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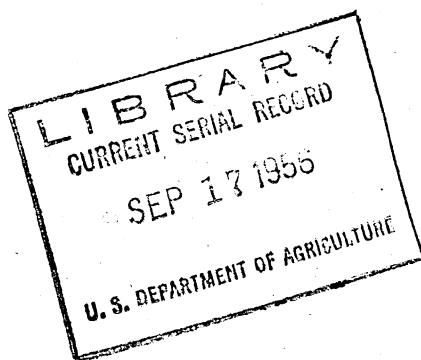
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THE INDIAN JOURNAL OF AGRICULTURAL ECONOMICS



(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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CONTENTS

	PAGE
WELCOME ADDRESS—RT. HON'BLE DR. M. R. JAYAKAR	1
INAUGURAL ADDRESS—SHRI B. RAMA RAO	3
PRESIDENTIAL ADDRESS—SHRI J. J. ANJARIA	10

REORGANISATION OF RURAL CREDIT IN INDIA

(1) S. V. AYYAR AND A. RAMASWAMI	22
(2) P. N. NARASINGA RAO	29
(3) N. P. PATIL	35
(4) K. S. SURYANARAYANA	41
(5) M. SRINIVASAN	46
(6) V. SUNDARA RAJAN	58
(7) E. T. MATHEW	63
(8) M. BALASUBRAMANIAN	72
(9) D. D. JENA	77
(10) DOMENICO VIGGIANI	83
(11) G. B. KULKARNI	90
(12) C. H. SHAH AND TARA SHUKLA	97
(13) S. THIRUMALAI	103
DISCUSSIONS	113

INTEGRATED PRICE POLICY FOR AGRICULTURE

(1) K. S. SONACHALAM	126
(2) N. K. DESAI	134
(3) M. SRINIVASAN	140
(4) S. B. MAHABAL	152
(5) A. S. KAHLON	157
DISCUSSIONS	162

POLICY FOR DEVELOPMENT OF THE RURAL SECTOR IN THE SECOND FIVE-YEAR PLAN

(1) P. K. MUKHERJEE	188
(2) M. SRINIVASAN	193
(3) R. C. PATNAIK	199
(4) SULEKH CHANDRA GUPTA	205
(5) ASHISH BOSE	213
DISCUSSIONS	219

TECHNIQUES OF FIELD SURVEYS IN AGRICULTURAL ECONOMICS

(1)	H. B. SHIVAMAGGI	231
(2)	A. N. CHOKSI	239
(3)	R. V. S. RAO AND G. J. HIRANANDANI	246
	DISCUSSIONS	255

APPENDICES

(1)	SUBJECTS FOR THE NEXT CONFERENCE OF THE SOCIETY	266
(2)	CONSTITUTION OF THE SOCIETY	266
(3)	REPORT OF THE HONORARY SECRETARY AND TREASURER FOR THE YEAR ENDING 31ST DECEMBER, 1955	267
(4)	BALANCE SHEET AND INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 1955	274
(5)	LIST OF DELEGATES AND MEMBERS WHO ATTENDED THE CONFERENCE	280
(6)	LIST OF MEMBERS OF THE SOCIETY AS ON MARCH 1, 1956	282
(7)	LIST OF SUBJECTS DISCUSSED AT THE ANNUAL CONFERENCES OF THE SOCIETY 1940-1955	290

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

INTEGRATED AGRICULTURAL PRICE POLICY FOR INDIA

A. S. KAHLON

Indian Agricultural Research Institute, New Delhi

Indian Agriculture still responds more to seasons than to prices, and because of seasonal character of farm production, there is a considerable time-lag between price changes and production changes. Even if we study the response in terms of acreage sown rather than in terms of output, the irresistible conclusion is that no margin of cultivation remains almost intact even when agricultural prices are falling. This is due to the fact that production is largely for the consumption of the operator's family ; few of the inputs are purchased by him ; his equipment has got very little rental value ; factor prices and product prices in agriculture behave in a characteristic manner, and relative prices therefore have very little effect upon seasonal farm operations. The increase in the area under cultivation inspite of fall in agricultural prices during the period 1953-55 is a good example in this respect.

There is also the other extreme view "that price incentives work very strongly also in a subsistence economy, strange as it may seem".¹ Since food cultivation remained price inelastic in India inspite of the Grow-More-Food Campaign and the legislation passed by the different States during the World War II to divert acreage from cash crops to food crops, it is difficult to share fully this view, although price incentives do seem to be working in case of cash crops and some closely competing farm products like jute and rice even in a subsistence economy. Amongst the various agricultural commodities, cash crops are more liable to be affected by the price changes as compared to food crops simply because the cash crops are mainly grown for the market.

The fact that Indian agriculture does not respond much to variations in agricultural prices should not however give the impression that agricultural prices have a negligible influence in the development of agriculture in backward economies. Compared with the general price level, a relative rise in agricultural price does not benefit the Indian farmer much, as he has very little marketable surplus to sell, but on the other hand, the relative fall in agricultural prices is generally steeper and causes him much distress. "Because of relatively low price and income elasticities of consumers' demand for farm products, technological progress in agriculture must, in general, result in relatively low farm prices."² During the steep fall in agricultural prices (Feb. 1954 to Feb. 55) the Economic Adviser's index numbers of wholesale prices for food articles showed a decline of 67 points from 367 to 309 while the index numbers of manufactured articles rose by 11 points from 368 to 379. Grainwise, the index for rice declined by 17.9 per cent, that for wheat by 13.3 per cent, for jowar by 40.6 per cent and for bajra by 26.7 per cent. Also, indices for cotton prices fell during the same period of one year by 13.8 per cent and that for groundnut prices by 36 percent. Thus while prices of agricultural commodities were falling fast, those of

¹ Eighth International Conference of Agricultural Economists: E. De. Vries : Holland and International Bank, Washington, D. C. U.S.A.

² Readings on Agricultural Policy, edited by Jesness, page 170.

manufactured articles were even rising, turning the terms of trade sharply against the farmer and necessitating Government intervention in the form of price support measures for the agricultural sector.

In a growing economy there should be sufficient flexibility in the price structure to induce the movement of real resources to those sectors which experience the greatest growth.³ The tendency to consider prices as ends is the most serious limiting factor in progressing towards a more rational economic policy not only in agriculture but in other sectors as well.⁴ In the U. S. A. the emphasis was wrongly shifted to pegging of the prices at a higher level rather than stabilizing them at a reasonable level to bring about balanced development of the different sectors of the economy. As regards the other objectives of price policy, income parity goal is not appropriate for price policy, for price policy has only limited possibilities of reducing inequalities in distribution of income and can at the most be used as an adjunct to general monetary and fiscal policy. In fact, the share of agriculture in national income is related more to the rate of technological advance in agriculture, relative low price and income elasticities of demand for food and fibre, high birth rate among agricultural people and the level of under-employment in agricultural sector than to high support prices. Also, prices are not an appropriate instrument for countering cyclical changes in agricultural sphere. A suitable flexible price support policy, can, however, effect a better allocation of resources within agriculture and between agriculture and other sectors of the economy. It can also help channelising products into trade both at home and abroad so that the agricultural price policy at home could be integrated with international trade policy.

Among the different instruments of price support policy, Parity Formula was recommended by the Prices Sub-Committee of the Policy Committee on Agriculture, Forestry and Fisheries to establish proper inter-relationships within agricultural sector and between farm products and non-farm products. The Parity Formula, according to this Committee, can be applied both to food crops and cash crops but not to perishable commodities like products of animal husbandry, because price floors cannot hold prices up for a longer period than the products can be kept in storage, and in case of perishable products, that period is very short. According to Parity Formula, a historical cost-price relationship of the base year (average of about 5 years) is to be accepted as a yard stick to measure the current exchange value of farm products with non-farm products with a view to establishing current purchasing power parity between the two important sectors of the economy. Critics of the formula point out that dead hand of the past will fail to adjust altered cost-price relationship in a dynamic economy, because the Parity Formula does not take into consideration altered conditions of demand and supply. This objection is very much valid for mature economies, where technological changes shift the supply curve very much to the right even over a shorter period and reduce the cost of production significantly at the same time. The same is, however, not true for an under-developed economy that suffers from poor technical know-how and structural disequilibria, which keep farm output and production costs almost constant over a shorter period.

3 Economic Development with Stability by a Mission of I.M.F. page 5.

4 T. W. Schultz: Redirecting Farm Policy.

Moreover, we can employ not only a moving base period (moving average method) for determining the relationship among parity prices of agricultural commodities and manufactured articles, but also a shifting base period for the parity price index itself. To start with, we can adopt the First Five-Year Plan period as the base year and maintain a reasonable relationship between prices of agricultural commodities and those of manufactured articles so that terms of trade do not swing violently in favour of one sector or the other.

All those who find fault with Parity Formula, suggest Forward Pricing system as a useful and adequate instrument of agricultural price policy. The main advantage of this system is that it takes cognizance of changes in demand on the one hand, and changes in supply on the other, and is based on prospective supply and demand conditions. It can be oriented towards current consumption requirement, whereas Parity Formula remains tied with the so-called anachronistic consumption pattern of the past. However, it is difficult to believe that consumption pattern of a moving base period (moving average method) and a shifting base period for the parity price index itself, could get anachronistic, when the consumption habits of a nation take almost a generation to change.

Even if it is true that the Forward Pricing system is more scientific, it is difficult at this stage of economic development of our country to forecast with precision the prospective conditions of demand and supply. "The forecasting method must have an unusually high degree of accuracy if forecasts are to be used as bases for decisions to inaugurate changes in stabilization measures."⁵ Since we do not have at present a technically competent administrative agency to determine price expectations with a scientific precision, forward prices are more likely to make worse rather than to correct variations in income which result from yields of individual crops. Instability in the output of individual crops could be reduced by more general application of scientific findings in connection with soil conservation, varietal zoning and plant disease control but such improvements in Indian agriculture will take their own time. Therefore the Forward Pricing system may be applied to Indian agriculture at that stage of agricultural development when the farmers are generally assured of water supply and have adopted progressive methods of cultivation and disease control that can reduce variations in crop yields to a considerable extent. Forward prices thus appear to be a long term price policy for Indian agriculture and need not replace short term parity price policy, which is certainly more suitable at the present stage of economic development.

With a view to implementing parity price programme and paving the way for forward prices system which is essentially impossible without an adequate storage programme, Buffer Stock plan forms the crux of the problem of price support policy in a country like India where warehousing arrangements and credit facilities are inadequate for the needs of this vast country. The National Co-operative Development and Warehousing Board proposed to be set up to make adequate provision for warehousing and credit can hardly afford to undertake the risks involved in the operations of price support policy. It seems desirable therefore to set up a Buffer Stock Administration that can operate as a counter speculator in the market and bear temporary losses, if necessary. Such an organisation may make use of

⁵ Income Stabilization in a Developing Democracy.

warehouses set up by the Warehousing Board but it must own a number of godowns of its own in selected centres of farm business. It is pointed out that heavy purchases made by the Administration will prove unduly burdensome to Government because "price supports may result in accumulation of large stocks of agricultural commodities which will hang-over the market after the end of price support period and then drive the prices to lower level."⁶ This however is not necessary, unless the emphasis of storage policy shifts wrongly on pegging the prices at a higher level rather than preventing them from falling to an uneconomic level. The Government can also support the prices through export-import policy so that heavy Government purchases do not become necessary. In case purchase operations do result in the surpluses of some products, such surpluses can be used for financing development projects. The F.A.O. pilot study on uses of agricultural surpluses estimates that under conditions existing in India, additional construction projects such as irrigation and drainage, roads, afforestation and erosion control projects involving heavy direct labour expenditure could be financed from 30 per cent to as high as 50 per cent through surpluses used to offset the increased consumption in the country. Again, underdeveloped economies can not really afford to support farm prices to more than a limited extent and the support policy will therefore succeed, only if the number of commodities requiring price assistance is very small and the period during which assistance is needed is also short so that the limited provision of funds can render a real degree of price support. Such a selective price support policy will not strain the resources of Administration and accomplish all that is possible through a synthesis of support prices and open market prices. "Price administrator should conceive of his function as that of assisting the market to operate in a way beneficial to common purpose rather than one of supplanting or replacing the normal market."⁷ "Actually, the objective in stabilising prices is not to slow up or block the operations of laws of supply and demand in the open market but to help them function better in the short run."⁸ Moreover, buffer stocks will be normally operated on the margin and will not therefore involve the Government in heavy financial losses. In fact, the risk of the loss can be further minimised by buying cheaper at the harvest time and selling a part of the stock at the lean season of the year when the prices will be ruling high in the market.

It is sometimes contended that a limited price support policy will not cut much ice. This may be true to some extent but it cannot be helped for financial reasons. After all, a policy of price support for agriculture is a subsidy which the non-agricultural sector of Indian economy can hardly afford to pay unless the number of agricultural commodities requiring price assistance is very small. Moreover, experience has shown that prices of certain commodities influence the prices of related commodities, so that fixing of the prices of related commodities produces a parallel movement in the prices of the others. If, for example, prices of wheat and rice are successfully held by Government action within predetermined limits, the prices of other cereals and many non-food crops will tend to adjust themselves within corresponding limits. Viewed from the proper perspective therefore, even limited price support policy will deliver the economic goods in lessening

6 "Agricultural Price Supports" by E. J. Working, *American Economic Review*, May, 1945.

7 "Price Fixing of Agricultural Products," *Journal of American Statistical Association*, p. 14.

8 "Stabilisation Operations of C.C.C." by Geoffrey Shepherd, *Journal of Farm Economics*, August 1942.

the price uncertainty confronting the farmer, in reducing seasonal fluctuations to the minimum and the last but not the least important, in stabilising the prices of related commodities. This is all that we should expect the agricultural price policy to achieve but this is something which we cannot ignore and must pay heed to.

Even under Indian condition the price support machinery as a stand by arrangement is very necessary for creating a psychological climate that proves deterrant to speculative gains and losses. The necessity of a price support machinery will be still better understood if we remember that "real price stabilization would affect a mitigation in price fluctuations but this would involve a scaling down of the heights of prices as well as elimination of their depths."⁹ When we think of the magnitude of the deficit financing envisaged in the Second Five-Year Plan, we can hardly rule out the possibility of inflation rearing its ugly head once again. The meaning of price stabilization may be better appreciated during those circumstances, than is being understood now, when the recent fall in agricultural prices appears to have been a purely temporary phase. Thus, if circumstances warrant the bringing about of a fall in general level of prices, a beginning may have to be made by operating on agricultural prices, since the prices of foodgrains and agricultural raw materials are the basis on which the entire price structure of a country depends.

Once the agricultural price policy has found its right place in the frame-work of the Indian economy, the emphasis must shift on other measures like technical and scientific improvements in farming, scientific system of land tenures, improved and adequate credit arrangements, and on integrated marketing structure and forward trading in all important agricultural commodities. Even improvements in resource allocation between agriculture and rest of the economy can be aided by price policy, if other measures are taken at the same time to improve the mobility of resources in men and material. "Whether these resources can be fully developed and utilized involves social progress of a broad scale including education, health improvement and nutritional advancement."¹⁰ Improvements in these directions and adoption of still other measures like stepping up development expenditure in depressed pockets, subsidization of ammonium sulphate and pedigree seeds will increase yield per acre and per capita significantly, so that the total revenue of the farmer increases inspite of a moderate fall in prices, which may prove at times to be a corrective to the earlier high levels. Empirical studies from Indian agriculture show that compared to the year 1952-53, prices of agricultural commodities showed some fall in 1953-54, but the total value of principal agricultural food crops and cash crops amounted to Rs. 2,539 crores in 1953-54 against Rs. 2,414 crores in 1952-53 owing to very good harvests in 1953-54. "Stabilization of the price of the commodity without stabilization of yields and production would result in unstabilizing farmer's income from the commodity."¹¹ If the farmers received parity prices but their productivity declined, say, to 50 per cent, their income will have only 50 per cent of purchasing power, it had in the base period. Greater emphasis is therefore to be laid on improve-

9 Businessmen's Commission of 1927 on Agriculture in U.S.A.

10 D. Gale Johnson, *Journal of Farm Economics*, 1944, page 637.

11 Agricultural Prices by Thomsen and Foote, page 210.

ments of techniques of intensive development of rural areas to be supplemented by an integrated agricultural price policy that will stimulate agricultural production and yet avoid conflict with the growth of the other sectors of the economy at the same time.

DISCUSSIONS

V. M. JAKHADE, *Rural Economics Division, Reserve Bank of India, Bombay*

The Second Five-Year Plan will be put into operation during the year 1956. The agricultural price policy should, therefore, be formulated mainly with the object of helping the implementation of the Plan. The first question that arises is whether we should adopt a policy of *laisse faire* in respect of agricultural prices as suggested in some papers or whether the agricultural price policy should be made a positive instrument of policy for attaining some of the objectives laid down in the Second Five-Year Plan. I am of the opinion that the policy of *laisse faire* is not desirable from the point of view of implementing the plan. Adoption of a positive agricultural price policy is absolutely essential.

The two objectives which in my view the price policy should aim at are (i) planned increase in agricultural production and (ii) improvement in relative agricultural incomes. In the Second Five-Year Plan we have laid down certain targets for increasing agricultural production. For achieving these targets provision has been made for financial and technical assistance, supply of fertilisers and better seeds, and for improvement of transport which will take away the bottlenecks and help in levelling down the seasonal fluctuations in agricultural prices. Still, I consider that a policy of stabilisation of agricultural prices should be the major instrument of achieving the objective of increased agricultural production. In the implementation of this policy one of the main determinants of agricultural prices should be the price relatives. During the First Five-Year Plan, we started with controls over prices. During the period of the plan, all controls were gradually removed. During the last year we have adopted a policy of *ad hoc* supports to agricultural prices. I think that during the Second Five-Year Plan period if we are to achieve the targets for increased agricultural production laid down in the Plan, there should not only be a policy of price stabilisation but that policy should aim at maintaining certain price relatives between the various agricultural commodities. From this point of view, I have one or two suggestions to offer. One is in respect of non-food crops, a large proportion of which is exported. There we find that the export policy has always a great influence on the prices of these commodities. It is observed that no sooner export quotas in respect of these commodities are announced their prices rise sharply, and that the relationship between the prices of various agricultural commodities is disturbed. Along with a policy of stabilising agricultural prices, a policy of export control should, therefore, be adopted so that the price relations within agriculture are not affected. From this point of view, we may probably attempt in respect of certain commodities a policy of State-trading if it is considered not only desirable but also feasible.