



Farm Act 2020 and Smart, Strategic Farmers

1 October 2020 [Vatsalya Srivastava](#)

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At the heart of the social contract between citizens and governments of poor democratic countries, there is a paradox. There is a universal agreement on the inability of governments to govern well. But the same inept governments are expected to solve or at least pretend to address every new problem that crops up. The corrupt bureaucratic apparatus that is unable to prevent food reserves from rotting is perceived to be the bulwark against agrarian distress.

The contradiction inherent in this approach is perhaps what has led experts, particularly economists, to argue that governments with limited capacity should limit their focus to providing the conditions necessary for a functional economy. This suggestion finds reflection in the recent policy change by the Government of India of [deregulating agriculture and related activities](#). Experts maintain that an elected government voluntarily reducing its ability to control the lives of a large proportion of its citizenry is cause for celebration. But the celebrations have been put on pause by protests in many parts of the country.

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The essence of the new farm acts (2020) is the freedom of choice. Farmers can sell to whomsoever they want, and merchants can operate their supply chains to optimize their stock levels. **The freedom to choose, free of government intervention, seems like a good thing, so what explains the protests?**

Before we evaluate the possible reasons, it is prudent to concede that it is difficult, if not impossible, to measure the extent of discontent among farmers. There are over 100 million farmers in India, and no policy is likely to make all of them happy or upset. The protests, therefore, should only be surprising to people who believe that there exist win-win outcomes in which every stakeholder is better off. The recently passed acts change the long-standing *quid pro quo* between the government of India, its farmers, and the people who claim to be representatives of those farmers. Such large-scale changes are bound to impose a cost on those who benefited from the old arrangement. The benefits might outweigh these costs, but to assume that these costs are imaginary or merely the result of some sinister attempt to mislead or misinform would be to fundamentally misunderstand how policies impact people.

Minimax Strategy

The new farm acts are premised on treating farmers and merchants as fully formed individuals capable of making mutually beneficial trades. However, assuming that these individuals can take care of their interests involves conceding that they might make choices that may not be in line with ex-ante predictions.

A healthy market is kept healthy by a high rate of churn. Producers fail and better ones come up. While this is great for the larger productive capacity of society, it does create a real danger for those who do not survive, especially, if they do not have any other option to make a living. This threat that some people will lose out even in an ideal market is the flip side of farmers getting a choice.

Once the principle of farmers making their own decisions is established, the only meaningful way forward is to hold them accountable for their decisions, not all of which will be positive.

Think of it this way: If my parents choose a career for me, I can always hold them responsible if things don't work out. But if I made all of my own choices, I can only hold myself accountable if I fail. That might seem like a moral argument, but it is not. Once the principle of farmers making their own decisions is established, the only meaningful way forward is to hold them accountable for their decisions, not all of which will be positive. With the hand of the open market being invisible, there will be no one which could be held

accountable if an individual farmer fails. The alternative, of course, is the status quo, where the government mediates the market and intervenes to address grievances, and the farmers vote to show their approval or otherwise.

Therefore it would be perfectly reasonable to expect that a certain group of farmers might prefer what game theorists call a minimax strategy. The objective of this strategy is to minimize the maximum possible harm. The open market being a heartless process in so far as it is not invested in ensuring the survival of any particular participant, and farming in India carries inherent risks. By following this strategy farmers will be merely trading off the high risk, high reward upsides of operating in a more open market against the low risk, low reward consequences of operating in a market mediated by the government. The minimax strategy for some farmers would therefore require them to object to the market principle of choice in its entirety.

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That the protests seem to be concentrated in Punjab and Haryana provides some credence to this proposition. In both of these states, regulated *mandis* account for a large proportion of the agricultural produce, implying that the state government can make meaningful interventions. The farmers in this part of the country are also significantly better off compared to those in the rest of the country and therefore the returns that they have at the moment are high enough to not warrant any additional risk (for potentially higher return).

This is in stark contrast to Bihar where *mandis* account for a small proportion of the total production and the state has limited capacity to provide any real security net to farmers. The legal monopoly of APMC markets was abolished in 2006 without any significant push back from farmers. Though it might useful to know that *mandis* have still not disappeared from Bihar, a claim that the central government has been at pains to make.

*******This is Part One of a Two Article Series by the author.*******

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