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Farm loan waivers are both a populist and a myopic strategy. Analyse.

1) Loan waivers are announced as a part of populist outreach and it is an easy way to win political

2) It acts as a moral hazard as it makes even the farmers who can pay their loans tend to sit back and wait for a waiver. It encourages willful defaulters and discourages honest farmers

3) Money transferred from tax payers to borrowers which in turn cuts the credit available for education, health care, Infrastructure etc. It creates burden on the states as government had to pay the banks which makes states to cut their expenditure and increase tax to meet fiscal targets.

India needs a structural reform in agriculture sector so as to make farming profitable. Farm loan waiver in this regard is not only bad to polity but also bad for the economy. Hence it should be used only in unavoidable circumstances. Because of farm loan waiver the fiscal deficit is growing beyond the permissible levels hurting the financial level of the state.

In this regard RBI has suggested to increase the period of payback instead of

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