INTRODUCTION

The government marketing operations significantly affect the market structure and the price level. The role of marketing in the economic development of the less developed countries like India was recognised only a few years ago. Since then the development economists have recognised the positive relationship and interactions between the goals of economic development and those of market structure, conduct and performance.

In a vast country like India, regional specialisation in the production of agricultural commodities is inevitable. Such states as West Bengal, Kerala, Maharashtra and Gujrat, which grow several important non-food crops, are deficient in foodgrains, while others like Orissa, Punjab, Haryana and Andhra Pradesh are surplus in foodgrains. Based on the theory of comparative advantage, such regional specialisations would result in an optimum land use and overall greater agricultural production. Besides, the nature of agricultural industry is such that the production of foodgrains is seasonal while consumption is more or less uniform over different months of the year. The logical policy implication of all this would be that there should be a flow of foodgrains from surplus states to deficit states, and from surplus period to scarcity period of the year in such a way that the production of foodgrains does not suffer at least in the initial stages of the economic development of the farm sector.

It is in this context that the organization of economic activities in the marketing system of the developing countries like India merit rigorous examination.

The organization of economic activities in the foodgrain marketing system (also known as foodgrain marketing policy) in India has remained a controversial issue over the past two decades. It has over this period, swung from complete free trade to virtual complete take-over of the private trade in the foodgrain marketing system. The main argument of those who condemn private trade is that its activities are anti-social; it behaves in monopsonistic and monopolistic manner, exploits the producer on the one hand and consumer on the other by creating imperfections in the marketing system. It is also said that it is the mal-functioning of the private marketing system which results into large seasonal and regional price differentials in foodgrains. Perhaps guided by such considerations the Foodgrains Enquiry Committee (1957, 75) called for a progressive and planned socialization of the wholesale foodgrain trade as an essential condition for price stabilization. It was said that the existing foodgrain markets in India were essentially imperfect and such imperfections usually resulted into wide disparities in prices over different periods of the year and in the different parts of the country.

The State intervention could be recommended mostly because of the imperfections in the factor and product markets. The nature and extent of market imperfections will be different in the different regions and at different points of time. Broadly speaking these imperfections, on the basis of their
source origin, could be classified into the three main categories. In each case, different type of policy actions would be called for. Firstly, there are imperfections arising out of the monopsonistic and monopolistic activities of the private trade. Such imperfections could be identified by examining regional and seasonal price differentials in relation to their respective transport and storage costs. The extent of business concentration and the nature of competition in the market could also help in identifying this problem.

After Bauer (1954) investigated trade pattern in western Africa about two decades ago, a number of authors have been concerned with this issue especially in explaining the problems of Centrally regulated marketing system. In particular, several studies of foodgrain marketing, based on detailed field research in India and other developing countries (Galbraith and Holton, 1955; Bauer, 1963; Martin, 1963; Hirsch, 1961; Dewey, 1962; Kulkarni, 1962; Jasdanwala, 1966; Cummings, 1967; Lale, 1968; Jones, 1970; Abbott, 1970) have examined the performance of State organizations and private trade. But the available evidence does not provide conclusive support in favour of one over the other. Particularly, the impact of the government policy measures on the producer farmers and the private traders has received very little attention.

The role of the private trade (whether it creates market imperfections or not) needs to be assessed objectively. Lerner (1949, 21-23) and Spinks (1970, 212-216) reported that the private trade performed a useful marketing function by effecting socially desirable movement of goods from where they are needed less to
where they are needed more. The charge against private trade that it creates imperfections in the market is based on the confusion between two concepts. One is the competitive speculation which refers to the transfer of goods over space and time. Such a speculation, in a market, where there are a large number of firms would be competitive in nature. The second, which could be called monopolistic speculation, consists in creation of artificial scarcities which ultimately result into higher prices and profits. But such speculation is rather rare, as it could arise only where the trader possessed all round extensive control of productive resources. Such situations needs to be corrected through appropriate governmental measures.

The second source of market imperfections is the government policy itself. In the past there has been frequent governmental intervention in the foodgrain marketing system of India. Such intervention assumed the form of compulsory procurement, fixation of ceiling price, zoning of surplus and deficit states, fair price distribution and rationing. See, Knight (1954). Recently, the government intensified its procurement, zonal restrictions and state trading operations in the foodgrain markets. These operations originated in political pressure, popular biases, inadequate knowledge or misplaced developmental zeal. Often such governmental intervention has had no economic justification and, therefore, proved to be inconsistent with the development of agricultural sector. The prices of foodgrains were pegged at low level whereas prices of commercial crops were left to be determined by the market forces. See, Lele (1968, 2-4). The available econometric studies
(Rajkrishna, 1968; Dharam Narain, 1965; Dean, 1965, 1965a; Mellor, 1969; schultz, 1967) provide evidence that individual crops show an elastic supply response to changing prices. There is also considerable evidence that commercial crops like cotton, jute etc. show a higher elasticity of supply. Lele (1969, 4) observed that if prices of commercial crops are allowed to increase much more rapidly, of course, under the influence of market forces, than those of foodgrains, there would be shift of inputs from foodcrops to non foodcrops. It would be worse if scarce agricultural inputs, which are subsidized and are provided for more agricultural production, are used for raising more of non foodcrops, because of the relatively higher prices of the latter.

Again, there is the third source of market imperfections. Mellor (1969, 3) reported that despite competitive conditions facilitated by easy entry, a large number of participants and a high degree of market integration, there are substantial market imperfections in the low income countries. These arise mainly from the costly and inadequate and uncertain transport facilities and lack of knowledge of crop size and storage stocks.

If the market imperfections arise from the monopolistic activities of the private trade, the logical way out would be the direct involvement of the government in the market with a view to securing effective competition. The government could take several policy actions by widening access to credit, breaking up trader's ring, improving marketing transparency, preventing unfair trading practices, encouraging the new firms to enter, direct purchase and sale of foodgrains in the market and by providing close liaison between government and the private trade.
The Punjab State has recently witnessed a green revolution. This raises an important question: Can the tempo of present increased food production be maintained without a firm assurance of the remunerative prices to the farmer? The producer's incentive for increasing production could perhaps be maintained if the imperfections (whether arising due to private trade or State intervention) in the existing market structure were removed and the conditions of an ideal market structure were created. This, however, entails problems, like preparing the produce for market, grading, transporting, assembling and distributing, financing and storing, each of which is a complex element of market structure. Sahota (1975, 5) opined that the nub of the problem was that both in intent and practice, the government's price policy has resulted in a ceiling and not a floor price and as such the price policy of the government of India seems to have gone counter to the precepts of agricultural economic theory. As a consequence, agricultural production might have suffered. Schultz (1967, 51) also warned that an inappropriate price policy would slow technological change, therefore, the prime function of price policy should be to meet problems arising from technological change.

The following government operations in foodgrain markets have been used singly or simultaneously in the Punjab State in the 1950's and these became more intense in the mid 1960's.

1. **Procurement Policy Programmes**

Procurement of a sizable proportion of the production of foodgrains was one of the major areas of government marketing operations. The procured foodgrains were used for building up buffer stocks and exporting foodgrains to deficit States on
government account. Procurement operations may take the following form:

a) Levy on producer and/or miller,
b) Voluntary purchase from millers and wholesalers on an agreed basis as to quantity and/or price,
c) Pre-emption on market sales/auctions,
d) Monopoly purchase, and
e) Competitive open market purchase.

2. Regulation of Inter-State Trade, that is, Zonal Marketing Policy:

Zoning refers to limiting the geographical area in which the free movement of foodgrain is permitted. As a general rule, tighter the supplies the smaller the zone. By limiting movement of grain from surplus states, prices within them were depressed. Government could procure more to feed consumers in the deficit states at the cost of producers of the surplus states. Zonal restrictions may be of the two types:

i) Single State Zones; and
ii) Multi-State Zones.

3. State-Trading in Foodgrains:

This may take the form of (a) partial take-over, and (b) complete take-over of wholesale trade.

Some of these government marketing operations have been tested in the Punjab from time to time in the past. It is commonly believed that these operations have had an impact on the market structure, conduct and performance. The free competitive market forces of demand and supply were not allowed to establish prices and movement of foodgrains over area and time. Besides, new institutions would develop either to supplement or to supplant the existing ones in the market. The old functionaries in the markets
would now find adaptations, wherever possible or quit the business. Consequent upon government marketing operations, the behaviour of the marketing firms, their volume of business and the relationship with co-firms and producer-farmers undergo a noticeable change. In most cases these marketing operations became potent instruments of restricting the competition in the market and as such affected the market structure, conduct and performance in a significant manner. Bhatia (1974a, 150) reported that agricultural markets were highly competitive in structure and an element of imperfections entered when the government restricted competition by imposing controls.

Market structure, as it was affected by the government marketing operations through procurement, zonal restrictions and state trading in foodgrains, has remained an unattended and underdeveloped tool of agricultural growth in India. It is essential that the efforts should be made to obtain basic data relating to the functioning of marketing system under these situations. Analysis of such data would enable the policy makers to arrive at more rational decisions and identify the situations in which there is an abuse of market power. In this connection, Bain (1959, 7) pointed out that the ultimate goal of market structure analysis is the development of criteria for use in public policy formulation regarding business competition and market power. Clodius and Mueller (1965, 111) suggested many virgin fields of agricultural market structure and urged the potential research workers to explore these new fields.

While examining the problems of the change in the agricultural sector of the developing countries, Moore, A. (1965, 111) observed that the development planners often placed
disproportionate emphasis on expanding output at the farm level. As a result, too little attention was devoted to improve the market structure, which was needed to provide the economic incentives for increasing output. It may be noted that the efforts to improve farm production practices often get far less than full-hearted support from growers, because of inadequate price incentives in the markets. Most of the under-developed countries have meagre public capital to invest in efforts to increase agricultural output. In some cases, it is probable that this capital would yield much greater returns if allocated to improving market facilities and practices rather than directly improving crop yields.

Whenever the price situation went from bad to worse, the governments of the less-developed countries depended mainly on market regulations, subsidies, price regulation and restrictive export and import measures that merely alleviated symptoms rather than market structure problems. These public regulations have been found to restrict rather than facilitate the smooth functioning of the marketing system and, as such, merit rigorous examination from time to time to determine their appropriateness under dynamic conditions. The development of suitable agricultural market structure, is, therefore, taken as integral part of agricultural development programmes.

With a view to achieving the desired role of the marketing structure in the economic transformation of agricultural sector of the developing countries, the knowledge of the existing market structure and the impact of the government policy measures on it assumes utmost importance. The present study is an attempt in this direction.
OBJECTIVES:

The major objectives of the study are to examine:

1. the impact of increased production of foodgrains on marketed surplus,
2. the nature of competition in the foodgrain markets,
3. the impact of government zonal policy in foodgrains on price structure and the operational business of private trade,
4. the impact of government procurement operations in foodgrains on private trade and spatial and temporal pattern of marketed surplus, and
5. the impact of partial and complete take-over of wholesale trade in wheat by the government on the pattern of marketed surplus, prices, procurement and operational business of the private trade.

HYPOTHESES:


   (i) As foodgrains' production increases, the farmers retain a smaller percentage of foodgrains for family needs plus contractual obligations and make a larger percentage of foodgrains available for sale in the market.

   (ii) The quantity of foodgrain sold during the post-harvest period was governed by such factors as level of production, credit borrowed during the preceding year, size of operational holding and the price differentials in the lean period over the post-harvest period during the preceding year.


   (i) The private foodgrain market structure is basically competitive in nature. All foodgrains markets are closely
interlinked with one another in respect of price formation.

(ii) Because of the competitive market structure of the foodgrain markets, intermarket price differentials do not exceed the cost of transport.

(iii) Market share of the firms engaged in handling foodgrains in the market is proportional to their effort shares which is taken as the amount of credit advanced to the producer sellers.

3. **Hypotheses Related to the Impact of Zonal Policy on Foodgrain Market Structure:**

   (i) Government restrictions on the movement of foodgrains affected price relationships of foodgrains between the markets of the Punjab and the other state markets in a significant manner.

   (ii) Zonal restrictions distorted regional price patterns and affected integration of markets in the different states of India.

   (iii) Off season rise in prices of foodgrains were about the same, both when there were movement restrictions and when these restrictions were withdrawn.

   (iv) Zonal policy of the government affected the growth of business of the private trade and created uncertainty in the market.

4. **Hypotheses Related to the Impact of Procurement Policy on Foodgrain Market Structure:**

   (i) Government procurement policy of foodgrains has resulted in to an orderly marketing in the Punjab.

   (ii) Government procurement programmes affected the time pattern of market arrivals, as received in the post-harvest period and lean period in a significant manner.
Procurement policy has brought about a shift in the selection of markets by farmers for the disposal of foodgrains.


(i) State trading in wheat influenced the time pattern of arrivals and seasonal price variations of wheat in the Punjab in a significant manner.

(ii) The take-over of wholesale trade in wheat by the government resulted into a system of dual prices.

SCOPE

The present study is restricted only to the examination of the impact of changes in the level of production of foodgrains (wheat, gram, maize and paddy) and the government marketing operations (zonal restrictions on the free movement of foodgrains, Procurement operations in respect of wheat and rice, and the State trading in wheat) on foodgrain market structure, conduct and performance during the period 1957-58 to 1970-71. The allocative efficiency of the private marketing system vis-a-vis state intervention (Single State Zone and Multi-State Zone) has been attempted in terms of regional and temporal price variations in relation to their respective transportation cost and those of storage. The distributive justice aspect of market structure, has not been attempted in this investigation.