HIGH PRICES AND AGRICULTURAL PROSPERITY

by

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In the years succeeding 1929 the rapid deflationary policies pursued by the states all the world over depressed agricultural prices in India. The prices of agricultural products began to fall steeply through the years 1930-1935. During this regime of falling prices and worldwide depression agriculturists were in considerable distress. The real burden of their debts increased. There was forcible foreclosure of land mortgages. There was the flow of distress gold in order to meet the needs of the suffering folk. The intensity of the depression that caused great havoc for the agriculturists began to abate by the end of 1935.

The Small Debtors' Protection Law, the Debt Conciliation Laws and the Agricultural Debt Relief Laws in various provinces reduced the burden of the dead-weight debts. The scaling down of debts has gone a long way to give to the mass of agriculturists a way out of the great distress.

Causes of high prices

The unprecedented inflation of currency during the war period (1939-45) expedited the course of recovery. The prices have gone up abnormally by 350 to 400 per cent. Notes in circulation increased from Rs. 238 crores in 1939 to more than Rs. 1200 crores in 1945. During all the periods of vigorous inflation the tendency for price rise was kept up. The shortage of food materials due to the failure of harvests, bad seasons and the non-availability of imports from Burma and the Eastern neighbours gave a further fillip to the already rising prices.

Rate of price rises

If we consider the rate at which the prices of different products rose in this country, we find that agricultural products, industrial products and semi-manufactured articles registered unequal rise in prices. The figures given on page 247 will give an idea of the increase of prices during recent years.
Consequent on the rise in the prices of agricultural products many books and pamphlets have been published indicating that the days of depression are all over and that the agriculturists are right in the middle of an era of prosperity. Is the so-called 'prosperity' of the agriculturists real or apparent? About this views are divided. The relevant questions to ask are: How much of the rural debt is reduced? How much land is recovered from mortgages? How much savings and how much jewels are accumulated? By what level did the standard of living rise?

The following arguments are advanced in support of the thesis that the agriculturists prospered during the period of rise in prices:

(1) The economic conditions of the country during 1947-48 was highly inflationary. Deficit financing was practiced by the centre and provinces. As a result of the general rise in prices the cash value of the agricultural products increased. The real burden of the debt has become light. By selling the surplus products at inflated prices the agriculturist has been able to pay off the debts and save some money. The surveys conducted by Mr. Lekh Raj Dua in Lyallpur and the Indebtedness Inquiry Committee in the Madras Province give figures about the percentage reduction of agricultural debts.

(2) The value of land has gone up by a wide margin. The mortgage value of land which is a percentage of the real value of land increased from Rs. 215-5-0 per acre in 1937 to Rs. 544-9-0 per acre in 1945 (Lyallpur estimate). The price of land in 1945 in Lyallpur was Rs. 1436-8-0 per acre. In Tanjore district also the deltaic lands which were sold for Rs. 300 per acre in 1930 now sell at Rs. 1,100. As land values have risen agriculturists are able to release portions of their landed properties from the grip of the money-lenders. They are able to do so either by mortgaging a smaller portion of their lands for a higher amount or by selling a portion of their land for a higher price and paying off the mortgaged debts.
(3) The prosperity of the agriculturists was further enhanced by the high rise in the prices of agricultural products and relatively low rise of the prices of other industrial and consumers' products. There is also the control of prices on many industrial products. As a result the farmers sold the food products at high prices and obtained requirements at controlled prices.

The opposite point of view

The opposite point of view is that high prices give one section of the people high incomes. It will not raise the agriculturists' real income. Nor will it correct the root evils of the present day society, the mal-distribution of the national income. The National Income Studies as reported by the Eastern Economist indicate that the share of the primary producers, the agriculturists from 1945 onwards was as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945-46</td>
<td>52.5%</td>
</tr>
<tr>
<td>1946-47</td>
<td>57.3%</td>
</tr>
<tr>
<td>1947-48</td>
<td>54.0%</td>
</tr>
</tbody>
</table>

But the share of labour was growing year after year. The growth of the share of labour in the national income may be judged from the following figures:

<table>
<thead>
<tr>
<th>Year</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1942-43</td>
<td>20%</td>
</tr>
<tr>
<td>1944-45</td>
<td>28%</td>
</tr>
<tr>
<td>1945-46</td>
<td>32%</td>
</tr>
<tr>
<td>1946-47</td>
<td>38%</td>
</tr>
<tr>
<td>1947-48</td>
<td>34%</td>
</tr>
</tbody>
</table>

The above figures indicate that agriculturists, compared to other productive agents, did not make any marked progress during the period of the high rise in prices. While the industrial worker is making significant additions to his income from 1942-43, agriculture is merely retaining its relative position.

Another means of studying changes in the economic condition of the agriculturists is from the analysis of their debt position. Taking the Report of the Madras Indebtedness Inquiry Committee figures for our guidance we find that,

23.3% of the agriculturists were free from debt in 1939-45.
11.9% of the agriculturists completely cleared off their debts during 1939-45.

21.2% of the agriculturists partially cleared their debts.
22.3% of the agriculturists newly incurred debts.
13.7% of the agriculturists increased debts.
7.6% of the agriculturists maintained the same debt.

100.0
While 23.3% of the agriculturists were free from debts an approximately equal number incurred debts during 1939-45. While about 11.9% completely cleared off their debts, 13.7% of the agriculturists increased their debts and 7.6% maintained their indebtedness. Thus the figures of the Report give us conclusive proof that the indebtedness of agriculturists in general did not abate.

Taking into account the family budgets of agriculturists for the period 1939-45, the same story is repeated.

<table>
<thead>
<tr>
<th>Class of agricultural families</th>
<th>Surplus or deficit.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1939 Rs.</td>
</tr>
<tr>
<td>I</td>
<td>652.7</td>
</tr>
<tr>
<td>II</td>
<td>121.8</td>
</tr>
<tr>
<td>III</td>
<td>7.9</td>
</tr>
<tr>
<td>IV</td>
<td>1.9</td>
</tr>
<tr>
<td>V</td>
<td>8.9</td>
</tr>
</tbody>
</table>

The richer class of the agriculturists who had large surplus of produce prospered during 1939-45. But the majority of the agriculturists had deficits and were adversely affected by the rise of prices.

The prices of agricultural products have registered a rise. But the prices of the essential materials which the agriculturists buy such as clothing, fuel and agricultural implements have gone up by high percentages. The price of cattle also increased. Many of the scarce manufactured articles required by the agriculturists were not available at all or if available only at ‘black market’ prices. The prices of agricultural commodities were controlled much more efficiently than the control of the prices of goods which the agriculturists had to buy. The cultivators would have gained if the prices of the agricultural produce alone shot up and stood at a considerably higher level than the other commodities which the agriculturists had to buy.

Way out of the difficulty

If we want to place Indian agriculture on a satisfactory footing and secure for the agriculturists an era of solid prosperity no policy will be more effective than a policy to improve the life and the village of the agriculturists. A policy to enlarge his intellectual equipment and social consciousness will go a long way to give him prosperous conditions of
work. A policy that merely confines to propaganda about improvement of land, seed and agricultural equipment will have no effect unless accompanied by a policy for social and cultural improvement.

The main handicap in the way of agricultural prosperity is that too many people are engaged in agriculture—‘too many’ from the point of view of the economic maintenance of the farm or for winning a ‘fair wage’. A policy for the reduction of the surplus population on land will give them more prosperous conditions of life than mere rise of prices.

Yet the most important policy to assure them stable prosperity, not only for the present but also for a period yet to come, is the stabilization of agricultural prices. The agriculturists have got a lurking fear that all the much talked-about prosperity will vanish as swiftly as it has appeared. Once the period of war is over the agriculturists are waiting for the dark days of depression. As a result, they do not make an all-out effort to maximise production and increase the capital applied to land. If they are given an assurance about the price that will prevail in the future, economic adjustments will naturally take place and the amount of capital that can be applied under a stabilized price level will certainly find its way to the land. Price fixing is, however, a very intricate task. The stabilized price level should not only promote maximum effort on the part of the agriculturists but it must have a relatively more advantage over the prices of other commodities. Then only can the agriculturists have a command over larger amount of goods and services and have a larger real income. There should not be an one-sided approach to the problem of agricultural price stabilization. Agricultural price stabilization should be accompanied by the fixing of the prices of other commodities, manufactured and semi-manufactured articles. To reap maximum benefits the prices of semi-manufactured and manufactured articles must continue to be controlled, conferring a relative advantage to the agriculturists.

For the successful working of the agricultural price stabilization schemes we should conclude price agreements with the producers of similar commodities in other parts of the world. Fixing of prices on an international scale alone will prevent the wastage of competition. In the past, price agreements were concluded between individual producers of agricultural goods. Such restrictive schemes existed among the rubber, tin, coffee, tea and sugar producers. The great defect in this method of fixing prices of raw materials is the undoubted ignoring of the interests of consuming countries.

To surmount such difficulties the governments of the primary producing countries should inaugurate state trading schemes by which they
can assure to the producers of commodities attractive prices and stable demand. State trading schemes are best fitted to safeguard both the producers’ and consumers’ interests. An International Trade Organisation will hold the balance between producers’ and consumers’ interests. Even if countries are not members of the International Trade Organisation, they can according to its charter attend its conference and represent their views on any proposed agreements. The International Trade Organisation, it can be normally expected, would fix price limits which would be satisfactory both to the producers and consumers.

To conclude, the so-called prosperity of agriculturist as a result of the high prices is at best, insecure. Stable prosperity and economic security may be within his reach only if the government chalks out a bold policy to improve the intellectual horizon of the agriculturists, to reduce the pressure of population on land and to stabilize agricultural prices.

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"EFFECTS OF HIGH PRICES ON INDIAN AGRICULTURE"

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The steep rise in cost of living, land values and in the prices of farm produce used as raw-material by industries has lent colour to a more or less popular belief that our farming community has benefited from these inflationary trends. A closer analysis is, however, necessary in order to find out how far this belief is borne out by facts. There is no doubt that this abundance of depreciated money did not benefit people with more or less fixed incomes. But it did benefit certain other classes the prices of whose products rose rapidly. The question is: How much did the farming community succeed in increasing its income by taking advantage of the inflationary rise in prices?

Industry and Agriculture

To begin with, we may try to see how the agriculturists have fared as compared with the industrial community during this period of rising prices. The price trends for agricultural commodities vis-a-vis those of industrial commodities throw considerable light on this point. A really reliable comparison for our purpose would be one between the prices