CHAPTER - IV

STATE INTERVENTION
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4.1 A Retrospective View of Indian Economy - Forces of Change

The *laissez-faire* economy mooted by the Classical economists resulted in some grave evils such as great inequalities of income and wealth, emergence of monopolies, rising trend of unemployment, great instability in economic and social activities, etc. The inequality in income and wealth leads to division of society into two classes viz. the 'haves' and the 'have nots'. This class antagonism creates mutual tension and conflict between the two classes of society which again causes social and political instability. However, vice has also its own virtue. Rapid progress in two centuries alone in science and technology is the residual of *laissez-faire* economy.

The growth of capitalism faced severe criticism in the 19th century. The criticisms came from various directions, which may be summed up as reactionary, nationalist and radical. Adam Muller represented the reactionary view while Frederick List was the main advocate of the nationalist group. The radicals were Machiavelli, Bacon, Hobbes and Locke. These radical critics "gradually developed in Marxism a systematic philosophical and economic theory powerfully opposed to the doctrine of liberalism."

In the 18th century Industrial Revolution in Europe brought many maladjustment in the form of economic crisis, poverty and misery of working class. So, capitalistic system was attacked by socialists like Saint Simon (1760-1826). He specially emphasized the abolition of class
distinction and establishment of industrial equality. The followers of Saint Simon called Saint Simonians advocated extinction of institution of private property and opposed the law of inheritance. They advocated a system where the state became the owner of all forms of wealth. They wanted both production and distribution of wealth to be the State.

Robert Owen (1771-1858) was the founder of British Co-operative movement, movement for factory reform and trade union movement in England. The other contemporary socialist thinkers were Charles Fourier (1772-1837), Louis Blanc (1811-1882) and Prondhon (Pierre Joseph) 1809-1865 of France.

English and French socialism during that period were considered as utopian and idealistic and hence their influence on economic thought was not very great.

The problem of distribution of wealth became more important than any other economic problems in the writings of socialist economists like Sismondi. He felt that to maintain social justice, distribution was to be more stressed. The principle of *laissez-faire* was criticised severely by the socialist and considered the cause of economic evil to be the disparity between productive power and the social relations which determine their use. The state must step in to mitigate evils and remove the causes of evils of capitalist system. Marx and Angels who believed that to end exploitation from the world it was necessary to abolish private ownership of means of production. They considered private property to be the cause of all social evils. The Bolsheviks, who were the followers of Marx and Angels came to power in Russia in 1917. They tried to give a practical shape to the ideas of Marx and Angel through economic plan-
Thus for the first time in the history of mankind, society made a concerted effort to end poverty, hunger, unemployment and inequality of income according to a plan. The tremendous progress achieved by Russia did have an impact on the capitalist countries of the world. Although the capitalist governments did not lose faith in the sanctity of private property and private ownership of means of production, yet they were convinced that government could play an effective role in reducing and eventually removing poverty, misery, unemployment and inequality, but faith in the operation of price mechanism as an automatic self-adjusting mechanism and laissez-faire as the supreme ideal began to lose ground rapidly.

Keynes' book, The End of Laissez-Faire and his public works programme had a tremendous and epoch making influence on abandoning noninterventionism. It set an era of positive role of the state in economic and social life of nation.

Even the champions of capitalist system of production like U.K., U.S.A., West Germany began to introduce several legislative measures to regulate the economy through state interference.

It may not be wrong to mention here that the West has belatedly realised the secrecy of success of socialist economy specially in Russia. The Marxian concept of production specially its distribution of income float from strategy of socialist planning percolated down to the distribution of income borrowed by Western economists.

We have ear-marked inequality of income as the greatest evil of laissez-faire economy, the incentive that is induced by it cannot be consi-
dered as national criterion for maintaining inequality of income distribution. Since Second World War, every intellectual in the West has realised that it is the work force which keeps a nation on its feet. Hence the concept of distribution of income came as an aftermath of the destruction of the Second World War. Marxist's view of distribution of income based on the principle of need and on work performed, equality right is considered to be bourgeois idea by the Marxists but they wanted to achieve equalisation of right to income through rationalisation of wage-scale, job evaluation and through reduction of urban rural disparities. Of course, they have one advantage of being authoritarian in determining the prices, not on the basis of marginal costs principle but based on ability of the people to pay for the goods.

So far as India is concerned a serious and sustained economic thinking along modern lines commenced only after India came in contact with England.

As result of the introduction of western type of education in India and due to some of the British economic institutions, the political and economic thinking came into being in the country.

Efforts were made to introduce laissez-faire type of capitalism in the traditional Indian society. The ideals of Adam Smith, Malthus, Ricardo and J.S. Mill were taught in Indian universities and their influence fell upon Indians. specially J.S. Mill's liberal thought attracted elite Indians.

As a reaction to the liberal thinking of the English classical school, there was reaction to classical thinking about the end of 19th century. As a result of the impact of the nationalist thought of Frederick List of Germany, Dadabhai Naorji, M.G. Ranade, M.N. Roy, N.N. Deb and others advocated that instead of following non-intervention policy, the
government should actively intervene to protect industries and agriculture from the severe and unequal competition which the country faced from the industrial countries of the West.

The investigator, however, feels morally obliged to express his view that academic liberal views of the economists remained important due to the tradition and religious faith. Human dignity is a theme not of economic domains but imbedded into religious policy. It is due to the orthodoxy of our religion, it became very difficult to translate the ideas of great human economists and it is even so today. Let us give an example about the land distribution policy which was advocated by Indian National Congress as back as 1930 has not ever been realised today after 40 years of independence. Only one state in India, viz. West Bengal has attempted in this line but yet it is far from success.

After emergence of Gandhiji on the political scene of India, many of his ideas influenced the economic thinking and institutions of the country. Gandhiji’s economic ideas contained Swarajya, self-sufficient villages, decentralisation of industries, emphasis on cottage and Khadi industries and upliftment of masses.

Jawaharlal Nehru was influenced by English thought and he believed in democratic form of government and Fabian socialism. His economic ideas played a crucial role in formation of economic thinking in India specially after Independence. He followed the Soviet type of planning in India to solve the complex problems of the country. During the struggle for independence he infused these ideas in to the Indian National Congress.

The Indian thinkers including Jawaharlal Nehru were impressed by the achievement of the socialist planning of Soviet Union. But at the same time they regarded the democratic values of the capitalist society
as indispensable for full growth of a just society. Thus India endorsed to take advantage of the virtues of the two schools of thought -- capitalist economy and socialist economy. Hence, Mixed Economy was envitable for India under the circumstances prevailing just after Independence.

Though we call Indian economic system is a mixed economy system but it is hardly so. Because the trend of capitalism is very strong and at the same time multinationals are creeping in at the behest of the allied consumers who are also directly or indirectly involve with the economic planning. This, of course, creates not only inequality of income but much more dangerous than this, the transgression of Indian culture.

4.2 Nature of State Intervention in India - A Historical Background

The state intervention in national economy distinctly exposed first in the Industrial Policy Resolution of 1948 of the government of India. The state activities in industrial sphere further increased with the declaration of Industrial Policy Resolution (Amendment) 1956. This amendment brought as many as seventeen industries under direct state control and the state activities in the remaining two categories of industries also increased. As a follow up action several formalities were introduced for establishment of industries in private sectors.

Until the completion of the Second Five Year Plan, agricultural marketing in particular and agricultural sector as a whole was out of the purview of state interference. Only in the middle of the Third Five Year Plan state intervention in agricultural marketing began with the establishment of Food Corporation of India (F.C.I.) established in 1964.

Thereafter, the Cotton Corporation of India (C.C.I.) was set up to facilitate foodgrain and raw cotton marketing in the country. the enactment of Agricultural Produce Market Act by different state governments to
provide marketing facilities for agricultural commodities is a strong step in this direction. Of course, the regulation of agricultural produce market was started in early thirties as recommended by the Royal Commission on Agriculture. In the year 1982-83, there are only 400 regulated market in India.

4.3 Price Fluctuation

Government intervention in jute economy was felt because the prices of raw jute in short period is highly fluctuating. This is due to the inelastic demand for and relatively elastic supply of raw jute in the country. In our opinion a mechanism of price is de facto. This is not only the case for jute alone but for the most of the agricultural raw products because neither we have international exposure nor we have state level body which could control the prices. The bodies like Agricultural Price Commission are of recent origin. Also they have to do a formidable task on the face of dissimilie in production, market centres as well as other factors. We have to mention that the demand for final jute products is volatile due to the prevailing international market situation. The reason is there are far better substitutes which are cheaper as well as attractive compared to jute products. Hence the question of elasticity of supply and demand as put forward in defence of periodic high fluctuation of price by Jha may not be considered as tenable. The production of raw jute is planned according to the prices of raw jute in current year. So, if prices of current year is high, production in next year will increase, consequently owing to elastic demand, prices in the year of high production experiences a low price. Reverse is the case if price in the current year is low. Table 3 shows the short period fluctuations in prices of jute goods and raw jute.
### Table 3(a)

**Fluctuations of Prices of Jute Goods**

<table>
<thead>
<tr>
<th>Year</th>
<th>Prices/100 bags at Calcutta</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951-52</td>
<td>206.1</td>
</tr>
<tr>
<td>1952-53</td>
<td>101.1</td>
</tr>
<tr>
<td>1953-54</td>
<td>104.1</td>
</tr>
<tr>
<td>1954-55</td>
<td>117.14</td>
</tr>
<tr>
<td>1955-56</td>
<td>Rs. Ps</td>
</tr>
<tr>
<td>1956-57</td>
<td>110.19</td>
</tr>
<tr>
<td>1957-58</td>
<td>113.63</td>
</tr>
<tr>
<td>1958-59</td>
<td>107.36</td>
</tr>
</tbody>
</table>

**Sources**: B.V. Jha, 1971; Spotlight on Jute, 1977.

### Table 3(b)

**Fluctuation of Prices of Raw Jute (per quintal) at Howly (in Re.)**

<table>
<thead>
<tr>
<th>Year</th>
<th>July</th>
<th>August</th>
<th>September</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977</td>
<td>205</td>
<td>152</td>
<td>165</td>
</tr>
<tr>
<td>1978</td>
<td>200</td>
<td>170</td>
<td>160</td>
</tr>
<tr>
<td>1979</td>
<td>165</td>
<td>160</td>
<td>155</td>
</tr>
<tr>
<td>1980</td>
<td>127</td>
<td>130</td>
<td>127</td>
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<tr>
<td>1981</td>
<td>172</td>
<td>170</td>
<td>158</td>
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<tr>
<td>1982</td>
<td>182</td>
<td>170</td>
<td>168</td>
</tr>
<tr>
<td>1983</td>
<td>300</td>
<td>275</td>
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<tr>
<td>1984</td>
<td>540</td>
<td>550</td>
<td>580</td>
</tr>
<tr>
<td>1985</td>
<td>340</td>
<td>250</td>
<td>195</td>
</tr>
</tbody>
</table>

**Sources**: Agricultural Marketing Office, Howly.
A substantial rise in prices of raw jute at the end of Second Five Year Plan had a favourable impact on production in the first year of the Third Plan. This increase in production led to fall in prices of raw jute in 1961-62. During the whole Third Plan Period raw jute prices showed a high level of ups and downs\(^9\).

The fluctuations in the prices of raw jute were caused by the variations in the trend of production. The production index for raw jute in the Third Plan was very erratic. During the Five-Year period it came down thrice. Production declined from 54.59 lakh bales from record level of 63.98 lakh bales of 1961-62. In 1964-65 it declined by 1 lakh bales.

This change of high magnitude in production led to rise in prices during the Third Five Year Plan.

The instability in the prices of jute and jute product made fortunes for some private traders and individuals. But it harmed the industry and jute economy as a whole.

For stabilisation of jute prices, measures were adopted after the great slump of thirties. The effort was launched with commendable competence. But it was short lived due to partition of India. Yet it was the first admission on the part of the authority that jute could not be left to *laissez-faire* and that control had to be brought in, backed by planning.

Therefore, the present state of marketing is to be replaced by a mechanism which has the power of stabilising prices and which could look after interest of both the producers of raw jute as well as its consumers\(^{10}\). Since jute is a specific rare commodity only available in the
North-East India, the method of cultivation is almost the same in all the states as well as neighbouring Bangladesh. The marketing structure and channel of marketing must be changed to give the growers remunerative prices and supply the goods to ultimate consumers at a reasonable price.

It was with mainly this objective in view that the Jute Corporation of India (J.C.I.) was created in 1971. The main objective of J.C.I. was to stabilise prices of raw jute at remunerative level and to market jute goods abroad. In 1968-69, the Agricultural Price Commission recommended that the Government might consider some agency which could take responsibility for price support operations in raw jute making it obligatory for such an agency to buy whatever quantities are offered for sale at the support prices. Such centralised purchase was considered necessary to ensure that market price of jute did not lag below the support level at any time\(^ \text{11} \). On the basis of this recommendation the J.C.I. was set up in April 1971.

The main functions of J.C.I. are:

i) to purchase and sell jute and mesta grown in India;

ii) to purchase, sell and otherwise dispose of and deal in jute and mesta\(^ \text{12} \) from outside India;

iii) to export jute and mesta from India;

iv) to organise and undertake purchase, sale and transport of jute and mesta (imported into or grown in India) including such allied duties as may be entrusted to the company for such purposes by the Central Government from time to time or anywhere else in the world.
v) to generally implement such special arrangements for imports
of internal trade of distribution of jute and mesta as the Central
Government may specify from time to time in public interest;
vi) to generally carry on business as exporters and importers of
jute and mesta and exports of jute goods;
vii) to undertake processing of jute and mesta and manufacture of
jute goods;
viii) to undertake export of jute goods; and
ix) to support, protect, maintain, increase and promote export of
jute goods by such methods as may be necessary or expedient
including market studies, sending out trade missions, opening
foreign offices, conducting propaganda and publicity in foreign
countries.

The functioning and achievements of J.C.I. is discussed in Chapter
V.

Another form of state interference in the raw jute marketing is
setting up of co-operatives and linking the same with marketing operation
for the benefit of the growers and consumers.

Efforts are being made by the Government of jute growing states
for expansion of rural credit to remove the financial deficiencies of the
growers.

The other main constraints faced by growers are inadequacy of access
to markets, lack of grading and other essential facilities like storage
even at notified regulated markets and uncertainties involved in taking
jute to distant markets.
In view of the above deficiency the state government of jute growing states with the recommendation of state Ministers of Agriculture and Co-operation took measures for development of infrastructure specially in regard to credit, grading, regulated markets, warehousing and transport.

Though establishment of regulated markets is a big step towards providing marketing facilities to the buyers and sellers, yet their impact in the jute growing states is yet to be felt.

The regulated markets are meant for removing the existing malpractices in the marketing system. Though the major jute producing states have passed the Regulated Markets Act and have also notified a good number of markets, in the absence of essential infrastructure, such as market yards, warehouses, etc., enforcement of the Act is understandably beset with difficulties.

Grading is an important constituent of marketing system. The Government of India with the help of state government provides financial assistance to train the farmers in grading and assorting. To ensure benefits of regulation, grading and standardisation would have to be introduced in large scale. The Indian Standard Institution with the help of the Directorate of Jute Development, Industry, Trade as well as research institutions, has evolved in eight grade system based on certain scientific norms. This is done under Jute Grading and Marketing Rules. How far this programme of training facilities is able to benefit the farmers is evaluated in Chapter V in the light of the response of the growers of the sample village.
NOTES

1 Kurihara, K.K., 1974.
2 Schumpeter, J., 1954.
6 Industrial Policy Resolution (Amendment), 1956.
7 Ganguly, J.B., 1983.
8 Jha, B.V., 1971.
9 Ibid.
12 Mesta - A fibre crop which is much more strong than jute used mainly for making fish-nets.
13 National Commission on Agriculture (Govt. of India), Interim Report on Certain Important Aspects of Marketing and Prices of Cotton, Jute, Groundnuts and Tobacco, 1974.