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# **RAPPORTEUR'S REPORT**

## **ON**

### **PROBLEMS OF MARKETABLE SURPLUS IN INDIAN AGRICULTURE**

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#### **INTRODUCTION**

There are twenty-four papers on the subject. Only one paper deals with the issue theoretically. Two papers refer to the statistical technique to measure the marketable surplus. Two or three other papers deal more with the food problem than marketable surplus. Almost all the authors agree that the question has relevance to and throw up numerous issues on the marketable surplus of foodgrains. It is contended that irrespective of the size of the unit in cultivation, commercial crops are grown for sale and, therefore, almost the entire crop is thrown on the market. The problems of production and surplus in Indian agriculture can be treated without being too much in the wrong as those of the cultivation, production and sale of foodgrains. Quite a number of authors throw up interesting points and sidelights on the problem as a whole as well as specifically on the aspects of marketable surplus. It will not be possible to cover all points and aspects in a brief summary. Attention has of necessity to be confined to the broad issues concerning the subject matter.

Most of the authors have prefaced their contributions by emphasising the importance of the marketable surplus of food to the economy. Some have indicated its place in industrialisation, and generally for economic growth. The food surplus in particular but agricultural surplus in general would determine the rate and content of industrialisation, and therefore, the nature and tempo of opportunities for non-farm employment and income generation. The food surplus sets a tempo to sustained growth by producing stable conditions for policy-making and long-term projections in the field of development. A successful food policy is synonymous with a sizable marketable surplus as only under such comfortable conditions it would be possible to achieve success in such important fields as prices, controls, regulations, etc. Marketable surplus is a function of the level of prices and production. A large marketable surplus would also mean large farm incomes, rural savings and investments and would be conducive to breaking the vicious circle in the under-developed countries.

#### **DEFINITION**

Marketable surplus has been dealt with both "subjectively" and "objectively." Subjectively, it is the residual quantity arrived at after the retention by the farmer for his needs, which will include retention for home consumption, seed requirements, for payment of wages in kind, including disbursements to village artisans for services rendered, and for livestock feed. Objectively, marketable surplus is the market arrivals of foodgrains, though it is conceded that village sales and barter transactions as well as other deals which do not pass through the market are also important for this calculation. Some writers are inclined to define the

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subjective surplus rather narrowly and would treat retention of consumption for dependents, seeds, livestock feed, kind payments slightly differently as they can be varied with economic development, technical change and monetization of the economy. There is also a third variant of the definition under which it is contended that the real surplus is that left after the producer's needs are adequately fulfilled whereas a few others would include distress sales as part of the marketable surplus. Another definition of the marketable surplus is based on the demand for food and the non-agricultural population. Some would confine the demand of 20-22 per cent of the urban population to arrive at the requisite surplus. They would require about 28 per cent of the production. Here also a writer has included non-agricultural rural population and landless labourers among this class and pitched the needs of the surplus much higher by estimating the proportion of such a population at 48 per cent of the total population. It is pointed out that in under-developed countries as the marketable surplus is a function of the levels of production a significant increase in the latter has to be attempted to meet the demand for food of non-farm population.

#### TRENDS

The views of the contributors on this point are disconcerting. Quite a few of them contended that the marketable surplus is not increasing in proportion to the rise in food production. Others have expressed the view that there is an absolute decline in it. As against the known current level of marketable surplus of 20-25 million tons, one of the contributors indicates that it will be 17 million tons in 1961.

The market arrivals indicate a lower marketable surplus than that which obtained in the pre-war years. Here again it is necessary to distinguish between the surplus arrived at after making allowance for producer's retention from production and that judged on the basis of actual market arrivals. This feeling is strengthened by the indirect evidence on the point presented by one of the writers of the papers. He has quoted marginal propensity of inland movements of foodgrains (percentage increase in inland movement : percentage increase in production) which has been on an increase and which should point to a rising trend in marketable surplus. These calculations, besides, exclude movements within food zones and inter-zonal movements by road. Thus, actually the surplus would be higher than that indicated by the marginal propensity of foodgrains movement. If along with these, allowance is made for rising trends in prices and per capita production, the conclusion regarding marketable surplus, according to the author, is inescapable.

#### MEASUREMENT

A precise idea about the size of the marketable surplus is important for planning and policy purposes, particularly for projecting the future developmental activities in the various sectors. For this purpose it is necessary to attempt to arrive at its overall size instead of the surplus in respect of a few or only the major commodities. Measurement should, besides, include not merely arrivals in regulated markets but also in unregulated and unorganised markets, including local sales. It has been pointed out that 65 per cent of the sales are at the village level, though it is not clear whether these relate to mere entering into transactions or actual physical exchange of commodities as it is very likely that the latter might be taking place

at the market place. Market arrivals often cover production relating to more than one year. This should be delineated as to cover current year's produce to avoid inflating the surplus. One of the writers points out that especially in the Punjab and U. P. sizable quantities of sales do not pass through the market. The foodgrains are stored in the producing areas and passed on directly to the consumers to avoid the sales tax. A contributor explains away these phenomena by suggesting that whereas the calculations indicated 46 per cent of retention of production by the farmers, the actual quantity marketed works out at 32 per cent. The gap is explained partly by such transactions and partly by leakage due to the defects in the marketing system. There is another explanation for this discrepancy. The retention figure might be confined to the portion consumed by farm families, when actually the total retention covers withholding of foodgrains for a variety of agricultural purposes. The phenomenon also might be due to hoarding by producers in anticipation of price rise and mounting demand. It is again equally difficult to segregate hoarding by the producers and the trade which might in a measure account for the gap.

The statistical tools of random and stratified random samples have been offered for measuring the arrivals in the regulated and unregulated markets. The data about the regulated markets are fuller and precise. The size of the unregulated markets is broadly available, but a different approach is suggested because of the variations in complexion as between unregulated markets themselves. For the application of the technique, however, prior knowledge of the universe to be studied has been emphasised. Continuous surveys with reduced sample each time has been suggested to check and improve upon the results of the original studies.

#### FACTORS INFLUENCING THE SURPLUS

As already pointed out the marketable surplus is the function of the level of production. A steady and sustained rise in its level will depend upon the improvement in the levels of production through a permanent change in productivity for the better. There are, however, a variety of factors that go to determine the level of the surplus. A few of them are peculiar to under-developed countries. Some of these even might be true only of Indian conditions. Others are general to all economies, irrespective of the stage of economic development.

In our context and insofar as foodgrains are concerned, the bulk of the surplus is supplied by the medium and the big farms. The small farms being essentially subsistence farms hardly have a surplus of food for sale. The rentier class such as the zamindars and big farmers who pursue supervisory cultivation have been the traditional reservoirs of foodgrains. Viewed from this aspect, land reforms in particular and agrarian change in general which emphasise primarily social justice and economic equality disturb the production organisation and tend to lower the surplus coming to the market. There is a time lag between this reorganisation and improvement in productivity and the food problem in the intervening period becomes more difficult. For the same reason "credit and resources applied to small farmers (with holdings of 3-5 acres, for example) would become unpaid debts and might have to be written off as gifts or grants."

In under-developed countries, the income elasticity of demand for food is high. In such circumstances, a rise in income will have a greater impact on consumption levels than that exerted through rise in population. Rise in prices tend

to improve farm incomes and in view of limited cash outlays, the additional incomes tend to raise consumption and reduce sales by farmers. As only about 45 per cent of farm needs are in terms of cash transactions and as the habits of thrift and savings are still in infancy, the increased incomes accruing from higher prices have an opposite effect on the farm economy than that in advanced countries. Rise in prices thus has a tendency to adversely affect marketable surplus, though an author has argued precisely the opposite outcome from the phenomenon, viz., a larger marketable surplus. A high degree or level of monetization and an unlimited farm consumption of industrial products by the rural sector would cause larger sales through price rise, as it will push up the cost of the industrial products to the farming communities used both in farm operations and consumption. When the levels of consumption are low, with rise in incomes there is a high degree of tendency to switch over to better types of foods such as superior cereals. Rise in levels of living and a diversified consumption pattern oriented more to non-farm products will counteract this tendency. A high degree of monetization or price oriented economy thus makes the farm sector sensitive to economic change and through it renders the price and investment policies in agriculture relatively more responsive to produce desired results.

Between the threshing floor and the consumer the market gets broad-based. Hoarding takes place at different stages of this sprawling market organisation, affecting finally the quantity actually released for sale unfavourably. The other points made by authors are known. The levels of surplus are determined by such factors as the nature of cropping, in which a single food crop or more predominate, the dietary habits of the people in which this crop has an important place or some other inferior cereal, the degree of efficiency of the marketing system and the extent to which it succeeds both in eliminating wastes and leakages and exploitation, a definite, stable and long-term food policy which will eliminate uncertainties, nature of regulations such as price controls, movement regulations, formation and variations in zones and procurement, all of which promote hoarding and leakages to unauthorised markets and sales. An efficient marketing system which contains a large institutional set-up integrating credit, marketing, processing and warehousing under a wide network of regulated markets when coupled with a sizable food reserves to favourably influence market psychology and keep prices stable over a long period will curb hoarding and withholding of stocks by farmers and the trade both of which reduce surplus and cause irregular market arrivals. A reference has earlier been made to the difference in view on the relation between the level of prices and the size of marketable surplus in foodgrains. There seems to be an unanimity, however, about the relation between the levels of prices and the marketable surplus in fruits and vegetables. The point has been made that a marketable surplus in these commodities would emerge if the prices are sufficiently high to cover the losses on spoilage, cost of transport and marketing and leave a margin for the cultivator in the end. In other words, the size of the surplus in fruits and vegetables is directly related to the levels of prices. Particularly, farmers in relatively inaccessible areas will not even care to send the produce to the market if the prices are not sufficiently attractive.

In this connection it will be relevant to refer to a point made by a contributor. The plan investments in agricultural sector and concessional credit and other aids given to farmers have an adverse effect on marketable surplus under the prevailing



pattern of farm investment of industrial products and their domestic use. It is contended that if the costs of these are pitched high or the element of concession curtailed, the farmers will be induced to part with a relatively larger proportion of production to meet the cash outlay on them. At present there is a tendency towards misapplication of aids to commercial crops after the minimum domestic and farm needs of foodgrains are covered. A manipulation of cost of investment in this way, however, would lower the marginal return of the input factors from within the economy, though it will lead to the pricing of the inputs from outside at the market price. If such an arrangement makes the farmers risk shy, the effects on the production pattern will be unfavourable.

There are a few other factors which influence the marketable surplus one way or the other. In respect of a number of input factors such as fertilizers, technically superior implements, etc., the cost-price relationship is adverse. The cost per unit of such resource inputs in terms of additional production they yield is disproportionate when compared to corresponding situations in such countries as Japan and the U.S.A. Thus though technical change in agriculture which would demand large investments from outside would be conducive generally to a higher marketable surplus, it is difficult to precisely anticipate the outcome in view of the adverse cost-price relationship which is likely to prevail in quite a large number of such inputs.

The trends of rising prices of foodgrains have improved the farmers' retentive power, and evened out flows to the market over the year. The market gluts at harvest time is a dwindling phenomenon. The fluctuations in prices of foodgrains between harvest and the rest of the year have been narrowed considerably. This also has, it is argued an unfavourable effect on the surplus. There are important aspects such as building up of reserves, entering the markets for bulk purchases for the purpose during gluts, etc. The even flow of supplies all throughout the year tends to create stable market conditions and eliminate uncertainty caused by the re-entry by producers for purchases later to meet their requirements. This is a feature of the Indian foodgrains market sales emerging in contrast to the earlier feature under which the bulk of the disposal took place immediately after harvest. While on the point it will be relevant to refer to an argument made by one of the contributors that decline in forced sales at harvest and even flow of market arrivals over the year tend to widen price variations as the phenomenon has "some implications for the ability of the free market to keep prices within narrow margins," and that "the development would likely to accentuate the tendency for the seasonal price variations to widen." It is difficult to say what the adverse effect are on the surplus as a result of the changed circumstances and how they provide or otherwise favourable conditions for building up reserves. The relatively unfavourable foodgrains prices in relation to those of commercial crops and the better input-output relations in respect of the latter as factors determining the cultivation and marketable surplus of foodgrains seem to have escaped the attention of the authors of the papers.

#### MEASURES TO AUGMENT THE SURPLUS

A number of suggestions have been offered to increase the size of the marketable surplus. Some of the measures are of a long-term nature and involve agricultural reorganisation and streamlining of the marketing system. Some relate

to the expansion of the co-operative sector and integration of production, finance, marketing, processing and warehousing. They also cover technical change and increasing the costs of the farm inputs and consumption by farm families of industrial products both of which together will lead to the monetization of the economy as well as promote investments in agriculture. They in their turn will mean decline in kind transactions and addition to the marketable surplus, though it is a moot point whether the kind transactions which the cash payments would replace, would not add to the demand for food and added pressure on the marketable surplus. The marketing system should be co-ordinated not merely between the rural and urban areas, but also as between small and big towns. The machinery for food-grains disposal should also be less costly, more efficient and processing oriented. Such a comprehensive marketing arrangement will even out both the price fluctuations and market arrivals and lend stability, reduce post-harvest gluts and price decline, and avoid holding up of stocks by producers and by trade at intermediate stages. Stable prices and assured supplies will also smother the consumer's tendency to hold large stocks.

A definite and stable agrarian policy has been indicated as a prerequisite for long-term farm planning and investment effort to lead to higher production and larger marketable surplus. It is equally important to size up levels of production and delineate marketable surplus at the farm level as a pre-condition to mopping it up. Any agrarian change which from this point of view leads to a fall in the number of farm units should be welcome. Co-operative farming has been considered to fit in eminently to meet with this requirement.

A third set of suggestions to expand the size of the surplus may be clubbed together and briefly recounted. A high degree of monetization of the agricultural sector and the conversion of the subsistence into market oriented economy have been indicated as basic to achieve the purpose. Under those conditions the farm sales will become responsive to price rise. When this is achieved, a stage would have arrived to adopt a differential price policy to promote production and marketing of foodgrains. Appropriate food prices offered at the harvests will help mop up sizable food surpluses. Under such a price oriented economy, the costs of the farm inputs from outside the sector can be manipulated to lead to larger farm sales to meet cash commitments on their purchase. More or less in the same category are the suggestions for recovery of government dues including taxes in kind to add to the marketable surplus. The recoveries should be so timed and in amounts as would help to siphon off the bulk of the surplus. For more effective application of the weapon the burden of taxes on agriculture may also be enhanced substantially. It has been further pointed out that economic aids to the sector in terms of fertilizers, etc., should be recovered in kind as a proportion of the likely higher production it is expected to accrue. The universalization of grain *golas* would be a welcome supplement under such a set up. An extreme suggestion has been made to render the terms of trade between the farm and the non-farm sectors adverse or unfavourable so that the higher costs of every unit of non-farm purchase for domestic consumption and farm outlay will extract proportionately larger quantities of farm output to pay for it. This is rather an extreme measure and has also to be considered in the context of the goal of a prosperous agricultural sector set in a progressive economy.



## SUMMARY OF GROUP DISCUSSION

*Chairman : DR. M. B. DESAI*

The Group agreed to divide the subject into the following topics for discussion.

- (i) Definition
- (ii) Trends and Measurement
- (iii) Factors influencing the Marketable Surplus
- (iv) Measures to augment Marketable Surplus

It was agreed that aspects relating to the generation of the surpluses may be discussed under item No. (iii) ; whereas the problems of mobilisation may be covered under item No. (iv). It is, however, convenient to sum up the discussions under (iii) and (iv) together.

### *Definition*

Various terms were suggested to bring out the exact connotation of the phenomenon under discussion. Some of these were marketable surplus, marketed surplus, market arrivals, market supplies, and economic surplus. Emphasis on all these, however, was different. Some would like to define it as surplus necessary for economic development and industrialisation. It was felt that the term 'market-ed surplus' or better still 'market arrivals' should be used to denote the materialised *post facto* position, while the term 'marketable surplus' should be used to convey what was feasible under varying economic conditions.

Various factors influence the surplus. Price variations, changes in income and consumption pattern, the consequent change in the volume of production and in the cropping pattern, are some of the obvious factors. It was suggested by some that the income elasticity of demand for home-grown foodgrains is not likely to be high because the proportion of foodgrains in the consumption pattern of farmers would be more or less constant. Some speakers argued that there has been a shift towards non-cereal consumption. On the other hand, it was pointed out that this was not so for all classes of the population. For the bulk of the disadvantaged sector there is a close relationship between income and foodgrains consumption.

### *Trends and Measurement*

The measurement of the market "arrivals" was a comparatively simple matter. All that was necessary was to make accurate estimates of arrivals in the regulated and unregulated markets. The number of unregulated markets and the volume of transactions therein are not fully known, but precise idea about regulated markets is available. No correct information is available about the wholesale markets also. Another difficulty is that the number of wholesale markets goes on increasing with the expansion in production and trade. Thus the number of wholesale markets have increased from 2,000 to 3,700 in a few years. It was, however, pointed out that the increase may not be entirely due to economic progress, and it is possible that only the coverage is increasing. It was also mentioned that it is difficult to separate market arrivals directly from rural areas from those which are mere transfers from other markets. Unless this is done there would be double counting. However, on the basis of characteristics of markets and their locations it is possible to distinguish markets which serve rural areas more or less exclusively and others which are fed by the smaller markets.

It was also argued that a study of this nature will leave out village sales and transactions between the smaller and bigger cultivator who is now emerging as trader. It is equally difficult to distinguish arrivals on the basis of current and previous years' productions. The volume of hoarding by the trader and the producer cannot also be precisely assessed by studies of this nature.

It was pointed out that the Directorate of Marketing had conducted a study of marketable surplus with farmers by means of questionnaires, supplemented by opinion surveys and information collected from trade associations. It also made an attempt to evaluate the social factors influencing the psychology of farmers to market their produce. That this method gives accurate results is confirmed by the more or less similar data obtained through studies of market arrivals.

It was pointed out that while assessing the surplus it is not necessary to make a distinction between stocks withheld by trade and market arrivals, for all stocks, sooner or later, must ultimately come to the market.

#### *Augmenting the Surplus*

The main problem is that of increasing the surplus at the existing as well as of rising levels of production. Both the direct as well as the indirect method of doing so were discussed. In addition to the measures mentioned in the Papers, manipulation of irrigation rates and facilities so as to favour the cultivation of foodgrains as against commercial crops, manipulation of terms of trade against farmers' consumption but in favour of farm inputs were also mentioned as means for augmenting marketable surplus. The question has also to be considered in the context of conditions of abundance as well as of scarcity of foodgrains as they present distinct problems and need different treatment.

A point that was specially emphasised related to the effect of adverse terms of trade on the fixed costs of farmers. This may not impose a burden on the large farmers, but to the small farmer its impact would be unfavourable.

Differing views were expressed regarding the contribution of small farmers to the market supply. It was contended by a few speakers that small farmers contribute little to the marketable surplus; they cited certain field studies made by them in support of their argument. They contended that the contribution of small farmers in foodgrains supplies is only marginal. Others argued that small farmers contribute substantial quantities to the supplies and they also cited their field experience in support of their argument. It was also pointed out that the urgent cash needs of small farmers need not necessarily lead to distress sales. Small farmers usually obtain cash through working as hired labourers.

It was also argued that the bulk of the cereal supplies was provided by big farmers and efforts to augment surplus should therefore be confined to them. It was stated that the country be demarcated into surplus and deficit regions and efforts should be made to increase production in the surplus areas as they are likely to yield immediate results.

The role of savings was emphasised to increase the marketable surplus. Savings may be individual or institutional. If more facilities for savings are provided in rural areas this may have a favourable effect on marketable surplus.