

The Agricultural Prices Commission

What It Has Done and What It Could Have

Rustic

When the Agricultural Prices Commission was appointed six months ago, there was considerable scepticism about its possible usefulness. No one knew what a price policy was supposed to achieve, and no one expected that three people without any executive authority could get the government to buy, sell and build stocks that were essential to make recommended prices effective.

Now we know what the Commission regards as its task, and from its report on "Price Policy for Kharif Cereals, 1965-66" we can also have a rough idea of the competence with which it will carry it out.

THE Agricultural Prices Commission regards itself as an arbitrator in the distribution of real incomes between producers and consumer; of agricultural consumer goods, mainly foodgrains. When it earlier declared minimum prices for rabi crops it explained that they were such as to give a reasonable return to an efficient farmer. While such calculations can only be crude and of limited significance, the ideal of being fair to the hard-working farmer is clear. The declared preference for stable prices is also justified on the grounds that they would make the farmer's calculations of expected profits more reliable. So the Commission will engage itself on working out prices on a cost-plus basis and collecting little bits of cost information for the purpose,

This idea of a just price is not an economic concept; but that is no condemnation of it, for economics has nothing to say on justice. Food prices are a crucial issue of urban politics, and our various governments are highly sensitive to urban pressures, so there is and will be a food price policy—one with the intention of minimising urban food prices. It will be no loss if the Commission manages to introduce some long-term consistency in the policy. The notions of the economic farmer and correct terms of trade, although they are myths, are unlikely to prove pernicious myths.

However, this price-fixing activity is likely to become a routine exercise; the Commission seems unconsciously to have turned to another task for its main business. It is made up of thinking individuals who still probably get some time to concentrate on problems; it would be impossible for them to fix Kharif prices without thinking about their implications. It is this working out of implications that is the main interest of the report on Kharif prices; and if properly done, it will be enough to justify the

existence of the Commission. Agriculture is such a bedevilled subject politically and the views one hears on it are based on such unashamed vested interests that some disinterested argument in official clothing can only improve the tone of the debate.

Inter-State Trade

The Commission is drawn to discuss two issues—those of inter-State trade and the procurement-distribution mechanism. A praiseworthy feature of the discussion is that it does not present a case; various alternatives are presented, and the Commission gives reasons for preferring one or the other. Unfortunately, the reasons given are poor. Let us take the Commission's justification for restrictions on inter-State movement for example:

"While flow of supplies of food grains from surplus to deficit States is natural and desirable, it is apprehended that in a situation of shortage, entirely unregulated movement on private trade account may lead to an indiscriminate rise in prices everywhere. Moreover, as purchasing power of different regions does not necessarily match their needs, there is a possibility that surpluses of the producing regions may be moved out to such an extent that prices in those regions are pushed up to a level which would cause hardship to the vulnerable sections of the population in those regions. Hence some degree of regulation of inter-State movement of foodgrains appears to be inescapable in the present context."

Now it is as justified to say that unrestricted movement of foodgrains will lead to an indiscriminate rise in prices as that it will lead to an indiscriminate fall. Movement restrictions or their removal primarily affects relative prices. If the price-elasticity of demand for foodgrains were lower in surplus States than in deficit ones, removal of restrictions would raise the average price level; but the Commission has nowhere made this as-

sumption, let alone justified it, and it is unlikely that it even thought of it.

The welfare reason given for restrictions—that they prevent hardship to the poor in surplus areas is equally specious, since it ignores the poor in deficit areas. There might be grounds for believing that the former poor are poorer or more vulnerable than the latter poor. The per capita availability of cereals is highest in the surplus States of Orissa and Madhya Pradesh, and it is possible that this is so because of poverty (i.e. because the poor eat relatively more cereals). So State food zones might conceivably increase the real incomes of the poorest. But the argument is very tenuous and requires a great deal of substantiation.

The Commission claims that "as a result of procurement and allocation operations of the Government, the inter-State differences in per capita availability of foodgrains have been considerably reduced". If we are to judge by the figures given by the Commission there is no substance in the claim at all. The figures relate to "coefficients of variation"; presumably what is meant is the standard deviation of observations which have been normalised in some fashion. The coefficient of variation of per capita net production of cereals in States in 1965 is given as 29.5 per cent, while the coefficients for per capita availability was 15 per cent. The fact is, however, that cereals tend to move from States with high availability to ones with low availability, and so as long as there was movement of cereals, availability would show less variation than production. If procurement and allocation operations did not lead to more equal availability than production, they would have to be regarded as highly perverse and pernicious. The coefficient for availability in 1961 to 1963 when the movement of foodgrains was relatively free was 17 per cent, it is so nearly the same as the

1965 coefficient that to argue that it fell as a result of government operations betrays statistical illiteracy. The conclusion that the Commission's figures justify is quite the contrary of the one it draws—it is that if it was the purpose of the government in introducing procurement and allocation to equalise per capita availability between States, it has signally failed in this purpose.

In fact, a suspicion of fiddling with figures cannot be avoided. Raj Krishna says in his note of dissent that "...the variation in the availability of wheat and of all cereals as between States has declined, but the variation in the availability of rice has increased in 1965 in comparison with the variation in 1961-63". It is impossible to evaluate this conclusion since the actual figures are not given; the Commission should really have given all the relevant figures that it worked out. But if Raj Krishna is right, the picture might be a very unfavourable one to State food zones. For it appears that food zones have reduced the flow of rice from surplus to deficit States, and the resulting shortfall has been made up by the issue of imported wheat to rice deficit States. This conjecture might well be wrong, but there is nothing in the Commission's report to suggest that it is,

Procurement

As regards procurement, the Commission suggests a partial levy which would bring in about 25 per cent of the marketed surplus of rice. It is essential for the government to have some assured supply of cereals to provision fair price shops, and monopoly purchase would cause much discontent among farmers. Hence the compromise of a partial levy.

In spite of the crudity of its objections, it is difficult to question the Commission's view that given the rate at which the demand for grain sold by fair price shops is growing, compulsory procurement is inescapable. But the details of its proposal are vague. The levy might be imposed either on producers or on millers. Theoretically, a levy on millers should be easier to administer; but the actual results of such levies have been disappointing.

If the levy is to be imposed on farmers, the question of its base is important. A levy on production would be difficult to assess, and a levy on sales even more so. The easiest levy to work would be one

based on area with some adjustments for fertility perhaps. Its estimation would follow the same principles as land revenue. However, the economics of such a levy needs to be explored very fully. Should it apply only to land under cereals or to all land? Should compensation for the procured grain be given entirely in money or partly in kind? What element of taxation should there be in the prices paid? These questions need to be raised and answered—answered with imagination, intelligence and daring.

Piecemeal Approach

The most important contribution of the report is to emphasise that the provision of towns through fair price shops necessarily entails compulsory procurement, and that procurement must be equitable as between States—that it must be based on what the Commission calls a National Food Budget. This is not very profound, but it needs to be said and said again, in view of the general reluctance to act and respect for local interests.

Having said this, the Commission ought to have gone on to work out the National Food Budget itself and the pattern of procurement; it should have formulated policy for entire agriculture, and not just fixed prices of Akkulu, Kattaisamba, Suthersaul and other varieties of rice. True, it might by doing so, have transgressed the strict limits of its terms of reference, but no one would have minded this terribly if the Commission had something worthwhile to say. The important fact is that everybody

knows that we are just now in a *desperate* position agriculturally, everybody feels the need for State action. But policy is made, not out of high ideals and pious declarations, but out of careful, concrete proposals that bring objectives and administration together. The Commission is eminently suited, both by its composition and by its tasks, to work out such proposals.

At this point this review should end. But a protest must be made against the Commission's notion that procurement must be a battle of wills between the government and farmers. It is true that if we want to maintain fair price shops farmers must be made to provide a regular supply of foodgrains. The necessity is even more inescapable now that statutory rationing covering millions is proposed. But must the farmers be given unattractive below-market prices for the procured grains? Why not pay them in goods and services instead? Pay them in fertilisers, seed, pumps, schools, storage services, in whatever would help them increase output. This two-way traffic in goods can be used to put some purpose and life into the Food Corporation which is languishing for lack of work. It will alleviate the antagonism latent in a levy system, impose obligations in respect of agricultural investment and improvement which both the State and the farming people have shirked hitherto, and lead to most reliable, rapid and steady increase in agricultural output.

Modern Fibres of India

A NEW Company, Modern Fibres of India, has been registered in Bangalore for the manufacture of acetate fibres using acetate flakes as raw material. The Rs 6 crore project is proposed as a joint venture of Modern Mills, Bombay, and a prominent U K manufacturer of man-made fibres, who together are expected to subscribe to 50 per cent of the total equity capital of Rs 2 crores. The sponsors have approached an international institution to subscribe to another 25 per cent of the equity capital, leaving a balance of Rs 50 lakhs in equity capital, which will be offered to the public towards the end of this year, together with another Rs 25 lakhs in preference capital. The public issue is expected to be fully underwritten. The plant and machinery for the project has been tendered by Prinex Limited,

U K, which has recently supplied two acetate fibre plants to the Soviet Union,

Acetate filament yarn, which has silk-like qualities, has been enjoying a boom in the last few years throughout the world. In the United States, the production of acetate filament yarn for the textile industry is now double that of viscose filament yarn, both of which are of cellulosic origin. In India, on the other hand, the production of acetate filament is hardly 8 per cent of the total cellulosic filament yarn production which is predominantly viscose.

The new project expects to initially produce finer deniers of acetate yarn which are not presently manufactured in the country and which, under the present import restrictions, cannot be imported.