

REPORT
OF THE
COMMITTEE ON
PRICES OF AGRICULTURAL
COMMODITIES
(RABI GRAINS)



RS' PARLIAMENTARY FORUM
EROZESHAH ROAD, NEW DELHI

FOREWORD

The Committee on "Prices of Agricultural Commodities" was set up by the General Body of the Farmers' Parliamentary Forum at its meeting held on 21st February 1969. The Committee at its very first meeting felt that the subject of agricultural prices covered a wide field embracing not only the rabi and kharif foodgrains but also cash crops. Some of the subjects falling within the purview of the Committee required urgent consideration while others could wait for some time. The question of fixation of prices of rabi foodgrains, for instance, required immediate examination as the Government had to declare the procurement etc. prices for wheat before the new crop started coming to the market next month. The Agricultural prices Commission, according to Press reports, has already submitted its recommendations to the Government and the final decision is expected to be taken at the meeting of the Chief Ministers of the principal rabi producing States, scheduled to be held on 3rd April 1969. The Committee, therefore, decided to submit separate reports on prices of :

- (i) rabi foodgrains :
- (ii) cash crops such as sugarcane, cotton, jute and oil seeds; and
- (iii) kharif foodgrains.

The present report deals with rabi foodgrains only.

WHEAT and barley are the two major cereals that are grown during the rabi season. In certain areas rabi jowar is also produced. Some of the major rice producing States grow summer crop rice as well. But as rice and jowar crops are grown mainly during the kharif season, the Committee proposes to deal with these two foodgrains only as kharif cereals.

2. Gram and Tur (Arhar) are the two important pulses that are grown during the rabi season. There is no control either on movement or prices of these pulses which move freely all over the country through trade channels.

3. Gram is grown largely in U. P., Rajasthan, Haryana, Punjab, Madhya Pradesh, Maharashtra and Bihar, but is consumed all over the country. It moves in large quantities from the North to the States in the South and also to West Bengal. In the producing States, apart from being consumed as a pulse, it is mixed with barley and/or wheat and eaten like cereals.

4. Gram is grown largely in the rain-fed areas. Its production, therefore, fluctuates quite widely from year to year depending on the behaviour of monsoon. The following figures of production during the last five years elucidate the position :

<i>Year</i>	<i>Thousand tonnes</i>
1963-64	45,02
1964-65	57,85
1965-66	42,22
1966-67	36,22
1967-68	60,42

5. During years of short production, the mixed eaters usually change over to other foodgrains or reduce the quantum of gram in their diet, and the shortage of gram is not so keenly felt. Tur and peas replace gram as a pulse when short production of gram necessitates that.

6. Whatever the level of production during a particular year, some parity is generally maintained between the prices of gram and wheat. It, therefore, seems that if the prices of wheat are maintained at specified levels, the prices of gram will also get stabilised at suitable levels related to the prices of wheat. For that reason, and also for the fact that Government does not handle any large quantities of this soft grain, the Committee does not propose to suggest any prices for gram. The present free market mechanism, the Committee thinks, should continue to determine the prices of gram in relation to the prices of wheat, barley and other foodgrains.

7. As between wheat and barley, the production of barley is hardly 20% of that of wheat. The prices of barley as a general rule maintain a parity with the prices of wheat. The Committee, therefore, proposes to deal with the prices of wheat alone.

8. The development of high-yielding varieties of wheat has revolutionised the production of wheat in the country. The production in 1967-68 was almost 50% higher than the production during the previous year. The following are the figures of production during the last 5 years :

<i>Year</i>	<i>Thousand tonnes</i>
1963-64	9,853
1964-65	12,290
1965-66	10,424
1966-67	11,393
1967-68	16,568

9. In spite of unfavourable monsoon in certain areas during the crop growing season, the coming crop of wheat is expected to be at least equal to that of last year, if not somewhat better. This is due to the fact that the area under high-yielding varieties has increased substantially this year. The additional yield from high-yielding varieties is likely to compensate more than the loss in production due to inadequate rain in the rain-fed areas.

10. During the last few years the prices of foodgrains have recorded a substantial rise. The prices of wheat for instance have more than doubled during the last 5 years. The all-India index number of wholesale prices of wheat which stood at 91 in 1963 went up to 217.7 in July 1967. During 1968, after the record crop of wheat, the prices of wheat somewhat declined. Even then the index number of wholesale prices of wheat in December 1968 was 189.1, more than double of that in 1963.

11. While this rise in prices caused some hardship to the consumer, it provided much needed incentive to the farmer to increase production. The farmer who for decades had been stagnating at the lowest ebb of the economy and was not able to find two square meals, got an opportunity to look up with hope to improve his economy. He has been encouraged by the prevailing better prices to put in his best to increase production and make reasonable profit. Price incentive is no doubt the best incentive. The farmer has been toiling hard and the agricultural production of the country has been improving. A momentum has been built up and there is an enthusiasm amongst the farmers to produce more. In the interest of increasing production it is very necessary that this momentum and enthusiasm should be maintained and the farmer encouraged to increase production.

12. It may be added that for adopting modern methods of scientific cultivation, the farmer has to use expensive inputs. The cost of labour has also gone up. The cost of

agriculture has thus increased considerably and for that reason the higher prices of agricultural produce which the cultivator is now getting provide only a small margin for him. His own cost of living has also gone up as he has to pay much higher prices for his own necessities such as cloth, consumer goods etc.

13. Last year, the Government had fixed the following procurement prices for wheat in the wheat producing States :

<i>Variety</i>	<i>Rs. per quintal</i>
Red (ordinary)	72 to 74
Mexican	76
Common white	76
Superior (farm)	81

For the coming crop, the Agricultural Prices Commission, according to Press reports, has recommended a reduction of 9 per cent in the procurement prices. The following table compares the last year's procurement prices with the prices now recommended by the Agricultural Prices Commission for the coming crop :

<i>Variety</i>	<i>1967-68 prices</i>	<i>(Rs. per quintal) Prices recommended by the Agricultural Prices Commission for 1968-69 crop</i>
Red ordinary	72 to 74	66
Mexican & Common white	76	70
Superior (Farm)	81	74

14. The reduction in procurement prices, if agreed to, will undoubtedly have an adverse psychological effect on the grower, whose enthusiasm to grow more to earn larger profit will get benumbed. In the context of the present day conditions of shortage of foodgrains in the country, it will be unfortunate if the momentum built up to produce more is disturbed

and the farmer gets discouraged to put in his best to increase production. It is very necessary that for some time to come we must continue to provide incentive prices to the farmer. Price incentive is indeed the most effective incentive for increasing production.

15. The Committee, however, realizes that it will be difficult for the Government to continue to purchase large quantities of Mexican wheat at high prices and incur heavy loss on its disposal. Last year, the Government purchased Mexican wheat at Rs. 76 per quintal; incurred an incidental expenditure of Rs 18 per quintal; and eventually sold this wheat at Rs 70 per quintal; thereby suffering a loss of Rs 24 per quintal. It has been estimated that if this arrangement continues, the Government will suffer a loss of Rs 20 crores during 1969-70. There is no doubt that the financial resources of the country do not permit of such a heavy loss being incurred year after year.

16. The need to make heavy purchases of wheat in the surplus states on Government account has arisen only because of the maintenance of zonal restrictions on the movement of wheat. These restrictions have disturbed the traditional movements of wheat from the surplus States to the deficit States through commercial channels. The responsibility for feeding the deficit States has, as a consequence, fallen on the Central Government who has now to purchase wheat in the surplus States and distribute it in the deficit States. These movement restrictions also depress the prices of wheat in the surplus States and in order to safeguard the interests of the farmer the Government has to make heavy purchases of wheat to sustain the prices at suitable levels. The last year's experience, however shows that inspite of the Government having purchased about 2.8 million tonnes of wheat it failed to prevent the prices from falling below the level of procurement prices in almost all the surplus States. In Haryana, during the four months of May to August 1968 the prices of both Mexican and

ordinary white wheat ruled below the Government procurement prices. Similarly, in M.P. the prices of Mexican wheat during the months of May, June, November and December 1968 declined to levels much lower than the Government procurement prices. In U. P., the position was still worse. For 4 months of May to August 1968, and again in November and December 1968, the prices of wheat sagged below the Government procurement prices. The price of Mexican wheat in certain centres dropped down to Rs. 65 or 66 per quintal against the procurement price of Rs. 76 per quintal. The position became so serious that the Government had ultimately to relax the zonal restrictions on the movement of wheat and allow export of wheat from U.P. to Delhi with effect from 14th January 1969. Even now the prices of Mexican wheat in certain markets of U.P. are reported to be about Rs. 67 per quintal or Rs. 9 below the procurement price.

17. The failure of Government to prevent the prices of wheat from falling below the procurement prices, naturally hit hard the growers who were unable to obtain the desired incentive prices for their produce.

18. Last year, owing to heavy arrivals of wheat during the immediate post-harvest period, the Government could not lift expeditiously all the stocks of wheat purchased by it. The arrivals were too heavy for the Government to handle as a sole buyer. The result was that large stocks of wheat got damaged by rain while lying in the open in the markets of Punjab and Haryana or on the railway platforms. Had the inter-State movement of wheat been free, the trade would have purchased this wheat and stored it temporarily in the huge storage accommodation available with it. That would have helped the prices to get stabilised more or less at the levels of the procurement prices; the cultivator would have been able to get remunerative prices for his produce and the precious grain would not have been damaged by rain.

19. The coming crop is reported to be at least 20% better in Punjab and 10% better in U.P. as compared to last year's. If the present zonal restrictions on the movement of wheat are allowed to continue, it will be extremely difficult for the Government to cope with the heavy arrivals of wheat during the immediate post-harvest period and difficulties experienced last year may again be repeated. Failure to lift the entire or major portion of the wheat received in the markets during the immediate post-harvest period will make it difficult for the cultivator to get remunerative prices for his produce. He will lose faith in the Government and will be disheartened to put in his best to increase production.

20. And, if the procurement prices are reduced, as recommended by the Agricultural Prices Commission, the open market prices will decline to still lower levels and the grower will actually get much lower prices.

21. Keeping in view the foregoing facts, the Committee is of the opinion that the only method to meet effectively the present situation would be to withdraw zonal restrictions on the movement of wheat and allow wheat to move freely through trade channels. That, the Committee considers, would help in improving the situation in the following manner :

- (i) The growers of the surplus States will be able to obtain remunerative prices for their produce prices related to the comparatively high prices prevailing in the deficit areas. They will not then be entirely dependent on the purchases of wheat by the Government and will not have to suffer a loss as they did last year when the Government failed to prevent the prices of wheat from falling below the Government procurement prices. The private trade will also then enter the market and will make competitive purchases of wheat which will benefit the growers.

- (ii) The Government will be relieved of the responsibility to a large extent for making heavy purchases of wheat in the surplus States to sustain the prices of wheat at suitable levels, and will thereby be saved of the heavy loss that they are incurring on subsidising the sale of this wheat—Rs. 20 crores estimated loss for 1969-70.
- (iii) The Government will also be saved of the odium to reduce the procurement prices of wheat and the consequent grievance of the farmer.
- (iv) That will also provide considerable relief to the deficit areas where the food supply position will ease.
- (v) The heavy disparity in the supply and prices of wheat in the adjoining surplus and deficit States, which is too undesirable a feature of present controls when viewed in the context of the democratic set up of the country, will be removed.
- (vi) The Government of India's commitment to supply wheat to the deficit States will also be considerably reduced.

22. There has been a lurking fear in the minds of some of the people that if zonal restrictions on the movement of wheat are withdrawn, the prices of wheat may rise and the traders may indulge in speculation and cornering of stocks to make undue profit which may cause hardship to the consumers particularly those in the low income group. The Committee feels that in the context of the present day conditions, this fear is ill-conceived. The prices of wheat have already started falling. Large stocks of wheat from the old crop are being unloaded on the markets. There are clear indications of substantial stocks of wheat being still available in the rural areas. The coming crop of wheat is going to be a record crop. There, therefore, seems to be little risk of either the prices rising unduly high or the traders cornering the stocks to make undue profit.

23. The Planning Commission, according to Press reports, has suggested intensive procurement of foodgrains in the country with a target of 8 to 10 million tonnes of foodgrains every year. The Commission has also suggested imposition of restrictions on the movement of foodgrains, stricter control on trade and building of a buffer stock of 5 million tonnes, to ensure stability of prices during the Fourth Five-Year Plan period. It has already been indicated in a preceding paragraph that under the present system of controls when each State is cordoned off separately, heavy disparities in supplies and prices of foodgrains have developed in the adjoining surplus and deficit States. The price of wheat for instance, in Hapur (U.P.) on 21-3-69 was Rs. 85 per quintal while it was selling at Rs. 120 per quintal in the open market in Khagaria in Bihar. Similarly, while common rice was selling at Rs. 95 per quintal in Cuttack (Orissa) on 21.3.69 its price was as high as Rs. 117 per quintal in Calcutta. Is this the type of stability in prices which the Planning Commission is aiming at? The present zonal restrictions on the movement of foodgrains operate harshly both against the cultivators of the surplus States and the consumers of the deficit States. The cultivators of the surplus States do not get remunerative prices for their produce as the prices in those States get depressed due to the movement restrictions. The consumers of the deficit States on the other hand, have to pay unduly high prices for their food requirements, again owing to movement restrictions. In a country which claims to be a democracy and in which each citizen is supposed to have equal rights with others, these heavy disparities in supplies and prices of foodgrains in the adjoining States are indefensible. They are a negation of the constitutional guarantees provided in the Constitution.

24. The Committee itself is of the view that an attempt should be made to stabilise the prices of foodgrains during the Fourth Plan period. The Committee, however, considers that stability should not be aimed at for each State separately

but on all—India basis. And such all-India stability, in the view of the Committee, can be achieved only by allowing free movement of wheat.

25. The Committee has no objection to stricter control on private trade being exercised—in fact it strongly commends that. But this control should not be through movement restrictions and exclusion of the private enterprise from inter-State trade in foodgrains. It should be through stricter licensing control and close supervision of the trade operations.

26. The Committee in passing would like to point out that the Food Corporation of India's handling cost of a bag of wheat at present is as high as Rs. 18 or almost 25% of the purchase price of wheat. The private trade, under normal conditions, is known to be working on much lower margins. The high incidental expenditure of the Corporation inflates the consumer's price, or when the Government decides to subsidise the sale for the benefit of the consumer, as at present, it throws a heavy burden on the taxpayer. The Committee realizes that checks and super-checks so essential under Government procurement operations do make state trading more expensive as compared to private trade operations. Even so, the Committee feels that there is considerable scope for reduction in the incidentals of the Corporation, and suggests that an effort should be made to reduce these.

27. Regarding buffer stock, the Committee agrees that it is desirable to have a sizable buffer stock of foodgrains with the Government. This buffer stock can, however, be built up either by intensive procurement which would necessarily involve heavy Governmental distribution in the deficit states; or by moderate procurement and lesser distribution under somewhat free market conditions. To elucidate this point, one method would be to procure say three million tonnes of wheat through intensive procurement which may

necessitate distribution in the deficit states, of anything like 2.5 million tonnes of the procured quantity in addition to the normal distribution of imported wheat, leaving only about half a million tonnes for buffer stock. The other method could be to procure only a moderate quantity of say 1.5 million tonnes and leave the rest to move through trade channels from surplus to deficit states. That would reduce the demand of the deficit States for wheat from Central stocks and it may then be possible to manage by distributing only about one million tonnes of this wheat in addition to the normal distribution of imported wheat. That would also leave about half a million tonnes of wheat for buffer stock. Under the present favourable conditions of wheat supply in the country, the Committee would prefer the second alternative. Its suggestion is that restrictions on the movement of wheat may be withdrawn, and Government may offer to purchase wheat in the open market in the surplus states at the existing procurement prices, as a price support measure. With the large crop in sight, and easy market conditions, the Government may be able to collect without much difficulty one to one and a half million tonnes of wheat under these price support operations. The withdrawal of movement restrictions will reduce substantially the need for Governmental distribution of wheat in the deficit States. The prices of wheat will get stabilised on all-India basis; the disparities in supplies and prices of wheat will be reduced to the minimum; the cultivators of the surplus States will be able to get remunerative prices for their produce; and the consumers of the deficit States will be able to obtain their foodgrain requirements at reasonable rates. The Government will also be saved of the heavy loss which it is now incurring on subsidising the sale of indigenous wheat, as the loss on the comparatively small quantity of indigenous wheat purchased will be more or less absorbed by the profit on the sale of imported wheat.

28. Sometimes it is also suggested that as a *via media* the Government may first purchase the required quantity of wheat soon after the harvest, and then withdraw restrictions on the movement of wheat. Such an arrangement will be open to serious objection. The Government will be accused of snatching away the wheat from the cultivators at low prices and then helping the private trade to make undue profit, by withdrawing restrictions.

29. To sum up, the Committee suggests that

- (i) restrictions on the movement of wheat may be withdrawn and wheat may be allowed to move freely throughout the country.
- (ii) Government may offer to purchase wheat in the open market in the surplus States at the present procurement prices, as a price support measure.
- (iii) Licensing control on trade may be tightened up.

The Committee considers that these measures will lead to the following advantages :

- (i) It will not be necessary to reduce the procurement prices of wheat which if reduced as suggested by the Agricultural Prices Commission, will operate as a disincentive for the farmer who will be discouraged to put in his best to increase production.
- (ii) Government will be saved of the heavy loss that it is incurring on subsidising the sale of indigenous wheat;
- (iii) The cultivator will be able to get remunerative prices for his produce—prices related to the prices prevailing in the deficit States.

- (iv) The possibility of the cultivator suffering a loss on the failure of the Government to maintain prices at the level of the procurement prices, as happened last year, will be minimised as in addition to the Government's price support operations, the private trade will also be making competitive purchases which will give further support to the prices.
- (v) Disparity in the prices of wheat in the surplus and deficit States will be minimised and the prices of wheat will level up throughout the country.
- (vi) The supply position of wheat in the deficit States will improve. The deficit and surplus States will share equitably the supplies of wheat available in the country.
- (vii) Government of India's commitment to supply wheat to the deficit States will be considerably reduced.

D.D. Puri, Ex M.P.
K.N. Tiwari, M.P.
Randhir Singh M.P.
Tulsidas Jadhav, M.P.
Narayan Patra, M.P.
S.N. Bhalla, Hony. Director