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PRICE POLICY FOR AGRICULTURAL DEVELOPMENT IN INDIA*

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Planned economic development implies that a clear-cut and well-co-ordinated price policy has to be evolved for agricultural development. This is all the more necessary as agriculture is subject to seasonal swings, cyclical patterns of production and man-made pre-harvest scarcity and post-harvest gluts. Violent and not so violent oscillations in price are a common feature of agricultural production down the centuries. The preponderance of the fixed cost element in agriculture accentuates the effect of these fluctuations. Besides, in under-developed economies, agriculture is undertaken by disadvantaged classes as a way of life on minuscule holdings. These facts have to be taken into consideration in the choice of a price policy for the agricultural sector.

Production cannot be indiscriminately encouraged of all and sundry crops. Limitations of space and capital investment prevent such an all-sided effort with the result that the balance has to be held even between food crops and commercial crops. Similarly, the balance has to be held even between the producers or agriculturists and the consumers. Consumers form a vocal element of society now-a-days and buyers' strike as a weapon has been increasingly resorted to, *e.g.*, in the case of fish recently in West Bengal.

Another objective of price policy is to hold the balance even between agricultural and industrial occupations. The terms of trade of agriculture has become a subject of intensive study in recent years and this has given rise to the parity price complex of ideas—parity between what the producers buy and what they sell. In some countries, owing to defence considerations, such a policy is intended to stop the drift from the land, but in under-developed economies the aim is mainly egalitarian.

A consideration recently in evidence is the effort to hold the balance even between consumption at home and abroad. But requirements of foreign exchange and the need for capital imports make it imperative to export to the maximum extent possible, though rising incomes increase the effective demand internally for the same produce. The balance is increasingly being tilted in favour of exports as in the case of tea, coffee, spices and cashewnuts where there is a competition between the international and the home markets. It is also important to hold the balance even between the use and non-use of land for agriculture. Diversion to urban use is a tendency in evidence in developing economies and a proper pricing policy is necessary to check this tendency. Otherwise, the most fertile land will tend to be increasingly taken out of cultivation and put for uses which are not so beneficial from the community's point of view.

* The views expressed in this paper are the writer's own and do not reflect the views of the Government of India.

There has been in the past no lack of indication of the Government's attitude in this regard. There is a difference of vital importance where the agricultural population and the agricultural output are a small part of the total population and the total gross national product. The ability of the nation to take on the burden of subsidies to agriculture may be assumed to be high because it would be a case of the many bearing the few on their shoulders in such advanced countries. But in India it would be the reverse. Any attempt on the part of an emaciated minority to bear the load of the majority which is what is implied by a policy of subsidies to agriculture or their equivalent in high prices would only bring both to the ground. It is not easy to define the policy which the Government of an under-developed country should adopt towards agriculture in a period in which the pace of economic development in general, and industrial in particular, is being forced against heavy odds. Examples of Soviet Russia and Communist China are a warning rather than a guide. Over a period of four decades, Soviet Russia called for the heaviest sacrifices from her cultivators in the interests of her industrial development. Besides, there has been no instance of agriculture showing the same response to developmental stimulus as industry. No advanced industrial nation is confronted with this problem at least not in this form. It takes the form rather of what the rest of the economy which is prosperous should do to agriculture which is not as prosperous or which is threatened with a crisis or a decline. In the United Kingdom, for example, it was a question of getting agriculture to produce more of the food requirements of the nation than in the palmy days of its industrial supremacy when it could afford to import all its food from any part of the world.

The price policy for agricultural development must ensure that agricultural production is economic both in the widest and in the strictest sense of the term. In its narrow sense, economic production would mean that costs are reduced to the minimum, that the agriculturists have a fair margin of profits and that the costs of the agricultural products, foodgrains and raw materials as they enter into the costs of living and the prices of the manufactured articles either in the home markets or in the export markets are on healthy levels. In the wider sense, economic production would signify the wisest distribution of scarce land resources among the various competing ends: forestry, pasturage and cultivation in the first instance and, secondly, between food crops and cash crops. The aim must be to maximize the contribution of agriculture to the total national income taking into account the yield per acre of the different crops, the limits within which the crop can be changed in a given area and the relative advantages of meeting our needs of an agricultural commodity by production at home and import from abroad.

An agricultural support policy, if such a policy is adopted, should combine a satisfactory level and stability of income in agriculture to the maximum degree possible with

(i) the greatest practicable flexibility of agricultural production in its adjustment to consumer demand;

(ii) a balanced and expanding consumption of agricultural products;

(iii) the most rational use of the agricultural and other resources of the country; and

(iv) the greatest simplicity of operation with a minimum of cost to the community as a whole in relation to the result achieved.

The policy should not restrict consumption or reduce the incentive to farmers to adopt more efficient methods of production. It should not involve heavy subsidy payments to large and efficient farmers who could produce profitably without them, in order to maintain the incomes of small or less efficient farmers at a reasonable level.

The greatest emphasis should be placed in the Indian context on measures which do not involve price guarantees and hinges upon the organization of markets. The Royal Commission on Agriculture pointed out even in 1929 the defects in the marketing of agricultural produce. The organization of farmers' co-operative marketing organizations or of statutory marketing boards or of regulated markets strengthens the bargaining position of farmers in relation to merchants and distributors who possess much greater resources than do individual farmers. Besides, by pooling the produce as in the case of cotton in Surat, receipts can be pooled and adjusted. Regulated markets can also undertake the dissemination of market intelligence, market promotion and extension, research and the establishment and enforcement of quality grades. By all these means, marketing organizations can raise the return received by the producers. Mere price policy alone will hardly benefit the cultivators owing to the rigidity of the marketing structure and costs and the benefits will be pocketed by the middleman. Hence, regulated markets and co-operative sale societies are a supplement or an adjunct to price policy in the development of agriculture.

Regulated markets have introduced a system of competitive buying, helped to eradicate mal-practices, rationalized market charges, standardized weights and measures and have evolved a machinery for the settlement of disputes. As a result of the rationalization of market charges alone, there has been a net saving of Rs. 86.22 million *per annum* to the producer-users of these markets. Table I indicates the average reduction in the market charges in the various States after regulation.

TABLE I—MARKET CHARGES BEFORE AND AFTER REGULATION

States	Market Charges per Rs. 100 worth of Produce		
	Before Regulation	After Regulation	Saving
Bombay	2.74	1.37	1.37
Andhra	4.09	2.30	1.79
Madras	4.65	1.43	3.22
Mysore	4.14	2.20	1.94
Punjab	2.43	1.76	0.67
Pepsu	2.40	1.72	0.68
All India Average	3.41	1.79	1.62

Marketing organization may be strengthened by Government action without any price guarantee. Several types of regulation may be used under such orders, *e.g.*, to control the quality and rate of shipment from producing areas to the market, the establishment of reserve pools, the control and disposition of surpluses, the prohibition of unfair trade practices, posting of prices, regulation of containers and establishment of marketing research and development activities. The regulation of markets is also receiving considerable attention in different States of India.

Statutory marketing boards which date from the depression of the 1930's, are not common in India except in the case of coffee. But in Netherlands "Centrales" were established for cereals, dairy produce, live-stock, meat, fruit and vegetables. They regulated the production and distribution of the commodities for which they were responsible by limiting production, disposing of surpluses by denaturing and regulated the proportion of home-grown wheat in the grist, etc. Each "Centrale" supervised foreign trade in the products under its competence by granting export and import licences and raising levies for specific purposes though trade was left in private hands. In the United Kingdom, statutory marketing boards were established for milk, potatoes, hops and bacon. The Milk Marketing Boards devote much attention to improving the efficiency of production, *e.g.*, by milk recording schemes, artificial insemination stations, advisory services, etc. These examples could be followed with profit in India also. In addition to national marketing control organizations, regional or State producer organizations can operate for special products, *e.g.*, where the production of a specific product is concentrated in one region as in Canada. In India, this is the case with Virginia tobacco in the Guntur region and *bidi* tobacco in the Nipani and Charotar tracts. The commodities which are exported and enter international trade are also controlled by marketing boards in some countries as in the case of rice in Burma, cocoa in Ghana and Nigeria, and coffee in Brazil. The commodities which are exported from India have been adversely commented on by the customers abroad especially in the case of *sann* hemp, bristles, wool, etc. This led to the *Agmarking* of these commodities under the Sea Customs Act by the Directorate of Marketing and Inspection. Marketing boards could be set up for cashewnuts, spices, lac, tobacco (especially of the Virginia type), so that orderly marketing could be evolved for these products for which India is famous in the international sphere. Producer boards should be organized for chillies, sugarcane, groundnut, cotton and other commercial crops and even food crops. Only by such support measures through the organization of marketing could price supports be a success in agricultural development.

Agricultural price guarantees are the most important method followed in the present time for supporting a prosperous agriculture. In the U.S.A. in 1955 food items benefiting from guaranteed prices and the products processed from them had a weightage of 15 per cent in the retail food prices and 5 per cent in the overall cost of living. Direct price supports seldom cover more than a part of the total agricultural output. The relationships between the guaranteed prices of various products should not get out of step with the effective demand and domestic and export markets. This requires frequent reappraisal of relative price support levels in the light of trends of production and demand. Farmers are likely to give preference in their production plans to products under price guarantees compared with those which did not have this insurance. Where price guarantees are given, care should be taken to avoid unintended bias in the pattern of production which might result from unbalanced commodity coverage. This might imply reducing or abandoning a support price as well as bringing in other products. Another measure is the payment of subsidies or price regulation to reduce the cost of agricultural production requisites, *e.g.*, fertilizers, lime or improved seeds or of season to season farm operations. Something is being done in this regard through the distribution of fertilizers by co-operatives, etc.

Though there are other measures also which have to be resorted to for agricultural development, price policy will remain the sheet anchor. The small farmers lack financial resources and have to buy dear and sell cheap and cannot make desirable investments. The same is the case with farmers on marginal lands.

There is a minimum size below which a farm, however, intensively or efficiently run, could not provide a livelihood comparable with what its operator could earn as a paid employee unless prices were supported at a high level. This minimum size tends to increase as a country becomes more developed because acceptable levels of income rise and more investment becomes necessary for machinery, buildings, etc., which cannot be provided as efficiently when agriculture is organized in small units. The problem is how to provide a reasonable income level for small farmers without an excessively high level of prices and without making heavy payments to large farmers who can make a profit without them. Methods of agricultural support which tend to reduce the disabilities of the small farmer in relation to the larger operator through the provision of grants for capital investment, the promotion of producers' buying and marketing co-operatives or credit at low interest rates or on special terms or expanded advisory and other educational services, better water supply, rural electrification and establishment of small-scale industries, as "second strings to the bow", will be beneficial in under-developed countries as Government funds are limited and as the population outside agriculture is small and there can be no large transfer payments from other sectors of the economy. Besides, there is a shortage of experienced administrative and executive personnel to implement the price policy, whether it is guaranteed minimum prices or guaranteed price range which permits a limited movement of prices between more or less clearly defined minima and maxima or a fixed price under which the same price is paid to all farmers. In under-developed economies, emphasis should be placed on measures in which the main increase in farm incomes comes from increased productivity, *e.g.*, Community Development in the shape of agricultural advisory services, improvement of communication and establishment of warehouses wherein the farmers could store their produce and get negotiable warehouse receipts. Measures of price support in such economies should be of a self-financing system wherein the guaranteed or stabilized prices should reach the cultivator. Especially this is the case where there are tenancies on a share cropping basis or where peasant farmers have to borrow to tide them over to the next harvest against repayment in kind and a large part of the first sales is made by landlords, money-lenders or intermediaries who have received grain or other products in payment of debts. Hence, high incentive prices in under-developed countries have had less effect in stimulating production. In the earlier part of the paper, a plea has been made for the encouragement of orderly marketing and if credit and marketing facilities can be combined, this difficulty may be overcome.

Agricultural price supports are a form of insurance policy against excessive falls in price arising from a temporary excess of supplies or alternatively, a temporary fall in demand due to a business recession.