Chapter I

INTRODUCTION : THE HISTORICAL BACKGROUND
The legitimate role of the State in regulating prices, production and distribution of essential commodities, especially foodgrains, through market intervention was recognised in India even before independence. During the early years of the Second World War, when a serious food crisis broke out in the country, the then British administration responded to it by devising a large number of direct and indirect measures with a view to safeguarding the interests of both the producers and the consumers of foodgrains. These measures, in their essential aspects, viz., the types of administered prices, the methods of procurement and distribution etc., appeared to be more or less similar to the foodgrain price policy that has been operating in India from the mid-sixties.¹

However, the food policy of British India, as manifested during the war years, was the combined outcome of the actions taken by the Government at the Centre, on the one hand, and the provincial and the State governments, on the other. The Central Government formulated the general policy for the country as a whole; the responsibi-

lity for the actual implementation of the policy rested on the provinces and states.\(^\text{2}\) (According to the Government of India Act 1935, and the Constitution that followed, agriculture was a state/provincial subject).

1. The War-Time State Intervention

The Second World War broke out on September 3, 1939. For the first two years of the War the Government did not feel the necessity of directly interfering in the foodgrain market. Undivided India, along with Burma in the same sub-continent, was a surplus producer of foodgrains, mainly rice; and the Government was able to import Burmese rice to make up for the shortage. On January 3, 1942, Japan air-raided Rangoon, the capital of Burma. This disrupted free import of Burmese rice to the Indian sub-continent.\(^\text{3}\)

The index number of wholesale prices of rice (base 1939 = 100) having a value of 111 in September 1939 (i.e., on the eve of the war) rose to 133, 169 and 218 respectively in the corresponding months of 1940, 1941 and 1942. The price index

\(^2\) Ibid.

of wheat was 117 in September 1939, 133 in September 1940, 
193 in September 1941 and 223 in September 1942. 4

With the outbreak of War, there was a spurt in public 
expenditure, mainly due to war finances on Government of 
India accounts and the account of the Allied Powers. The 
war expenditure of the Government of India was financed by 
issuing currency notes. The dollars paid by the United 
States towards the expenses on Allied Powers' account were 
retained by Britain in what was called the 'Empire Dollar 
Pool' and sterling was credited to the account of the 
Reserve Bank of India in exchange of Dollars. Against these 
sterling securities, the Reserve Bank of India issued 
currency notes to finance Government's war expenses. 5 
There was thus a substantial increase in British adminis-
tration's deficit financing in India during the war years, 
which went up from a nominal amount of Rs. 4 crores in 
1939-40 to Rs. 438 crores in 1942-43. 6

In accordance with the rapidly rising strength of 
Indian armed forces (which went up from Rs. 1.93 lakhs in

4. See, Report of the Foodgrain Policy Committee, 
Chairman, Theodore Gregory, (Delhi,1943).
5. Dhabeshwar Datta, Indian Economic Thought : Twentieth 
Century Perspective, 1900-1950, (New Delhi: Tata Mc-Grow 
Bank of India).
1939 to Rs. 25.70 lakhs in 1945\(^7\)) more and more foodgrains had to be diverted to the defence sector. There had been, thus, a corresponding reduction in the availability of foodgrains from domestic output for civilian consumption. The unprecedented rise in the prices of foodgrains that was witnessed along with the outbreak of war could be 'explained' to a large extent by these factors: substantial increase in deficit financing, and diversion of foodgrains from civilian to military consumption. Apart from these, an additional factor, namely, certain disturbing features of the foodgrain markets in India, which also contributed to the inflationary rise in prices, is being discussed at (1.2) of this section.

On the face of such relentless rise in foodgrain prices, the British Government feared that, if no preventive measures were taken to hold the price line, it might face additional domestic troubles against its continuance in India. The first steps at controls were thus initiated by the Government, after more than two years of the outbreak of the war, on December 5, 1941, with the notification of

a statutory maximum market price for wheat at Lyallpur and Hapur at 4 rupees and 6 annas (i.e., Rs. 4.17 approximately) per maund. But the implementation of this price met with resistance. The Punjab Government, influenced by the powerful interests of the rural rich, passed a protest resolution in the legislative assembly against the 'low price' that was fixed for wheat. Therefore, on May 25, 1942, the Central Government invoked the Defence of India Rules and, using its provisions, promulgated a Foodgrains Control Order. According to this Order, any dealer, other than the producer of foodgrains, engaged in purchase, sale, or storage for sale, of any of the foodgrains amounting to 20 maunds or more was required to be licensed with the provincial government of his respective region and submit to it periodical reports of his transactions.9

Upto the end of 1942 food management was under the charge of the Central Commerce Department. In December 1942, a separate Food Department was set up at the Centre and it was entrusted with the duty of formulating an all

India foodgrain policy and of coordinating its implementation in different provinces and states.10

The Food Department evolved a 'Basic Plan', which could give fairly reasonable indications about the annual positions of surpluses and deficits of foodgrains in various provinces. The Food Department asked the local administrations (the provinces and states) to declare in advance their anticipated surpluses and deficits of the food crops which were nearing harvests. On the basis of the information provided by the states and provinces, the Food Department worked out the region-wise surpluses and deficits. The 'Basic Plan' also gave an idea about the requirement of imports, if any, to bridge the gap between the domestic availability and demand of foodgrains. With these indications in hand, the Central Government decided the overall questions of foodgrain management, such as, procurement, distribution, inter-province and inter-district grain movement, fixation of wholesale and retail prices etc.

However, as pointed out already, since agriculture was constitutionally a provincial/state subject, the Central Government had to use a good deal of persuasion to make the local administrations agree to introduce the policies formulated by the Centre. From the very beginning of the war, in fact, the Central Government—it had not directly intervened in the market—was using what was known as 'conference method' to obtain the consent of the local administrations for the introduction of the foodgrain price policy. By 1942, a series of six such price control conferences were convened by the British administration with the provinces and states. These conferences, at various stages, had agreed to administer the following measures to check the rising prices of foodgrains:

(i) a floor price, (ii) a ceiling price, (iii) ban on export of foodgrains, (iv) procurement by government or the agencies appointed by it to undertake procurement on its behalf, and (v) successive increase of rationing in urban areas. 11

The purpose of fixing a floor price was to give an assurance to the cultivators against any fall in the farm

prices received by them below a stipulated minimum. The foodgrain cultivators in India had been, for a long time, under severe strain caused by the economic depression of the thirties. While the total supply of cereals (estimated as net domestic output of rice, wheat, bajra, maize, barley, ragi and millets plus net import of cereals) steadily decreased from around 54 million tons in 1931-32 to about 49 million tons on the eve of the war in 1938-39 (which accounted for a reduction in the per capita availability of cereals from 437 lbs. in 1931-32 to 360 lbs. in 1938-39) the prices of these cereals received by the farmers also exhibited a downward tendency, or they remained more or less stagnant during this period. This would be clear from the fact that the average annual farm harvest prices of rice — estimated from the prices available for Assam, Bengal, Bihar, Bombay, Madras and UP — was Rs. 3.40 per maund in 1931-32 and Rs. 3.30 per maund in 1938-39. Similarly, the farm harvest price of wheat — average for Bengal, Bihar, Bombay, Punjab and UP — at Rs. 3.90 per maund in 1931-32 came down to Rs. 3.50 per maund in 1938-39.

12. Estimated from the figures available in the Government of India publication, Food Statistics in India 1940, at the rate of one rupee = 16 annas and one maund = 0.37324 quintal.)
But when the prices started rising with the outbreak of the war, the relatively small farmers were found to be not receiving the benefit of price rise. A large number of them who were for long under the clutches of the rural money lenders had to sell their produce - if they had not already surrendered it to the creditors - immediately after the harvest when the prices slump. The first price control conference of October 1939, therefore, decided that the Central Government should give an assurance to the cultivators against any fall in prices to uneconomic levels. Thus followed the announcement: "should any development take place which affect the availability of food crops they (the government) will buy such quantities of food stuffs in the open market whether in British India or in the states as are calculated to prevent a serious fall in prices". 13

The floor prices, however, could not have much practical significance because (i) the announcement of the floor price was not followed by any machinery that could safeguard the interests of the small farmers against the

existing adverse conditions under which they had to dispose of their produce; and (ii) the relatively richer farmers who had 'effective' surplus with them and had used to usurp most of the produce of the small farmer against pre-harvest credit, could sell their output at remunerative prices, as these prices had been persistently rising since the outbreak of the war. Therefore, the announcement of the floor price policy, that is, 'to buy such quantities of food stuffs', 'as are calculated to prevent a serious fall in prices' had only notional significance during the war years. What was more important at that time was the fixation of certain upper limit to the movement of prices. In December 1939 the Government fixed a ceiling to the rise in wholesale prices of foodgrains upon 20 per cent above the level that prevailed in September 1939. The wholesalers were asked to notify the prices at that level. In order to supervise the enforcement of ceiling prices, the government appointed advisory committees consisting of leading merchants and public men. These arrangements and a sort of 'regimentation' that followed led to further disapperance of supplies from the market and escalation

14. Ibid.
of prices above the declared ceiling. The government, therefore, permitted another 20 per cent increase above the ceiling that was previously fixed. When this ceiling also failed to work, some of the provincial governments again raised the level of ceiling; Bombay government, for instance, legalised sales of foodgrains at 50 per cent above the all India ceiling.15

In addition to the floor and ceiling prices, the British government also impressed upon the provinces and states the necessity to compulsorily procure grains from the growers, traders and flour mill owners. A Foodgrain Policy Committee, constituted under the chairmanship of Sir Theodore Gregory, which submitted its report in 1943 gives a detailed account of the different systems which existed in various parts of the country:

(1) A monopoly procurement: This was in vogue in Madras. The cultivators had to surrender the entire surplus with them to the government at a fixed price. For the purpose of determining the surplus, each cultivator's crop was separately assessed.

15. Ibid.
(2) A levy on cultivator: The Bombay government introduced a compulsory and graded levy from the cultivator, of a portion of his surplus grain. The cultivator had to surrender the levy quota to the government at a price fixed by the latter. If any excess over the levy quota was available with the cultivator, Government had the first right to purchase that portion also.

(3) A levy on trader: The Central Province (now Madhya Pradesh) was not in favour of directly interfering in the primary market. Instead of doing that, it decided to take a portion of the supplies which were passing through the wholesalers in the secondary market. The wholesalers had to surrender such portion that was decided by the government at a fixed price.

The remaining provinces introduced any of the three methods of procurement explained above, or a combination of those methods. At the operational level, however, these programmes - the floor price, the ceiling price and the quantum of targeted procurement - could not succeed to the desired extent. Under the regime of these floor prices, ceiling prices and procurement systems, the
producers and traders, instead of making available the grain either to the government or to the market, sent it underground or moved it to the areas where the prices were relatively higher. 16

1.1 Causes for the Ineffectiveness of War-Time State Intervention:

The price policy that was followed during the war-years, as we saw above, led to the emergence of a flourishing black-market. 17 Some of the major aims of the war-time state intervention, namely, stabilisation of foodgrain prices at reasonable levels, procurement for distribution among urban consumers (as also the armed personnel), a remunerative price to the producer etc, could not achieve the desired results on account of the following reasons:

Firstly, it appeared that there was no clear-cut idea behind the policy. The major decisions taken in the successive price control conferences between the Central Government and the representatives of the provinces and states would clarify this point: the first price control conference of October 1939 decided to fix a ceiling to the market prices of foodgrains; the

second price control conference of January 1940 decided to abolish the controls already in vogue; the third price control conference of October 1941 decided to reintroduce price controls; the fourth price control conference of February 1942 decided to tighten the control by (i) regulating movement of grains through rail from the producing provinces to the consuming provinces, and (ii) requisitioning the stocks held by producers, traders and flour mill owners either with themselves or hypothecated to the banks against loans taken by them. 18

Secondly, the attitude of the surplus producing provinces, whose support is essential for any food management, was not in favour of government interference in market for controlling the prices. In the price control conferences Punjab Government, for example, insisted that the prices, rather than being artificially suppressed, should be left to adjust themselves to the prevailing conditions of supply and demand. Its argument was that (i) the industrial areas had unjustly profited, during depression, by living on cheap foodgrains, and (ii) even during war the industrial prices

18. Henry Knight, "Food Administration in India, op-cit."
were not subjected to any controls; as such, there was no point in controlling the prices of agricultural produce.\(^1\)

Thirdly, there was speculation and hoarding. According to Radha Kamal Mukherjee, D.R. Gadgil, V.I. Pavlov, etc., speculation and hoarding in foodgrains and other agricultural commodities started along with the entry of merchants and usurer's capital in agriculture which occurred much before the establishment of British rule in India.\(^2\)

Radha Kamal Mukherjee's account of the Pharias of Bengal, and the Banjaras and Banias or Beoparis of Northern India is particularly interesting to know how speculation and hoarding in foodgrains were practiced, especially in the thirties.\(^3\)

The Pharias were village money lenders, who possessed small capital and grain storage facilities. Generally, they borrowed money from the wholesale dealers in foodgrains and advanced it to the cultivators against hypothecation of their produce or entered the primary

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19. Ibid.


21. Radha Kamal Mukherjee, \textit{op. cit.}
markets in the post-harvest period and purchased paddy at low prices. After husking and cleaning, they disposed of it in the later part of the season. Wherever their purchase was tied up with the loans, they suppressed the prices paid to the cultivators, on the one hand, and pushed up the market prices, on the other, to the extent of covering the business margin and the interest payable to the wholesalers from whom they borrowed money.

The Banjaras were nomadic middlemen, whose activities were mostly confined to Punjab, United Provinces, Rajputana, etc. A Beopari, on the other hand was, to quote Radha Kamal Mukherjee, "often one of the shrewder cultivators who takes to trade after he has done his work on his field". The Banjaras went around from village to village and distributed loans to the needy peasants, on an undertaking that they would surrender the produce as soon as harvest was over. These money lenders (Banjaras and Beoparis) sometimes advanced seeds to the cultivators, in the sowing season, and took the repayment in grains, often three to four times higher than the amount of advance. Such practices virtually reduced most of the cultivators
into producers for their money lenders, which is evident from the marketing pattern during that period in selected wheat mandis. Mukherjee’s estimates for the thirties show that, in Lyallpur, out of the total wheat marketed in the post-harvest period, only less than half (49 per cent) was sold directly by the cultivators, whereas 52 per cent were sold through the money lending intermediaries. In the United Provinces, during the same period, the share of direct sale by the cultivators was 30 per cent of the total sales and through money lenders, 70 per cent, while in Attock district only 1.4 per cent constituted directly sales by cultivators, the remaining 98.6 per cent being sold through the local money lenders. The direct sales by the cultivators diminished, according to Mukherjee, in proportion to the rise in their debt burden.22

An interesting aspect of the grain marketing of the pre-Second World War period was that, as soon as the produce reached the mandis, either through the cultivators or the intermediaries, it was treated more or less like liquid assets. In the major foodgrain mandis of Hapur, Gaziabad,

22. Ibid.
Hathras etc., according to Mukherjee, the right of possession of the grain, weighted and kept in kothas and khattis (barns and store houses) changed several hands without actual delivery of the produce. Such transactions were settled by dealing in differences, i.e., the amounts by which the value of grains kept in kothas and khattis fluctuated as a result of the rise or fall in their market prices.\textsuperscript{23}

In order to secure higher margin on transactions, the dealers in foodgrains used to deliberately depress the price during the buying seasons. One common practice resorted to by them was to go around major mandis with cart loads of stocks, which were already held by them and 'dump' it there, as a result of which prices crashed to levels below what would have otherwise prevailed due to normal seasonal factors. After undertaking purchases of the required quantities at the artificially lowered prices, these traders withdrew the stocks which they 'dumped' in the mandis, and forced the prices to go up again.\textsuperscript{24}

Speculation in foodgrains, especially wheat, according to Mukherjee, was more attractive in the thirties, which

\textsuperscript{23. Ibid.}
\textsuperscript{24. Henry Knight, Food Administration in India, op. cit.}
was evident from the fact that some of the firms which incurred loss in futures trading in cotton at Bombay turned up to northern Indian grain mandis where they undertook forward contracts in wheat to make up for their loss in cotton trade.

1.2 Impact of War-Time State Intervention — the Great Bengal Famine:

A notable development that took place, when the Government entered the market for foodgrains in the course of the War and could, therefore, be attributed principally to the state intervention was the outbreak of the Bengal Famine in 1943-1944, which caused the death of around 3 million people in Bengal. The available data on foodgrain supply shows that Bengal Famine occurred in an agriculturally better period. We pointed out earlier that, despite the long-run stagnation of Indian agriculture, the index number of total foodgrain production (base 1924-28=100) for 1935-40 at 71.6 was 74.4 for 1941-45, i.e., a four per cent rise in the all India foodgrain production during the quinquennium in which Bengal Famine took place.

Take the specific case of Bengal's food production itself, Bengal has three paddy crops: (i) aman or winter paddy, sown in May-June and harvested in November-December; (ii) ahus or autumn paddy, sown around April and harvested in August-September; and (iii) boro or spring paddy, planted in November and harvested in February-March. The output of rice from all the three paddy harvests plus "net imports" into Bengal accounted for 9.194 million tons in 1942, whereas it was only 7.892 million tons in 1943. However, compared to the estimates for 1941, at 6.991 million tons, the 1943 rice supply (output + 'import') was 13 per cent higher. Even if we consider this against the rise in population in Bengal, our argument would remain valid, as is evident from the per capita availability of total foodgrains in 1943, which registered a 9 per cent increase over 1941.26 In the words of Amartya Sen, "while 1943 was not a very good year in terms of crop availability, it was not by any means a disastrous year either. The current supply for 1943 was only 5 per cent lower than the average of the preceding five years. It was, in fact, 13 per cent higher than in 1941, and there was, of course,
no famine in 1941".

In spite of the higher level of availability of foodgrains in 1943, as against 1941, there was also a sharp rise in the prices of foodgrains in 1943. The index number of foodgrain prices, computed for Bengal (base 1940=100) was 385 in 1943, as against 109 in 1941 and 160 in 1942.27

As regards the impact of this sharp rise in foodgrain prices on different sections of the peasantry in the rural country side of Bengal, Amartya Sen cites the results of a survey conducted on 592 families in five villages of Faridpur district (Bengal), as on 1-1-1943, and shows the extent of destitution caused to different rural occupational groups. Out of 592 families surveyed, 416 families belonged to agricultural labourers, share-croppers, peasant cultivators and landlords, while the remaining 176 families belonged to artisans, petty traders, office employees etc. Among these occupational groups, the highest level of destitution was observed among agricultural labourers, the proportion of which
was estimated at 52.4 per cent. This could be attributed to the deterioration in the real value of agricultural wages in the face of run-away inflation, as is clear from the estimated change in the index of exchange rate of agricultural wages vis-a-vis foodgrain prices, for Bengal, at 1940=100, which dipped to 72 in 1942 and 32 in 1943. 28

Of the remaining sections of the peasantry, only landlords are surveyed separately, whereas small peasants, share-croppers and well-to-do peasants are clubbed together. It is, therefore, difficult to examine the impact of inflationary rise in foodgrain prices on these groups separately. However, the survey shows that there was no destitution for landlords, while among the peasant cultivators and share-croppers 18.4 per cent suffered destitution. Probably the small farmers and share-croppers suffered, on account of their dependence on the market for a portion of the foodgrains required for home consumption, whereas the surplus producing well-to-do peasants and landlords were not affected, as they are

28. Ibid.
net sellers of foodgrains and would gain the most from inflation. 29

To conclude what we have stated so far, the wartime state intervention in the market for foodgrains could not achieve the desired results, namely, stabilisation of foodgrain prices, domestic procurement for public distribution, remunerative prices to the cultivating households etc. on account of certain inherent weaknesses in the policy itself, such as, lack of clear-cut idea behind the policy, frequent changes in the declared programmes, and so on. These weaknesses were exploited by the speculators and hoarders, leading to further worsen the overall availability and distribution of foodgrains, as also to famine conditions in different parts of the country, out of which the Great Bengal Famine was only the most pronounced and therefore widely recognised. 30

Yet another factor which was also responsible for the ineffectiveness of the foodgrain price control programmes of the Second World War period was the peculiar system of land tenures, or the conditions surrounding the

29. Ibid.
ownership and cultivations of land, which was prevalent in India at that time. By now it is well known that the land tenure systems, like the zamindari system which was mostly in existence in the present States of West Bengal, Assam, Bihar, Orissa, Uttar Pradesh and certain parts of Andhra Pradesh and Tamil Nadu, and the ryotwadi system which generally prevailed in the Central Indian States like Maharashtra and parts of Gujarat, as well as Madhya Pradesh, Tamil Nadu etc. were not helpful in improving the productivity of land. The zamindars, jagirdars, talukdars etc. were more interested in collecting rent from the tenants, rather than marking any improvement on land. Even through the early British administrators in India conferred permanent proprietary rights on land to these landlords and other intermediaries in an attempt to establish a sort of landlord-capitalism,

on the expectation that the 'new' land owners would then invest more capital on land and undertake cultivation by employing wage labour. But, even after obtaining proprietary rights on land, these landlords and other intermediaries went on extracting rent, without taking and interest in the improvement of land. This is attributed as one of the principal reasons why India's foodgrains production remained stagnant for half a century ending 1944-45. (see Table-1.1).

2. Foodgrain Policy in the Post-War Period

The Second World War ended in 1945. By that time, a wide range of controls on production, prices and distribution of foodgrains were in operation in different parts of the country. The Government introduced various measures, like, provision of minor irrigation facilities and quality seeds to cultivators in the principally foodgrain producing areas with a view to prevent

32. Utsa Patnaik, Capitalist Development in Indian Agriculture, op.cit.

33. Ibid.
### Table 1.1: INDEX OF FOODGRAIN PRODUCTION, 1896-1945

(1924-5 to 1928-9 = 100)

<table>
<thead>
<tr>
<th>Year</th>
<th>All India</th>
<th>British India</th>
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<tbody>
<tr>
<td>1896-1900</td>
<td>74.2</td>
<td>73.8</td>
</tr>
<tr>
<td>1901-1905</td>
<td>76.8</td>
<td>76.0</td>
</tr>
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<td>1906-1910</td>
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<td>75.6</td>
</tr>
<tr>
<td>1926-1930</td>
<td>73.4</td>
<td>71.0</td>
</tr>
<tr>
<td>1931-1935</td>
<td>73.4</td>
<td>70.4</td>
</tr>
<tr>
<td>1936-1940</td>
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<td>70.0</td>
</tr>
<tr>
<td>1941-1945</td>
<td>74.4</td>
<td>71.4</td>
</tr>
</tbody>
</table>

**Source:** Agricultural Trends in India, 1891-1947: Output, Availability and Productivity, (Philadelphia, 1966), p.251. Appendix, Table-1A.
(i) the shift in acreage from foodgrain crops to non-foodgrain crops, and (ii) keeping of the foodgrain growing areas fallow by the cultivators. In 1945, the government had brought more than 500 cities and towns, covering 52 million people, under rationing as compared to 26 million people covered under rationing in 1944. The basic daily rate of ration was 16 oz. per person.

During the 1945-46 agricultural year there was failure of rainfall, mainly in peninsular India. This resulted in a reduction in the total output of the four principal cereals, viz., rice, wheat, jowar and bajra, from 50.9 million tons accounted for in 1944-45 to 46.4 million tons in 1945-46. The output of these cereals in 1946-47 was almost the same as the preceding year, accounted at 46.8 million tons. With such a substantial reduction in the domestic production of foodgrains, government could not maintain per capita rationing at 16 oz. per day. Therefore, in 1946-47, the basic ration had to be reduced to 12 oz. per person and in some regions

like Cochin, Travancore, Madras, Delhi, Ajmer etc., to 8 oz. per person.

Immediately after independence, when food problem turned out to be more acute, as a result of the transfer of certain very fertile and irrigated agricultural lands to Pakistan, Government of India appointed a Foodgrain Policy Committee under the chairmanship of Purushottamdas Thakurdas, to advise as to what should be the nature of the food policy that the new government should follow. The Committee, in its interim report, submitted in December 1947, made out the following points against the continuance of the foodgrain management systems when existed at that time: (i) heavy cost of administration; (ii) bad quality of grains under distribution; (iii) wastage caused by losses sustained in storage and transit; (iv) successive decrease in domestic procurement and the problem of procurement; and (v) steady increase on the demand for imports from abroad. The Committee, thus, stated: "It seems to us clear from all this that the system is unable to fulfil the purposes for which it was intended; what is more, it looks as if the system will fail increasingly."
On December 10, 1947, Government of India decided to remove all control which had until then existed on foodgrains. The reason given for decontrol, as well as the Government's expectation about its impact on foodgrain prices could be summarised in the words of the then Food Minister, Dr. Rajendra Prasad, who stated in Parliament:

"Within recent months .... Mahatma Gandhi has raised his powerful voice against control. That is sure to make the continuance of control even more difficult than it has been in the past. There is risk of price rise in the policy of decontrol but the rise in prices, I imagine, will not be more than what is prevalent in the black market." 35

While deciding to introduce decontrol the Government's expectation was that this would put an end to speculation and black-marketing, which were widespread during the years of control, and would help the foodgrain prices to stabilise at a reasonable level. Nevertheless, contrary to expectations, the policy of decontrol led to disappearance of available stocks from the market.

as was reflected in the movement of foodgrain prices: the index number of wholesale prices of cereals, 1939=100, was 399 in December 1947, whereas it jumped up to 583 in September 1948. The Government, therefore, decided to reintroduce, with effect from September 24, 1948, the following control measures:

(1) Cordonning off of surplus, deficit and self-sufficient areas, by prohibiting movement of grains except on governmental account;

(2) procurement of surplus grains by the State Governments at prices approved by the Central Government;

(3) licensing of foodgrain dealers, and

(4) extension of rationing to as many areas as possible. 36

Thus, by March 1949, food rationing was introduced in the then States of Madras, Bombay, Bihar, Punjab and Uttar Pradesh, benefitting about 126 million people in these stages. This system continued upto the beginning of 1951. 37


37. Ibid.
With the introduction of economic planning, the guidelines on price policy, including producers' price, procurement and distribution, had been available to the Government in the plan documents. The Five Year Plans had emphasised the necessity for controlling prices and distribution of foodgrains, with a view to ensuring certain minimum standard of consumption for the low income groups, as well as a remunerative price to the producer of foodgrains. However, the Government, until the close of the Third Five Year Plan, appeared to have been experimenting with a series of controls and decontrols, rather than formulating any definite policy in line with the guidelines available in the three Five Year Plans (1951-66). This 'experimental' period can be broadly distinguished into two stages, the first stage, from 1951 to 1956, as a period of gradual shift from controls to decontrols; the second stage, from 1957 to 1964, as a period of return to control. The next stage, the post-1964 period, can be

aptly be described as a period of APC's entry into the market for foodgrains.

2.1 Gradual Decontrol: 1951-56:

The First Five Year Plan (1951-56), which incidentally falls within the period of foodgrains decontrol, had noted that the people in India had 'often questioned' 'the desirability of controls' mainly because most of the controls operating at present (i.e., until early 1951) were imposed during the war, admittedly on a temporary basis. However, considering the 'strain' being suffered by the Indian economy in the post-war years, the First Plan contended that "the conditions for a smooth functioning of an unregulated economy do not exist at present and the social responsibilities which fall upon a modern State just cannot be discharged without the aid of controls". As regards the foodgrain price policy in particular, the First Plan emphasised that firstly, there should be 'a substantial reduction in the black market prices and the availability of ample supplies at controlled prices', and secondly, that the producer of foodgrains should be prevented from his temptation to shift the acreage towards commercial crops, which were at that time more profitable than the food crops,
and should be encouraged to sell his output to the government: If the producer of foodgrains is to be expected to part with his surplus at a reasonable price in order that government is able to meet its obligation to feed the rest of the population at reasonable prices, he has a right in return to expect that the essential six articles of consumption, tools and implements (which he buys from the market will be available to him at reasonable prices).  

Contrary to the policy of controls outlined in the First Five Year Plan, however, during this period, government initiated several steps towards removal of all controls existing until then on foodgrain prices and distribution. This could perhaps be explained in terms of the favourable developments during the First Plan period, like, a series of better harvests, leading to a reduction in the overall price level in the economy. In this context, it would be relevant to point out that, during the First Five Year Plan the net national output at constant prices had increased by 18 per cent, whereas the wholesale price index had decreased by 17 per cent. 39 The total cereals production,

which was 43.6 million tonnes in 1951-52, rose to 55.8 million tonnes in 1955-56. This resulted in a fall in the index number of wholesale prices of cereals (1952-53=100) from 100 in March 1951 to 86 in March 1956.

By 1951, Government had to import, for feeding the rationed population in cities and towns, as much as 4.7 million tonnes of foodgrains valued at Rs. 217 crores, in addition to the 3.8 million tonnes it domestically procured. This created a food administration cost of Rs. 54.6 crores for the Centre and States, out of which the subsidy paid by the Centre on the imported cereals alone worked out to Rs. 44.6 crores. This was, by all means, proving too heavy for the government to shoulder. Therefore, it decided to reduce the burden of food administration cost by withdrawing subsidy given on imported cereals. This was expected to increase as it did, the

40. See, any of the latest issue of Area and Production of Principal Crops in India. (Government of India, Directorate of Economics and Statistics).
41. The Third Five Year Plan, op. cit.
issue price of cereals, thereby reducing the attraction of rationed grain to a section of the people who could otherwise consume at the prevailing market price.43

In 1951-52 the total production of foodgrains was 43.6 million tonnes, which in 1952-53 had gone up to 50.0 million tonnes. This gave an added justification for the government to dispense with rationing from a large number of areas.44 While withdrawing rationed supply of foodgrains, the Government was aware of the possible consequences to which it would lead, viz., speculation and hoarding, which the Indian foodgrain markets had always witnessed particularly in the absence of controls. Therefore as a precautionary measure, Government issued, in July 1952, a Foodgrain (Licensing and Procurement) Order, according to which the traders, flour mill owners and other bulk dealers in foodgrains were required to take license and submit periodical reports about their transactions to the Government. The Order empowered the State Governments to (1) demand any banking company to furnish information relating to financial assistance granted to any foodgrain

43. Ibid.
44. Ibid.
dealer, (2) search and seize the stocks unauthorisedly kept by the dealers, and (3) sell such confiscated stocks to the licensed dealers or the public at the procurement price declared for the season plus 10 per cent margin over the procurement price. With such wide powers in hand, at a time when the domestic supply position showed market improvement, Government decided to gradually relax all the controls over foodgrain transaction.

The bumper harvest of 1953-54, which gave a total output of 59.2 million tonnes of cereals, accounting for more than 18 per cent increase over the previous year's output created a sort of euphoria and provided justification for the Government to relax the existing controls over foodgrains much faster than perhaps originally contemplated. Thus in November 1953, wheat and coarse grains were decontrolled, except for restrictions on inter-State movement. Procurement of wheat and coarse grains was given up by almost all States, while in several States rice procurement was temporarily suspended.

45. Ibid.
46. Ibid.
With the improvement in production, there was a downward trend in the market price of foodgrains. From the Kharif harvest of 1953, the index number of wholesale prices of cereals (1952-53=100) started receding fast, as could be seen by the movement of this index from 95 in November 1953 to 88 in March 1954 to 78 in November 1954 and 70 in March 1955. As a result of such fast deterioration in prices, Government lifted, in 1954, the restrictions on inter-State movement of rice. Whenever rationing was in existence it was also lifted. Exports of cereals, which were until then carried out on Government of India account, was liberalised and permission was granted to private traders for exporting grains. In 1954 and 1955, thus, 108 thousand tonnes of rice, 8 thousand tonnes of jowar, 3 thousand tonnes of maize and 4 thousand tonnes of wheat products were exported from the country. Finally, in March 1956, when the inter-zonal restriction on movement of wheat and wheat-products were removed, the last vestiges of controls on foodgrains that remained to be abolished had also disappeared.

47. Ibid.
48. Ibid.
2.2 Return to Control: 1957-64:

With the discontinuation of rationing and removal of other controls, the prices of foodgrains, which had indicated an increasing tendency during the closing months of the fiscal year 1955-56 (the final year of the First Five Year Plan), started moving upward at a faster rate. The index number of wholesale prices of cereals (1970-71=100) increased from 37.0 in 1955-56 to 47.2 in 1956-57, i.e., an increase of about 28 per cent in one year. In order to counteract the rise in market prices, Government resorted, in 1956-57, to releasing the stocks available with it, especially wheat, in the major cities of Calcutta, Delhi and Bombay, where the price rise was thought to be sharper than in other areas. The open market release price of wheat was fixed at Rs. 14.50 per maund, which was Rs. 2 to 3 per maund lower than the ruling market price. According to the Foodgrains Enquiry Committee (1957), even though the open market release of government stocks could check the rise in wheat prices in Calcutta,

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49. Estimated by us from Economic Adviser's Index Number of Wholesale Prices, 1970-71=100.

Bombay and Delhi, it could not have any appreciable impact on the overall increase in prices of cereals in the country as a whole. Moreover, this policy virtually wiped out the stocks with the Government, as could be seen from the fact that the opening stock of cereals with the Central Government was 2 lakh tonnes in 1957, compared with 8 lakh tonnes in 1956.  

Since the symptom of rising tendency in the open market prices of foodgrains had been visible from the closing months of 1955-56 itself, the Second Five Year Plan (1956-61) reiterated the price policy outlined in First Five Year Plan and suggested that the Government should create a bufferstock of foodgrains through domestic procurement and imports, in order to use it as an effective regulator of prices. Thus from 1956-57, the controls which the Government removed by 1955-56 were brought back.


52. The Second Five Year Plan, (Government of India, Planning Commission), pp.39-40 and 86.
The following were the main features of the price control measures introduced from the Second Five Year Plan onwards.

Firstly, massive imports of foodgrains from abroad. In May 1956, Government had signed an agreement with Burma for the import of 2 million tonnes of rice over the next 5 years, and in August 1956, with USA, under PL-480, for the import of 3.1 million tonnes of wheat and 0.19 million tonnes of rice over the next three years. It was with the arrival of these imports from the early 1957 that the Government control on foodgrain prices had actually begun.

Ever since the signing of agreements with Burma and USA, imports, especially PL-480 imports formed an integral part of the foodgrain price policy of the Government of India, from the mid-fifties to 1971, when it was discontinued. On the basis of this agreement India had imported from the USA, upto 1971, 58.12 million tonnes of foodgrains, mainly wheat, valued at Rs.2,682.89 crores (Table- 1.2). These imports accounted for more than three-fourths of the total imports of foodgrains during the period, including gifts from abroad. These imports
Table 1.2: IMPORTS OF CEREALS UNDER PL-480

<table>
<thead>
<tr>
<th>Year</th>
<th>Under PL-480</th>
<th>Total Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quantity (million tonnes)</td>
<td>Value (Rs./crores)</td>
</tr>
<tr>
<td>1956</td>
<td>0.15</td>
<td>5.72</td>
</tr>
<tr>
<td>1957</td>
<td>2.71</td>
<td>120.91</td>
</tr>
<tr>
<td>1958</td>
<td>2.01</td>
<td>74.12</td>
</tr>
<tr>
<td>1959</td>
<td>3.20</td>
<td>114.74</td>
</tr>
<tr>
<td>1960</td>
<td>4.35</td>
<td>162.03</td>
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<tr>
<td>1961</td>
<td>2.34</td>
<td>89.53</td>
</tr>
<tr>
<td>1962</td>
<td>2.89</td>
<td>113.43</td>
</tr>
<tr>
<td>1963</td>
<td>4.20</td>
<td>168.57</td>
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<tr>
<td>1964</td>
<td>5.59</td>
<td>236.60</td>
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<tr>
<td>1965</td>
<td>6.31</td>
<td>245.02</td>
</tr>
<tr>
<td>1966</td>
<td>8.21</td>
<td>386.02</td>
</tr>
<tr>
<td>1967</td>
<td>5.84</td>
<td>348.73</td>
</tr>
<tr>
<td>1968</td>
<td>4.10</td>
<td>243.29</td>
</tr>
<tr>
<td>1969</td>
<td>2.56</td>
<td>160.92</td>
</tr>
<tr>
<td>1970</td>
<td>2.45</td>
<td>137.04</td>
</tr>
<tr>
<td>1971</td>
<td>1.21</td>
<td>76.22</td>
</tr>
<tr>
<td>Total</td>
<td>58.12</td>
<td>2,682.89</td>
</tr>
</tbody>
</table>

Note: Total imports include (i) imports on account of commercial transaction; (ii) PL-480 imports, and (iii) Concessional transactions and gifts which amounted to 6.35 million tonnes valued at Rs.311 crores during 1966-67 to 1973-74.

had helped, to a large extent, to artificially depress the prices of foodgrains. This would be clear from the fact that, while the All Commodity Index Numbers of Wholesale Prices (1970-71=100) increased by about 127 per cent during 1956-57 to 1971-72, the corresponding increase in the index numbers of wholesale prices of total cereals, as well as wheat, was only 115 per cent.\(^53\)

Secondly, domestic procurement through zonal arrangements. In the middle of the year 1957, Government entered into the major producing districts of Andhra Pradesh, Punjab and Orissa and purchased rice at the average prices that prevailed in these markets during the three months preceding June 1957. In Andhra Pradesh, after the declaration of the

three-monthly average price of rice as its procurement price, the producer were asked to surrender their surplus to the Government, while in Punjab and Orissa procurement was made on the basis of voluntary offers by the traders. 54 These systems were gradually extended from rice to paddy and wheat, as also from Andhra Pradesh, Punjab and Orissa to most of the principal producing States. 55

For the effective implementation of the procurement programme, the States were divided into different zones. There were, thus, four rice zones, viz., Southern Zone, Eastern Zone, Western Zone and Northern Zone, and five wheat zones, viz., zone 1 — Punjab, Delhi and Himachal Pradesh; zone 2 — Uttar Pradesh; zone 3 — Madhya Pradesh; zone 4 — Rajasthan; and zone 5 — Gujarat and Maharashtra. 56 Rice and wheat were permitted to move on private accounts only within their respective zones; the surplus, if any, of a given zone could be moved to any other area on Government account.

55. Ibid.
56. Ibid.
Thirdly, the tightening of the selective credit control by the Reserve Bank of India with a view to prevent hoarding and black-marketing of foodgrains. Thus in June 1957, Reserve Bank of India issued a circular to all commercial banks, asking them that credit limit against rice should not exceed 66 2/3 per cent of its value, and against 75 per cent of the value in respect of other cereals. In absolute term, the credit given to any party on the security of cereals was not to exceed Rs.50,000.57

The measures to control the prices and distribution of foodgrains during 1957-64 could not be as effective as it was expected to be principally on account of the following reasons:58

(i) The State Governments showed indifference in the matter of undertaking purchases at the stipulated procurement price. For example, the major wheat producing states like Punjab, U.P. it discontinued the purchase of wheat in the middle of 1960 without citing any reason, and by the end of 1961-62 many State Governments gave up procurement of rice on their account.

57. Ibid.
58. Ibid.
(ii) There were frequent changes in the demarcation of zones and the movement controls across the zones. For example, in 1957 when the food zoning was introduced there were only three large wheat zones. By 1959 these were converted into five zones, and by 1964, into nine zones. The revision of the zones in this manner, which resulted into shuffling of cordoned off areas, helped the traders to transfer the grains from one place to another.

(iii) The credit restrictions imposed by Reserve Bank of India in 1957 were gradually relaxed. In 1959, the limit imposed on maximum food credit at Rs. 50,000 was liberalised. In some States like Kerala, the ceiling limit on advances against rice and paddy was raised, in 1960, to 200 per cent above the level of credit maintained in the previous year. And, by the middle of 1961 Reserve Bank of India issued a directive, withdrawing all regulatory measures in respect of credit against wheat, stating that supply and price positions of wheat were more comfortable than those of other cereals.
The fact that these controls had not been so effective, as it ought to have been, would be clear, apart from what we have pointed out above, from the movement of prices and production of cereals during 1957-64. The total output of cereals in 1956-57 was 58.3 million tonnes. In 1964-65 it went up to 76.9 million tonnes, that is a 38 per cent increase over the output of 1956-57. At the same time, the index number of wholesale prices of cereals (1970-71=100) increased at a faster rate, i.e., by 44 per cent from 47.2 in 1956-57 to 67.8 per cent in 1964-65. (If we assume that the output accounted for a given 'agricultural year', i.e., July-June, is available for consumption in the ensuing 'fiscal year', i.e., April-March, then the price rise becomes even sharper at 48 per cent for the comparable periods of availability). The movement of prices during the early sixties was, perhaps, more baffling than in the late fifties. In 1962-63, there was a general crop failure, which resulted in the reduction of rice output by about 2.5 million tonnes and of wheat output

by 2.2 million tonnes over 1961-62. Wheat crop again failed in 1963-64 by about 0.9 million tonnes, but the total output of cereals in 1963-64 was about 2 million tonnes higher than in 1962-63. Moreover, in 1964-65, there was a bumper harvest, estimated at 39.3 million tonnes of rice, 12.3 million tonnes of wheat and 76.9 million total cereals, which broke all previous records. But the index number of wholesale price of cereals (1970-71=100) at 50.1 in 1961-62 rose to 51.6 in 1962-63, 56.1 in 1963-64 and 67.8 in 1964-65.60

An explanation to the behaviour of these prices, especially between 1962-63 and 1964-65, was offered by K.N. Raj.61 Estimating the elasticity of demand for foodgrains from the aggregate demand for the economy, which is assumed to be generated by the multiplier process of autonomous outlay, and the aggregate supply of foodgrains, determined by the current output plus imports, K.N. Raj concluded: "of the increase of Rs.2,356 crores in the rate

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of 'autonomous outlay' between 1961-62 and 1964-65, Rs. 986 crores was contributed by Government consumption (including defence outlay), Rs. 708 crore by bank credit extended to the private sector (reflecting additions to inventory holdings...), and only Rs. 399 crore by fixed capital formation. While offering this explanation, K.J. Raj did not take into account the speculative stock holding as a component of aggregate supply of foodgrains, with the result that, while his hypothesis could perhaps be valid up to 1963-64, could not be applied to the hemp crop year of 1964-65, when the index number of wholesale prices of cereals, as we noted earlier, increased by 20.9 per cent over the previous year. The wholesale price index of wheat (1970-71=100) in the peak-marketing period, viz., April-June 1964, was more than 20 per cent higher than in the corresponding period a year ago; and that of the total cereals in April-June 1964 was 16 per cent higher than in April-June 1963.

Concerned over this baffling price movements in the Indian foodgrain market, Government appointed in 1964 a Foodgrain Price Committee to advise the minimum and maximum prices of cereals. The Committee in its report pointed
out that the upward trend in foodgrain prices, rather than adding to the income of the cultivators, 'inflates the profits of the middlemen', and recommended a producer's price for paddy, rice, wheat, jowar, bajra, maize and gram for 1964-65 season. It also proposed the setting up of an Agricultural Prices Commission, in order to advise the Government "a balanced and integrated price structure" which would safeguard the interests of both the producers and the consumers. In 1965, the Agricultural Prices Commission came into existence as an expert body that would advise the Government, on a permanent basis, the 'administered prices' for different agricultural commodities. From this period onwards the state intervention in the market for foodgrains, as also other agricultural products, became a permanent feature in India.

3. Background to the Setting up of
Agricultural Prices Commission

In the preceding section we offered a narrative account of the movements of prices and production, as also

the Government's policy towards prices and distribution, of foodgrains during the post-independence period, up to 1964. We will be explaining the nature of the movements of prices and production and their interaction with cost of cultivation of the principal cereals in a subsequent chapter. By the time APC came into existence, many development programmes in Indian agriculture, which it could not ignore while recommending the prices for agricultural commodities. It would, therefore, be appropriate to examine the context under which APC was established.

3.1 The Nature of Agricultural Development Programmes:

Several agricultural development programmes had been pursued in India from the early 1940s through the mid-1960s, the notable among them being Grow More Food (GMF) campaign, Community Development (CD) Programme, Intensive Agricultural Development Programme (IADP), and Intensive Agricultural Area Programme (IAAP).

In 1942, in the wake of the food crisis that led to Bengal Famine, a Food Production Conference of the then Provinces and States convened by the Central Government
decided to start what was known as GMF campaign to increase the production of foodgrains by (i) increasing the area under food crops through bringing new land, including fallows, under cultivation, double cropping, diversion of land from non-food crops to food crops, etc., (ii) increasing the irrigation facilities by improving and extending the existing irrigation canals as well as construction of additional wells, and (iii) increasing the supply of improved seeds, manures and fertilizers. This programme marked the beginning of a sustained national effort at expediting food production in the shortest possible time.63

GMF campaign in its initial stages of implementation had not set any fixed target of production but was carried out by offering special assistance as grants and loans to those who took up the programme. The campaign, however, suffered a set-back during 1946 and 1947 on account of unfavourable weather conditions, uncertain political situation, etc.64

Immediately after independence, GAF campaign was again reoriented in 1947-48 with the objective of improving productivity of foodgrains crops through advanced farming methods. The Government undertook to construct minor irrigation works and land reclamation programmes, apart from supplying fertilizers and improved seeds at subsidised rates. The expenditure incurred by the Government on these schemes went up from Rs. 3.66 crore in 1948-49 to Rs. 9.76 crore in 1949-50 and Rs. 15.44 crore in 1950-51. However, this programme was very selective in its approach. It covered only less than 4 per cent of the total cultivated area in the country. The main beneficiaries of GAF campaign were larger holders who were induced by subsidies and other forms of assistance to take up advanced agricultural methods.65

After the discontinuation of GAF campaign in 1951, the CD Programme was launched in 1952. This was essentially a block-level programme, which had covered practically the entire country-side and was initiated for the development of not only agriculture but also other aspects of

65. Ibid.
community development, like, health, education, cottage and small-scale industries. Thus, the aim of CD Programme being far wider than mere development of crop production, it led to the dispersal of scarce resources over too wide an area, without recording any striking increase in the marketable surplus of crop output. 66

Accordingly, in early 1959, Government of India invited an Agricultural Production Team of the Ford Foundation with a request to make recommendations as to how food production could be increased on an emergency basis.

The Team submitted its report in April 1959, in which one of the major proposals was that the development efforts, rather than spreading throughout the country, should be undertaken in selected areas which are most responsive to the application of advanced technologies and package of inputs. 67

On the basis of the recommendations of the Ford Foundation Team, IADP, popularly known as "Package Programme"


was taken up for implementation in 1960. Initially, IADP was introduced in seven selected districts, comprising four rice-growing districts viz., Thanjavur (Tamil Nadu); West Godawari (Andhra Pradesh); Shahabad (Bihar); and Raipur (Madhya Pradesh); two wheat-growing districts viz., Aligarh (Uttar Pradesh) and Ludhiana (Punjab); and one predominently millet-growing district viz., Pali (Rajasthan). Subsequently, it was extended to another eight selected districts, viz., Alleppey and Palghat (Kerala); Bhandara (Maharashtra); Burdwan (West Bengal); Cachar (Assam); Mandya (Mysore); Sambalpur (Orissa) and Surat (Gujarat).

The IADP districts were picked up on a very selective basis: the criteria adopted for the selection was that each district should be endowed with assured water supply; it should not be susceptible, as far as possible, to natural hazards like soil erosion, flood or drought; it should have well-developed system of cooperative societies and if possible, panchayats also. The programme was adopted on so selective an approach that by 1963-64 the

coverage of IADP was confined to about 8.9 million hectares of land, comprising about 6 per cent of the total area under cultivation in the country. 69

The emphasis of IADP was on the individual farmer. Each farmer could obtain, according to his requirement, a package of inputs and other services, like, improved seeds, fertilizers, pesticides, implements, farm credit, marketing of outputs through cooperative marketing societies, facilities to transport inputs and outputs, etc. Apart from making available these inputs and services to each farmer, specially trained personnel of the IADP districts were sent to the 'farm-gates' of the individual cultivators, who adopted IADP, for demonstrating to them the method of application of the 'package' at different stages of cultivation. 70

A similar programme, known as IAP, was taken up in 1964-65 on a wider coverage. It was proposed that, between 1964-65 and 1966-67, IAP would be introduced in 117 districts spread over 15 States. This programme

70. R.C. Dwivedi, op. cit.
envisaged improvement of agriculture through provision of advanced inputs and services to all cultivators in each selected IAAP area, as against only selected cultivators in each IADP district. IAAP was thus regarded as a better programme than IADP, as the former would help to spread the benefit of advanced agrarian technology to too wider an area and larger number of cultivators; but, due to lack of sufficient resources, IAAP could not be as successful as IADP.71

In short, the agricultural development programmes which were taken up during the pre-1965 period, such as GMF, CD, IADP and IAAP, were designed to achieve a faster increase in foodgrain output with limited resources at the shortest possible time. Since these schemes emphasised the application of 'modern' farming practices and purchased inputs like improved seeds, fertilizers, pesticides and equipments, availability of credit for the purchase of these inputs became an inevitable component of these schemes. While the co-operative societies in these areas

provided credit at subsidised rates of interests, such credits could be availed only by those who had the requisite collateral securities with them against which credit is granted by the cooperative societies. Thus the poor peasants and share croppers who cultivated on rented land could not make use of these facilities on account of lack of owned land with them. On the other hand, the relatively richer among them who had enough owned land and other non-land resources with them could avail of the credit facilities from the cooperative societies and implement these special agricultural development programmes. That is why most of the writers on these agrarian programmes argued that these programmes were in essence helpful to those farmers who had already acquired land and other non-land resources with them.  

Moreover, in most of the areas where these schemes, especially CD, IADP and IAAP, were taken up for implementation, the cooperative networks had been following a practice, known as, 'linking of credit with marketing' —

that is, those who are granted loans from the credit cooperative societies would get the services of agricultural marketing societies for selling their output. This practice helped such of the farmers who could obtain credit facilities from the cooperative credit societies to sell their outputs through cooperative marketing societies and get remunerative prices, without themselves shouldering the responsibility to dispose of the output. 73

3.2 The Land and Output Concentration:

From what has been brought out in 3.1.1 above, it shows that the agricultural development programmes pursued in the post-independence period could not give much benefit to the relatively poorer farmers. On the other hand, the relatively richer among them, that is, those who had enough land and other non-land resources could easily avail of the benefit of these schemes and further prosper from their initial positions. While this discrimination could be attributed partly to the specific nature of these

development schemes themselves, it could be mostly attributed to the impact of the land reform legislations that were pushed through by the State Governments in the early 1950s. Even though the professed objectives of these legislations were: (i) to abolish intermediary tenures like zamindari, jagirdari, etc.; (ii) to protect the tenant cultivators from eviction; (iii) to prevent sub-division and fragmentation of land; and (iv) to redistribute surplus land after imposing certain ceiling on agricultural holdings, etc., these legislations had certain major loopholes in them, on account of which most of the desired results could not be achieved.

Firstly, the zamindari abolition acts retained a provision to keep out of its purview some lands for personal cultivation, which were known in different parts of the country as sir lands, khudkasht lands, khas lands, etc. For example, the Hyderabad Tenancy and Agricultural Land Act, 1950 permitted the landlords in the jagirdari areas to retain for self-cultivation landed area up to three 'family holdings' each one ranging from 4 to 60 acres.

depending upon the type of land. 'These provisions', according to National Commission of Agriculture, "negated in a considerable measure the beneficial effect of the legislation and helped to keep alive the social and economic base of feudal vested interests in the country. The bigger land owners got the opportunity to carve out their own sir and khudkasht lands, both in respect of location and area, and resorted to large scale eviction of tenants and share-croppers".75 A landlord could evict even a 'protected' tenant on many grounds say, non-payment of rent, failure to surrender the share of the produce and, so on. And, wherever substandard and inferior lands were taken over for distribution, Government offered generous compensation to the land owners.76

Secondly, the tenancy legislations of the early 1950s were concerned with the 'open tenancies' or the tenancy agreements which were registered. Those tenancies which were not registered, for example, most of the

75. Ibid.
share-cropping tenancies in certain parts of the country, like the Eastern and North-Eastern Regions, were kept out of the provisions of these acts. It is well known that, as soon as these legislations were enacted the land owners tried to evict their tenants in order to avoid conferment of occupancy right on land to the tenant farmer. Wherever the tenancy agreements were registered, while the landlords had to enter into litigation, they could easily evict the unregistered tenants. Some authors have noted that the tenants who were evicted from land turned themselves into agricultural labourers and worked under the same landlords who evicted them; this had helped to the development of a sort of landlord capitalism, especially in the letter of lands under the impact of technological change and growing profitability of agriculture.

Thirdly, the land holding which had permanent structural improvements like wells, buildings etc, as also orchards, dairies and plantations were not within the ambit of these legislations. This was a definite limitation on the ceiling laws and distribution of surplus lands to


78. See, P.C. Joshi, op.cit., and Utsa Patnaik, op.cit.
the landless. There are economists who believe that, "this measure was explicitly designed to promote capitalist cultivation". 79

Thus, even after the introduction of the land reform acts, the land remained concentrated in the hands of a minority of rural households, in spite of the fact that these acts helped to distribute some land among the landless. This can be illustrated by comparing the NSS data on household operated and ownership holdings for 1953-54 and 1960-61, comprising the period during which the land reform acts were passed and implemented in most of the States. While in 1953-54 the all India average size of holding per cultivated area was 5.4 acres, it was 6.7 acres in 1960-61, which is indicative of largescale eviction of the cultivating households in the latter period. About 70 per cent of the holdings in both these periods were below the respective national averages, (viz., 5.4 acres and 6.7 acres) and one-eighth of the cultivating households, with operated of 15 acres and above, had been operating around half of the total operated area in the country. The percentage distribution of the household ownership holdings in 1953-54

79. See, Utsa Patnaik, op.cit.
and 1960-61, shows that the households belonging to below 0.01 acre groups, having no owned area, have gone down from 22 per cent in 1953-54 to 13 per cent in 1960-61. In other acre-groups, there was hardly any change, as is shown by the fact that the households operating between 10 to 50 acres, who constituted about 12.5 per cent of the total households in both the periods owned about 48.5 per cent of the total owned area. Only in the above 50 acres groups, who constituted less than one per cent of the total households, there was a slight decrease in the per centage of owned area from 15.6 in 1953-54 to 12.4 in 1960-61 which indicate that from this acreage group, some land has been taken away through land reform acts. However, the fact that the households operating between 10 to 50 acres have remained unchanged in per centage terms indicates that these acts had not much impact on this acreage group.

Along with the land concentration, we have also seen that, during especially IADP period, a package of modern inputs, together with credit, price incentives, marketing facilities and technical guidance were offered to the
cultivating households which in most cases benefited the relatively big farmers in the selected areas. In CD period, earlier to IADP, also the aim of increasing crop yield was sought to be fulfilled through the provision of assistance to the socalled 'progressive farmers' in the 'best and the most favourable spot'. 80 One way to examine whether this policy had led to concentration of output with a numerically small minority of relatively big farmers is to look at the market participation of various cultivating groups in the sales of their output.

In this context it is necessary to make a distinction between 'marketed surplus' and 'marketable surplus' with which the cultivating households participate in the output market. Dharm Narain 81, who estimated the surplus generated in agriculture across different size-level of holdings in India during the fifties, defines 'marketed surplus' as the quantities which the cultivating families market after meeting all their farm retention requirements, which include the portion of output that is setapart for (i) family consumption; (ii) payment of wages in kind; (iii) feed?

80. Francine Frankel, op.cit.
(iv) seed; (v) kind rent for leased-in-land; (vi) payments in kind to artisans, and (vii) loans returnable in kind. ' Marketable surplus', on the other hand, is defined as 'marketed surplus' plus 'buy-back'.

This distinction in definition between the two terms should be clearly understood before we make any discussion about the market participation of the various cultivating households because the estimates available on this aspect relates to 'marketable surplus' which includes the quantity sold by the cultivators immediately after the harvest in order to meet their pressing cash needs, and then would again buy back in the later part of the same agricultural year to meet their family consumption requirements. The figures of 'marketable surplus' thus estimated would overstate the actual capacity of the cultivating households to contribute towards the saleable surplus of agricultural output, to the extent of 'buy-back'.

We do not have any information about the concentration of output, as far as 'marketed surplus' is concerned. Our information is only with respect to the 'marketable surplus'. Following the definitions used in Dharam
Harain's study which we mentioned above, Utse Patnaik had estimated the contribution to the output and marketable surplus by different cultivating households, grouped according to size-level of operational holdings, as on 1960-61, which would be of some help to us in knowing whether there is any evidence regarding the concentration of output in the hands of any sections of the cultivators. Before analysing the estimates the author has cautioned that the marketable surplus as defined in the study is a gross surplus, and would be on the one hand an underestimation of the share of the bigger holdings in the total marketable surplus, as it does not include the grain loans advanced and repaid within the same agricultural year, and on the other hand, an overestimate of the share of the smaller holdings in the total marketable surplus, as the 'buy-back' portion which is included in the marketable surplus is supposed to come mostly from the relatively small cultivating households. In spite of this, the estimated marketable surplus for 1960-61 shows that, while the below 2.5 acre-group which supported 48.23 per

cent of the total population in the rural countryside contributed 5.44 per cent of the output marketed, the cultivating households who operated 10 acres and above, represented by 17.74 per cent of the total cultivators, contributed 66.76 per cent of the marketed output.

We will have more to say about this estimate in due course. For our present purpose, the figures quoted above are to indicate the concentration of marketable surplus in the hands of the relatively bigger farmers. In addition to this, the evidence available from FMS on farm business income per household shows that the household operating up to 10 acres had received more from farm business in the early fifties than in the early sixties. In 1951-55, the average farm business income of a household, who operated a less than 5 acre farm, was Rs. 516, whereas it was only Rs. 410 in 1961-65. Similarly, a household with 5 to 10 acre farm received an average a farm business income of Rs. 1,292 in 1951-55 but only Rs. 1,126 in 1961-65. The households operating above 10 acre farms however could more than double their farm business income
Table 1.4: AVERAGE FARM BUSINESS INCOME PER HOUSEHOLD DURING 1951-55 AND 1961-65

<table>
<thead>
<tr>
<th>Size of Farm (Acres)</th>
<th>Farm Business Income (Rs/acre)</th>
<th>Percentage in 1961-65 over 1951-55</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1951-55</td>
<td>1961-65</td>
</tr>
<tr>
<td>Upto 5</td>
<td>516</td>
<td>410</td>
</tr>
<tr>
<td>5 - 10</td>
<td>1,292</td>
<td>1,126</td>
</tr>
<tr>
<td>10 - 15</td>
<td>1,247</td>
<td>2,543</td>
</tr>
<tr>
<td>15 - 20</td>
<td>1,696</td>
<td>3,460</td>
</tr>
<tr>
<td>20 - 30</td>
<td>2,223</td>
<td>4,530</td>
</tr>
<tr>
<td>30 - 50</td>
<td>3,431</td>
<td>7,013</td>
</tr>
<tr>
<td>50 and above</td>
<td>7,176</td>
<td>14,639</td>
</tr>
<tr>
<td>All</td>
<td>997</td>
<td>1,902</td>
</tr>
</tbody>
</table>
during 1961-65 over 1951-55 (see Table 1.4). In short, at the time when APC came into existence in the mid-sixties there still existed concentration of output and income in the hands of those cultivating households who operated relatively larger holdings of land.

4. Agricultural Policy and Producers' Price

Considering the nature of the agrarian structure in India and its interaction in the market at different levels, the agricultural price policy that APC recommends from time to time to the Government is supposed to keep the following objective in view: (i) it should ensure the cultivator a reasonable return on his output; (ii) it should seek to protect the consumers of these commodities against excessive rise in price; and (iii) it should not affect the inter-sectoral and intra-sectoral equilibrium of the overall price structure in the economy. 83

In order to achieve these objectives, APC has designed two sets of prices, viz., (i) a minimum support

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price, and (ii) a procurement price. We will discuss in detail in a subsequent chapter, how APC fixes these two prices. It would, however, be relevant to make certain preliminary observations in terms of their applicability to foodgrains, about these two sets of administered prices at this stage.

4.1 Minimum Support Price:

The minimum support price is a notional price which gives a guarantee to the producer that in the event of a bumper harvest, if the market price crashes, the Government would be prepared to buy whatever quantity is offered by the producer at the declared minimum price. This price is expected to cover all the expenses of production including those imputed to family labour and family land, and the depreciation of tools, implements and other farm assets like drought animals, irrigation structures etc. Once the support price is announced, Government is committed to purchase whatever quantity of foodgrains the farmers voluntarily offer for sale at that price.
As regards the expenses of production, which are the basis of fixation of the minimum support price, it is well known that agricultural cost is not uniform across the regions or among different cultivators in the same region. The lack of uniformity in the levels of costs arises mainly from the disparity of resource endowments and soil fertility in different regions, as also the disparity in prices and application of inputs. On account of these disparities, the unit cost of production of a crop varies among different size-holdings, different varieties of a crop, between irrigated and unirrigated lands, "progressive" and "traditional" farmers, and so on. The primary objective of APC, while fixing the minimum support price, is therefore, as pointed out elsewhere, to find a suitable level of costs which would safeguard the interests of the cultivating households in general. 84

4.2 Procurement Price:

Unlike the minimum support price, which in principle becomes operative only when the market price crashes below a stipulated minimum, and when the farmers voluntarily

offer to dispose of the grain to the Government, the procurement price is the price at which Government undertakes purchase of whatever quantity that it wants to buy. In other words, when the procurement price is in operation, Government would stop purchase of grains once it acquired the quantity that it proposed to buy, whereas when support price is in operation Government is committed to purchase whatever quantity is offered by the farmers at the minimum declared price. To clarify further, while minimum support price is operative during periods of better harvest years (i.e., when the market price may crash below the level of costs), the procurement price is operative during 'normal' years or during years of scarcity due to flood or drought (i.e., when the market price is expected to be higher than the cost of production).

While support price is arrived at by taking into account the farmer's cost of production, a combination of several factors are considered while determining the magnitude of procurement price, such as (i) crop prospects; (ii) open market price trend; (iii) support price already announced on the eve of the sowing season; (iv) volume of
procurement required to maintain the public distribution system; (v) the buffer stock policy; (vi) the foodgrain import policy; (vii) the economy's capacity to subsidise the issue price, and (viii) the inflationary impact of the procurement price on the overall economy. If due weightage is given to all these factors, it is expected that, the procurement price so arrived at would serve as a 'balancing and integrated' price and would safeguard the interests of the producers as well as the consumers. At a particular time, however, these factors may not be moving in the same direction; a change in one or a few of them would necessitate a change in the 'course' of the procurement price. In this respect, the statement made by a former chairman of APC is worth noting: "We do not follow any mechanical formula; we attach weights to different variables in a process of judgement. But the weights themselves have to be flexible since they cannot remain the same over time".85

At the time of giving thought to the formulation of procurement price policy, i.e., on the eve of the harvesting

season, some concrete ideas about the expected size of the crop to be harvested would be available, as against the non-availability of any data about the current crop at the time of formulating the support price. 'The process of judgement' in taking a decision about the size of the procurement price would be relatively easier on the eve of the harvesting season. We may elaborate this point: it has been a generally held view that the procurement price should be above the support price (but not below it). In other words, depending upon the "weights" of different variables, the procurement price would move between the open market price and the support price. For example, if a better harvest is expected, the procurement price can be brought down nearer or equal to the support price, because the open market price is then expected to be lower, a section of the lower income groups, who were hitherto dependent on the public distribution system for their cereals, can now buy the foodgrains from the open market, thereby reducing the pressure of demand on the volume of procurement and the public distribution system. On the other hand, if a

bad crop is expected, the open market price also can be expected to go up. The pressure of demand on the public distribution system will then go up, as a sizeable section of the population, who until then depended upon the open market, would find it difficult to keep up their cereal consumption standard within their given money wage income. In order to cover this section of the population too under the net-work of public distribution system Government has to step up the volume of marketed surplus from the producers, and for this purpose it will have to bid up the procurement price nearer to the prevailing market price. At the same time the procurement price should not be equal to the market price because, as we said earlier, the purpose of procuring cereals is to distribute it to the vulnerable sections in the economy which cannot afford to buy foodgrains at the prevailing higher market price. Or else, the Government should be prepared to heavily subsidise the price at the issue stage. This latter proposition is neither feasible nor desirable. National Commission of Agriculture which looked into this question felt that an ideal way of
determining the level of procurement price is to bring it closer to market price during years of bad harvests and closer to, or equal to, support price during years of better harvests. Though it had also examined the feasibility of a system of compulsory procurement, in which case the procurement price need not be frequently changed according to the swinging of the market price, since compulsory procurement acts as a two on the relatively rich farmers, it pointed out that it was not in favour of any compulsion to be imposed on the cultivaters for procurement. 87

4.3 Operational Significance of the Support and Procurement Prices:

In the initial years when APC entered the market for foodgrains, its recommendations on the minimum support prices and the procurement prices for the kharif and rabi cereals were announced by the Government on the eve of the sowing and harvesting seasons respectively. However, the minimum support price announced for wheat and paddy on the eve of the sowing season had little operational signifi-

87. Ibid.
canoe because the market prices of these two cereals generally tended to be higher than the minimum support prices. (In most cases the market prices of these cereals had been higher than the procurement prices also). But in 1968-69, when the level of wheat output reached an all time high, its market prices declined very sharply, and the Government announced that all quantities of wheat offered by the farmers would be procured not at the minimum support price recommended by APC (which ranged from Rs. 52 to Rs. 56 per quintal for indigenous red variety, Rs. 56 to 59 per quintal for common white variety and Rs. 60 to 63 per quintal for superior variety) but at the substantially higher procurement prices (which ranged from Rs. 71 to 74 per quintal for red variety, Rs. 76 to 78 per quintal for common white variety and Rs. 81 to 83 per quintal for superior variety). No reason whatsoever had been assigned as to why in an exceptionally good year price support was extended to the farmer at the relatively higher level of procurement price rather than at the

88. See the Reports of APC on Price Policy for Kharif and rabi cereals for 1968-69 Seasons.
support price announced for the season. Thereafter the practice of announcing procurement price as support price had been frequently resorted to by the Government so that the theoretical demarcating line which APC had drawn between the minimum support price and the procurement price became irrelevant at the operational stage. 89

Ever since the Government started announcing the procurement prices of cereals as support price some economists argued that the type of price policy that is pursued by the Government has widened the class difference in the rural areas and has thrown the poor and middle peasants into penury while the landlords and capitalists have been getting richer and richer. Yet another set of economists, among them Michael Lipton in particular, argued that there has been a systematic attempt in India


to deliberately keep down the farm prices, especially those of foodgrains, by the release of substantial quantities of foodgrains from abroad; though assurances of price incentives were given by the Government of India, 'very little was done to make them good'.

4.4 Producers' Price and the Terms of Trade:

The strength of these arguments and counter-arguments is usually examined by means of an appropriate index of the terms of trade between agriculture and non-agriculture, on the ground that ultimately what the cultivator has to obtain from sales of his output is the price which he paid to 'import' goods and services he required from the non-agricultural sector. A comprehen-


sive estimate of the indices of net barter terms of trade between agriculture and non-agriculture worked out by R. Thamarajkshi for 1951-52 to 1974-75 shows that the prices received by agriculture, especially since 1964-65 have always stood higher than the prices paid by agriculture. During 1951-52, to 1974-75, even though the annual compound rate of growth of total agricultural output was 2.53 per cent, the marketed surplus of agriculture increased by 3.11 per cent. The prices received by agriculture registered a rate of growth of 5.94 per cent per annum, whereas that of all prices paid by agriculture was only 4.53 per cent per annum. The index of foodgrains terms of trade

Agriculture), June 28, 1969, as also "Role of Price Incentives in Stimulating Agricultural Production in a Developing Economy", in Douglas Ensminger (ed.), Food Enough or Starvation for Millions, (FAO,1977).

93. R. Thamarajakshi, op.cit.
(1960-61=100) had remained less than the base level in many years prior to 1964-65, but in none of the years from 1965-66 to 1974-75 had it remained below 120. The foodgrains terms of trade at 118.80 in 1964-65 rose to 146.78 in 1974-75.

A similar index of the terms of trade between agriculture and non-agriculture is not available for the period after 1974-75. However, applying a slightly different method from what Thamarajakshi used, Kahlol and Tyagi 94 estimated the indices of net barter terms of trade between agriculture and industry from the mid-sixties to fairly recent period. These indices show that, even though there had been an increase in the net barter terms of trade in favour of agricultural commodities during the early seventies, it has been moving against agriculture from 1974-75 onwards and the adverse movement of the terms of trade has become sharper by 1978.

A point, however, has to be borne in mind while judging the remunerativeness or otherwise of agricultural

commodities in terms of the inter-sectoral terms of trade that the latter is a weighted average of the prices received by agricultural sector against the prices paid by it to the non-agricultural sector. We have seen earlier that there are wide disparities in the unit cost of production of the cultivating households belonging to different classes. Therefore, if the agricultural prices are fixed on the basis of the average cost of production of a randomly selected sample of the various cultivating households, it would leave uncovered the cost of production of a section of the cultivating households whose costs lie above the average. And, even if the prices so fixed lead to a favourable terms of trade for agricultural sector, there can still have a section of the cultivating households whose costs are left uncovered in procurement prices.

5. Farmers' Agitations

It is in the context of what is pointed out in the previous paragraph that we have to view a large number of farmers' agitations that took place in different parts of
the country during the closing years of the seventeen
on the ground that procurement prices offered by the
government were grossly inadequate so that the cultivators
were undergoing loss. It has been argued, especially in
the context of Punjab that in the late sixties and early
seventies when the procurement price of wheat was kept
constant at Rs. 76 per quintal the wheat farmers had been
receiving a profit over their costs, whereas later when
the procurement price of wheat started increasing rather
rapidly the farmers are undergoing loss and are being
impoverished, as the price increase has not adequately
compensated the rise in cost. The result of this was to
be seen in a more or less static level of yield for wheat
in Punjab. On the other hand, it is argued that the price
offered for paddy is sufficiently remunerative so that
Punjab was witnessing a big stride in paddy cultivation. 95

According to one view, 96 the procurement prices offered
so far do cover the cost of production. The demand for


higher procurement price on account of higher cost of production has no merit in it. This demand to those who hold this view is in fact engineered by the rural rich in collaboration with the political interests they enjoy at present. Any indiscriminate increase in the procurement prices of cereals will only enhance the holding capacity of the big farmers, leading further to the speculative increase in the market price of cereals. Even if the procurement price is increased, the small farmers, in whose name the demand is raised, will not benefit from it as they generally resort to "distress selling". What the small farmers usually receive is lower than the government announced support price. Since these petty producers have to 'buy back' foodgrains from the open market in the later part of the season for their subsistence, any increase in procurement price will only adversely affect their interests.

Yet another view was presented by K.N. Raj. While broadly agreeing with the existing view that the demand for higher procurement prices quite often raised in India

is engineered by the rural rich, K..1. Raj points out that such a demand is however sufficiently valid in the case of the paddy cultivators of the Southern States whose costs are not adequately compensated in the procurement prices.

It appears that most of these arguments are based on subjective assessments. In none of these writings could we see convincing empirical evidences to prove or disprove that the procurement price covers cost of production. Those who have examined the nature of procurement prices in relation to the available data on costs have not gone deeper into the concepts and methods adopted in estimating the unit cost of cultivation. An objective view on the existing controversy relating to the remunerativeness or otherwise of the procurement price should be made only after having a detailed analysis of the available cost of cultivation data.