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IMPACT OF FOOD POLICY ON AGRICULTURAL DEVELOPMENT

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Food policy as such has several aspects but in this paper the price factor and its relation to agricultural development would be specially considered. The agricultural price policy in India has so far remained mainly consumer-oriented. Recent announcement by the Central Government to give remunerative and incentive prices to the farmers producing foodgrains and subsequent appointment of the Agricultural Prices Commission, the earlier establishment of the Food Corporation of India and some other steps show that the objective of the food policy now is to protect the interests of both the producers as well as consumers. In the context of foodgrains shortage and the need to produce more to feed India's growing millions, the food policy shall have to be such as to protect firmly all the legitimate interests of the producers keeping definitely in the view the economics of foodgrains production.

Production

The production of foodgrains in India which was 54 million tonnes in 1949-50 rose to 87 million tonnes in 1964-65. The increase though it appears high is inadequate specially when it is considered in relation to the increase in population. The requirements of foodgrains in 1964-65 for a population of 475 millions were of the order of 100.5 million tonnes when we take into account a minimum nutritional standard of 2,370 calories and make an allowance for 12½ per cent of foodgrains used in seeds, cattle feeds, wastage and manufacture of non-food products.¹ This had resulted in a deficit of 14 million tonnes of foodgrains.

It is a common experience that in the same area the best farmers produce yields per acre several times higher than those produced by average farmers. It means that there is considerable potentiality for higher production in India. Instead of immediately diverting our efforts to provide the means contributing to achieve potential production, we have relied more on imports of foodgrains.

Import of Foodgrains

A glance at figures given in Table I would show glaringly the rate at which foodgrains imports into India are increasing.

There was a reduction in the foodgrains imports during the quinquennium 1952-56 but that position was soon upset in the next quinquennium. In 1965 foodgrains imports have been estimated to increase by more than 4 times when

1. Based on estimates of V. G. Panse, V. N. Amble and T. P. Abraham, "A Plan for Improvement of Nutrition of India's Population," *Indian Journal of Agricultural Economics*, Vol. XIX, No. 2, April-June, 1964.

TABLE I—VALUE OF IMPORTS OF FOODGRAINS

| Year | | | | Foodgrains imports in million tonnes | Value of imported foodgrains (in million rupees) |
|-----------------|----|----|----|---|--|
| 1947-51 Average | .. | .. | .. | 3.23 | 1110 |
| 1952-56 | „ | .. | .. | 1.79 | 860 |
| 1957-61 | „ | .. | .. | 3.87 | 1490 |
| 1962 | .. | .. | .. | 3.64 | 1410 |
| 1963 | .. | .. | .. | 4.56 | 1840 |
| 1964 | .. | .. | .. | 6.27 | 2860 |
| 1965 | .. | .. | .. | 8.00* | 4000* |

* Approximate estimates.

compared to that in 1952-56 quinquennium. The continuous and enhanced import of foodgrains fulfilled the humanitarian aspect of supplying food to the people but it denied, as it were, the incentives to the farmers for more production. Dr. B. N. Ganguli,² therefore, remarked that India was following to a certain degree the policy of agricultural protection in the reverse citing the following quotation from the Haberler Report on Trends in International Trade (G.A.T.T., 1958).

“The price of wheat and so the reward offered to domestic wheat producers has been controlled at so low a price that even the imports of U.S. wheat provided under special surplus-disposal arrangements have had to be subsidized in the Indian market to bring the price down to the low level earned by the domestic producers.”

In spite of heavy imports in 1964, there was a deficit of 7 million tonnes in that year. The result was, as pointed out by Dr. P. V. Sukhatme, the undernourishment or malnourishment or both for some 250 million people of our country.³ Those who work in rural areas do experience this situation every day.

Such being the deficiency, there is a great need to increase food production substantially. Increase in food production depends on two factors—increasing the area under food crops and increasing the yield per acre. So far as the increase in area (or diversion of area from other crops to food crops) is concerned, there is not much scope. Efforts should, therefore, be diverted to increasing yield per acre which has been realised to a limited extent.

Trend of Prices

It is essential to study the trend of prices (Table II) of ‘cereals’ in comparison with prices of ‘all commodities’ and also ‘agricultural commodities’ to understand how the farmers are hit by comparative lower prices of foodgrains.

2. Presidential Address—Agricultural Development and the Price Mechanism—delivered at the 23rd annual conference of the Society in December 1963, published in this *Journal*, Vol. XIX, No. 1, January-March, 1964, pp. 22-23.

3. Feeding India's Growing Millions, Asia Publishing House, Bombay, 1965, p. 75.

TABLE II—INDEX NUMBERS OF WHOLESALE PRICES

(1952-53 = 100)

| Average of months/ average of weeks ending Saturday | | | | | | | All commodities | Agricultural commodities | Cereals |
|--|----|----|----|----|----|----|--------------------|-----------------------------|---------|
| 1951-52 | .. | .. | .. | .. | .. | .. | 118.0 | 118.8 | 102 |
| 1955-56 | .. | .. | .. | .. | .. | .. | 92.5 | 88.0 | 76 |
| 1956-57 | .. | .. | .. | .. | .. | .. | 105.3 | 104.5 | 96 |
| 1957-58 | .. | .. | .. | .. | .. | .. | 108.4 | 107.4 | 101 |
| 1958-59 | .. | .. | .. | .. | .. | .. | 112.9 | 114.0 | 107 |
| 1959-60 | .. | .. | .. | .. | .. | .. | 117.1 | 116.5 | 104 |
| 1960-61 | .. | .. | .. | .. | .. | .. | 124.9 | 123.8 | 104 |
| 1961-62 | .. | .. | .. | .. | .. | .. | 125.1 | 122.8 | 102 |
| 1962-63 | .. | .. | .. | .. | .. | .. | 127.9 | 123.3 | 106 |
| 1963-64 | .. | .. | .. | .. | .. | .. | 135.3 | 130.7 | 116 |
| 1964-65 | .. | .. | .. | .. | .. | .. | 152.7 | 155.4 | 139 |
| April, 1965 | .. | .. | .. | .. | .. | .. | 153.8 | 155.6 | 140 |
| May, 1965 | .. | .. | .. | .. | .. | .. | 156.1 | 157.7 | 137 |

It may be noted from Table II that so far as cereals are concerned, the prices have not kept pace with the prices of other commodities. The trend of prices of foodgrains has remained very low till 1962-63 and that it has made some headway in 1963-64 and onwards but even then the rise in prices of foodgrains is not so much as to attain parity with the prices of all commodities.

A recent study on agricultural price policy in India admits that "By and large agricultural price policy during the first Two Plans was consumer-oriented,"⁴ although recently the question is being looked upon as one which should induce the farmer to produce more.

It would be worthwhile to examine the reason why the Government has followed such a policy of keeping foodgrain prices comparatively low. The consumers like the middle class people residing in cities oppose the rise in prices of foodgrains through press and public platforms. The industrial workers and Government employees demand additional remuneration owing to a rise in food prices. The Government reluctantly concedes to their demands trying at the same time to keep the prices of foodgrains as low as possible. In doing so it does not even keep up the price level on parity basis with essential commodities required by the farmers for their business and maintenance. The farmers or the producers on the other hand, though their number is over 300 million on 66 million farms, are not at all organized to put up before the Government their case of demanding reasonably remunerative prices on the basis of cost of production as other business organizations (say, mill industry) do.

Under these circumstances, it is incumbent on the Agricultural Prices Commission to protect the legitimate interests of farmers, by taking into consideration the cost of production as is being done in business organizations.

Agricultural Prices Commission and Support Prices

So far as the base for fixing support (or minimum) prices is concerned, the Agricultural Prices Commission has stated as under :

4. Agricultural Price Policy in India, Ministry of Food and Agriculture, Government of India, 1963, p. 163.

"The Commission would have liked to use estimated costs of cultivation as a guiding criterion for determining minimum price. But there are many gaps in the available farm cost data. The Commission would like to emphasize that it is essential that immediate steps are taken to collect reliable and comprehensive cost data, so that a scientific guidance for determining minimum prices becomes available as quickly as possible."

It is not known when the required data for scientific consideration of the problem will be available. The recommendations of the Krishnamachari Committee on this subject were :

"... when necessary data become available, the prices should cover the cost of production on representative holdings including the payment of fair wages to agricultural labourers and leave the producer an income sufficient to maintain himself and his family at a standard of life equivalent to that enjoyed by other comparable classes of the population."⁵

The need for undertaking such surveys has often been stressed by experts. The question of price fixation in relation to cost of production though thus thought necessary has remained postponed so far. It is hoped that the recommendations of the Agricultural Prices Commission would be implemented immediately and not postponed as has been the case hitherto.

Representatives of a few State Governments had "suggested to the Agricultural Prices Commission to raise the minimum price of paddy in their States citing results of certain costs of cultivation undertaken in their States." In this connection, it has been stated that

"The Commission, however, was not able to satisfy itself about the appropriateness of the concepts and definitions adopted and the methodology used in these surveys."

Under the circumstances, it is incumbent on the Commission to state the concepts and definitions to be adopted and the methodology to be followed which can give results in the shortest possible time as warranted by the present food situation.

The Jha Committee had determined the minimum price structure on an *ad hoc* basis taking into account the three years' average post-harvest prices of paddy of 1961-62, 1962-63 and 1963-64. The Agricultural Prices Commission has fixed the support prices more or less on the same *ad hoc* basis. In 1964-65, the price index for cereals was 139 as against the past three years' average index of 108. Thus the prices realized by the farmers in 1964-65 were pretty high. The price index for goods required by the farmers had also gone up substantially in that year. The agricultural wages had also gone up. The prices of all commodities being increased, the pay and allowances of even the highly paid Central Government employees are to go up. It is, therefore, not understood why the changed situation of 1964-65 was not considered by the Commission in fixing the support prices.

5. Report of the Agricultural Prices Market Sub-committee, quoted in S. R. Sen : The Strategy of Agricultural Development, Asia Publishing House, Bombay, 1962, p. 191.

Dr. C. H. Hanumantha Rao in his book⁶ has analysed the data given in Farm Management Studies undertaken in 7 States, viz., (1) Uttar Pradesh, (2) Punjab, (3) West Bengal, (4) Andhra, (5) Madhya Pradesh, (6) Madras and (7) Bombay. In arriving at the net income per holding, he has taken into account (1) bullock labour, (2) seeds, (3) manures and fertilizers, (4) depreciation on implements and machinery and (5) others, but has excluded (1) land, (2) labour, (3) capital and (4) management—both own and paid for. The exclusion of the latter four items from consideration would be rather improper when we consider farming as a business. He says that when all items of cost of production are included “on the basis of total cost (or cost C) which includes the imputed values, farm business is generally found to be unremunerative.” This is so even when the holdings under study had a substantial proportion of cash crops along with the food crops except in Bombay. Again no managerial charges were included in working out cost ‘C’ and still the farm business was unremunerative. It is, therefore, no wonder why farmers in India fail to show enthusiasm for developing agriculture.

It would be worthwhile to examine the support prices announced by the Agricultural Prices Commission on August 7, 1965 and those arrived at by the *Gujarat Krishi Pedash Bhav Tapas Samiti*—a voluntary body—which contacted 1,072 farmers in 156 villages at 12 regional centres throughout Gujarat where marketable surplus was expected on the basis of acreage, as no official data pertaining to cost of production in Gujarat for any of the food crops were available. The necessary comparison is done in Table III.

TABLE III—COMPARISON BETWEEN THE COST OF PRODUCTION AND THE SUPPORT PRICES ANNOUNCED BY THE COMMISSION

| Crop | Variety | Cost of production per quintal Rs. | Support prices announced by the Commission per quintal Rs. |
|----------|----------------------------|--|--|
| 1. Paddy | .. <i>Sathi</i> of Gujarat | .. 60 in Panchamahals | .. 39* |
| 2. Jowar | .. Yellow | .. 49 in Surat | .. 38 |
| 3. Bajra | .. F. A. Q | .. 85 in Bhavnagar 76 in Mehsana 50 in Banaskantha } | .. 40 |
| 4. Maize | .. F. A. Q. | .. 50 in Panchamahals | .. 36 |

* Suitable varietal differentials and specifications are advised to be worked out for other varieties.

The data in Table III show that the support prices announced do not cover even the cost of production. The Farm Management Studies as well as our study mentioned above reveal the adverse economic conditions under which the farmers in India are working and which therefore, are the impediments towards increase in production.

6. Agricultural Production Functions, Costs and Returns in India, Asia Publishing House, Bombay, 1965.

The Commission has stated that "an official support price should not underwrite inefficient production. Only the cost of the relatively efficient and innovating farmers is relevant for this purpose." It is not known how the efficiency of farmers is to be determined and how it can be considered in fixing support prices.

In India we find that there are 8 acres under food crops out of every 10 acres of cultivated land. It indirectly means that the majority of farmers come under foodgrain cropping. Further, out of about 66 million farmers (landholders) in India, 63 per cent of them have holdings less than 5 acres each (possessing 19 per cent of the total cultivated area), 30 per cent of them have holdings between 5 and 20 acres each (possessing 43 per cent of the total cultivated area) and the rest 7 per cent of them have holdings above 20 acres each (possessing 38 per cent of the total cultivated area). Inasmuch as the major group of 63 per cent of farmers is particularly hard hit for want of sufficient land and means of production, the consideration in fixing support prices should rather be based on the average efficiency of the representative class of farmers.

It is at times argued that the farmers whose holdings are small have nothing at their disposal to sell. As a matter of fact such farmers are in a hurry to sell a part of their foodgrains after the harvest to pay Government cesses, to purchase consumer goods and to repay crop loans. Later on they incur debt to purchase foodgrains at enhanced post-harvest rates.

The Government of Gujarat had declared in 1964 the support price for the *jirasa* variety of paddy at Rs. 54 per quintal and has adhered to it in 1965 also though its cost of production according to our survey comes to Rs. 67. So far as the business of procurement is concerned, the Government had fixed in 1964 only Re. 1 more per quintal over the support price. Nobody can say that the procurement rate was remunerative or provided incentive, when instead of fixing prices at 15 to 20 per cent higher than the support price, only little more than 2 per cent over the support price is given to the producer. The procurement price for the current year (1965) has not been declared yet. The black market price for the 1964 *jirasa* paddy was quoted at Rs. 100 per quintal.

With such a great difference between support and procurement prices on the one hand and the black market price on the other, the farmers remain indecisive for fixing cropping programme for higher production and do even switch on to cash crops.

It is necessary, therefore, for the Commission to look into the cost of production data that are available to it instead of keeping the whole problem pending for some future date till it gets the necessary data. *Ad hoc* decisions in fixing prices on the basis of market prices are doing harm instead of being helpful and the cultivators resent this procedure.

Prices and Production

It has been observed by many workers that whenever a reasonable minimum price was guaranteed for a particular crop or when the price structure was favourable for that crop, production had increased steadily and substantially.

"The policy of low food prices is a policy of hunger; it refrains agricultural development, maintains production low and perpetuates hunger. Agricultural history shows that development always takes place in periods of rising prices; and stops, when prices come down; food prices, those paid to the farmer, are higher in developed than in developing countries. Development does not mean cheaper food."⁷

The effects of rising prices quoted above were noticed on production in Gujarat during the *rabi* season of 1964-65 as there was a substantial increase of 16 per cent in the production of wheat due to the increase in acreage as well as yield per acre and the same was the case with the cultivation of bajra in the summer of 1965, wherever facilities for irrigation were available. The rise in prices of wheat and bajra had given an incentive to the farmers to undertake risks which during normal times they avoid.

These observations indicate that the farmers put in their best efforts for increasing production whenever they feel assured of getting remunerative prices.

Distribution

It is the duty of Government to give adequate protection to the vulnerable classes through proper distribution as they are hard hit due to rise in prices. This protection, however, need not be given at the cost of producers. It should be given at the cost of State exchequer by opening adequate number of fair price shops throughout the country. The benefits of these fair price shops should be restricted to these classes only. As the agricultural labour is the most vulnerable class in our country, it should get top priority to get foodgrains from fair price shops.

The decision to introduce rationing by stages is going to give protection to the industrial labour, Government employees, well-to-do city people and incidentally to the vulnerable and low income classes living in the cities. Its effect on foodgrain production would not be happy as it would deny the benefits of city markets to the producers. Further, this situation in itself would result in having a class of city people always opposing even the slightest rise in food prices even if it is on parity basis. It would thus discourage several farmers to produce foodgrains, the result of which would be the diversion of acreage from food crops to commercial crops wherever possible. Adequate production alone is going to solve our distribution problem. It is, therefore, not necessary to protect the interests of all consumers in this period of crisis except those of the vulnerable classes. Other consumers shall have to regard the rise in the prices of foodgrains as "a necessary premium charge for insurance against a food shortage" as stated by Dr. Sherman E. Johnson.⁸

Implementation Problems

The fixing of prices is no doubt difficult in a country in which the same crop is grown in widely varying conditions. The *Gujarat Krishi Pedash Bhav Tapas Samiti* finds the yield per acre of bajra in the districts of Bhavnagar, Mehsana

7. Food for Peace, American Society of Agronomy, Special Publication No. 1, April 1963.

8. "The Economist's Role in Rebuilding Indian Agriculture," *Indian Journal of Agricultural Economics*, Vol. XIX, Nos. 3 & 4, July-December, 1964, p. 15.

and Banaskantha, 460, 408 and 170 kgs. respectively. The cost of production per quintal was also in the same descending order, viz., Rs. 85 for Bhavnagar, Rs. 76 for Mehsana and Rs. 50 for Banaskantha. This position is not to be interpreted as a negation of the saying that higher the production lower the cost. This saying applies within the region itself and not between regions or countries as climatological factors necessary for higher production are different at different places.

So far as our food policy is concerned we have been talking of self-sufficiency in foodgrains, State trading in foodgrains as an ultimate aim, co-operativization of the trade, maintenance of buffer stocks, need of imports under P.L. 480, zonal system, State-wise zones, strategic controls, rationing by stages and so on. Most of these and similar measures are talked or taken with a view to protect the interests of consumers. Measures to protect the interests of producers are of recent origin and even in these measures all possible care is taken to safeguard the interests of consumers first. When the country faces a prolonged shortage of foodgrains, a few broad-based suggestions which can serve as incentives to farmers for higher production are given below :

1. The support prices to be fixed by the Commission should be related to the cost of production and never be on *ad hoc* basis.
2. Different prices should be fixed for different regions based on the actual cost of production taking care to fix higher support prices for agricultural regions where the cost of production is low mainly due to backward nature of agriculture leading to poor yields per acre, so that the farmers of such areas can plough in their surplus income to develop their agriculture.
3. Parity relations between the prices of different types of crops and between prices of agricultural products, industrial products and consumer goods should be maintained.
4. The recommendations of the Krishnamachari Committee should be borne in mind in deciding the agricultural price policy as they serve as an ideal to be reached for the well-being of both the farmers and the farm labour.
5. The Government should be instrumental in giving support to the farmers by declaring support prices but should not come in their way of getting some higher market prices as an incentive for agricultural development. According to Gandhiji, food controls and price controls weaken the individual effort and responsibility.
6. The restriction in prices should come in the normal way through the operation of the trade. The Food Corporation of India and co-operativization of the trade can play a competitive role in the open market to prevent hoarding of foodgrains and in controlling prices, but these institutions should not be given a monopoly in trading.
7. If Government wants to procure foodgrains it should be done through partial levy only to the extent recommended by the Agricultural Prices Commission and not beyond these recommendations.