

CHAPTER XI

THE PROBLEM OF PRICES

In the previous chapters we have dealt with the various problems connected with the grower's handicaps and the marketing of raw jute as well as measures to improve the lot of the grower and ensure satisfactory supplies of raw jute. Our analysis has shown that more than anything else, the price factor furnished the greatest stimulus to the grow more jute campaign. Sagging prices of the last season and their reaction on jute cultivation for the current season, have served to emphasise the need for evolving a proper price policy for raw jute. In this context the measures taken by Government in fixing prices for raw cotton and regulating prices of sugarcane have been taken as examples of a price support policy and the demand has come up for fixation of minimum prices for raw jute also.

Some of those who have pressed for the fixation of minimum prices have relied for their views on the report of the Prices Sub-Committee of the Policy Committee on Agriculture, Forestry and Fisheries, 1944—47, of which Shri V. T. Krishnamachari was the Chairman. The case for price fixation was summed up by the Committee as follows:—

The general case for price control stated Krishnamachari Committee 1947.

“Agriculture involves a high degree of risk, particularly under Indian conditions, where it is exposed to the vagaries of the monsoon and other climatic factors as also to damage on a large scale by pests and diseases. Production is therefore subject to wide fluctuations. In addition, the agricultural producer is faced with the risk of a fall in prices which may be so heavy as to render agriculture unremunerative to the majority of producers. It is essential for the State to take such action as may be feasible to safeguard the producer from these risks and make his occupation less of a gamble. This is all the more necessary in India where agriculture is carried on by a large number of small

and unorganised producers who cannot adopt new techniques or invest on any improvements or avail themselves of facilities offered by the State unless they have a reasonable assurance in regard to the price which their surplus produce will fetch in the market." (Page ii).

The Committee considered that the effective guarantee of a minimum price would not only introduce an element of stability in agriculture, but also promote stability in other spheres of economic life which in turn would secure a general rise in the national income. They were not unaware of the necessity to safeguard the interests of the consumer by preventing prices rising beyond a prescribed minimum. The guiding principle in their view was to fix prices within a range which would be fair both to the producer and to the consumer and which in normal circumstances may be enforced. In any such scheme the State will have to guarantee to purchase all stocks offered to it at the minimum price, and undertake to release stocks at a price not exceeding the minimum price. The Committee was of the opinion that a fair price would be one which would leave to the producer an income sufficient to maintain himself and his family on a standard of living equivalent to that enjoyed by comparable classes of the population. This in turn implied that the producer would pay a fair level of wages to any direct labour engaged. The Committee also contemplated that statutory prices should be fixed well in advance of the sowing operations, and that there should be regional differentials taking into account variations in quality of products and costs of production. This price policy for both food crops and commercial crops, recommended in the majority report, was subject to a dissenting note both on the general issue of feasibility of such a proposal based on experience of U.S.A., Canada, Australia, in present day conditions in India, and on the narrower issue of the basis of fixation of regular rock-bottom minimum prices.

Its appli-
cation to the
case of jute.

The Committee had surveyed the price policy in regard to jute since 1932-33, when in the face of over-production of raw jute, the Government of Bengal attempted to persuade the cultivators by propaganda to restrict acreage voluntarily. Such measures were found to be unsuccessful. With the shrinkage in the volume of export trade in raw jute on the out-break of the War and

the harvesting of an exceptionally large crop of 132 lakh bales in 1940, other experiments were in turn tried, such as open market purchases by Government and regulated buying by jute mills on a programme determined by the industry. These were temporary expedients. Finally, from 1940, under the Jute Regulation Act, the cultivation of jute had to be done under licence, and in granting licences the State took steps to see that the standard acreage was not exceeded. These measures and the increased demand for jute manufactures from the U.K. and the U.S.A. served to raise the price of jute from about Rs. 8-6-0 per maund in 1940-41 to Rs. 15-14-0 in 1944-45.

Maximum and minimum prices for raw jute were fixed by Government from time to time according to different grades in order to prevent prices going above a certain level. The export price of jute goods was subject to ceilings from the 10th October 1949 to the 8th March 1951 and with decontrol on the 9th March 1951, control over prices of both raw jute and jute goods was removed. From the experience of price control under abnormal conditions, it cannot be argued that such controls are permanently necessary for the economy of jute growing and for the jute industry. Controls were initiated at a time when there was over-production of jute and the demand for jute goods had sagged

The Director of Economics and Statistics, Food and Agriculture Ministry, has argued that as jute is a commercial crop any increase in its production will require favourable price incentives. He has suggested that Government should fix minimum prices before each season, as in the case of cotton, and set up a purchase agency to implement and finance price support measures by actual market operations, if prices should fall below a minimum. The Director of Economic Research, Indian Central Jute Committee has expressed similar views and suggested that prices should be fixed both for the Calcutta market and secondary markets. The West Bengal Government in supporting minimum prices acknowledge that as such prices will depend on marketability of jute goods, sufficient margin should be allowed to intermediaries in the trade and to mills. Realising the administrative difficulties in enforcement, they have suggested that there should be an elaborate administrative organisation and powers should be vested in State Officials at district and taluk levels and that there should be a supplementary central

Demand for
minimum
prices.

organisation at Calcutta to regulate markets. With minor detailed suggestions for licensing of brokers, and dealers operating in the raw jute market, the Assam, Uttar Pradesh and Bihar Governments also support the idea of minimum prices.

Ground of
opposition
to it.

With the exception of one trade Association which has suggested that in the interests of cultivators the prescription of a minimum price based on costs of cultivation is necessary, Chambers of Commerce and Associations interested in the jute trade and industry as well as mills in general have uniformly opposed this suggestion. Important witnesses whom we have consulted are also against minimum price. It has been pointed out that a scheme of minimum prices would inevitably call for fixation of ceiling prices in the interests of the consumer. Occasion may arise for a degree of similar regulation in the price of jute goods in the world markets. Since after Partition India has lost her monopoly in the supply of jute, the successful implementation of the price support policy will be thwarted by the effect of fluctuations in the price of jute goods abroad. The demand factors connected with the latter will dominate the prices of the product in India as over 80 per cent. of the jute goods is required for export. The policy pursued by Pakistan, which is the main raw jute exporting country in the world will also affect the level of Indian prices. A minimum price scheme will also be difficult to operate without providing for administrative machinery and checks at every point guiding the industry from cultivation of jute to purchase by mills. Those aware of the short-comings in the administration of controls in the past and of possibilities open for evasion and abuse, sounded a note of caution on its extension to a vital export industry. Attention has further been drawn to the experience of Pakistan recently in the matter of price support of jute, where despite the most stringent administrative measures, the Jute Board are reported to have suffered a loss of over rupees eight crores (*vide* address of Mr. Ispahani to Pakistan Jute Association, December 1953).

Those who have urged prescription of minimum prices on the pattern of cotton and sugarcane do not appear to have paid due regard to the difference between these commodities and jute. In neither case has the fixation of prices been based on any scientific costing or on crop parity basis.

Prices for cotton came to be fixed when there was control over prices of textiles in the interests of the indigenous consumer. Sugarcane prices appear to be fixed on the basis of what the industry can afford to pay rather than on the growers' costs. Both industries cater mainly for the domestic market and price control is therefore feasible. In the case of jute industry, the output of finished goods is predominantly for export and their prices depend more on the competitive prices in overseas markets than on costs of production of the raw material. Fixation of prices for raw jute except in relation to jute goods prices will not be practicable. But this too is a method beset with difficulties as explained later.

While it is a trite observation that on occasions when speculative or other short term factors bring down prices to the prescribed minimum, a Government guarantee to maintain that level backed by suitable purchase action would firm up the market, the efficacy of such measures from the long term point of view is not fully appreciated. As a concomitant, State regulation of industry must provide for fixation of prices for the finished goods also, so that there could be a fair guarantee of the offtake of the raw material. This will also involve a certain measure of control of price of raw material against undue rise, i.e. fixation of maximum prices. Cost analysis has shown that about 60 per cent of the element in the price of jute goods is the price of raw jute, and the balance consisting of direct wages, overheads and other miscellaneous items is a somewhat rigid portion of the costs. The costs of jute goods are therefore dependent primarily on the price of the raw material and are liable to fluctuate with the increase or decrease of its price. Any price that is fixed as a rock bottom minimum price having regard to export prices of jute goods, fair cost to the mills, fair margin to necessary intermediaries in the trade may be so low that it may fail to satisfy the cultivator. He would constantly be inclined to measure his income in terms of alternative commercial or food crops to which he could change over. Further, in the present state of organisation of marketing, as the grower does not have the benefit of any organisational or financial support, prices may tend to stabilise as low as possible, nearabouts the published minimum prices. In that event, the advantage of price fixation would go to the intermediaries and mills rather than to the grower, even in the contingency of a rise in prices of jute goods.

On the other hand in a fully competitive market a rise in jute goods prices will be reflected in a sympathetic rise in raw jute prices and the grower will benefit.

Not beneficial in the long run to grower or industry. On the grounds indicated above, we consider that prescription of minimum prices is inadvisable as it will affect prejudicially both the interests of the growers and of the industry. Instead, alternative measures for improving the lot of the grower have been suggested. These range over a wide field; that mills should be required to follow a policy of making regular purchases and paying fair prices for raw jute; and that various measures of assistance to the grower, for bringing down his costs of production increasing his bargaining strength be initiated. Extension of co-operative finance and marketing to the cultivation of jute and the establishment of regulated markets have also been suggested. We consider that the long term interests of the grower as well as of the industry necessitate the energetic pursuit of proposals we have outlined above.

Basis of our recommendation. We realise that it would be difficult to evaluate the net financial gains accruing to the cultivator by implementing the above measures. It would also be difficult to contemplate any system of minimum prices under which the grower would receive more than Rs. 5 above the prices he got during the normal periods of 1952-53 season. On the other hand, the benefits that the grower will receive from the measures we have suggested will aggregate to not less than Rs. 5 to Rs. 7 per maund. Unlike minimum prices these gains according to the grower will leave no repercussions on the industry, and will create conditions which will enable stabilisation of prices to be achieved in a better manner than by State regulation.

Statutory controls not advised. A section of opinion however considers that there is a great need for having centralised control over all matters relating to the jute industry and if necessary the control should be supported by law. Those who are thinking in these terms are apparently having in mind the pattern of controls that existed during the war period and even till 1951 and also of the pattern of centralised control as in Pakistan. On the other hand, there is, however, considerable opposition in all sections of the trade and industry to the return to controls. In India, there has been gradual abolition of controls over commodities. U.K. and Australia are making changes in their jute control scheme with the return to normalcy in the World trade. The emergence of

a competitive market, in which India will have to compete side by side even with Pakistan in the matter of export of jute goods, detracts somewhat from the practical value of these controls, as their successful administration would depend to some extent on the policy changes in other countries.

We have considered the alternative suggestions of those who are not in favour of controls such as the possibility of co-operation and voluntary regulation within the trade and industry and have received the opinion on the subject from a number of well-informed witnesses. Assessing the relative weight of opinion, we have come to the conclusion that a trial should be given to a system of regulation by the industry assisted by a Government agency. We believe that it would be necessary in the present context to give all the help that the Government could possibly give to assist and stabilise this industry without recourse to statutory controls.

Voluntary
regulation
preferred.

For this purpose we recommended the appointment of a Jute Commissioner by Government, who should function as an Adviser on all problems relating to jute and jute goods and act as a link between the industry and Government. We consider the indication of fair prices for raw jute in relation to jute goods prices should be an important one among his functions. Such indication of fair prices that we give can naturally be only with reference to the time of our report. But with a market so sensitive to factors affecting changes in prices as the jute market, a fair price will have to be indicated as and when necessary and this function can appropriately be discharged by the Jute Commissioner.

Establish-
ment of a
Jute Board...

At present no machinery has been set up for the jute industry under the Industries (Development and Regulation) Act (Act LXV of 1951) which contemplates the formation of a Development Council for each scheduled industry. We recommend that such a Council should be set up immediately for the jute industry in view of its importance and the many problems that confront it. The person appointed as Jute Commissioner could effectively co-ordinate the functions of Chairman of that Council also. The Jute Commissioner should possess considerable knowledge of the industry and have a high status so that he could act with authority

We are aware that the composition and the functions of the Development Council are limited. The functions of the Jute Commissioner as envisaged by us will extend beyond the scope of the Act. We, therefore, recommend that there should be an Advisory Board to assist the Jute Commissioner. This Board should represent mill interests, all sections of trade, banking and finance, representatives of growers and nominees of State Governments.

Since the scheme we envisage is not backed by statute, it can work successfully only by the voluntary co-operation of the trade and industry. Mutual consent of the interests concerned will be necessary to ensure payment of fair prices by the development and observance of healthy conventions in this regard. A system of voluntary regulation of prices of jute and jute goods was in fact worked in 1940-41 by the Indian jute industry.

We do not propose to lay down in detail the functions and powers of the Jute Record; they should be sufficiently elastic to cover all matters concerning raw jute as well as jute goods. Normally the Board should be responsible periodically to recommend fair prices for jute and jute goods having regard to the varying circumstances. The prices within certain margins would then be indicated as fair prices by the Commissioner in consultation with Government. The notification of parity of fair prices is of particular significance to the grower before the sowing season. It will give him a proper lead. In an emergency the Commissioner should act even without prior consultation with the Board. The prices are by no means statutory prices. Price of raw jute will also be indicated in a manner to obviate rigidity and given as a range within narrow margins. For example, at any given time the fair price for Assam Bottoms will be indicated not at the fixed figure of Rs. 25 per maund but as Rs. 24 to Rs. 26 per maund. These again will be determined in correlation with a similar range of prices for gunnies namely hessian 40" x 10 oz. at say Rs. 44 to 46 and B Twills 100 bags at Rs. 108 to 114. We have given these figures only by way of illustration. The basis of correlation of fair price of raw jute and jute goods is fully explained in Chapters XVIII and XIX.

Adoption of
"fair prices"
on voluntary
basis.

With this degree of flexibility it should be possible for the industry to adjust the prices offered for jute at any time to the prevailing trends in the prices for jute goods. For different grades and qualities of raw jute, a plus or

minus figure might be broadly indicated to show the degree of price preference justified. In the case of finished goods also there will be a differential to which the industry is already accustomed. These prices should not also be taken as statutory ceiling prices for exports, as prevailed from 1949 to 1951. Similarly, in the case of raw jute the indicated fair prices should be such as the mills in Calcutta would pay ex-godown having regard to the prevailing level of gunny prices. It would not be practicable to fix raw jute prices for each State or each secondary or primary market. But with their detailed knowledge of local conditions, transport costs and reasonable charges for the services rendered by dealers and middlemen, the Board could give an indication of what would be fair prices that the cultivator in any area should get after allowing for fair differentials.

We consider that the grower should normally get at the present time a price *not less than* Rs. 5 below the fair price for the basic grade at Calcutta.

These fair prices notified by the Board should be widely publicised in secondary and primary markets and the information service of the I.C.J.C. should make them more widely known in the growing areas also. The grower could then confidently expect the fair price that is his due, and with better organisation and staying power, will be able to secure this price.

The prescription of such a price would in itself improve the morale of the grower and give a backing to the operations of co-operatives whose setting up we have recommended as the main step in the removal of the numerous handicaps that beset the grower. Most of the trade associations and industrialists were diffident about the successful working of any such voluntary agreement. They are however willing to concede that prices to the grower should be linked with prices prevailing in Calcutta and some sort of publicising of differentials between the Calcutta prices and prices in main secondary or even primary markets would assist the cultivator. While general sympathy for the grower and his getting the best price for his crop was universal, only a small section seem to realise the extreme urgency of keeping up stability in the supply of raw jute grown within the country in the interest of steady progress of the industry. It should be realised that even a policy of enlightened self-interest

followed by the industrial section would require some assurance to be given to the grower that he might, conditions in the industry being satisfactory, expect a stable price for the ensuing season. As this trend of opinion grows, we are confident that the value of notifying fair prices from time to time and correlating such prices of raw jute to jute goods prices would be realised and this will give a moral backing to the grower in his unequal struggle with the middlemen in the trade. There is some apprehension that such a correlation will make the grower aggressively price conscious and result in agitation similar to the recent one by sugar cane growers. The very fact that the fair prices are supported by convention and agreement with the trade and operate within ranges will in our view give sufficient flexibility to the free operation of demand and supply. We are therefore making this recommendation in the hope that the jute industry with leadership of a responsible body like the I.J.M.A. should be able to ensure the smooth working of the scheme suggested above.