GRAVE DANGERS OF STATE TRADING IN FOODGRAINS

By

Ajit Prasad Jain

Ex-Union Food Minister

The two major policy decisions on food, its production and distribution, are the twin gifts of the National Development Council to the nation. In the middle of 1956 the target of food production during the second Plan was raised from 15 per cent to 40 per cent but without the allocation of any new resources financial and others. In the fall of 1958 that August body again decided that the State should take over the wholesale trading in foodgrains.

On both the occasions the decisions descended meteor-like from the sky. Neither specifically nor by implication was either of the items mentioned in the agenda of the meetings. No studies were made by the Ministry of Food and Agriculture which was responsible for implementing the decisions. There were no prior consultations. No notes or papers were prepared and put up before the Council. No State Minister knew that he would be called upon to give his views until the proposals burst upon the Council.

The National Development Council has no place in the Union Constitution. That does not, however, disqualify it nor limit its usefulness. It brings together the different States which thus get to know one another better. The Centre emphasises the all-India aspects of a problem and the States tend to view it from local angles. Grave constitutional issues arise, however, when the N.D.C. arrogates to itself or otherwise infringes upon functions which under the Constitution are assigned to other bodies created by the Constitution or attempts to do what the Council of Ministers, at the Centre or in the States, should do.

The N.D.C. meets normally once in three months. Its membership comprises members of the Planning Commission and the Chief Ministers of States. Besides the full-time members and the P.M., who is its Chairman, the N.D.C. also includes three Central Ministers—Home, Finance and Defence. Ministers whose subjects find place on the agenda of the N.D.C. meetings are also invited to attend by courtesy. If a Chief Minister is unable to attend personally he may send his substitute. Sometimes other State Ministers whose presence is needed for the conduct of its business are also invited to its meetings.

The Central Ministers have no formal link with N.D.C. and if they desire to put their case before N.D.C., it can be done only through the Planning Commission. The Planning Commission is generally not interested in suppressing the

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views of Ministries. However in case of a sharp conflict between the Planning Commission and a Ministry, the latter is left with the disconcerting feeling that its views did not receive full weight. The fact that the non-committal paper on food for the last meeting of the N.D.C. (September 5 and 6) could be finalised only at a meeting attended by the Prime Minister, the Home Minister and the Finance Minister, a work normally done by a deputy secretary or joint secretary, shows the difficulties that arise when the Planning Commission and a Ministry do not see eye to eye on any matter.

No person can claim that on all matters the interest *inter se* of all the States, much less of the States and the Centre, are identical. Some times they clash sharply. The conflict of interests between the States which are surplus and those which are deficit in foodgrains is no secret. The surplus States want to have the control of their entire production and would like to send out only such quantities and at such prices as would suit their farming interest. The deficit States, on the other hand, would prefer to have free flow of food regulated only by the mechanism of price. Another instance of recent conflict is the taxation policy of the State transport services. If a State manages its transport services through a corporation, it pays both the corporation tax and the income tax. But if the service is run by a State departmentally neither of the taxes is leviable. Both the States run the same type and manufacture of buses but one pays the tax and the other is tax-free merely because one has adopted one form of organisation and the other another. The anomaly appears obnoxious to States which pay the taxes, but when the Centre presses for equal treatment those which enjoy freedom from tax resent it.

Often the N.D.C. looks like the German Diet of the pre-Bismark era. The representatives speak for their constituents. Local interests predominate and the all-India picture fades. How can binding decisions be taken in such a situation? In a democracy the normal rule is the majority vote, but not even the most ardent votary of democracy dare urge that in these conditions the fate of the minority could be left in the hands of the majority. The Prime Minister has a knack for evolving compromise solutions, but time alone will prove whether with his prestige and political craftsmanship, he can always find solutions equally acceptable to all.

The N.D.C. neither by law nor by the nature of its composition is a body competent or suited to take decisions on national issues. It is suited to talk, debate and advise. These are no small responsibilities. Formal decisions should however be taken by a Central Cabinet or the State Council of Ministers concerned. The N.D.C. cannot function as a super-Cabinet.

Now I come to the narrative of the decisions relating to agricultural production and State trading in foodgrains. 1956 was the year of enthusiasm for China. Countless stories of Chinese achievements, particularly in the field of agriculture, were carried from mouth to mouth and in writing. Chinese farm boys and experts came to India and Indian delegations went to China who on return joined in the chorus of praises for the Chinese agriculture. China set the pace for us. What China has done yesterday India must do today. We were enchanted by China and forgot the limitations which a democracy of necessity imposes on what can be done.

In April 1956 a member of the Planning Commission, who was an academician but had little to do with agriculture, wrote to the P.M. that the annual output of the foodgrains in China was increasing by 8 per cent against our expectation of annual increase of 3 per cent. in the second Plan period. The letter was written before the production targets of foodgrains had been raised from 75 millions to 80 million tons. He commended a two-fold programme.

First, if there was not an abundant supply of foodgrains at the 1955 prices, the fulfilment of the Plan would become problematical. In 1955 the foodgrain prices had gone down very low and the Government had to fix the floor prices of wheat at Rs. 10 and common rice at Rs. 11. What would happen to the farmer at those low prices was not his concern? Later the Planning Commission had to agree to an increase of 50 per cent. on the 1955 prices. But actually the market prices have been defying controls and are ruling much higher. The level of prices do not, as some people seem to think, depend merely on demand and supply, but are equally influenced by fiscal measures, in particular deficit financing and budgetary and export and import policies. If the purchasing power of the rupee goes down, as it has done, prices are bound to have a tendency to look up. No amount of economic jugglery can disprove the fact.

Secondly, he felt that with the plan provision of Rs. 369 crores for Food and Agriculture and of Rs. 200 crores for Community Development and N.E.S. Blocks and Rs. 482 crores for Irrigation the production of foodgrains could be increased by 40 per cent in five years.

It is also significant that of the Rs. 369 crores allotted for Food and Agriculture, only Rs. 170 crores were earmarked for food production and only a fraction of Rs. 55 crores out of the allocation of Rs. 200 for Community Development and N.E.S. blocks was meant for developing agriculture. But in the climate of those days, money resources were looked down upon with contempt, for had not the Chinese achieved fantastic results by the application of human labour, labour in the literal sense and not as understood in the Marxian theory of labour being the only source of value?

Things appear to have changed somewhat and the importance of money for agriculture, as for other productive activities, is better realised now.

The Ford Foundation team in dealing with the agricultural production programme has pointedly remarked that "labour alone will not accomplish the task. Sufficient capital must also be provided to permit the most effective use of abundant labour resources." The Planning Commission, however, suffers from an excessive urban bias and no one can be too sure about the fate of agriculture in the third Plan.

In May 1956 the Food plan issue came up before the N. D. C. The deputy chairman of the Planning Commission passed on a few papers to the Prime Minister, who read out some extracts from the report on the 12-year National Programme for Agriculture in China. Most of those present sat quiet and the new programme was accepted with the sole condition that the States must be consulted before the actual targets are fixed.

Towards the end of June, the State Agriculture Ministers met at Mussoorie. The conference could do little in the absence of the deputy chairman who was holidaying in the South at the time. The conference came to the unanimous conclusion that a little more than Rs. 100 crores was the bare minimum needed for raising the target of increased food output from 10 to 16.8 million tons. The proposals were however angrily turned down.

A series of discussions was initiated with the States. The Agriculture Ministry had been debunked, and its demoralised officers sat day after day as mute observers. All the talking with the representatives of the States was done by members and officers of the Planning Commission. In conclusion the target of food production was raised from 75 million to 80 million tons or from 15 per cent. to a little over 23 per cent. but with no allocation of additional resources.

Late in 1957, the Foodgrains Enquiry Committee, after discussions with the States, summed up the prospects of reaching the target thus: "Most of the State Governments told us that not more than 60 per cent. of the revised targets under the second Plan will actually be achieved." The Plan resources had by then become tight and the warning fell on deaf ears.

The subsequent story of how in 1958 the supply of nitrogenous fertilisers fell short by 45 per cent. of the requirements the area to benefit from major and medium irrigation works was slashed down by 12 per cent. and enough iron and steel was not available for agricultural needs is too well known to need repetition.

The Ford Foundation team has rightly pointed out that "the anticipated and realisable benefits from large expenditure on irrigation, drainage, bunding, terracing and improved seed will be largely lost without adequate use of fertilizers," and that green manure, animal manure and compost etc. "can substitute only to a small degree for the major part of chemical fertilizers." In the second Plan, however, fertilizers account for only 20 per cent. of the planned increase in production. To ignore this harsh reality will be to behave like the ostrich. A conjurer may be able to produce rabbits out of his hat, but no Food Minister can produce food out of the hollow of his closed fist.

The meeting of the N.D.C. in November 1958 saw through the other fateful decision on State trading. It is not known when the idea originated but it is a fact that from the very start the proposal received more support from statisticians and economists than from administrators. As a concept there is much to be said for State trading. If properly implemented it can succeed in controlling prices, which is fundamental to the fulfilment of the Plan. But the main weakness of the scheme is the difficulty of enforcement by the States.

State trading is something very different from buffer stock operation under which the Government buys when the seasonal market prices go down and sells during the lean period when prices tend to go up. In buffer stock operations, there is no idea of taking over the entire trade. At best it is partial State trading. On the other hand, full State trading implies the complete elimination of wholesale traders. If State trading is done in the open market, the result is likely to be the reverse of what is aimed at. The entry of a big buyer, which the State is, will at once push up the prices. It is only when the State becomes the monopoly buyer that the prices can be controlled without the application of statutory controls. However so long as the State is only a partial buyer, the prices can be controlled only through a statutory mechanism, that is, by control on prices and movement of food-grains. If the traders or farmers hold back the stock the State will have to seize the food stocks forcibly.

The policy of State trading was, however, accepted without examining whether the States had the capacity and the willingness to enforce controls and seize stocks. These things were taken for granted. The policy decision took no time. Those who saw danger in it sat tongue-tied. The Food Department prepared a paper which provided for two years' intensive buffer-stock operations before State trading is taken in hand. This paper, which did not provide for immediate State trading, was consigned to the wastepaper basket.

It is not necessary to go into the details of what followed in regard to State trading. The Central Food Ministry prepared an interim scheme which provided for the control of prices and movements. It also envisaged seizure of stocks from the traders and farmers in case the market arrivals dwindled down. The controlled prices, however were observed only in violation.

Smuggling from the surplus States, particularly Orissa and Andhra, became the rule and rose to six-digit-ton figures. Half-hearted efforts by an inefficient bureaucratic machinery in West Bengal at seizing the stocks of traders and farmers dried up the market supplies. The order for the control of prices at all levels—farmer's, wholesaler's and retailer's—had to be withdrawn. The Bihar Government had also to retrace its control measures.

The Union Government has to face the fact that State trading would involve controls both on prices and movement for a long time and that it will be necessary to seize the stocks not only of traders but also of farmers. Are the States prepared to do it? The Prime Minister has now declared that State trading is cent per cent correct and shall continue, but the atmosphere of uncertainty cannot be dispelled by brave words alone. There has already been a plethora of harsh words, but words break no bones. In enforcing State trading the Government will have to break many bones and may be even heads.

The N.D.C.'s last meeting has proved the hollowness of its claims. In India Prime Minister Nehru wields the power which President Roosevelt had in America and after the announcement in favour of State trading at the A.I.C.C. meeting at Chandigarh his responsibility has increased threefold. Will he discharge it? A mere play with State trading can only involve the country in grave dangers.

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