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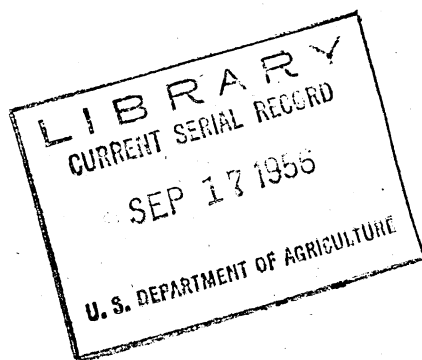
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THE INDIAN JOURNAL OF AGRICULTURAL ECONOMICS



(Organ of the Indian Society of Agricultural Economics)

Vol. XI	APRIL—JUNE 1956	No. 2
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CONFERENCE NUMBER

PROCEEDINGS

of the

SIXTEENTH CONFERENCE

held at Poona, December 1955

SUBJECTS

1. REORGANISATION OF RURAL CREDIT IN INDIA.
2. INTEGRATED PRICE POLICY FOR AGRICULTURE.
3. POLICY FOR DEVELOPMENT OF THE RURAL SECTOR IN THE SECOND FIVE-YEAR PLAN.
4. TECHNIQUES OF FIELD SURVEYS IN AGRICULTURAL ECONOMICS.

Rs. 6-8-0

THE INDIAN SOCIETY OF AGRICULTURAL ECONOMICS, BOMBAY

Aims and Objects

To promote the investigation, study and improvement of the economic and social conditions of agriculture and rural life through :—

- (a) periodical conferences for the discussion of problems ;
- (b) the publication of papers, separately or collectively ; or in a periodical which may be issued under the auspices of the Society ;
- (c) co-operation with other institutions having similar objects, such as the International Conference of Agricultural Economists and the Indian Economic Association, etc.

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PREFACE

The current issue of the Journal contains the Proceedings of the 16th Annual Conference of the Society held in December, 1955 at Poona. The Conference was attended by nearly 150 members and delegates from Central and State Governments, Universities and Research Institutions.

The subjects chosen for discussion at this Conference were :

1. Reorganisation of Rural Credit in India.
2. Integrated Price Policy for Agriculture.
3. Policy for Development of the Rural Sector in the Second Five-Year Plan.
4. Techniques of Field Surveys in Agricultural Economics.

An unusually large number of papers were received and read on subject 1, while on the other three subjects also, there were select contributions. The level of discussions was maintained at the usual high level. The arrangement for a tape-recorder by the Gokhale Institute of Politics and Economics has facilitated the publication of the report of the discussions.

An excursion to Walchandnagar from Poona was also arranged on the 1st January 1956 after the completion of the Conference. About 23 members took advantage of this trip. We are thankful to the Management of Walchandnagar Industries Ltd., who made necessary arrangements to receive the party and show them around the well-known Agro-industrial Centre.

We take this opportunity of thanking the Gokhale Institute of Politics and Economics, under whose auspices the Conference met. We specially record our grateful thanks to Prof. D.R. Gadgil, Director of the Institute and Prof. N.V. Sovani, Local Secretary of the Conference and to Prof. V.M. Dandekar, who had made excellent arrangements and to the Members of the Reception Committee for their generous hospitality.

26th April, 1956.

Manilal B. Nanavati

President

to discover which element is short, because the gain in quantity of produce for every unit quantity of such element applied, will be greater than if a corresponding amount of any other element were used in its stead.

When the farmer is faced with a fall in prices he tries to curtail his expenditure on escapable costs viz., seeds, manure, watering etc., but the curtailing is only to be justified if the expenses are already being distributed in the most economical manner and if, moreover, such expenditure has been pushed already as far as it is profitable. But the farmer in India being poor, generally suffers not from too much expenditure but too little. So any curtailment of expenditure on seed, manure, watering etc. is likely to result in lowering the yield with subsequent fall in his earnings.

It appears from the above analysis that larger inputs of manure, water, improved seeds etc. if wisely applied, will give not only larger outputs per acre but also per unit of input. So the farmer should be helped by grant of production subsidies on seed, manure, water, etc., so that he can extend the expenditure on these resources as far as he profitably can. The subsidy embodies direct application of capital where it is most needed and acts not by increasing product prices but by reducing costs. The production subsidies together with schemes for licensed warehouses, provision of credit and marketing facilities, would go a long way not only in increasing farm income but also in augmenting the total agricultural production.

INTEGRATED PRICE POLICY FOR AGRICULTURE

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It was for long felt that aids to farmers, technical, physical and financial were enough to do the trick and contribute to increased production of food grains or commercial crops as the case may be. The fate of the crops after leaving the farm and the storms they had to weather caused by squalls and depressions of prices did not get the attention they deserved. The emphasis on cyclical economics after 1930 has altered the picture and the pendulum is in danger of swinging to the other extreme. Price as a stimulant to incentive has meant that the State could wield the instrument for not raising or raising certain crops or for other instruments of policy. Thus price policy has become an important and effective weapon in the economic armoury of States. Agricultural price policy has many objectives the most significant being to provide income security to agriculturists by means of price support. This is necessitated by the fact of the notorious instability and volatility of agricultural prices. Such price support is meant to give stability and confidence to farming and has been an important factor in the recovery of production to pre-war levels after the war of 1939-1945. In view of the peculiar features of

agricultural production free market prices were felt to be imperfect guides for regulating agricultural production particularly in the short run. Another objective of price policy might be to ensure that agricultural prices bore a reasonable parity with the price of those commodities which the farmers bought the idea being to prevent the terms of trade to move against agricultural products and to ensure for the agriculturist an income parity with non-agricultural income. This is exemplified by the parity price concept in the U.S.A.

A third objective of price policy is to induce production adjustments through price support programmes as operated in most of the Western European countries, the United States and United Kingdom. This is to ensure compliance with the overall aims of economic policy as laid down by a central planning board or other supreme organ in charge of directing the nation's economic life. Hence an integrated price policy for agriculture should comprehend all these three objectives and ensure a properly balanced, reasonably prosperous and efficient agriculture alongside a fully employed industry.

HIGHS AND LOWS IN AGRICULTURE—AN ANALYSIS

It is well known that the Indian Agriculture is a gamble in the monsoons and the risk and uncertainty associated with this factor are heightened by the atomistic nature of holdings in India. These unstable elements impart an extreme volatility to agricultural prices. The most important and well recognised symptom of instability consists in the seasonal see-saw. This is due to the lack of holding power and consequent harvest glut followed by scarcity at a later period. These peaks and troughs are observable in most shandies, hats, bazaars and mandies dealing in agricultural produce.

Cyclical fluctuations of the 1929-1934 variety offer a potent cause of price variations. According to Keynesian thesis lack of effective demand lies at the root of this problem. He says, "It is an outstanding fault of competitive system that there is no sufficient incentive to the individual enterprise to store surplus stocks of material so as to average, as far as possible periods of high and low demand. The competitive system abhors the existence of stocks with as strong a reflex as nature abhors a vacuum, because the stocks yield a negative return in terms of themselves. It is ready without remorse to tear the structure of output to pieces rather than admit them and in an effort to rid itself of them. Its smooth and efficient working presumes in practice as stringently as static analysis, presumes in theory a steady rate or steady growth of effective demand. If demand fluctuates a divergence immediately ensues between the general interest and the course of action in respect of stocks which is most advantageous for each competitive enterprise acting independently" (*Economic Journal*, Sept. 1938).

A factor peculiar to Indian and other backward economies lies in the fact that the dice is loaded against the agriculturists. The Indian farmer has to meet monopsonistic or oligopsonistic tendencies in selling his wares. His uncombined, unco-ordinated, haphazard sales are made to intelligent and ruthless elements thus tending to depress the price as far as he is concerned. If the village money-lender happens to be a trader also "tied sales" result to the detriment of the producer. Market and middlemen charges eat away a large slice of the consumers'

rupee which thus reaches the producer in a near vanishing trickle. Hence the phenomenon is observed of falling agricultural prices while manufacturing prices remain "sticky"—a trend which the Agricultural Prices Variations Enquiry Committee was set up to enquire. Manufacturers are highly organised and can form price "rings" mostly invisible and in the absence of consumer resistance, especially occasioned by lack of import they can afford to dictate the price. The agriculturists, acting under conditions of near perfect competition are not in a position to "rig the market". Even in the U.S.A. as in the case of Burley Tobacco producers this exploitation of producers was observed. In India owing to the power and influence of the urban complex the terms of trade seem to be against the producer except in rare cases as during the first few years of the Second World War.

Many attribute the present fall in agricultural prices to over-production caused by favourable monsoons and the promotional effects of the Grow More Food campaign. Over-production or under-production is a perennial feature of agriculture in any country and measures have been taken on a domestic and on an international level to reduce the incidence of nature's bounty or parsimony.

International repercussions can lead to violent oscillations in prices of primary products as happened in 1950 after the Korean war. This is due to disorganised and backward state of the primary producing countries. The United Nations Commodity Committee has drawn attention to the effects of these variations in commodity prices. Many of these backward countries depend preponderantly on a single commodity—monoculture for their export earnings and fluctuations in prices of these articles lead to income instability of their inhabitants with consequent economic and political upheavals. Thus the dependance of Cuba on sugar, Egypt on cotton, Malaya on rubber and tin, Gold Coast on cocoa, Ceylon on tea, rubber and coconuts and Australia on wool are well known. A violent rise in price can lead to inflation and consequent danger to the economy due to swollen incomes and the vicious spiral as was pointed out by Sir Douglas Copland after the "wool boom" in Australia in 1951-52. Similarly, a catastrophic fall in export prices can lead to grave deflationary dangers as is happening at present when "outside growths" of cotton are falling below American cotton prices. In the case of Egypt where the Government has promised a minimum price guarantee to the farmer the consequence of a further fall in prices can be imagined. Thus many voices have been raised to stabilise the prices of agricultural commodities and thus incidentally benefit the underdeveloped and disadvantaged economies.

Speculative operations of bulls and bears can cause swings in prices and this has been noticeable in Indian commodity markets especially for cotton, oilseeds and jute. Substitutes as in the case of indigo in India or use of multiwall paper bags and cotton sacks instead of jute or new uses for an old commodity as is being tried out for jute by the Indian Jute Mills Association (IJMA) can also lead to price variation. Some Governments adopt a blind policy and like King Canute try to hold up progress by prohibiting the use of substitutes or adopt an unimaginative policy due to "penny wise—pound foolish mentality" and discourage research into new uses. Secular trends are believed to cause a gentle but persistent upward trend to prices since the dawn of humanity. This is a controversial subject and an unproven one. *The London Economist* has lent its authority to this thesis of

gently rising prices in spite of sharp and short bursts to the contrary. In India with deficit finance of the order of Rs. 1,000 crores in the offing under the Second Five-Year Plan the inflationary element is bound to get a boost and a twist may be given to the upward spiral. It is obvious that the present phase of falling prices is only a short lived one and is bound to be replaced sooner rather than later by a rising trend.

The most important cause of variation in prices in an economy which has ceased to be a purely *laissez-faire* one lies in the policy of Government. Government may intervene in the farm price sector for various reasons as stabilisation, redistribution of income, counteraction of elements of monopoly power exercised by other groups in the economy or political and revenue seeking motives as in Brazil, Burma and Pakistan. This Government imported instability to farm prices has become the most important element in the agricultural scene in recent years.

Variations in prices, though of a downward and welcome character may arise due to advancement of technique, improved methods of husbandry, increasing mechanisation, better seeds and manures, all aimed at increasing the yields or lowering the cost of production. This move should continue to be encouraged by any Government. On the other hand, the opposite trend may lead to increased prices. This may be caused by a change in demand without consequential adjustment in the particular agricultural sector concerned. This becomes evident by growth of excess capacity, attempts at restrictionism by producers in efforts to reduce output and increase prices and in the fossilisation and freezing of existing patterns of cultivation usually characteristic of a static economy. The Government, however unpleasant the task may be, should set its face against such anti-deluvian and obsolescent concentrations of power. Only by breaking them up can flexibility and dynamism be imparted to the economy and in particular to the cost structure.

Ten causes, some little analysed hitherto have been dealt with for variations in agricultural prices. The most important are, of course, the seasonal, the cyclical, the Governmental and the lack of competition in the agricultural sector. Remedial measures have been suggested for all the factors of instability. An integrated price policy for agriculture should take note of all the components in fluctuations of price and the objective should not only be price stability. The eternal equation of producers versus consumers should also be borne in mind. Consumers' sovereignty often remains merely a lip service and an undue and tender regard for producers may lead to the consumers' case for lower prices to go by default. The consumers in India have been groaning under high prices for a decade and a half, they have seen the indices of prices rising from 100 to 470 and it is high time that the "man in the street" or the "common man" was also given some relief. Any remedy should start with an attempt to improve the parity price of the farmer by reducing the price of manufactured goods rather than attempting to unrealistically pitch agricultural prices too high which will be taking hold of the wrong end of the stick.

OBJECTIVES OF INTEGRATED PRICE POLICY FOR AGRICULTURE

Stability of Prices and Income Security to Farmers

The remedial measures advocated to iron out the seasonal fluctuations consist of "built in stabilisers" in the shape of warehouses and buffer stocks held by the Government in order to stabilise prices. Owing to the lopsided and inadequate development of the co-operative movement and due to the illiteracy and indigence of the Indian peasantry State intervention has become essential. The recipe consists of holdings or segregation of surplus stocks at harvest time. These would be in the nature of support holdings and satisfy the clamour for a floor. These stocks can be disposed off later thus smoothing the peaks and troughs. The central storage can be for an "Ever Normal Granary" as is done by the Commodity Credit Corporation in the U.S.A. Special inducements can be offered for private stocks and regulations may be made for maximum stocks at ports. The reserves can also be of strategic nature and will come in handy during emergencies. The Madras State gave loans and grants at concessional rates to co-operative societies for construction of warehouses and godowns but the measures taken did not lead to any substantial progress. The Krishnamachari Committee on Agricultural Prices of 1946 has worked out the cost of constructing a chain of warehouses and godowns throughout the country at strategic points. This seasonal post-harvest glut and pre-harvest scarcity is as old as the hills and has been commented upon with remedial measures by the Central and Provincial Banking Enquiry Committees of the Nineteen-thirties. The Thakurdas or Rural Banking Enquiry Committee of 1950 recommended the same measures as advocated by the above committees. The latest pronouncement on the above subject is contained in the Rural Credit Survey which has suggested the creation of Stabilisation Fund and the National Warehousing Development Corporation etc. With the implementation of these recommendations in course of time it is to be hoped that the seasonal bugbear of Indian farmers will be things of the past. Very often the fall in price of agricultural commodities can be arrested and reduced by a previously declared policy of the Government. It is the uncertainty hovering round the intentions of the Government that has led to the sagging market. The announcement of the Government of India to buy wheat and Jowar when prices fall below Rs. 10 and Rs. 5 per maund respectively has had a tonic effect on the prices of the cereals concerned. The threat of extension of the policy to rice has "firmed up" the market. In the Madras State an interdepartmental Committee has been set up with the Director of Statistics as chairman to keep under observation prices of food grains in the market and in case of a precipitous fall to advise Government on further action. Under the Second Five-Year Plan 1,500 primary marketing societies, each having an average paid up capital of Rs. 50,000 half of which will be contributed by the State will be established by 1960-61. Every marketing society will have a godown or two. The primary credit societies would work in close organic association with the marketing society. Thus the harvest glut can be syphoned and put in "cold storage" till such time as it is advisable to unload it on the market without untoward consequence. The Central Reserves had now (November 1955) 10½ lakh tons of rice, 2½ lakh tons of wheat and 60,000 tons of jowar as surplus. Hence through buffer stocks, open market operations and guarantee of floors the Government is trying to cushion the farmer from seasonal squalls and incidentally guarantee to him a minimum income thus conferring much

needed income security, with consequent confidence to face the future in a hazardous undertaking.

As regards cyclical fluctuations the Keynesian prescription advocates full employment policies which have become accepted *obiter-dicta* in all countries of the world. Government intervention to cure domestic and externally imported disequilibria have become orders of the day in the U.K. and even in capitalistic and *laissez-faire* U.S.A. With the Second Five-Year Plan aiming to increase the employment potential lack of effective demand may not be such a danger to contemplate for the Indian economy. Raising purchasing power through fuller employment policies and development programmes as the Rourkela, Bhilai and Durgapur Steel Projects, multi-purpose irrigation projects etc, avoid the repetition of 1931 catastrophe which still haunts the memory of agriculturists. Measures taken specifically in U.S.A., U.K. and other Western nations to protect agriculturists from cyclical swings consists of guaranteed prices, guaranteed incomes or guaranteed markets. Of these the last is the most important as far as the farmer is concerned. These measures will tax the exiguous purse and the administrative ingenuity of the Indian Government owing to the large numbers involved and the statistical black out in the Indian agriculture unlike U.S.A. or U.K. Business cycles, their causes and measures to combat them have been analysed in detail since Lord Keynes's day and the problem is not so intractable as appeared once upon a time.

The impact of international repercussions seem to affect primary producing countries depending especially on one or two crops to a greater degree than industrially advanced countries. A general expansion in agricultural production brought about by rapid economic development in underdeveloped economies or owing to price expectation raised by the policies of the Great Powers as in the case of cotton price support policy in U.S.A. might not immediately be followed by a corresponding increase in demand with the result that prices tend to sag discouraging production and throwing thousands out of employment. The consequences to political and economic stability of such countries have been referred to already. Due to the fantastic rise in prices of raw materials after the outbreak of the Korean war in June 1950 international action was taken after the dramatic visit of Clement Attlee then British Premier in 1950 to U.S.A. The International Materials Conference was set up to ration quotas of scarce materials to needy countries as tungsten, sulphur etc. This example of international co-operation is a good augury for future action. The General Agreement on Tariffs and Trade (GATT), the projected convertibility of currencies, liberalisation of import policies etc., may lead to a freer flow of international trade. The International Finance Corporation (IFC), the Special United Nations Fund for Economic Development (SUNFED) proposed by Mr. Edgar Faure, the activities of the International Bank for Reconstruction and Development, the Colombo Plan, the Point Four Aid, the Expanded Technical Assistance Scheme of the United Nations are all measures to help primary producing, backward and disadvantaged countries by boosting up their purchasing power and incomes. Exchange depreciation, currency manipulations and compensation schemes caused instability to international trade but the International Monetary Fund (IMF) is evolving a code of conduct or "Rules of the game" for nations to observe. International restriction schemes or buffer stock arrangements to obviate violent fluctuations

in prices of primary raw materials have been discussed for many crops e.g., rubber but consumers and producers could not agree on mutually acceptable schemes except for the International Wheat Agreement (Revised version), the Tin Buffer Stock Scheme and the pre-war schemes pertaining to tea and sugar.

Measures have been taken by the Government of India to check the source of instability caused by excessive speculation of bulls and bears in commercial crops by the setting up of the Forward Markets Control Commission and enforcing a minimum cover for bulls and bears. Of all the fluctuations in the prices of agricultural commodities this is the most reprehensible and the most easily controlled cause. The problem is to balance the advantages of forward markets as a hedge against legitimate and unforeseen fluctuations in prices and the misuse of these institutions by speculators out for windfall gains. Substitutes and their evolution as a source of instability should not be prohibited as dynamism is imparted to the economy by their use. The Government of India has been adopting a vigorous policy to assist the older established commodities to compete with substitutes on their own ground as in the case of jute and the campaign conducted in favour of its use in U.S.A. The Council of Scientific and Industrial Research (CSIR) is experimenting with various substitutes and conducting research in their uses with the active encouragement of the Government of India. The objective of providing better economic security to farmers through more stable farm prices had motivated the action of many Governments in guaranteeing minimum prices for agricultural produce. Thus the Government in U.K. were committed to provide guaranteed prices for a number of commodities like wheat, barley, oats, potatoes, milk, eggs and wool. The Government fixed the prices of these commodities after annual reviews of economic prospects and conditions of agriculture and discussions which took place in February of each year between the officials of the Ministry of Agriculture and representatives of the National Farmers' Union (NFU). The objective was not income parity with other occupational groups but a floor price below which prices should not be allowed to fall so that there is a certainty of getting at least minimum guaranteed price. Examples of sugar-cane and lint cotton occur to the mind as far as India is concerned.

Special Objectives of Government Intervention in the Free Market Price System for Agricultural Produce—An Analysis

Besides stabilisation as an objective, as analysed in detail above there is the belief that the farm prices should be used to transfer income to the farm people beyond that which would come to them from sales at market prices without Government action for this purpose. This redistribution of income is supported on the ground that farm people are relatively poor and that income can be effectively transferred by means of administered farm prices. This argument is based on unsound premises since such Government action when it works as in U.S.A. in the case of tobacco is found to become embedded in land values as one would anticipate from even the most elementary economic analysis as pointed out by Prof. T. W. Schultz in the *Journal of Farm Economics*, Vol. XXXVI, December 1954. This does not mean that the Government of India should not pursue the same objective of equality in the distribution of income by better instead of dubious means as progressive income and inheritance taxation and other policies to redress the existing inequalities in the personal distribution of income.

Another objective of Government intervention is due to the belief that administered farm products prices are required and can be used effectively to counteract elements of monopoly power exercised by other groups in the economy. There is convincing proof, as noted above, that the Indian economy, especially the agricultural sector is beset with power politics in economic affairs and as a consequence product and factor prices are substantially distorted judged against the competitive norm of the economists. The Government should be vigilant at all times in its efforts to redress concentration of private economic power especially as a socialistic pattern of society is envisaged by the Congress party in office. There are, however, other and effective ways of strengthening competitions among firms and individuals besides the cumbrous and administratively unfeasible administered farm prices.

A third objective of Government intervention may arise due to political and revenue seeking motives. The best examples are noticed in Argentina as regards wheat and beef, Brazil with its coffee and cotton cruzeiros, Burma with its monopoly of rice trading under a State Board, Pakistan with its Jute Control Board and, of course, the Communist Powers with complete control over agricultural commodities. The motives may be due to a desire for industrialisation as under the Peronista regime or to exploit a monopoly power to the detriment of consumers with charges of "Gouging" as was levelled by U.S. Congressmen against Britain with reference to tin or to hold a sagging market as in Brazil. Whatever be the objectives or motives State trading or monopoly leads to instability which cannot be rectified by free play of market forces due to bureaucratic rigidity. The argument in favour of *laissez-faire* or freedom from control against Statism is still going on though the balance is being tilted slowly in favour of the latter due to the increasing prevalence of conceptions of welfare economics.

Terms of Trade in Favour of Agriculture or Parity Price Concept

The urban complex and the powerful groups associated with it have tended to militate against the rural bias being imparted to agricultural prices with the result that the prices of commodities sold by an agriculturist and the commodities bought by him for production and consumption tend to move out of step often to the detriment of the former. Hence it is necessary to ensure that the agricultural prices bear a reasonable parity with the prices of those commodities which the farmers buy since free market prices are felt to be imperfect guides for regulating agricultural production particularly in the short run. The objective should be to prevent the terms of trade to move against agricultural products and to ensure for the agriculturists an income parity with non-agricultural income. Thus in the U.S.A. price support is mandatory for certain basic commodities like cotton, wheat, rice, tobacco, and peanuts and for certain non-basic commodities like wool, mohair, tungnuts, milk and butter fats. Support for other commodities was permissive. Prices were supported by loans, purchases and purchase agreement after prices were fixed on the basis of parity as worked out with reference to prices ruling in the prewar years 1909-1913. The loans provided for farmers a cash return for their commodities at the support level when market prices were below their level. Purchases were made by the Commodity Credit Corporation when it was not possible to support prices through loans or purchase agreement. By means of purchase agreements the C.C.C. agreed to purchase from a producer at the producer's option not more than a stipulated quantity of a commodity at the

support price. The specific objective of price policy in U.S.A. had been price parity for each farm product which implied an objective of income parity for each producer group such as wheat, cotton and peanut producers. The maintenance of a rigid support price in relation to price parity led to burdensome surpluses at a time of a declining demand leading to regulation of acreage and marketing quotas. The present administration has also pitched in favour of flexible as opposed to rigid price supports. As far as India is concerned regulated markets have been set up in the Madras State and a few others as a protection against unauthorised charges of the middlemen. Co-operative marketing societies are a bulwark against the middlemen and they will be set up in increasing numbers in future under the recommendations of the Rural Credit Survey Report. Shri Omandur Ramaswamy Reddiar referred to the question of parity price as far back as 1948 but under Indian conditions the adoption of such a course does not seem to be a feasible proposition owing to administrative, technical and statistical shortcomings. The other measures suggested above with State partnership can help the farmers against the fall in prices which we note today in a booming economy with rising or steady manufacturing prices. Only when the bargaining power of the farmers is improved can such anomalous situations be prevented from arising.

Objective of Production Adjustment

Price support programmes to induce production adjustments have been in operation in most of the Western European countries, the U.S.A. and U.K. Under the system of forward pricing guaranteed prices were fixed for the crops to be harvested several months before the harvesting period. The announcement of prices well in advance of the production and marketing period gave farmers time to adjust their production plans in the light of the prices announced. It imparted a measure of stability to agriculture and protected farmers from unexpected ups and downs in the prices and their incomes. The system of forward pricing assisted in the realisation of production targets. The policy of forward pricing involves an estimation of expected prices, taking into account prospective supply and demand conditions and the best allocation of resources among the agricultural product. Accurate forecasting requires considerable experience, a perfection of techniques and a complete knowledge of marketing conditions as is present in the Market Report Service of the U.S.'s Department of Agriculture. Control of acreage and production was tried in India in the case of jute in 1941 and short staple cotton in 1943. Even destruction or ploughing under crops have been resorted to leading to the charge of "poverty amidst plenty". Export promotion for surplus commodities has been undertaken in India for tea, jute and cotton. Similarly import control can help to relieve under-production. Educational or publicity campaigns as in the case of coffee in India, development of new uses, compulsory uses, discouragement of uses of competing products and disposals under bilateral agreements as in the case of Indian tea and cotton have been pursued to impart stability to variations in prices caused by Nature's fickleness. Except for such examples no conscious price policy to orientate production to preconceived and planned targets have been attempted in India owing to the formidable difficulties involved. Crop planning, encouragement of one crop as compared to another, pitting cash crops against food crops through price support and control have been mostly confined to the planned economies of communist countries. But the experience of a democratic country as the U.S.A. with price control to achieve production adjustment

shows the dangers inherent and the cost involved in such exotic experiments. The legally enforced restrictions on planting have had two results. Firstly, on the land left to him for growing wheat or cotton the farmer has piled on the fertilizer so that output is not reduced by as much as acreage. Secondly, he has switched to growing feed grains which are now in an excessive supply. This is intensifying the problem of supporting the price of maize. The existence of enormous Government owned stocks has a depressing effect on prices. Hence this weapon of price policy to achieve production adjustment has to be handled gingerly and with care. Since the fixation of an unrealistically high price may lead to over-production and depressed black market prices or the pitching of too low a price may lead to wholesale diversion to other more remunerative crops.

SOME REFLECTIONS ON PRICE POLICY IN MADRAS STATE

The absence of a conscious price policy in the Madras State is revealed by an examination of the parity index which can be defined as the percentage ratio of the index of prices received to index of prices paid. Making use of the indices of prices received and of prices paid the parity indices for the different years by the chain base method work out as follows :

Year		Index of prices paid	Index of prices received	Parity index
1		2	3	4
1946-47	331.8	333.7	100.6
1947-48	108.1	116.0	107.3
1948-49	107.8	109.2	101.3
1949-50	104.5	106.5	101.9

The index for 1946-47 has 1938-39 as base or 100 and the indices for the other years having the previous year as the base or 100 in each case. In order to investigate whether all sections of agriculture have been benefited or only a specialised few, indices of parity are shown separately for the two groups, food grains and commercial crops both by the chain base method and by the common base method.

INDEX NUMBER OF PARITY WORKED OUT BY

Year	..	<i>Chain base method</i>		<i>Common base method</i>	
		Foodgrains	Commercial crops	Foodgrains	Commercial crops
1		2	3	4	5
1946-47	..	85.7	112.6	85.7	112.6
1947-48	..	99.0	115.4	84.8	129.9
1948-49	.	118.3	86.2	100.3	112.0
1949-50	..	73.6	114.4	73.8	128.1

It is obvious that the farmer growing food grains has not fared well and especially in 1949-50 the slightly lower prices fixed for food grains have contributed to the fall in the prosperity of the ryots in 1949-50. The prosperity of the cultivators of commercial crops has, on the other hand, increased to a considerable extent. The year 1949-50 witnessed a substantial increase in the prosperity of the grower of commercial crops owing to the high prices which prevailed for crops like sugarcane, groundnut and cotton. This disparity in the prosperity of the growers of subsistence and commercial crops is a serious problem. The solution to the problem lies in evolving an integrated price policy for all agricultural produce, food and commercial. This should be correlated to a system of rational crop planning evolved on an all India basis. The average price of a candy of groundnut kernels of 531 lb. at Tirukoilur Market Committee which is an important constituent of the South Arcot Regulated Market, has risen to as much as Rs. 217-6-0 in August 1953 from Rs. 17-4-0 in November 1940—a rise of 1,280 per cent and at present seems to be veering round the Rs. 100 level.

REFLECTIONS ON AN INTEGRATED PRICE POLICY FOR AGRICULTURE

An integrated price policy for agriculture should be a well knit one under the Second Five-Year Plan. This is essential for the stability of the general level of prices and for the success of developmental efforts in the agricultural sector. A proper price policy was absent in the First Five-Year Plan which relied largely on direct physical controls which have started to act as a disincentive to production. An agricultural price policy under the subsequent plans should embrace reasonable stability but should not lose sight of flexibility. In the short run seasonal fluctuations loom large and the farmer has to be cushioned from the adverse repercussions of these seasonal see-saws. This will ensure a guarantee of income security and profit expectations. Similarly a proper relationship should be ensured between the prices of agricultural commodities and manufactured articles so that the terms of trade do not turn too sharply against one or the other. At the same time such a policy should ensure an appropriate relationship between the prices of competing crops especially subsistence and commercial crops so that undue preference and hence bias will not be imparted to one or the other as related to a crop plan.

If fixation of prices—a minimum and a maximum—is taken as an imperative this should be done by reference to a recent base period so as to make allowance for a changed structure of costs and standard of living and by taking into consideration the general level of prices, price level of competing crops, level of the cost of living and the supply and demand conditions of particular crops. Such maxima and minima should not be held sacrosanct once fixed but should be capable of adjustment. This may seem to require expertise worthy of a Solomon's judgment but adequately trained statistical staff will make the task easy.

Monetary and fiscal policies play a large part in controlling the general level of prices. Yet a modern evolution even in capitalistic America is that of state trading as the most effective way of controlling supply and demand for particular commodities viz., for the State to enter into the market and carry out purchases and sales operations on their own account (open market operations). This necessitates the building up of buffer stocks and such operations involve purchases, at minimum economic rates, of major commodities in those areas where prices tend to show a

steep decline and releasing of stocks thus built up in those areas where prices show an unduly large rise. These operations would not only stabilise prices in agriculture but also safeguard the interests of consumers. The objective should be to fix neither too high prices in an effort to boost the producer to the detriment of the consumer nor too low prices to please the consumers thus rendering cultivation uneconomic.

The need for open market operations in commercial crops is not necessary since variations in export import policies like export import quotas and duties could affect their price level by getting rid of burdensome surpluses or by augmenting meagre yields. As far as subsistence crops are concerned adequate warehousing facilities should be provided for the storage of buffer stocks. The recommendations of the Rural Credit Survey Committee on warehousing are being implemented and two million tons storage capacity alongside the existing facilities should be adequate for the limited buffer stock operation which are being contemplated. The Central Ministry of Food is performing this task at present in the case of wheat and jowar and it could be entrusted with the larger task pertaining to foodgrains as a whole. It is estimated that a working capital of Rs. 75 to 100 crores would be required to maintain a stock of 3 to 4 million tons of food grains.

In the United States a price support policy is followed which guarantees to the farmer a fixed price for a large number of commodities. This is not possible in India owing to administration and statistical limitations. A selective price support policy for basic food grains not by pegging prices at particular level but fixing a range beyond which they should not be allowed to fluctuate seems to be the best one for India. The problem in the U.S.A. is one of the plethora and of surplus headache while in India it is one of lack of effective demand and malnutrition. Once the purchasing power of the people is raised by increasing the per capita income the yields of food crops as well as raw materials of factories will disappear in satisfying unfulfilled desires. The selective policy of price support will not lead, in this connection to any distortion in agricultural production unlike a fixed price level rigidly adhered to in the face of falling demand.

Recently, the fall in agricultural prices had not been followed by an equivalent fall in the prices of commodities which the agriculturists bought like cloth, agricultural implements, cement, kerosene, and ammonium sulphate. This has turned the terms of trade against agricultural products and the Government has set up the Agricultural Prices Variations Enquiry Committee to enquire into and suggest suitable remedial measures for reducing abnormal disparities. The report of the committee could be awaited with interest.

An exotic suggestion pertaining to the U.S.A. is that the 40 million unwanted acres could be planted by the Federal Government creating a "fertility bank" by paying farmers to plant them with crops which improve the soil or by renting the land and planting such crops itself. Owing to the existence of cultivable wastes this suggestion is well worth study.

CONCLUSION

An integrated price policy is thus composed of many elements. The fixation of price should be a flexible procedure, the interests of consumers duly borne in

mind. Selective price support has to be given for certain basic and subsistence crops involving open market operations with the corollary of warehouses to hold buffer stocks. The maxima and minima should consist of a range taking into account the inter-relationship between subsistence and commercial crops and the balance should not be in favour of either unless the crop plan so dictates. This crop plan should be an all India affair with tentacles spreading into States, districts, taluks and the remotest villages. Similarly a balance should be maintained between the prices of agricultural and those of manufactured products in order to ensure fair terms of trade to the farmer. Thus the price policy envisaged is seen to be like an acrobat's feat at a circus show maintaining precariously many balls in the air. But experience and time will impart the training and know-how to pursue such a policy successfully leading to the evolution of a more prosperous and contented peasantry.

A PRICE POLICY FOR AGRICULTURE

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An integrated price policy for agriculture can have two distinct aspects, one internal and the other external. Internally, it is possible to conceive of a pattern of prices of the various agricultural products so maintained that they help make remunerative the cultivation of different crops to desired limits. The price of a commodity can be related, on the one hand, to its cost of production and on the other, to the prices of other agricultural commodities. The net result aimed at is a certain pattern of the distribution of land among the various crops ; and it is the relative levels of the prices of different agricultural commodities that are concerned here.

Externally, integration can be thought of between the agricultural prices as a whole and the prices of commodities in general and especially the prices of industrial commodities that enter into the cost of production in agriculture and into the consumption of the agriculturists. It is only with this external aspect of the price policy that this paper is concerned with.

A price policy for agriculture evidently involves deliberate manipulation of prices. The policy may have to be adopted to prevent a level of prices which might otherwise come to prevail in the market, and to pitch it at a desired level. The instruments usually considered for the price policy are the Governmental powers of prescribing by law certain desired levels of prices and secondly, the market operations of sale and purchase of a commodity undertaken by a Governmental agency. Of these, only the method of Governmental open market opera-