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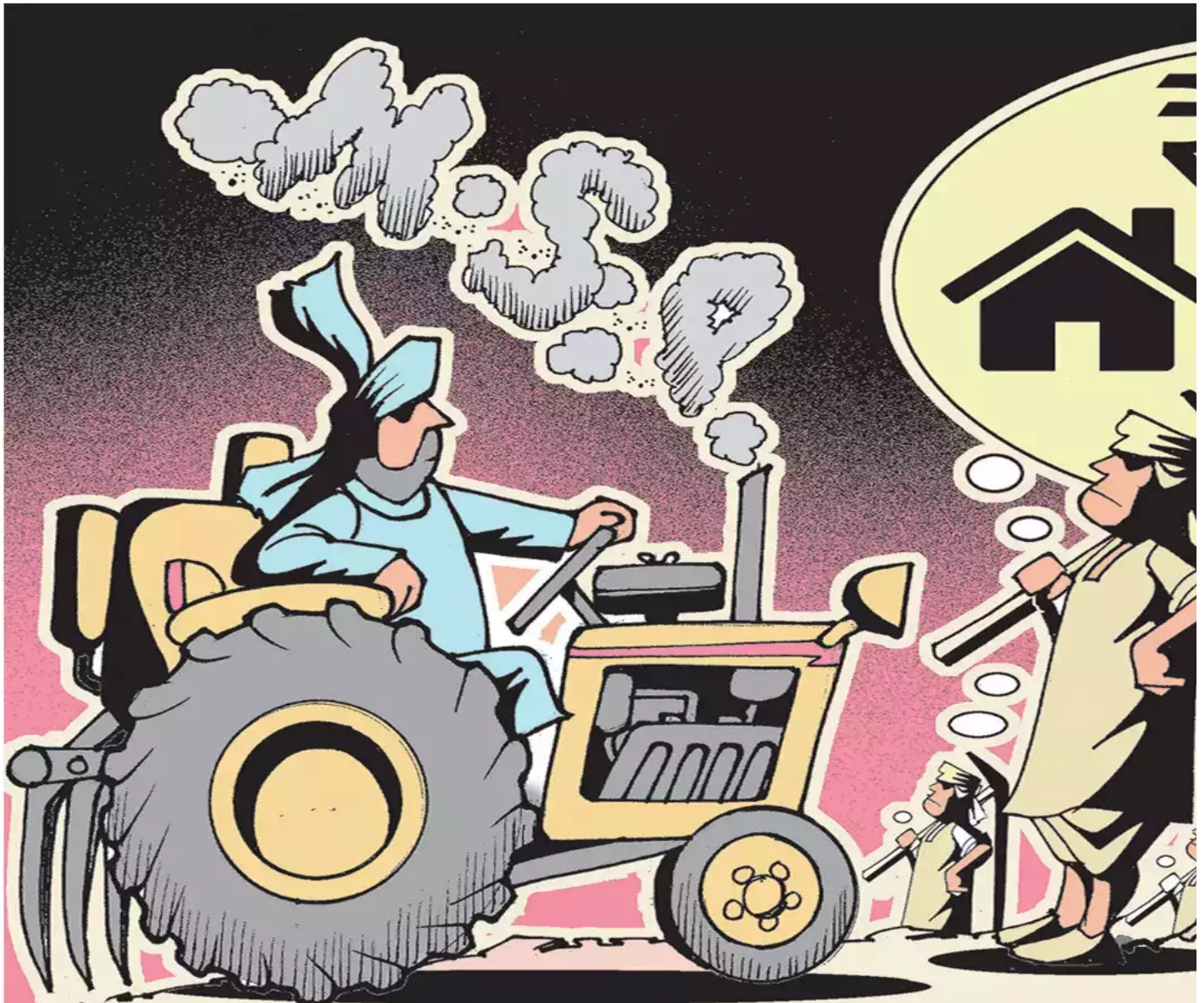
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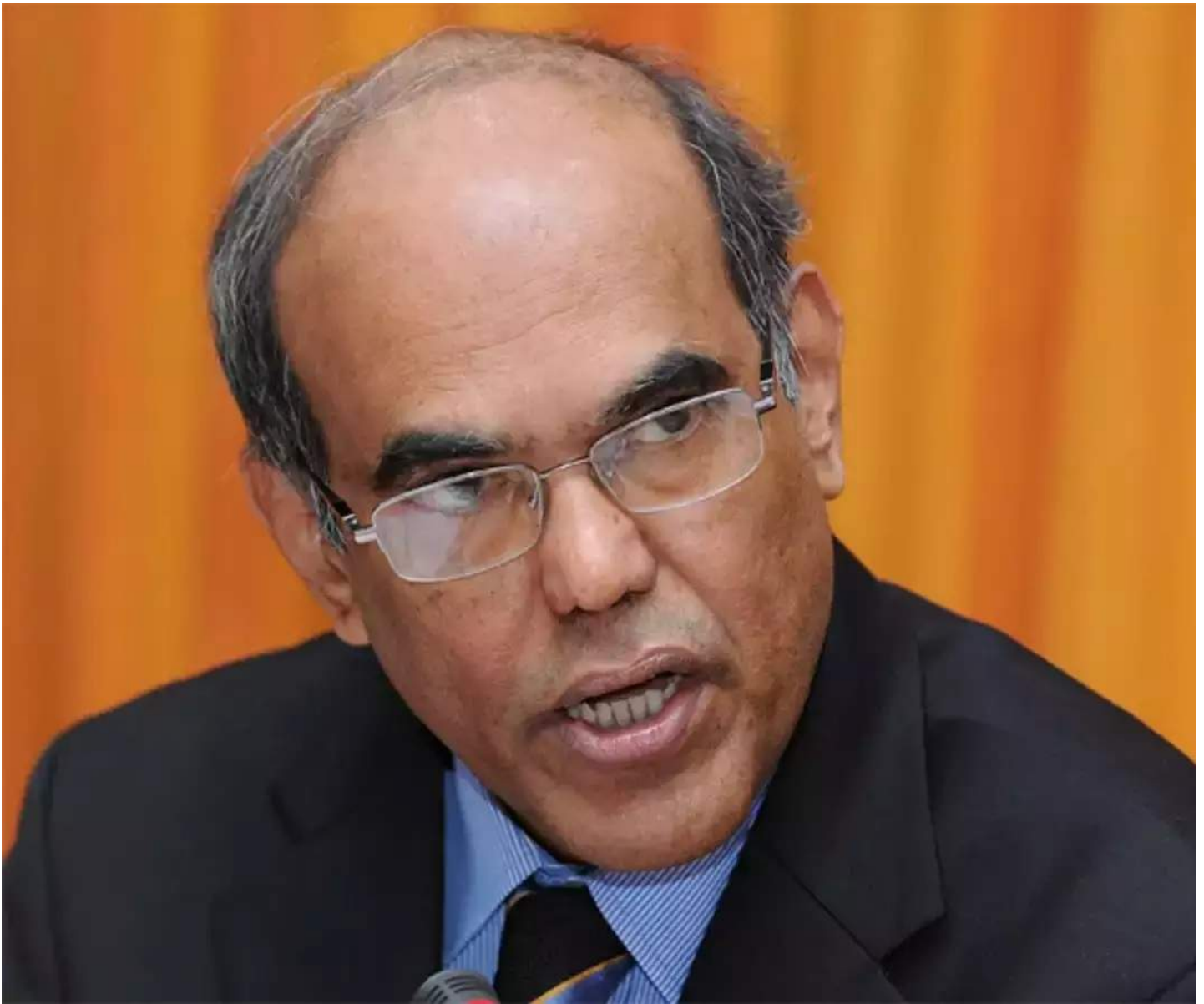
Why farmers won, people lost



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Why farmers won, people lost





Duvvuri Subbarao

Dec 13, 2021, 20:29 IST



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The art of selling reform has to recognise group dynamics & the effect of unequal incentives

What lesson can we learn from the farm laws episode for navigating reforms in the future? The Prime Minister himself alluded to one big lesson when he admitted in his concession speech that his government failed to disseminate the benefits of the proposed reforms. He was spot on.

Economic reforms produce winners and losers. In the case of farm laws, losers were the relatively large farmers with a marketable surplus, who feared losing the protection of the minimum support price (MSP).

On the other side, potential winners were the larger public who would have benefitted by way of a cleaner environment and lower agricultural prices as market forces gradually engineered a shift in production from cereals to cash crops. The public would have benefitted too, albeit less obviously, via the alternate use of the money saved on MSP – better schools and health facilities, for example.

In theory, any reform measure where the winners gain more than the losers lose should sail through. In practice things hardly ever work out that neatly. Many real-world factors – interest group dynamics, biases and even misinformation – come in the way of the best policies getting through.

Consider for example the unequal incentives of winners and losers to mobilise and agitate for their cause. In the case of farm laws, farmers were a relatively small group, united by a single cause, each of them losing heavily if the reform went through.

On the other side, benefits of the reform would have spread thinly across the vast public; for any single individual, the reward was small, the cost of getting organised high, and the incentive to agitate quite low. In the absence of any effort to mobilise the larger, amorphous group behind its interest, the smaller group held sway.

The play-off between winners and losers is also complicated by the time dimension. For farmers, the cost if the reform went through would be immediate which therefore galvanised them into action. For the public on the other side, benefits of reform, although cumulatively substantial, would accrue over time.

Economist Gary Becker argued there are many factors that make small, well-organised groups benefit in the political process at the cost of the vast majority. To promote the larger public good therefore, governments need to invest effort into communication and consultation to prevent the debate getting hijacked by a narrow interest group

How much weight will the public attach to a benefit that comes not today but later? Overburdened as people are with today's problems, from their point of view, it's not worth their while to invest time and effort into agitating today for a benefit tomorrow – yet another reason a small interested group gets its way.

Beyond asymmetric incentives to agitate, collective action is also hampered by ignorance. Oftentimes, winners don't even realise what they might gain by a specific reform. Take procurement under MSP for example. Although the MSP scheme covers 23 crops, the bulk of the expenditure is on buying rice and wheat from a small segment of farmers in relatively prosperous states. Procurement then becomes in effect a silent fiscal transfer from the Centre to those states.

Juxtapose that with the acrimony that surrounds central fiscal transfers to states via the Finance Commission awards and centrally sponsored schemes. Chief ministers cry foul over their state getting less than its due. Economists hold forth on whether the transfers are efficient and equitable. Analysts pore over which states got more or less compared to prior years. And all of them fail to reckon with under the radar transfers such as those under the MSP.

As the Nobel prize winning economist Gary Becker argued there are many factors that make small, well-organised groups benefit in the political process at the cost of the vast majority. To promote the larger public good therefore, governments need to invest effort into communication and consultation to prevent the debate getting hijacked by a narrow interest group.

It's not anyone's case that the farmers who felt threatened by farm laws would not have come out on the streets if the government explained the case for the reform. But such a proactive effort would have helped in building a constituency for the reform.

On the usefulness of prior consultation in navigating contentious reforms, I speak with some personal experience. Back in the mid-1990s, in the Andhra Pradesh government, we were confronted with a serious resource crunch that called for politically painful expenditure restructuring. We had to chop many subsidies including raising the price of subsidised rice – the government's flagship scheme.

Chandrababu Naidu, the CM at the time, agonised over it quite a while and then, instead of deciding on the issue right away, suggested that we put out a white paper explaining the financial situation and the difficult choices the government had to make.

Frankly, I thought this was all a waste of time since common people will not understand public finances, and in any case, they will not support a measure that would directly hurt them. How wrong I was! Naidu, politically savvy as he had always been, organised extensive dissemination of the white paper both through the government machinery and his party structure.

In several focus group meetings, I heard ordinary people, whose understanding I had underestimated, ask if they would get better roads or drinking water in their village from the money saved on the subsidy. After weeks of this, I can't say there was total support for the subsidy cuts but the opposition to them was substantially attenuated.

We have always taken pride in our reforms being robust because they are vetted by a democratic process. But we should not risk reforms becoming hostage to the distortions of that democratic process.

Jean-Claude Juncker, the former president of the European Union famously said, "We all know what to do, we just don't know how to get re-elected after we've done it."

Narendra Modi, arguably commanding the strongest political capital compared to any Indian leader in decades, has the challenge and opportunity of proving Juncker wrong.

The writer is a former Governor of the Reserve Bank of India

Illustration by Ajit Ninan



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