, vol. II.* (henceforth referred to as the *Memorandum*). At the time, India was still in its foreign exchange crisis of 1990-91, and had just submitted itself to an IMF-monitored 'structural adjustment' programme. Thus India's July 1991 Budget marked the fateful start of India's neoliberal era. The *Memorandum* (vol. I) bluntly clarified that India had little choice but to accept the IMF-World Bank prescriptions for 'structural adjustment':

> India's creditworthiness has declined to the point where international sources of commercial credit have been cut off and, despite borrowing from the IMF, the external liquidity position is extremely tight. India, therefore, has to take strong measures to adjust the economy. The only real options are whether the adjustment is made in the context of an orderly, growth-oriented adjustment program with external financial support, or through a disorderly and painful process that will leave the country cut off from international capital markets for years to come and significantly reduce its growth.

The *Memorandum* spelled out a programme designed to restructure India's agriculture drastically, exposing India's agricultural producers as well as consumers to grave dangers,

while benefiting multinational agribusiness corporations. The *Memorandum* provided, in tabular form, a list of its 'recommendations', with a schedule for completing each ("immediate", "medium-term", "changes to begin in next budget", etc).

To summarise, the *Memorandum* called on the Government to do the following:

1. Scrap subsidies for agriculture – on fertiliser, water, electricity, bank loans – and open agriculture to foreign trade

a.) The Government should eliminate all subsidies on fertiliser over the course of four years. It should scrap protection for India's fertiliser industry, and link domestic fertiliser prices to world prices; "restructure" the fertiliser industry (i.e., allow the closure of fertiliser units). It should do away with Government intervention in, and regulation of, fertiliser marketing.

b.) It should eliminate 'priority sector' lending quotas, which reserve a share of bank credit for agriculture, and raise interest rates on agricultural lending, eliminating all subsidy.

c.) It should increase charges on all it supplies to agriculture, such as irrigation, veterinary and other extension services. It should enlist greater private sector involvement and investment in these.

d.) It should scrap protections from imports for agriculture. For a start it should open up to imports of edible oilseeds. It should also remove restrictions on agricultural exports.

e.) The Government should promote private research in seeds, remove regulations on private marketing of seeds, and remove subsidies for seeds.

f) It should raise electricity tariffs for agriculture to the level of non-agricultural tariffs.

2. Move toward dismantling the entire system of public procurement and distribution of food.

a.) "Food Corporation of India (FCI) should reduce its large direct role in purchasing, transport, and storing grain, through subcontracting to licensed agents, wholesalers and stockists, and providing price incentives for farmer storage of grains."

b.) India should maintain only a small buffer stock, and turn to the world market at times of shortage, keeping foreign exchange to handle purchase in deficit years.

c.) Price support programmes should be divorced from public procurement.

d.) Food subsidies should be reduced by targeting only those officially defined as poor. The "non-needy" should be denied access. The Government should "Use new methods of reaching the most vulnerable, including private sector distribution."

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Implementation of the World Bank programme over the years

The timetable prescribed by the Bank paid little heed to the political difficulties the Indian rulers would face in implementing such a comprehensive attack on the livelihoods of India's peasantry, the nutritional requirements of the majority of people, and above all the country's economic sovereignty. Nevertheless, on most of these fronts, successive

Governments of India tried to follow the *Memorandum*'s script, albeit haltingly, with partial retreats from time to time in the face of popular resentment and opposition.

- Subsidies on phosphatic and potassium fertilisers have been slashed, and their prices decontrolled, leading to a sharp drop in their use, with harmful consequences for the soil nutrient balance.
- The share of agriculture in bank credit has fallen steeply, leading to a rise in credit from moneylenders, the growth of peasant indebtedness, and over 300,000 peasant suicides since the late 1990s.[1]
- Public sector extension services for agriculture collapsed between the mid-1990s and the mid-2000s; there has been a partial revival thereafter, but these services are still grossly inadequate.
- Quantitative restrictions on agricultural imports were removed, and tariffs on agricultural imports have been lowered. As a result, India imports about half of its requirement of edible oils. Other produce too has faced the threat of imports.
- Once-dominant public sector seed firms steadily withdrew from the market for seeds; private sector seed firms became dominant.
- The recent Electricity (Amendment) Bill, 2020, proposes to do away with all electricity cross-subsidies at one stroke, implying a massive burden on an already crisis-ridden peasantry.

Drastic restructuring of India's food economy

Now the Modi government is dramatically advancing the implementation of the above programme, using the Covid-19 crisis as cover. The dismantling of the public procurement and distribution of food is to be implemented by the three agriculture-related Acts recently 'passed' by Parliament.

Of course, the implementation of the World Bank's guidelines began much earlier. The Targeted Public Distribution System introduced in 1997 drove so-called "Above Poverty Line" consumers out of the Public Distribution System, thereby crippling the entire PDS – leading to a build-up of grain mountains and so creating an excuse for winding up the PDS itself.

Prime Minister Vajpayee told peasants bluntly that they needed to adjust to global 'comparative advantage'. Speaking at a gathering in Haryana on March 6, 2001, he exhorted them to "Look beyond wheat and paddy", and to switch to "horticulture, floriculture, oilseeds and vegetable production and have a good export potential." The farmer, he explained, had to adjust and respond to the growing pressures of the world market — especially with the removal of quantitative restrictions under WTO — by producing less food and more of other crops. Only then, he said, would they be able to benefit from the free market. In this way he made explicit the *policy of discouraging foodgrains production as a part of 'globalisation'.*

In 2002, the High Level Committee on Long-Term Grain Policy noted in its report: "the Committee had to take note of an opinion that the existing system need not be salvaged and that *the present crisis may in fact be an opportunity to do away not only with Minimum Support Prices (MSP) but also with the Public Distribution System (PDS)*, and restrict the role of the Food Corporation of India (FCI) to maintaining a reduced level of buffer stocks".

However, the Vajpayee government's agriculture and food policies led to an agrarian

depression, to widespread hunger and to rural discontent. This contributed to the defeat of the BJP in the 2004 elections. The subsequent Congress-led UPA government no doubt thought it prudent to backtrack on some of these measures for a while, even as it kept trying to find openings to revive the 'reform' programme.

In his speech at Varanasi last Diwali (November 30), Narendra Modi vehemently denied that the Government was planning to wind up the system of public procurement at minimum support price (MSP):

> I am aware that decades of deceit make farmers apprehensive. The farmers are not to be blamed, but I want to tell the countrymen, my farmer brothers and sisters, that work is being done with intentions as pure as Gangajal. This I want to say from the banks of the Ganges, from the holy city of Kashi.

However, when the kisans conclude that the Government intends to wind up public procurement, they have a much more solid basis – namely, documents of the Government's own official bodies. In 2014, the Modi government's very first year in office, it appointed the High Level Committee (HLC) on Reorienting the Role and Restructuring of the Food Corporation of India. The Committee was headed by BJP leader Shanta Kumar. The HLC briefly acknowledged that the "FCI was mandated with three basic objectives: (1) to provide effective price support to farmers; (2) to procure and supply grains to PDS for distributing subsidized staples to economically vulnerable sections of society; and (3) keep a strategic reserve to stabilize markets for basic foodgrains."

While perfunctorily acknowledging the need for these objectives at some time in the distant past, the HLC more or less dismissed those objectives for the present day. It instead recommended: involving private firms at every stage of the food supply chain; outsourcing food stocking operations to the private sector; reducing public sector grain stocks; penalising state governments that provide bonuses to farmers above the MSP; replacing public procurement of grains with cash transfers to farmers; deferring implementation of the National Food Security Act (NFSA); drastically reducing the percentage of the population to be covered under the NFSA; steeply hiking the issue prices of foodgrain, and replacing the public distribution system by cash transfers to consumers. Indeed the HLC baldly declared that the FCI should turn into an "agency for innovations in Food Management System".

In essence, the report propagated the notion that the Government can save vast sums by doing away with the physical system of public procurement, transport and distribution of foodgrains, instead handing out some cash to farmers and consumers, and leaving the rest to the 'market'. (This is the propaganda of finance: that all public needs can be financialised – stripped of their concrete forms, i.e., of actual provisioning, and converted instead into 'lean', purely financial mechanisms.[2])

It is revealing to compare the Shanta Kumar Committee report recommendations with those of the World Bank *Memorandum* of 1991, which stated:

> "Third, there is a need to reconsider FCI's role in market operations within the context of changing program objectives and the need to contain costs. FCI's operations are already too large and complex: rising costs indicate the organization's inability to cope with current, let alone expanded responsibilities.... Marketing is an activity which by its very nature is ill-suited to cumbersome, public sector entities. FCI should reduce its large direct role in

> purchasing, transporting and storing grain, through subcontracting to licensed agents, wholesalers and stockists, and providing price incentives for farmer storage of grains.
>
> "Fourth, stock levels and management require review. High levels of buffer and working stocks for wheat and rice (currently over 19 million mt) are both expensive and unnecessary, especially in light of changing objectives for market interventions and a new role for FCI. India could be adequately protected with a smaller buffer stock, entering the world market to obtain supplementary supplies in poor production years and keeping foreign exchange to handle purchases in deficit years. Concerns of price rises when India enters the market could be mitigated using tools of price risk management (forward and futures contracts) coupled with more accurate information gathering on production and stocks, and improved mechanisms for decision making on emergency food imports. FCI could retain responsibility for the maintenance of India's buffer stock. A review of stocking levels, analysis of the costs and benefits of different stock levels, and development of recommendations for encouraging private sector storage is recommended.
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> "Finally, the Govemment needs to review price support objectives for each commodity, cross commodity price impacts, and the structure of domestic incentives. Current efforts to adjust procurement prices at the margin through the addition or subtraction of price elements defeat the objectives of these prices: they are meant to provide price supports, not substitute for ptice setting through the market. A review of the price support system is recommended, to revise objectives and provide clear guidelines for the role and levels of price supports. In general, procurement prices need to be divorced from the objectives of food distribution schemes, and need to be set at levels which provide support in surplus areas, but not excessive returns. There also needs to be explicit recognition of international price signals. Allowing increased trade of rice, wheat and cotton at the margin would dictate greater attention to world prices in setting procurement price levels. For rice and wheat, a more focused targeting of the PDS may result in fewer market purchases, and thus less need to use high procurement prices to attact surpluses into the procurement system.
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> "India should also consider the potential benefits and costs of increased openness in foodgrain trade. Gradual opening of the sector to international market forces would improve competition, with benefits for both producers and consumers."

Thus the Government's present "Atmanirbhar" plan for agriculture closely adheres to the World Bank's instructions of 1991. The foreseeable impact on Indian citizens of this package was outlined in a previous blog entry.

In 1996, RUPE's publication *Aspects of India's Economy*, no. 18, had discussed the World Bank *Memorandum* of 1991 in detail. It pointed out the deceptive nature of the Bank's claims regarding the benefits of globalising Indian agriculture; the inherent problems in leaving agriculture to 'market forces'; the mirage of better terms on the world market; how India would be squeezed as a seller on international markets; how it would be squeezed as a buyer on international markets; the implications of volatility on the international market; the illusion that huge markets would open up for India with the creation of the WTO; the means the developed countries would use to continue to protect their markets, including new forms of subsidies; and the fact that multinational corporations, not Indian peasants, would be the

real beneficiaries of such a globalisation. Although there are several new developments to be taken account of in the past 25 years, much of what we said then has been borne out since, and as such remains relevant. A pdf of it can be accessed here.

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Notes

[1] Meanwhile, there has been a steep rise in loans to traders and the corporate sector disguised as agricultural loans, which accounts for the apparent rise in agricultural loans in the 2000s. R. Ramakumar and Pallavi Chavan (2014), "Bank Credit to Agriculture in India in the 2000s: Dissecting the Revival," *Review of Agrarian Studies*.

[2] For example, in place of public health facilities, health insurance; in place of public education, school vouchers.

Featured image: Farmers' protest in India. (Source: Green Left Weekly)

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