A Formula for Increasing Agricultural Production

By

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The history of Coffee planting is a long and fascinating one of which the country may well be proud. Even in the recent decade from 1950 to 1960 the performance of the plantations has been so outstanding as to serve as an example of agricultural enterprise and farming husbandry. In those ten years Coffee production was more than trebled. Not only did the producers prosper during that period and pay substantial sums to the Government by way of taxes, they also provided housing, without subsidies, water supply, dispensaries, canteens and creches to the workers and their families. In addition they earned valuable foreign exchange.

At a time when the pace of agricultural production in other fields is lagging behind and causing anxiety, and foreign exchange worth crores of rupees is spent on imports of such agricultural products like rice and wheat and cotton, it is well to ponder how the coffee growers achieved results that are in such sharp contrast to the performance in other fields and farms. How did this happen?

There were, of course, many factors that contributed to the result. But the most important single factor was that the planters were left relatively free and undisturbed, without threat of insecurity and encroachment and worry over controls and permits, free to plant and to replant, to plough back earnings, to extend cultivation and improve yield, unharassed by bureaucratic meddling unfettered by chains of Acts and Amendments, and unburdened by oppressive taxation. For till about the beginning of the last decade, as luck would have it, plantations did not attract the zeal of agrarian reformers, or the solicitude of ideologists.

But this freedom was shortlived. The conspicuous performance of the planters itself made them—the large companies in particular—the target of increasing attention of many authorities, including a variety of taxing authorities at all levels, Central and State, Municipal and Panchayat. In 1962 the maximum rate of agricultural income-tax in the Mysore State (which only five years before had been stepped up from 25% to 40%) was further raised from 40% to 60%, outstripping the scale of taxation imposed by all other State Governments including Kerala. In the same year, Excise duty on Arabica Coffee was raised from Rs. 21 a cwt. to Rs. 28 a cwt. In the very next year a surcharge of 20% was imposed on the already raised excise duty on Arabica, and on Robusta as well.

The Chairman of a leading company, in 1961, gave us an idea of the cumulative effect of the additional taxation up to that time. He pointed out how taxation in

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that year had taken 41% of the profits of the Company as compared with 23% in 1951 and how, on a production of less than 1,500 tonnes of coffee in 1951 the Company had retained a surplus after tax of Rs. 17 lakhs, while on the production in 1961 of a record crop of nearly three times what was produced in 1951 the higher taxation left the Company with less than Rs. 5 lakhs more. In the next year, viz. 1962, taxation took over 50%. In 1963 it took over 57%, more than double of the taxation in 1951. On a crop of over 3,000 tonnes for 1963 it was left with about Rs. 18 lakhs after tax which is what we got for half of that production in 1951.

I am quoting these figures to point out how the recent taxation has led to the paradoxical and disheartening situation in which we produce more and more to get less and less.

The introduction of the slab system in taxing agricultural income has resulted in putting a heavy and iniquitous burden on companies and their shareholders.

It is no exaggeration to say that large companies give the lead to the industry not only in such matters as labour housing, medical facilities and labour welfare but also in farming techniques, quality production, the battle against pests and maladies, old and new, and research. They produce the bulk of the coffee of export quality. Yet, being conspicuous, they offer easy targets. Unable to hide or divide themselves, they are relatively more vulnerable. It is not generally realised that a hundred shares in a big company represent just a little over one acre of coffee; and that except for a few large shareholders like the Life Insurance Corporation, most of the shares are widely distributed and held by a large number of people. In fact, over two-thirds of the shareholders own shares that represent a fraction of an acre to 2 or 3 acres of coffee. And these small holders are taxed at 60% while the owner of say 100 acres may be taxed at less than 20%. Were it possible for a large Company to divide and fragment itself it could save lakhs of rupees in taxes. This system of taxation has, in fact, already led to subdivision and fragmentation of plantations. In the seven years from 1953 to 1960 the number of holdings of 250 acres and above has declined from 227 to 157, and the number of those less than 10 acres has gone up from 27,000 to 38,000. The effect of this trend, even if only in the context of the pressing need for export, calls for consideration.

Before I leave the matter of taxation I must mention an ingeniously contrived new levy imposed on the industry which, though fortunately not substantial, is of interesting significance. As you know, coffee curing works are under an obligation to take out a fidelity guarantee insurance policy in respect of the coffee they hold for the Coffee Board. Till 1962 the small curers were free to do this with any of the insurance companies; and one curing works had been paying Rs. 105/- a year for the policy. Last year the Coffee Board, evidently under the direction of the Government of India, issued a directive to all curers that the said fidelity insurance should be placed only with a subsidiary of the Government-owned Life Insurance Corporation and no other. That subsidiary charged a premium of Rs. 1,250/- a year for what the other Company had been and were still prepared to do for Rs. 105/- a year. You will agree that had such a thing been attempted by any non-Government-owned concern it would rightly have been condemned as an extortionate case of profiteering of over a thousand per cent.

Last year a new law was enacted called the Mysore Land Reforms Act imposing ceilings on reserve land owned by planters and planting companies, as well as on the acreage on which they grow paddy. This year we have two more enactments—one called The Mysore Agricultural Income-Tax Amendment Act and another called The Mysore Forest Bill. Like many other instances of recent legislation both the Act and the Bill were quite obviously designed to meet certain High Court decisions that went against the Government and were in favour of the planter. Both the enactments make inroads into the timber assets of plantation companies. The former Act, which became law in October last, contains many clauses with retrospective effect among which is one that says "after the word 'sugar-cane' the word 'timber' shall be and shall always be deemed to have been inserted". It also contains an extraordinary amendment that "shall be and is deemed to have been added with effect from the 1st April 1963" which lays down that any remuneration or benefit of any kind paid to a director of a company shall not be deemed to be expenditure laid out for the purpose of earning the income of the company. It seems thus to deny what the Companies Act envisages, and the Indian Income Tax Act allows. If the affairs of companies are to be managed by Directors who have responsibilities and liabilities under the Company law it is hard to see how any—even the most modest—remuneration or benefit given to Directors including the Managing Director for services rendered by them can reasonably be deemed as not laid out for the earning of the Company's revenue, and be disallowed as not being a legitimate deductible expense. One can only feel thankful that payments to work people are not likewise deemed.

The Mysore Forest Bill takes power to impose new controls and restrictions on trees in plantations. We, in the Mysore State, know how by tradition and long usage, sandalwood has come to be regarded as Royal, and accepted as a State monopoly. It is interesting to see the way sandalwood has been used as a wedge to admit other trees of all descriptions into the zone of bureaucratic control and to find Honne and Jalari, Kamara, Kiralbagi, Bore and Sagade, Mamidi and Matti pushed to enjoy the status once reserved for Royal sandalwood, attaining truly democratic socialism.

The Planters' Associations, and the U.P.A.S.I. have done valuable service in drawing timely attention to the harm that the recent rush of legislation and taxation have done and will do to the plantation industry. At the last Conference of the U.P.A.S.I., the President pleaded for a new deal for the industry. I would go so far as to say that it would be a new deal in itself even if it were just a halt and a reversal of the kind of deal that the industry has recently been having, and a restoration of the conditions of comparative freedom that it was permitted to enjoy in the decade that is past; the decade in which this field of agriculture was enabled to achieve an annual rate of growth of 30%

which, if I am not mistaken, is five times the target of the Planners and ten times the present rate of growth in other fields of agriculture. I would plead that this shining example should be maintained and magnified and not allowed to fade and be lost. These green and smiling estates around us were jungle once, and can become jungle again if injured or uncared for. Ceilings and floorings are good for offices and houses; but for fields and farms the best flooring is the good earth, and the finest ceiling, the sky. Tractors do them more good than road rollers. As for controls, the only controls they need are strong fences, and the relentless control of pests.

It is now increasingly clear that all the crores of rupees spent and all the high-level Government attention focussed on the growing of more foodgrains in the last few years have failed to produce the expected results. Experience has shown that the best and most natural way to boost production is to create boom, or near boom conditions, be it for growing rice or chillies, wheat or mulberry, onions, cotton or coffee. When such conditions are created for a crop, and the grower prospers, even the authorities have found it difficult to get him to grow some other crop. Experience has also shown that paddy cannot be produced by legislation. Neither exhortations nor export drives can grow coffee or tea; they can only beat about the bush.

I am confident that if the industry is given another decade of the relative freedom it enjoyed in the last one, it can attain still higher peaks of production, and earn far more foreign exchange.

The views expressed in this leaflet are not necessarily the views of the Forum of Free Enterprise.

With best compliments of:

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