In the previous chapter, we discussed the price policy of the Government of India with regards to the two main foodgrain crops, namely wheat and rice. In the present chapter, we propose to study the policy in respect of the three commercial crops of the country. These crops, cotton, jute, and sugarcane are the mainstay of India's three important traditional agro-based industries, namely cotton and jute textiles industries and the sugar industry. These play an important role in the economy, providing employment to millions, in the fields, factories and intermediate processing, generating incomes and earning foreign exchange for the country.

**Cotton**

With the partition of the country in 1947, India became a net importer of raw cotton. She lost to Pakistan nearly 40% of the cotton crop, while nearly 357 out of the total 370 mills remained with India. In terms of consumption, it meant that 98% of the demand for cotton crop remained intact to be met with 60% of the crop. Raw cotton
to the tune of 2 million bales had to be imported from Pakistan to bridge this gap between the demand and supply. By 1949, it had already started to strain the foreign exchange position when the Indian rupee was devalued, intensifying the seriousness of the situation. It became imperative for India to augment domestic production of cotton. To achieve this purpose, Cotton Extension Schemes were introduced in 1950, as a part of the programme of integrated development launched that year, soon to be transferred under the first Five Year Plan in 1951/52. These schemes provided for extension of area under cotton, increase in irrigation facilities, seeds and availability at subsidized rates and promise of land revenue remission to the cultivator on shifting the land to cotton cultivation. As a result of these schemes, production of cotton increased and prices declined. Before these schemes were launched, prices of cotton had been rising and had actually crossed the ceiling. To meet the situation, government liberalized the imports of cotton; a zonal system, and the purchase of cotton by mills through the system of quotas were introduced; cotton stocks were requisitioned at ceiling prices and a system of licenced trading was enforced. And when market prices still kept rising, the government revised the ceiling prices upwards by Rs.150 per candy in 1950/51 and Rs.50 per candy next year to keep pace with rising trend of competitive prices.
The cotton extension schemes, together with the remunerative price situation brought results culminating in large increase in production; and next year, when, with increase in production, prices slumped, export policy was liberalized, imports were restricted and permission of hedge trading was granted to stop the falling prices.

By 1956, cotton scene in the country had changed radically and virtually a glut situation had developed with the result that the government was forced to take action to prevent precipitate fall in prices and enforce floor level.

After 1956, the cotton economy has two well demarcated periods: 1956 to 1966 when the controls on prices, both the maximum and the floor, continued to be exercised by the government as in the previous decade and, 1967 onwards when for the first time in a quarter of a century, cotton prices were freed from controls. 1

Price Policy for Cotton, 1956-66

Till 1966, the price policy of India with regard to cotton mainly consisted of the fixation of floor and ceiling prices for different varieties of cotton. The rationale for

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1. The price policy for cotton in India was first introduced in 1943 with the enacting of Cotton Order to prevent rise in prices. It was under constant review since then, with the government regularly fixing maximum and minimum prices, except for a short period of decontrol in 1948 when a sharp rise in prices forced the government to reimpose the controls, less than nine months later.

Summary Report on the Marketing of Cotton in India; Indian Central Cotton Committee; Bombay; 1961.
fixation of floor prices was understood by Agricultural Prices Commission to be as follows:

"The government wants to assure the cotton growers that it will not allow prices to fall below the floor price. This assurance would enable them to intensify production efforts without a fear of recession beyond a point. More positively, it will be the endeavour of the government to ensure for them a minimum price level which will provide adequate inducement to the progressive farmer to adopt improved cultivation practices and thus augment not only production but also productivity".¹

The second and more crucial part of the cotton price policy was the ceiling price. The rationale for ceiling price fixation, according to Agricultural Prices Commission, was that for many years cotton economy has been characterised by shortages. Combined with inflationary climate it could tempt bullish speculations. The ceiling price was therefore necessary to prevent the speculative surge in prices beyond a point.

The price changes of raw cotton were kept within narrow limits not only through the fixation of floor and ceiling prices, but also by large quantities of cotton being imported from abroad. These imports were made from some middle-eastern countries too, but a bulk of it was from

America under its PL 480 programme of exports. The first agreement with the USA was signed on the 29th August 1956 for import of 3.02 lakh bales (of 322 lbs each) of cotton valued at US $ 42 million, followed by four more agreements, on 13th November 1959, 4th May 1960, 1st May 1962 and 26th November 1962. The quantities to be imported under these agreements were 4.29, 8.57, 2.24 and 3.73 lakh bales valued at 45.2, 73.2, 27.0 and 44.5 million U.S. dollars respectively. The total imports under these five PL 480 agreements came to 21.65, lakh bales valued at 231.90 million US dollars.

The price controls, supplemented with huge imports, certainly had a marked stabilising effect on cotton prices. The coefficient of variation of prices during the period 1956/66 works out at 8.58%, with the inclusion of another five years i.e. between 1956 and 1971, it jumps to 26.96%. The relative stability of prices before 1966/67 can easily be attributed to the control exercised by the government on both the lower and the upper limits that the prices could touch.

Excepting in 1956/57, when the wholesale price index of raw cotton increased by 14.1% (1952/53 = 100), the percentage changes in prices were within the range of 2.6 and 7.8 upto 1956/67, though production changes ranged between 1.7 and 45.7 and consumption changes between 0.3 and 12.2.
The year to year percentage changes in prices, production and consumption are summarized in Table VIII.1.

### Table VIII.1

Changes in Production, Consumption and Prices of Raw Cotton (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Wholesale Price Index (1952/53 = 100)</th>
<th>Production</th>
<th>Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956/57</td>
<td>+14.1</td>
<td>+17.8</td>
<td>+5.3</td>
</tr>
<tr>
<td>1957/58</td>
<td>-4.1</td>
<td>+0.8</td>
<td>-4.5</td>
</tr>
<tr>
<td>1958/59</td>
<td>-6.5</td>
<td>-1.7</td>
<td>+1.5</td>
</tr>
<tr>
<td>1959/60</td>
<td>+6.7</td>
<td>-21.2</td>
<td>+0.7</td>
</tr>
<tr>
<td>1960/61</td>
<td>+5.7</td>
<td>+45.7</td>
<td>+10.5</td>
</tr>
<tr>
<td>1961/62</td>
<td>-2.9</td>
<td>-14.8</td>
<td>+6.9</td>
</tr>
<tr>
<td>1962/63</td>
<td>+3.8</td>
<td>+19.1</td>
<td>-0.3</td>
</tr>
<tr>
<td>1963/64</td>
<td>+5.2</td>
<td>+2.2</td>
<td>+6.9</td>
</tr>
<tr>
<td>1964/65</td>
<td>+6.2</td>
<td>+3.1</td>
<td>+4.5</td>
</tr>
<tr>
<td>1965/66</td>
<td>+2.6</td>
<td>-16.9</td>
<td>-8.3</td>
</tr>
<tr>
<td>1966/67</td>
<td>+7.8</td>
<td>+5.6</td>
<td>-1.0</td>
</tr>
<tr>
<td>1967/68</td>
<td>+14.4</td>
<td>+9.7</td>
<td>+5.0</td>
</tr>
<tr>
<td>1968/69</td>
<td>+9.4</td>
<td>-5.7</td>
<td>+0.6</td>
</tr>
<tr>
<td>1969/70</td>
<td>+7.0</td>
<td>+2.3</td>
<td>+3.0</td>
</tr>
<tr>
<td>1970/71</td>
<td>+22.5</td>
<td>-13.3</td>
<td>-12.2</td>
</tr>
<tr>
<td>1971/72</td>
<td>+6.7</td>
<td>+35.9</td>
<td>+7.4</td>
</tr>
</tbody>
</table>

**Source:** Computed on the basis of data given in Reports on Currency and Finance, R.S.I Annual Reports and Estimates of Area and Production of Principal Crops in India.
Undeniably, the government's price policy in respect of cotton prevented sharp fluctuations in prices taking place, which, in the absence of market interventions by the government would have been the case. But a price policy is an instrument for achieving certain social objectives and the success or otherwise of the policy pursued is to be judged with reference to the extent the given objectives or goals are achieved.

In the case of cotton, the objectives of price policy listed from time to time by the government were:

1. to keep a check on cotton prices so that cloth is made available to consumers at reasonable prices;
2. to ensure a reasonable return to cotton growers for their produce;
3. to maintain adequate floating stocks in the country to meet the requirements of the mills; and,
4. to encourage increased production of better and longer staple cotton.

A review of the effect of the price policy on production of cotton cloth and its prices to the consumer falls outside the scope of the present study. Here we confine ourselves to the study of the effect of that policy on growth of cotton cultivation and production.

In the first report on cotton, the Agricultural Prices Commission examined the past price policy and observed that the policy had not been effective in promoting the interests
of cotton cultivators. It found that the floor prices had been kept low with the result that:

(a) Acreage under cotton had been almost stationary for many years,

(b) Cotton production remained behind the plan targets,

(c) Cotton prices had lagged behind the prices of competing crops since 1955/56, and

(d) the gap between floor and market prices was large and was growing.

These conclusions need to be examined and discussed in more details.

Stagnant Acreage

Acreage under cotton not only remained almost stationary after 1955/56, it actually went down from 8069 thousand hectares to 7298 thousand hectares in 1959/60. Only in two consecutive years 1963/64 and 1964/65, in the entire period under study, the acreage exceeded 6000 thousand hectares mark. The objective of increased production was certainly not achieved. It is also clear from the fact that the plan targets were never achieved.
Production below Target

Cotton production never reached the growth targets fixed for it during any of the plan periods. It could not keep pace with the increasing consumption demand, and so, inspite of the impressive increases in production in the First Plan, India could not achieve self sufficiency in cotton.

Table - VII:2

Targets and Achievements of Cotton production under the plans
(production in bales of 180 kg each)

<table>
<thead>
<tr>
<th>Plan</th>
<th>Target</th>
<th>Achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Plan (1955/56)</td>
<td>4.1</td>
<td>3.9</td>
</tr>
<tr>
<td>IIInd Plan (1960/61)</td>
<td>6.4</td>
<td>5.3</td>
</tr>
<tr>
<td>IIIrd Plan (1965/66)</td>
<td>5.9</td>
<td>4.6 (5.7)*</td>
</tr>
<tr>
<td>Annual Plans 1966/67</td>
<td>6.3</td>
<td>5.0</td>
</tr>
<tr>
<td>1967/68</td>
<td>7.0</td>
<td>5.5</td>
</tr>
<tr>
<td>1968/69</td>
<td>6.7</td>
<td>5.1</td>
</tr>
<tr>
<td>IVth Plan (1973/74)</td>
<td>8.0</td>
<td>5.8</td>
</tr>
</tbody>
</table>

Notes: * Achievement for 1964/65 are given in brackets because 1965/66 was an exceptionally bad year for agriculture.

2. The years in brackets show the year for which target was set. The achievement figures also are for the target year.

Prices Relative to Competing Crops:

Cotton prices lagged behind the prices of competing crops all through the period of this study excepting those of rice, and that may be because rice prices were also depressed artificially through cheap imported grains being sold in the market. A glance at the Index numbers of prices of cotton, and its competing crops in the various states studied here - Jowar in Maharashtra, Oilseeds in Andhra Pradesh, Sugarcane in Punjab and Rice in Madhya Pradesh will make this point clear.

Table - VII:3

Index Numbers of Wholesale Prices of some Agricultural Crops

(1951/52 = 100)

<table>
<thead>
<tr>
<th>Year</th>
<th>Cotton</th>
<th>Rice</th>
<th>Jowar</th>
<th>Oilseeds</th>
<th>Sugarcane</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955/56</td>
<td>97</td>
<td>76</td>
<td>67</td>
<td>85</td>
<td>89</td>
</tr>
<tr>
<td>1956/57</td>
<td>111</td>
<td>97</td>
<td>123</td>
<td>120</td>
<td>98</td>
</tr>
<tr>
<td>1957/58</td>
<td>106</td>
<td>105</td>
<td>114</td>
<td>120</td>
<td>108</td>
</tr>
<tr>
<td>1958/59</td>
<td>99</td>
<td>105</td>
<td>105</td>
<td>127</td>
<td>121</td>
</tr>
<tr>
<td>1959/60</td>
<td>106</td>
<td>105</td>
<td>119</td>
<td>135</td>
<td>141</td>
</tr>
<tr>
<td>1960/61</td>
<td>112</td>
<td>108</td>
<td>122</td>
<td>150</td>
<td>133</td>
</tr>
<tr>
<td>1961/62</td>
<td>109</td>
<td>105</td>
<td>112</td>
<td>156</td>
<td>120</td>
</tr>
<tr>
<td>1962/63</td>
<td>113</td>
<td>111</td>
<td>130</td>
<td>157</td>
<td>145</td>
</tr>
<tr>
<td>1963/64</td>
<td>119</td>
<td>125</td>
<td>116</td>
<td>154</td>
<td>189</td>
</tr>
<tr>
<td>1964/65</td>
<td>126</td>
<td>127</td>
<td>130</td>
<td>189</td>
<td>188</td>
</tr>
<tr>
<td>1965/66</td>
<td>129</td>
<td>141</td>
<td>197</td>
<td>340</td>
<td>150</td>
</tr>
<tr>
<td>1966/67</td>
<td>139</td>
<td>173</td>
<td>130</td>
<td>300</td>
<td>193</td>
</tr>
<tr>
<td>1967/68</td>
<td>156</td>
<td>206</td>
<td>227</td>
<td>285</td>
<td>354</td>
</tr>
<tr>
<td>1968/69</td>
<td>174</td>
<td>207</td>
<td>214</td>
<td>222</td>
<td>224</td>
</tr>
<tr>
<td>1969/70</td>
<td>196</td>
<td>206</td>
<td>215</td>
<td>221</td>
<td>177</td>
</tr>
</tbody>
</table>
Gap between market and floor prices

The difference between floor and market prices not only remained large all through, it was growing. The difference ranged between 16 - 41% in 1963/64 and 19 - 41% in 1964/65 for three main varieties of cotton lint. It came to Rs.100 to Rs.250 per candy in 1964/65. The Agricultural Prices Commission also noted the fact that when prices quoted were at below ceiling prices, it was because cottons were mixed with inferior qualities. Because of this fact APC recommended that fixing of ceiling prices be given up.

Increasing production to meet mill demand

The government's averred objective of increasing production to meet consumption needs of the mills also does not appear to have been achieved during the period of study as will be clear from the table VII:4.
Table - VII:4  

Production and Consumption of Raw Cotton in India 1955/56 - 1970/71  
(in thousand bales of 180 kg each)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Consumption (by mills and ex-factory consumption)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955/56</td>
<td>3949</td>
<td>4978</td>
</tr>
<tr>
<td>1956/57</td>
<td>4650</td>
<td>5169</td>
</tr>
<tr>
<td>1957/58</td>
<td>4846</td>
<td>4936</td>
</tr>
<tr>
<td>1958/59</td>
<td>4608</td>
<td>5010</td>
</tr>
<tr>
<td>1959/60</td>
<td>3533</td>
<td>5043</td>
</tr>
<tr>
<td>1960/61</td>
<td>5293</td>
<td>5644</td>
</tr>
<tr>
<td>1961/62</td>
<td>4512</td>
<td>5956</td>
</tr>
<tr>
<td>1962/63</td>
<td>5314</td>
<td>5940</td>
</tr>
<tr>
<td>1963/64</td>
<td>5494</td>
<td>6352</td>
</tr>
<tr>
<td>1964/65</td>
<td>5064</td>
<td>6641</td>
</tr>
<tr>
<td>1965/66</td>
<td>4752</td>
<td>6157</td>
</tr>
<tr>
<td>1966/67</td>
<td>4973</td>
<td>6103</td>
</tr>
<tr>
<td>1967/68</td>
<td>5454</td>
<td>6506</td>
</tr>
<tr>
<td>1968/69</td>
<td>5144</td>
<td>6539</td>
</tr>
<tr>
<td>1969/70</td>
<td>5233</td>
<td>6740</td>
</tr>
<tr>
<td>1970/71</td>
<td>4556</td>
<td>6265</td>
</tr>
</tbody>
</table>

Source: Relevant Reports on Currency and Finance; and Reserve Bank of India Annual Reports.
It can be seen that production has fallen short of consumption throughout the period of this study.

Whatever other factors accounting for achievement falling short of plan targets, it is clear that price policy was not used, or if used, it failed to achieve the plan objectives in respect of growth of cotton production in the country.

Thus, the Agricultural Prices Commission is found to be right in its criticism of the cotton price policy pursued before the inception of the Commission. In principle, the Commission agreed with the policy of price controls but felt that the floor prices fixed earlier had been unduly low. It therefore recommended an immediate hike in the existing floor prices by Rs. 100 to 150 per candy for different varieties for the season 1965/66. The government however only partly accepted the recommendation and raised the prices by Rs. 75 - 100 per candy. The price of Moglai Jarilla was increased by 27%. In 1965/66 the market prices of some varieties like Digvijai and Cambodia were higher than the floor prices fixed by the government by as much as 30% and in fact pierced the ceiling in 1965/66 and 1966/67 being higher than ceiling prices by 10%. Thus the ceiling fixed by the government proved to be as unpractical as the floor. To meet this situation, Agricultural Prices Commission suggested that either the practice of fixing ceiling price be abolished or ceiling price should be fixed more realistically.
The "realistic" level could be arrived at by taking into consideration the market demand and supply situation in a season. For demand, the cotton cloth prices had to be taken into consideration. The supply situation could not be determined till just before harvest time. So the Agricultural Prices Commission recommended that the practice of announcing the ceiling prices in May should be discontinued. As the full extent of harvest could not be known till August, it suggested that they should be announced not before August. It suggested that ad hoc statutory prices of cotton may be fixed as and when necessary under the Essential Commodities Act and cotton may be requisitioned at those prices if necessary. The Commission also suggested state monopoly in imported cotton and its judicious disposal to break speculative pressures and to keep cotton prices within limits indicated by tolerance cloth prices.

**Beginning of Positive Price Policy:**

**Role of Agricultural Prices Commission**

From 1966/67, the Agricultural Prices Commission began to play a direct role in formulation of cotton price policy. In 1966/67 in accordance with the Agricultural Prices Commission recommendations on the subject, the government allowed appreciably higher floor prices and though fixation of ceiling prices was not given up, the upper limit of ceiling price was also raised considerably to give inducement to the farmers. Some other steps taken at the same time to regulate prices were: a ban on movement of Indian Cotton
from growing areas without permits, prohibiting mills from keeping stocks of more than two months requirements, and an extra holiday every week for mills from December 1968 to economize in the consumption of cotton.

In its report for 1967/68 season, the Commission recommended (a) immediate withdrawal of statutory ceilings on prices of raw cotton; (b) introduction of a system of fixing procurement prices for government purchases of raw cotton to substitute the system of ceiling on cotton prices; (c) raising of floor prices of most qualities by 5% and some finer qualities by 5 to 10%; and (d) adoption of a long term plan by the government of entering the raw cotton trade including imports so as to acquire control over 15-20% of the total supply of spinnable cotton in the country every year.

Regarding the first recommendation, the Commission observed that there was asymmetry in fixing of statutory prices of cotton but for no other crop, and that it would lead to distortions. The terms of trade, the Commission went on to say, had turned in favour of other crops e.g. food crops and groundnuts and that if this continued, acreage shifts would take place from cotton to other crops. The difference between the open market prices and ceiling prices in April 1967 was Rs.62 for Digvijay, and Rs.165.34 for Cambodia. For Laxmi too, the open market prices exceeded the ceiling prices, though only by Rs.8. It goes to show how unrealistic the ceiling prices were.
The government accepted the Commission's view and most of its recommendations contained in 1967/68 report but it did not deem it practicable to have compulsory procurement and control over 15-20% of spinnable cotton in the context of conditions likely to prevail during the current season. The statutory control which had been introduced in 1943 and had continued, except for a short period of decontrol in 1948, finally came to an end in 1967/68 by an announcement dated 10th August 1967. Ceiling prices were abolished and floor prices were replaced by support prices higher for all varieties except Bengal Deshi, by 5-10% over the 1966/67 floor prices. The system of permits for movement of cotton was abolished, working hours of mills were normalised and varying restrictions were imposed on mills in different areas regarding holding of cotton stocks. The growers were assured that such quantities as were offered for sale would be purchased by the government at the minimum support price. The minimum support prices were raised by 5% over 1969/70 prices.

The Agricultural Prices Commission also argued that credit controls and stock limits had limitations as regulatory measures and suggested that the most effective instrument for regulating prices of cotton would be for the government to acquire a large stock of cotton and regulate the market through stock operations.

Another point raised by the Agricultural Prices Commission was that the price fixation was being done for
cotton lint and therefore did not offer any inducement to the grower. It suggested in its 1969/70 report that prices should be fixed not for cotton lint but for kapas\* and advised that the proposed public agency should in the meantime develop its own facilities so as to be able to make direct purchases of kapas later on. However the government thought that purchase of kapas by a public agency would entail arrangements for grading of kapas and would therefore need a detailed and thorough consideration. Accordingly, the recommendation of the Commission remained unimplemented. The Agricultural Prices Commission, however reiterated its suggestion in its 1972/73 report and emphasised the need to offer the support at the primary markets. When at last, purchases of cotton instead of lint, began to be made, it did not present any serious problem and helped the farmer in realising a better price.

\* The Kapas, on ginning, yields lint (about one third) and cotton seed (about two thirds) of its weight. The prices of kapas in any market therefore are dependent upon the ruling prices of lint and cotton seed. A comparative study of prices of kapas, lint and cotton seed during 1955/56 to 1957/58 and their relationship carried out in respect of three markets viz. Abohar (Punjab - American 320-F variety), Adoni (Laxmi variety) and Raichur (western variety) yielded the following results:

1) Prices of lint showed wide fluctuations in their relationship with the prices of kapas and ranged between 232.6 and 269.4% of the average price of kapas at Abohar, between 225.7 and 238.3% at Adoni and between 255.4 and 271.4% at Raichur.

2) The prices of seed more or less maintained the relationship within the narrow limits and ranged between 33.7 and 35.5% at Abohar, 21.5% and 25.2% at Adoni and 35.1% and 42.1% at Raichur.

Summary Report on the Marketing of Cotton in India; Indian Central Cotton Committee; Bombay; 1961; pp.50.
The Period 1965/66 - 1970/71

The policy for raw cotton for 1965/66 to 1970/71 period, though more cohesive and purposeful than before, does not appear in retrospect to come up to expectations of a sound policy in serving the needs of the economy or the interests of the growers. One painful feature of cotton price situation that continued unabated during the period was the wide fluctuations of market prices experienced from year to year which exposed the grower to heavy risks on this count. While support prices continued to be determined by Agricultural Prices Commission and fixed by the government, in the absence of a public sector agency to buy the supplies offered at support prices, the exercise became meaningless so far as farmer was concerned. The support prices recommended by the Agricultural Prices Commission and fixed by the government during the period can be seen in the following table.

Table - VII:5

Minimum Support Prices of Cotton Lint
(Rs. per quintal)

<table>
<thead>
<tr>
<th>Year</th>
<th>Basic Variety</th>
<th>Recommended by Agricultural Prices Commission</th>
<th>Announced by Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965/66</td>
<td>vidarbhe/H.P.virnar</td>
<td>- *</td>
<td>247.00</td>
</tr>
<tr>
<td>1966/67</td>
<td></td>
<td>-</td>
<td>265.00</td>
</tr>
<tr>
<td>1967/68</td>
<td></td>
<td>279.00</td>
<td>279.00</td>
</tr>
<tr>
<td>1968/69</td>
<td></td>
<td>279.00</td>
<td>265.00</td>
</tr>
<tr>
<td>1969/70</td>
<td></td>
<td>285.00</td>
<td>265.00</td>
</tr>
<tr>
<td>1970/71</td>
<td></td>
<td>299.00</td>
<td>299.00</td>
</tr>
</tbody>
</table>

* The APC recommended floor prices to be raised by Rs.100 to 150 per candy for different varieties of cotton.
Compared to 1967/68 production, yield and exports of cotton declined in following years and consumption stocks with the mills and imports were higher. Support prices of different varieties of cotton were raised in 1968 and again in 1970/71.

The Commission had suggested the building of a buffer stocks of cotton and suggested purchases by a public agency to operate those stocks. In July 1970 therefore, the government of India set up the Cotton Corporation of India (CCI). Its function was to buy and sell indigenous cotton, and also to export/import cotton. Unfortunately, the first year of its inception, 1970/71 proved to be one of a bad crop and so no purchases were made that year. In fact the CCI took several years to find its feet on the ground as cotton production remained at a low level for many years.

Conclusion

The price policy for cotton therefore was not conducive to growth and stabilization of production during the period of this study. The prices were statutorily controlled for the larger part of the period i.e. upto 1966/67 and even after the withdrawal of statutory control in 1967 and the setting up of Agricultural Prices Commission, which recommended better, remunerative prices for the grower, neither the fluctuations in prices of raw cotton could be controlled nor remunerative prices to the producer ensured. Even as late as 1974/75, according to a study conducted by the Institute
of cooperative management, Ahmedabad, the cost of production of M-4 Kapas was Rs. 546 per quintal whereas the support price stood at Rs. 298 and the average price received by the farmer was Rs. 357 per quintal. Similarly, the Maharashtra Cotton Growers Sangh complained that cost of production in Vidarbha region was barely covered by the price in a year of low prices. According to another study by Prabhakararao*1, the cost of production in 1974/75 at Rs. 350 per quintal exceeded the price which was Rs. 300 per quintal. The imports of cotton to supplement the domestic supply also kept the prices low. The open market prices were always higher than the floor prices set by the Government till 1967/68 when they were abolished and replaced by minimum support prices but as remarked earlier, the minimum support prices fixed after that did not cover the cost of production of Kapas. Finally, even when an increase in prices was given, more often than not it was appropriated by intermediate agencies and only a fraction of it, if at all, reached the grower because the government bought cotton lint and not kapas. The grower got a raw deal for his kapas from the middle-man. The regression results in this work show that cotton acreage is responsive to changes in prices and profitability. With relative prices and yield of cotton, both remaining low, the returns per hectare from cotton remained

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low as compared to the returns from other crops and it did not prove to be a profitable crop to grow. It was therefore but natural that the farmer did not attempt to increase the acreage under cotton and the area under the crop stagnated.
The sugarcane grower was assured of a minimum price for the first time in 1934 when the Sugarcane Act was passed, empowering the provincial governments to fix minimum prices for sugarcane. Various state (provincial) governments kept on fixing minimum cane prices on the basis of different principles and by different methods. The main principle and methods adopted by the various governments have included linking cane prices to sugar prices, fixing minimum price for the whole or part of a season irrespective of sugar prices, fixing 'consolidated prices' related to percentage of sugar recovery and linking cane price to extra realization from the sale of sugar (price-linking formula). The minimum prices fixed were in accordance with weight except the third, i.e. consolidated price method, which gave weightage to the sucrose content or the quality of cane. The fixation of minimum prices of sugarcane by state governments continued till 1949/50 when the central government assumed the authority to prescribe the minimum prices every year on an all India basis through the Sugar and Cur Control Order (1950). The minimum price fixed by the Government of India for the year 1950/51 was Rs. 4.34 per quintal (one rupee and ten annas per maund), which, though made at the time of enforcement subject to periodic revisions, remained at practically the same level upto 1963/64.
According to the Tariff Board (1950), the minimum prices that had been fixed for sugarcane till then did not take into consideration the cost of cane cultivation or endeavour to give a fair return to growers. Following the Tariff Board's recommendations, Sugarcane (Control) order was passed in 1955 (later replaced by Sugarcane (Control) Order, 1966). By this order, the Government of India was to fix minimum prices to be paid to the farmer taking into consideration (a) the cost of production of sugarcane; (b) the returns to grower from alternative crops and the general trend of prices of agricultural commodities; (c) the availability of sugar to the consumer at a fair price; (d) the price at which sugar produced from sugarcane is sold by manufacturers of sugar; and (e) the recovery of sugar from sugarcane.

The last consideration however took sometime to be put into operation. Fixation of minimum prices according to quality of cane had been requested by the industry and cane growers alike for a long time. On the recommendations of delegations sent to Australia and Indonesia, the Development Council for Sugar Industry, and the Tariff Commission (1961), the Government of India started in November 1962 to fix each year a statutory minimum cane price on the recovery basis. It was linked to a basic sugar recovery with a premium for every 0.1% increase in sugar recovery over the basic level. The price for cane payable by individual sugar factories was to be worked out on the basis of
the average sugar recovery of the factory during a prescri
cribed (optimum) period of the preceding season. This qua
lity formula was intended to be an interim arrangement
till a proper formula of linking price to recovery was
worked out.

After its establishment in 1965, the task of recommending the floor price for the season for sugarcane fell to the lot of the Agricultural Prices Commission. The Commission's recommendation is considered in conjunction with the views of the state governments, industry, cane-growers and other interests concerned and a statutory minimum price for sugarcane is then fixed under the provision of the Sugarcane (control) order, 1966 uniformly for the whole country. While fixing this price, the government of India takes into consideration, inter alia the cost of production, return to the cane grower from alternative crops and the general trend of price of agricultural commodities prevailing at the time. The cost of production data, however, has become available only recently and the price was based on certain surveys made in various states. The cane growers however still felt that the prices thus fixed were not adequate to cover their cost of production and give them a fair return on their investment and family labour. The Sugarcane Enquiry Commission of 1974 observed in its report that the representatives of various interests, who had given oral or written evidence before the Committee had stated that the minimum cane price of Rs.7.37 per quintal which had
been continuing since 1967/68 was unremunerative and contributed to the fall in sugarcane production in 1970/71 and 1971/72. They pointed out that during the preceding five years, the costs of all inputs had gone up. On the other hand, the development of HYV technology in wheat, paddy etc. had led to a fall in the relative profitability of growing sugarcane vis-a-vis these crops. The farmers felt that due weight had not been given to the said considerations and suggested that government should make realistic assessment of the cost of production of sugarcane based on present day cost of inputs and also try to maintain parity in the incomes accruing from different competitive crops.

The quality formula adopted in 1962 for the fixation of minimum price of cane also does not seem to have encouraged improvement in the quality of sugarcane and production of better quality cane. The incentive offered is inadequate. A grower whose cane's recovery is only 8% has no incentive to improve the quality of his product, as, even without increasing the recovery, he is getting the same price as the one with cane having 9.4% recovery. Also, it might not be very easy for him to increase the recovery from 8% to over 9.4% even if it was worth while for him to do so. Any increase in recovery upto 9.4% does not give him any advantage in price and therefore no incentive. Though the ATC has been reiterating what the Sen Commission suggested - that the stipulated recovery rate should be lowered, no steps were taken in that direction during the period of this study.
The National Federation of Cooperative Sugar Factories told the Sugar Enquiry Commission (1974) that "sugar is produced in the field and not in the factories. As such, improvement in the quality of cane is the direct result of the efforts of cane growers. They should, therefore, receive in full the benefit of the improvement in quality of cane."\(^1\) The Federation, in reply to a general questionnaire by the Commission (1974) had declared that the rate of premium being paid at the time was low and that a disproportionate part of the benefit of cane quality was therefore going to the sugar factories. It had suggested that the premium should be the same as the minimum price for every 0.1% improvement over the basic recovery rate prescribed for the purpose. Not surprisingly, in its reply to the Commission's questionnaire, the Indian Sugar Mills Association (ISMA) strongly contested this claim. It made the point, which the Commission partly conceded, that as claimed by the ISMA, the efficiency of factory does contribute to better recovery of sugar from cane of same quality and that better efficiency is achieved by extra investment. At the same time, however, the Commission pointed out that a significant financial gain due to higher recovery remained with the factories after payment of premium on proportionality basis and that in fairness, the growers should be given a share in returns from the improvement in the quality of their cane.

\(^{1}\) Sugar Cane Enquiry Commission; Chairman Sh.V.Chargava; Government of India, New Delhi, 1974; pp.175.
Even though minimum prices are being fixed on a regular basis now and this should mean a rational price policy for sugarcane has come to be adopted, in fact there are several problems connected with these prices which make them not so very acceptable to all parties concerned. We have already seen one point on which the cane and the sugar producers disagree. Another problem that poses itself is that, being fixed for the country as a whole, it disregards the regional differences, disparities in the cost of production of cane per tonne whether measured by value of resources employed in raising cane or by value of alternative crops that could be raised with the same resources. Due to this, regional disparity in returns from sugarcane arises in spite of uniformity of minimum prices. In regions with relatively lower cost of production, minimum price of cane is higher than cost of production (and cost of sugar also is therefore higher) than it would be under free market conditions. This way it is the cane grower who gains, as the sugar manufacturer has to pay the statutory minimum price for the cane. Thus the policy helps to protect the interests of growers. But where cost of production is higher, it is the cane grower who suffers.

Again, a linkage of premium price of cane with recovery gives incentives to producers to produce better quality cane. But as this linkage only allows for a premium for recovery above the specified level but no discount for
recovery below that, it serves the objective only partially and does not provide the requisite degree of incentive.

Another fact about the minimum prices of sugarcane in India is that it is to be noted that market prices have sometimes prevailed so high that minimum price has had no real significance. As Agricultural Prices Commission observed in its report for the 1968/69 season, "... the level of minimum support price is likely to be of limited significance in shaping the expectations of the cane grower for the coming year. He has been operating in a milieu of realised high prices. With the lifting of controls from 40% of the processed sugar, the capacity of the factories to offer a price higher than the stipulated minimum has increased appreciably. On the other hand by reason of other factors, including extensive practice of illegal distillation, the price level for gur and Khandnari too has remained high.... In case the policy of relaxation of controls continues, there is little reason for the grower to apprehend a decline in realized cane prices to anywhere near the existing minimum level of Rs. 7.37 per quintal".1

The sugarcane policy in the country has always been linked with or been influenced by the price policy being followed at the time in respect of sugar which is food item

of every day consumption and therefore politically very sensitive. Thus any analysis of the price policy for sugarcane would be incomplete without a reference to the price policy being followed in respect of sugar and the conditions prevailing in the sugar market.

Sugar Prices

The outstanding feature of India's sugar economy for the period under study has been its instability, manifesting itself in the large and recurring imbalances between the demand and supply of sugar. There are cyclical peaks and troughs in the production of sugar leading to surpluses one year and deficits the next. This has led to price policy acquiring a similar course with alternation of control and decontrols during the period. In retrospect, it appears that the policy measures adopted by the government have helped to accentuate rather than alleviate the problem created by instability of production caused by the weather factor. ... although ... these imbalances have been caused by the fluctuations in the size of the cane crop, they have often been aggravated by the policy measures that followed them".¹

The government has tried to remedy the situation by various ad hoc measures. Various committees and commissions have been set up to study the situation and give suggestions to remove the instability. Following those suggestions or recommendations has, however, been a different matter. More often than not, the suggestions made by the commissions have been ignored, misinterpreted and misimplemented.

The Sen Sugar Enquiry Commission for example, in its interim report had recommended incentive to the industry including announcement of an excise rebate on sugar and a higher minimum price of cane to go together. It had recommended the price to be increased from Rs.4.96 per quintal for 9.4% recovery to Rs.5.36 for the 1964/65 season. The government ignored the first recommendation and mis-implemented the other by accepting the price suggested but increasing the recovery level to 10.4% instead of the suggested 9.4%. The decision to raise the level of recovery attaching to minimum cane price had the effect of placing a premium on inefficiency of sugar factory. The Commission, in its final report, warned that if this policy was continued, it would constitute a retrograde step from the point of promoting efficiency in cane cultivation. The Commission regretted that not only its suggestion of an excise rebate had been ignored by it, the government had also not paid any attention to the suggestion that the proportion of the excise rebate which was not passed on by the factories to the growers as
higher can price, should be constituted into a development fund. There was a danger, the commission observed, of its being dissipated in non developmental purposes. The commission had also recommended that there should be only five zones for sugar in the country. Once again the suggestion was not only ignored, the number of zones was increased to twenty in the latter half of 1965 and an ad hoc increase in the prices of sugar for some of them was also announced. Commission was forced to conclude that "there is scarcely an aspect of present policy pertaining to sugar which is not afflicted with the evil of ad-hoc-ism, the injurious consequences of which can be hardly be overemphasised. And the reason for it is the excessive pre-occupation of the executive authorities with the immediate, unmindful of the long-term effects of their actions. For remedying this defect, it is essential that the agency entrusted with the task of formulation of policy should be separate from that responsible for its implementation".¹ In accordance with this, Agricultural Prices Commission was handed over the task to evolve a long term policy for sugarcane in the country.

Apart from the cyclical nature of the crop and industry, there is another peculiarity which makes the supply of sugar a case in itself.

Sugar supply changes with cane supply which in turn might change due to either or both of the following reasons:

(a) Change in acreage under cane;
(b) Diversion of cane to refined sugar from gur and khandsari manufacturer;

Gur/khandsari prices are not controlled while the sugar prices are. This creates distortions in the cane economy. When cane supply is low and market prices would rise if left to themselves, and being controlled cannot rise, it leads to a diversion of cane to gur or khandsari manufacturing, thus accentuating the natural shortage of cane to sugar factories. Reverse is also true. Thus, sugarcane price policy and its formulation have suffered from a defect which is peculiar to this crop. It is not the overall volume of sugarcane production that is so important for the supply of sugar as the distribution of available supplies of crop among the competing uses of manufacture of refined sugar by the organised sugar industry and manufacture of gur and khandsari in the unorganised sector. The policy followed in respect of sugar and sugarcane in India has been of a partial character, applying only to sugar and not to gur and khandsari which are closely related to it and compete heavily with sugar for the supply of cane. The control of one segment of processing industry while the other is given free rein creates problems for the organised industry as well as for the grower. With the minimum prices for sugarcane and the maximum for
sugar, both fixed, sugar cannot compete with gur and khandsari and is therefore the loser in the constant competition going on for cane.

The control on sugar prices has been tantamount to fixing a maximum price of sugarcane. With no other agricultural commodity being thus controlled (except raw cotton) it puts sugarcane at a disadvantage vis-a-vis other crops. The result could be comparable to the effect that PL 480 imports had on wheat output by keeping the prices of wheat artificially low. Particularly after 1964/65, when, prices of cereals began rising steadily, because of disappearance of depressive influence of concessional imports, sugarcane prices were left behind and cultivation of sugarcane became less remunerative. With foodgrains prices being suppressed, the acreage under sugarcane in the country during the period 1952/53 to 1964/65 increased at a compound rate of 4.03% per annum while the corresponding increases in foodgrains area was 0.98% only. For Bihar, Uttar Pradesh and Maharashtra, these figures were 1.92 and 0.64, 3.17 and 0.40, 6.02 and 0.32 percent respectively. The structure of prices till the end of the Third Plan did not inhibit the progress of cane cultivation in the country because the competing crops' prices remained low. It is not surprising that all plan targets were achieved till that period. After that, however, as prices of foodgrains shot up while sugarcane prices remained fixed, sugarcane prices could not keep pace. The next two years when we had annual
plans, cane production did not reach the targets.

We now come to the regime of Agricultural Prices Commission. Minimum price for sugarcane was raised from Rs.5.68 to Rs.7.37 per quintal i.e. nearly by 30% in August 1967. Policy as regards levy on sugar was also changed at this time with decontrol of 40% of the production. Producers were now free to dispose of this 40% as they desired. Thus in effect the price ceiling on 40% of the production was gone. This partial decontrol of sugar allowed the distribution of cane between the two segments of cane-using industry to be decided by the market forces, and it allowed the prices to take their own course. With the statutory rise in minimum price of sugarcane and an increase allowed in sugar prices, the situation improved. So much so that Agricultural Prices Commission became hopeful that "if the prevailing expectations about realised cane prices do not suffer a material setback, a significant increase in cane output could be looked forward to".*1

The sugarcane crop exceeded the target of 12.5 million tonnes (gur) for 1968/69, by 0.3 million tonnes. In itself it might not seem much. However, seen in context of the failure to achieve targets in the previous two annual plans, it becomes a significant achievement. The targets for the years 1966/67 and 1967/68 had been 12.7 and 9.5 million

tonnes (gur) and the achievement figures were 12.0 and 9.8 million tonnes respectively. It appeared that even the advantage that foodgrain crops had achieved over sugarcane with their prices rising more would be wiped out due to the partial decontrol of sugar.

After attaining the peak in 1969/70, the acreage sugarcane again showed a cyclical decline to reach the trough in 1972/73. The decline (7.5%) could, to some extent, be attributed to adverse weather conditions. However, "it represented principally the lagged response of area to the drop in prices of cane and gur in the preceding upswing of crop cycle".1

Thanks to the partial decontrol, this time sugar factories could compete with gur/khandsari manufacturers, by offering higher price of cane. Thus the price of cane realised by the grower registered an increase and the prices for 1972/73 were the highest ever received by them, thus leading to a rise in area under the crop.

The policy followed by the Government of India for the larger part of the period under study therefore seems to have tended to aggravate the effects of good or bad cane crops rather than mitigating them, and has therefore helped to

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increase the instability of the sugar economy. Though in
the case it has made a deliberate effort at giving remunerative
prices to the farmer, it has not always succeeded because it
tried to tackle the problem not as a whole but in parts, with
sugar prices treated as one entity and sugarcane prices as
another. Though sugarcane prices had no ceiling limit imposed
on them, the fixing of limit to which sugar prices could rise
constituted in effect a limit on prices that the sugar manu-
facturers could and would pay for sugarcane. This had a
disincentive effect on the sugarcane grower and neutralized
any advantageous impact that fixation of minimum prices would
have had on sugarcane production. It is thus imperative that
in devising policies for raising sugarcane production, not
only sugarcane prices and the limits within which they can
move but also the sugar prices and their range have to be kept
in mind if any fruitful results are to be achieved. Thus,
what is needed is an integrated price policy encompassing
the price determination of both, sugar and sugarcane.
JUTE

Jute is another important cash crop in the case of which definite steps were taken from time to time to stabilise prices at a level which would be reasonable from three points of view: the grower, the jute goods manufacturer and the export market. If the prices are too low, there is a danger of their being unremunerative to the farmer. If they are too high, they might on the one hand deter the jute mills from using their capacity to the full and on the other, raise jute goods prices too high to remain competitive in the export market. The government therefore has to be extra vigilant in designing a price policy for jute. It also needs to keep another factor in mind while doing so: the cobweb relationship between jute prices and production. The two have followed a cyclical path in India over the past few years. So the problem of price policy making for jute that faces the government is a very complex one. The interests of all concerned are to be safeguarded on the one hand; and on the other, prices are to be stabilised in the interest of the economy as a whole. Again, jute competes with paddy for all production resources. So it has to be kept in mind that whatever policy is devised for jute should not be contradictory to rice production.

In an attempt to meet this requirement, minimum support prices have been assigned a statutory status as in the case of sugarcane. It is illegal for any transactions
of jute to be made at a price below the statutory minimum. Jute cultivation had been supported by an operational minimum price since the early phases of the Second World War and ever since then the price policy had usually been in favour of the jute growers. The study of price policy for jute after independence can be divided into two broad periods:

1) Independence to the inception of APC. This was a period of trial and error, and of ad hocism; and

ii) 1965/66 onwards when a rational base came to be given to the policy followed.

During the first period, the jute economy had to make several drastic adjustments after the Partition of the subcontinent in 1947 when India, left with only a small proportion of the raw jute production and the entire jute manufacturing capacity of the undivided India, was overnight transformed from a net exporter into a heavy importer of raw jute. The shortage of raw materials for the jute mills was felt all the more acutely upon the imports of jute being drastically curtailed following the devaluation of rupee in September 1949. This not only resulted in steep rise in prices of jute to the mills but also created a foreign exchange problem because of the refusal of Pakistan to devalue her rupee simultaneously. This forcibly brought home the necessity to increase the domestic raw jute supplies.
The efforts made to increase production of jute yielded results. Domestic production of jute and mesta\(^1\) went up from 16.71 lakh bales in 1947/48 to 33.14 lakh bales in 1949/50 and 53.16 lakh bales in 1952/53. But during 1951/52 - 1955/56, there was a substantial decline in the quantum of exports of jute manufactures from India as the demand from abroad had fallen. This, coupled with increasing production, led to a precipitate fall of jute prices during the First Plan period. As a result, raw jute production declined too. It fell at a linear rate of 6.3% per annum during the period of 1951/52 - 1955/56. The lack of demand prevented the prices from rising in response to the fall in production. The end of speculative activities after the Korean boom was over added strength to the fall in prices.

As a result, area under jute in India went down from 790 thousand hectares in 1951/52 to 497 thousand hectares in 1953/54. The government conceded that "In 1953-54, ..... the production of raw jute received a set back owing to the prices being unremunerative to the growers at the time of sowing."\(^2\) However, as prices started recovering, area under jute also increased and recovered the lost acreage to reach 704 thousand hectares in 1955/56 and 772 thousand hectares in 1956/57.

\(^1\) Statistics of Production of Jute and Mesta separately before 1952/53 are not available.

\(^2\) Jute in India (1953/54). Directorate of Economics and Statistics; Ministry of Food And Agriculture, Government of India; 1954; pp.(i).
Several factors had combined to bring about this increase in prices. First of all, an encouraging demand for jute manufacture from Burma, Argentina, New Zealand and USA during 1956/57 greatly contributed to this rise in prices. Secondly, consumption demand in the country also increased from 181.19 thousand metric tonnes in 1955/56 to 278.6 thousand metric tonnes in 1960/61. Some other factors had been—the heavy floods in Assam during that year and consequent breakdown of transportation system, lower arrival in the upcountry markets, deterioration in the international demand due to Suez crisis, Pakistan's decision to increase export duties on cuttings and her decision to devalue her rupee in 1956. A fall in production next year led to a further rise in prices.

This brought about an increase in production of jute. 1958/59 was the year of bumper crop for jute. As a result prices once again fell sharply leading to a fall in incomes of jute growers. The government felt the need to check the fall in prices. For the first time after partition, the government imposed restrictions on the import of raw jute from Pakistan. It also authorised the State Trading Corporation to enter the market through cooperative societies to purchase raw jute for imports. The government also induced the jute mills to increase their purchases and to carry stocks equivalent to their five months requirements. Adequate wagon supply for movement of jute from producing areas of West Bengal was also ensured to help achieve this end.
The measures proved effective to some extent. A fall in production of raw jute provided an additional check to the fall in prices. The downward trend was arrested and prices started rising, shifting the jute-paddy price ratio in favour of jute. Area under jute went up from 629 thousand hectares in 1960/61 to 917 thousand hectares in 1961/62 and production of raw jute increased from 41.34 lakh bales (of 180 kilogram each) to 63.58 lakh bales.

But production still fell short of consumption demand. Speculative activities were again making an appearance. Rising trend of prices in Pakistan gave further fillip to jute prices in India which shot up by 68% over the previous year inspite of the government's efforts to regulate the jute market through credit restrictions and through jute licensing and control order under the "Essential Commodities Act" which authorised the Jute Commission to fix the minimum and maximum prices of raw jute.

An operational price of Rs. 30 per maund (Rs. 80.40 per quintal) was fixed for the Assam Bottom variety at Calcutta in 1961, which continued upto 1965/66. The high prices were leading to a fall in export demand. So the government allowed the imports of raw jute from Pakistan. Prices however, continued to rise unabated with further spurts on account of drought during the sowing season of 1960/61. Speculative activity increased despite restrictions on future contracts and fixation of ceiling prices on hedge contracts.
Having observed for many years the phenomenon of high amplitude of inter-seasonal variations in prices, cyclical movements in production and increasing costs as also the uncertainties of importing raw jute, the Government of India realised that it was essential to ensure a steady supply of raw jute at around the level of mills consumption so as to maintain the production level and export earnings and to prevent the violent fluctuation to which the industry was susceptible both during the depression and boom periods. These fluctuations, with supply elasticity being more than elasticity of demand have been almost explosive.

The increase in prices brought about an increase in production in the first year of the Third Plan. This again led to a fall in prices next year which fell by 15% in 1961/62 and 17% in 1962/63. The paddy prices were rising at the same time so that jute lost area to paddy. So much so that the Economic and Statistical adviser stated: "The problem of assuring a remunerative price to the jute grower is fundamental to the quantity of increasing output and improving quality of raw jute in the country.....the cultivator's interests have to be safeguarded so that he obtains a price that would serve as an adequate incentive to maintain a high level of production. On the other hand, as the demand for raw jute depends upon the demand for jute goods abroad, there is need for maintaining a fair relationship between the prices
of raw jute and the prices of jute goods".\(^1\)

In 1960/61, Indian Jute Manufacturers Association (IJMA) had amended its by-laws to make it obligatory on the part of mills to purchase raw jute on a quota basis. In 1961, the IJMA decided to seal 12% of the looms and reduced the working hours by one hour to \(3\frac{1}{2}\) hours. During 1963, it agreed to carry the higher stocks of raw jute so as to avert a crash in raw jute prices as had happened during 1959/60 season.

The Jute Buffer Stock Association was constituted in 1962 when support policy was first introduced to support the raw jute market by purchasing the fibre whenever necessary and holding it as a buffer stock. The government gave a guarantee to State Bank of India, in respect of the usual margins to enable the JBSA (Jute Buffer Stock Association) to obtain advances to cover the full value of raw jute purchased for its buffer stocks. The working of the Association, however, was successful only to a limited extent in arresting the declining prices because its operations did not extend to primary markets where most of the purchases/sales of raw jute were made.

During the 1962/63 season, a supplementary buffer scheme was initiated by the government through State Trading Corporation (STC). The purchase of jute by STC commenced

\(^1\) Agricultural Price Policy; Economic and Statistical Adviser; Ministry of Food and Agriculture, Government of India, New Delhi; February 1963, pp. 195.
in October 1962 and was made exclusively from cooperative societies through the NAFED (National Agricultural Cooperative Marketing Federation) at the operational price.

The Jute Commissioner issued minimum purchase quotas totalling 43.3 and 69.3 lakh bales during 1962/63 and 1963/64 respectively.

All these measures brought results. Jute prices again started rising as a result of the fall in acreage and production of jute and the steps taken to check the fall in prices. Consumption of raw jute had also increased from 67 lakh bales in 1961-62 to 76 lakh bales in 1962/63 and 82 lakh bales in 1964/65. Outbreak of hostilities with Pakistan strengthened the rising trend.

The government again intervened to check the rise in prices. Some of the steps taken were new while others were just continuation or intensification of steps announced earlier. The operational price of Rs.30/- per maund was continued. A maximum purchasing quota system was introduced in September 1964. Trading in hedge controls in raw jute was suspended at the same time. Both these steps were also continued. The formalities regarding the release of Jute Buffer Stock Association holdings to the mills were relaxed.

Thus the price policy followed till 1965 was of an ad hoc nature, trying to adjust to the changes in the market without attempting to evolve a long term policy. When
production fell and prices rose, price restraining measures, including increased exports, were resorted to. And when production increased and prices started falling, a support was attempted to be given.

Three conclusions stand out: (i) The farmer was quick to respond to price changes and adjusted his area allocation to cultivation of jute according to signals in the forms of prevailing prices that he received from the market; (ii) The period was characterized by wide fluctuations of prices and consequently of area under cultivation of jute; and (iii) State intervention in jute market was not always sufficiently effective in preventing speculative activity from arising. This added to instability of prices and production.

In 1965, with the establishment of the Agricultural Prices Commission, price policy of jute entered the second phase. The Commission realised from the outset that "price policy should aim at minimising the range of fluctuations (between the seasons but particularly within them) consistent with the interest of the raw material producer and production, as well as that of the manufacturing industry. The first step in deriving the range is to determine the floor level, the level of minimum support price".\(^1\) While fixing the

minimum support prices for jute the Commission was to keep in view: (a) the need to raise raw jute production, particularly through increase in yield; (b) the rising trend of cost of production of raw jute arising mainly out of increasing wages of hired labour; and (c) the growing intensity of competition faced by India in the world trade in jute manufactures from alternative suppliers and substitute materials.

The Commission suggested raising the minimum support price from the operational Rs. 30/- per maund (Rs.80.40 per quintal) to Rs. 35/- per maund or Rs.93.77 per quintal as, they realized that the wholesale prices of this variety had gone up to Rs.39.04 in 1964/65 and Rs.46.60 in 1965/66 and costs of production had also gone up. However they were constrained in increasing the prices to a very large extent due to probable adverse impact of high jute prices on foodgrains acreage. The recommended price, they believed, would also not adversely affect India's competitive capacity in international market.

They called it an operational minimum and did not give it a statutory status. That, they believed was enough to give an assurance to the growers without making payment of price below that illegal.

The Commission felt the need for a machinery to carry out the purchase/sale operations in the primary markets (which they felt, JBSA had failed to do) and thus make the minimum
support price policy effective. They, however, did not favour the setting up of an ad-hoc machinery to make the purchases of raw jute when the occasion so demanded. Nor, they felt, would establishment of a permanent body for the purpose of making purchases on regular basis be a realistic or feasible proposition.

The Commission felt that the co-operatives can play an important role in this direction. In fact, in 1962/63, State Trading Corporation did lend a helping hand to JBSA in its purchases through NAFED (National Agricultural Cooperative Marketing Federation), but two problems connected with the latter made the operation a bit difficult. These were (a) the pre-occupation of NAFED with purchases/sales of other crops, like paddy; and (b) paucity of funds with NAFED.

Another problem that was faced was the weak structure of cooperatives in the eastern states. In the Commission's view, the purchasing operations were best left to the care of co-operative societies of growers. These societies should also undertake, the Commission suggested, ginning and baling of raw jute. The commission also felt that Jute Commission would have to play an important role, by regulating purchases made by jute mills. Similarly, they felt, the Forward Markets Commission would also help by prohibiting Transferable Specific Delivery Contracts at rates below stipulated minimum.

The Commission further suggested the regularisation of markets, standardisation and gradation of jute and fixation
of minimum prices on the basis not only of prices in one market but of prices in secondary markets too. "If the governments of these (eastern) states are really serious in encouraging production of jute and providing incentive to their farmers through remunerative prices, it is imperative to improve the marketing of jute".\(^1\)

In 1966, India devalued her rupee once again. It was expected to raise the exports of the jute goods. That did not happen. In fact, shipments declined by about 30% during June-December 1966 as compared to the corresponding period in 1965. This was perhaps due to the fact that while domestic supplies of raw jute remained relatively inelastic in the short-run, imports became costly because of devaluation so that any benefit that devaluation might have conferred on exports was wiped off by increase in the cost of imports. Further, most of the exports were made on the basis of existing agreement and not much increase in demand was possible. And the production in the previous seasons had been low. The market for raw jute therefore ruled firm in 1965/66 and 1966/67 seasons. The market price for Assam bottom at Calcutta reached a high level of 192.90 per quintal (Rs.72/- per maund).

The Commission at this time suggested the setting up of an organisation which would not only participate in the market to lend a price support in a time of falling prices

but would be there permanently to stabilise prices. It would also help in ending the monopoly of the existing trade groups.

The minimum support price suggested by Agricultural Prices Commission for 1967/68 season was Rs. 36 per maund or Rs.96.45 per quintal for Assam Bottom quality at Calcutta. The government fixed it at Rs. 40 per maund or Rs.107.17 per quintal and maintained it at the same level upto 1970/71.

While the Jute Commissioner had been fixing maximum purchase quotas of raw jute for the mills, and mills were resorting to a Group Purchase Scheme with a view to arresting the rise in prices till May 1967, the prospects of a good crop in that season changed the position. The crop that year was 20% higher than in the previous year and the highest since 1961/62. Prices declined and the fixation of maximum purchase quotas was given up. In August, the Jute Commissioner had to take steps to prevent a fall in prices below the minimum level of Rs.107.17 per quintal. Mills and JBSA were assigned minimum purchase quotas. S.T.C. also was asked to enter the market, who offered Rs.1.7 crores to governments of jute growing states to organise price support measures. Prices continued to be below the support level till January 1968 for most of the varieties, particularly in the upcountry markets of West Bengal and Orissa where the derivative minimum prices had not been announced till September 1967.
The gap between minimum and actual prices started narrowing in December 1967. In January 1968, future trading in jute goods was allowed to be resumed (it had been suspended since August 1967).

The Commission, in its report for 1968/69 season showed its concern over the government's inability to fulfill its commitment in respect of price support to raw jute and felt that the farmer might lose his faith in the assurance implicit in the price support policy. This could also affect adversely the government's credibility in announcement of price support for other agricultural products too. This would lead to the uncertainty that the support measures attempt to remove. The Commission also felt that keeping on raising the support prices of jute would lead to an adverse impact on exports, and pressures to raise prices of competing crops to keep the price parity which might not be very feasible. The Commission felt that this dilemma of giving incentive to jute production and at the same time keeping price parity with competing crop, paddy and with international price levels had to be solved by non-price measures, like raising per hectare productivity to increase returns per hectare to grower.

The crop in 1968/69 was the worst in the decade. This had been the result of the delay in announcing the price support in 1967/68 and, the market prices remaining below the minimum support prices: "The inability to maintain jute prices even at the stipulated minimum levels during the peak marketing
period induced a sizeable reduction in the acreage sown to the crop in 1968/69. *1

The Commission felt that the price support measures followed by the government were inadequate and delayed, and the dependence on J & JGSSA (Jute and Jute Goods Buffer Stock Association) - a jute mills sponsored organisation - only helped make the matters worse. There was a need for setting up a separate machinery for ensuring price support to jute farmers. Regulation of markets or giving increasing role to cooperatives in the jute growing areas had not worked to the desired extent. The Commission reiterated the need for development of cooperatives, regulation of markets and, the establishment of an independent organisation for price support operations. The Commission also felt that it would be the drift in the relative market prices rather than the level of support prices which would be the major determinant in output.

In spite of the Commission's repeatedly recommending various means and measures to improve the price situation for jute, the difference between the market prices of jute in Calcutta and in the upcountry markets had widened. This meant a decline in the grower's share in the price paid by jute manufacturers. This indicated a growing imperfection in the jute market. The hopes were impinged on the newly constituted Jute Corporation of India (set up on 2nd April 1971) to bring about improvement and development in the jute

economy of India. It was entrusted with the work of purchasing raw jute for ensuring minimum support price for growers and of building up of a buffer stock through internal procurement and if necessary, by imports. It would appear in retrospect that despite sustained effort of Agricultural Prices Commission in the matter, the price policy in jute during the last six years of the period under study did not prove to be much of a success in the achievement of its stated objectives. Fluctuations, both in production and prices continued. Nor did the price policy contribute to improvement of production and productivity.

Our dependence on imports did not decrease. The price differentials between various markets continued and the price support measures were not needed in some years, and did not help the growers in others, with prices in the market continuing to be below support price level. The cooperative movement did not acquire enough strength to be able to regulate or develop markets.

To sum up; though the government attempted much more than it did in the case of foodgrains to attune price policy in respect of jute, a principal commercial crop, to the interest of grower, the results achieved were not very conspicuous. In the first phase, the policy suffered from ad hocism and short sightedness. In the latter phase, its enforcement was hampered by the lack of adequate mechanism
for implementation. This underscores the point that executive fiats issued on control and regulation prices by the State cannot succeed in their purpose unless these are accompanied by the necessary institutions, agencies or mechanisms to support them through market operations. This is a point that was long back made by Pigou. What he said at that time on price controls holds good till today.