



Farm loan waivers – Good or Bad?

Description

Theme :-

- It's elections time, and every political party is promising farm loan waiver scheme.
- Agricultural debt waiver scheme was first implemented in 1990. Then, Rs.10,000 crore worth farm loans were waived off. From then loan waivers are implemented multiple times by many governments.

Good :-

- In India, results of crops highly depend on monsoons. Farmers invest heavily on crops by taking loans. If the crop fails due to lack of rains or insufficient market demand, farmers will get trapped in debt. Farmer suicides are increasing in India. So, it's a good step to waive farm loans.
- Many farmers borrow money from unofficial moneylenders for high interest rates and get trapped in vicious cycle of debt. Farm loan waiver schemes will divert these farmers to borrow money from banks.
- Agriculture in India is not a good career option yet. Many farmers are leave farming, if they find alternatives. If this situation continues, there will be a severe food scarcity. To prevent this situation, government need to gain the trust of farmers. Farm loan waiver scheme does that.
- Some people argue that it is the taxpayers' money that is bailing the farmers out, and it's like taking someone's money and giving it someone else. It;s true that one section of society is the bigger and consistent contributor of taxes, but we should not forget the fact that farmers are also paying indirect taxes by buying goods, equipment etc.

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Bad :-

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- Farm loan waivers are Bad Politics – Bad Economy, because often these things are announced just before elections to attract voters and to get their votes. And generally the government do not work much on implementing long term solutions to the agricultural crisis. And hence it is the Bad Politics. And these loan waivers impact economy in a negative way. It'll be a huge burden on economy.
 - Loan waiver schemes disrupts credit discipline. Farmers will turn into willful defaulters as they wait for the next loan waiver scheme, which is bad for economy. This results in increasing number of bad loans in banks. And moreover the process of waiving off the loans is also another burden on banks. This may result in banks implementing stricter rules while issuing loans to farmers, which inturn forces farmers to go to local money lenders.
 - As banks will not get loan repayments, issuing of fresh loans will be stalled.
 - This scheme indirectly punishes loan repayers. Those who repaid loan before the announcement of the scheme are at loss.
 - Instead of loan waiver scheme, it will much better if government improves the crop insurance scheme, educates farmers about the market trends, increases the Minimum Support Price (MSP).
 - Rich farmers too may take loans even if there is no need, in the hope of the next loan waiver scheme. This will impact the farmers who are genuinely in need of loans.
 - Some people compare bad loans of corporate sector with farm loan waivers. But in general, if any company files bankruptcy, banks will try to recover the amount by liquidation, which means selling of their properties or through other means. And it's not like banks are waiving off the bad loans of companies. So these things should not be compared.
 - Finance ministers, economists and RBI governors always criticised the move.

What needs to be done :-

- Instead of waiving off loans everytime, governments should work on the root causes of problem, that means improving agricultural sector, improving farmers income by providing better infrastructure, better seeds, better technology etc.
- In India, there is disguised employment in agricultural sector, that means more number of people are working on a work that can be finished by less number of workers. To solve this, government need to provide alternate employment opportunities. And many more steps should be taken by following M S Swaminathan Committee's recommendations.
- As these things take time, it is important to provide relief to farmers till then. Government should invest in improving agricultural sector so that there will be no need of next loan waiver scheme.
- Often change of governments will result in fresh schemes. Political parties criticise the previous governments and will implement new schemes. That implementation will take months and finally when the result is about to come, there will be another elections, change of governments and hence the change of schemes. This process should be avoided. Political parties should cooperate with one another to implement long-term solutions to improve agricultural sector and thereby farmers' lives.

Conclusion :-

Though loan waive offs will disrupt credit discipline, farm loan waiver scheme is beneficial to many. Amid the increasing farmer suicides, loan waiver scheme provides relief for many families and encourages them to invest in the next crop. This in turn benefits India's food security as well. But government should invest in improving agricultural sector so that there will be no need of next loan waiver scheme.

Your Turn...

What is your opinion on loan waiver scheme for farmers? Express your thoughts in the comment section below.

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