STATE TAKEOVER OF FOODGRAINS TRADE

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

—Eugene Black

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The decision on the takeover of wholesale trade in wheat and rice is a *fait* accompli. We are told that this is only a beginning and many more essential commodities may be taken over. Hence it would be useful to examine the consequences.

An effective democracy demands that major decisions affecting millions of people are debated at all forums — within the ruling party, in legislatures and in mass media. Decision-makers should welcome such debates to bring out implications of what they propose to do and avoid a remedy worse than the disease. Unfortunately, one gets the impression that Little efforts have been made to study the implications of this major step, which impinges on the livelihood of lakhs of wholesalers and their employees and will affect millions of farmers, retailers and finally the community as a whole as consumers.

The National Development Council of Chief Ministers after expressing some feeble doubts on this question of takeover, quickly fell in line. A Ministers' Committee was asked to recommend a scheme of implementation. It could hardly come to grips with the important issues involved in the

* The author is an expert on agricultural economics and management. This text is based on a public lecture delivered in Bombay under the auspices of the Forum of Free Enterprise on 28th March 1973.

takeover in the short time available. It is now left to the state bureaucrats to put life into the skeleton produced by the ,Committee. As they are innocent even about the rudiments of the trade, people of this country will have to pay a price for the mistakes they may make while learning its complexities.

Let us begin by a simplistic description of the role of the wholesaler in a commodity market. The wholesaler operates as a link in a chain which begins with the farmer bringing his produce to the market. Their commission agents acting on behalf of wholesalers from distribution or terminal markets purchase it on the basis of quality grades at prevailing prices. Wholesalers in small towns receive their supplies from wholesalers in nearby distribution markets. Brokers and commission agents provide the liquidity by keeping active contacts between various markets and encourage flow from surplus to deficit regions. Thus. wholesalers finance, store and move produce between primary and consuming markets. Through generations of experience, they have developed a high degree of skills in grading produce, techniques of storage, movement and knowledge of the varying needs of consumers. All studies by Indians as well as foreigners have established that the trade in India works on extremely low margins. The incomes of traders depend upon quick turnover and low handling costs.

Wholesalers are no monopolists who must be exterminated to achieve socialism. Few have the resources to influence price level through their own large stock holding. Commodity prices fluctuate not because of the rigging up of the market by a few acting in concert. They are sensitive to influences like expectations of new crops, Government policies of imports-exports and money supply with the public because, each dealer trying to minimise his own risk of losses on stocks tends to evaluate these influences and acts upon them independently. If rains are erratic, dealers slow down liquidation of their stocks in anticipation of a price rise.

Such spontaneous action on the part of the many would raise prices. This is attributed to speculation. But such reactions act in reverse too when expectations of the next crop are good. Then prices would fall and the same dealers would suffer losses on stocks. There are thus both profits and losses in the business of commodity trading and a judicious wholesaler ends up with a reasonable income for his services over a long period.

What are the objectives of the foodgrains takeover? They are said to be: (1) to eliminate speculation and fluctuations in prices; (2) to ensure foodgrains availability at reasonable prices to consumers; (3) to assure farmers a remunerative price to encourage production; and (4) to reduce the cost of distribution through elimination of intermediaries.

From scraps of information available, if appears that State Governments will entrust the wholesale function to the Food Corporation of India, co-operative marketing societies or their own departments. It must be remembered that the total takeover of wholesale trade in wheat or rice is something quite different from procurement of a limited quantity of marketable surplus for public distribution. The Food Corporation of India (FCI) and State Cooperative Marketing Societies have been purchasing agricultural commodities for disposal on the advice of state civil supplies authorities. Here the scope of activity was limited to takeover of rice from rice mills under a levy or wheat available at procurement prices in primary markets in heavy surplus areas of Punjab, Haryana and **U.P.**

In the state monopoly of wholesale business, the first question that will confront the Government will be the price payable to the producer. The price will no longer be determined by economic factors. Political considerations of keeping low the price to the ultimate consumer, absorbing heavy overhead costs of the administering agencies and inevitable wastages under impersonal organisations will have to be taken into account. So far the farm lobbies could effectively influence procurement prices as the Central Government could absorb the losses on the small public distribution. Now the cost of subsidising the prices of the entire marketable surpluses of rice and wheat would be too heavy to indulge the farmer. The consumer has become too vocal to allow the Government to raise food prices.

The public agency will succeed in gathering the marketable surplus only if the price offered is attractive. State Governments of surplus regions would be reluctant to procure all the surplus if the farmer is unwilling. In the past, the Centre has not been very effective in enforcing discipline on States. It is acknowledged that the total food production is just sufficient to meet our needs. If surplus States fail to mop up all the marketable surplus, how will the Centre cater to the needs of the deficit regions?

The farmer will continue to remain a free agent in selecting the crop he wants to produce. If the prices of wheat and rice are unattractive, there would be a switch to alternative crops. Even if the procedures of grading and payment cause harassment, the farmer might change over. For example, this year even though the Maharashtra Government had offered attractive prices for cotton under its monopoly procurement scheme, delays in payment and doubts about grading have caused such dissatisfaction that the area under cotton may decline next season. This is no idle speculation. The Nimbkar Research Institute which supplies seed for Nimbkar-I cotton has received orders for the supply of seed for only **125** hectares against **4,000** hectares last year, whereas the demand for its groundnut and other crop seeds has increased significantly. Even a marginal shift of area from foodgrains may have serious repercussions on our precarious food supply. Unattractive prices may also reduce the use of fertilisers and put an end to the green revolution in wheat and rice.

No democratic country has abolished free markets in grains or other commodities. We can, therefore, look to the

experience of only Communist countries. This has clearly shown that in highly decentralised activities like agriculture, even with collective farms and all the resources at the command of the public authorities, productivity remains low in the absence of personal initiative and enterprise. The Soviet Union now permits collective farms to sell the surplus over procurement quotas at market prices. Recent economic reforms in these countries confirm that administered prices are very inefficient tools for raising production.

Another objective of the takeover is to stabilise the price payable by the consumer. At what cost will the stability be achieved? According to the Agricultural Prices Commission, the cost of procurement, distribution and carrying foodgrains by the **FCI** was **Rs. 26** per quintal in 1971-72. In other words, wheat procured at **Rs. 76 will cost** a minimum of Ks. 102 per quintal **with** FCI. To this must be added its incidental expenses and overheads. **FCI's** incidental expenses alone come to Rs. **7.71** per quintal. Therefore, the consumer will have to pay nearly Rs. 125/- per quintal minimum, irrespective of the size of the crop. At this price there is no saving but a significant increase in the cost to the consumer if one considers that in **1971-72** wheat was available throughout India at prices of Rs. 90/- to Rs. 120/- per quintal.

There is every danger that the handling cost of FCI will go on rising much faster because organised labour in such a corporation is bound to demand higher wages. What is more, should there be a strike in such an organisation, the whole country will be held to ransom. The S.T.C. and M.M.T.C. through which imports have been canalised are experiencing go-slow and strikes since November. Many industries suffer production losses because of non-availability of imported raw materials. **As** FCI will be the sole agency for the inter-State movement of wheat and rice, a strike would mean total disruption of supplies in deficit States.

Mere takeover of the wholesale trade is no guarantee that the consumer will get his full needs at a fair price. The

Gujarat Civil Supplies Minister has already expressed apprehensions that as in 1965-68, deficit States will experience difficultiesin maintaining rations if surplus States do not cooperate. Currently the Bombay citizen gets rice and wheat to the extent of only 200 gs. daily when Government statistics show that per head availability of grains is nearly 400 gs. per day. In the absence of free markets, the citizen will have to pay fancy black market prices to meet his minimum needs. People have to pay Rs. 5 per kg. for rice already.

Again, in the absence of any personal incentive, supply of grains of quality desired by the consumer will be of little concern to the State agency. Even in years of bumper crops, the quality of grains available in the ration shops of Bombay city has rarely been satisfactory. Now the discriminating consumer will have no free market in wheat to patronize. A large black market fed by smugglers from surplus areas will be the only source.

Advocates of state trading have a simple answer to these difficulties. Government administration must change to meet the new demands of socialism. It is easier said than done. A Cabinet Minister who is also the high priest of nationalisation was in a mood of confession recently in Bombay. He said that the very nature of Government organisation requires that sanctions and rules are followed strictly. Without them there would be no discipline in public administration. He also agreed that in industrial and economic activities where situations changed so frequently compliance with rules and sanctions made quick, result-oriented decisions very difficult. He, therefore, advocated management of all public sector industrial activities through corporations accountable only through results in the form of production, profits etc. So far all attempts to honour the autonomy of public sector 'undertakings have failed. They may succeed if a strong Government is prepared to insulate the management of such undertakings from politics. However, in the case of wholesale trade in commodities it would be impossible to divorce

it from politics. The reason is obvious. State Governments will be involved in managing it. Interests of state politics will prevail even if there is one party rule everywhere. If different parties are in power, national economic considerations will have a low priority.

The Soviet Union where two generations have been raised under a Communist philosophy and a single party cadre enforces discipline on economic activities at all levels, centralised rigid management of economic activities has been the subject of considerable criticism in recent years. A recent Soviet publication, for instance, says: "The negative effects of production of goods which they can sell and minimise costs were the excessive bulkiness of the management structure and ineffectiveness and slow responses in the relationship between the central bodies directing economic sectors and local executive agencies. Enterprises had very limited freedom and initiative for increasing production". Again, "The situation made it necessary to resort to various administrative decisions involving a wide range of economic matters, preference being given to solutions by administrative injunctions rather than to the application of economic levers. This led to arbitrariness in managing the economy." It is now trying to introduce market economy with individual industrial undertakings responsible for profitability as a measure of production of goods which they can sell and minimise costs to earn profit. Is it not strange that we in our country want to replace markets by Government monopoly and administered prices even though they have known to have failed in a regime of far greater discipline and control?

Let us look at other major economic and social implications. On behalf of the trade, the question of unemployment has been raised loudly and the Prime Minister has dismissed it as a false alarm. It is curious that on the one hand the Government is keen to decentralise production in small-scale industries, in textiles, soap, etc. and encourage self-employment as a means of reducing total unemployment and on the other hand it wants to centralise in State hands trade, external as well as internal. Economists tell us that the tertiary sector comprising trade, transport and service industries are most labour intensive. The takeover of wholesale trade in essential commodities is thus bound to accentuate unemployment among wholesalers and their employees as well as auxiliary services, i.e., clearing agents, transport operators, brokers etc. A bureaucratic public agency would find it difficult to cater to the needs of an increasing number of retail outlets and dealing with Government agencies is always frustrating. Therefore, it would not be very surprising if employment even in the retail trade shrinks.

The takeover of wholesale trade is no answer to inflation. On the contrary, the Government will have to provide funds for trading in these commodities where currently the trade is using its own resources. Commercial banks will not be able to divert funds from the private trade to Government agencies because the Reserve Bank has restricted bank credit to the trade for a long time. Therefore, Government will have to divert the resources gathered for development to finance the takeover while the trade will start employing its own resources in other channels. This might accentuate the pressure on prices.

Finally, one would like to pose the question whether an economic structure where the state not only controls heavy industries and credit affecting the few but also wholesale trade which would influence the activities of millions of farmers and retailers would be conducive to the continuation of active dissent so necessary for a healthy growth of democracy. Even today, industries relying heavily on Government decisions on allotment of raw materials or fixation of prices are reluctant to express opinion or intiate action which may be frowned upon by the ruling circles. Even democratic socialist parties in western countries have left alone a large part of the economic activities in private hands.

No doubt, in commodity markets there is always a question of wide fluctuations in prices brought about by fluctuations in production which depends on nature and other factors mentioned earlier. In other countries believing in a market economy, state agencies operate buffer stocks which guarantee minimum prices to farmers and use the stocks to check prices in off-seasons or in bad crop years. Buffer stocks can mitigate seasonal fluctuations. But they cannot eliminate the influence of excessive money supply, for which the Government's economic policies alone are responsible.

APPENDIX I

FOOD CONTROL DURING FORTY-SIX CENTURIES

The man, or class of men, who controls the supply of essential foods is in possession of the supreme power. The safeguarding of the food supply has therefore been the concern of governments since they have been in existence. They had to exercise this control in order to hold the supreme power, because all the people need food and it is the only commodity of which this is true.

In connection with this control it would seem that every possible expedient and experiment had been tried. One of the most frequent methods of control used has been the limitation of prices by legal enactment. The results have been astonishingly uniform considering the variety of conditions and circumstances under which the experiments have taken place. They make an interesting record and one which contains food for thought, for the problem of the people's welfare has been much the same in all ages and it is not yet solved......

The history of government limitation of price seems to teach one clear lesson: That in attempting to ease the burdens of the people in a time of high prices by artificially setting a limit to them, the people are not relieved but only exchange one set of ills for another which is greater. Among these ills are (1) the withholding of goods from the market, because consumers being in the majority, price fixing is usually in their interest; *(2)* the dividing of the community into two hostile camps, one only of which considers that the government acts in its interest; (3) the practical difficulties of enforcing such limitation in prices which in the very nature of the case requires the cooperation of both producer and consumer to make it effective.

Egypt took entire control of the grain trade and **saved** the people from starvation, but took over the land in return.

China worked out a system of control of supply and demand which kept prices normal. She seems to have been the only country which recognized the whole price question as being a symptom and not the disease itself, and because she recognized this fact seems to have come nearer than any other country to solving the problem of supplying the people with the food they needed at a price they could pay.

Athens regulated the grain trade and set prices by legal enactment but found herself unable to enforce them.

Rome made a colossal experiment in controlling prices by legal enactment, but it utterly failed.

Great Britain had on her statute books laws fixing the price of bread continuously for more than 500 years. The price of wheat, fish, and wine was also regulated, but 811 such laws were abrogated in 1815, because of their failure to accomplish the purpose for which they were designed.

Antwerp was overthrown in 1585, and at least one historian of note declares that price-fixing legislation was largely responsible for its downfall.

India has learned in the hard school of experience that even in times of famine, price fixing is a very dangerous expedient because it removes one of the most powerful checks on consumption; namely, high prices.

The Colonial United States tried the same experiment at various places and times but failed utterly to secure satisfactory results.

Revolutionary France tried the same measures, but the protagonists of the movement perished on the guillotine. The dreary story of France's efforts to limit prices is distinguished from that of the other countries we have noted because of the proposal of Barbaroux to enlist the aid of both producer and consumer in the effort of the Government to control the food supply in the interest of the people's welfare. This proposition was not carried out but it furnished the' first indication of the goal of cooperation towards which we are still pressing. ***(These are excerpts from a paper prepared by Mary G. Lacy, Librarian, Bureau of Agricultural Economics, U.S. Department of Agriculture, and submitted to the Agricultural History Society, Washington D.C. on 16th March, 1922).***

APPENDIX 11

AN ILL-CONSIDERED POLICY, SAYS JAYAPRAKASH NARAYAN *

"To those who prattle all the time of monopoly and socialism, I should like to say that the takeover of the foodgrains trade has nothing to do either with monopoly or socialism. Indeed, this policy is sure to discredit socialism in the eyes not of the rich but of the masses. I strongly request the Prime Minister and the Food Minister to reconsider the ill-considered policy to take over the wholesale trade in foodgrains. This decision is an unwise adventure. It will be the common people who will suffer by this measure since the Government has no expertise and suitable machinery to handle such a complicated, specialised and farflung commercial operation. The evils of hoarding and profiteering which the measure was intended to eradicate would multiply a hundred-fold because of the inescapable corruption and inefficiency of whatever machinery the Government might set up to implement the decision. It would be a case of the remedy being worse than the disease. The criminal mess the Government's machinery for purchase and distribution had made of the purchase of milo from the U.S. recently should serve as a warning and a lesson. The very cogent arguments put forth against the decision by the conference of the Federation of All-India Food Grain Dealers' Association and the advise of Mr. Kirloskar in his presidential address should not be set aside as a special pleading by vested interests. I would like to warn that the policy would hurt the ruling party itself and that as a shrewd politician the Prime Minister should have no difficulty in seeing this. I hope that in the interest of all concerned, and most of all in the interest of the people, the Government would give up this policy.

* **A** press statement issued by Mr. Jayaprakash Narayan, a founder of Socialist movement in India, and eminent Sarvodaya leader.

APPENDIX III

FOOD CORPORATION OPERATIONS

The provision of Rs. 117 crores in the Revised and Rs. 130 crores in Budget for 1973-74 is on account of re-imbursement of consumer subsidy initially borne by Food Corporation of India in the handling of foodgrains. This is based on the difference between the issue price fixed by the Government of India for indigenous foodgrains and the economic cost worked out by the Corporation. The economic cost includes the procurement price paid to the producer, and the average procurement, storage, and other incidentals. The procurement price for wheat is Rs. 76 per quintal and in the case of rice, the average procurement price of all varieties works out to Rs. 93.29 per quintal.

The average procurement, storage and other incidentals are indicated below:—

(Rs. per quintal)

		Wheat	Rice
1.	Procurement Incidentals ...	10.20	7.31
2.	Transit loss	0.69	2.08
3.	Storage loss	0.51	1.35
4.	Freight	3.77	5.98
5.	Incidental Expenditure	0.68	0.77
6.	Godown charges	0.62	3.02
7.	Interest	2.09	12.49
8.	Administrative overheads ...	2.25	3.61
	Total	20.81	36.61
Less :	claims against Railways for transit losses	—0.36	—0.10
Net :	Procurement, storage and other incidentals	20.45	36.51

The total per quintal economic cost in respect of wheat, thus, comes to Rs. 96.45 (Rs. 76 procurement price plus Rs. 20.45 for incidentals) and, in case of rice to Rs. 129.80 (the average procurement price of Rs. 93.29 plus Rs. 36.51 for incidentals). The issue price of wheat as fixed by the Government of India is Rs. 78 per quintal and the average issue price of rice of various varieties works out to Rs. 113.30. Thus, the net subsidy per quintal of foodgrains payable to the Corporation is Rs. 18.45 in respect of wheat and Rs. 16.50 in respect of rice.

It has now been decided that the coarse grains transactions also will be brought within the purview of subsidy and the Corporation will be paid the difference between the economic cost of the operation and the issue price fixed by the Government in respect of these grains. The estimated subsidy on coarse grains is of the order of Rs. 7.32 crores which will be paid in 1973-74.

The programme of indigenous procurement in 1973-74 is estimated as under :—

(In million tonnes)

	Procurement 1973-74	Total Offtake
Wheat	6.5	6.4
Rice	3.9	1.8
Others	0.8	0.5
	11.2	8.7

In order to overcome temporary shortage, it has also been decided to import 2 million tonnes of wheat and milo. Out of this quantity about 1 million tonnes of wheat and 0.5. million tonnes of milo have already been purchased on commercial basis in U.S.A., Canada and Argentina. These are expected to reach the country between February and June 1973. The rest of the quantity would be contracted at an appropriate time. (Extract from "Explanatory Memorandum on the Budget of the Central Government for 1973-74"—Page No. 48).

APPENDIX IV

LOSSES ON STATE TRADING IN FOODGRAINS

Scheme for the purchase of foodgrains—The State trading scheme in foograins introduced in 1943-44 continued during the year 1967-68.

The scheme resulted in a loss of Rs. 93.69 crores during 1967-68—the net cumulative loss to end of 1967-68 being Rs. 330.23 crores. (Extract from Central Government "Audit Report-Civil" 1969—Page 79, Chapter V).

The views expressed in this booklet arc not necessarily the views of the Forum of Free Enterprise

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—A. D. Shroff
(1899-1965)
Founder-President,
Forum of Free Enterprise.

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