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HIGH PRICES AND RURAL PROSPERITY (WITH SPECIAL REFERENCE TO MADRAS)

by

DR. B. V. NARAYANSWAMI NAIDU

Indian Agriculture

The increasing stress on decentralisation in our country has led to a shift in emphasis from the urban to the rural economy. The pressure on land is steadily increasing the percentage of population dependent on agriculture, which has increased from 61 in 1891 to 72 in 1931. It is unfortunate that we are neither agriculturally self sufficient nor industrially advanced. We depend upon foreign imports to feed our millions with their minimum needs. And the partition of the country has darkened the already not bright prospects of Indian Agriculture. Much of our wheat growing land and the area under cotton and jute have gone to Pakistan.

Though the bulk of our national income is still being derived from agriculture, this industry is yet, not a profitable proposition. A sense of security, the true basis of happy family and national life, our ryots never enjoyed. Life has become to many of them a sordid struggle for existence; the ryot's "life has little security, less gaiety and no dignity." If rural prosperity is to become a *fait accompli* the whole policy of Indian Agriculture should be reoriented and revitalised. In an exchange economy, rural prosperity depends upon the prices the villagers pay for their consumption commodities and the prices they are paid for their products. A maladjustment between these two prices always brings about untold hardship to the rural community.

Inelastic Supply

The real reason for the disparity lies in the fact that the expenditure of human effort in agriculture has earned too little relative to what human effort earns in other parts of the economy. This is because agriculture, unlike industry, is of a different "temperament". The former is slow and sluggish in its movements and the latter sensitive and erratic. Many of the more serious economic difficulties that confront agriculture are born out of this difference in the pace of agriculture and industry. "The ploughman's tread does not allow running for a stretch and then

walking, or even stopping altogether. Agriculture has a steady gait, while other producers in the economy sometimes run and at other times simply stand still. Farmers, in the main, stay in full production regardless of the effects of business fluctuations upon the demand for farm products and in spite of governmental efforts to reduce output. This assures consumers of a large and steady supply of food and other farm products but it means great instability in farm prices and farm income.”*

Fluctuating Prices

In addition to the inelasticity of supply, Indian Agriculture suffers from the fact that it is as much a gamble in prices as in monsoons. Even the most efficient agriculturist cannot stand the loss if prices fall below all reasonable expectations. To illustrate, the price of paddy per Imperial maund in the Madras province shows wide fluctuations over the decades of the last and the present century as can be seen from the decennial figures from 1801-02 to 1948-49 tabulated below.

Price of Paddy per Imperial Maund in Madras Province.

Year	Price in (Rs.)	Year	Price in (Rs.)
1801-1802	1.15	1881-1882	1.56
1811-1812	1.15	1891-1892	2.31
1821-1822	1.13	1901-1902	2.38
1831-1832	0.86	1911-1912	2.99
1841-1842	0.79	1921-1922	4.72
1851-1852	0.77	1931-1932	2.53
1861-1862	1.75	1941-1942	3.55
1871-1872	1.47	1948-1949	8.30

Stabilisation of Prices Essential

As a group, agriculturists are in the nation's lowest income brackets and are consequently indebted. When the prices of agricultural commodities fall, they stand to lose much—many of them are liquidated including the most efficient of them. Contrariwise, when the prices rise, they are the recipients of unusually large windfalls resulting in the kind of prosperity that breeds land booms and seriously distorts values. The agriculturist belongs to a class of people whose gross incomes rise with rising prices and fall with falling prices. But the rise and fall in gross income does not exactly synchronize with the rise and fall in prices. The farmer with his slow turnover incurs his costs at one level of prices and sells his produce months later at a different level of prices. This time lag between expenditure and returns tends to increase profits when

* “Agriculture in Unstable Economy” by Theodore W. Schultz, P, 12.

prices rise and to depress profits when prices fall. If the fall is very rapid the farmer may lose most of his profits in expectation of which he started production.

Agricultural supply is less sensitive to price changes. For various reasons, technical, economic and psychological, the agriculturist tends to go on producing the same quantities of produce even when falling prices suggest that output should be curtailed. The technical reasons are associated with the biological character of agricultural production which renders it very difficult for the peasant to alter his programme of production often or at short notice. Once the process of growing crops is set in motion it cannot be slowed down or speeded up during the season concerned. Insurance against price changes, therefore, is the cardinal need of agriculture. Referring to the Food problem, Sir Pheroze Kharegat, lately Secretary to the Government of India in the Ministry of Agriculture, boldly undertook to ensure that within the next 5 years the agriculturists produced all that would be necessary in order to feed India within the country itself thereby obviating the need for India to go outside for her requirements of food. As a condition precedent to this, however, Sir Pheroze demanded that we should enter into long term contracts with our agriculturists in the same way as we have now been doing with other countries to supply us with food at a reasonable and guaranteed price. Why should we not say to our agriculturists he asked, "Whatever you produce we will take at such and such a price" and urged that this guarantee and all other facilities be given to induce them to grow more food grains. "Among measures of assistance, the guaranteeing of a fair price for the produce of agriculture plays a most important part. The agriculturist in India is economically defenceless and suffers from age-long disabilities and he cannot be expected to adopt improved methods unless he is assured that their cumulative effect will be an increase in this income. Only a guarantee of minimum prices can give him this assurance".*

Besides constituting a direct and effective form of assistance, guaranteed prices will serve to make the occupation less of a gamble. They act as a check to fall in prices and enable the ryot to meet his fixed obligations. The price so guaranteed must be a fair price which has been defined by President Wilson as "a price which will sustain the industries concerned in a high state of efficiency, providing a living for those who conduct them, enable them to pay good wages, make possible the expansion of their enterprises".**

* *Commerce* 9-11-1946.

** *Farm Economics* : by A. P. P. and wallet P. 508.

Krishnamachari Committee

But the problem of guaranteed prices is a thorny one and bristles with numerous difficulties. Any ill thought out policy will defeat the very purpose for which it is meant. The question of stabilisation of prices has received a very exhaustive treatment at the hands of the Krishnamachari Committee. The Committee has recommended (a) minimum and maximum prices for selected commodities, (b) parity between the agricultural and general level of prices, (c) state aid by way of subsidies, remission of land revenue, etc., and (d) the setting up of an All India Agricultural Prices Council, a Price Determination Commission and a Commodity Corporation.

Stabilisation—some considerations

I would like to stress that there are certain considerations which should govern the fixation of minimum prices. The prices so fixed should be not less than what it costs the agriculturist to produce a given commodity. But it is not enough if the producer is just reimbursed with the money he has spent on his outlay. He has also to be paid his reward of wages for the work he and his family have put in in order to produce the commodity. In fixing the cost part of his reimbursement, care must be taken to see that the cost of production of industries using his produce is not unduly raised by any increase in the price of the produce that is the raw material and thereby not only hit the consumer at home but also adversely affect the importer abroad. In fixing the reward part attention has also to be paid to the question whether a particular produce has a market within the country itself or has to depend upon the foreign market. If it is a commodity with an international market full account must be taken of the world price, for, this country's prices cannot afford to be out of parity with world prices. Even if a commodity is a monopoly one, attempts must be made to keep its price at such a level as will not drive the users to substitutes.

Agricultural prices should be on a par with general price level

The primary object of the committee's recommendations is stated to be "to restore the profit margin in agriculture by a policy of state assistance, so that it may induce agricultural investment, raise the purchasing power of the population and provide a longer domestic market". This will be most welcome at a time such as the present when Indian industries are both expanding and embarking on new lines. A point that requires to be noted here is that, agriculture forms the main occupation of a great majority of this country's population and hence, any

improvement in their purchasing power is bound to have appreciable over-all significance. This improvement, however, in the agriculturists' purchasing power is, in its turn, dependent upon the employment position of the non-agricultural classes since their level of employment determines not only the total agricultural output but also the prices of such output. This only proves that price stabilisation cannot be viewed, much less attempted, as an isolated measure. The fluctuations in agricultural prices as a whole have been in fairly close harmony with those of the general price level; in other words, the causes which have operated to bring about a rise or fall in the general price level have also operated to bring about similar changes in agricultural prices. As the general price level has risen or fallen so have the fortunes of farmers moved successively from prosperity to adversity. "In the long run the prosperity of each class depends upon the prosperity of the other. As the farmer recovers prosperity, the manufacturer may not gain much in price, but he will benefit by being able to sell a larger volume; and as the manufacturer recovers his prosperity, the farmer may not sell a much larger quantity, but he will get a higher price for it".* Any system of stabilisation of prices is doomed to failure if it is worked in isolation from the price trends in the rest of the economic sector. To quote the ex-Premier of Madras, a practical agriculturist, "Unless the question of minimum prices for agricultural products is intimately linked with the establishment of a parity with non-agricultural goods and services, no minimum policy mechanism can last without being a continual drain on the country's resources".**

Subsidy

The Committee has recommended payment of subsidy to ensure fair prices for the producer and the consumer. The advantage claimed for the subsidy method is that it sustains purchasing power of the producers without raising prices to consumers. But one should not here ignore the indirect cost to the consumer by way of increased taxation to meet the cost of the subsidy although as between a higher price and a rise in taxation the latter is generally preferred because its incidence is widely spread over and it is less perceptible.

Regulation of Imports

Lastly, to regulate or stabilise the internal price level of agricultural commodities imports must be carefully regulated or restricted.

* "Introduction to Agricultural Economics", by Edgar Thomas, P. 147.

** "Agrarian Reforms and Parity Economy" by Hon'ble Sri O. P. Ramaswami Reddiar, Ex-Premier, Madras.

Unrestricted imports will force the internal prices down. During the pre-war period the price of foodgrains especially that of paddy was low in the Madras Province mainly due to the huge imports from Burma and Siam. Thus import regulation is one of the pre-requisites of price stabilisation. The war time rise in prices of paddy in this province was, though partly due to the general rise in price level, mainly due to the cessation of imports from Burma and the Far-East.

Stabilisation of Income

Stabilisation of prices will prove at best a palliative if agriculture is not placed on a sounder footing. The agriculturist may be assured of a guaranteed price for his produce but if his output is not guaranteed or fluctuates widely with the season, the advantages of a stabilised price will be outweighed by the disadvantages of a lower output. What is needed is not only an assured price for products but also an assured income from his occupation. To tackle the problem on this front, we must go deeper into the agricultural economy of our country and make it less vulnerable to natural calamities.

It is not easy to ascertain just how unstable the income of the individual agriculturist is. A major region often suffers a crop failure while other regions have better than average crops so that the income disturbance caused by the crop failure is not sufficiently reflected in the total agricultural income of the country. No year passes without many ryots sustaining unexpected losses and others being the recipients of wind-falls, which cancel each other in a nation-wide computation. But what happens to the individual farmer over the years is not well amplified. The main cause of the instability of agricultural income is inherent in the nature of agricultural production. Agricultural production is subject to many risks and uncertainties that are a major factor in the income instability of the individual ryots. Drought, floods, cyclones, animal and plant diseases of many types all conspire to play fast and loose with production. The recent cyclone havoc in the Andhra Desa is an illustration of the ravages done to the ryots by nature. Over these vagaries of Nature the individual farmer has relatively little control. The fortunes and failures of many ryots are determined by these production uncertainties, even in the better situated and more prosperous areas. Better techniques alone will aid the individual farmer in making his output more constant, in so far as the techniques aid a better accommodation in cultivation to the natural forces affecting crops and livestock. Drought resistant crops, dry land cultivation, disease resistant plants and modern insecticides are a few of the important practices that reduce the incidence of weather, disease, insects and pests. These natural calamities play

havoc with the fortunes of the agriculturists and convert all expected profits into actual losses.

Crop and Cattle Insurance

To minimise this, a scheme of compulsory crop and cattle insurance should be instituted.* Ryots steeped in time-honoured customs may not voluntarily join the scheme. Hence crop and cattle insurance should be on a compulsory basis to be worked by the government. The main purpose of crop and cattle insurance should be to advance the interest of the individual farmer by minimizing the effects upon his income of year-to-year fluctuations in yields due to the weather.

Better irrigation facilities, control of pests and plant diseases, technical farming, and crop and cattle insurance are most needed to stabilise agricultural income. Prosperity does not necessarily depend upon a high price. Given a guaranteed price, the aggregate income will fluctuate with fluctuating output. So, stabilisation of output is as essential as stabilisation of prices.

Wartime Prices and Prosperity

The prices of agricultural products, consumption goods and industrial materials rose steeply but not uniformly during war time. Consumption goods became very scarce, sometimes not at all available, and they always recorded huge rise in prices. Iron, timber and other requisites for making agricultural implements were in extreme short supply. Acute shortage was felt with regard to necessaries like clothes causing great hardship to villagers and townfolk alike. The economic health of the agricultural community was profoundly influenced by these violent fluctuations of war time prices. Between 1939-40 and 1948-49 there was an overall rise in price of agricultural produce. The following table gives the price of some of the important agricultural products of the Madras Province from 1939-40.

Price per Imperial maund in Rupees.

Year	Cereals	Pulses	Cane jaggery	Cotton lint	Ground-nut	Gingelly
1939-40	2.92	6.42	6.53	21.65	3.08	6.28
1940-41	3.09	6.40	4.09	22.26	2.69	6.49
1941-42	3.41	7.02	4.04	25.74	2.93	6.38
1942-43	5.14	11.38	9.89	32.97	5.66	10.65
1943-44	8.53	15.68	11.84	50.75	8.99	16.04
1944-45	7.84	17.17	9.75	35.17	7.63	19.41
1945-46	7.67	13.92	11.69	38.72	8.06	21.17
1946-47	7.77	19.54	16.23	35.79	10.54	25.31
1947-48	8.52	21.31	12.82	46.86	14.56	28.33
1948-49	11.90	24.68	12.22	67.51	16.09	28.64

* Vide Report of the Economist on Enquiry into Rural Indebtedness—Government of Madras.

But the grievance of the rural community is that the rise in prices of other industrial products was much higher than the rise in the prices of agricultural commodities. In other words the rise in the other sectors is not commensurate with the rise in their own sector with the result that they did not benefit by the rise in prices fully. Another serious complaint is that their produce coming under essential commodities, were subject to rigid price control.

The imposition of price control and the setting up of procurement machinery with the concomitant movement control, licensing of dealers, and restriction of free market conditions led to a large measure of annoyance especially when the consumption goods and necessary agricultural requisites recorded huge rise in prices; even after the institution of the overall prices control, the flow of necessaries into villages was neither regular nor adequate.

Conclusion

Hence stabilisation of prices is essential. But price stabilisation without an assured agricultural income will defeat its very purpose. So, better irrigation facilities, better farming methods, crop and cattle insurance and other allied remedies alone can stop the rot in the core of the economic health of our agricultural economy.

HIGH PRICES AND AGRICULTURAL PROSPERITY

by

N. SATYANARAYAN

Alamuru (E. Godavari)

Though the prices of agricultural commodities were at a lower level during the early period of the Great War II, there was a spurt immediately after the beginning of the Japanese war and the upward trend continued with a spurt again after the decontrol of distribution of foodgrains in December 1947. The index number of prices of foodgrains is now nearly 400 compared with the pre-war period, and it is generally assumed that this has resulted in a great wave of prosperity for the agriculturists. The extent of this prosperity and the beneficiaries in this cannot be easily estimated because banking habits are very sparse in rural areas and it is not easily possible to get any information from the indigenous bankers. Though co-operative societies have spread far and wide, their aggregate activity in the total transactions is very small.