

Decontrol of Foodgrains

D. Ghosh

The author, a member of the staff of the Technical Assistance Administration of the UNO in New York, who has now been touring India with the Norwegian team, has subjected the food situation to a searching analysis in the light of fresh data obtained from the National Sampling Survey. His conclusions, reproduced below, merit the closest attention and careful study.

The excess of actual production as indicated in the National Sampling Survey over the quantities recorded in our agricultural statistics simply suggests that a larger proportion of the actual domestic output than at present is available for transfer to the non-food-producing sections of the population for whom the Government has undertaken direct responsibility.

This would help reduce our reliance on imports from abroad, save foreign exchange for development purposes and bring about a less unequal distribution of the aggregate food supply between the assisted and the non-assisted sections of the population.

THE central issue is the probable effect of decontrol today on the prices of foodgrains, and on their availability to non-food producing sections of the population. To answer this question, we have to consider the movements of demand and supply of food in the country in recent years.

The total demand for food in the country must be on the increase from year to year. The total population is expanding annually by about 4 million, while the section of it which resides in urban areas is increasing, raising thereby the number of persons for whom the State may have to assume direct responsibility under statutory or non-statutory rationing system.

The total supply of food available to the people of the country is made up of domestic production and imports. However, in so far as we can now ill-afford to spend any significant fraction of our earnings of foreign exchange on purposes other than development, it would be proper, at least in the first instance, to take into account domestic production only.

Our agricultural statistics are known to understate the actual output of foodgrains in the country, the under-estimate being of the order of 25 per cent, according to the first round of the National Sampling Survey. This fact, however, is of small relevance for our present purpose, which is to find out whether, given the imperfection of our production statistics, they show an increase in total output in the current year over recent years, which is larger than can be accounted for by either the margin of error inherent in such statistics or by variations in output that take place from one year to another. A

comparison of the figures of domestic production for 1952 with those of preceding years, does not show any such increase.

It would seem from these facts that if control of foodgrains was justified in the recent past, there is hardly any case for abolishing it in the present. The excess of actual production as indicated in the National Sampling Survey over the quantities recorded in our agricultural statistics simply suggests that a larger proportion of the actual domestic output than at present is available for the transfer to the non-food-producing sections of the population for whom the Government has undertaken direct responsibility. This would help reduce our reliance on imports from abroad, save foreign exchange for development purposes and bring about a less unequal distribution of the aggregate food supply between the assisted and the non-assisted sections of the population.

In the opinion of some people, however, this conclusion in favour of control which is based on long-term trends of supply and demand is belied by the actual experience of decontrol in some States in recent months. About the middle of this year, some States—Madhya Pradesh, Saurashtra, Uttar Pradesh and Madias and others relaxed control on wheat, rice and millets. But contrary to normal expectations, the prices of foodgrains in these States not only did not rise, but have in some instances actually declined. The figures of off-take from Government godowns, too, show a tendency to fall, suggesting that the buyer of foodgrains can now obtain more of what he wants in the free market and at prices not above the controlled prices. Evidently, decontrol has not led to

a rise of food prices in the States in which it is being tried and there is a strong case for extending the experiment to other parts of the country.

It is difficult to be sure how much reliance one should place on this experience as a basis for long-term policy.

In the first place, the experience covers a short period, from the end of June or beginning of August to the beginning of the current month.

Secondly, a part of the price decline is purely seasonal in character; this is suggested by the movement of food prices during the corresponding months of 1951.

Thirdly, the sudden discontinuation of procurement by State Governments created a slack in demand that has not been apparently taken up by the free market.

Finally, on the present occasion, decontrol took place in the middle of a period during which the general price-level in the country declined at a noticeable rate.

However, these facts do not fully explain the failure of food prices in decontrolled areas to rise, and it is possible that the basic conditions of supply in foodgrains markets in the country are (hanging in a manner which has upset normal expectations.

Obviously, the prices that obtain in these markets depend upon the proportions of the total outputs of different grains that the farmer brings to the market rather than on the final outputs themselves. These proportions are, in their turn, governed by:

- (a) the prices of the goods on which the farmer spends his income relatively to those of the crops produced by him;

UNITED ASIAINTERNATIONAL MAGAZINE
OF ASIAN AFFAIRS

VOLUME FOUR NUMBER FIVE

HIGHLIGHTS**A UNIQUE****SYMPOSIUM****ON THE INDIAN****COTTON****TEXTILE****INDUSTRY****Participants :**

T P Bharat
G D Birla
E P W da Costa
Mulraj Kersondas
D M Khatau
Chimanlal B Parekh
M M Ruia
R M Seksaria
Kailaspat Singhania
G D Somani

**ALSO AN EDITORIAL
SURVEY OF THE
COTTON TEXTILE
INDUSTRY IN INDIA
AND ASIA**

**Rs 10 a year :: Rs 2 per copy
(post free)**

**120 WODEHOUSE ROAD
BOMBAY 5 - INDIA**

- (b) the nature of his demand for those goods; and
(c) the alternative opportunity for securing cash by the production and sale of non-food-crops.

Between June 1951 when the general level of prices in this country was at its peak, and June 1952 when decontrol was initiated in several States, the prices of textiles, one of the most important items of cash expenditure by the fanner and of Fibres and oilseeds, which represent the alternative source of money income to him declined more steeply than those of foodgrains.

If this inference is correct, it would justify the continuation of the experiment in decontrol in the States where it is already in operation, and possibly its extension to other States, provided the general economic situation in the country can be expected to remain as it has been during recent months.

This proviso, however, is not likely to be fulfilled; the initiation of an expanded Plan of national economic development, which will depend, in part at least, on deficit Financing is certain to create inflationary forces. Taxation, public borrowing and the use of accumulated foreign reserves would not serve completely to mop up the surplus money incomes created and all prices will tend to go up, including the prices of foodgrains. Control of prices, therefore, seems to be an almost inescapable necessity. For obvious reasons, food prices are the most significant of all prices; they determine the levels of wages and costs in all sectors of economy on which the estimates of the National Plan are based. Hence, though there may be a case for continuing with the decontrol experiment in the States in which it is already in operation, if the general economic situation in the country were to follow the present pattern, we should be extremely careful in extending it to other parts of the country or as yet incorporating it into the long-term food policy of the Government. At a time when the country is about to launch an extensive programme of economic development, it would be risky to let the market for foodgrains completely out of control.

Appendix on Millets

The preceding section has dealt with the position in respect of all foodgrains taken together. How-

THE ECONOMIC WEEKLY

ever, to the extent that rice, wheat and millets are not perfect substitutes for one another, the issue of decontrol should be considered in relation to each foodgrain separately.

The price and output statistics of these foodgrains seem to justify such separate treatment. Since 1949, the total output of rice and wheat in the country has varied little one way or the other. The same is true of the total production of millets. But while the price indices of rice and wheat rose from 100 in 1947 to 162 and 148 respectively in September this year, the index for jowar rose by only 10 per cent that for *bap a* actually declined by 1 per cent. These relative movements of the prices of rice and wheat on the one hand and of millets on the other, seem to suggest that in the country as a whole, consumption has moved away from millets to rice and wheat, may be, in part at least, as a result of the reduction of the normal difference between the prices of superior and inferior foodgrains under a not too elaborate system of procurement.

There are also reasons to believe that millets probably move much less from the areas where they are, in the main, produced, to others, causing thereby a relative abundance of local supply. If these inferences are correct, there is a case for relaxing the existing restrictions on the movements of millets, allowing the trade to take place more freely over wider areas. Such a relaxation of control applied to millets is not likely to cause the prices of either of millets or of other crops to rise, so long as the prices of the major foodgrains, viz., wheat and rice, are maintained at controlled levels.

Sugar Companies to Grow Food

In order to increase food production, the Government of Bombay has made it compulsory for sugar companies to grow scheduled foodcrops on part of their holdings. For the next twelve months, the sugar companies in Ahmednagar, Sholapur, Satara North and Poona districts are required to grow foodcrops on at least one-third of their holdings, those in Nasik and Belgaum districts on at least one-fifth of their holdings and those in Kolhapur District on at least one-eighth of their holdings.