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HIGH PRICES AND RURAL PROSPERITY

by

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Before proceeding to discuss the subject proper, it is necessary to be clear on the meaning of the terms used, namely 'High Prices', and 'Rural Prosperity' and also to define the various factors bearing on these two aspects of the problem.

The Tide of Prices

The following Tables summarise the trend of price movements in general and in the particular groups of commodities and also indicate the course of the money supply and the cost of living.

Table I
Index Numbers of Prices
(Base : Week ended 19th August 1939=100)

Year	Agricultural commodities	Raw materials	Primary commodities.	Manufactured articles.
1939-40	127.5	118.8	124.2	131.5
1940-41	108.6	121.5	113.4	119.8
1941-42	124.2	146.9	132.5	154.5
1942-43	166.2	165.9	166.0	190.4
1943-44	268.7	185.0	232.5	251.7
1944-45	265.4	206.0	240.5	258.3
1945-46	272.6	210.0	246.2	240.0
1946-47	313.8	235.3	280.0	259.1
1947-48	356.9	254.0	312.6	287.8

Table II

Year	Money Supply	Whole-sale prices General Index.	Urban cost of living Bombay	Rural Cost of Living U.P.
1939-40	116.3	125.6	105	1939-100
1940-41	127.6 +11.3	114.8 -10.8	109 + 4	
1941-42	174.5 +46.9	137.0 +22.2	122 +13	
1942-43	277.1 +102.6	178.0 +34.0	166 +44	
1943-44	372.6 +95.5	236.5 +65.5	226 +60	
1944-45	443.5 +70.9	244.2 +7.7	225 -1	
1945-46	501.8 +58.3	244.9 +30.5	228 +3	312
1946-47	505.8 +4.0	275.4 +30.5	252 +24	
1947-48	532.0 +26.2	307.0 +31.6	268 +16	533

The above statistical information clearly indicates

1. that there has been an initial rise in the money supply, reflected in the rise in the general level of prices composed of the rise in individual groups of commodities varying from year to year and that
2. there has been a general rise in the cost of living with the rise in the prices.

Besides, it is agreed that the persistent upward trend in prices was the result of emergency conditions created by war and the use of the monetary mechanism to meet the payments for requirements in respect of essential commodities. This factor of 'created money' not only impinged upon the normal economic supplies of essential commodities but distorted the distribution pattern of the incomes and diverted their flow to new channels. The result of all this was to create an 'acute shortage' of essential goods in the face of an increasing money supply or higher purchasing power in the hands of sections of the community who were placed in a position to take advantage of the situation and press their demand further on the scarce supplies thus perpetuating the widening of the vicious circle of high prices and short supplies. So far there can be no disagreement on the facts of the economic situation as revealed by the statistics. The only important and relevant point to our discussion arising out of the price situation is that though the higher purchasing power released by the increase in money supply and in the hands of the community resulted in creating an effective demand, it has been utilised for other purposes than meeting this demand by augmenting supplies, a normal economic process which should have followed; instead, the supplies of commodities have remained comparatively static and the problem of shortages and the pressing demand on goods have not a little abated, making it difficult for government to stem the rising spiral of prices and bring down the cost of living.

In this connection, we have also to remember a few important facts regarding the economic situation as judged by the movement of prices in the inter-war period. Since the Great Depression of 1931, the general price level had not recovered from the depths to which it had fallen until 1937 when it rose to 102 from 96 in 1931 (base 1914 = 100), but it fell again to 95 in 1938 only to begin the tide of rise in 1939. It must also be borne in mind that agriculture and the rural community bore the brunt of the effects of the depression. It is against this background that an analysis of the facts relating to rural prosperity should be attempted.

Income concept and Rural Prosperity.

1. Examining first the concept of rural prosperity from the stand-ard of national income, what are the resulting conclusions or inferences on the available data? Recent estimates of national income have inevitably proceeded from Dr. V. K. R. V. Rao's basis and method of computation of national income for 1931/32. Of these special studies may be mentioned chiefly Dr. B. Natarajan's estimate and that of the "Eastern Economist". As already observed, the accuracy of these estimates is taken with all the limitations involved in calculating the same as expressed by the authors. In so far as there is no divergence of views on the actual trend noticed in the different estimates, they serve the purpose of the study and it is not necessary to venture on a fresh estimate of income at this stage.

Table III
National Income in crores of Rs.

	1931-32	Pre-war		1949	1950
		Gross.	per capita	Gross	per capita.
Dr. Rao's estimate	1533.5				
Dr. Natarajan		1482.4	68/8	5657.5	228/10
Eastern Economist		1934.0	67	3942.1	160
Commerce			66	4972.8	223

In the above estimates there is an agreement on the fundamentals, viz. that there has been an increase in national income and per capita income measured in terms of money during the period 1938/39 to 1947/48. To be more precise, national income has more than doubled in all these estimates.

Table IV
Occupational distribution of income (in crores of Rs.)
Pre-war

	Dr. B.N.	%	E.E.	%
Primary services				
Agricultural	851.8	57.43	952.7	49
Secondary Services :				
Industrial	289.4	19.52	379.0	14
Tertiary Services :				
Other occupations	341.7	23.05	602.0	37
	Dr. B. N.	%	E.E.	%
1.	3850.3	68.06	2129.3	54
2.	893.6	15.79	980.0	25
3.	913.6	16.15	832.0	21

It is in the share of the three groups of services as classified that there is a wide margin of variation in the above estimates. Even here, the general inference does not admit of difference of opinion, viz: that

agriculture and services roughly account for half the national income. Dr. Natarajan has gone a step further and shown that the share of the primary services has relatively increased by 11% while the share of the secondary and tertiary services has relatively decreased by 4% and 7% respectively. Without substantial data to prove the exactness of the relative share of the three classes in the national income, it is difficult to accept the conclusions arrived at by the authors. However, this does not very much affect the main problem of rural prosperity as will be indicated below. The only relevant point to be considered is whether the trend of increased national income and per capita income noticed during the period connote prosperity in general apart from rural prosperity.

On this point also there is unanimity of agreement that though the national income of the Indian Union has mounted up by more than double, national real income, measured in terms of goods and services produced, has not risen at all, or risen but slightly by 1.45% (according to Dr. Natarajan). Similarly when related to the cost of living index, the per capita real income has not only not risen, but fallen by 10.1%. The computers, however, attempt to prove that from the standpoint of occupational distribution, the primary services have gained a larger share in the national cake during the last 10 years, while the secondary and tertiary services have been losers to a certain extent. Whatever may be the actual position regarding the distribution, no one has come forward to maintain that there has been a larger national cake; in other words, the size of the national cake has remained the same with a slight readjustment in the share of each occupational group in the community. The only difference is that we are expressing the same size in larger numerical units, due entirely to the operation of the monetary mechanism. Thus it follows that an increase in national income brought about by high prices cannot by itself connote prosperity in the country. If there has been no increase in national real income and if actually per capita real income has fallen as a whole, can we conclude that there has been rural prosperity while cognisant of the fact that population has been increasing and that a majority of them is agricultural? If general prosperity is not proved as measured by the standard of the national real income, the presumption of rural prosperity on this basis must obviously be wrong if it is also remembered that the per capita income expressed either in money or in real terms of the secondary and tertiary services is admittedly still very much higher than that obtaining in the primary services.

2. *Production and Prosperity*

Turning to the concept of prosperity as measured by output or increase in production, there is positive data to show that there has been no perceptible increase in agricultural production, or for that matter in the production of industry or other services employed in the process of production. Even in the inter-war period agriculture remained surprisingly static, on the whole, but for the seasonal experience of crops like cotton, sugarcane and groundnut. There is no reliable compilation of index of agricultural production. For purposes of comparison and uniformity, any index so far available may equally serve the purpose. For agricultural production, the index compiled by the Department of Statistics and Research of the Ministry of Agriculture and for industrial production that of the "Eastern Economist" are included.

The total production of each of the nineteen principal agricultural commodities for which estimates of production are available and expressed as a percentage of the average production of the commodity during the base period 1934-35 to 1938-39 shows a considerable fall (rather than an increase) to 92.58 in 1945-46. Separating the 8 commodities in the foodgrains group, the index number is 92.49, whereas the index for the rest which may be termed non-foodgrains is 92.74. Except in 1942-43 to 1944-45 when production of these commodities increased over the pre-war level by a maximum of 5 points, the general trend has been for a definite fall. Thus, from the standpoint of increased output, there is no ground for presuming that agricultural production has perceptibly increased as a whole. The total production of important foodgrains, including gram in the latest year available 1947-48 was 42.66 million tons as against a pre-war average of 43.48 million tons. Rice production was alone 2.1 per cent less than pre-war in 1947-48, while wheat was 23.9 per cent less than the pre-war. While population during the period has gone up by nearly 40 million, there has been an over-all decrease in production of foodgrains by 2 per cent. Similarly, with regard to industrial production judging by the estimates of the 'Eastern Economist' with base 1939=100, the general index has gone down from 110.3 in 1939-40 to 105 in 1946-47. The peak production was touched between the years 1942-43 and 1944-45. Thereafter, again the trend in industrial production has been for a decline. In the major industry, textiles, production has practically receded to the pre-war level. If on the whole physical output either in agriculture or in industry has not shown perceptible increase, can we conclude that there has been general prosperity in the country consequent on the high prices prevailing?

Distribution and Prosperity.

By the process of elimination, if a rise in the national income in terms of money does not contribute to prosperity and as measured by the size of the physical output in the country, there has not been prosperity, the only prosperity if at all which does exist should be by a change in the distribution of existing size of the national income or output. The basis for the assumption of rural prosperity is that the prices of agricultural commodities have risen far above that of industry and manufacture and that the cost of living in rural areas is far less than that in urban areas. In the absence of primary data, it is not possible to accept both the propositions, but from the available trend and observation of the actual conditions obtaining in the rural areas, it must be possible to have a true picture of the position. Assuming for a moment that by a re-distribution of the national income consequent on the working of the monetary mechanism reflected in a comparatively higher price for agricultural commodities, a larger share has gone to the rural population as a whole, can we conclude that there has been prosperity among them? For this, it is very necessary to have a clear idea of the occupational distribution of the rural community and the size of farm-holdings. These are the two vital aspects, viz: the division of agricultural occupations and the division of farm holdings that determine the prosperity or otherwise in the rural areas. It is needless to repeat that the average holding in India is below 5 acres, and we have already observed that there has been no increase in production. It is accepted that in India both the number of hired workers engaged in agriculture and the proportion of the total population thus engaged as hired agricultural workers are increasing. This proportion was 33.3 in 1931 and it is now estimated that the labour population in agriculture must be not less than 50 per cent. Among the rest, there are numerous categories of cultivators, tenant-owners, tenant-labourers, etc., etc., with tiny and fragmented holdings. Besides, the rural population is also composed of absentee-landlords, traders and merchants, artisans and craftsmen, etc., dependent directly or indirectly on agriculture. In 1931, the percentage of non-cultivating landlords was 4.1. In any event landlords either cultivating or non-cultivating or tenants who have economic holdings cannot be more than 10 per cent. We also understand from a study of conditions in rural areas that the wages of the agricultural labourers who form not less than 50 per cent of the population have not increased and have been rigid when compared to the increase in wages of industrial labour. It must also be remembered that the pre-war wage was inadequate by itself and was below the subsistence level. From the stray statistics that have been collected it is revealed that in Bengal and Punjab wages appear to

have risen in rural areas from 250 to 300 per cent over the pre-war. It is not possible to relate these to changes in cost of living trends in these areas, but from the per capita rural cost of living in the U.P. it is gathered that it has risen to yearly 500 per cent during the same period. We may assume that for India as a whole the rural cost of living has increased in roughly the same proportion.

One other important point to be considered is that agricultural labour is not employed fully throughout the year and the seasonal unemployment is estimated to be nearly between 3 to 6 months and to that extent a reduction in the earnings is obvious. So the agricultural labourers have not benefited in any way by the rise in prices. Similar should be the case with the tenants and small cultivators who form the bulk of the second group of the rural community when compared to rise in cost of living and the fact that they do not store their products. Only the category of big landlords and merchants dealing in rural produce should have appropriated any increase in the share of the rural incomes consequent on the re-distribution that is definitely assumed to have taken place. There is again an error in counting big tradesmen and merchants who deal in rural produce at the third, fourth or fifth stage among the rural community. They actually form part of the urban population. Thus, from the point of view of distribution also, it is clear that there has not been a widening or enlargement of the sector of the rural community that has received a higher flow of money incomes.

Co-operation and Prosperity

Besides the above factors which have been considered in determining rural prosperity, the trend of the transactions in the co-operative credit movement is pointed out to prove that there has been a flow of incomes to the rural areas. This is a fundamental error. One who is acquainted with the workings of the co-operative movement in rural areas is aware that the movement has not touched the fringe of the rural population and the majority are out of it. The members of the Co-operative Credit Societies are all drawn from practically the higher strata of the rural population viz landlords and tenants with comparatively large economic holdings. In 1945-46 the population touched by the movement was only 10.6 per cent on the basis of the 1941 census. The fact that recoveries have generally tended to exceed the amount of fresh loans resulting in the decline of the outstanding loans confirms the fact that only a small sector of the rural society has benefited from the prices. On the other hand, there has not been a heavy decline in the demand for funds as the amount of fresh advances made have steadily increased from Rs. 6.7 crores in 1938-39 to Rs. 14.6 crores in 1945-46.

In fact, the Reserve Bank in their review of the co-operative movement in India for 1939-1946 observed that "the main effect of the increase in agricultural prices has been to improve the re-paying capacity of the borrower and not so much to reduce his need for fresh finance, which on the other hand has risen with the cost of cultivation and maintenance."

Conclusion

These facts are sufficient to examine the question whether there has been rural prosperity in general or not. If prosperity connotes only an increase in money incomes as a whole, then no doubt national income has mounted up by nearly double and that should indicate prosperity. But physical production has not increased. The majority of the population in rural areas have not reaped the benefits of the high incomes; consequently it cannot be said that there has been prosperity in rural areas. Here it may be useful to bear in mind certain general principles of economics concerned with under-developed countries: (i) In such countries, the slope of the consumption function is steep and moreover the level of the schedule of consumption is high relative to income. The merging of saving at full employment level is very thin; (ii) The liquidity preference function tends to be inelastic (increases in the money supply are recorded as net additions to spendable income and are applied to purchases of goods and services); and (iii) There is inelasticity of the supply of goods. On account of the operation of these elementary forces and the stage of under-employment and unemployment in which the country still finds itself, it would be idle to pretend that the high prices generated by the release of inflationary forces by government has led to any substantial increase in incomes of prosperity to the rural population.

The key to economic prosperity and welfare is not money incomes but physical productivity and productivity is the result of labour, effort, ingenuity, risk and organization. These will have to be put forth by workers in the farms and factories, managers in industries, inventors and scientists in the laboratory, and investors in the money and capital market. Only in response to adequate economic incentives have the United States to-day achieved the higher productivity in the world's history. Let Government and economists concentrate on this problem of how to create an economic atmosphere that would give an incentive for higher production in agriculture and industry and real income will continue to increase with income objectives or periodical plans and programmes.