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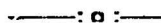
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can assure to the producers of commodities attractive prices and stable demand. State trading schemes are best fitted to safeguard both the producers' and consumers' interests. An International Trade Organisation will hold the balance between producers' 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.



“EFFECTS OF HIGH PRICES ON INDIAN AGRICULTURE”

by

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Bombay

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

of agricultural commodities (such as jute and cotton) and those of goods manufactured from the same raw materials.

Week ended 19th August 1939=100*

	1940-41	41-42	42-43	43-44	44-45	45-46
Jute raw	113	137	153	209	207	198
Jute manufactures	132	182	187	249	252	253
Cotton raw	125	144	161	228	188	182
Cotton manufactures	118	178	310	424	293	271

It is clear from the above figures that till the end of 1945-46 increase in the price of the manufactures was far more than that in agricultural prices. Cotton manufactures reached their peak in 1943-44 when their prices were higher by 325 per cent than pre-war level. And although they declined thereafter, they were, in 1945-46, higher than pre-war prices by 171 per cent while prices of raw cotton were above the pre-war level by only 82 per cent. The prices of jute manufactures steadily rose throughout this period while those of raw jute declined after 1943-44. Indeed, the disparity between these two categories of prices is much wider than is revealed by these figures. This fact becomes obvious when we note that agricultural prices, even in August 1939 (i.e., the base period for these indices), had not recovered as much as industrial prices had from the effects of depression. The indices of wholesale prices at Calcutta (July 1914=100) in this month show that raw cotton was 33 points below the base whereas cotton manufactures were lower only by 12 points; similarly raw jute was lower by 43 points as compared with 15 points in the case of jute manufactures.

Thus the terms of exchange between agriculture and manufactures were in favour of the latter during the first half of the period of War. Price controls which came into operation later took a long time to bridge the disparity between agricultural and industrial prices. In many cases, even these controls could not save the agricultural producer from loss. In the case of jute, for instance, we are told by the Chairman of the East India Jute and Hessian Exporters that, even in 1945-46, the manufacturers, by reason of their superior organisation were able to knock down the prices well below the minimum fixed by the Government, in spite of shortage of stock.* The plight of the cotton grower was made worse by restrictions placed by the law on the cultivation of this crop; this change from cotton to food crop is estimated to have put him to a loss of Rs. 30 per acre.‡

**The Eastern Economist*, 15-3-1946.

‡*The Financial News* 2-2-1946.

So far with regard to the course of prices till the end of 1945-46. Thereafter, however, agricultural price indices began catching up the industrial price-indices and subsequently even more than made up the lee-way. This is borne out by the following figures:—

Week ended 19th August 1939=100

	Last week of December		1949
	1947	1948	
Food Articles	326.8	391	367.8
Industrial Raw Materials	399.9	461.9	479
Fibres	377.5	461	461
Semi-Manufactures	264.5	228.4	337.9
Manufactured Articles	286.0	343.5	343
Textiles	323.6	411	39

This change in the trend of prices during the last three years is definitely in favour of agriculture. But, this should not lead us to hastily conclude that agricultural class have been now benefiting more than the industrial producers. For several reasons, such a conclusion is unwarranted and also misleading. For one thing, even on the eve of the War, Indian agriculture had not fully recovered from the effects of the depression of the 'thirties.' Thus in the race between the prices of agricultural commodities and those of the manufactured goods, the former started with a handicap. Secondly, prices of food-grains have considerably less influence on the economic condition of the cultivators as a class than is generally assumed, since out of the 60 to 70 million tons of food-grains produced, more than two-thirds is consumed locally by the producers themselves.* It is mostly the bigger cultivators of food grains and the growers of cash crops such as cotton, oilseeds, and sugarcane who stand to benefit by this rise in prices. Thirdly, no adequate data in farm-costs are available to indicate whether, on comparing costs and returns, the growers of agricultural produce or those of industrial goods have benefited more from this rise in prices.

Finally, even if we concede that the rising price trend has been favourable to agriculture, there is no basis for any broad generalisation that agriculture as a business has prospered during these years. Here, we come to a significant point which is totally ignored by those who contend that the Indian farming community has been prospering since the war, namely that the effects of price level vary from one stratum to another in agriculture. Owing to the highly uneven distribution

* Office of the Economic Adviser, Government of India.

† *Food Plan for India.* Institute of Pacific Relations

of land and heavy pressure on the soil, we have hierarchy of agricultural interests which may be classified under two main groups, viz., the landowning class and the landless class. According to the 1931 Census of India, out of the 99.4 million total population engaged in agriculture, 31.9 million or 32 per cent. belong to the former and 67.5 million or 68 per cent to the latter class. The composition of these two main groups may be further analysed to find out the importance of each stratum in the agricultural structure of the country. Such an analysis would also help to show that the effects of high prices on each stratum have varied according to its capacity to benefit by the rise in agricultural prices on the one hand and to withstand the strain of the rise in the prices of non-agricultural commodities which they require, on the other.

(A) Land-owning Class

(1) At the top of the hierarchy, we have the big landlords owning on an average land between 25 and 500 acres or more. Such landlords are a small minority but land is largely concentrated in their hands. In Bombay, for instance, owners of land over 25 acres are 10 per cent. of the total number of landlords but they own as much as 50 per cent of the total cultivated area. One third of them who own 20 per cent of the total cultivated area are absentee landlords having no interest in land except that of drawing the utmost rent from their tenants. The position is more or less the same, if not worse, in other provinces where, as will be seen subsequently, the smallholders are in an overwhelming majority among the land-owning community. There is no doubt that almost all the land-owners in this group are quite well-off and many of them are in a prosperous condition because of the large surplus of agricultural produce which they obtain either as a result of their own labour or of that of their tenants.

(2) Next in order come the medium holders owning 5 to 25 acres. They are 34 per cent of the total land-owners in Madras and 40 per cent in Bombay. Taking all provinces together, these land-holders would be 35 to 40 per cent. of the total number of land-owners and 12 to 15 per cent of the total occupied in agriculture. In this group too we have absentee landlords. But it would not be correct to say that all medium landlords find farming a profitable business. The size of an "economic" holding varies widely in India according to the type of soil, fertility, etc. In Madras, the optimum varies from 5 acres in the "wet" or irrigated areas of Tanjore to nearly 30 acres in the "dry" uplands of the Circars. On an average, 10 to 15 acres may be considered as the minimum for an economic holding in dry tracts. Even if we assume that only half of the medium holders have holdings below 10 to 15 acres and, further, that

only 50 per cent of the cultivated area in India is "dry" or un-irrigated*, we will have at least 25 per cent of the medium holders owning land below what is required for profitable cultivation.

(3) The third group is that of small-holders owning 5 acres or less. They form a substantial bulk of the land-owning class, 50 per cent in Bombay, 51 per cent in U.P. 58 per cent in the Punjab, and 75 per cent in Bengal. Small holders are 55 to 60 per cent of the total land-owners and 20 to 25 per cent of the total occupied in agriculture. But since the major part of the cultivated area is owned by the two upper strata, the small-holders are left with only 1/8th to 1/10th of the total land. Even in a ryotwari province such as Bombay, they have only 2.5 million acres or 1/11th of the 26.8 million acres. Consequently, a vast majority of the small-holders have less than 5 acres each. The proportion of those who own less than 2 acres to the total number of small-holders is as high as 52 per cent in U.P. and 68 per cent in Bengal, while in the Punjab, 74 per cent of the small-holders have less than 3 acres each. Thus while all small-holders in "dry" areas are uneconomic holders, even in the "wet" or irrigated tracts, more than half of them are equally unfortunate owing to their holdings falling below the necessary minimum area of 2 to 3 acres. At least three-fourths of the small-holders, therefore, cannot produce enough to maintain themselves and their dependents at a reasonable standard of living.

(B) *The Landless Class*

(4) Next to the small-holders come tenants who pay cash rents or fixed rents in kind, as also the share-croppers who bear all the risks of cultivation and yet give a considerable part, generally half, of the produce to the landlord as rent. This class of landless cultivators forms 36 per cent of the total occupied in agriculture; in the zamindari provinces, the proportion is much higher. In fact, tenants including share-croppers by far outnumber the landholding class as a whole, since half the small-holders are also tenants cultivating more land on lease than what they own. Nearly three-fourths of the total cultivated area in India is tilled by this class which pays 50 to 60 per cent of its produce to the landlord as rent.†

(5) At the bottom of the agricultural ladder, we have the landless proletariat. According to the 1931 Census, their number varies from 29 per cent in Bengal to 44 per cent in Madras; for the country as a whole,

* This is, in fact, an underestimate, since the irrigated area in India is only 23 per cent. Even in a province such as Madras, 80% of the land is "dry" area.

† *Indian Rural Problem* : Sir Manilal Nanavati and Prof. J. J. Anjaria. P. 52.

the proportion is 32 per cent of the total number occupied in agriculture. Unemployed during half the year, these labourers have also to compete with some of the petty holders and tenants to secure employment during the period of work and to earn a wage which, in normal times, is 3 annas and never more than 6 annas a day. A large number of them are steeped in debt while some of them have been compelled by their indigence to enter into economic servitude under landlords who are also their creditors.

The following important conclusions emerge from the above. The farming community in India is not a homogeneous class. Out of the 99 million occupied in agriculture, one-third are land-owning and two-thirds landless classes. Among the former, the big landlords numbering 2 to 5 million find land definitely a profitable source of income. The medium holders number 12 to 15 million but 3 to 4 million of them have holdings below optimum. Similarly, of the 20 to 25 million small-holders, 15 to 20 million have uneconomic holdings. On the whole, out of the 32 million land-holders, 18 to 24 million find farming an unprofitable, not to say a losing, occupation. About a million big land-holders and 3 to 4 million medium land-holders are absentee land-holders who own 30 to 35 per cent of the cultivated area in ryotwari provinces and 50 to 60 per cent in the zamindari provinces; in addition, about 20 per cent of land comprises parts of lands leased out by cultivating owners. The total area given on lease which covers three-fourths of the total cultivated area is tilled by 36 million tenants. These tenants hand over 50 to 60 per cent of their gross produce to the landlords towards payment of rent. Thus if we exclude the fortunate 10 to 14 million land-holders, we find that 85 to 90 per cent of the population occupied in agriculture comprises uneconomic holders, landless tenants and labourers. Food and raw material raised on 9/10ths of the total cultivated area in this country are the fruits of labour of these toiling groups. It is the economic condition of these classes forming over four-fifths of our total agricultural classes which determines the prosperity or otherwise of Indian agriculture. This point will be considered subsequently.

Trade and Agriculture

We may now consider how the trading community in general fared *vis-a-vis* the agriculturists in increasing its purchasing power during this period. Here again, the business community like the manufacturers, lost no opportunity of taking advantage of the agriculturist's weakness or of the loopholes—not a few—in the price controls. Three-fourths of the jute crop in 1945-46 was sold by the grower at prices below the minimum while the exporters, not being required to make a declaration

to the customs authorities that they had not charged more than the maximum, sold the jute at fabulous prices. The black-marketeers also seized this opportunity and made huge profits at the cost of the producer. Even where the Government introduced procurement, the business community joined hands with the large holders and built up black-markets in which the concealed surplus of food-grains of the latter were sold. For instance, it was reported that in Hapur, one of the biggest wheat *mandis* in the U.P. the sales of foodgrains above the control rates have so far come to be considered as normal that they seem to be regarded with complete equanimity by the authorities. "Week after week", said the *Eastern Economist* (10-1-'47), "Our Hapur correspondent quotes the disparity between actual and control prices. Thus on May 17 (1946) the quotation stood at Rs. 13 while the control rate was Rs. 10-4-0. In the open market, even now, prices of controlled wheat are quoted at about the same levels respectively. Nor is the state of affairs peculiar to wheat; gram and barely, two other important cereals, suffer the same fate. Thus, for the last week the latest quotations given by our correspondent reveal the same disparity between the official rates fixed for gram and barley, at Rs. 8-3-0 and Rs. 7-3-0 respectively, while in the open market, they are sold at Rs. 12-8-0 and Rs. 10-8-0 respectively". Thus it was that the business community in co-operation with large land-holders made illicit gains while the vast number of small cultivators who were incapable of sparing anything for the black-marketeer after surrendering their meagre surplus to Government remained mere onlookers.

Thus, given the inflationary rise in prices, scarcity of supplies and defective controls, black-markets became almost a parallel institution in which the industrialist, the trader and the businessman thrived. This speculative rise in the prices of agricultural produce and those of manufactures involving the use of such produce had its start not in the farmer's field but in the godowns both—open and underground—of the trader and the manufacturer in the town and in the city. It was the greater trade activity, speculation, smuggling, hoarding, profiteering and numerous other malpractices of business which brought increasing embarrassment to the consumer, who found cloth, sugar, gur, vegetable oils, and a number of other products and raw materials grown in the village becoming dearer everyday.

The above analysis therefore leads us to no other conclusion than that the war-time profits filled mostly the pockets of the industrialist, the wholesale and retail trader, the middleman and the contractor, while

in rural areas the agricultural classes suffered, as will be seen subsequently, an actual diminution in their real incomes.

Not that agriculture did not get any share in the increased inflated national income but the gains were more or less negligible when compared with those made by business and industry. Moreover, as will be seen from further analysis, these war-time profits were appropriated by a small minority of the super strata. The illiterate farmer, unlike the educated businessman in urban area, has a fear combined with respect for the law. And ignorant as he was of the latter's ways of circumventing the control measures, he parted with his crop without profiteering, often even without profiting as in the case of jute.

Another important factor which handicapped the farmer benefiting by the rise of agricultural prices was the rise in the cost of cultivation and in the cost of living. While the value of his gross produce, at best went up by 150 per cent. the prices as well as hire of cattle which supply all the motive power for ploughing, lifting water, and threshing grain rose by 400 to 500 per cent. (It is interesting to note here that, even in 1945, the price of live-stock in the United Kingdom was only 64 per cent above the pre-war level.) Green manure and chemical fertilisers trebled while iron and steel for implements could be had only in the black-market at exorbitant prices. Fodder, straw, cotton-seed, oil-cakes, bran, pulse-husk and other cattle-food could be obtained only at 3 to 7 times the pre-war prices. To add to the farmer's difficulties, cattle disease and fodder scarcity were so widespread that in many parts of the country agricultural operations were adversely affected. Due to man-power mobilisation for war and war-time auxiliary industries the available labour was insufficient, and consequently much dearer than before, even though the customary wages had not risen very high. Cart hire and other transport charges and costs of assembling, weighing, etc., which are borne by the farmer went up so high that he got proportionately much less than before from what the consumer ultimately paid for his produce.

Lastly, the rise in the cost of living in the case of the bulk of our agricultural classes was greater than the increase in their incomes. It is wrong to contend that the farmer who grows the primary needs of life is not affected by the rising prices. The reason is, our farmer does not grow all the food he needs. The area under multiple crop is negligible in this country. The grower of rice or wheat also needs pulses, chillies, spices, gur and tobacco or betelnut, the prices of which rose three fold to four-fold. The shortage of cloth, salt, matches and kerosene drove him repeatedly into the black-market and intensified his distress. Those who kept milch cattle as a source of subsidiary income found most of these

cattle only a liability. The U.P. Cattle Protection Conference held in January 1947, deplored the fact that even in Western U.P. where the average yield of milk per cow is highest in the province (560 lb. per annum) a keeper gets only Rs. 80 per year for the milk as against a maintenance cost of about Rs. 300. This was the experience of the majority of the agriculturists all over the country since 31 million cows out of 37 millions in British India have an average milking capacity of less than 475 lb. a year.* And if the report that over half of our cows yield no milk or are not milked at all† be true, the loss suffered by those agriculturists who keep milch cattle is, indeed, hard to estimate. Thus it was that even when the average cultivator got for his produce two to two-and-half times the price he obtained before the War, he found it difficult to balance his farm- and family-budgets.

The Eastern Economist while defending the Government for extending to the 1946-47 season the floor and ceiling cotton prices fixed for 1945-46, argued against raising the prices on the ground that after six years of abnormal inflationary conditions and more than one year after the end of the War, Government should not heave up the level of prices of basic commodities. Whatever the justification for this argument, it could not be denied that the farming class was hit hard by the disparity between the prices of agricultural produce and other prices. It was also admitted that "with the possible exception of the groundnut cultivator, all other producers of major crops are more or less in the same difficult plight, as a consequence of the prices of their produce lagging behind other categories of prices in the national economy. The jute cultivator in Bengal, the sugar-cane grower in the U.P. Bihar and in Peninsular India, and the foodgrain producer all over the country can show no greater degree of prosperity than the cotton grower of North-Western, Central and Peninsular India. Indeed, there is at least one section of agricultural producers, to wit the grower of dry foodgrains, who has been more hard hit than the cotton grower.‡

Profits in Agriculture

It is thus obvious that agriculture had a very small share in the prosperity ushered in by the scarcity of commodities and money inflation. But what needs more emphasis is the fact that even this small benefit that went to agriculture was appropriated by the privileged upper strata who are a small minority of the total agriculturists. It is here that

* Dr. Burns : *Technological possibilities of Agricultural Development in India*. Statement II P. 113

† Dr. V. K. R. V. Rao : *Indian National Income 1931-32*.

‡ *Eastern Economist* 30-8-1946

our analysis of hierarchy in Indian agriculture comes to our help in finding out the channels into which the inflated incomes have flowed. The big landlords (2 to 4 million) realised their profits as they had large quantities of agricultural produce to spare to put into the market. Three-fourths of the medium holders (9 to 11 million) profited similarly, though to a less extent. Among the small holders, those with economic holdings (about 5 millions) must have been able to scrape through, but uneconomic holders both in the medium and small-holders' group (18 to 22 million) were definitely hard hit on account of the higher rise in the costs of cultivation and of living than in farm income. As for the tenants, the size of the economic unit of cultivation in their case has to be more than double that of the economic land-holders since half or more of the gross produce is taken away from them as rent by the landlord. Tenants cultivating such economic units could hardly exceed 10 per cent of the total. At least 32 million tenants, therefore, were worse off during than prior to the War. Among them, those whose rents were in cash and were fixed before the War suffered comparatively less but the vast majority of them paying produce rents lost heavily. Over a large area, the landlord took advantage of the keen competition for land among the landless agriculturists during this period, particularly where the population was pressing hard on land, and revised the contract either by threat or persuasion. Cash rents were either raised or converted into kind on the basis of pre-war prices, with the result that the tenants were deprived of the relief which they would have secured by realising higher prices for their produce. The tenant-at-will suffered all the more because his insecure position enabled the landlord to squeeze him to the utmost. In the case of share-croppers, the proportion of costs to the value of the gross produce began to rise fast, but the proportion of the landlord's share in the crop remaining the same, he could not make good the loss. The number of share-croppers is considerable as can be seen from the fact that 1/5th of the area in Bengal and Bihar, 1/4th in the U.P. and 1/2 in the Punjab, Sind, and N.W.F.P. is cultivated by this class.

The landless labourers had nothing to gain on account of the high prices. Their wages continued till 1943 without any noticeable increase, while industrial wages had doubled by that year. And, although agricultural wages have shown a rise thereafter, they have always lagged behind the prices of essential commodities. In 1945, the wage level was a little over 100 per cent above the 1939 level* while the cost of living in rural areas had risen nearly by 150 per cent. And, although recent agricultural wage trends show an adjustment taking place, between

* Average of wage rates in 1939 and 1945. Report on Rural Indebtedness in Madras (1946. P. 48).

wages and prices, the high prices have not eased the situation with regard to unemployment on the farm, with the result that except during the harvesting period when wages are paid in kind, these labourers have benefited but little. In fact, in spite of their being manual workers, they are not given any extra ration as workers in industrial establishments are. They are, therefore, compelled to rely to some extent on the black market which is run by the larger cultivators in the village with the help of the local dealers. In areas where labourers could find more remunerative employment in industries or in road building or such other construction work in neighbouring areas those who stayed behind also benefited owing to the labour supply falling short of demand. But the total number of labourers who have benefited on this account could not be more than 2 million. Thus 29 million labourers, in spite of the rise in their wages, have suffered a diminution in their real income. The agricultural labourers, in England, on the contrary, positively benefited by the rise in their wages. Agricultural wages in that country rose by 72 per cent. in 1942 while the cost of living rose by only 32 per cent at the end of 1945; the cost of living had risen by 48 per cent but the wages had gone up still higher and were 101 per cent above the pre-war level.*

The above analysis thus brings us to the conclusion that, atleast till 1946, the war-time boom in prices has swelled the income of certain sections of the urban classes while, in rural areas, only a small benefit accrued to the agricultural community. Since 1946, the trend of agricultural prices is in favour of agriculturists but, considering the pattern of our agriculture, it would be evident that this benefit is largely appropriated by a minority comprising land holders in the upper strata and bigger cultivators. These fortunate agriculturists comprise about 14 million landholders and 4 million tenants. To this number, we may add 2 million labourers who, as explained above, managed to improve their economic condition by availing of new avenues of employment. Thus, even on the most optimistic estimate, the number of those who have either profited by the rise in agricultural prices or have escaped the adverse effects of the rise in other categories of prices in the national economy cannot be more than 20 per cent. of our total agriculturists. What is significant to us is that 90 per cent of the agriculturists who have suffered on account of the rising cost-of-living and farm-costs are the workers carrying on the actual burden of cultivation.

* Memorandum No. 107. Royal Economic Society, September, 1946