Farm reforms need not be a lost cause

What is the issue?

Electoral gimmicks like loan waivers push the attitudes of farmers in a wrong way.

What is the Supreme Court observation on Poor credit discipline?

- In a lawsuit related to the dismissal of a daily-wage worker by Patiala Central Cooperative Bank the Supreme Court drew attention over an attitudinal problem in our farm sector.
- Farm loan waivers schemes drive banks to financial distress and possible collapse.
- No farmers were repaying the loans in anticipation of a loan waiver ahead of Punjab polls.
- Farm sector has been strapped to the national mast of ‘food security’.
- Many farmers expect that governments to assure the inputs as well as pay for the output. They see their role as state-appointed.

What is the history of farm loan waivers?

- Ahead of India’s 2009 general election farm-loan waiver was declared by the Congress-led Centre worth ₹60,000 crore.
- It was packaged as distress relief.
- Various states run parties were quick to adopt that ploy.
- Its lasting effect is visible in the handy tool of politics.

How it leads to poor credit discipline?

- Farm-loan waivers been used in election manifests to win votes.
- Overtime farmers view these as work bonuses they deserve.
- They view it as an unstated pact with the state or as an informal social contract.
- The loans are mistaken for grants.
- In some states this serves as a tool for collective bargaining by tillers.
- This approach is not only bad for lenders but also creates wrong attitudes that obstruct farm reforms.
- Unless cultivators operate like business units rather than as state suppliers saving this sector from stagnancy will be difficult.

How it affects the Public Sector Banks?

- Waivers leave loan books in a mess.
- The lenders wait for state exchequers to pay the needful and also impose fiscal costs that are usually unaffordable.

What needs to done?

- **Behavioural Changes -** Political parties need to avoid such pre-poll assurance of write offs. This will favour our economy for an even bigger reason.
- The loans should not be mistaken as grants.
- **Changes in Market Mechanism -** The prices set by freely-traded agricultural crops must play the reformist role of signalling scarcities and overflows
- This will incentivize farmers to adapt their expenses and exertions to market reality.
- Insurers and future deals could cushion their risks.
- **Farm Bills –** The push for a market reforms stumbled due to failure to prepare the ground for it.
- What was held out as freedom was seen by many farmers as a prelude to the termination of their services.
- Rather than give up, we should reorient attitudes away from our statist system.
- Reform-minded states should take up a model bill drafted by the Centre.
- The provisions must be designed to secure farmers from exploitation by private buyer cartels.

Reference

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