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Government would set up and promote the necessary co-operative and State agencies for purchase and sale of foodgrains at appropriate stages so as to strengthen its power to influence the course of prices and to prevent anti-social activities like hoarding and profiteering from getting the upper hand.

If the framework of system envisaged above is raised as early as possible and it is built up fully by 1965 there is no reason why our food problem should not be completely under control by the end of the Third Five-Year Plan. It is only under such stabilized conditions and with an assured and announced Government policy, that the production programme of Government in the agricultural sector has any real chance of attaining success.

PRICE POLICY FOR AGRICULTURAL DEVELOPMENT*

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The objectives of price policy may differ according to the specific situation in a country. In India and countries of the Far East, for example, in determining the price policy, the emphasis is on increased agricultural production, while in the U.S.A. the problem is actually how to dispose of the surpluses. But in general, the objectives of price policy may be stated as follows:

1. To adjust supplies to demand and *vice versa.*
2. To reduce violent or abrupt fluctuations in prices. In fact, this is just a corollary of the first objective. The balancing of supply and demand itself is a way to control wide price fluctuations.
3. To encourage production of commodities needed by the country to improve people's diet, to provide raw material for running industries and even maintain the health of soil—a permanent asset of national importance all the world over.
4. To ensure a balanced production of various grains and other farm products.
5. To ensure a reasonable living to the farmer.

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* This represents the personal views of the author who is obliged to Dr. G. D. Agrawal for his valuable comments on an earlier draft.

6. To ensure a proper price relation between the goods produced by the cultivator and the inputs required by him.

7. To protect the interest of the consumer by enabling him to procure his food at fair prices. Food being the primary need of man, its price level in relation to general price level can influence a great deal the economic stability of a country. If the food prices are high, wages go up, industrial costs rise, the cost of production of goods as well as consumption articles required by the farmer goes up. Thus an inflationary spiral sets in.

Regulatory Measures

Once the objectives of a sound price policy have been defined, the State has to initiate action, in their light, in one of the following ways:

1. Statutory fixation of minimum or maximum prices or both.

2. Guarantee to buy the farm products at declared prices if the prices fall below the minimum fixed by the State.

3. Indirect control on prices when prices tend to cross the ceiling by releasing stocks in the market and by purchasing stocks when the prices show a tendency to fall below the minimum.

4. Regulation of movement of stocks by stopping exports from or imports into the country or by imposing restrictions on the movements of produce internally from a region defined for the purpose to another region.

Such measures entail a number of administrative measures, *e.g.*, licensing of traders, declaration of stocks by the traders and a statutory limit on stocks held by them, compulsory levy on the farmers or procurement from them at fixed prices. Beginning with a temporary requirement for controlling the rise of foodgrain prices, the Central and State Governments in India had to adopt most of these measures to deal mainly with the food situation. A brief review of these measures will give some idea of their nature, the problems faced and the success achieved in overcoming them.

A REVIEW OF MEASURES

Foodgrains

With the outbreak of World War II in 1939, large stocks of foodgrains were required for the fighting forces and the Indian food situation began to deteriorate. After the Bengal Famine of 1942-43, on September 1, 1943, exports of foodgrains were prohibited, imports on private account were banned and purchases from overseas were arranged on Government account. A scheme of rationing and procurement at fixed prices was also introduced. These measures had to be continued after the end of war in 1945. The partition of India in 1947 brought her new problems. Parts of Punjab which were surplus wheat producing areas were lost to Pakistan while a large number of refugees from Pakistan marched into India and had to be fed. But at this very occasion, public opinion had grown strong in favour of decontrol, for to them the only effective way of dealing with the evils attending controls was to end the controls. The Government at this time had with them the lowest stocks in the history of rationing. Towards the end of November 1947, it was decided to give a trial to the policy of progressive decontrol of foodgrains.

Prices soared high. Controls were reimposed in September 1948 as part of an overall policy of fighting inflation. Procurement prices had to be fixed at 25 to 50 per cent higher than those of the pre-decontrol period of an earlier year. Food policy during the period following the reimposition of controls underwent a change successively from complete control, complete decontrol to partial controls. After the record production of cereals in 1953-54, there was a virtual end of food controls. By the end of the year, there was no rationing anywhere in the country and practically no price control. Export of pulses was allowed freely and superior quality rice was also exported to traditional importers. Prices having fallen to low levels, the accent of the price policy shifted from ceiling to floor. With 1952-53 as the base year, the price index for cereals stood at 70 and that for pulses at 49 in March 1955.

Lean crops of subsequent years again saw the price index going up. The Government had to resort to a policy of imports and restrictions on the movement of foodgrains from one zone to another. The zones were declared specially for this purpose. A number of regulatory and anti-speculative measures were brought into force in 1957 and tightened further in 1958. The National Development Council decided in November 1958 in favour of State trading in foodgrains. The ultimate pattern envisaged the collection of farm surpluses through service co-operatives at the village level and the apex marketing societies for distribution through retailers and consumers' co-operatives. Under the interim scheme, the wholesale traders including millers were required to take out licences and to submit periodical returns of stocks, purchases and sales. The Government could acquire from them progressively larger proportion of the marketed surplus.

The 1958-59 crop was a bumper one and Government purchases were generally made either on the basis of voluntary offers or by requisitioning or levy on wholesalers and millers. The experience was not happy in the deficit States. Restriction on the movement of foodgrains, which was an inevitable part of State trading, also led to a wide disparity between prices in the surplus and deficit States. Government purchases in the next year were restricted to the surplus States only. Heavy imports of foodgrains in 1960 and 1961 under PL 480 and good crop of 1960-61 have again eased the situation. Some of the irksome restrictions on the movement of foodgrains have also been relaxed.

Cotton

During the war, when the Far Eastern markets for cotton were lost to India, the Indian Central Cotton Committee appealed to the then Provisional Governments and Princely States to reduce the acreage under cotton. Part of the area under cotton was diverted to foodgrains. With the fall in the production of cotton and an expansion in its demand by the domestic textile mills, the price of cotton gradually went up. A Cotton Control Policy was thus evolved in 1943 with the object of maintaining the price of cotton within floors and ceilings for different variations. Since then the control policy has been under constant review. But for a few months in 1948 when there was decontrol, ceilings and floors have been announced every year. The Government also did enter into the market as purchasers when cotton prices declined precipitately in the Broach District and threatened to touch the floor in 1944. Again in 1951-52 and 1953-54, when prices slumped down, measures adopted included liberal export policy, restricted imports, reduction in export duty on cloth, and permission for hedge trading.

As against this, during the 1950-51 season, cotton prices actually crossed the ceiling. The measures adopted were liberalization of imports, introduction of a zonal system involving restrictions on the movement of cotton from one zone to another and control on the purchase of cotton by the mills through a system of quotas, freezing of cotton stocks and enforcing a system of licensed trading. But all this could not prove effective. To circumvent the price control, inferior quality cotton was mixed with the superior one. During 1950-51, the ceiling price had actually to be raised by Rs. 150 per candy to Rs. 770 for *Jarilla* Fine 25/32". This had to be further raised by Rs. 50 to Rs. 820 the following year. It was also decided to establish an effective machinery, with the assistance of the East India Cotton Association, to maintain adequate check over qualities of cotton.

A very poor crop in 1959-60 again caused a rise in the prices beyond the ceiling of Rs. 820 per candy which had remained unchanged during all these years. Again, liberal import quotas were issued and the internal distribution of cotton was controlled.

Jute

In 1932-33 the Bengal Government attempted to persuade the farmers to restrict voluntarily the acreage under jute to minimize the bad effects of slump in prices caused by the Great Depression. While some foreign markets had been lost during the war, an exceptionally large crop of 13.2 million bales harvested in 1940 threatened the jute prices. The West Bengal Government resorted to open market operations for some time. Towards the close of the year, the Indian Jute Mills Association agreed to recommend to the mills to adopt a buying programme upto specified quantities according to a fixed time table.

The Bengal Raw Jute Taxation Act was passed in 1941. A small cess was levied on raw jute exports and purchase made by the mills. The amount thus realized was to be utilized for the maintenance of staff whose duty was to issue licences for the cultivation of jute. The acreage to be sown could not exceed the prescribed limits. Table I shows the area recommended/licensed and actually sown from 1935-36.

It would be interesting to note that for the period prior to 1940, the area sown was more than the recommended area and after 1941-42 (when the licensing system started) it was less than the licensed area. This, as pointed out by the Krishnamachari Committee, was due to more favourable prices for rice received by the farmers. In subsequent years, maximum and minimum prices have been fixed by the Government of India from time to time for raw jute. But ever since the beginning of the First Plan, all types of price controls have been removed. In June 1957, the Government of India issued a press note

TABLE I—ACREAGE SOWN AND RECOMMENDED/LICENSED UNDER JUTE IN BENGAL, 1935-36 TO 1945-46

('000 Acres)

Sr. No.	Year	Acreage Sown	Acreage Recommended / Licensed
1.	1935—36	1,918	733
2.	1936—37	2,251	783
3.	1937—38	2,209	440
4.	1938—39	2,522	440
5.	1939—40	2,550	276
6.	1941—42	1,533	1,634
7.	1942—43	2,704	3,190
8.	1943—44	2,146	2,559
9.	1944—45	1,694	2,563
10.	1945—46	2,018	2,547

Source: Report of the Prices Sub-Committee of the Policy Committee on Agriculture, Forestry and Fisheries, Government of India, Department of Agriculture, p. 105-106.

assuring the agriculturists that prices of foodgrains and other agricultural commodities would not be allowed to fall below economic levels. The Jute Enquiry Committee was also in favour of fixing minimum prices for raw jute. Although it was decided to carry out buffer stock operations through the Indian Jute Mills Association in 1958-59 when the jute prices toppled down, no positive steps could be taken by the Government. The result was that the production of jute fell down to 4.6 million bales in 1959-60 as against 5.2 million bales of the previous year. The production in 1960-61 fell still further to 4.0 million bales.

Oilseeds

There has practically been no control on the prices of oilseeds. The export trade in oilseeds and vegetable oils has been subject to control since October 1943. The main idea underlying the control, at the time of its imposition, was the need for ensuring that adequate supplies were available in the country for domestic consumption. Another factor which guided Government's policy has been the need to conserve valuable manure in the form of cakes within the country and to help employment through the expanding oil milling industries. As a result, exports of oilseeds in seed form were almost banned till the beginning of August 1958 except for small release made in the case of H.P.S. groundnuts. Export policy has since been liberalized in respect of oilseeds, vegetable oils and oilcakes from the latter half of 1958.

Sugarcane

The Sugarcane (Minimum Prices) Act was passed by the Government of India in 1934 empowering local Governments to prescribe minimum prices for cane in the areas commanded by sugar factories. Taking advantage of these powers, the U.P. and Bihar Governments linked sugar price with cane by a sliding scale system in 1934-35. Under this system, the percentage share ot the price received by the farmer decreased with an increase in the price of sugar.

The bumper crop of 1937 and the consequent price decline made it uneconomic for the factories to crush cane at minimum prices. The sliding scale was replaced by a fixed minimum price of Re. 0.33 per *maund* delivered at factory gates and Re. 0.31 at outstation. There was also provision for a limit on the quantity of cane which the cultivator could offer for sale. But no minimum limit was fixed.

In 1939-40, the sliding scale system was again introduced, but this time it operated in favour of the cultivator by increasing proportionately the price received by the farmer with a rise in the price of sugar. There have been modifications from time to time, but a minimum price for canc has ever since been in existence in the factory areas.

Since 1953-54 season, the minimum price was fixed at Re. 1.44 per *maund* for gate deliveries and Re. 1.31 at rail heads. This has been raised to Re. 1.62 per *maund*, for delivery at the gate and Re. 1.50 at rail heads (with effect from October 1959).

LACK OF DEFINITE POLICY

The review of regulating price measures to date from the last Great Depression brings out clearly the fact that there has not so far been any well defined or set price policy aimed at development of agriculture in a planned way. In the case of foodgrains, fixation of ceiling prices and procurement have been done mostly on *ad hoc* basis to deal with a contingency of food scarcity and high prices. The enforcement of regulatory measures has largely been mainly through physical controls over supply and demand through procurement and rationing. The price control on cotton was effected through the fixation of ceiling and floor prices supplemented with regulation of movements, sales and purchases. A certain degree of check has been exercised on the prices of oilseeds through the regulation of imports and exports. The fixation of a minimum price for sugarcane mainly to ensure a fair price to the farmer has led to an increase in the area under sugarcane even on lands not quite suitable for it and at the cost of foodgrains production. The price for sugarcane has been found by the farmer more remunerative than for foodgrains. To this extent, the fixation of minimum price has been at a level higher than warranted by the relative price level and the remunerations earned by the farmer from the other competitive crops. In spite of the rise in the demand for sugar, this policy, along with controls on the distribution of sugar, has led to record production of sugar and stocks have piled up with the mills.

The First Five-Year Plan described the price problem as "to define a level which may be considered reasonable under given circumstances, and to ensure through direct controls or through fiscal and other devices that the producer of foodgrains is not placed at an undue disadvantage." It further stated that "a policy of price stabilization must have in view certain maxima as well as certain minima. At a time when the economy is subject to inflationary pressures, the emphasis is inevitably on the maintenance of maxima. If the trend of prices is persistently downward, a system of controls with defined procurement prices can be used—and it should be used—to safeguard the interests of producers and to prevent the prices from falling unduly. Judicious purchases by Government at the defined prices are thus an excellent device for stabilizing prices and for evening out, to some extent, the inter-State disparities."

A look at the index number of wholesale prices would show that we succeeded in checking neither the steady rise in prices, nor the variations in them from year to year. Both prices and production fluctuated sharply during all these years. The ameliorative measures taken have often lagged behind and ended with just a *post mortem* analysis.

PRICES AND PRODUCTION

Here, however, it is important to stress a serious limitation of any price policy on physical production. Firstly, the volume of production and therefore the supply side is dependent on natural factors to a significant extent. The farmer has not much control over them. Secondly, even when prices have not been remunerative the farmer in under-developed economies like those of India as well as in advanced countries where commercialization of agriculture has been carried to a much greater extent, has continued to farm and to produce because of overhead costs and also because he has no choice of alternative means of livelihood in many countries.

The only adjustment that farmers could do is to reduce or increase the area under crops which happen to be relatively less or more remunerative. Such a change in the sown area under a crop is very clearly observable in the case of cash crops. The effect of price changes is not reflected to the same extent in the case of foodgrains because about 4|5th of the total cultivated area in India is under them and in large regions the farming system is based on mono-crop, *i.e.*, rice. The farmer is not familiar with the cultivation of any other principal crop. On an overall basis, in terms of total cultivated area, the supply of various factors of production—land, labour and capital—which tend to be more or less inelastic, is not responsive to the changes in the price of agricultural produce.

But within the totality of agriculture there is continual adjustment taking place among the areas under crops including foodgrains. Even a subsistence farmer shifts some of the area under foodgrains to a substitutable cash crop, if the latter can promise him a better return. The examples are of wheat and sugarcane in U.P. or rice and jute in West Bengal. The area under the crop concerned depends on the price parity between the competing crops. This is borne out by the experience of the last ten years.

Uneconomic prices harm the production of all crops, the extent of loss depending on the extent and nature of variable inputs such as fertilizers. If with a fall in the price, the cost of fertilizer is not recovered and if the farmer has to pay for the fertilizer, he will not apply fertilizer. The production will be lowered to adjust this. Economic prices lead to higher production, whatever the crop. This underlines the importance of maintaining farm prices at remunerative levels. Such a policy will not only introduce an element of stability in agriculture, but will also promote stability in other spheres of economic life and will assist in securing general rise in national income. The maintenance of the income of the agriculturist at a satisfactory level will provide a large home market for the products of Indian industries and encourage their development. It will maintain the revenues of State Governments because of its direct effects on land revenue and water charges and its indirect effects on the yield of other sources of revenue. It will increase the remunerativeness of public works in the sphere of agriculture. It will maintain the value of the only security that the agriculturist can offer, namely, the farm products, increase his credit and promote the development of marketing and credit organization.

CRITERIA FOR A PRICE POLICY

The price policy has to be formulated on a comprehensive and continued basis. *Ad hoc* measures to meet the exigencies of the situation would always suffer from the element of time lag and will fail in timely redress of the situation. Fixation of a minimum and maximum price for a few commodities without establishing a price parity among competing crops may only result in unbalanced production of each of them. Such a state of affairs ill fits a planned programme of agricultural development envisaged under the Five-Year Plans.

With due consideration to the targets fixed, it will have first of all to be decided, how much area is needed for different crops in the important States. If we find that a diversion of the area is called for from one to another, our price policy will have to be orientated in a way that the desired shift takes place.

Taking the case of jute, for example, there would hardly be any dispute that the area under the crop has got to be increased if the Third Plan target of 6.2 million bales is to be achieved. A mere recommendation or even licensing (of the type already discussed under jute) will not serve the purpose. A definite price policy in favour of jute will have to be worked out. Similar decisions will have to be taken for sugar and wheat in U.P. and, cotton and groundnut in the areas growing these crops. Areas under these competing cash crops have invariably responded to the parity of substitutable crops in all those States where such a substitution was possible.

The operative part of this programme has to be launched with care. Before taking any steps in the direction, it would be necessary to undertake detailed studies about the cost structure, determination of minimum fair prices and consequently the relative parity prices. Along with this, a definite assurance will have to be given to the cultivators of various crops for the off-take of their produce at pre-determined prices, announced much in advance of the sowing period. As for the commodities entering the export market, some sort of minimum export quotas can be declared for a long period on the basis of our past experience and the trend of world markets. This would do away with adverse fluctuations in the market which at present are significantly related to variations in export policy. Additional releases can then be made on suitable occasions as dictated by the situation of each commodity in the internal and external markets.

A fillip to agricultural production in general can be given only if our price policy aims at increasing the efficiency of the cultivator. A doubling of labour productivity in Japan during 1885-1915, for instance, was possible because the cultivator was enabled to make use of improved techniques which consisted primarily of a liberal use of fertilizers and the improvement of rice strains. In the context of Indian agriculture it would mean the provision of fertilizers/manures, improved seeds, cement for the construction of irrigation wells, iron for implements, diesel oil for pumps, etc., at prices which maintain a reasonable parity between the prices paid and prices received by the cultivator.

The emphasis so far has been on the production of foodgrains. In a planned development of agriculture, the production in adequate quantities of non-food crops for industrial use and for earning foreign exchange is equally important. Surely in the interest of national health, national diet has to be more varied and balanced. This means increasing emphasis on the production of protective foods drawn mainly from fish and live-stock, *e.g.*, milk, eggs and meat and also from fruits and vegetables. This group of farm products being perishable presents special problems and, more than fixation of statutory prices, measures such as marketing facilities, bulk handling and arrangement for sale on fixed price basis through co-operative or State organizations, etc. are likely to prove successful in increasing production.

Prices of these products are much higher in the cities and towns. If the present policy of establishing dairy schemes like those of Bombay, Calcutta and Delhi is extended to practically all the important towns and cities and milk as well as milk products are made available to the consumer at fixed prices along with a guarantee of quality, prices of such produccts are bound to remain within the desired limits. Prices will naturally be stabilized at the producing centres as well. With an assured demand, production will also get sufficient incentive.

As for meat, slaughter and sale houses will have to be licensed so as to ensure quality and prices. Egg Boards like those of United Kingdom and proper marketing as well as warehousing facilities for fish may serve as an answer to all those other items which are likely to be in great demand.

Once we succeed in keeping the prices of all these major items of consumption within desired limits, it may not be necessary to bother about the prices of the remaining crops like fruits and vegetables. Incentives for their increased production and the provision of necessary marketing facilities alone may be more than sufficient.

It should not, however, be forgotten that though a sound price policy is one of the essentials in planned development of agriculture to meet the requirements of food for the people, to ensure balanced diet to them, to produce for industries and foreign exchange, price alone cannot tackle all the farm problems. This has to be one of the links in the whole chain, the other links being technical knowledge, intensive cultivation, irrigation, effective extension education, agrarian reform, credit, co-operation, etc. In the present context, the problem is not that of increasing the production of one commodity at the cost of another, but increasing the production of all the commodities. While a stable and remunerative price level with maintenance of parity between competing crops will play its role in providing the necessary incentive by reducing unhealthy fluctuation and balancing production in the direction desired, increased production over the present level has to be achieved by commanding and using all the factors of production in the best possible way. The problem of production can best be tackled by a judicious combination of economic as well as technical policies and measures.

PRICE POLICY FOR AGRICULTURE IN THE CONTEXT OF INDIAN ECONOMIC DEVELOPMENT

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Price manipulation is an acknowledged method of planning in all economic system, and particularly so in a private enterprise economy. By price manipulation the planning authority may, in theory, affect costs and profits and