

REPORT OF
THE JHA COMMITTEE
ON FOODGRAIN PRICES
FOR 1964-65 SEASON



DEPARTMENT OF AGRICULTURE
MINISTRY OF FOOD AND AGRICULTURE
GOVERNMENT OF INDIA

REPORT
OF
FOOD GRAINS PRICES COMMITTEE

PREFACE

The Foodgrains Prices Committee was appointed by the Minister of Food and Agriculture on 1st August, 1964, under the chairmanship of Shri L. K. Jha, Secretary to the Prime Minister, to advise him on the determination of the minimum and maximum prices of rice and wheat for the 1964-65 season. The Committee was later asked to suggest prices of coarse foodgrains also for the same season. The Committee submitted its report on the 24th September, 1964. In the light of the recommendations of the Committee and the views of the Chief Ministers and Food Ministers of State Governments, Government decided and announced, on 13th October, 1964, the produce prices for foodgrains as also the maximum wholesale and retail prices for rice for the 1964-65 season.

The Committee was also asked to recommend the terms of reference which would be suitable for an agency to provide advice on a continuing basis, on price policy and price structure in the future. The Committee submitted its recommendations on this aspect on the 24th December, 1964.

The report of the Foodgrains Prices Committee on determination of prices of foodgrains forms Parts I and II of this document. Part III gives the views of the Committee regarding the terms of reference and composition of the Agricultural Prices Commission.

B. SIVARAMAN,

19th October, 1965.

Secretary to the Government of India

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PART—I

DETERMINATION OF PADDY AND RICE PRICES FOR THE
1964-65 SEASON

1—INTRODUCTION

1.1. The Minister of Food and Agriculture appointed on 1st August, 1964, a Committee under the Chairmanship of Shri L. K. Jha, Secretary to the Prime Minister, to advise the Minister of Food and Agriculture on the determination of the prices of rice and wheat for the 1964-65 season. The other members of the Committee were Shri T. P. Singh, Secretary, Planning Commission; Shri B. N. Adarkar, Additional Secretary, Department of Economic Affairs, Ministry of Finance; Prof. M. L. Dantwala, Department of Economics, University of Bombay; and Shri S. C. Chaudhri, Economic and Statistical Adviser, Ministry of Food and Agriculture. Dr. B. P. Dutia, Deputy Economic and Statistical Adviser, Ministry of Food and Agriculture, was co-opted as Secretary of the Committee. The Committee was asked to advise on:

- (a) the determination of producers' prices in respect of the 1964-65 season, first for rice and then for wheat on an all-India basis with such quality-wise and region-wise variations as might be necessary, which are fair and economical and also the reasonable wholesalers' margins, retailers' margins and consumer prices;
- (b) the terms of reference which would be suitable for an agency to provide such advice on a continuous basis in respect of future seasons, the suitable form of such agency, and the kind of personnel it should have; and
- (c) the best manner in which the work of such an agency could be fitted in with arrangements being made for advice on policy in regard to wages, incomes and savings.

Later, the Committee was also asked to suggest prices of coarse foodgrains for the 1964-65 season.

1.2. A questionnaire was issued to the State Governments to obtain information on the present level of producers' wholesalers' and retailers' prices and margins at different stages of marketing at present and under normal conditions. The State Governments were also requested to give their views on the fair and reasonable levels of producers' and consumers' prices of paddy/rice in the 1964-65 season and also the fair and reasonable margins at different stages of marketing. Some leading economists and important foodgrains trading organisations as well as the Bharat Krishak Samaj (Farmers Forum) were requested to furnish their views on the question of determination of rice prices for the 1964-65 season.

1.3. We had discussions with representatives of most of the State Governments, with some economists, including visiting foreign economists, as well as with representatives of important foodgrains

trading organisations and the Bharat Krishak Samaj. Discussions were also held with Ford Foundation experts, who had worked on the problem of prices in India.

1.4. Since about the middle of 1964, the structure of foodgrains prices has been causing a good deal of concern. To deal with this situation, the Government of India have taken a number of decisions of which the following are the most important:—

- (i) Prices of rice for the Southern Zone were brought under statutory control.
- (ii) Food Corporation of India is being formed.
- (iii) An agency to advise Government on a continuous basis in respect of prices of foodgrains in the future is to be set up.
- (iv) The price policy in respect of foodgrains will be eventually integrated with an overall policy in regard to wages, incomes and savings.

1.5. In addition, there are in existence a number of measures adopted at the State levels, such as controlled prices in West Bengal, restrictions on inter-State movement and certain zoning arrangements.

1.6. The evolution of a long-term policy will clearly be the responsibility of the agency referred to in (iii) of paragraph 1.4 above, the terms of reference for which we have suggested in Part III of our Report. Our task, therefore, seems to be that of dealing with what will be a phase of transition from a somewhat disorganised and distorted marketing system to what would be a more stable and better regulated system.

1.7. Before formulating our recommendations, we should like to state our understanding of the trends in the economy which have to be taken into account in evolving a long-term policy. These are:

- (a) The demand for foodgrains, particularly rice and wheat, is on the increase from year to year. This is because population is growing and incomes are rising. There is a long-term trend towards increased levels of consumption as well as substitution of coarse grains like maize, jowar, etc., by wheat and rice. Domestic production, on the other hand, has not been rising as fast as the population during recent years, and the country's capacity to pay for imports is severely limited. In the circumstances, shortages even of a marginal nature, are likely to persist and there is likely to be a steady upward trend in price levels to bring demand and supply into balance.
- (b) The upward trend in prices, although a matter of concern to consumers, can play a helpful role if it has the effect of stimulating domestic production of foodgrains. This stimulus can come about, firstly, by arresting the trend to switch over from food crops to cash crops which has been at work for some years. Secondly, it can encourage the

farmer to adopt improved technology and increase his inputs in the production of food, provided the availability of fertilizers, water, better seeds and other facilities is ensured at reasonable prices. At the same time, it has to be remembered that if high prices do not go to the agriculturist but inflate the profits of middlemen, there will be no favourable impact on production. It is also important that even in the long-term interests of the consumer, the price to the producer should not be lower than what would enable and encourage him to maximise his production.

- (c) In the case of a basic necessity of life like foodgrains, a relatively small shortage can lead to a sharp increase in prices. Once an upward trend in prices becomes evident, there is a tendency on the part of everyone—consumer, trader and producer—to hold larger stocks. This tends to increase inventory demand and to reduce supplies artificially and leads to a further price increase. In a rising market, hoarding becomes more common. Thus, an upward spiral in prices sets-in and a shortage in supply even of a somewhat insignificant nature can cause a major upsurge in prices. There is reason to believe that something of this nature has taken place in the economy since about the middle of 1964. If imports on a large scale were possible to meet shortages, either due to production being inadequate or due to hoarding, the tendency could have been checked. As this is not possible, it seems clearly desirable that such measures of control over the distributive trade should be introduced as would prevent stocks being withheld in anticipation of a price rise or with a view to forcing a price rise. At the same time, the trade should be enabled to discharge its legitimate functions which include carrying stocks from harvest to harvest, and the return to it—whether the operation is undertaken by the State, by private agencies, or by both—should be adequate for this task to be fulfilled.
- (d) Once prices assume a marked upward trend, uncoordinated attempts, at varying levels of authority, Centre, State and District, at reconciling the conflicting claims of producers, consumers and traders, lead to the imposition of restrictions or other impediments to the free movement of foodgrains, resulting in wide disparities in prices in different parts of the country. Such distortion of the price structure can be effectively remedied only by action on the national level. There seems to be a clear need for a machinery to be established to ensure an even flow of supplies from the producer to the consumer and from the surplus to the deficit areas. It should aim at having at its disposal sufficient stocks to overcome temporary shortages and to meet essential needs. Elimination of zonal or inter-State movement restrictions, which is a *sine qua non* of an integrated price structure, will be feasible only if arrangements exist for a continuous watch over trade movements and for timely interventions by Government to ensure that such movements are neither excessive nor deficient.

- (e) In so far as available supplies are less than the consumer demand, a part of the demand must remain unsatisfied. If demand is not controlled, prices rise and the lower income groups cut down their consumption. The alternative to a price rise is some form of rationing, so that shortages may be spread more evenly between different areas and groups with varying income levels.

1.8. It is against this background of considerations that we have approached the task before us. We have also felt it desirable not merely to consider what the prices at different levels should be, but also how they should be made effective in operation.

2.—PADDY AND RICE PRICES FOR THE 1964-65 SEASON

Producers' Prices

2.1. We have conceived of the producers' price as being a minimum price or a support price at which Government should undertake the responsibility for purchasing any quantities that may be offered at approved assembling points. The assembling points will have to be defined in respect of each State and the responsibility of transport to such points should be that of the farmer. The Government should keep itself ready to make purchases at the minimum prices, whenever necessary, and such purchase operations should not be confined only to rail-head centres but should be undertaken at assembling points even in remote and inaccessible areas, where occasions requiring purchase at support prices are likely to arise the most.

2.2. We have referred earlier to the importance of assuring such a price to the producer as would encourage him to maximise his production. At the same time, we have been unable to go along with the view that a mere increase in producers' prices will serve the objective of maximising production. The increase in production of foodgrains, which we aim at, has to be achieved primarily by adopting better techniques of cultivation with increase in productivity per acre rather than by diverting land from other crops which may be of greater value to the economy as a whole. Upto a point, higher prices can help in encouraging the adoption of better techniques of food production and greater use of inputs provided the facilities in the shape of fertilizers, water, better seeds, etc., are there and all that the farmer needs is a better price to make full use of them. Further, the likely effects on the wage-cost structure, the cost of living and the inflationary effects that might follow the fixation of very high producers' prices need also to be kept in view. Apart from these considerations, we have also had to bear in mind that the appointment of the Committee was made in the context of consumer prices which were generally regarded as being too high for the general levels of income prevalent in the country. We feel that the optimum relationship between agricultural prices and the general price level, the relative prices of substitutable crops, as well as the impact of agricultural price policy on the economy as a whole are long-term issues, which will have to be considered carefully while evolving the agricultural price policy on a more comprehensive basis. We have referred to these questions again in the latter part of our Report while recommending the functions of the Agricultural Prices Commission.

2.3. Weighing these factors together and taking into account the average price of paddy during the last harvest (i.e. 1963-64) as well as in the previous three harvests (i.e. 1960-61, 1961-62 and 1962-63) and also the recommendations of the State Governments, we have

arrived at producers' prices of paddy for the 1964-65 season, which we regard as fair and reasonable*. Table 'A' sets out these prices.

2.4. The prices recommended by us, as we have said, are in the nature of the minimum which should be assured to the farmer by support operations. This, however, does not imply that the producers' price would be kept down to the minimum level, and, subject to the price structure for the consumer and at other intermediate levels to which we refer below, not being raised, there need be no reason why the producer should not get somewhat better prices. Prices which we recommend for wholesalers and retailers are such that the producers of paddy may be able to secure a rupee or two more than the minimum prices which we have proposed. We would also add that if, in any particular part of the State, a higher price is justified on special considerations, we would not be averse to the minimum being raised by a rupee or so. Thus, we were told that in West Bengal some of the land under jute has successfully grown a second crop of paddy and got quite a good yield. To encourage such double cropping, a higher price for the areas in question could justifiably be announced before the time for sowing comes.

2.5. Finally, we would point out that while the fixation of maximum prices for wholesalers and retailers should, in our view, keep paddy prices from rising too high and we have, therefore, refrained from recommending any kind of a maximum price for the producer, if there are signs that the prevailing price of paddy is tending to rise by more than Rs. 2 per quintal, the declaration of stocks by producers and compulsory procurement at that price should not be ruled out, if consumer prices are to be maintained.

2.6. In a commodity like rice, where innumerable varieties exist, we have not found it possible to work out prices for all varieties. Instead, we have recommended the producers' price for only one important coarse variety of paddy in each State. The detailed working out of the commensurate prices for other varieties included in the coarse categories as well as of the medium, fine and super-fine categories of rice should be entrusted to the State Governments, who may work out the prices, keeping in view the normal marketing differentials, as well as the differentials allowed in the maximum prices, wherever fixed.

2.7. Before we end our discussion about the paddy prices, we feel necessary to make a reference to the possibility that there may be

*One of the problems to which it has not been possible, in our opinion, to find a really satisfactory solution is the relationship between Madhya Pradesh prices, on the one hand, and Maharashtra-Gujarat prices, on the other. Maharashtra Government had already, quite some time back, announced a minimum price for paddy of Rs. 41.00 per quintal, while Gujarat had in view a somewhat higher price. The price of paddy which we are recommending for Madhya Pradesh is Rs. 33.50 per quintal, the same as for Orissa. The disparity between this price and the price which Maharashtra and Gujarat had in view is so great that we could not but agree with the point made by the representative of Madhya Pradesh Government that with such a tremendous price difference, the Madhya Pradesh paddy would be in danger of being smuggled across the border. We have thought it fit to recommend a lower minimum of Rs. 30.00 per quintal for Maharashtra and Gujarat, which is the highest fixed for any State. Even so, the Madhya Pradesh Government's point remains.

a tendency on the part of some sections of the trade to buy up paddy from the producer in order to hoard it in anticipation of a price rise. We feel that in order to curb such a tendency, which would interrupt the smooth flow of rice into the markets for consumption purposes, the Government should not hesitate to requisition paddy stocks from the trade if circumstances warrant it.

Wholesale Prices

2.8. Having suggested minimum prices at reasonable levels for the producer, we now proceed to consider the measures necessary to ensure reasonable prices for the consumer. The paddy which the producer sells is converted into rice by mills located in most of the producing areas. In the process of milling, there are certain losses in terms of weight, partly on account of drilage, but mainly on account of removal of paddy husks, as well as breakages in the process of milling itself. The miller, furthermore, has to recover his actual cost of processing and to get a reasonable return on his capital. The rice after milling has to be bagged and sewn before it is ready for despatch. In some States, the millers themselves buy the paddy and convert it into rice for sale on their own account. In other States, wholesalers get the paddy and have it converted into rice by millers. The estimates which we have received from the State Governments of the cost of milling do not show any uniformity. This is partly because there are some variations in costs and partly because of the different basis on which costs have been computed by the State Governments. We have felt that for the determination of a fair ex-mill price, it is not necessary to establish a particular figure as the cost of milling. In our view it would be best to fix a maximum price at the ex-mill stage which would not only cover the costs for all the operations involved plus a reasonable margin of profit, but also leave a cushion to absorb variations in producers' prices which are in the nature of a minimum. At the same time, the margin should not be too large as otherwise it will not only raise paddy prices beyond the levels we consider desirable, but also tend to push up consumer prices which we wish to avoid.

2.9. In the past, many States have been procuring or requisitioning rice from the millers at artificially low prices. It was tacitly understood that the millers will compensate themselves for the loss on procurement by raising prices well above costs for the rest of their sales in the open market. We do not consider such an arrangement to be in the best interests of stabilising rice prices on an all-India basis.

2.10. Table 'B' gives our recommendations regarding what we call ex-mill wholesale prices for bagged rice of specified varieties, inclusive of taxes paid at earlier stages. In determining them, we have taken into account the minimum prices which we have recommended for the grower, the possibility of grower's getting a rupee or so more per quintal, the past relationship between wholesale paddy prices and prices at the milling centres, as well as other relevant data which we have been able to collect. As in the case of producers' price for paddy, we have recommended the maximum wholesale price for an important variety of coarse category of rice

only in each State. The detailed working out of the corresponding prices for other varieties and other categories of rice should be entrusted to the State Governments, who may keep in view the normal market differentials as well as the differentials allowed in the procurement/maximum prices, wherever fixed. The maximum wholesale prices recommended by us should apply uniformly to the principal assembling markets which provide bulk of the supplies needed for the major consuming areas in the State or outside. For other assembling markets, the State Governments may, if necessary, allow small variations in these prices depending on local conditions.

2.11. Although the prices in Table 'B' have been shown as ex-mill prices, they should apply not only to millers, but also to wholesalers in that area. The wholesale price level at any particular place must be the same whether the stocks belonged to or were held by the trader, the miller, the producer or any other agency. These prices are in the nature of a maximum. We have provided for the producers' prices to go up somewhat above the minimum. At the ex-mill level, we would expect that the bulk of transactions would take place below the maximum prices which we have suggested. Again, just as we have recommended that if prices tend to fall below the minimum for producers, Government should enter the market to support them, we consider it necessary that to ensure that wholesale prices do not rise above the ceiling, Government should be prepared to requisition stocks.

2.12. Requisitioning apart, we feel that Government or better still the Food Corporation of India, should try to purchase, by negotiation, at prices below the maximum, fairly large quantities of rice soon after the harvest. While the maximum prices which we have recommended should be notified, Government's ability to enforce them particularly in the lean season will depend not so much on detecting and penalising sales at higher prices, as on their command over stocks which can be released into the market when and where necessary. Since the price which will be paid for acquiring stocks from the millers will not be artificially low, Government should have no hesitation in acquiring a fairly high proportion of the rice from millers and wholesalers, the limitations being storage facilities on the one hand and the desirability of ensuring adequate availability for current consumption through trade channels, on the other.

2.13. Another point to emphasize is that Government's power of requisitioning should be used not merely to meet their own requirements of stocks, but also to ensure adequate movement at or below the maximum prices from the surplus to the deficit areas, whether within the State or across the State boundaries.

2.14. At the receiving end in the main consuming centres, wholesalers have the task of obtaining supplies from the mills or wholesalers in producing centres and selling them to the retail trade. These prices should provide for the actual costs of transportation and other levies and incidentals, plus the margin of gross profit which will enable the wholesaler to meet his establishment and other costs. The gross margin to be allowed to the wholesaler should in our view vary from 1 to 2 per cent, the larger wholesalers with a

sizable turnover getting less than the smaller wholesalers whose turnover is lower. Taking into account transport costs and these margins, maximum prices should be fixed by State Governments and at these prices they should not hesitate to use power of requisitioning to ensure that the maximum prices are made effective and that supplies are not held back.

Retail Prices

2.15. Neither the wholesale price nor the farmers' price would remain stable without effective control at the consumer level. We feel that there should be a maximum retail price, which will be a statutorily fixed price beyond which the retailer will not be allowed to sell to the consumer. We consider a gross margin of 5 to 8 per cent inclusive of all costs and profits over the relevant wholesale price to be adequate for the retailer. The costs borne by the retailer vary as between different places on account of various factors, particularly the size of the town. In larger cities higher margin would be justified than in smaller towns. The State Governments should fix the actual margins for the retailer in different places, in the light of the local conditions.

2.16. We have worked out for selected consuming centre illustrative maximum retail prices on the basis of the maximum ex mill wholesale prices given in Table B, after taking into account the transport costs and other incidental charges as well as after allowing for reasonable margins for the wholesaler and the retailer. These maximum retail prices are given in Table C. However, these prices are more of an illustrative nature and the State Government can, in order to allow for variations in local conditions and in the source of supply, make necessary adjustments in them. Apart from these consuming centres for which prices have been illustrated in Table C, we feel that in fixing wholesale and retail prices, the State Governments should not leave any area uncovered. If prices are not fixed for some areas, there might be a tendency for stocks to move to places where prices are not controlled.

3.—MEASURES FOR SATISFACTORY IMPLEMENTATION OF PRICE POLICY

3.1. The fixation of wholesale and retail prices of rice, though an important requisite for holding the price line, will not in itself be adequate to keep prices under check. We feel that in order to implement these prices effectively, it is necessary to take a number of other steps, the more important of which we discuss in the following paragraphs:

Introduction of Rationing in Major Cities

3.2. For prices at consumers' level to remain within the statutory limit and even more to prevent stocks being cornered by private individuals either to provide for their own consumption or for sale at profit later on, we consider it necessary that gradually in cities with a population of more than one million, rationing should be introduced. The concept of rationing meets with strong psychological resistance. People are prepared to put up with it in an emergency but not as a long-term measure. The situation we are dealing with is, however, likely to last for a number of years in view of the mounting pressure of demand on foodgrains prices. We feel that, to begin with, rationing should be introduced as early as possible in the big metropolitan cities of Bombay and Calcutta which are both situated in the deficit States and which exercise a great pull on the market prices. The representatives of these State Governments with whom we had discussions, were also favourably inclined to this suggestion. In other cities with population of more than one million, some form of modified rationing should be introduced so that gradually they could also be put on statutory rationing as and when required.

3.3. We feel that, to be popular, the ration shops should not be modelled on the kind of establishments which functioned during the war. The function and purpose of ration shops may be two-fold. Firstly, they should ensure supplies at modest prices of coarse rice to meet the requirements of lower income groups. Secondly, for those who can afford to pay better prices for better quality, every opportunity to buy such quality should be provided, subject only to limitations of quantities to be supplied. Thus, for people who are better off, there should be no objection to fine and super-fine qualities of rice being supplied at appropriately high prices. There should also be the freedom, as far as stock position permits, to buy a month's requirements at a time instead of buying ration weekly.

3.4. In order to avoid smuggling into the rationed areas from outside, it is important to provide for a safety valve in the rationing system so as to take care of genuine requirements of the people, e.g., guests who come from outside and similar other contingencies. We, therefore, feel that in order to meet such requirements, supplementary rations at 20 per cent higher prices may also be given against

ration cards, provided the stock position permits. The Rationing Authority should also have the freedom in respect of the better qualities of rice, to adopt commercial principles in order to equate demand and supply. Thus, if a particular variety is selling out too fast, its price could and should be raised to curb the demand. The extra profit thus made can be used to bear the costs of establishment and even to provide cushion against losses. Supplies of imported foodgrains should also be sold through ration shops at prices which would neither make them unduly attractive nor remain unsold in competition with domestic supplies.

Low Price Shops and Fair Price Shops

3.5. In cities which do not come under rationing, maximum prices at the retail level can be enforced partly by fixing statutory prices and partly through fair price shops. However, the prices at which the imported and locally procured foodgrains are distributed through fair price shops are, at present, very much out of tune with the prevailing level of market prices. This leads to several malpractices as well as an uneconomic use of foodgrains distributed through them. Artificial cheapening of imported foodgrains also leads to the displacement of inferior foodgrains which is not desirable. It is, therefore, necessary that the prices of imported grains should fit into the broad pattern of prices of indigeneous cereals. This should not preclude the setting up of special Low Price Shops where necessary, to cater for identifiable low income groups, where foodgrains would be distributed on the basis of numbered identity cards according to the quotas fixed. Such Low Price Shops would be open only to those persons who earn less than a stipulated monthly income. However, in order to guard against malpractices, the quantities distributed at subsidised price per head should be limited by quotas which are well within the consumption requirements of an average individual of the income groups concerned.

Acquiring Control over Adequate Stocks

3.6. For the effective implementation of the maximum wholesale and retail prices as well as for fulfilling the commitment of Government to supply adequate foodgrains to the rationed cities, it is necessary that Government should have adequate stocks. One of the important sources from where Government can acquire stocks is imports of both rice and wheat from abroad. At the same time greater reliance will have to be placed on the purchases made by Government from domestic production, particularly in the case of rice, which is not available in adequate quantities under favourable terms like those of PL 480. Even otherwise, the total availability of rice in the international market is limited. It is, therefore, necessary that Government should acquire adequate quantities out of the 1964-65 rice crop so as to feed not only rationed areas but also to meet the requirements of the low price shops as well as fair price shops and also to build up adequate stocks that may be deployed to make the maximum prices effective. We, therefore, feel that till such time as an adequate machinery is set up through which the Government can acquire stocks by open market operations, it will be necessary to continue and even intensify the Government

purchases by levy on millers and wholesalers. However, in order to avoid the undesirable effects on the consumers' prices, such purchases by the Government should be made not at artificially depressed prices but at prices which are more realistic and in line with the market conditions.

3.7. We welcome the setting up of the Food Corporation of India. We feel that the Food Corporation should start functioning as early as possible. This will enable Government to undertake trading operations, through which it can influence the market forces, and thereby minimize the use of statutory controls for enforcing the maximum wholesale and retail prices. The Corporation will, we hope, find it possible to secure the cooperation of those in private trade and appoint those traders, who cooperate with the Corporation, and accept its discipline, as its agents along with Cooperative Societies of producers and consumers.

Zonal or Inter-State Restrictions on Movement of Foodgrains

3.8. If price differentials between State and State were ideally adjusted, the movement of foodgrains from surplus to deficit States would be just sufficient and neither excessive nor too little. In formulating our recommendations, we have tried, as far as possible, to provide for such an inter-relationship of prices between surplus and deficit areas. We, however, recognise that until the actual prevailing prices in different States have been suitably adjusted, a sudden and total withdrawal of regulation of inter-State movements might create problems. Some of these may be due to the initial difficulty involved in the adjustment in thinking as well as action with the price pattern recommended by us. It may, therefore, be necessary to proceed cautiously by stages towards free movement of foodgrains. What is important, however, is that restrictions, if any, should be in pursuit of all-India price policy and not imposed by State Governments in their individual discretions.

3.9. As a first step, a system will have to be devised by which Government will have detailed information regarding all inter-State movements of foodgrains. This information should be quickly analysed along with the behaviour of prices so as to identify promptly movements unwarranted by the demand and supply position. Further, with a view to checking unwarranted movements, the inter-State movement should be freely permitted only through licensed traders. Government will also be in a position to influence the inter-State movement with the help of the stocks in its possession. If sufficient stocks are acquired by Government, as visualised by us, it would, in fact, be a dominant partner in the inter-State movement. If, however, at any time it appears that attempts are being made to misuse the freedom of movement for speculative purposes, Government should be free to impose such restrictions as may be necessary for the effective implementation of its price policy. We are of the view that any regulation of inter-State movement, that might be considered necessary, should be done by the Central Government keeping in view the requirements of both the surplus and deficit States.

Regulation and Licensing of the Wholesale Trade and Strengthening of the Administrative Machinery in the States

3.10. It is very necessary that the regulation and licensing of the wholesale trade in foodgrains should be streamlined and more effectively enforced. For this purpose, the administrative machinery in the States should be strengthened adequately and quickly to cope with the new burden that would be imposed on it in enforcing the maximum wholesale and retail prices. The introduction of statutory rationing in the metropolitan cities, as recommended by us, would also increase the responsibility of the administrative machinery in the States. The creation of an adequate administrative structure as quickly as possible is one of the basic pre-requisites for the successful implementation of the scheme of enforcing wholesale and retail prices recommended by us.

3.11. The question whether the prices recommended by us should be allowed to vary over the season or not, has been considered by us at some length. We feel that as the producers' price is a minimum support price, it should remain fixed for the entire season. As regards the maximum wholesale and retail prices recommended by us, there is sufficient margin for the trade to live with them not only during the immediate post-harvest months, when purchases and sales go on simultaneously, but also for a period of time thereafter. We recognise, it is not only traditional but logical, that prices in the lean season should be somewhat higher than in the post-harvest period to take care of the cost of financing and storage. What this difference should be would depend greatly on the cost at which credit is available to the trade. Since the cost of financing is ultimately borne by the consumer and not by the trade, it would be better if the licensed traders are encouraged and helped to rely more on bank finance than on the non-banking sector. We have not made any specific recommendation regarding the extent of variation in maximum prices between the post-harvest and the lean periods as this problem could be considered by Government in another few months when more data would be available. In any event, the fluctuation should be less than it has been in 1963 and 1962 and the abnormal experience of 1964 should not be repeated.

3.12. In Tables, A, B and C, where the producers', wholesalers' and consumers' prices have been indicated by us, we have not included Assam, Jammu & Kashmir and the Union Territories of Himachal Pradesh, Manipur, Tripura, Goa, Daman and Diu. Some of these States have hilly areas where prices have to be fixed on local, rather than all-India, considerations. There is not much movement of rice on trade account either. We, therefore, feel that the State Governments concerned should themselves evolve appropriate price levels, taking into account both local conditions and the prices recommended by us in adjacent States. So far as the Union Territory of Delhi is concerned, we have not indicated any producers' price, because not much rice is produced in Delhi. In so far as the Delhi Administration feels it desirable to declare a minimum price for paddy, our recommendation for Punjab, U.P. and Rajasthan of Rs. 35 per quintal would hold good. The consumer price of rice which we have worked out for Delhi in Table C, is based on supplies drawn from Punjab.

3.13. The overall picture of the prices that we have recommended, is that in so far as the grower is concerned, he will be assured of a minimum price of rice which is generally better than the average prices received by him during the post-harvest period in the 1961-62, 1962-63 and 1963-64 seasons. We feel that if this price level is assured to the grower for a longer period, say, for 3 to 5 years, it will encourage him to undertake necessary investments conducive to the raising of the productivity of rice lands. In our view, a guaranteed support price is more important than high but uncertain prices. As regards the consumer, the prices recommended by us would give relief to him from the peculiarly high prices prevailing during August-October 1964 and also reduce the large fluctuations in prices between State and State and month and month.

PART-II
PRODUCERS' PRICES FOR WHEAT, COARSE GRAINS AND GRAM

1. As regards the producers' prices of wheat during the 1964 season, we had a quick consultation with all the important wheat producing States, on the basis of which we feel that the following should be the minimum producers' prices of wheat for the 1964 season:

Red Variety	(Rs. per quintal)
Common White Variety	45.50
Superior Variety	48.00
	50.75

2. The above prices are roughly equal to Rs. 17.00, Rs. 18.00 and Rs. 19.00 per maund for the three varieties mentioned. The corresponding support prices hitherto in force for the 1963-64 season are Rs. 13.00, Rs. 14.00 and Rs. 15.00 per maund respectively. The proposed minimum prices would thus be higher by Rs. 4.00 per maund which we consider to be reasonable.

3. We were also asked to report quickly on the prices of coarse grains as well, e.g. jowar, bajra, maize and gram for the 1964 season. As we had very little time to do this, we had no opportunity to call for the relevant information from the States, much less consult them. However, on the basis of the data on prices of the coarse grains, as available with the Directorate of Economics and Statistics, Ministry of Food and Agriculture, as also the relations between the support prices for these grains and rice and wheat fixed in the past, we feel that the following should be the minimum producers' prices for the 1964-65 season at the assembling centre in all the producing States:

Jowar	Yellow	(Rs. per quintal)
		38.00
		(with suitable discount for red and premium white varieties)
Bajra	F A Q	40.00
Maize	F A Q	36.00
Gram	F A Q	40.00

4. For the 1963-64 season, the all-India support prices fixed for yellow jowar and white jowar are Rs. 22.78 and Rs. 24.12 per quintal. The prices recommended by us do represent a substantial increase but we consider it reasonable in the present circumstances. The maximum prices at the assembly centres may be Rs. 1 or Rs. 2 per quintal higher, depending on local conditions than the prices recommended above.

5. We have not recommended the maximum prices of wheat and coarse grains at subsequent wholesale and retail stages, as we

neither the time nor the opportunity to consider these questions in full. We suggest that the Agricultural Prices Commission should deal with these questions after it is set up.

6. We would like to emphasise the importance of maintaining a proper relationship between the prices of the superior grains and the prices of coarse grains. If the gap between them begins to get narrower, it should be treated as something of a danger signal. If the prices of coarse grains rise above the prices of superior grains, it would be a situation in which the price policy would need to be re-examined.

PART-III

TERMS OF REFERENCE AND COMPOSITION OF THE AGRICULTURAL PRICES COMMISSION

1. We have been asked to recommend the terms of reference which would be suitable for an agency to provide, on a continuing basis, advice on price policy and price structure in future, the suitable form of such an agency and the kind of personnel it should have. We have also been asked to give our views regarding the best manner in which the work of such an agency could be fitted in with arrangements being made for advice on policy in regard to wages, incomes and savings. Our views on the terms of reference and composition of such a long-term agency, i.e., the Agricultural Prices Commission, are given in the following paragraphs.

2. For the 1964-65 season, we have been asked to advise on the prices of paddy, rice, wheat, jowar, bajra, maize and gram. Thus, while our terms of reference pertained only to important foodgrains, we feel that as the Agricultural Prices Commission would be advising on a long-term basis, it is necessary that it should be concerned with the price policy of all important agricultural commodities and not merely foodgrains. Though foodgrains constitute the most important item of agricultural production in India, there are many other agricultural commodities which are in short supply and whose production may be expected to respond favourably to a positive price policy. Already, in the case of several such commodities, e.g., cotton, jute and sugarcane, Government announces prices every year. In the case of some other commodities, e.g., oilseeds, prices are sought to be influenced through other measures. It is desirable that the price policy of all agricultural commodities should come within the purview of the Agricultural Prices Commission, so that a balanced and integrated price structure can be evolved and the claims of the competing crops on limited resources can be resolved in the perspective of the over-all needs of the economy. To start with, the Agricultural Prices Commission should be vested with the responsibility of advising on the price policy for important agricultural commodities, like paddy, rice, wheat, jowar, bajra, maize, pulses, sugarcane, oilseeds, cotton and jute. If the question of appropriate price policy in respect of any other agricultural commodity comes up for consideration, Government should, in the interests of the integrated price policy, refer the matter to the Agricultural Prices Commission to obtain its views.

3. The Commission will have to keep in view that one of the most important problems facing the national economy is that of augmenting agricultural production in a big way. This could be brought about mainly through the adoption of improved technology and additional investment required for the purpose. To the extent that the price policy can assist this process, it should be its major objective to do so. However, we should like to mention that while the adoption of improved technology would entail larger expenditure, it

does not follow that this would necessarily result in higher cost per unit on output. Generally, it would be reasonable to expect that improved practices and technology would reduce rather than increase per unit cost. However, the possibility of an increase in unit cost cannot be ruled out. Besides, there is the factor of risk and uncertainty involved in the adoption of new technology. The Commission should study and ascertain the current position obtaining in this regard in India. If the Commission is convinced that some measure of monetary incentive would be necessary to induce the cultivator to adopt improved technology, it should consider whether the same should be provided through schemes which would be cost reducing—such as, for example, supply of improved varieties, pesticides, fertilizers, etc., at cheaper rates—or through increase in prices.

4. The aim of the price policy should also be to encourage optimum utilisation of land so that the climatic and soil variations in different regions are exploited to the best advantage of the economy. It is necessary to distinguish between productivity—in input-output terms—and profitability, which depends upon the additional factor of current relative prices. In an economy like ours, in which price controls operate for some commodities and not for others, profitability of a crop may have no direct relationship with the productivity of the crop or the best use of land. The shift in the cropping pattern due to partial price controls needs to be avoided. This is an important aspect of the price problem which the Commission will have to study.

5. The Commission will also recommend an appropriate relative price structure among different crops. The main consideration should be to avoid the year to year excessive diversions of land and resources from one crop to another, which are not technically and economically warranted to ensure efficient use of land. For this purpose, it would be necessary to assess the demand and supply conditions of each crop at the beginning of the year and then arrive at the required marginal adjustments in prices so as to achieve as near a balance as possible between the expected supply and demand conditions during the following year.

6. In recommending relative prices for different agricultural commodities, the Commission should take into consideration conditions in international markets. In assessing this impact on domestic markets, the possibilities in regard to imports and exports of agricultural commodities become relevant.

7. In view of the fact that agriculture occupies a predominant place in the national economy, the level of agricultural prices has a decisive influence on the general level of prices in the country. While prices have an important role in providing incentive to the farmer for adopting new technology, there is a limit beyond which the rise in prices may not be considered desirable from the point of view of the economy as a whole. The Commission should, therefore, keep in view the likely effect of the price policy on the rest of the economy, particularly on the cost of living, level of wages, industrial cost structure, etc. We would like to add that while prices influence the return to the farmer, gross incomes also depend on the

volume of production and the net income on the cost of farm operations. Increased efficiency in the use of inputs, such as land, water, fertilizers, etc., will raise incomes without an increase in prices. It is a better economic policy to ensure higher incomes through more efficient production, i.e., by raising yields and reducing the unit cost, than through higher prices. It is necessary to ensure that higher prices, which may be recommended for agricultural produce, do not merely result in higher prices of agricultural inputs, either because of the inelasticities of domestic production, or the non-availability of foreign exchange for imports. If higher prices get quickly reflected in higher costs, the incentive effect of the former will disappear, resulting merely in cost inflation.

8. It is necessary to emphasise that the effectiveness of a price policy as an incentive to higher production would depend upon several other factors—some general to the whole economy and others more particular to agriculture. To the first category belong the fiscal and monetary policies, which, though obviously beyond the purview of the Commission, will have intimate bearing both in its recommendations and their implementation. But we feel that the Commission should have the latitude to convey its views to Government in regard to such non-price aspects pertaining to agricultural policy as have a direct impact on agricultural production and hence on agricultural prices.

9. One of the important functions of the Commission should be to see that the benefits of the price policy accrue to the producer on the one hand and the consumer on the other. For this purpose, the Commission will aim at ensuring that marketing services are made available at reasonable costs. In order to achieve this objective, the Commission would look into the present methods and costs of marketing of agricultural commodities in different regions, suggest measures to reduce costs of marketing and recommend fair margins. Since imported foodgrains constitute an important part of the total availability of foodgrains in the country, the Commission should recommend the issue prices for imported foodgrains also. The Commission should be free to suggest the measures which in its view should be taken to make the price structure recommended by it effective. In this context, the Commission may examine the bearing of the system of procurement, inter-State movement, issue prices of imported foodgrains, system of fair price shops and rationing, buffer stock operations, etc. on the prices of foodgrains and suggest possible improvements. The Commission will also have to keep itself in touch with the Food Corporation of India.

10. While making recommendations, the Commission should keep in view financial and fiscal limitations of Government so that the recommendations are not found to be impracticable. It would be a good convention if the recommendations of the Commission having financial and fiscal implications are given separately from other recommendations which do not have such implications. Moreover, in a sensitive field like prices, the Commission should continuously watch the effects of its recommendations as implemented, so that, if necessary, it can make appropriate suggestions to Government for mitigating the stresses and strains that might develop. The determination and implementation of prices is an intricate and complicated

exercise, and the expert advice of the Commission on a continuing basis to the Central and State Governments would be highly valuable.

11. For evolving a scientific basis for determining the prices of different agricultural commodities, the Commission would require technical data and results of research studies on a number of items, e.g., prices, costs and margins at different stages of marketing, normal trade patterns, additional costs and benefits from improved techniques, etc. The Commission should review the present arrangements for relevant studies and for the collection of information regarding agricultural prices and other related data and suggest improvements in them. The Commission may make suitable arrangements through research institutions for the collection of additional data and the conduct of relevant studies which may be deemed necessary and useful for discharging its functions effectively.

12. As regards the best manner in which the work of the Commission could be fitted in with the arrangements being made for advice on policy in regard to wages, incomes and savings, we have not been able to formulate any precise delimitation of functions, mainly because the thoughts of the Steering Group for Policy in regard to Wages, Incomes and Savings have not yet crystallised. However, the Commission should keep a close liaison with the work of this Steering Group so that the necessary coordination between the agricultural price policy and income policy is achieved. Likewise, the Commission should keep in touch with other bodies set up by Government in connection with matters having a bearing on prices and production, e.g., the Food Corporation of India.

13. Taking into account the functions of the Commission as we have envisaged in the preceding paragraphs, we feel that the terms of reference of the Agricultural Prices Commission should be as follows:—

“(1) To advise on the price policy of agricultural crops, particularly paddy, rice, wheat, jowar, bajra, maize, pulses, sugarcane, oilseeds, cotton and jute, with a view to evolving a balanced and integrated price structure and resolving the claims of competing crops on limited resources in the perspective of the overall needs of the economy.

(1.1.) While recommending the price policy and the relative price structure, the Commission may keep in view the following:

- (i) The need to provide incentive to the producer for adopting improved technology to the widest possible extent and for maximising production;
- (ii) The need to encourage optimum utilisation of land;
- (iii) The need to achieve as near a balance as possible between the expected supply and demand conditions of different crops;
- (iv) Import and export possibilities;

- (v) The likely effect of the price policy on the rest of the economy, particularly on the cost of living, level of wages, industrial cost structure, etc.
- (12) The Commission may also suggest non-price measures to facilitate the achievement of the objectives set out in (1) above:
- (2) To recommend from time to time, in respect of different crops, measures necessary to make the price policy effective.
- (3) To examine where necessary, the prevailing methods and costs of marketing of agricultural commodities in different regions, to suggest measures to reduce costs of marketing and to recommend fair margins.
- (4) To keep under review the developing price situation and to make appropriate recommendations as and when necessary within the framework of the overall price policy.
- (5) To review the arrangements for relevant studies and for the collection of information regarding agricultural prices and other related data and suggest improvements in the same.
- (6) To advise on any problems relating to prices and production that may be referred to it by Government from time to time.

The Commission will maintain close touch with other bodies set up by Government in connection with matters having a bearing on prices and production, such as the Steering Group on Wages, Incomes and Savings Policy and the Food Corporation of India.

14. In order that the Commission is able to carry out the above functions adequately and fully, we feel that it should be a continuing body. The Commission should consist of a Chairman and at least four members. It should be an expert body and its members should be selected on the basis of special qualifications. One member should be an economist who has interest in and knowledge of agricultural economic problems. The second member should be a person, who has adequate technical background as an agronomist, or as a farmer on a substantial scale, or as an officer of the Agriculture Department having a long experience of the problems of agriculture. The third member should be an administrator, preferably with a long experience of food and agricultural administration and with adequate knowledge of the field problems, so that he can visualise the practical difficulties involved in the implementation of the recommendations of the Commission. The fourth member should be the Economic and Statistical Adviser to the Ministry of Food and Agriculture, as a large part of the data required by the Commission will have to be obtained from the Directorate of Economics and Statistics under him. The Chairman of the Commission should be a reputed person, who will command confidence of all sections of the public, and who is known for fairmindedness and practical approach. The Commission should have a Secretary, who should be a technical person with adequate

knowledge and background of the formulation and working of the agricultural price policy. Though, as we have recommended earlier, the Commission should be established on a continuing basis, we have not been able to form any judgment as to how many of its members should be on a whole-time basis. The Chairman and Secretary should, anyhow, be appointed on a whole-time basis. It could be considered, in the light of the work-load, whether some other members should also be appointed on a whole-time basis. The Commission should be set up, to begin with, under a Resolution of the Government of India in the Ministry of Food and Agriculture with effect from 1st January, 1965 with a separate budget-head. The question whether the Commission should be made a statutory body may be examined later in the light of its actual working for a year or so.

15. While the Commission should use the relevant data collected in the Directorate of Economics and Statistics, Ministry of Food and Agriculture, it should also have an appropriate secretariat of its own which would enable it to discharge its functions effectively. The secretariat should have, on its staff, such technical persons as would be able to undertake such analytical studies from time to time as may be required by the Commission in the course of its working. It should have an administrative wing as well. As already mentioned earlier in para 11, for field studies, surveys, etc., the Commission will depend on other agencies and research bodies engaged on such work.

16. We would like to express our thanks to Dr. B. P. Dutta who, as Secretary, rendered valuable assistance to the Committee throughout its deliberations. We are also thankful to the Directorate of Economics and Statistics of the Ministry of Food and Agriculture for all that they did to facilitate our work.

L. K. JHA

T. P. SINGH

B. N. ADARKAR

M. L. DANTWALA

S. C. CHAUDHRI

24th December, 1964.

TABLE 'A'

Minimum Wholesale Prices of Coarse Paddy

(Rs. per quintal)

State	*Average wholesale prices of coarse paddy during the post-harvest season of			*Annual Average of wholesale prices of paddy during the year 1963	Wholesale price of paddy as suggested by the State Government for 1964-65	Minimum wholesale price of coarse paddy recommended by the Committee for 1964-65	Variety
	1961-62	1962-63	1963-64				
Andhra Pradesh	34.92	31.11	35.74	33.92	40.00	36.00	Abkullu
Bihar	31.59	31.25	37.34	33.29	37.50	35.00	Coarse
Gujarat	31.45	36.71	41.92	36.69	42.50	39.00	Sathi
Kerala	N.A.	N.A.	44.74	..	44.62	39.00	Palghar Mantu
Madhya Pradesh	26.41	28.33	34.65	29.80	33.00	33.50	Gumaria
Madras	39.42	36.00	39.67	38.36	38.91	38.50	Karaisamba
Maharashtra	35.97	33.58	40.82	36.79	41.00	39.00	Jada
Mysore	36.50	36.50	34.00	35.67	36.00 to 37.00	36.50	Dabbansala
Orissa	27.32	34.92	32.25	31.50	33.50	33.50	Common
Punjab	26.24	28.33	32.16	28.91	N.R.	35.00	Beguni
Rajasthan	32.50	31.75	35.00	33.25	33.00	55.00	Sotnersari
Uttar Pradesh	27.69	26.88	31.10	28.56	39.00 to 42.00	35.00	Grade III
West Bengal	31.83	41.65	40.53	38.00	37.51	37.50	Common

*Average of the lowest and highest wholesale prices during the post-harvest season at selected assembling markets, as furnished by the State Governments in their replies to part I of the Questionnaire.

**Based on the data collected in the Directorate of Economics and Statistics, Ministry of Food & Agriculture.

@While suggesting producers' prices, some State Governments seemed to have the concept of procurement price in view, while others e.g.

West Bengal, Andhra Pradesh, Madras, Mysore and Kerala that of maximum prices.

N.R.—No reply from the State Government concerned.

N.A.—Not available.

TABLE "B"
*Maximum Ex-mill Wholesale Prices of Coarse Rice (Bagged) Recommended by
the Committee*

State	Variety	Price* (Rs. per quintal)
Andhra Pradesh	Akkullu	61.00
Bihar	Coarse	59.50
Gujarat	Sathi	62.00
Kerala	Palghat Matta	66.00
Madhya Pradesh	Gurmutia	55.00
Madras	Kattaisamba	64.50
Maharashtra	Jada	62.00
Mysore	Dabbansala	61.50
Orissa	Common	55.00
Punjab	Begini	59.50
Rajasthan	Suthersaul	59.50
Uttar Pradesh	Grade III	59.50
West Bengal	Common	62.00

*Inclusive of all taxes payable upto the milling stage.

TABLE 'C'

*Illustrative Statement Showing Maximum Retail Prices of Coarse Rice at Certain
Consuming Centres*

(Paise per Kg.)

State	Centre	Variety	Price
Andhra Pradesh	Hyderabad	Akkullu	69
Bihar	Patna	Coarse	68
Gujarat	Ahmedabad	Sathi	71
Kerala	Cochin	Paighat Mitta	72
Madhya Pradesh	Bhopal	Gurmatia	66
Madras	Madras	Kattaisamba	70
Maharashtra	Bombay	Jada	72
Mysore	Bangalore	Dabbansala	71
Orissa	Rourkela	Common	65
Punjab	Chandigarh	Begmi	67
Rajasthan	Ajmer	Suthersaul	68
Uttar Pradesh	Varanasi	Grade III	68
West Bengal	Calcutta	Common	72
Delhi	Delhi	Begmi	69