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in 1958-59 by Government action in the futures market, yet it is necessary to bring the price down so as to make it compare favourably with the other centres. Prices at the groundnut centres were integrated.

Avoidance of Price Fluctuations

Among the agricultural commodities studied, *gur* prices fluctuated very violently. This commodity needs to be carefully watched by the authorities and stabilization measures should be concentrated in 4 States, *viz.*, Andhra (Anakapalle), Punjab (Ambala and Amritsar), Uttar Pradesh (Hapur and Kanpur), and Orissa (Cuttack). In the case of rice and wheat, prices at many of the centres revealed marked fluctuations and the Government in pursuing a general price stability programme should focus their attention on the rice markets at Uttar Pradesh, Mysore, Andhra, Kerala, Kumbakonam in Madras and Ranchi in Bihar and the wheat centres at Patna (Bihar) and Kotah (Rajasthan) where price oscillations have been wider than in the centres in other States. Further, Adoni (Andhra), Jalna (Bombay) and Tiruppur (Madras) were cotton centres and Hyderabad and Coimbatore were groundnut markets which revealed marked fluctuations in prices.

A PRICE POLICY FOR AGRICULTURAL DEVELOPMENT IN INDIA

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It is commonly known that in a competitive economy, price mechanism generally performs two functions, namely, the allocation of resources to different uses and the determination of the incomes of different factors of production. The price policy of a Government is a conscious approach to prices with certain definite objectives. If the free working of the price mechanism achieves the desired objectives, the necessity for manipulation of prices does not arise. But if the free price mechanism does not serve the desired objectives, the Government has to influence and regulate prices for desired ends. In a fully planned society perhaps there is less need for price manipulation but under an indirect and inducive Plan like ours, direction and control of prices often becomes necessary. A price policy for agriculture in India should aim at maximization of the production of agricultural commodities in general, achievement of the targets of production in different individual commodities and apportionment of a fair share of the national income to the agricultural producers. Accomplishment of the task is not easy. Various conflicting interests and factors come into operation and vitiate the formulation and execution of a definite policy.

It has to be recognized that in the Indian context expansion of agricultural production in general through price incentives is extremely limited. In all countries, agricultural output as a whole is insensitive to price changes in the short period. In India there is very little scope for an increase in the total acreage.

Structural and economic difficulties do not permit heavy investment for intensive production. The majority of the farmers are producing foodgrains and major part of the land is devoted to foodgrain cultivation. In such production, the first consideration of the farmers is the family food; cash needs come next. The producers also pay a large part of the wages in kind and make customary payments in kind for various services they receive from village artisans and others. The rural economy is not fully commercialized and monetized. Most of the farmers being small producers, their production is for home consumption. The marketed surplus forms a minor part. Under such a system, the effectiveness of price incentives for increasing production is limited. As a matter of fact in the Indian agricultural economy, seasonal factors rather than prices exert greater influence on production. It is often noticed that in periods of continuous falling prices the amount of foodgrains production has been more and in periods of continuous rising prices the production has been less. Seasonal conditions have largely determined the quantum of production.

But the response of production of commercial crops like jute, cotton, sugarcane and oilseeds to changes in prices is not of the same type. The production of these crops gives a fairly good response to price changes. Only there is a time lag. The response is quick and considerable due to substitution of these crops for other crops. Studies of relationships between prices and production of jute and rice in Bengal and Orissa and of rice and sugarcane in Bihar prove this. The substitution is induced by the relative difference in the prices of different commodities rather than by an absolute enhancement of prices of individual commodities. The effect of these substitutions on the total volume of foodgrain production does not appear to be great because the acreage under these substitute crops is much smaller than that under foodgrains. The substitution of commercial crops for foodgrains is also arrested by the considerations of family food and other commitments of the farmers to be met in kind. By price manipulations definite encouragement or discouragement to the production of individual commercial crops may be given but these inducements are not very effective in the case of production of foodgrains. Thus though encouragement or discouragement may be given to the production of different commercial crops by price differentials of agricultural commodities, the increase of production of agricultural commodities as a whole through price manipulations is limited. Even the achievement of targets of production of commercial commodities exactly through price manipulations is not possible. Weather is an all important factor in agriculture and biological and natural uncertainties are great. Subsidized sales of inputs like fertilizers, seeds and farm implements, provision of cheap credit and irrigation facilities and minimization of natural and economic uncertainties would help agricultural production more than price enhancements.

Achievement of a fair distribution of income in the agricultural sector through price manipulation is also not easy. By maintaining prices of agricultural products relatively at a higher level than those of industrial products, a larger share of the national income can be given to the farm population. In countries where the agricultural population forms a small part of the total population, it may be possible to subsidize the agricultural sector at the cost of the non-agricultural sector by maintaining prices of farm products relatively at a higher level. But in India where the agricultural sector contains about 70 per cent of the population and contributes about 50 per cent of the national income, substantial increase in the incomes of the agricultural population at the cost of the non-agricultural sector is not possible. It does not appear

desirable also, because it may retard the movement of the people from rural areas to urban areas which is necessary for avoiding the prevailing rural overcrowding. By maintaining high prices for agricultural commodities, social justice among the agricultural classes themselves cannot be achieved. High prices will benefit only a small number of solvent agriculturists who have surplus to market. Majority of the farmers, being small subsistence farmers, do not stand to gain very much by high prices of agricultural products. Subsidized sale of inputs and provision of cheap or free social amenities in rural areas will better serve the ends of social justice. Thus subsidization of the agricultural sector at the cost of the non-agricultural sector through higher relative prices does not appear feasible nor desirable. On the contrary, many plead with some amount of justification that as the majority of the people belong to the agricultural sector and industries are in the beginning stage of development, the industrial sector should be subsidized by agriculture.

The above analysis does not, however, mean that there is no necessity for a price policy for agricultural development and prices of agricultural commodities may be left to be determined in the free market. The greatest drawback of such unregulated prices is their instability. As the Planning Commission observes, stable and reasonable prices for what the farmer produces are likely to provide him a better incentive than high but fluctuating and uncertain prices. For greater production, the producers need some stability in prices and security of income. They are already subject to a great deal of natural uncertainties. Price instability introduces a great deal of economic uncertainty to their system of production. Unless these insecurities are minimized, it will be difficult to introduce improvements in agricultural production. The new techniques and costly inputs pushed in by the extension services will not be adopted by the farmers, and they will have little incentive for increased investment for agricultural improvements unless they feel secure of a reasonable return through stable prices.

Stable prices do not mean rigid and unchanging prices. Secular trends in prices do not call for much interference but sharp cyclical fluctuations require adoption of specific measures for stabilization of prices. For stabilization, minimum and maximum prices for different commodities for specific periods are generally fixed and enforced. Through regulatory measures prices are not allowed to fall below a certain minimum in order to protect the farmers from undergoing loss; rise above a certain maximum is also not allowed in order to safeguard the interests of the consumers. As the agricultural production in this country is in the hands of millions of private producers and the Government has very little direct control over production, it can only maintain such maximum and minimum prices through some sort of open market operations.

This, in fact, has been the accepted price policy of the Government for foodgrains and important raw materials for the last ten years of planning. During the First Five-Year Plan when prices of agricultural commodities fell from 1953-54, the Government had to announce minimum support prices of various agricultural commodities though they were not effectively maintained. During the Second Five-Year Plan, through the continuous upward pressure of prices, the maintenancec of the minimum prices has not been a problem. On the contrary, release of Government stock to a great extent has been necessary to prevent undue rise of prices. The Third Five-Year Plan also proposes to prevent sharp fluctuations in prices and to guarantee a certain minimum level

in the interest of greater production. As a means of stabilization Government has built up buffer stocks for open market operations. Formation of zones and cordoning of some urban centres with respect to movement of foodgrains have also been done in order to prevent undue pressures on local supplies.

There is general agreement on the principle of enforcing minimum and maximum prices of major agricultural commodities through open market operations. But the levels at which the minimum and maximum prices are to be fixed have always been subject to controversy. It has been recognized that the parity price formula adopted by the U.S.A. and some other countries is not suitable for our country. It seems that there is not much justification in maintaining a price relationship prevailing at some time in the past which is theoretically considered as ideal. There is no agreement on such a point of time in our country. It has been said generally that in fixing the minimum and maximum prices, the interests of the producers and consumers should be reconciled. From the producers' point of view, the minimum price should cover the cost of production and provide a fair margin of profit. From the consumers' point of view the maximum price should not be too severe and should give rise to a demand for the whole quantity produced. But in actual practice, the fixation of prices has been subject to pressure from various conflicting interests. The determination of costs of production which varies from locality to locality and farm to farm, has not been easy. The administrative arrangement for fixation and implementation of the prices has been weak and inadequate. Reliable data on the behaviour of prices of different commodities in different regions and in different conditions are not available. Knowledge of price-relationship of competing crops is also extremely inadequate. As a result, the fixation of prices has been arbitrary to a great extent. Scientific assessment of costs and profits has been lacking.

It has to be realized that in matters relating to price policy efficient administration is more important than theoretical refinement. Half-hearted and inefficient price fixation may do more harm than good. The price announcements of the Supply Departments of the States are being done in a very general manner. Attention is not being paid to details regarding different regions. Decisions are being influenced by pressure from interested groups from inside and outside the State. On many occasions the exact supply position is not known and anticipation of probable results of policies prove incorrect. For example, with regard to movement of foodgrains, the Government of Orissa resisted for a very long time to the formation of a zone with West Bengal. It was expected that formation of such a zone would lead to scarcity and famine conditions in Orissa. Subsequently when on substantial pressure from the Central and West Bengal Governments, the Orissa Government formed such a zone on certain conditions, no famine or scarcity conditions actually occurred. Had such conditions occurred it would not have also been possible to come out of the zone easily because of external pressure. In short political and other considerations sometimes exert greater influence than objective and scientific assessment of the situation.

It appears that there is much soundness in the recommendations of the Food Grains Enquiry Committee for the creation of an effective organization for price stabilization in the country. Specific high powered organizations like the suggested Price Stabilization Board and Food Grains Stabilization Organization would prove more effective for stabilization of prices of agricultural com-

modities in India. At any rate, there is a strong case for the collection of information about cost of production, market stocks and arrivals and the preparation of indices for investment, wages, rent, etc., by a central authority. Without adequate scientific data and efficient administration, price stabilization measures would not achieve the desired results nor any price policy would be successful.

PRICE POLICY FOR AGRICULTURAL DEVELOPMENT

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Of late, it is beginning to be recognised, on all hands, that something drastic has to be done in order to ensure a satisfactory rate of growth of agricultural products, both foodgrains and industrial crops. No doubt, sizeable increases have taken place in the output of all the agricultural commodities during the last ten years covered by our two Five-Year Plans. However, on the one hand, even this rate of increase has not been high enough to ensure adequate supplies of food to the growing population of the country and to meet the needs of our expanding industries, using agricultural products as their basic raw materials, resulting in continuing shortages and rising prices. On the other hand, trends in this regard have been extremely erratic, with no signs of a stable process of a year to year increase in the physical volume of output, much less in that of the rates of increase. A year or two of increases, have, not unoften, been followed by a period of fairly big decline, not merely in the rate of increase, but even in the total output, causing serious hardships to the people and imbalances in the economy, spelling grave upsets of planned policies (See Table in Statistical Appendix). It is a growing cognizance of this state of affairs, which is behind the mounting clamour for policies which would ensure a simultaneous process of continuous expansion of agricultural production, along with the growth of industrial output, and, of course, the country's population.

In this connection a two-fold solution is suggested: firstly, certain basic institutional changes, the main being imposition of ceilings on landholdings and redistribution of surplus lands to the landless and secondly, the gradual transformation, on a voluntary basis, to co-operative farming, which would ensure indispensable, technological improvements in agriculture, leading to a steady process of increasing production. In immediate terms, what is asked for is a price policy which would "hold the price line", and prevent the agricultural prices from a further rise. Of course, the immediacy of the demand is not meant to involve any detraction from its application as a long term measure. Here, indeed, opinion firmly holds that agricultural prices, should be, by and large, stabilized at the current levels and should, on the whole, not be allowed to rise in response to a likely increase in non-industrial prices.

It is the thesis of the present paper that, while the institutional and technological measures are well-conceived and with rational planning and effective