A number of legislative measures were introduced by the Government, during the last four decades, to create institutional devices, in order to improve the conditions of marketing of agricultural produce. These measures, however, had their own limitations, and at times proved to be ineffective on the ground. The regulation of markets was not uniformly applied in every region and were not always properly operated in regions where applied. Further, the cooperative marketing of agricultural produce was not always successful in ensuring a better return to the grower. This led to two different types of intervention by the Government, (i) to set up State trading organizations to competitively bid along with private traders in order to ensure a better price to the producer, as in case of the Cotton Corporation of India; and (ii) a State Monopoly Trading Organization for Cotton in the State of Maharashtra which was to pass on the benefits of the final price of cotton to the producer (after deducting the marketing costs).

The present study is a modest attempt at analysis of the extent to which the State agencies have fulfilled their objectives of assuring a better price to the farmers, of increasing his share in the mill price, and also of reducing
the intra and inter-year fluctuations in the market price of cotton.

The study indicates that the marketing costs of both the public sector organizations, viz., the CCI and the Maharashtra Federation, were far higher than that incurred by private traders and by cooperative marketing societies. The marketing costs of the CCI were on an average 15.5 per cent of its sale receipts for the period 1970-71 to 1986-87, and in case of the Maharashtra Federation it was somewhat higher, being on an average 16.6 per cent. The marketing costs incurred by private traders (excluding the return to their services), as reviewed in the various studies, indicated that their costs ranged between 6 and 11 per cent of the terminal price, except in Dhulia market in the 1930s due to heavy transport costs to Bombay. The marketing costs of the Gujarat Marketing Federation were also much lower than that of the State agencies and formed 7 to 10 per cent of the Federation's sale receipts. The Gujarat Federation seemed to economise in its costs in almost all respects. Firstly, its ginning and pressing costs were much lower than that paid by private trade, CCI and the MSCMF. The actual expenditure incurred by cooperatives, owning ginning and pressing factories on ginning and pressing of bales was invariably lower than the ceiling fixed by the State Government and the advantages of lower rates of expenditure are passed on to the members. Also, the Gujarat Federation,
unlike the private traders, the CCI and the Maharashtra Federation, did not have to incur any expenses on brokerage, as the brokers receive their brokerage from buyers only. Of course, the Gujarat Federation sells its lint mostly in the local markets such as Surat and Ahmedabad and hence its transport costs too were lower. The CCI and the Federation, on the other hand, often sell their cotton in terminal markets located at longer distances and hence have to incur greater transport costs. The most important item of cost incurred by the State agencies in particular, was interest charges. The Gujarat Federation's interest costs were barely 2 to 4 per cent of its sale value, while some of the studies reviewed showed that interest cost incurred by private trade was barely 1 per cent of the terminal price. In sharp contrast, it was observed in case of both the public sector agencies that the interest costs were much higher. While it was often 3 to 5 per cent of the sale receipts in case of the Maharashtra Federation, it was often as high as 7 to 11 per cent of the sale receipts in case of CCI. Finally, the Gujarat Federation's expense on salaries was barely \( \frac{1}{2} \) per cent of its sale receipts. These expenses were also reasonably low in case of the CCI, being mostly less than 1 per cent. In case of the Maharashtra Federation, however, it was 2.2 per cent of its sale receipts. In case of private trade while it was observed in the Khandesh region that returns to traders were barely 3 to 4 per cent (inclusive of establishment expenses, labour costs, interest on
borrowed funds) of the sale value, in other parts of the country the trader's margins were as high as 20 per cent of the terminal price. Thus although the marketing costs incurred by private trade were reasonable, their own returns or profits were often so high so as to deprive the farmer of a significant part of share in the mill price.

Between the Maharashtra Federation and the CCI, it can be observed that the Maharashtra Federation's costs were slightly higher than the CCI's costs, despite the fact that the CCI's interest costs were far higher than that of the Maharashtra Federation. The CCI, unlike the Maharashtra Federation was able to economize on its administrative costs (salaries and other benefits) and as stated earlier these were much lower than that incurred by the Maharashtra Federation, though both are public sector organizations.

The share of the farmer in the sale receipts of the Maharashtra Federation ranged between 80 and 115 per cent and the average share for the period 1972-73 to 1986-87 was 90.16 per cent. In case of the CCI the average share was 88 per cent. While this share is comparable with that given by the successful cooperative marketing societies in Gujarat as well as the share offered by the private traders in Khandesh region, the important point to note in case of both the State agencies is that this share of the producers in the final price could be ensured not entirely through the sale operations of these agencies but partly through the subsidy, often
very sizable, provided by the Government from their budgetary resources. In case of the Maharashtra Federation the Price Fluctuation Fund, devised to ensure payment of guaranteed price to the producers was completely wiped out due to continuous and sizable losses suffered by the Monopoly Procurement Scheme. The proceeds of both the Price Fluctuation Fund and the Capital Formation Fund were inadequate to pay the farmers the guaranteed price that was fixed and a net amount of Rs.331.07 crores, in the form of Government subventions had to be transferred from the State budget to the cotton growers over the period of five years since the 1981-82 season. If this money had not been transferred from the State budget to the cotton growers but the price paid to the producers had been from the Federation's sale proceeds alone, then the share of the producer in the Federation's total sale proceeds would have been only 83.36 per cent (the remaining 16.64 per cent being the cost of marketing) and not 90.16 per cent of the sale value which includes a sizable amount of State subventions. Thus the farmer's share in the sale proceeds of the Federation was increased by 7 per cent due to Government subsidies received by the Federation. The case of the Cotton Corporation of India does not seem to be very different. The Corporation was suffering losses continuously since the 1977-78 season and in order to meet these accumulated losses it had to not only draw down its share capital but also borrow from commercial banks and depend upon Government loans. If it were not for these borrowings the share of the farmer in
the CCI's total receipts would have been only 84.5 per cent. Thus paying the farmers a higher share by depending upon Government borrowings and subventions and drawing down share capital is hardly a sign of efficient marketing by these public sector agencies. The contribution of net subsidies indicates that the State marketing organizations succeeded in ensuring no more than 83 or 84 per cent of the sale price to farmers. While this was more than what the private traders in certain parts of the country paid to the cotton growers, it was certainly much lower than what private trade in the Khandesh region or successful cooperative marketing societies in Gujarat were able to pay the farmers.

Further, a close examination of the comparison between ultimate price in Maharashtra and the prices received by producers in the regulated markets of the neighbouring States revealed that three-fourths of the times and almost entirely after the 1975-76 season, the prices in other markets were higher than the ultimate price in Maharashtra which means that the overall picture is not one of a fair price to the producers in Maharashtra. Also, most of the times when the Maharashtra ultimate prices were comparable to or higher than prices in other markets, it was due to State subventions received by producers in Maharashtra. If this were not to be available and the Scheme were to make do with only the proceeds in the Price Fluctuation Fund and Capital Formation Fund, the ultimate price to the producers, by and large, would have been lower still. Moreover, the sales operations of the Scheme
were also inefficient and the Federation was unable to sell its cotton at the best possible prices. A comparison of the sale prices of cotton lint by the Federation with the prevailing rates in Bombay showed that the Scheme was always selling at prices lower than the Bombay rates. This was due to poor grading of cotton by the Federation at primary markets, and discounts given to mills for large sales. If this is taken into account, then the effective price paid by private trade to the producer may not be lower than the price paid by the Federation, even in situations where trade charged a high margin, for it sold at higher price! The financial problems of the Maharashtra Federation were further aggravated in the event of the guaranteed price in Maharashtra being higher than the price prevailing in the competitive markets of the neighbouring States. In such cases (for example in 1985-86) there was a large inflow of cotton (smuggling) into the State from across the border, the Scheme was thus put into greater financial difficulties. Thus the closed monopoly system costs more and also there is no evidence to show that the farmers often received a better price.

It may be noted in this context that just as in the case of the Maharashtra Federation which operated as a monopolist in case of purchase of kapas, in other countries such as West Africa, similar monopoly marketing boards such as the Gold Coast Cocoa Board, Nigeria Oil Palm Produce Board,
Nigeria Groundnut Board and Nigeria Cotton Board, were set up between 1947 and 1950, to take over the export of a number of products such as cocoa, oil palm produce, groundnut and cotton respectively. These Boards had statutory monopoly powers of export and covered practically all agricultural products exported. They aimed at stabilizing fluctuations in the producer's incomes (as in case of the Maharashtra Federation) due to fluctuations in international prices, by maintaining their incomes when prices are low and restricting them when prices are high.

These Boards, however, accumulated large surpluses year after year by keeping prices to the producers far below sale proceeds and far below prices ruling in the world markets. Moreover, these surpluses were net of the heavy export duties which were included in costs. If to the amounts retained by the Marketing Boards the sums collected by the Government in export taxes was added, it was observed that deductions from the incomes which producers would have received if the full proceeds of their output had been allowed to reach them were well over 50 per cent. Further, during these years when the incomes of the producers were so severely restricted, prices of imports on which a large proportion of income of producers was spent rose sharply. The terms of trade of the producers were therefore deliberately depressed. This underpayment to producers which in the short period depresses the standard of living of the
producers, in the long run adversely affects the incentive to produce and increase production. The surpluses of these Boards had been so large that they were equal to the average level of payments to producers for about three seasons. Thus the case of the Marketing Boards in West Africa, which had monopoly in the export of almost all agricultural products, seemed to be the exact opposite of the Maharashtra Federation which had monopoly in the purchase of kapas. While the West African Boards had such large surpluses so as to maintain the average level of payments to producers for about three seasons, in case of the Maharashtra Federation, we find that the Price Fluctuation Fund which was devised to ensure payment of guaranteed price to producers and stabilize returns to them over years was wiped out and further even the proceeds of the Capital Formation Fund were inadequate for payment of the fixed guaranteed price. The Federation had to thus heavily depend upon State subventions from its budgetary resources for keeping its commitment of guaranteed price to producers. While the Stabilization Scheme evolved by the West African Boards had their own limitations, in the sense that a large part of the producer's incomes were siphoned off into the Price Stabilization Fund which was a disincentive to producers to increase production, in case of the Maharashtra Federation we find an example of an inefficient marketing organization. The Federation incurred heavy marketing costs, was unable to pay a better price to the producers, held large
unsold stocks of cotton which had to be sold at a discount due to deterioration in quality as a result of improper storage and finally did not grade cotton properly — inferior quality cotton often being graded as superior quality. All these factors resulted in huge losses for the Maharashtra Federation and the State had to come to the rescue of the cotton growers to ensure them payment of guaranteed price. It is difficult to imagine how long the State Government will continue to pay the cotton farmers from general budgetary sources. Neither the example of the West African Boards nor that of the Federation seems to be a desirable situation.

However, the State agencies as a result of their purchase operations as well as pricing policies to some extent did help to reduce intra-seasonal as well as inter-seasonal fluctuations in prices. It was observed that the presence of the CCI in the purchase of cotton in the primary markets helped to reduce the seasonal price spread. The Maharashtra Federation also by virtue of its mode of payment helped to reduce inter-seasonal price variations. This was, however, accomplished by means of not only the Price Fluctuation Fund and Capital Formation Fund but also by a sizable amount of Government subsidies.

Further, the Monopoly Procurement Scheme had an in-built mechanism by which it could recover dues of cooperative credit societies from the cotton growers at the time of sale of their kapas. As a result, the recovery position in the
cotton growing districts improved and the Monopoly Procurement Scheme helped to contribute towards better recovery position of the District Central Cooperative Banks in the cotton growing regions. However, the in-built mechanism of recovering cooperative and other dues from the cotton growers had certain loopholes. Cotton growers often avoided repaying their dues by selling their kapas on the green card of another member of the society who had no dues or by selling smaller quantities than what was produced (and selling the rest to private traders for subsequent export outside the State) so that the dues could not be fully recovered. This was possible due to inefficient administration by the Monopoly Procurement Scheme. The green cards which contained details on area under cotton, variety of cotton grown and extent of dues to be recovered were not maintained up-to-date and were often incomplete. Hence it was possible for cultivators to evade repaying their dues to the credit societies.

Thus the performance of the two State agencies in the marketing of cotton suggests that the CCI should continue its role of performing price support operations and also bid in the primary markets in competition with other buyers so as to secure a better return to the grower and also reduce seasonal price spread. It was observed in the early years of its operations that the CCI had low marketing costs and also earned profits. It was only because the CCI acted as an agent of NTC mills and further made large scale purchases in
anticipation of maintaining a buffer stock following the announcement of the Textile Policy of 1978, that it began to incur losses. The NTC mills did not honour their commitments as a result of which the CGI had unsold stocks. Also, although the Government had announced in Parliament that the CGI would be asked to maintain buffer stocks, it was finally not asked to do so. But in the meanwhile the CGI had begun doing so in anticipation and thus incurred huge costs. If these had not happened, the CGI could have been able to keep its costs low and not depend on the State for meeting its losses.

A competitive trading organization like the CGI is however a useful device in reducing intra-seasonal price fluctuations and ensuring a better price to farmers. Its work as an agency operating a buffer stock should be separated from its role as a purely trading organization bringing greater discipline and economy into trader's operations.

The operation of the Monopoly Procurement Scheme by the Maharashtra Federation does not appear to have set a good example. Instead, cooperative marketing societies, similar to these in the State of Gujarat should be set up, as these cooperative marketing societies have been functioning successfully with minimum costs and maximum returns to member-producers. These societies can compete with private trade and thus discipline the market. However, pending such societies coming up in different parts of the State, the
Federation, instead of operating as a closed monopoly, should buy cotton in open competitive markets in the cotton growing regions of the State, exactly as the SCI does in the rest of the country. The Federation should thus give up its closed monopoly scheme and operate in competition with other buyers as such operation by the Federation will reduce its costs and also secure for the grower a better return. This would also force the Federation to economize in its marketing operations, provided, of course, the State gives up subsidizing its losses.

References