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RAPPORTEUR'S REPORT

ON

IMPACT OF FOOD POLICY ON AGRICULTURAL DEVELOPMENT

Rapporteur: G. PARTHASARATHY*

In all, 14 papers have been received. These papers may be divided into four groups.

I. Papers pertaining mainly to price policy.

II. Papers seeking to review various measures taken by the State Governments for purposes of acquisition of stocks by the Government for public distribution, and, for regulating the open market prices.

III. Papers examining the implications of the objective of self-sufficiency.

IV. Papers which are mainly of a general character.

I

Six out of the 14 papers examined some aspect of price policy. The paper of D. K. Bhattacharyya seeks to tackle a neatly defined problem of finding a price "p" for a cereal which satisfied the condition :

Minimum possible price acceptable to the maximum number of producers is=maximum possible price payable by a maximum number of consumers. The problem posed is of considerable interest and the method deserves careful examination.

Shorn of the symbols used by the writer, Bhattacharyya appears to suggest a method of determining a minimum possible price which will ensure to maximum number of cereal cultivators incomes higher than those obtained in the recent past. The method adopted, however, appears to be questionable. If our interest in finding out the price acceptable to maximum number of producers is to ensure the maximum of marketed surplus both in the short run and in the long run, the price acceptable to maximum number of producers need not necessarily be the one which ensures the maximum of marketed surplus. Further, the assumption that a price which ensures to majority of the cereal producers incomes better than the traditional income must be acceptable to them could be granted only if cultivation of substitute crops would not result in much greater rise of incomes. This aspect of the problem has been ignored. The concept of cost used in the paper also needs to be carefully examined. The non-inclusion of the imputed value of rent, unless land is considered to be fixed for cereal production, needs to be explained.

The paper would have gained much in value had the author illustrated his method with available empirical data, which are said to be more or less adequate for the purpose.

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Out of the six papers in this section, P. C. Bansil alone made a serious attempt to study the impact of food policy on agricultural development, though the subject of study relates to Ceylon. This study needs to be paid careful attention by the Group, for more than one reason. Ceylon has a relatively long record of guaranteed price scheme, and the price offered to the producer is quite high. The objects of this scheme are precisely the same as those now sought to be achieved in India. The scheme is associated with marked credit expansion. Considerable amounts are spent by the Government on land development. A 50 per cent subsidy on fertilizer is given to the producer. One would expect the guaranteed price scheme to achieve grand success under these conditions.

To analyse the impact of guaranteed price scheme, (*a*) extension of area under cultivation and (*b*) increase in productivity between 1952 and 1963-64 are examined. It is found that the increase in net sown area due to individual effort was negligible. Productivity for the period 1952-63 increased only by 23 per cent giving an annual growth rate of 2.1 per cent. This is compared with the data published by F.A.O. for other Asian countries for the corresponding period. For other Asian countries the rate is found to be lower. To further substantiate the inference that the guaranteed price scheme has not produced the desired result, a study of six districts with particular reference to increase in yields and fertilizer inputs is undertaken. It is noticed that these districts did not fare well.

It is concluded that the guaranteed price scheme has miserably failed in achieving the objective of increasing paddy production, and it might have served as a disincentive. If the inference is valid it is quite disconcerting. It casts doubts on the assertion that guaranteed price could not only be an insurance price but could also be an incentive price.

But the method of analysis as well as the inference appear to need much more scrutiny in the light of earlier findings of J. V. Fonseka.[1] Fonseka divides the period for which the guaranteed price scheme has been in operation into three stages : (1) Stage 1—1948-54, (2) Stage 2—1955-58 and (3) Stage 3—1958-59 onwards. He concluded that the guaranteed price scheme did not achieve perceptible results during the first two stages, for the scheme was not adequately supported by other allied measures. The third stage was said to be the most rewarding and fruitful. In the light of these findings it would have been more appropriate to pay attention to third stage in evaluating the impact of guaranteed price scheme on agricultural production.

The main burden of the paper of Shivabhai J. Patel is that support prices must be fixed on the basis of cost of production and this should be the cost of the representative farmer with average efficiency. It is the contention of the author that the food policy of the Government has been consumer-oriented, and the continuous and rising imports of foodgrains have had a dampering effect on prices of cereals, and consequently on cereal production. The wholesale price index of cereals had risen only by 1 point between 1956-57 and 1961-62 while during the same period the wholesale price index of all commodities rose by 19.5 points, and agricultural commodities by about 19 points. It is pleaded that appropriate

1. "The Guaranteed Price Scheme in Ceylon," this *Journal*, Vol. XVIII, No. 2, April-June, 1963.

concepts and definitions of costs needed for the purpose of fixing support prices, if found wanting, should immediately be evolved. He is critical of the Jha committee for fixing the support prices on the basis of past three-year post-harvest prices without considering the changed situation. A comparison is made between the cost of production per quintal, as arrived at by *Gujarat Krishi Pedash Bhav Tapas Samiti*, a voluntary body on the basis of its investigation, and the support prices fixed by the Agricultural Prices Commission. It is concluded that the support prices fixed are far lower than the cost of production.

As regards the vulnerable sections, it is pleaded that protection to vulnerable sections should not be given at the cost of the producer, and agricultural labourers should be given the first priority among vulnerable sections.

While the case of Patel for a production-oriented policy is understandable, the extent to which low prices of cereals *vis-a-vis* other factors have contributed to the slow rate of growth of production needs to be established. The plea that cost of production should be the basis of support prices needs careful examination.

V. G. Mutalik-Desai examines the commodity terms of trade of agricultural sector based on the data of wholesale price indices for the period 1952-53 to 1960-61. The group of manufactures in the wholesale price index has been taken to represent the non-agricultural sector. In the agricultural sector, price indices for cereals and food articles have been taken. The ratio of prices for different groups of agricultural commodities in relation to those of manufactures was found to be falling except in the case of raw materials to manufactures. It is concluded that the price ratio which was favourable in general for the commercial farmer was not so in the case of farmers producing cereals. Mutalik-Desai is aware that the analysis of terms of trade based on wholesale prices of agricultural and industrial commodities may not fully bring into effect the changes in the terms of trade of agriculturists with any degree of precision. Hence he sought to study the terms of trade of agriculturists by examining the indices of prices received and prices paid on the basis of Punjab data. Data on all-India basis are not available. This has shown that the terms of trade of agriculturists have been relatively much more stable though the ratio between cereals to manufactures during 1952-53 to 1955-56 declined by 23.8 per cent. The farmer's terms of trade were not affected during the same period in Punjab. On the other hand, during the period of rising prices the ratio of cereals to manufactures increased by 10 per cent while the farmer's terms of trade declined only by 1 per cent. This is attributed to the low proportion of value of manufactured goods, in the expenditure of the farmer. In the prices-paid index, manufactured goods accounted only for 32 per cent, 31 per cent towards family expenditure, and only 1 per cent towards farm expenditure. It is therefore considered that agriculture may not be fully affected by the variations in the sectoral terms of trade.

Mutalik-Desai has not studied the influence of terms of trade either on production or marketed surplus. But the inference that the parity ratio of the agriculturists had been insensitive to sectoral terms of trade needs attention, and examination. It is also pertinent to note that the manufactured goods accounted only for 4 per cent in farm expenditure, and it is in the family expenditure that they accounted for a larger percentage.

Though S. C. Jha sets before him the ambitious task of outlining a framework for policy formulation for achieving food goals his concentration is mainly on price policy. He distinguishes between a minimum price, which is essentially an insurance price, and price actually received in the market. The former is inoperative in the context of rising prices and the latter alone would be relevant. The latter should provide the necessary incentives for augmenting the output of desired product without adversely affecting the food budget of the consumer, for such effects would lead to further inflation, and would be injurious to overall growth. Hence there is need for a ceiling price, which presumably will be the standard purchase price, and which will be fixed with due attention to cost of production on the predominant type of farms, prices of competing crops, and of response of production to prices. To complement an administered ceiling price an appropriate policy of producer subsidy would be necessary, and to maintain a ceiling price, reasonable to the producer and fair to the consumer, monopoly purchase by the State is a must. He may like to add also rationing at a subsidized price to the consumer is a must. He pleads also for a control over, and of direction and channelling of scarce inputs to farms which have the greatest potentialities of growth, the potentialities being assessed through farm planning. Jha is aware of the huge burdens on the administrative machinery that this policy imposes. The course of action suggested in his paper may be compelling in the context of a serious food shortage. But attention has to be paid to the following questions:

1. Whether ceiling prices, however fair to the producer, administered through monopoly purchase by the State, will not act as disincentives to production of foodgrains in the context of unregulated prices for crops competing with foodgrains;

2. the degree to which producer subsidies for selected inputs could be used (a) to induce more investment in desired output, and (b) to induce diversion of resources from competing crops to foodgrains, if the value of such inputs form only a small fraction of the total inputs, and if these are found to be highly complementary with non-subsidized inputs; and

3. the operational measures to ensure that subsidized inputs flow into the production of crops, the growth of which is desired.

A critical appraisal of different concepts and measures of agricultural parity prices and incomes is made in another paper so as to provide certain guidelines for the Food Corporation to function as a stabilizer of agricultural prices. It however devotes itself mainly to a review of parity formulae adopted in U.S. and Japan. It emphasizes the familiar point that parity ratio measures only the changes in the purchasing power of agricultural commodities and not the economic status of the producers.

II

There are four papers which have paid attention mostly to a review of the various measures taken by the State Governments for purposes of acquisition of stocks for public distribution, and for regulating prices. P. Kamala Devi reviews briefly the important features of the food policy of the Government of Madras since 1942. The main conclusion that she draws from her study is that the food policy of the Madras State has not been consistent and effective, and the measures taken since 1942-43 are more on a *ad hoc* basis on the nature of day-to-day decisions dictated by a series of crises. She also attempts to study the probable impact of the various policy measures on the trends in acreage and production of foodgrains

in the State. What in fact she does is to study the response of area under paddy to wholesale price deflated by the wholesale price index of food articles, for the period 1942-43 to 1962-63. The coefficient of correlation between the deflated price index of rice and area under paddy is found to be 0.7, and quite significant at 5 per cent probability level. It is observed from the data that the acreage and prices were low during the period 1942-43 and 1952-53 and the deflated wholesale price indices of rice were also at low level. From this it is concluded that the procurement prices had been too low to give an incentive to producers. The validity of the inference is doubtful in view of the limitation of the data used, and the method adopted. There have been changes in coverage in area particularly since 1952-53. Suitable adjustments should have been made for this. The use of wholesale price index of rice. and of deflation by index of all food articles need to be explained.

One of the papers reviews the policy of procurement and levy of Bihar Government since 1963. The various policy measures taken from time to time were licensing of wholesale traders. formation of State into a separate zone, banning of export of coarse grains, levy on millers and wholesalers, and voluntary procurement. All these have failed to enable the State to acquire adequate stocks for public distribution, and in regulating open market prices. The failure is attributed to low procurement prices, meagre commission given to agents, unwillingness of agents to operate in the interior, lack of finance, shortage of storage capacity and frequent changes made in the policy. The author is not hopeful that even the much recent 14-point integrated food policy of the Government of Bihar, which includes guarantee of minimum price of paddy, and direct levy on cultivators, will succeed.

Another paper reviews among other measures the operation of State trading in Assam State. The State Government decided to introduce State trading in paddy in a district, *viz.*, Nowgong (always a surplus district) as an experimental measure from January, 1959. This was successful as prices in the open market were low. Encouraged by this State trading was extended to all the plain districts. But this has not met with success. Procured quantities showed a decline since 1960-61. The main reasons given are (a) the low procurement prices as compared to market prices and (b) inadequate funds with the co-operatives, and failure of service co-operatives to purchase paddy offered for sale by growers.

A paper on "Two Faces of Co-operative Procurement: A case study" describes the experience of Pandavapura Taluk Co-operative Marketing Society in Mysore State under two systems, *viz.*, (1) outright purchase and sale under free market conditions and (2) levy procurement with price controls on purchase and sale prices. Under outright purchase the purchase price was fixed with reference to price obtaining in the neighbouring market. The society got a clear profit margin of Rs. 3 to Rs. 10 per quintal of rice sold. But under the levy system the profits of the society were reduced to Rs. 1.15 per quintal. This is attributed to the low and fixed margins allowed for the services of the marketing society. It is argued that the low margin of profits allowed to co-operatives under the levy system discourages them from undertaking purchases. In fact the data presented show that the society paid a price of Rs. 36 under the outright purchase in the preceding year while it paid Rs. 45 under the levy system. If profits were made by the society in the preceding year it was because low prices were paid to the members.

III

There are two papers seeking to analyse the implications of self-sufficiency on farm economy. D. S. Chauhan's paper deserves examination by the Group. The main burden of this paper is that the ideal of regional self-sufficiency in foodgrains might result in attempting at self-sufficiency by each State, nay even districts and blocks. This might eliminate the pressure of demand by the deficit States on the Centre, and might eliminate some of the existing difficulties of distribution of food supplies. But this is likely to result in malallocation and wasteful use of resources, and might perpetuate subsistence agriculture on the farms. He quotes data from one of his studies to show the extent of inefficiency of land use in Uttar Pradesh. It would have been instructive to know to what extent food policy of Uttar Pradesh has contributed to this inefficiency. There is little light on this aspect in the paper.

Another author in his paper on "Self-Sufficiency in Foodgrains under Indian Plans" estimates the gaps between demand and supply for each Plan period, and shows how the gap had to be met by growing imports. He distinguishes the short term measures from the long-term. In the short run he suggests that there could be an increase in the consumption of other food articles, like vegetable, starchy roots, fats and oils, milk and meat in the order of priority. But he does not pause to consider whether the availability and the prospects of increased production are greater in respect of subsidiary foods.

IV

There are two papers in the last group, which are of a general character. One of the papers on the "Impact of Food Policy on Agricultural Development" classifies the major components of food policy into three groups, *viz.*, production, distribution and prices. It gives a brief review of each of the components under each category. For studying the impact of food policy on agricultural development in Madras State it makes extensive use of the data on prices and acreages of the Madras State for the period 1938-39 to 1949-50. But the analysis of the data has not been meaningful.

The other paper attempts to examine quite a wide ground covering production, procurement and price policies and with the result, it fails to do justice to any of the issues raised.

V

A few issues that may be raised on the basis of the papers presented are :

1. The goals of national food policy consistent with overall economic growth, the conflicts thereof, the priorities to be assigned in the short run and in the long run, and the operational measures required to achieve the goals.

2. The extent to which the failure of food policy is attributable to *ad hoc* measures taken without recognition of the inconsistencies, and without due attention to the required implementation machinery.

3. The degree to which the slow rate of growth of food production could be assigned to P. L. 480, adverse parity between prices paid by cereal growers and price received, adverse parity between foodgrain prices and prices of competing crops *vis-a-vis* other factors.

4. The concept of support price, and its function in the context of growth; the basis of fixation of support price (*a*) if it is considered to be only an insurance price, (*b*) if it is to be both an insurance and an incentive price; the relationship between procurement and support price.

5. The implications of recognition of State responsibility towards (*a*) protection of vulnerable sections and (*b*) equitable distribution of available supplies between deficit and surplus States in the short run, and in the long run: whether restrictions on inter-State movements and whether compulsory levy on producers logically follow from undertaking this responsibility.

SUMMARY OF GROUP DISCUSSION

Chairman: G. PARTHASARATHY

The Group started the discussion with a review of the goals of food policy. It was generally agreed that the two goals of food policy were (1) self-sufficiency and (2) equitable distribution of available food supplies.

There was a prolonged discussion on the concept of self-sufficiency. It was observed that the term self-sufficiency could be used in two senses, which were quite distinct from each other. One section of the Group felt that it should be taken to mean the achievement of certain physical targets based on nutritional requirements. It was argued that the target of minimum nutritional goals should be the starting point of planning, and the other aspects of planning should be so integrated as to achieve this aim. The targets of food supplies on the basis of nutritional requirements could be considered with or without reference to the distribution of incomes. The level of food supplies required would be greater if they were considered without reference to the distribution of incomes. As against this point of view it was maintained that the targets of supplies could not be based on the physical needs of the population, but only on active demand. The food goal in this sense need not necessarily mean exclusion of imports but only of such imports that could not be paid for through current foreign exchange earnings. It was sought to be made out that if self-sufficiency to be attained on the basis of effective demand in food production was found to be preferable it was because it was the most desirable position on economic grounds. The possibilities of earning foreign exchange for importing foodgrains through expanding exports or/and through import substitution of other types of output, agricultural or non-agricultural, are limited. Considerations based on possibilities of expanding production would also suggest increased scope for stepping up internal production. It was maintained that the question of equitable distribution was relevant only with reference to the accepted commitments of the Government to protect the interests of the vulnerable sections. It was, however, recognized that fulfilment of minimum nutritional needs should be the long-term objective of planning. What is more relevant to the food policy in the immediate short run is to aim at self-sufficiency on the basis of effective demand, and in the event of a shortage to ensure the protection of vulnerable sections.

At this stage of the discussion a question was raised on the scope of food policy. It was suggested by some participants that food policy should clearly be distinguish-

ed from agricultural production policy, and the former should be taken to include only such of the measures taken for acquisition of stocks, and of a system of public distribution to protect the interests of the vulnerable sections. These might include regulation of prices, levy, restrictions on inter-State movements of foodgrains, fair price shops and rationing. It was argued that production policy would mainly refer to augmenting the supplies of inputs needed for production, and to creating a favourable framework for agricultural production. It was however recognized that a price policy would form an integral part of production policy also. But there was no general agreement on the distinction between a food policy and a production policy, and it was maintained, that, in so far as a "food policy" has its impact on development, it cannot be viewed in isolation from a developmental policy.

The discussion was however limited to the various measures that were taken to achieve the goal of equitable distribution. After a brief review of various policy measures taken from time to time it was noticed that the food policy had undergone frequent and abrupt changes since 1952. The measures taken from time to time were of an *ad hoc* nature intended to meet certain emergencies and until quite recently no permanent machinery had been created to ensure the achievement of the goals of food policy.

The Group then took up discussion of the various alternative set of measures that could be taken to achieve the goals of food production. These were listed to be:

(1) Minimum support prices, compulsory levy on producers and partial procurement, restrictions on inter-State movements and a system of public distribution of foodgrains to vulnerable section through rationing.

(2) Monopoly purchase by the State with or without a levy, an incentive price, a system of public distribution of foodgrains, and extended commitments of the States to all non-producers, and restrictions on inter-State movements.

(3) Large scale purchase by the State in the open market at market prices with or without pre-emptive rights of purchase, no levy and procurement, no restriction on inter-State movement, and public distribution of foodgrains through fair price shops.

(4) Regulation of wholesale trade through effective controls over wholesale market, and public distribution through fair price shops.

The first three alternatives were considered in detail. It was pointed out that in the first alternative the minimum support prices were inoperative. Partial procurement and levy would be resented by the producers, for the open market prices were likely to be higher than the procurement prices. Hence it would affect the goal of production. The vulnerable "sections" would not be a given number but would be expanding with increasing open market prices. While the commitments of the Government would tend to rise, its ability to acquire stock would be weakened with growing difference between open market price and procurement prices.

Monopoly purchase by the State, it was argued, might necessitate a compulsory levy. This would be a disincentive to production. Further the commitments of the State through a system of total public distribution would be unmanageable. It was further argued that even the fixation of prices based on demand conditions and on supply elasticities would be a difficult task.

It was maintained by some that large scale purchases by the State in the open market at market prices would mean no disincentives to production. It has the advantage that there will be no compulsion on the farmer, and there will be no restrictions on inter-State movements of foodgrains. It will also have the further advantage that the State need not undertake the responsibility of total distribution. The interests of the vulnerable sections could be protected through operation of fair price shops, and of rationing in selected areas.

The third alternative was also subjected to criticism. To outbid the trader in the context of a shortage, the State would have to pay higher prices. Huge subsidies to consumers would be involved. It would be extremely difficult for the State in the context of shortage to stabilize the prices paid by the consumer. Without this, State entry into the market in competition with the trader would not be effective.

While the implications of several alternatives were discussed, there was no unanimity on the best alternative in the current situation. It was argued that the first alternative presented a *via media* approach in the present context in so far as it allowed the farmer to sell a major portion of the produce in the open market while it enabled the State to fulfil its commitments towards vulnerable sections. Compulsory levy on a fraction of the production was in the nature of a tax on the landowners.

Some members of the Group pointed out that measures to achieve an effective system of public distribution should include control over processing units.

Since the choice of either of the first two alternatives would necessitate the fixation of price for the produce delivered by the farmer, the basis for fixation of prices was then considered. The contention that cost of production should be the basis for fixation of price was taken up for discussion. It was pointed out that an examination of the farm management data showed considerable variation in cost of output even within a given region, and the concept of average cost would not be meaningful. The adoption of other costs like bulk line cost would inflate the price so much that it would be impracticable to adopt them. Further it would be laying a premium on inefficiency.

A question was raised to what extent restriction on inter-State movements on foodgrains, which very often meant also restrictions on inter-districts movements, had led to distortion of prices and of distortion in cropping pattern. The question was not discussed by the Group.