SETTING FOR A POLICY OF FOODGRAIN PRICES IN INDIA.

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Preliminary:

The problem of agricultural prices, but more particularly of foodgrains prices has been very much with us for the last few years. It was the food crisis which deepened with the Chinese invasion that compelled significant attention to the problem of food prices. During the last three or four years the food crisis has been assuming more and more serious proportions. The general price level in the country has risen at the average rate of 6.4% per year during 1961-65. Food prices over the same period rose by an annual average rate of 8% giving an overall rise of 40% over the whole period. This, it will be conceded, is a serious development. It is true that the unsatisfactory level of food production contributed a good deal to the rise in food prices. The level of food production was virtually stagnant during the first three years of the Third Plan. In the fourth year the estimated level of production would be about 87 million tonnes. The prospects for the current year are again bleak. The import of food has been simultaneously going up. As against the average of about 3 million tonnes of imports of food during the fifties, that for the period 1961-65 works out at about 4.5 million tonnes. Over the years 1961-65 the annual imports of food rose from 3.5 million tonnes to approximately 6.5 million tonnes. If we assume that the targets of production under the Third Plan were determined on the basis of our requirements of both the existing and future increase in population as well as for the increased consumption due to rise in incomes, it would be realised that the availability of food as shown by the figures of production and imports was not very much lower than the targets of production that we set under the Third Plan. The idea in giving a detailed analysis of the supplies of food available within the country and the trends in food prices is to highlight that there is something more to the rise in food price than mere availability of foodgrains.
If we look at the developments in the field during the decade of the fifties, it will be found that the food-grain prices moved erratically. There was a common thread of an upward trend in them. The prices rose by roughly 1½ to 2½ per year over the decade. The production also rose at an estimated rate of 4 to 5 per cent per annum during 1951-61. The country was free from any major difficulty both with regard to availability of foodgrains as well as the trends in their prices.

We made two attempts at framing an agricultural price policy in the past. Two high power committees examined the question. Both of them favoured price stabilization and an agricultural price structure set in an integrate frame. The times also were propitious for a cool and dispassionate effort to evolve a suitable price policy for agriculture. And yet we did not shape a policy on this vital aspect, probably because we were not then confronted with its urgency. Possibly if we had evolved one we would have laid the foundation and drawn up an outline which would have provided us today the basis for a more positive and bold foodgrains policy.

Meaning & objectives:

Two aspects of the objectives of a foodgrains price policy seem to emerge prominently. One of the issues for consideration is how far a price policy would arrest the runaway food prices. Again, equally important is the role of a price policy to impart incentive to higher food production and thus provide the necessary fiscal prop to the effort to produce more food. It will be interesting to ascertain how a price policy would both stabilize prices and provide the necessary incentive to farmers to grow more food. May be, we are reading certain contradictions in these objectives. Or probably the policy is considered and set from different angles by producing and consuming interests.

It is in the above setting that we have now to think of a price policy for foodgrains in our country. We will not examine the full details of such a policy such as commodities that should be brought under a programme of price fixation and the interrelationship of the prices of various commodities. We would also not go into another equally important aspect of the strategy of implementation which would require consideration of
whether we are going to fix prices of all foodgrains or only of major ones. In the later case the assumption would be that the prices of major commodities are strategic and the other prices would move in unison with them. The machinery for the implementation of such a policy is also important. We shall discuss it at a later stage in the context of what the Government is doing at present and what it ought or could do in the circumstances.

The important question at this stage is to be clear about numerous terminologies of foodgrains prices that we have come to employ of late. We have been speaking of the minimum and maximum prices for foodgrains. There is also under consideration an appropriate set of procurement prices. And finally we have been also visualizing a set of support prices. It would be appreciated that all these sets of prices carry different meanings which should be clear to us before we think of them either to start with or as an ultimate objective. They carry implications both in their formulation as well as enforcement. They have impact potential both to the price policy as well as to the agricultural occupation.

But above everything else it is the objective of a price policy that is most relevant in the context of various concepts of prices that we have set out above. Is the objective of price fixation to guarantee a minimum income to the farmers? Or, is it to ensure stability to food prices? Is it intended to achieve an income transfer to a sector which has for long remained a depressed region? It it again intended to level up both incomes and opportunities as between different sectors in the economy but more particularly as between the subsistence and the commercialised parts of agriculture? Is it also envisaged to boost food prices in relation to prices of cash crops as a social objective? Or to depress the latter to align them with the former?

Among the multitudes of the objectives that are defined as constituting the objectives of price fixing in agriculture it is hard to clearly discern the core. Some of the objectives enunciated above are too ambitious to be operationally feasible especially in times like the present ones. From the point of view of the Government what appears to be immediately relevant are the minimum and procurement prices. It is argued that the minimum prices would provide stability to the
highly fluctuating foodgrains prices. It would ensure a rock bottom to the farmer who cultivate foodgrains. To this extent it would have a stabilizing influence on the cultivation of foodgrains. The procurement prices would include the minimum prices and something more. They are worked out to induce the cultivator to sell a certain portion of his produce to the government. The support prices would seem to carry both stability and incentive in a positive way and would, therefore, answer in a large measure the requirements of the ultimate in price fixation. The support prices both absolutely and relatively would be of a type that would place the cultivation of foodgrains in the pattern of agricultural activities on a firm and equitable basis. It is true that the support prices would encompass the objectives of both the minimum and the procurement prices. The material question, however, is what is most immediately feasible to give our policy a start. It would, therefore, not be inappropriate to think of a policy in which the ultimate objective will be always in the forefront though it would be difficult to lay down for all times to come a time schedule, firm fiscal levels, an operational formula and method of their revision. What would appear to be feasible in normal times may not even be a theoretical possibility in the abnormal times such as we live in. In order, therefore, not to be disappointed in the sphere of formulating a foodgrains price policy, it is extremely desirable that we think of its objective in the right perspective.

Background:

While thinking of minimum or support prices for foodgrains it is important that we do so in the context of the prevalent conditions in the country. It would be equally rewarding to examine the circumstances in which price support policies have been evolved and implemented in the progressive countries. We are confronted with scarcities and ever rising prices of foodgrains. As we indicated before, it is difficult to say how much the supply position alone is responsible for the crisis. The inflationary pressures which tended to be ever on an increase are being contained. The plan and public expenditures are being streamlined and outlays are being very rigorously straightened out. And yet, they do not seem to carry any impact on prices and scarcities. The only possible explanation for this unmitting upward surge seems to be the unavoidable ever mounting defence outlays.
A number of developments follow when food prices are rising. It is difficult to think of a stable price level in such circumstances. The expectations of the people also mount so that fair and reasonable prices at a given point of time loose much of their significance soon. Therefore, a fair or reasonable price level, however objectively arrived at, ceases to appeal to the cultivators over a season or two. In such circumstances, further, the pattern of costs and returns also shifts more probably in favour of the cultivator. But this is continuously lost sight of in an atmosphere essentially of expectations and anticipated windfalls through hoarding or holding back of stocks for varying periods. A level of prices arrived at empirically or scientifically would lose much of its appeal in a short time. It is in this context that we have to think of price stabilization through a set of either minimum or support prices.

Our experience of fixing minimum prices though very brief provides us enough object lessons in this connection. The minimum prices fixed during the last two years have been based largely on those that prevailed during the previous harvests. Our efforts at marshalling the cost data in agriculture for use to arrive at levels of farm prices which would ensure adequate returns to the agriculturists and serve as an incentive to higher production have foundered because of the difficulty of computation as well as the absurd results which they yield on account of the peculiar rural farm structure and the nature of resource combination. The basic facts of cost oriented price structure which would be operationally useful for policy formulation as well as the attempt to evolve minimum or support prices during the current times highlight the difficulty and vulnerability of the task.

The over-riding consideration that should weigh in price fixation is the feasibility and usefulness of such a policy in the times like the present. There is no likelihood of food prices collapsing or declining in the foreseeable future. The mounting requirements of food and the almost intractable problems of increasing production and imports seem to ensure a steadily upward trend to food prices at least for a future decade if not longer. Under the circumstances and on the assumption that in a period of rising prices the costs always lag behind, returns to cultivators would be favourable. Thus an attempt to reach a set of
prices that would be fair and remunerative to the cultivator and reasonable to the consumer would be a futile exercise and the goal would remain a mirage. In the western countries where price support programmes have been evolved and implemented in a big way the conditions impelling them were exactly the opposite of what obtain in our country today. The progressive countries thought of price support programmes under conditions of over production and falling demand and prices. It is a moot point, therefore, whether, we could adopt a similar policy which could be made to achieve a feat under contrary circumstances.

There is also a third set of factors which should be borne in mind while thinking of a price policy. These are connected with the problem of establishing price relatives or parity or a certain relationship between prices of food and cash crops and between industrial products entering farm inputs and consumption of the rural people. The task of establishing appropriate price relatives is difficult both under falling and rising farm prices, but the gap to be bridged between the two sets of prices seems to widen as the prices soar. Apart from the interests of the consumer and the development process in the country the question of price relatives has great relevance as food prices arrived at without regard to other prices might cause distortions in the agricultural production process. Cash crops are more remunerative than food crops. They have lent commercialization to agriculture and infused progressiveness in the occupation. They have been the forerunner of change. It seems futile, therefore, to attempt to establish a place for food cultivation on par with cash crops. An answer to meet such a situation is to attempt to improve farm productivity so that at progressively rising levels of efficiency the gap between the returns to the growers of different crops would tend to converge. It is erroneous to think of prices alone as ensuring fair or reasonable returns to the farmers. Equally important, if not more, is improvement in farm productivity. Subsidising the grower of food through better prices is one way of ensuring fair returns to the cultivator. This might logically mean subsidizing the consumer of farm products. Another way of achieving the end would be by subsidizing inputs of the food grower. Both would have the same consequence, but the efficacy of the latter
might prove superior as compared to the former. If productivity is not attended to we might confront an embarrassing situation. In our anxiety to plan economic activities to generate large employment under the Plan in our country, we overlooked the material aspects of quality and cost rationalization. The consequence has been that though such activities provide employment at not too satisfactory levels of wages, the products of such pursuits could not be competitive and, therefore, were not able to achieve a thrust in the national and international markets. A parallel should not be repeated in farm activity through a misconceived price policy. It is remarkable to note from western experience that it was the technical change and rapidly improving productivity that were the forerunners of the programmes of price support or guarantee. We should, therefore, not lose the valuable lessons of western experience and repeat the mistake all over again.

Recent measures:

The measures the government have taken recently in the sphere of fixation of foodgrains prices have raised hopes that at long last an integrated farm price policy is in the offing. It is suggested in some quarters that an era of farm support price is emerging on the horizon. It would be useful to describe the measures the government have taken during the last few years to ascertain whether such anticipations are rightly conceived.

The Jha ad-hoc Prices Committee which was appointed in 1964 and the Agricultural Price Commission which was constituted in early 1965 constitute the landmarks of the official measures on price and distribution policies. The elaborate terms of reference of the Agricultural Prices Commissson have raised high hopes about the content of the future foodgrains price policy. The Jha Committee announced the floor prices for rice and wheat for the harvesting seasons during 1964–65. These prices were for the inferior varieties of the two cereals commonly entering consumption of the large masses of people. The assumption was that the prices of superior varieties fall in a certain relationship with the prices of these inferior varieties. On the basis of the relationship that prevail the state governments will determine the levels of prices of other varieties. The minimum prices announced by the Jha Committee were based on the recommendations of the
state governments about what prices would be reasonable to the farmers and the consumers alike. These prices in their turn were largely suggested by the states on the basis of those that ruled during the previous harvests. The coarser grains were kept out of the price fixation, but some states on their own fixed their prices also. One or two states fixed the prices and embarked on the monopoly procurement of coarser grains. Whereas the prices recommended for enforcement by the states to Jha Committee carried a measure of inter-relationship with the levels of prices that prevailed in the immediate past, the prices of coarser grains were unevenly fixed in different regions more probably with a view to discouraging their exports outside the areas of their production.

The Agricultural Prices Commission also recommended minimum prices and certain other measures for government purchase of food grains and their distribution. They suggested that they would recommend procurement prices later at which the government would buy a certain portion of the produce compulsorily from the farmers. They did not favour maximum prices for a variety of reasons. The Commission probably felt that it is difficult to arrive at the maximum prices. In a situation surcharged with high farmer expectations and under a trend of rapidly rising food-grains prices the maximum prices if fixed would lose their significance very soon. Under prevailing conditions no set of maximum prices would satisfy the farmers. It is equally difficult to enforce maximum prices in a situation of scarcity and rising prices. The approach by both these official bodies is described in detail to indicate how far it would lead to an all-pervasive integrated price policy and support prices. The price policy that is taking shape today appears to be feasible under the present conditions, and is consistent with the interests of the consumer and the needs of development and planning in the country.

Crisis and government policy

The government measures to meet the present food crisis may be briefly examined. It is proposed to build stocks from imports as well as government purchases internally for distribution at fair prices through authorised shops. Data for the whole country are not easily available. We, therefore, present below the information about the number of shops, the quantities distributed through them, and the families covered.
through such distribution in Gujarat (P. 25.). The central allotment and internal purchases are given only for a year as it was in 196 that the pattern became clear.

The imports have been going up steadily. The internal purchases have similarly risen and attained a sizeable quantity of 3.4 million tonnes in 1964-65. The number of fair-price shops increased very rapidly and so also the families drawing supplies from and the total quantities of foodgrains distributed through them.

This data are relevant to the food prices evolved and recommended by the Agricultural Prices Commission. The procurement of as much foodgrains as possible at procurement prices is primarily to feed the fair price shops with them and later to build up stocks as and when possible. The minimum prices announced were intended to impart stability at the floor so that prices will not be allowed to decline below these levels. To the extent to which fluctuating prices had a dampening effect on food production the minimum prices would seek to counteract it. But if the minimum prices so suggested appear to be hypothetical in the present context, they would neither sustain incentive nor are necessary because they appear to be far removed from the actual price level that prevails.

Similarly, the existence of an official market for limited purchase and distribution of foodgrains side by side with free market in which transactions for the major portion of the produce occur point to two very material facts. They define the limited objective and specific purposes of procurement prices. It is to help government procure a minimum of crops at reasonable prices for distribution among the population a part of their requirements at fair prices. These objective having been ensured the rest of the market is left free to find its own level and the farmers free to secure higher prices for the foodgrains. To the extent that some states lay down that procurement prices will also be the purchase prices for the trade to buy foodgrains from the producers, and sale prices for the consumers with a fixed margin, the working of the arrangement would be distorted. The arrangement set out above may mean that the free prices in the open market may work to the benefit of the trade rather than the producer. If they do not and the higher prices in the uncontrolled market accrue to the farmers, between them and the procurement prices, they would tend
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<tr>
<td><strong>1 Number of fair price shops</strong></td>
<td>3,639</td>
<td>3,228</td>
<td>4,266</td>
<td>6,618</td>
<td>7,828</td>
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<td><strong>2 Foodgrains distributed:</strong></td>
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<td>(In Metric Tons)</td>
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<tr>
<td>(a) Wheat</td>
<td>95,753</td>
<td>74,003</td>
<td>47,030</td>
<td>3,809,753</td>
<td>3,90,261</td>
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<td>(b) Rice</td>
<td>45,022</td>
<td>66,753</td>
<td>90,982</td>
<td>84,105</td>
<td>1,65,891</td>
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<td>(c) Jowar</td>
<td></td>
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<td>43,791</td>
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<td>(d) Bajra</td>
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<td>15,009</td>
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<td>(e) Gram</td>
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<td>993</td>
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<td>(f) Gram-dal</td>
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<td>4,160</td>
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<td><strong>3 Procurement in the State:</strong></td>
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<td>(a) Rice</td>
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<td></td>
<td>26,127</td>
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<tr>
<td>(b) Paddy</td>
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<td>20,352</td>
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<td><strong>4 Union Governments’ allotment to the State:</strong></td>
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<tr>
<td>(a) Wheat</td>
<td></td>
<td></td>
<td>35,945</td>
<td>4,57,818</td>
<td>3,97,000</td>
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<tr>
<td>(b) Rice</td>
<td></td>
<td>74,938</td>
<td>94,982</td>
<td>1,75,000</td>
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<tr>
<td><strong>5 Families covered</strong></td>
<td></td>
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<td>5,73,904</td>
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to ensure support of remunerative prices to the grower. It might also mean that such a large free trade sector in foodgrains might undermine the limited official market in the commodities. It might even paralyse official policy and operations as happened in Maharashtra in regard to Jowar.

The government, however, appear to be clear about their overall approach. They are conscious of their limited resources. They are aware that they do not command a machinery to do more. They also know that an expansion of their sphere of work in the foodgrains trade and distribution such as rationing and monopoly procurement would involve vast resources and administrative personnel. The food imports also appear to have reached their outside limit because the foreign exchange required to get more supplies is simply unavailable. The unrestricted imports of foodgrains also create an extremely unfavourable impression about our agricultural potential and the soundness of our economy.

It would be argued that the two sets of markets and prices as described above cannot function without causing distress to the people and difficulty to the government in procuring the quantities of foodgrains that they need to feed the official food distribution machinery. It would even be argued that for the price and food policies to succeed they must cover the entire production through monopoly procurement and distribution through universal rationing. These views are theoretically sound. From the point of view of the difficult situation today they would even be considered necessary. The scope of the official distribution system and the compulsory procurement of foodgrains for the purpose would be limited. They would expand gradually as circumstances demand, depending upon the turn the food situation takes. The hands of the government are full with the difficulties in the economic and political spheres. It is in this context that we have to understand the foodgrains price policy that the government is evolving and not the basis of integrated price policy in which support price will sooner or later be incorporated.

**Foodgrains movement:**

Even after conceding this limited objective of procurement and fixation of food prices, a doubt is sometimes expressed about restriction
on the movements of foodgrains in the country. Both the zonal and state level restrictions on the movements of foodgrains are viewed with disfavour. The argument is that if restrictions on movement of foodgrains are removed and if the markets in foodgrains are permitted to work unfettered the present scarcities and high prices will disappear. This belief draws its sustenance from the fact that internal production and imports of food taken together very nearly take us to the target of production set for the fourth year of the Third plan. There is, on the other hand, an equally stark fact that despite limited procurement and distribution of foodgrains through the government distribution system and a very large sector of free foodgrains trade at stipulated prices, the latter remains completely dried up of supplies and transactions. One might contest the estimates of internal production. The hard fact, however, of serious food crisis remains. Under such a situation one shudders to visualise the conditions that would prevail under completely free movement of and trade in foodgrains. There is considerable force in the argument that the state level restrictions of movements on foodgrains at least helps to delineate the surplus and deficit areas, giving indications of the directions for regulated flow of grains and of pockets for successful operation by the official foodgrains purchasing agencies. A complete withdrawal of movement restrictions under today’s conditions would only mean equity in sacrifice arising from universal scarcity and high prices. A clear perception of the pros and cons of both the situation and the limited objective of official food and price policies would enable us to judge the appropriateness of both of them under the present difficult circumstances. Nobody would deny that the government should do much more. Possibly, in due course it will come forward to assume a far larger responsibility than it has hitherto done. The setting of the analysis is the current situation. The policy will have to suitably change as the conditions change.

**Conclusion:**

The analysis highlights a few features of the issues of prices, production and distribution of foodgrains in India. There is need to grasp the distinction between the minimum, procurement, maximum and support prices and a whole range of concepts of prices in between. The concept of procurement prices is pivotal, but it has a limited purpose and
manoeuvrability. In the price fixation process there is nowhere in
sight an attempt to determine them on the basis of costs, remunera-
tiveness or profits in agriculture. Nor do they positively attempt to make
them incentive oriented. Only to the extent to which the policy elimi-
nates fluctuations and uncertainty they provide stable conditions for
cultivation of foodgrains. Nor are the prevailing prices, conditions and
their trends propitious for anything more or better. Under conditions
of rising prices and relatively slow rise in costs, anything purporting
to be support prices will distort resource allocation and unfavourably
affect farm efficiency. The concept of support, fair or remunerative
prices are shifting and illusory under mounting expectations so that
prices of this season would in all probability seem unattractive, unre-
munerative or unfair in the next season. The experiences of the west also
point to the feasibility of a programme of farm price support under
conditions of advanced technology, high levels of productivity, farm
surpluses and falling demand.

The restrictions on the movement of foodgrains and the pattern
of foodgrains markets that is emerging have similarly to be viewed in
the context of the crisis and the government’s ability and willingness
to assume responsibility of ensuring equitable supplies at fair prices.
The price, distribution and procurement policies that are being evolved
have to be read with this overall purpose in view. May be, these initial
experiences provided useful guidelines to a policy of integrated prices
with support prices for food crops set in it to be implemented when
times are more oppurtune. A price policy that we envisage under
prevailing circumstances besides helping the immediate objectives in
the field of food procurement and distribution should be workable. Only
gradually it can lead us to the objective of the ultimate in farm price
policy. Its speed during the journey should not be unduly hastened.
Otherwise, it would lead to distortions that might harm the long
range process of change in the economy.