

# STATE TRADING IN FOODCRAINS



FORUM OF FREE ENTERPRISE

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## INTRODUCTION

Towards the end of November 1958, the National Development Council adopted a decision favouring state trading in foodgrains. This was a far-reaching decision affecting not merely an estimated three lakhs of persons directly engaged in the foodgrains trade, and millions of others dependent on it, but also all citizens as consumers.

In keeping with its efforts to educate public opinion on vital economic issues facing the country, and especially those having a bearing on freedom of enterprise and the democratic way of life, the Forum of Free Enterprise organised a Convention on State Trading in Foodgrains in Bombay on March 13, 1959.

Mr. A. D. Shroff, President of the Forum of Free Enterprise, presided. The presidential remarks as also the text of four other authoritative talks delivered at the convention are presented in this booklet.

**"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."**

**—Eugene Black**

**President, World Bank**

# A DANGER TO DEMOCRATIC WAY OF LIFE

**By**  
**A. D. Shroff**

Unfortunately there is a pitiable attitude amongst us that unless it directly touches our pocket, we would not take notice of any governmental action. Today, it is a question of state trading in foodgrains, tomorrow it may be sugar or something else. Therefore, I most earnestly implore all the intelligent, independent thinking people of this country to take very serious notice of the developments which are taking place in the country. Whereas on one hand the merchants are blamed, criticised, if not abused, for the profit motive which in the judgment of some of our rulers is something immoral, profiteering indulged in by the State Trading Corporation is extolled as a national virtue. That the State Trading Corporation should profiteer in cement and make an additional Rs. 5½ crores is something which is to be praised. That the bureaucrats were so successful that under the circumstances prescribed by the Government, they could sell cement at a price which would bring to the State an additional profit of Rs. 5½ crores blinds the authorities to the immorality of the transaction.

It is not sufficiently realised in New Delhi that the distributive trade, in foodgrains particularly, involves the use of techniques which cannot be built up overnight. It is the pioneering effort of our merchants over generations which is mainly responsible for the efficient handling of foodgrains trade.

Recently, the Prime Minister has found a new stick to beat the merchants and business men. They are all dubbed as "vested interests". Whoever has been in business for a number of years and has made a success of his business, whether it be foodgrains, iron and steel, motor cars or anything is a "vested interest" and in his judgment these so-called "vested interests" must go. Unfortunately, in our experience, the biggest vested interest and potentially the most dangerous to the sustenance of democracy in this country are the people who are very anxious to see that they do not lose this political power. These are the real vested interests in the country.

Speaking at the annual meeting of the All-India Manufacturers' Organisation on March 11, 1959, the Prime Minister declared that he had very strong objection to the centralisation of power, whether political or economic, in the hands of a few. Apparently, 300,000 merchants who are engaged today in the foodgrains trade are a "few people" in whose hands all the power is concentrated, but the State Trading Corporation which is going to be run by a few bureaucrats will not involve any concentration of power!

Mr. Kazi, the Minister for Civil Supplies in Bombay State, says that Bombay has a ready-made scheme for state trading from "pins to motor cars". Whilst we may not take Mr. Kazi very seriously, I want all citizens to appreciate that the sort of mental attitude which is prevalent in the ruling circles today is such that ultimately democracy will disappear from this country. One of the fundamental rights guaranteed to us under our constitution is the freedom to choose

our avocation or profession. If 300,000 merchants engaged in foodgrains trade are to be asked to hand over their business to the State Trading Corporation, it is a violation of one of the fundamental rights under our Constitution.

The State has moved from one thing to another. State Trading has made a complete mess of the manganese ore business. In the economic review which has been published and circulated with the Budget of the Government of India for 1959-60, it has been honestly confessed that during the last year manganese ore exports declined by 50%. If you will discuss this matter with the exporters of manganese ore and on the other hand with the accustomed importers of manganese ore in the United States, as I had opportunity to do, you will realise that apart from world factors, one very important operating factor today which is responsible for the serious decline in the exports of manganese ore is that the foreign purchaser has no confidence in the continuance of conditions in India. The Government levies an export duty one day, reduces it another day; bans exports on the third day, tries to promote exports the fourth day! That is not the basis on which trade can be carried on. One essential pre-requisite for any trade or business is that there must be some element of certainty about it. That element of certainty is destroyed by the policies which are being followed today by the Government of India.

There is one other factor to which I would like to invite the attention of the whole mercantile community. A business friend said: "Well, if the people in authority ultimately decide to do some thing, we have also to follow it certainly." Merchants cannot

go in for "satyagraha" or break laws. It is not their technique. And, therefore, they will have to carry out what the law says. But there is one thing that intelligent public opinion can do and that is to see that such bad laws are not made. In order to attain that position, public opinion has to be **mobilised**. There is no need for business men to get disheartened by the fact that the business community represents only a small fraction of the vast millions of people in this country. It is true that they are very small in numbers. At the same time, they are intelligent enough both to understand their own interests and the larger interests of the country. They have also been resourceful enough to help the country to attain political **independence** which it enjoys today. It is not only the politicians who have got independence. It is rather unfortunate, and incidentally a confirmation of the weakness of human nature, that those who have risen with the help of the ladder are today kicking away that very ladder. It cannot be forgotten that it is the fullest backing of the mercantile community of India which enabled this country to attain political independence. Having made that effort, it is up to the same mercantile community to see that the larger economic interests of the country are not allowed to suffer because of certain policies followed by the Government.

The proposed State trading in foodgrains is nothing but an attempt to divert public attention from the biggest failure of the Government of India, viz., on the food front. To any independent observer, apart from his political affiliations, the food problem can only be solved by increased production and not by taking away the trade from the merchants through a

State Trading Corporation. That is only an attempt to divert public attention from a real failure of the Government. It is taking hold of the wrong end of the stick. Although politicians are in a desperate hurry to satisfy the public that the food problem can be solved only by getting rid of the accustomed channels of distributive trade and vesting it in the State Trading Corporation, I have not the slightest doubt that much sooner than anybody would dare to anticipate today, it is again going to be another dismal failure on the part of the Government of India. Patriotic citizens and lovers of democracy owe it to themselves as well as to the country to mobilise public opinion so effectively that bad laws like state trading are not put on our Statute Book. Even if bad laws, through the steam-roller majority that the rulers have today, are on the Statute Book, it is the duty of patriotic citizens to go on agitating against those laws so that public opinion may be sufficiently mobilised to move Parliament to get rid of such vicious and obnoxious laws.

So long as the process of deficit financing continues, greater inflationary pressures will be generated in the country and state trading in foodgrains will not stop the rise in prices which will affect the millions of this country and generate forces which I am sure the rulers will one day regret.

# AN ALTERNATIVE TO STATE TRADING

By

**Devji Rattansey, M.L.C. (Bombay State)**  
**Vice-President, Bombay Foodgrains Dealers' Assn.**

It is the primary duty of every State to see that people get cheap foodstuff. But whether State Trading is going to achieve it is a question to be considered seriously. If we look to the reason that prompted the National Development Council in November last year to adopt the idea of state trading in foodgrains, we find that it was the rise in prices of foodgrains, in May and June, particularly in U.P., Bihar and the Punjab. If we take 1952-53 as the base year, a bumper crop year, the prices in 1957-58 had remained more or less steady and in certain cases they had gone down. The prices in the beginning of 1958 were up to 5 per cent higher, but in the case of wheat, gram and other pulses they were lower by 5 to 8 per cent. It is a doubtful question whether the Government, with its resources to command agricultural statistics and other facilities, could not realise in time that the rabi crop in 1958 had failed and that would necessitate the import of more wheat.

The foodgrains question arose in November 1958 when the prices were sufficiently high, thanks to the neglect of the Government. The National Development Council met and decided that there should be state trading in foodgrains. State Trading in food-

grains was first mooted in the Asoka Mehta Committee Report. This report had also suggested several remedies such as formation of a Price Structure Board. But we all know by now what things the Government will take and implement and what other recommendations will be conveniently dropped. For instance, in the Kaldor Report it was suggested that there should be wealth and expenditure taxes. The Government adopted these recommendations. But the suggestion that the maximum level of income-tax should be reduced to 45% was conveniently ignored. In the case of the Asoka Mehta Committee Report also, whatever has suited the doctrinaire approach of the Government has been eagerly adopted and the rest conveniently ignored.

What is this state trading? I am afraid that no Food Minister has been able to explain what is actually meant by state trading in foodgrains. At one stage, one state Minister or the other has stated that they were going to start state trading by licensing wholesale traders. The fact of the matter is, all the major states have already done it!

The Government of India as well as the State Governments have means to know what are the food stocks in a particular district or in a particular city. In spite of that knowledge, inefficient Administration could not visualise that in January 1959 there would be a shortage of wheat in the capital city of India and that consequently there would be a hue and cry. It was only after trouble had occurred in Delhi, wheat was rushed there from Bombay and Calcutta.

It is not clear to the mercantile community and the public as to the form state trading will take. Many merchants, associations and citizens have apprehensions

about that idea, but have been forwarding schemes of their own accord in order to associate themselves with the Government. I am also one guilty of that practice. But, in spite of our putting forward so many schemes, we have received no reply so far. The Food Minister of Bombay State, for instance, made a statement on March 12, that he had machinery for State Trading from "pins to motor cars"!

I have requested the Government of India to remove the food zones and allow free movement of foodgrains. If the Government removes the zones, then merchants will sell foodgrains more cheaply than any Government organisation can hope to. There is no response to this suggestion. This shows how the minds of different ministries in the different states are working.

A charge that is being levelled against merchants is that they are profiteers, hoarders, speculators and what not. The total amount of foodgrains production this year is going to be more than 70 million tons. The total crop cost will be about Rs. 1,890 crores. Against that, the bank advance as on January 6, 1959, according to the Reserve Bank, is about Rs. 15 crores by scheduled banks, co-operative societies and co-operative banks. This figure does not work out to more than  $\frac{3}{4}$  per cent. of the amount involved in the foodgrains trade.

In 1957, the bank advances were Rs. 34 crores. In April 1958, advances were Rs. 22 crores. It is, therefore, very unfair to accuse traders in general of hoarding foodgrains. One suspects that this is in accordance with the maxim to give a dog a bad name and hang it. In short, the Government wants state

trading without knowing either its implications or what it is going to do. It is a vague intention they are bent upon fulfilling.

The production of cash crops is rising every year. The area devoted to cultivation of foodgrains is consequently affected. The other day the State Finance Minister said in Bombay Assembly that it was true that ~~the~~ cash crops production was increasing. But strange things happen with regard to agricultural policy. U.P.'s yield of sugarcane is much less than the sugarcane yield of any southern state or Bombay State. Still, the price fixed for sugarcane in U.P. is much higher than anywhere else. Should an area which yields sugarcane much less in sugar content than sugarcane grown elsewhere be devoted to that cash crop or to foodgrains? The only possible explanation is that there are many votes to be won from the rural area and we cannot displease our masters!

We are told that the Government is making its best efforts to increase food production. On the contrary, we see that serious efforts are not put in. Let us take the question of irrigation. Mr. S. K. Patil, when he was the Union Minister for Irrigation and Power, said in Eok Sabha last year that all the water which the State was prepared to supply was not being utilised by the agriculturists. The reason is that the price which an agriculturist has to pay for the water that he takes from the irrigation canals is much higher than what he can afford to pay considering his earnings. Besides, administrative rigmarole and inefficiency dampen his enthusiasm. I know the case of a small district like Kutch in Bombay State. There are minor irrigation dams in the area. If an agriculturist

wants to have water for a few acres, he has got to go to the district headquarters where the **irrigation Saheb** is sitting, has got to give money. and then take his **permission** to get the **water**.

Recently, when the Budget of the Bombay State was presented, we saw magnificent amounts to **the tune** of Rs. 13,000 and Rs. 18,000 set apart for intensive cultivation of **jowar** and wheat in five divisions of the State! You can imagine how much attention is devoted to food production by a Government careful enough to set apart handsome amounts of Rs. 13,000 and Rs. 18,000 for intensive cultivation of **jowar** and wheat in a budget of about Rs. 112 crores.

There is another factor which has been neglected by all of us. We criticise the Government for its failure on the food front. We know that we are in short supply of foodstuffs. But we have got to suggest some remedy. I would like to make a suggestion. If there can be about 750 honest **M.P.s**, if there be about 50 honest Ministers at the Centre, hundreds of ministers at the States, about 3,000 members of legislatures, can we not find out 20 or 30 honest merchants throughout the length and breadth of this country? They can constitute a small council, similar to the Council for Exports, Imports, Textiles, Shipping etc. Such a Council can give rational and expert advice on the food situation.

There are no two opinions as to our deficit in foodgrains. We have got to import so long as we are not **self-sufficient** in food. **The** import should be so timed that imported foodstuff is pumped into **the** market to keep down prices by adequate supplies to meet demand. The Government can resort to State

Trading in the matter of imports. I for one will have no quarrel with the Government if it imports foodgrains on its own account and runs the fair price shops. Let **the** Government **fix** reasonable prices of foodgrains and see that either the middleman or the farmer does not allow the prices to go up.

On the one hand, we say that our cattle wealth is great; on the other, we say that the yield from **the** **cattle** wealth, like the yield from our land, is less than in other countries. Except irrigation dams which provide water at costs too high for the poor agriculturists to pay, we are not giving any help to the agriculturist. We are all aware that the **country** is short of manure. We do not get enough ammonia **sulphate** due to shortage of foreign exchange. The import of chemical **fertilisers** is also restricted. But the most important fertiliser that we have in this country, viz., **oilcake**, is allowed to be exported. The result is that our cattle do not get good cattle-feed, and the agriculturist does not get the required amount of **manure** and thus the yield of foodgrains is reduced. An argument is **being** advanced that we are getting about Rs. 4 to 5 crores of foreign exchange by exporting **oilcake** which is said to be as useful as ammonia **sulphate** imported at cheaper prices. May we not ask the Government whether the foreigners are so foolish that they will buy our **oilcake** at a higher price and **sell** ammonia sulphate at a cheaper price?

I wish to suggest that the Government should licence trade throughout the country so that the Government can know the pulse of the trade. Then there should be an all-India board which decides the overall policy.

So long as we are not self-sufficient in foodgrains, controls **are** inevitable to an extent, and some **form** of state trading to an extent may also be inevitable. But **the solution** of our present food problem will not be by increasing by a few lakhs the civil servants to **handle** the **entire** foodgrains trade. Government servants are inexperienced and they are sure to make a mess of the whole affair.

Let **us** recall what Mahatma Gandhi said twelve years ago; "**Our** Ministers are of the people, from **the people**. Let **them** not arrogate to themselves greater **knowledge** than those experienced men who **do** not happen to occupy the ministerial chair."

## A NOVEL IDEA

By

**Ranchhoddas Jethabhai**

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During Nagpur Congress session in **early** 1959 **the** novel idea of 'State Trading in Foodgrains' was hailed and soon thereafter the Government took upon itself to implement the same as early as possible.

It was contended that the middlemen who were trading in foodgrains were responsible for the steep rise in prices, which was ascribed to hoarding, speculation and profiteering. Thus the trading community was made a 'scapegoat', and an excuse for the **entry** of the State in the foodgrains trade.

Although the State trading in **foodgrains** during the period of war-time controls and rationing had brought about great hardship both to the **producers** and the consumers, not to mention the heavy **loss** incurred in this venture, the authorities have thought it fit to rush ahead with this scheme, which could **lead** to large-scale unemployment as well as dissatisfaction amongst cultivators thus resulting in lower production. It will not be out of place to mention that the **Food Inquiry Committee** Report has pointed out the heavy expenditure in Government's handling and the huge loss of about Rs. 46.4 crores of rupees per year **in** catering to less than the 15% of the population which was brought under rationing.

It is **significant** to note that soon after the policy of de-control was announced by the late Mr. **Rafi Ahmed Kidwai**, in 1954, the production of foodgrains was greatly enhanced and prices of foodgrains came down to low levels, and the producers and consumers were satisfied. It is due to the bad monsoon last year that foodgrain prices have tended to rise because there has been a shortfall in production. A natural law of supply and demand has asserted itself rather than any hoarding or profiteering or speculative tendencies as have been alleged by the Government.

During 1957, food-zones were created without taking into account the position of demand and supply and of the surplus and deficit areas, which were interdependent, thereby bringing about wide disparity in prices in various States. The consumer in deficit area was consequently badly placed. Even at that time, the traders through their various representative bodies protested strongly against the creation of such zones and warned the authorities to desist from such experiments which would unnecessarily bring about higher living cost to consumers in deficit areas and also give rise to anti-social activities, i.e., smuggling and corruption. Even this warning by the trade was not heeded and the bureaucracy went on experimenting with an article of prime necessity to the public.

Now the idea of 'State trading' has been brought forward as an answer to solve all problems of prices, distribution and production. One must find out how such a scheme will solve all the different problems and whether any pains have been taken to find out any solution to such fresh problems as unemployment, high cost of distribution etc., which would come up as a consequence of state trading.

In the opinion of the trade as well as myself, **such** a costly experiment will do **great** harm both to producers and consumers because in a monopolistic operation the interest of the consumers, i.e., the public, **will** not be served. I apprehend that the authorities **will** slowly but surely be going towards rationing and full controls. Moreover in our democratic constitution, if the State is to take up monopolies in different trades, it will not be **long** before **the** public will have no voice in any sphere of life.

# THE FOOD SITUATION IN ITS PROBER PERSPECTIVE

By

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Ever since the National Development Council in its ultimate wisdom took the decision to resort to state trading in foodgrains in the country, there has been so much talk by Ministers, Government officials, experts and lay men on the subject that confusion with regard to the real food problem before the country has become worse confounded. Unfortunately, politicians have taken an emotional approach to the problem with the result that elementary facts of the situation are lost to public gaze. To gain the proper perspective, I shall briefly review the food situation in the country and allow you to draw the conclusions whether state trading in foodgrains is or is not an ill-conceived and hasty step which will be utterly ruinous to the larger interests of the country.

India has always been a net importer of foodstuff to the order of about 1.2 million tons a year. Although several committees have been formed from time to time and official measures like the Grow More Food Campaign have been undertaken spasmodically from time to time, the food problem still continues to be the major problem before the country. During the last 17 years, experimentation has taken place from one

extreme to other, from free trade to wholesale controls, One conclusion from these experimentations is outstanding and that is after 11 years of rationing when the late Shri Rafi Ahmed Kidwai as the Union Food Minister decontrolled foodgrains, it proved to be one of the historic and wisest steps that the Government of India had taken in independent India. The forces of individual initiative and enterprise came to the fore-front and the people were relieved from the irksome botherations of a controlled economy. Meanwhile, crores of rupees which would have been wasted in Government distribution of foodgrains were saved. You will realise the magnitude of this waste when you learn that the food administration in the country cost Rs. 10 crores during 1951 apart from a subsidy of Rs. 43.6 crores all of which had ultimately to be paid by the common man.

The total production of foodgrains in India in 1939-40 was of the order of 32 million tons. The production has been increased steadily, especially since decontrol of food. Except for the bad season last year when production of foodgrains receded to 62 million tons, every year there has been an increase in foodgrains. In 1958-59, a record production of over 70 million tons is expected. This is only a conservative estimate. As a matter of fact, it may go well over 71 million tons. Thus in the last 20 years production of foodgrains has increased by nearly 40 million tons. Is this not a tribute to initiative and enterprise of individuals? Only those who refuse to believe what they see can persist in their emotional argument that production of foodgrains has not increased in the country-

This brings us to the important question of foodgrains in relation to demand. Whereas the population of undivided India was 35 crores, today the population of divided India is well over 38 crores. An estimate of population increase of 1.5% per year has proved to be wrong according to recent sample surveys. It is estimated that the population increase is of the order of 2% in rural areas and 4% in urban areas. The increased population and a greater distribution of economic power thus increasing the propensity to consume the first essential requirement of life, namely, food, has posed year after year a food problem. While production has increased by more than 100% in the last 30 years, the scope for still greater increase can be profitably exploited by the Government rather than indulging in fanciful schemes like state trading in foodgrains.

The productivity of Indian farms can be improved considerably. It is a sad commentary on our administrative machinery that irrigation potential created by multi-purpose projects has not been fully utilised and thus the production of foodgrains has been held down at a lower level. For instance, in the D. V. C. not more than 50% of the irrigation potential created has been utilised. Another direction in which the Government can help to augment food production is by providing improved seeds and fertiliser facilities. The problem of uneconomic cattle also needs to be considered seriously. These are all directions in which the Government can concentrate all its energies and fruitfully augment the food supply rather than waste their energies and public funds in striving to achieve the utopia of equitable distribution through state trading

It is not well appreciated that food production today involves millions of farmers scattered all over the country, and the effective distribution of food through primary *mandis* and secondary *mandis* involving a large number of small traders is a remarkable mechanism. Fighting against odds like inadequate transport facilities, millions of these small traders provide an essential service to the country in distributing foodgrains at economical overheads. It is much less than a half truth, in fact is a blatant lie, that food trade today is concentrated into the hands of a few people. In fact, the tendency has been for more and more people to take to this line. For instance, whereas in pre-war years, the rice trade in Bombay was principally in the hands of a dozen major firms who supplied about 90% of the requirements of the country, today there are at least 350 to 400 wholesale rice traders in Bombay city alone. More than one million persons are engaged in the trade at all levels. They depend on distribution of foodgrains for their very livelihood. To introduce state trading in foodgrains is equivalent to terminating their sole means of livelihood and virtually to throw them on the streets.

I take this opportunity to record that barely 2% gross profit (less than 1% nett) is earned by those engaged in foodgrains trade. Politicians who allege 60 to 80% profits in foodgrains trade either do not know the mechanism of the trade or are well versed in the art of inflationary statistics.

At this stage to resort to state trading in foodgrains is to upset the apple cart and to invite grave economic disaster. If further arguments are needed against state trading one has only to refer to the story

of cash crops like groundnut, cotton and jute which showed phenomenal increase in production because they were left to private enterprise. Whereas at the time of partition, the country was deficit in jute to the extent of over 40% of the requirement, today abundant supplies have forced the Government to take steps to purchase and keep stocks to maintain minimum price level.

On the food front, the situation today gives rise to great optimism that the country can tackle the problem effectively without resorting to state trading. Let me emphasise that primarily our problem is one of production of foodgrains and not distribution. Bumper crops of the current year will give a net surplus of nearly 1.5 million tons of rice and  $\frac{1}{2}$  million tons of other foodgrains. Imports of 35 lakhs of tons of rice from Burma during 1959 have been contracted by the Government of India. Another 3 million tons of wheat and other grains under Public Law 480 are expected from the U.S., and other sources. Thus, there will be no less than about  $5\frac{1}{2}$  million tons surplus which should form the basis of an adequate buffer for any contingency in future years. Meantime, the Government should concentrate on improving warehousing facilities thus reducing the present loss of nearly 10% of foodgrains in the godowns. It should pursue in earnest measures to increase food production by providing necessary incentives to farmers. Doctrinaire slogans like co-operative farming and absurdly low ceilings on lands should also be given up. Intensive propaganda for family planning should be carried on to avoid similar situations in future. It will be wise also to desist from further inflationary deficit financing which has had a say in the rise in prices of foodgrains.

Already, nearly Rs. 1,000 crores have been pumped into circulation with an increase in price level of nearly 13%. The present budget proposals envisage additional deficit financing of nearly Rs. 350 crores. Food prices have soared under the impact of heavy deficit financing while Government co-operative credit to farmers of nearly Rs. 200 crores has also accelerated this process by enabling the farmers to hold back stocks. At this juncture to put in another Rs. 400 to Rs. 500 crores of public money into the grains trade by the state trading corporation would have disastrous inflationary effects on foodgrain prices.

It is not my intention to cover all aspects of state trading in foodgrains. I have dealt with the basic facts of the situation and viewed how the existing mechanism of trade built over decades is serving the community adequately. I have said that the major problem before the country is one of production and not distribution of foodgrains; that inflationary deficit financing has raised food prices and that instead of indulging in ill-conceived schemes like state trading in foodgrains, the Government would do well to concentrate its energies on measures to increase the food production and to hold the birth-rate in check. One particular measure on which the Government should concentrate its energies is to improve the cattle wealth of the country. By providing cheap electric power to rural areas, cowdung which is used at present as fuel can be saved in large quantities and utilized as manure for increasing food production. These are but some of the practical measures on which the Government can effectively do a lot instead of devising grand schemes like State Trading in food or from pins to motor cars.

There is one more aspect which is more important than all these considerations and that is the larger question of democracy in the country. State trading in foodgrains places such enormous powers of patronage in the hands of the State that constitutional remedies' would become a mockery. Who would dare to express his personal opinion in a controlled economy where the monolith of the State binds peoples hand and foot with its bureaucratic regulations and redtape, and holds the sole means of livelihood? If our Government has made a hasty decision, as indeed it has, like a truly democratic government, it must have the courage to go back on it. I have no doubt that the welfare of the country and of every individual in the country requires that the decision of state trading in foodgrains should not be implemented. If our policy-makers see any wisdom in these observations and accept them, they will be furthering the cause of economic development and democracy and will earn the gratitude not only of the present generation but also of generations to come.

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## AN ECONOMIST'S APPROACH TO THE FOOD PROBLEM

By

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There are mainly three arguments which can be put forth in support of the need of introducing state trading in foodgrains in India. In the first place, it is believed that the middlemen take away huge profits from this trade, since the consumers' demand for foodgrains is spread over a period of the whole year, while the farmers are forced to sell their products soon after the harvest is over. As these farmers have no withholding capacity, they are forced to sell, and, therefore, the prices they realise are generally low as compared to the prices at which the consumers buy the same foodgrains from traders. The state trading in foodgrains may have been thought out as a remedy to remove this exploitation by the middlemen.

To some extent, perhaps, the price difference in the food-prices, may be wider than what it should normally be, but it can be narrowed down by establishing warehouses all over the country. Perhaps the implementation of the main recommendations of the Rural Credit Survey may go a long way to remove, to the largest possible extent, whatever exploitation there may be in the foodgrain trade by the middlemen. Middlemen's exploitation does not seem to be the main reason for introducing state trading in foodgrains.

In the second place, the state trading may be deemed necessary perhaps in order to bring about the stabilisation of prices. At any rate, this seems to be an **immédiate** cause, if utterances of various leaders are taken into account. It is generally believed that "the prices of foodgrains have soared up suddenly and unduly. Such a rise has endangered the whole fabric of economic planning and this rise is due to speculation, profiteering and hoarding on the part of traders in foodgrains." Surely, there are certain valid reasons for an **anxiety** of this type. For some time in the past, the food prices had gone up while prices of other marketable commodities were more or less stable. Even at several places, although the harvest was reported to be quite good, the prices had gone up at the time of the harvest, when, normally, the prices were expected to be low. There has been a scramble for the purchase of foodgrains between the States, and the deficit States have shown a considerable amount of scare on this score very recently. This has, to some extent, resulted in the great rush for buying foodgrains on the part of the consumers as well as the traders and in the greed for withholding on the part of the producers.

To me it seems doubtful whether the rise in food-grain prices during the Second Five-Year Plan period or even at certain critical times is entirely due to hoarding and speculation by traders. Perhaps it was inevitable for two reasons:

(1) In the general atmosphere of deficit financing, it is but natural that **expectations** about the increase in prices may be aroused which may, without any actual changes whatsoever on the demand or the supply side, result in further rise in prices, and (2) owing

to the inelasticity of demand as well as of supply in agricultural products, the price fluctuations are much wider than what they are normally in other cases. This is much more so when we have a meagre stock of foodgrains with an inability to import food from abroad in the present context of the Indian economy. Thus in the circumstances of the atmosphere of deficit financing, acute shortage of foreign exchange resources, and the general food scarcity in the context of unexpectedly high demographic rate, the consumers on their part may wish to hoard more than their normal requirements. Added to these main causes the existence of a backward sloping supply curve in regard to the marketable surplus in India acts as a contributory cause in the behaviour of prices in India at present. Therefore, one would like to accept these causes as an explanation for the present behaviour of the agricultural prices during the Second Five-Year Plan rather than the tendency for hoarding and profiting on the part of traders in foodgrains. But even if hoarding and speculation and profiteering by traders are the main causes for this objectionable price behaviour, the proper remedy would be to introduce such measures as would minimise the impact of these undue fluctuations in prices. This can be done by introducing a proper system of controls such as the system of licensing of traders, of making obligatory for traders to inform the Government about the places where the stock has been kept and the amount of stock kept by each trader from time to time. Perhaps such a check may be considered enough to **minimise** undue fluctuations which may arise from the hoarding and speculative tendencies of the traders.

If it is argued that such controls do not work properly, and as it is a very difficult task to organise such controls, and, therefore, it is better to go wholeheartedly for the state trading in foodgrains, one can point out that it will be still more difficult to organise state trading in foodgrains, since it requires a more complicated machinery of organisation and secondly, handling trade in foodgrains from the wholesale to the retail level requires a good deal of expert knowledge. People who are handling this type of work will be required to take decisions from time to time and there ought to be a great deal of flexibility in the process of decision-taking in its administrative set-up. By and large, one can say that a centralised government agency is not the proper system of organisation to handle the trading in foodgrains. Perhaps it may be much more easier to introduce controls and avoid as far as possible the undue fluctuations in prices and thus curtail the tendency for profiteering and speculation.

To me it seems that the wholesale traders or the retail traders are not responsible for the price behaviour of the foodgrains in the Second Five-Year Plan and if at all they are, theirs is a very small part. It is mainly due to the income effect of the price changes consequent upon the adoption of deficit financing by the government. It is also inevitable to some extent, in the nature of demand and supply curves in the agricultural products and this is so also when the shift in demand is taking place owing to rapid increase in the population and industrial output. At the most one can say that these influences were accentuated by the actions of traders, but in that case by the removal of traders we cannot do away with these basic causes and hence the State will be required to face them

in spite of the introduction of the state trading in foodgrains. If the part played by the traders is much limited, perhaps it will be appropriate to introduce certain measures of control instead of taking up such a big challenge of introducing state trading in foodgrains.

I may go even further. Supposing the merchants to be mainly responsible for the present conditions in prices, it is still better to deal with the problem through controls rather than through state trading. It will be a sheer waste of human skill and resources if we do not use the expert knowledge of the existing merchants. If it is argued that the government can utilise it by converting ~~them~~ into civil servants, then their nature being what it is, perhaps, there may not be any difference between the free competition and state trading on that score. If these merchants' talents and skill are not utilised, then, India can least afford to start *de novo* for building up the necessary skill for wholesale and retail trade in this regard when the dearth of administrative talent is the limiting factor in the implementation of the Second Five-Year Plan.

There is also a third reason as to why state trading in foodgrains is said to become necessary. It has been recommended as a technique of planning especially to create conditions for successful launching of the Third Five-Year Plan. Surely, an agricultural sector has remained intractable for all the countries seeking industrialisation. The United Kingdom faced it through agricultural revolution and by depending much on import; Russia faced it by introducing the system of collective farming and U.S. faced it by introducing large-scale farming and parity prices. India will also have to devise a scheme to increase production of

foodgrains to meet the increasing needs of industrial population, i.e., some scheme shall have to be devised to assure the marketable surplus for the industrial development. This is much more difficult in the context of the existence of the backward sloping supply curve in India. Any increase in production is likely to be eaten away by the farmers themselves and any increase in the prices perhaps may result in a small supply of foodgrains in the market. This was so in Japan and even as late as the Second World War. In spite of a considerable degree of economic development, Japan had to face this sort of difficulty. For India, this difficulty is much more serious. Perhaps, one may think that the state trading in foodgrains may be considered as a technique of raising the necessary marketable surplus for industrial population.

There is also another question which may also justify the introduction of the state trading and this is concerned with the problem of increasing the tax-efforts from the rural areas. It is commonly believed that at present the developmental expenditure to a large extent is meant for the benefit of the rural areas whereas the existing tax structure and the recent trends in taxation are such that it is not possible to raise enough amount of taxation from the rural areas. There is, therefore, a need to increase tax revenue from these areas. This argument is supported by the fact that in the past, the economic development had been largely made from the contribution of the rural area. The case in point is the land tax in Japan, or collective farming and output tax in Russia. If India wants rapid capital resources, it must depend largely on internal resources and internal resources mean mainly the resources of the rural sector.

Now these two arguments in favour of the state trading in foodgrains appear to be plausible, at first glance. But on closer scrutiny it seems that we cannot support the state trading on the basis of any one of them. For instance, it is wrong to believe that the benefits of developmental expenditure in the rural areas go exclusively to the farmers. The main intention of incurring such expenditure is largely to increase agricultural output and an increase in agricultural output does not necessarily bring benefit to the farmers. If at all there are some benefits to the farmers, they are not commensurate with the increase in agricultural output. The benefits directly or indirectly are reaped by the whole nation and, therefore, one can say that the benefits accrue to the nation as a whole.

Secondly, even on equity grounds one can say that since it is fairly known that the standard of living in the rural areas is considerably lower than the standard of living prevailing in the urban areas such a system of taxation is inequitable.

I may go even further than that. Even if we accept the need of imposing taxes on rural areas, the best way of taxing the rural areas is not in the form of giving them low prices for their agricultural products but to tax them by way of utilising their surplus labour for capital formation. For example, the contribution in the form of voluntary labour in the Community Development Scheme operating in the rural sector is nothing but a type of tax contribution by the rural people. It is true that our efforts in this direction are not so encouraging so far. But there is no reason why

we should not be in a position to step up our efforts to make the scheme of Community Development a grand success and thus get the necessary contribution of the rural areas for the capital formation of the country in the form of utilisation of surplus labour which is considerable in this sector.

It will also be necessary to bear in mind that in the democratic set-up of our society, it will not be possible for the state to make any profits whatsoever in the food trade. The moment it is done, the whole rural population will be involved into a political agitation and perhaps the political stability of the country will be largely endangered, which may lead to the postponement of economic development for some time. Thus, one cannot fully support on any grounds, political or economic, the introduction of state trading with a view to stepping up the tax efforts on the part of the rural areas.

As to the need of raising the marketable surplus by way of state trading in foodgrains, it is also doubtful whether this is a better technique to serve our purpose at this time. It appears to me that it is better to approach the problem on the production side in the first place in order to increase the marketable surplus rather than approaching the problem only as a mechanism of procurement. What is mainly required is that our agricultural policy should be made production-oriented. The availability of food in the rural sector is so meagre that to take away even a small part from them without ensuring an increase in the total output will be a great crime against humanity. It is as if

we are snatching away the loaf or a piece of bread from the hungry mouth. And it is probable that if the sale of foodgrains is left on the voluntary basis, introduction of the monopoly in foodgrains will not make any difference. If the sale of foodgrains is made compulsory, then, it does not fit in with our democratic set-up. Moreover, keeping in view the other changes that are taking place in Indian agriculture, such as the policy of land to the tiller or introduction of co-operative farming or reduction in the rents, etc., the possibility of raising the marketable surplus has been rather made remote. Unless the whole policy is made production-oriented, no effort in the form of state trading in foodgrains is likely to increase even an iota of marketable surplus in India.

Thus, I would like to conclude: (A) That a device to remove the so-called exploitation of the middlemen, by way of state trading in foodgrains at best is redundant. At the worst, it is a waste; (B) as an instrument to prevent inflationary price-rise, it is a step unwarranted either because the fluctuations are not due to an act of wholesalers and retailers, since the other causes are very prominent, or because the remedy could be in the form of control rather than state trading if we consider traders responsible for price-fluctuation; and (C) as an instrument of planning, it is not fair to raise the tax-effort by way of making underpayment to the farmers or as a device of increasing marketable surplus because it is tantamount to taking away a piece of bread from the hungry mouth. The proper approach can be that the whole agricultural policy should be production-oriented, and the implementation of the recommendations of the Rural Credit Survey seems to be more than sufficient in so far as

the needs of the Third Five-Year Plan are concerned. It is only when control over all economic activities is assumed by the state thus sacrificing democracy, state trading may be justified; but, so long as the question of production is more important it is futile to concentrate on procurement of marketable surplus and its distribution. It is better to concentrate first on the production side and then talk of devices for efficient distribution. We cannot put the cart before the horse.



Free Enterprise was born with man and shall survive as long as man survives.

—A. D. Shroff

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