CHAPTER XI

AGRICULTURAL PRICE POLICY IN INDIA

The discussion in the previous Chapter can now serve as a framework for evaluating India's agricultural price policy. We can start with the policy regarding foodgrains, which is also our main concern.

A. Foodgrains

The chief instruments of policy have been: (1) statutory and non-statutory rationing for distribution (2) Procurement and imports (3) restrictions on private traders in the form of licensing etc., and selective credit controls on bank advances to traders (4) restrictions on the movement of foodgrains and (5) minimum support prices. It can be noted at the outset that though committee after committee has emphasised the importance of building adequate buffer stocks and of reducing fluctuations in prices through buffer stock operations, no adequate steps have been taken in this direction. The policy, at least till recently, has been to deal with a situation on an ad hoc basis as and when it arises,

1. In writing this Chapter, the following sources were very helpful:

C.F.R.s of the Reserve Bank of India, chapters on 'Price Policy' and 'Output and Price Trends'; 'Commodity Reviews' in A.S.I., Annual Numbers; "Agricultural Price Policy in
rather than to evolve a long term machinery. The attitude, in other words, was to treat the food problem as a crisis or a temporary difficulty, rather than as a chronic problem. As such no permanent and stable machinery was evolved either for buffer stock operations or for subsidised distribution of grains to consumers.

The First Plan was started at a time of soaring prices and the period was marked by controls and rationing. Administration of food being the state subject, the pattern of rationing, controls and procurement varied from state to state. Thus in May 1952, which marked the beginning of the process of decontrol, 45.8 million people were covered by statutory rationing and 108 million were covered by all forms of rationing—statutory and non-statutory. No free market was allowed where statutory rationing prevailed. Here, the government undertook to issue ration cards to

---


cover the entire population and the consumers had a right to expect ration from the government. There was no such commitment on the part of the government in non-statutory rationing, and free market was generally allowed alongside controlled distribution.

The pattern of procurement also varied not only between states but even between districts within a state. On the one hand, we had monopoly procurement whereby the assessed surplus of every producer had to be sold direct to the government at a fixed price. This was largely adopted in Madras, Travancore-Cochin and Mysore. On the other hand, there was the system of open market purchases by the government through traders or government agents, which prevailed mainly in Vindhya Pradesh and PEPSU. The price paid by the government would be below the maximum purchase price fixed. There was also the system of levy whereby, the government took a fixed quantity at a flat or a graduated rate on acreage under the crop at a fixed price. The residue could be sold in the open market. Rajasthan and Madhya Pradesh experimented with this. In some states, as in Bombay, the government had the first right of purchase of any residue or excess. Some states like Madhya Pradesh had imposed levies on trade and rice mills. Movement of foodgrains was also controlled not only between different states but also generally between
districts within a state. Some states, where open market
was permitted, announced maximum ceiling prices, which,
however, could not be enforced. In fixing the procurement
prices, factors like feasibility of procuring at such prices,
the market prices within the state and in the border districts
of adjoining states, were taken into account. No generali­
sation could be made as to whether procurement prices were
lower or higher than the wholesale prices in the respective
states, though they were generally lower than the seasonal
maximum in the wholesale prices. However, there were frequent
changes in these prices in the same regions, which created
uncertainty and led to hoarding in anticipation of better
prices. Also, the lower procurement prices, wherever they
existed, meant discrimination against foodgrain producers,
since the prices of commercial crops kept rising. Regional
differences between procurement prices were also wide.

While rationing and controlled distribution of food-
grains, and also procurement were matters left to the states
or provinces, there was also in operation an All India Basic
Plan which had come into effect from July 1943, and contin­
ued till the beginning of 1954. This was concerned with

---

5. For example, procurement price of rice in 1961-62
varied from Rs.10 and 8 annas in Travancore-Cochin to Rs.95
and 10 annas in Bombay-Gujarat districts. Cf. Ibid.,
Table, p. 69.
(1) allocation of the surpluses of surplus areas to meet the deficits of deficit areas; (2) importation from abroad of the quantities necessary to bridge the gap between aggregate of deficits of deficit areas and aggregate of surpluses of surplus areas; (3) equitable distribution of imported supplies among deficit areas. The Basic Plan was drawn on an annual basis, showing the estimated production and consumption needs in each province, as also the deficit or surplus emerging therefrom. But there was the inevitable tendency to exaggerate deficits and discount surpluses. The Centre often found itself helpless in imposing its wishes or decisions on the constituent units. However, the situation, in this regard, improved a little during the latter stages. During the five-year period ending in 1951, the average annual movement under the Basic Plan was 3.5 million tons of which only 11.3 per cent came from internal supplies, the rest being met from imports. The movement of grains amounted to 3.0 million tons in both 1952 and 1953. The proportion met from internal supplies, however, was 11.6 per cent in 1952 and 35.9 per cent in 1953.

Such was the position before 1963. The period is interesting for us, especially because of the fairly great

resemblance between the experience of this period and the experience of recent years. Though the All-India Basic Plan was in operation for over ten years, it could not work because the national objectives were being wrecked by the regional and narrow interests. The deficit regions overestimated their needs and the surplus regions underestimated their capacity to supply. The gap between total surplus and deficit was significant, and in fact the gap itself proved to be greater than the total surplus every year. Thus deficits declared totalled 21.8 million tons for five years ending 1946-47; surplus declared for the same years totalled 7.6 million tons and the total deficit was 14.8 million tons. Despite so many restrictions on inter-state movements, procurement was not easy, which would show that the former need not make the latter easy. The inevitable result was increased reliance on imports. Black markets flourished despite all the armoury of controls and neither consumers nor producers felt better off.

In June 1952, relaxation of controls began and after the record crops of 1953-54, they came to an end. By the end of 1954, rationing, procurement and nearly all restrictions on movement were removed. Imports were slashed down

5. Ibid., Table showing 'Working of the Basic Plan', p.43.
and even some exports were allowed. The emphasis now turned to giving support to prices by fixing floors, in the context of the severe decline in prices. The government announced minimum prices for wheat, jowar, and maize, in 1954, and for rice and gram in 1955. In fixing the level of these prices, the government placed reliance on the judgement of agricultural administrators. Under this policy, the Union government purchased at floor prices 76400 tons of wheat, 38000 tons of jowar and 1300 tons of gram, in 1955. No rice was purchased, since the market prices did not fall below the floor. However, the policy failed to prevent a sharp decline in the prices of foodgrains (even conceding that part of the decline was a corrective to the earlier rise) and the opportunity for building adequate buffer stocks was missed.

The trend of prices, however, was reversed in the mid-1960s. The first reaction was to increase imports and distribute them through fair price shops. Prices continued to rise and the Foodgrains Enquiry Committee was appointed to go into the question, under the chairmanship of A. Mehta. The recommendations of this Committee served as the basis for food policy till 1962-63. The Committee found that self-sufficiency was not in sight in the near future and advocated the policy of importing substantially. This
was intended both to build reserve stocks and to meet the requirements of the vulnerable groups of the population. This marked the beginning of our heavy reliance on imports, which has continued till this day. Our distribution machinery came to be entirely based on imports, and the emphasis on building reserve stocks and the need to evolve a permanent machinery for procuring and mobilising internal supplies, were conveniently ignored. It is this aspect of P.L.480 imports which was adverse, rather than the alleged depressing effects on producer prices.

The Asoke Mehta Committee also made three other important recommendations: buffer stock operations in the open market, progressive and planned socialisation of wholesale trade and regulation of trade through a system of licensing. The Committee felt, however, that in an inflationary trend, open market purchases may push up the prices and that the Foodgrains Stabilisation Organisation (F.S.O. for short, the recommended body for buffer stock operations) would have to undertake compulsory procurement as well.

The Committee, however, does not seem to have gone deep enough into the implications of its recommendations.

Firstly, regarding buffer stock operations, no criteria were discussed for the fixation of the limits of prices at which purchases and sales will be made. It says that if the proposed F.S.O. purchases the surplus crop of bumper years and sells it in lean years, it can eliminate fluctuations and make profits. But it lays no guidelines as to how the sizes of surpluses and shortages are to be determined or at what level of prices the F.S.O. will enter the market.

Secondly, it asserts that there cannot be effective stabilization until there is social control over the wholesale trade and recommends, therefore, progressive and planned socialization of wholesale trade. One wonders whether they want this to check fluctuations in prices. The Committee frowns upon rigid control and rationing. It recommends that trade should, on the one hand, be allowed to function on a competitive basis within certain broad limits, and on the other, be regulated by countervailing action. This action should be both over-all, e.g., monetary and fiscal policies, and also selective, e.g., direct purchase and sale of food-grains and licensing of dealers. But where does socialization come in? The Committee has no clear idea of what it means. If it means monopoly trade by government, with the dealers acting no more than its agents, and if the prices are to be
fixed by the government itself, rationing will be indispensable. However, if it means that though there is government monopoly, the price will be left to be determined by demand and supply forces in the market just as any other monopoly price, it does not explain why it feels sure that this monopoly price will be necessarily be less than the competitive price. If it will be the same as competitive price, there is no case for monopoly. If it is less than the competitive price, rationing may be inevitable. The Committee simply ignores the implication of socialisation. Its stand, at best, is wavering.

Thirdly, the Committee feels that compulsory procurement may be necessary to some extent, especially in respect of rice. The simplest way of doing this, it suggests, is cordoning off certain areas and make the P.S.O. the sole buyer for purposes of export. Presuming that the Committee wants this procurement for the sake of supplying to the fair price shops, one wonders if the Committee is aware of the liabilities of the P.S.O. once cordoning or zoning is introduced. As pointed out in the earlier chapter, procurement should be adequate enough not only to transfer grain to deficit areas (which would have been supplied by private trade) but also to feed fair price shops. This double task is quite burdensome and unnecessary. The Committee is also
silent about the level of procurement price to be paid to farmers. One wonders if cordoning off surplus areas is meant to reduce prices there, so that procurement can be done at open market prices. In this case, however, procurement need not be compulsory. But since it says that procurement has to be compulsory, one may infer that the Committee is afraid that even cordoning off does not bring down prices in surplus areas. But if in any case procurement has to be compulsory, and at less than market prices, where is the need to condemn off? Farmers' resentment is bound to be there once procurement prices are lower than market prices and it need not be assumed that cordoning off lessens this resentment.

In pursuance of the Asoka Mehta Committee's proposals, a scheme of State Trading in foodgrains was introduced in 1958-59, which envisaged an ultimate pattern and also an interim scheme. Under the ultimate pattern, the scheme envisaged the collection of farm surpluses through service co-operatives at the village level and channelling of surpluses through co-operatives for distribution. Under the interim scheme, the wholesale traders including millers, were required to take out licenses and to submit periodical returns of stocks and of purchases and sales. The government were to acquire from them progressively larger proportions
of marketed surpluses of foodgrains, and had the right to acquire the whole or a portion of stocks from the traders. The prices at which traders could sell remaining stocks to retailers was subject to maximum control prices. The states were asked to develop co-operatives and take such other measures which will enable quick implementation of the ultimate pattern. It is worth noting that the idea of buffer stock operations was given up.

Zonal restrictions on the movement of foodgrains were introduced in 1957 itself. Three wheat zones, viz. (1) Punjab, Delhi and Himachal Pradesh, (2) U.P. and (3) Rajasthan, M.P. and Bombay (excluding Bombay city), and one rice zone consisting of the four southern states were created in the year. Movement was allowed within each zone. Other measures like cordoning off certain areas for the purpose of exports, fixation of maximum controlled prices, procurement in some surplus areas, and restrictions on bank credits were undertaken in 1957. Another rice zone, comprising the state of Punjab, H.P. and Delhi, was created in 1958. In the early 1959, the western wheat zone consisting of Bombay, Rajasthan and M.P. was split up into 3 separate zones. At the end of 1959, an eastern rice zone consisting of Orissa and West Bengal was created. The idea behind larger zones is to match surplus states with deficit states, so that the zone as a
whole could be self-sufficient. Any surplus in a zone is exported to other areas on a state to state basis, or specific arrangements are made with private trade for the purpose.

While the Central government laid down the broad lines for state trading, the details were worked out by the states themselves. As such the pattern varied from state to state. In surplus states like Punjab (wheat) and Orissa (rice), the problem was one of assuring minimum price to producers, in view of the zonal restrictions. In deficit states like West Bengal and U.P., the problem was one of preventing undue rise in prices. One can contrast the experience of U.P. with that of Punjab in the case of wheat, and the experience of Bengal with that of Orissa in the case of rice. State trading was successful in the surplus states of Punjab and Orissa but failed in the deficit states of U.P. and West Bengal. But what is most important, both in Punjab and Orissa, normal trade channels were not disrupted and no attempts were made to fix a ceiling on prices. In fact, steps were taken to improve normal channels of distribution through an increase in the number of assembling

centres. In Punjab, the method of pre-emption worked successfully. In U.P. and West Bengal, however, normal trade was disrupted, price controls drove stocks underground and market arrivals dwindled. The position could be well summarised in the words of Prof. Dandekar, "There was a statutory minimum-price which the wholesale traders were obliged to pay to the producer and a statutory maximum-price beyond which the wholesale traders could not charge to the retailers. In between, there was a statutory procurement-price at which the government could at any time acquire the whole or a part, of stocks with the wholesale traders; and in order to make it easy for the government, the wholesale traders were expected to report to the government the stocks of grains they might have from time to time. The result was inevitable.

When during 1958-59, state trading along these lines was undertaken in a number of states, the market arrivals were small, market prices ruled above the statutory maximum, and the government found it difficult to procure sufficient quantities. Consequently, the operations were suspended in state after state, and, within a year, the state-trading was

---

given up. "The important lesson of the whole episode was that nothing could be achieved through disrupting normal trade and that statutory maximum prices cannot be enforced through controls.

In 1960-61, the food situation improved with better production, and internal procurement was given up. Except on a limited scale, procurement on Central Government account was also stopped. With effect from April 1961, all zonal restrictions on movement of wheat and wheat products throughout the country were removed. However, the three rice zones - southern, eastern and northern - continued. There was also the modified rice zone comprising Madhya Pradesh, Maharashtra and Gujarat, where movement of rice was regulated under a licensing system.

Some comments may be made on the working of zones during this period. One deplorable aspect of the system was the frequent changes announced, which prevented a stable and long-term pattern from developing. Another problem created by the zonal restrictions was the cutting of normal trade channels. Thus, Andhra which was exporting rice to Bombay, had to find market in Kerala, where merchants

were dealing mainly in boiled rice. This could be done if Andhra traders got their rice boiled before marketing - an additional function to perform. Change in consumption habits and establishment of new marketing channels takes time, and in the mean time price disparities could be large.

The greatest problem of large zones, however, was felt intensely a little later, leading to their breakdown and replacement by single-state zones. With the deterioration of the food situation after 1962-63, the zonal system was reintroduced in respect of wheat in March 1964. The country was divided into 9 zones, and movement of wheat from or into those zones was prohibited. The declared purpose was to conserve supplies of wheat in important consuming areas and to concentrate on areas of shortage in which the government could distribute supplies of imported wheat from central stocks. However, by the end of 1964-65, large multi-state zones disappeared and each state constituted a separate zone. The single-state zones have continued to this day. The break-up was the inevitable outcome of the fact that the large zones were only fair-weather-friends. Especially in

---

lean years, surplus states started imposing restrictions on
the movement of grains out of their boundaries, even though
the other states were within the zones.

Yet, it cannot be denied that the post 1963-64 period
has been marked by a more comprehensive, stable and long-term
policy than in the past. The frequent trial-and-error changes
which were a bane of the past, particularly of the period
between 1957 and 1963, have been absent now.

One of the major breakthrough has been a clearer policy
in respect of the announcement of minimum support price.
Though such prices used to be announced earlier they were
mainly an aid to procurement or a part of the policy of
'State Trading', rather than intended as an insurance or
an incentive. Now the Government decided to announce
guaranteed minimum prices for wheat and rice, well in advance
of the sowing season. This was to help farmers in their
investment decisions and minimise price risks. The Third
Plan has mentioned the need for fixing guaranteed minimum
prices for foodgrains as a regular policy measure. The
earlier plans were not so specific. A beginning in this
direction was made in March, 1962, when minimum price for

11. See M.B.Hanawati and J.J.Anjaria, "The Indian Rural
Problem", Indian Society of Agricultural Economics, Bombay,
1965, p.287.
wheat was fixed. Though a price fall in respect of rice was not feared, the Government fixed purchase price for rice in
December 1962 and announced that it would make purchases at
the fixed price if market prices fell unduly or if voluntary
offers were made by producers. The price-support scheme was
extended to jowar in June 1963. Later, bajra and maize were
also covered by the scheme. The Jha Committee recommended
minimum support prices for 1964-65. This Committee, however,
recommended the constitution of an Agricultural Prices
Commission so that a price policy could be evolved and
implemented on a continuous basis. The setting up of the
Agricultural Prices Commission (A.P.C.) under the Chairmanship
of Prof. M.L. Dantwala was an important landmark. This
Commission have been recommending, inter alia, minimum
support prices from the 1965-66 season onwards.

The support prices in India, have never been based on
any rigid formula. A number of considerations including
changes in the cost of production, farm harvest prices,
prevailing market prices, and trends in the prices of com-
peting crops, have been taken into account. The Jha
Committee fixed the support prices on the basis of the past
3-year post-harvest prices. The A.P.C. also took pragmatic
view of the matter. It took into account minimum prices
fixed for the previous years, the reactions that were made
to them by farmers and food administrators, and the
subsequent developments on the price front. However, the level of support prices fixed by the A.P.O. have been attacked mainly on the ground that they do not cover costs of production. Thus, S.J. Patel made a comparison between support prices for paddy, jowar, bajra and maize and their cost of production per quintal as arrived at by Gujarat Krishi Pedash Bhav Tapas Samiti, and found that the former were very much lower than the latter. Cost of production of paddy in Panchmahals, for example, was Rs. 60 per quintal, as against the support price of Rs. 38. The cost of production of yellow jowar in Surat was Rs. 49 as against the support price of Rs. 38.

The difficulties in basing the support prices on the cost of production can be readily admitted. In the words of Danwala, "...comprehensive and dependable cost data are not available in our country. But even when they become available, the problem of using them for price fixation will present several difficulties. Not enough is known about the frequency distribution of the costs of the farmers. That the costs vary a great deal is well known. Working out average costs under such a situation has not much meaning. The bulk-line cost - the cost covering say 80 per cent of

the more efficient production may be one way out. But as the available data indicate, even the bulk-line costs vary by wide margins between regions. If so, would they provide guide-lines for a national support price policy? However, a national support price policy need not mean a uniform price throughout the country. Regional differences could be allowed. This apart, whatever the short term difficulties, long term steps should be taken to keep a watch on the costs and methods of farm production. Scientific collection of cost data over different regions should be collected on a continuous basis, so that enough data are collected at least within a reasonable future. In the short run, adjustments could be made whenever it is felt that the support prices have been inadequate as in insurance cover. Periodic sample surveys of farmers, trends in the prices of inputs, experiences of people engaged in Intensive Agricultural Development Programmes are helpful here.

Although support prices had been announced in the past, the work of making purchases had not been entrusted to an independent organisation. This lacuna was filled in Jan. 1965 with the setting up of Food Corporation of India, which is the principal agency for making purchases from producers.

and building up buffer stocks. Having widespread branches and being linked up simultaneously with many markets, it is ideally suited to make purchases, not only from farmers when prices fall below the support levels, but also in the market whenever it feels so, of its own accord. Together with the Agricultural Prices Commission, it provides the needed institutional framework for our food policy now. The Corporation is not intended to procure foodgrains on a monopoly basis, but the government may take recourse to it and requisition stocks, if compelled by situations. It is expected that it will play a greater role than that of a mere 'dominant trader'; it may provide credit and other inputs to farmers at concessional rates and enter into agreements with them for delivery of grains after harvest on that basis. What is, however, most necessary is to maintain a conceptual clarity about the stocks needed for buffer operations and those needed for public distribution system at fair prices. The two stocks should not be mixed up, as we have argued in the previous chapter. It is also necessary to ensure that State Governments extend their hearty co-operation in the functioning of this Corporation. The states should not hamper the open market purchases or sales by the Corporation; nor should they hamper the movements of foodgrains by the Corporation. If compulsory procurement has to be entrusted to the Corporation, it has to
be done in close collaboration with the revenue officials of State Governments who have good experience in this regard, and can be entrusted to do the actual task of procurement direct from farmers.

Since compulsory procurement of foodgrains left to the states, its method differs from state to state. Even the same states have changed their methods over the years. The methods followed are: levy on producers on an average basis, levy on rice mills and flour mills, and monopoly procurement. The general system is that of partial procurement, the monopoly procurement being practised only in Assam, Orissa and Maharashtra. Figures regarding production, procurement and imports regarding two major cereals - rice and wheat - are presented in Table 84 below.

Some interesting facts emerge from the Table. In respect of rice, the procurement is seen to be more than imports. In the case of wheat, however, imports are considerably higher than procurement. This shows heavy reliance on wheat imports for public distribution. For both cereals taken together, the same reliance on imports is seen from the fact that combined procurement is much lower than total imports. We do not find any consistent and clear relation between the level of procurement and the size of crop or production. The level of procurement of 1950-51 was exceeded
Table 24: Production, Procurement and Imports of Rice and Wheat

<table>
<thead>
<tr>
<th>Year</th>
<th>Rice</th>
<th></th>
<th></th>
<th>Wheat</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Production (Million tonnes)</td>
<td>Procurement (Thousand tonnes)</td>
<td>Imports (Thousand tonnes)</td>
<td>Production (Million tonnes)</td>
<td>Procurement (Thousand tonnes)</td>
<td>Imports (Thousand tonnes)</td>
</tr>
<tr>
<td>1950-51</td>
<td>25.5</td>
<td>2750</td>
<td>399.7</td>
<td>6.4</td>
<td>1133</td>
<td>1392.0</td>
</tr>
<tr>
<td>1953-56</td>
<td>27.6</td>
<td>15</td>
<td>269.3</td>
<td>8.8</td>
<td>-</td>
<td>442.0</td>
</tr>
<tr>
<td>1960-61</td>
<td>34.6</td>
<td>680</td>
<td>696.8</td>
<td>11.0</td>
<td>395</td>
<td>4386.1</td>
</tr>
<tr>
<td>1961-62</td>
<td>35.7</td>
<td>519</td>
<td>384.4</td>
<td>12.1</td>
<td>20</td>
<td>3092.2</td>
</tr>
<tr>
<td>1962-63</td>
<td>31.9</td>
<td>479</td>
<td>389.6</td>
<td>10.8</td>
<td>-</td>
<td>3250.4</td>
</tr>
<tr>
<td>1963-64</td>
<td>36.3</td>
<td>744</td>
<td>484.4</td>
<td>9.9</td>
<td>3</td>
<td>4072.7</td>
</tr>
<tr>
<td>1964-65</td>
<td>39.0</td>
<td>1299</td>
<td>644.5</td>
<td>12.5</td>
<td>90</td>
<td>5621.4</td>
</tr>
<tr>
<td>1965-66</td>
<td>30.6</td>
<td>2951</td>
<td>(3157)</td>
<td>785.2</td>
<td>10.7</td>
<td>379</td>
</tr>
<tr>
<td>1966-67</td>
<td>-</td>
<td>1986</td>
<td>786.6</td>
<td>-</td>
<td>198</td>
<td>7832.9</td>
</tr>
</tbody>
</table>

Note: Import and Procurement figures are for calendar years; figures in brackets relate to the respective crop season.
1. Data relate to 1949-50.
2. Partially revised estimates.
3. Final Estimates.

in the case of rice in 1965-66, but has never since been exceeded in the case of wheat. However, procurement became more intense from the year 1964-65 specially in the case of rice. Though 1965-66 had an all-time low crop in recent years, procurement was better during this year than during the record-crop year of 1964-65. The year 1966-67, however, registered a further decline in spite of the fact that this year's crop is known to be better than during 1965-66.

Total issues of cereals amounted to 10.1 million tonnes during 1965-66. If we take an average of the production of cereals during 1964-65 and 1965-66, which is 69.4 million tonnes, these issues amount to 14.6 per cent of production. Following A.P.C., if we assume that marketable surplus is 31.4 per cent of production (A.P.C. assumed this percentage for rice), the total issues turn out to be 46.3 per cent of marketable surplus. This has to be the order of procurement, if no imports are to be allowed. Though, as a proportion of marketable surplus, this level of procurement appears very significant, it amounts to only about one-seventh of the total output of cereals.

The fact that procurement prices are lower than market prices has often been criticised as a disincentive. However,
the mere fact that they are lower than market prices, does not by itself constitute a disincentive. After all, as Dantwala says, "It is well known that whenever there is procurement by the Government, open market prices go up steeply and disproportionately to the quantum withdrawn by Government from the open market. As such it would be reasonable to hold that the weighted average price received by the producer for the total sales (to the Government and in open market) is no less than what he could have received in the absence of procurement." The major cause for resentment, however, seems to be that procurement prices are significantly lower than market prices, though they may be higher than minimum support prices. To take an example, procurement price for rice in Mysore state during 1966-67 was ₹.67 per quintal at the beginning of the season and ₹.70 per quintal at the end of the season. The wholesale market prices, however, were ruling higher than ₹.100 per quintal during the year. Such a wide difference between the two prices is bound to cause discontent. A policy of laying the entire burden of distribution scheme on farmers may prove to be undesirable. If Dantwala's statement quoted above is a guide, attention has rather to be kept on the

weighted average of procurement price and market price for
the bulk of farmers, before the proportion of burden on
farmers is decided upon. It is not known whether the
Agricultural Price Commission went into this exercise at
least to a limited extent. Apart from this case, allowance
should also be made for differences in fertility and exemption
of small holdings, when the levy is imposed on individual
farmers on acreage basis.

The number of fair price shops in the country increased
from 51,000 at the beginning of 1963 to 1.39 lakhs at the
end of 1966. The offtake of foodgrains from Central Reserve
stocks during 1963 was only 5.18 million tonnes in 1963,
which increased to 11.40 million tonnes in 1966. The total
population covered under the statutory and informal rationing
at the beginning of 1967 is about 30 million and 211
million respectively. Such an increase would not have been
possible but for the massive imports in recent years. But
there has also been an increasing realization that imports
will not continue to be large and easy in future. Hints to
this effect have been sufficiently given by the United States.
Imports may have to be paid for in dollars. This has meant
that our scheme of distribution will have to rest on our own
supplies or internal procurement.

This is what the Foodgrains Policy Committee (1966)
under the Chairmanship of Mr. B. Venkatappaiah, also recommended.
For the solution of short run problem of food shortage, it stressed the need for a national policy of procurement and equitable distribution. The policy that it recommended is termed as Integrated Food Policy. It calls for a national management of Food, through a National Food Budget. The means of implementing this Plan are four-fold, namely: (i) procurement to ensure necessary supplies, (ii) control over interstate movement to facilitate procurement and keep prices at a reasonable level, (iii) a system of public distribution to ensure equitable sharing and (iv) the building up of a buffer stock to provide against difficult years. This is the same policy which was in operation between 1943 and 1952, with some break in 1947-48. It is noteworthy that the Committee did not favour monopoly procurement. It recommends partial procurement, and a free market allowed to function. But free trade is allowed within a state and not across the state borders. Realising the difficulties inherent in multi-state zones, the Committee recommends single-state zones, with the state governments having monopoly of inter-state trade. The National Food Budget, which is to be prepared every year, is the means whereby the surplus states can supply agreed quantities of foodgrains to deficit states.

The principal difficulty in the successful operation of the National Food Budget is the recalcitrant attitude of states,
with the surplus states underestimating this surplus and the deficit states exaggerating their needs. This was a difficulty experienced earlier as well, as mentioned above. While the possibility of exaggerating requirements and underestimating the supplies cannot be completely avoided, it is quite possible to soften the evil consequences of such a difficulty. And this can be done only if restrictions on inter-state trade are removed. The quantity of foodgrains procured by the state governments through a levy on producers on an acreage basis may not suffice the requirements of the distribution system, particularly in deficit states. In such circumstances, the state governments will have the option of either raising the rate of levy or making open market purchases. The former has limitations and it cannot exceed the level of public or political tolerance. The latter option will be scarcely available to the state governments, if there are restrictions imposed on inter-state movement of grains. The surplus state will not allow movement outside its borders even if the government of a deficit state is making the purchase (directly or through the Food Corporation), whenever the former feels that price situation within its boundaries is serious enough. Abolition of zones will obviate this difficulty. Otherwise, procurement will be least, exactly when the need for it is most. The fact that despite better crops in 1966-67 than in
the previous year, procurement fell drastically in that year, would show that the inter-state restrictions have not helped procurement.

Certain other measures which have been resorted to can also be mentioned. Selective control on bank credit has formed part of the policy of checking speculative hoarding of foodgrains. This assumes two forms: (i) fixation of minimum margin requirements on bank advances against stocks hypothecated, and (ii) imposition of a ceiling limit on advances of credit for the country as a whole and also for individual states. This weapon of selective credit control has been resorted to since 1956. The impact of this has not, however, been significant, because the foodgrains trade is largely carried out by traders from their own resources.

Several States resorted to licensing wholesale traders and, to curb profiteering, even prescribed the margins of profits. Maximum statutory prices were fixed in certain states. It is well known, however, that these prices cannot be implemented unless backed by adequate open market sales from government stocks. In the enthusiasm to console the public that something is being done, no harm should be done to normal channels of trade. The post-1957 experience of "state-trading" has to be kept in mind and its consequences to be avoided.
E. Other Agricultural Commodities

We shall be concerned here with sugarcane, oilseeds, cotton and jute. The principal instruments of price policy here are: restriction and liberalisation of exports and imports, selective credit controls, regulation of forward trading and fixation of statutory minimum and maximum prices.

Sugarcane - Sugar - Gur and Khandsari

To give incentive to expand sugarcane cultivation and sugar production, the policy of fixing minimum prices of sugarcane was started as early as 1935-36, in the states of U.P. and Bihar. This policy resulted in a steady expansion in the cultivation of the crop as expected. Since 1950-51, the minimum prices payable by factories to producers have been fixed by the Government of India itself. The factors taken into account in fixing these prices are: (i) the cost of production of sugarcane, (ii) the return to growers from alternative crops and the general trend of prices of other agricultural commodities, and (iii) the availability of sugar to the consumer at a fair price. The minimum price of sugarcane was being fixed purely on weight basis except in Gujarat and Maharashtra up to the season 1961-62. Since 1962-63 season, however, the system of linking price with recovery rate has been introduced. The present system
guarantees a specified minimum price for sugarcane up to a specified percentage of recovery, and provides for a premium for every additional 0.1 per cent recovery. It may be noted that the minimum price had remained more or less constant between 1950-51 and 1963-64. It varied between Rs.4.99 per quintal in 1950-51, 1951-52 and 1963-64, to Rs.3.62 per quintal in 1952-53. The Sugar Enquiry Commission (1965) in its Interim Report recommended a price of Rs.5.36 per quintal. The Government accepted the price, but it was made applicable up to 10.4 per cent recovery. The final report of the Commission, however, criticised this act of raising the level recovery as a retrograde step from the point of promoting efficiency in cultivation. Minimum prices have not been looked upon as remunerative by farmers, especially in relation to the gur prices. They did not serve as incentive for farmers to deliver cane to sugar mills.

What made these minimum prices important is the fact that sugar prices were controlled at a level fixed mainly in relation to the former. Sugar mills could not, therefore, pay more than this minimum to the farmers, which made minimum prices the actual or fixed prices.

---

Sugar control policy of the government has been very much consumer-oriented. Measures taken for sugar control are: control on bank advances against stocks of sugar, control over prices, production, movement and distribution of sugar, licensing of wholesale dealers in sugar, etc. The situation at the beginning of the First Plan was one of relaxed controls. 95 per cent of the average production of each factory during two years ending 1949-50 was fixed as the basic quota assigned for distribution by the Government. Half of the production in excess of the quota was again to be added to the basic quota, and the other half could be sold in the free market. The relaxation in controls was in response to the fact that large scale diversion of cane took place away from factories. Controls were removed in 1952-53 except for a small part reserved for distribution. Upto 1956-57, there were no worthwhile controls on prices and distribution. Measures taken during this period for checking any rising trend in sugar prices were banning forward sales, accelerating the movement of sugar from factories and importing sugar.

16. The following review of sugar policy in the past is mainly summarised from Chapter 3 of Sugar Enquiry Commission (1965) Report, in addition to the material cited in Foot Note 1 of this chapter.
Sugar prices began to rise sharply from April 1958, leading to the reimposition of controls. Government decided to requisition and distribute sugar at fixed prices, besides taking measures like tightening bank advances, licensing wholesale dealers, assigning specific quotas to individual states and banning inter-state movements. In 1959, Government took the extreme step of taking over the entire production of sugar for direct allocation. During 1959-60 and 1960-61, certain incentives were also declared so that sugar production could be maximised. They were concessions in the minimum price of cane to factories, rebate of 50 per cent in the basic excise duty on all sugar produced in excess of the average of previous two seasons, and relaxation and ultimate withdrawal of margin requirements on bank advances.

The situation markedly improved from 1960-61, and all controls over prices, distribution and movement of sugar were removed in September 1961. In fact, production of sugar reached 30.29 lakh tonnes in 1960-61, the highest so far, and compared to 24.82 tonnes in 1959-60 and 19.51 tonnes in 1958-59. There were large carry-over stocks to the tune of 12.80 lakh tonnes at the end of 1960-61. This compelled the government to impose a 10 per cent cut in production.

Till April 1963, regulation by Government of releases of sugar from factories was the only means of influencing market
prices. Production fell significantly both in 1961-62 and 1962-63, reaching 21.52 lakh tonnes in the latter year.

Prices started rising significantly from January 1963. Government at first tried to curb the price rise by larger releases of stocks, facilitating greater movement through increased wagon supply, licensing wholesale traders, discouraging the licensing of cane-crushers in factory areas, bannning forward trade in gur, and advising factories to pay higher than the minimum prices to cane growers. When these measures failed and price-rise tended to be abnormal, controls were reimposed on prices and distribution of sugar in April 1963. Ex-factory prices of sugar were fixed and the factories were directed to deliver specified quantities of sugar to nominees of State Governments. The State Governments were also advised to fix wholesale and retail prices, taking into account ex-factory prices, transport costs, local taxes and a fixed profit margin. Sugar dealers were licensed and regulated. To stimulate more production, rebate in excise on additional production was announced.

Another aspect of sugar price policy is the constant increase in the number of zones for which prices are fixed. These zones were four in 1961, seventeen in 1963, twenty in 1964 and twentytwo in 1965. The zones have been constantly reshuffled and no stable principles were followed in their
demarcation. The Sugar Enquiry Commission (1965) criticised this policy of increasing the number of zones as a drift towards cost plus principle, which is injurious to the growth of efficiency in the industry. The Commission had recommended only five zones in its Interim Report, which was ignored by the Government.

The controls on sugar prices and the fixation of minimum prices created the problem of ensuring supplies of cane to factories. To prevent the diversion of cane to gur, a number of steps have been taken from time to time. They are: fixing maximum prices of gur in any specified area (which has been largely ineffective); reservation of sugarcane areas for sugar factories; banning of interstate movement of gur; licensing of power crushers, khandsari units and crushers not belonging to cane growers etc. Between June 1952 and March 1963, however, there was no control on gur and khandsari. In 1963, forward trading in gur was banned; new licences for gur and khandsari units in reserved areas were stopped and gur movements were regulated. Controls on gur and khandsari, however, have never been effective enough to stop diversion of cane.

The sugar policy of the Government has been rightly criticised as ineffective, ad hoc in character and not
directed towards improving efficiency. Noting that sugar economy has been marked by recurring imbalances between demand for and supply of sugar, the alternating surpluses and deficits being combined with alternating decontrol and control, the Commission remarked, "...the alternating policies of control and decontrol could not eliminate these fluctuations... In fact, although in an important sense 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." Since the policy was partial in character, applicable to sugar but not to gur and khandsari, a short cane crop in a year would divert greater quantity of cane away from sugar, thus widening the imbalance between demand for and supply of sugar. Instead of reducing instability, the policy increased it.

The Commission recommended two alternative packages of policy. Stressing that stability is a vital need of the sugar economy, it mentions three aspects of stability: (i) ensuring adequate supplies of cane to factories especially in years of short crop, (ii) protecting the cane growers in years of bumper crops, and (iii) ensuring steady supplies

18. Ibid. p.76.
to consumers at relatively stable prices. One approach recommended involves decontrol of sugar coupled with buffer stocks policy. For operating the buffer stocks, the minimum and maximum prices will be determined on the basis of the "pivot" price for sugar to be calculated on the basis of either a five-year or at least a three-year moving average of sugar prices. The range of fluctuations to be prescribed in the sugar price should be fixed at plus or minus 8 per cent of the pivot price. The industry itself should have a major share in holding buffer stocks, along with the buffer stock agency, though the control over releases of stocks should rest only with the latter. Not less than 20 per cent of total production of the industry during previous season should be kept as carrying stocks; but the remaining output should not be touched, which the factories should be free to sell in open market.

The second alternative approach recommended is continuation of controls, with improvements in those aspects where the prevailing system was most wanting. This involved inter alia, reducing the number of zones for fixation of ex-factory prices to five, fixing the prices on the cost schedules given by the Commission, and fixing cane prices in such a manner as to prevent diversion of cane to gur and khandsari. The Commission suggests that, in principle, this minimum price of cane should be so fixed as to cover the bulkline
opportunity cost. Once so fixed, the price should be adjusted from year to year so as to maintain parity with the prices of competing crops.

The Commission favoured the adoption of the second alternative only in the short run till a buffer stock of 12 lakh tonnes is built. Once this is done, the Commission strongly recommended the adoption of the first alternative of decontrol.

The recommendations of the Commission are very comprehensive, take a long term view of the problem and intend to remove ad hocism which characterized the policy so far. They were designed not only to impart stability to the sugar economy in all its three aspects, but also to achieve increased efficiency both in cane cultivation and sugar production.

We feel, however, that the Commission could have addressed itself to the problem of long term balance between supply and demand. On the basis of actual consumption and production figures, it felt that such a balance existed in the last 15 years and that licensing authority should ensure such a balance in future. To talk of balance between supply and demand without reference to a price level at which such

19. Ibid. p.79.
balance is to be secured, is, however, misleading. This is especially so when releases of stocks from factories are regulated to prevent price falls and carry-over stocks are built as a result. The Commission is aware that there is high income elasticity of demand for sugar. This may be so even for gur, as seen from our finding in Chapter 7 that sugarcane production should increase by 2.09 per cent with a one per cent increase in nonagricultural NDP, so that gur prices may be kept stable. Sugar cane production, however, increased only by 1.04 per cent in the 15-year period covered, with a one per cent increase in nonagricultural NDP. This would mean that the problem of balance in the trend of supply and demand could be quite serious. What the Commission should have considered is whether, just as in the case of foodgrains, the vulnerable classes need to be protected against rise in sugar prices. Sugar being not so essential or basic a commodity as foodgrains, the extent of distribution though fair price shops need not be the same as in foodgrains. However, once such a policy is adopted, certain amount of requisitioning becomes necessary, analogous to compulsory procurement of foodgrains. The pain attached can be alleviated to the extent that the requisition price meets the cost of production and there is access to the open market.

In fact the new policy announced by the Government recognises the need for distribution at fair price shops and
also the need to increase the capacity of sugar mills to compete adequately with gur makers. The new policy announced in August 1967 envisages lifting of price controls over a substantial part of the production. Government will acquire 60 per cent of output which will be used to run ration and fair price shops, the rest being allowed to be sold in the open market. The minimum price for cane was also raised again and the mills were declared to be free to pay higher prices to cane growers in order to compete with gur makers. Though the access to the open market has increased the industry's ability to do so, the industry feels that the proportion of output requisitioned is rather too high.

The more recent problem affecting the industry, however, is diversion of area under sugarcane to high yielding varieties of wheat, rice and millets. Both the price and productivity of the latter crops have increased now. In 1966-67, a drop of nearly 14 per cent was feared in the area under sugarcane as compared to the 1965-66 level. This points to the urgency of increasing the productivity and production of all crops; it is not a simple question of just increasing the relative production of particular crops.
Oil-Seeds

There are no direct price controls on oil-seeds. Rather, indirect measures have been taken to influence their prices, such as regulation of forward trading, adjustments in foreign trade policy and credit controls. Recently, however, restrictions on movement were also adopted.

Regulation of exports and imports has been primarily used to influence supply position in respect of oil-seeds and oils. Thus, whenever prices slumped, as in 1952, export duties were removed and exports were encouraged. Whenever bullish trends occurred, exports were banned. However, exports were encouraged in spite of high prices between 1959 and 1964, mainly to earn foreign exchange. Since 1964, however, prices were rising too rapidly to permit exports, which were, therefore, banned. Imports were also allowed whenever prices rose very high or scarcities appeared. Thus, rape and mustard seed were imported in 1964, and recently import of soya bean oil has been arranged under P.L.480 for the use of vanaspati industry, so that pressure on groundnut oil is reduced.

Forward trading in vegetable oilseeds, oils and oil-cakes was banned during the second world war, and this ban

continued till 1958, when forward trading in these commodities came to be regulated under Forward Contract (Regulation) Act. The total ban was imposed again in June 1964, when warnings against excessive speculation failed. The ban was formally withdrawn in September 1964, in the case of groundnut and groundnut oil, though it continued on other commodities. However, even in the case of groundnut and its oil, ceilings on quotations have been prescribed. Since these ceilings have been quite lower than prevailing market prices, forward trading is virtually suspended here also.

Minimum margins on bank advances against oilseeds and oils have been raised from time to time. This apart, overall ceilings on advances have also been prescribed.

Some state governments started banning exports from their territories, whenever they faced scarcity. Thus Gujarat banned the export of groundnut and its oil in 1964 and U.P. also took the same step with regard to major edible oilseeds and oils in the same year. W. Bengal did so with regard to mustard oil. The movement restrictions imposed by surplus states worsened the lot of deficit states very much. Such unilateral actions could not be allowed. As these were taken under DIR, the DIR were amended in 1965, whereby the State Governments cannot restrict movements of foodstuffs
including oils and oilseeds, without the concurrence of the Central Government. This was a significant step.

On the whole, oil seeds and oils enjoy a free market, as compared to other commercial crops, as there are no attempts to fix statutory price levels. It may be remarked that buffer stock operations are difficult in the case of these commodities, and have not been resorted to. Apart from the multiplicity of these commodities – we have numerous kinds of oil seeds, they are more perishable and costlier to store. Regulating exports and imports seems to be the only way to counteract fluctuations in domestic supplies, and this is what is being done. Since speculative elements can exploit the situation in a scarcity year, regulation of forward trading so as to prevent such elements has been found necessary. To minimise the hardships in a scarcity year, it would also be necessary to take care that inter-state movements are unhampered. In spite of these measures, however, prices of these commodities will be rising owing to high income elasticity of demand for them. Measures described above do not meet this problem. Distribution to vulnerable classes though fair price shops may prove to be a great burden for government, committed as it is in respect of foodgrains and sugar already. Nor do they constitute so basic a commodity as foodgrains. The solution, though long term, lies in ensuring increasing production of these commodities.
Cotton

The main objectives of cotton price policy have been (1) to keep a check on cotton prices, so that cloth prices are made reasonable, (2) to ensure a reasonable return to cotton growers, (3) to encourage increased production of better and larger staple cotton and (4) to maintain adequate floating stocks in the country to meet the requirements of mills.

The policy of fixing minimum and maximum prices of cotton has been adopted since 1945. They have been revised upwards several times to step up cotton production. However, cotton prices have been nearer to ceiling than the floors in the past and the Government did not have occasion to enter the market for giving price support to farmers. Only in the first few months of 1966, when prices threatened to sag, State Trading Corporation announced at the instance of the Government that it would purchase cotton at prices 10 per cent below the ceiling level. A proposal for setting up a Cotton Buffer Stock Agency was also put forth by the Government. Due to tight supply position of cotton, the general experience, however, has been that cotton prices have often pierced the ceilings and mills had to purchase cotton at prices above official ceilings. Such a situation has been tried to be met through measures like requisitioning of stocks, control over movement and distribution of cotton and also regulation.
of forward trading. Controls have also been exercised over
the purchase of cotton by mills through a system of quotas,
and the system of licensed trading has also been introduced.
The zonal restrictions have been tried in the case of cotton
also, whenever tight supply position was encountered. What­
ever may be the justification for zonal restrictions in the
case of foodgrains, their rationale is even more difficult
to understand in the case of cotton. Restrictions have also
been tried on direct purchase of kapas (seed cotton) by
textile mills. This was to prevent the evasion of price
control by mills. Compulsory quality surveys have also been
instituted. Last dates for ginning and pressing of cotton
have also been fixed in several states to accelerate the
movement of cotton. Indian Cotton Mills Federation, on their
part, introduced a scheme of self-discipline in 1964-65 in
regard to purchase and stocks. Selling cotton to mills not
adhering to their scheme was prohibited. Regulation of for­
ward trading is done through measures like increasing deposits,
imposition of special margins, limiting price variations over
specific periods, fixing maximum prices for trading and even
suspension of future trading itself as an extreme step.
Export of short staple cotton and import of long staple cotton
are also adjusted from year to year depending upon the
internal supply and demand position.
An important step was taken in August 1967 when decontrol of cotton prices was announced. The decontrol took effect from September 1st. The recent experience was that prices ruled higher than the level of ceilings and the price controls were ineffective. The new policy removes only the price control, and the existing controls on sale, purchase, storing and movement of raw cotton are unaffected. This has again brought home the obvious fact that ceiling prices are meaningless in the absence of buffer stock sales.

Jute

The greatest problem with regard to jute is the severity of fluctuations in prices, the extent of which we have already noted in Chapter IV. Due to the short run inelasticity of demand for jute goods in the world market, any given change in the level of production generates a greater proportionate change in prices. World demand itself is not steady and stable, dependent as it is on world economic and political conditions reflecting themselves in the levels of industrial activity. Supply responds slowly, i.e. with a time-lag of one year, to the demand situation and prices, producing a kind of cobweb effect. It may also be noted that price fluctuations are greater in the case of raw jute than in the case of jute goods. This is because the supply of jute goods is more stable than the supply of raw jute, and costs of
manufacture are more stable than the prices of raw jute, the former imparting a measure of stability to the jute goods prices. Cultivation, marketing and manufacture of jute are undertaken under highly competitive conditions, and the speculative element is strong at all stages of marketing, including the final stage of mill purchases.

The need to stabilise raw jute prices has been well recognised in India. It would contribute towards stabilisation of growers' incomes as well as foreign exchange earnings of the country. The severity of price fluctuations has been tried to be reduced by regulating imports from Pakistan from year to year, and also by buffer stocks policy of Indian Jute Mills Association, whose members together with some independent mills have formed a Buffer Stock Association. The burden of instability has been shifted from growers to mills, whose stocks would rise when prices fall. Periodic fixing of minimum prices to growers and exporters has also been tried. The Indian Central Jute Committee has launched a comprehensive scheme to collect data on costs of jute cultivation in different regions, so that this data could be useful in fixing minimum prices. It is possible, however, that sometimes the minimum price may be less than the world

price. This needs remedial measures, otherwise, jute manufacturers would be subjected to loss.

Steps have also been taken to control speculation and forward trading, including suspension of forward trading itself.

One aspect of jute prices needs serious attention, as has been pointed out by F.A.O. Though demand for jute is inelastic in the short run, it is elastic in the long run. What is more, it is asymmetrical i.e., while a rise in jute prices would reduce demand for jute, a fall later need not increase the demand. A shift away from jute consumption can often be irreversible. This would point to the need for a greater check on the rise in jute prices and also for increased productivity and reduced costs of cultivation.

Forward Trading and Price Level

It may be noted that futures or forward trading has been a feature of the cash crops covered here. Relative nonperishability, suitability for standardisation and gradation and, price fluctuations over a wide range facilitate the

existence of such markets for any commodity. Temptation to ban forward trading has been too much with the authorities wherever any sharp spurts in prices are noticed. The underlying assumption behind such an action is that futures markets aggravate price trends. The role of futures trading has to be properly appreciated and implications of a ban on them have to be kept in mind, before any such action is taken. The role of these markets has been stressed by the Forward Markets Review Committee itself. They say, "Futures trading performs a useful function by providing different types of hedging facilities which are essential for the orderly and efficient marketing of commodities (Para 3.14). As long as there are possibilities of fairly wide price fluctuations, there is need for hedging and therefore for futures trading. In times of shortages, futures markets through the device of short sales may act as safety valves against hoarding and speculative price rise in the economy (3.29 and 3.25)." It should also be noted that "in the long run, futures market does not seek to influence either the trend of prices in any community or its level. It

---

rather seeks to reduce the amplitude of seasonal variations in commodity prices."

We can take two recent instances of ban on forward trading to see whether it checked the rise in ready prices. On 18th January, 1963, a ban on forward trading of gur was suddenly imposed. Between 13.1.1963 and 18.1.1963, the ready prices of gur ruled between Rs.16.50 and Rs.16.88 per maund in Muzaffarnagar which was an important forward market for gur. The forward price on 18.1.1963 was Rs.16.29 which was both below the ready prices and the maximum price which was imposed at Rs.18.00. After the closure of forward market, there was a steady rise in prices as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>18.1.'63</th>
<th>31.1.'63</th>
<th>31.5.'63</th>
<th>29.6.'63</th>
</tr>
</thead>
<tbody>
<tr>
<td>price in Rs. per maund</td>
<td>16.88</td>
<td>19.13</td>
<td>26.25</td>
<td>29.06</td>
</tr>
</tbody>
</table>

25. A study of seasonal indices of wholesale prices of commodities leads Pavaskar to conclude that seasonal amplitude of wholesale prices in commodities like cotton and raw jute which are served by well-knit futures markets was much smaller than in major food crops like rice and wheat which have no organized markets. Within the case of particular commodities like raw jute and groundnut, seasonal amplitude showed declining trend after the commencement of futures trading. Cf. M.G. Pavaskar, "Does Futures Trading Aggravate Price Trends?" F.M.B., Oct.-Dec., 1965, Vol. VIII, No.1, p.32.
This would show that there was a sharp spurt in prices.

Weekly wholesale price index numbers of gur (1952-53 = 100) also show the same thing:

<table>
<thead>
<tr>
<th>Average of 5 week-ends (before 19.1.63)</th>
<th>12.1.63</th>
<th>19.1.63</th>
<th>26.1.63</th>
<th>19.1.63 (after 5 week-ends)</th>
</tr>
</thead>
<tbody>
<tr>
<td>148.0</td>
<td>148.8</td>
<td>146.8</td>
<td>154.6</td>
<td>155.0</td>
</tr>
</tbody>
</table>

The same type of experience was repeated when Government imposed a ban on forward trading of groundnut, groundnut oil, groundnut oil cakes, mustard seed etc., on 1.6.64. The week-end wholesale price index numbers during the period were as follows:

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Average May 64</th>
<th>30.5.64</th>
<th>6.6.64</th>
<th>Average June 64</th>
</tr>
</thead>
<tbody>
<tr>
<td>Groundnut oil</td>
<td>149.3</td>
<td>152.7</td>
<td>160.0</td>
<td>163.2</td>
</tr>
<tr>
<td>Mustard oil</td>
<td>228.5</td>
<td>226.5</td>
<td>227.6</td>
<td>237.9</td>
</tr>
<tr>
<td>Groundnuts</td>
<td>163.9</td>
<td>167.9</td>
<td>171.8</td>
<td>180.8</td>
</tr>
<tr>
<td>Oil cakes</td>
<td>184.4</td>
<td>184.9</td>
<td>185.1</td>
<td>187.4</td>
</tr>
</tbody>
</table>


27. Source: Calculated from indices published in various issues of F.M.B., 1963-64, Vol.V.

It can be seen that except in the case of mustard oil, the prices of all commodities have risen on the week-end after the ban (6.6.'64). However, comparing the average of months, we see that June prices are higher than May prices in all the cases. The ban has not helped the situation; if at all, it might have worsened it.

It has been observed that in the last few years, the futures prices of most commodities facing conditions of acute shortages have generally ruled below the corresponding ready prices. Pavaskar notes that before futures trading in groundnut, groundnut oil, etc. was banned in 1964, many reputed firms of crushers and vanaspati manufacturers used to hold fairly heavy 'long' positions in futures markets in these commodities to ensure supplies at reasonable prices. In so far as such purchases transferred immediate effective demand of the industry from the ready market to the futures market, they have a stabilising influence on the ready prices. He concludes, therefore, that lower futures prices have acted towards arresting the galloping ready prices.

Of course, futures trading does need regulation so that its services are performed effectively in keeping with the

---

interests of the economy. The principal danger comes from operators with inadequate means and experience, and also from speculators interested only in making easy money. It is with the view of eliminating these dangers that the Forward Contracts (Regulation) Act, 1952 was passed and has been in operation since then. The Forward Markets Commission, constituted by the Act, has been regulating forward markets on an all-India basis. Normally the Commission does not interfere with changes in prices over a short period. But when it feels that unhealthy trading is manifesting itself, it uses its powers. To arrest sudden and large swings in prices it imposes floors and ceilings and also limits on the weekly rise and fall in prices. To discourage excessive concentration of contracts in a few hands, the Commission can impose special margin deposits of varying severity. Besides, the Commission checks the accounts which have to be maintained by members of Exchanges, and if any illegal transactions are noticed, the operators are prosecuted. Natu, however, has observed that, "The consequences following

30. For a discussion on how these elements introduce violent fluctuations in prices, see W.R. Natu, "Regulation of Forward Markets," Asia, 1962, pp.17-18.

from the contraventions of the provision of the Act and the penalties provided were so light that they did not have much deterrent effect on the operators, who continued to contravene them with impunity." The Commission also finds it difficult to collect evidence on malpractices which are fairly extensive. Perhaps it is these difficulties, which have led to the desperate step of banning forward trading itself. The remedy would rather lie in further tightening the Act to fill loopholes and enhancing penalties.

The Forward Markets Review Committee went into the working of the existing legislation and has made several basic recommendations for amending the Act. Its review of regulatory measures led it to conclude that action taken "served the limited purpose of reducing the volume of trading and open position in the forward markets. It did not check the rise in ready prices if that was the intention (Para 5.29). It recommended that "the regulatory measures should not generally be used for artificially restraining prices on the futures markets, if no similar action is taken in respect of spot prices; but the object should rather be to curb unhealthy and unlawful trading practices (Para 5.30)." It further said,

Futures markets will fail to perform their legitimate functions if the powers of regulation are used to maintain futures prices at a level wholly out of line with prices in the spot market (Para 5.34). Regulatory measures should be applied sparingly, taking a certain amount of calculated risk (5.38).

The policy towards futures markets should, therefore, be to allow them to function in a healthy way, rather than cripple them especially at a time when their services are needed most.

We can arrive at some conclusions from the discussion of the review of agricultural price policy in India. One of the major characteristics of policy has been its ad hoc nature, or the tendency to reach to a situation rather impulsively without a stable and long term policy in view, and without much thought to all implications and consequences of actions taken. Of course, there has been an improvement lately, especially after the setting up of Agricultural Prices Commission and Food Corporation which helped to promote long term policy.

We find that buffer stock operations have not been undertaken on a long term plan; for the success of these

---

operations, such a plan is quite necessary. A form for such a plan has been detailed in Chapter X. The tendency, however, has been to rush up and enhance procurement in a scarcity year, with complacency in a surplus year. If only buffer stock operations are undertaken on a long term basis, compulsory procurement can be kept at a normal level without increasing it in scarcity years.

As for minimum support prices, notwithstanding the difficulties associated with collecting cost data, it is necessary to evolve a reliable machinery for collecting such data in different regions. Though rigid adherence to a given formula is not advisable, it is necessary to have an eye on movements in the prices of different inputs and trends in cost production.

Procurement prices are significantly lower than market prices and it may be necessary to reduce this difference. The criterion should be whether the weighted average of the two prices for the bulk of farmers allows for enough savings after covering cost of production and induces increased capital formation on farms.

While compulsory procurement is necessary, it has been needlessly associated with zonal restrictions. Frequent changes in zones and experiments with multi-state zones have
at last given way to single-state zones. Though there is 
more stability in policy regarding zones now, they do not 
appear to have solved the difficulties of deficit states. 
Experience shows that a National Food Budget has not worked 
due to the inevitable tendency of states to underestimate 
supplies and overestimate requirements. A policy to ensure 
freedom of movement of grains supplemented whenever necessary 
by open market purchases and sales by Food Corporation in 
surplus and shortage areas, would seem to work better.

Apart from zonal restrictions, Government has often 
tried to regulate private trade by means of licensing of 
traders, raids on them and requisition of their stocks, 
banning forward markets and even imposition of ceiling 
prices. However, policy measures in the Plan era of India 
have never gone so far as to eliminate free market forces. 
Even in the case of sugarcane, prices of which are fixed 
statutorily, the free market forces have reflected them-

selves in gur prices. Whenever attempts have been made 
to fix statutory ceiling prices, they have failed. Attempts 
to act within the market mechanism have proved to be a great-
er success than the attempts resulting in the disruption of 
normal trade. This has been especially borne out from the 
experience of state trading in 1958-59.

After a review of policy statements in the Plan
documents, Dantwala concludes that "they do not indicate any intention to deliberately keep farm prices low." From our review above we can also conclude that there was no deliberate policy as such to keep foodgrains prices low relatively either to the prices of manufactures or the prices of other agricultural commodities. Attempts to check prices have been made equally in the case of commodities other than foodgrains.

Ultimately no policy measure to hold down prices can be as effective as a rapid rate of increase in production of agricultural commodities. On the eve of the formulation of the Second Five Year Plan, the Vakil-Brahmanand thesis sharply reminded the policy makers that availability of wage goods is a powerful limitation on any programme of industrialization. We could see in Chapter V that the rates of increase in the production of agricultural commodities were significantly lower than required. The price that we had to pay for this failure was substantial in terms of the rise in cost of living. The country had also to face the paradox of recession amidst inflation, largely as a result of failure

to take note of intersectoral balances. Policy measures to counteract the effects of imbalance in agriculture can at best be palliatives. The only policy that can succeed is to remove this imbalance as early as possible.