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THE GUARANTEED PRICE SCHEME IN CEYLON

J. V. Fonseka

Eighteen agricultural commodities are under price guarantee in Ceylon at the present time. Of these, the most important commodity is paddy and the guarantee in respect of this crop is intended to serve not only as an incentive to production but also as a form of income support to the bulk of the rural population which is dependent solely or partly on paddy cultivation. In addition, certain highland cereals such as corn, sorghum, *kurukkan*, and oilseeds such as mustard and gingelly, which are traditionally grown on new clearings by farmers in the dry zone, are also price guaranteed, chiefly with the intention of supporting the incomes of these subsistence farmers. On the other hand, most of the other crops which have guaranteed prices at the producer level are supported principally, if not exclusively, to encourage farmers to take to these crops and so help reduce imports. These crops include potatoes and cotton, which are comparatively new comers to Ceylon, as well as dried chillies, onions of the small red variety, coffee, *dhall*, pepper, cow pea, groundnuts, tamarind and turmeric.

As rice is the staple food of the people of Ceylon and as imports of rice constitute the largest single item of foreign expenditure annually, the Guaranteed Price Scheme for paddy has, understandably, received very high priority attention by the Government. It has had its origin during World War II when, consequent to enemy action, and a world-wide scarcity of consumer goods including foodstuffs, it became necessary to ensure an equitable distribution of the rice produced within the country. With this objective, Government introduced what was then known as the 'Internal Purchase Scheme' under which all cultivators of paddy were compulsorily required to surrender to Government, on payment, all paddy produced by them over and above their consumption requirements. With the cessation of hostilities and the winning of Independence, the changing political situation in the country came very soon to be reflected in economic policy as well. No longer was agricultural policy viewed in terms of social equity alone. Instead, it came to be re-oriented towards the achievement of higher levels of economic production. The price policies that came to be so evolved, therefore, naturally aimed not merely at providing the farmer with a reasonable price and adequate income but also at the provision of sufficient incentives to increase production. The erstwhile Internal Purchase Scheme was thus converted into the Guaranteed Price Scheme in 1948. Under the new scheme, the producer was able to sell his paddy to Government at *a priori* price irrespective of prices prevailing elsewhere within the country. The Guaranteed Price Scheme operated on a voluntary basis in that the producer was left free to decide whether he was to surrender his paddy to Government at the pre-determined price or to dispose it off at any price to any other buyer.

The procedures and conditions governing price guaranteed agricultural commodities were for several years operated on an administrative basis. However, in 1961, the Agricultural Products (Guaranteed Prices and Control of Milling and Hulling) Act was enacted which gave legal sanction to the entire scheme. This Act provided for the grading and fixing of guaranteed prices for agricultural

products and the control of hulling and milling of paddy and matters connected with it.

Perhaps the most significant element in the history of the Guaranteed Price Scheme was the determination of the price at which paddy was bought from the producer. Under the Internal Purchase Scheme the price per bushel of paddy was fixed at Rs. 4 and subsequently raised to Rs. 6. With the introduction of the Guaranteed Price Scheme in 1948 the price per bushel was fixed at Rs. 8. In August 1951, this price was increased to Rs. 9 and subsequently raised still further to Rs. 12 in September 1952 at which level the price has remained till this day. By and large, these early variations in the level of the Guaranteed Price Scheme were determined in relation to the import price of paddy. The guaranteed price and the corresponding c.i.f. import price per bushel of paddy since the inception of the Guaranteed Price Scheme are indicated in Table I.

TABLE I—GUARANTEED AND IMPORT PRICE OF PADDY: 1948-1961

Year	Guaranteed Price (Rs. per bushel of paddy)	Import Price (c.i.f.)
1948	8.00	7.88
1949	8.00	7.79
1950	8.00	7.74
1951	9.00	8.15
1952	12.00	11.24
1953	12.00	10.95
1954	12.00	9.40
1955	12.00	7.99
1956	12.00	7.45
1957	12.00	6.78
1958	12.00	6.84
1959	12.00	6.72
1960	12.00	6.57
1961	12.00	6.43

The machinery for implementing the price guarantee has undergone vast changes since the inception of the Scheme. At the village level a network of some 4,500 Multi-purpose Co-operative Societies has been established to purchase paddy and other price guaranteed commodities direct from the producer. These Societies acting as agents under the Scheme are under a statutory obligation to purchase produce from all bonafide producers within their respective areas and pay them the guaranteed price either from their own funds or from marketing

loans obtained from the People's Bank. From time to time, the produce so purchased by them is delivered to Government Stores and the Societies are reimbursed both the cost of the produce as well as the expenditure incurred on transport together with a commission which, in the case of paddy, has been fixed at -/50 cts. per bushel. These Societies are within easy access to producers and in 1962 their purchases approximated to 56 per cent of the total quantity of paddy produced in Ceylon.

While the Multi-purpose Co-operative Societies catered to the producer at the village level, over 100 Government Stores have been set up throughout the country to purchase produce from these Co-operatives. Quality specifications have been laid down for all price guaranteed commodities and in the case of paddy the guaranteed price of Rs. 12 per bushel is payable for ordinary quality paddy containing less than 6 per cent refraction and $\frac{1}{4}$ per cent grit and sand, and free from black or chaukly grains. Paddy of other varieties and not conforming to these specifications are guaranteed at a lower price. Produce is tested for quality at these Government Stores and a Goods Receipt issued for the produce taken over. On production of this receipt, generally through the Bank which financed the Society initially with the marketing loan, payment is made by the Government. The storage capacity of these Government Stores has been of fundamental importance for the successful operation of the price guarantee, as a shortage of accommodation in these inevitably results in the godowns of Societies being congested and purchases from producers delayed consequently. This has, in fact, been one of the most serious limiting factors in making the price guarantee effective at the farm level and middlemen in Ceylon, as elsewhere in other countries, have not been slow to exploit the producer whenever congestion at these stores had led to delays in purchases by Co-operatives. By the end of 1962 Government storage was sufficient to accommodate 12 million bushels of paddy at a time and milling capacity approximated to $3\frac{1}{2}$ million bushels per month. At peak purchasing seasons, immediately after harvest, about a million bushels of paddy were purchased weekly at these Government Stores in 1962.

Paddy purchased under the Guaranteed Price Scheme is milled into rice and passed on to the Food Control authorities for issue to consumers on the ration. Milling capacity which is mainly in the hands of registered private operators, though Government and Co-operative Societies also own a small part, is so adjusted that the intake of paddy from a particular harvest is milled within 6 months so that the stores are cleared of their stocks before the next harvest comes in. Towards the end of 1962, milling capacity was adjusted at $3\frac{1}{2}$ million bushels of paddy or 50,000 tons of rice per month and sufficed to meet this requirement.

The question is often posed as to how far the Guaranteed Price Scheme has attained the objectives it was intended to achieve. As stated earlier, the price guarantee in respect of paddy was intended to achieve not one, but two, equally important and interdependent objectives, *viz.*, to stimulate production in what is, undoubtedly, Ceylon's most important and strategic article of food as well as to support the incomes of the rural population which is dependent to a great extent on the produce of their paddy fields. The attainment of the latter objective would depend principally, though not exclusively, on the efficiency of the

price implementing organization itself, while the attainment of the former objective, perhaps even more than the latter, depends not only on this but also on the efficiency of the whole range of agricultural policy calculated to increase productive efficiency.

The efficiency of the price implementing organization can be measured principally in terms of the adequacy of purchasing points at the village level, the availability of funds to pay for the produce offered by cultivators, the availability of accommodation to take over the produce as soon as it is offered, both at the village and at the Government level and the speed with which the produce taken over can be processed and disposed of. As briefly indicated earlier, all these factors which form the ingredients of a sound price implementing organization have been taken care of and the benefits of the price guarantee have been reaching a larger number of cultivators every year. In 1962 purchases of paddy under the Scheme represented approximately 56 per cent of the total production in that year. The extent of such purchases expressed as a percentage of the total annual output since the inception of the Scheme is indicated in Table II.

TABLE II—TOTAL OUTPUT OF PADDY AND G.P.S. PURCHASES : 1948-1962

Year	Total Output (million bushels)	G.P.S. Purchases (million bushels)	G.P.S. Purchases as per cent of Total Output
1948	18.7	0.466	2.5
1949	23.1	0.518	2.2
1950	22.0	0.415	1.9
1951	22.0	0.524	2.4
1952	28.9	1.323	4.6
1953	21.9	0.332	1.5
1954	31.1	3.615	1.2
1955	35.7	13.405	37.5
1956	27.5	8.728	35.4
1957	31.3	13.258	42.4
1958	36.6	16.262	44.4
1959	36.4	16.642	45.7
1960	43.0	20.835	48.5
1961	43.2	22.400	51.9
1962	48.1	27.0	56.2

It would appear from the above table that between 1948 and 1954 producers were either unwilling or unable to sell their produce under the Price Guarantee

and that purchases never exceeded 5 per cent of the production each year. Two factors appear to have been responsible for this, *viz.*,

(*a*) the fact that the Guaranteed Price itself was not much higher than the World Market price as indicated in Table I, and it may reasonably be inferred that producers were able to secure a better price, as compared to the Guaranteed Price, in the open market, and

(*b*) the marketing organization itself was barely equipped to implement the guarantee due to inadequate coverage by purchasing points and insufficient storage to take over the produce expeditiously.

Since 1958, however, improvements made in the marketing organization has reflected themselves in the higher percentage of purchases effected annually. A Case Study conducted by the F.A.O. in 1962 indicated that 77 per cent of producers interviewed had sold their paddy to the Government at the guaranteed price and that 45 per cent of production came into the Scheme directly from the producers themselves, the balance 11 per cent of purchases being made from landlords, agricultural labourers and others. The survey also revealed that approximately 30 per cent of production was retained by producers for their consumption and seed requirements.

This increase in the volume of purchases has, however, been at a heavy financial cost to the Government which has to maintain the guaranteed price. Figures available from the financial year 1955-56 reveal that along with the increasing magnitude of purchases, the financial cost to Government has also increased rapidly. This is shown in Table III.

TABLE III

Year	Cost of Producer Subsidy (Million Rs.)
1955-56	78.0
1956-57	61.1
1957-58	93.0
1958-59	108.6
1959-60	133.9
1960-61	156.6

On the other hand, it is difficult to state in such precise terms how far the price guarantee has by itself contributed to increased production. In a country where nearly 40 per cent of the paddy holdings are less than half an acre, 80 per cent are less than $1\frac{1}{2}$ acres and only 0.8 per cent are over 10 acres, increased production

can hardly be the outcome of a price guarantee alone. Small and fragmented holdings connote generally an impoverished peasantry, lack of capital, ignorance of improved techniques of production, lack of managerial skill and also, almost invariably, a system of tenure heavily weighted in favour of landlords. All these characteristics pose problems which call for careful study, and intelligent handling before the climate required for productive efficiency can be created and it is only when such a climate has been created, can the price guarantee itself achieve its objective of increased production.

Measures designed to meet these circumstances have received considerable attention in the last few years and include among others the following :—

(*a*) The provision of credit on easy terms through village level Co-operative Societies to meet not only the minimum resources necessary to commence cultivation in time, but also the additional capital needed to meet the labour costs of improved cultivation practices and the finance required for the purchase of improved seed, fertilizer and agricultural implements.

(*b*) Institutional arrangements to supply both through Co-operative Societies and Cultivation Committees, cultivation requisites such as improved seed paddy, chemical fertilizer, barbed wire, sprayers, insecticides and pesticides and agricultural implements. The use of chemical fertilizer in particular has, under this Scheme, achieved a remarkable measure of success, and consumption has increased from 12,500 tons in 1956 to almost 40,000 tons in 1962. The consumption in 1963 is expected to reach 50,000 tons.

(*c*) The organization of cultivators at the village level in the form of Cultivation Committees to provide for the improvement, common management and regulation of those community functions which are so vital for the successful production of the paddy crop.

(*d*) Tenurial reforms designed to guarantee every cultivator that he will have a permanent, uninterrupted and hereditary right to occupy and use the land he cultivates subject to the payment of a just rent to his landlord and the maintenance of a minimum specified standard of efficient cultivation.

Side by side with these measures designed to meet the problem of small holdings, research and extension services have been intensified to bring the benefits of modern science and technology towards increasing productivity. Research has been directed principally, though not exclusively to :—

(a) develop high yielding strains of seed paddy which are also resistent to disease and are responsive to fertilizer application. One of the varieties developed locally—the hybrid called H^4—has already become extremely popular; and yields of over a hundred bushels per acre in cultivators' fields have been obtained in various parts of the country;

(b) develop, on the basis of scientific soil surveys and analyses, recommendations for fertilizer use appropriate to different soil conditions and districts;

(c) discover and provide effective techniques and chemicals to control weeds and eliminate pests and diseases; and

(d) design and introduce simple agricultural implements either to replace inefficient ones or to improve existing cultivation practices.

Simultaneously, the extension services have been strengthened to carry the results of this research to cultivators and an Island-wide educational campaign has been launched jointly by the Departments of Agriculture, Agrarian Services and Co-operative to educate farmers to adopt new cultivation practices particularly transplanting or row-seeding, control of weeds and routine spraying against pests and diseases, to use improved seed paddy and chemical fertilizer and to make the maximum use of the credit and other institutional facilities provided by Government for increased production.

The cumulative effect of all these measures, taken together with the price guarantee, can be seen in the production figures in Table II. It will be noted that within the last 10 years, *i.e.*, since 1952 when the price per bushel of paddy was fixed at Rs. 12, total production of paddy has increased by about 70 per cent from 28.9 million bushels in 1952 to 48.1 million bushels in 1962. The area cultivated annually has also increased from 1.1 million acres in 1952 to 1.5 million in 1962—an increase of approximately 36 per cent and average yields have moved up by 23 per cent from 30.8 bushels per acre harvested in 1952 to 38.02 bushels in 1962.[1] Import of rice still continue to be made to feed the increasing population. The effect of increased local production on imports has been particularly noticeable since 1959, when there has been a steady drop every year both in the volume and value of imports as indicated in Table IV.

TABLE IV—IMPORTS OF RICE

Year	Quantity imported (million tons rice)	Value (Rs. million)
1959	0.574	283
1960	0.520	242
1961	0.462	217
1962	0.404	195

The above analysis of the Guaranteed Price Scheme for paddy in Ceylon would seem to confirm that, by and large, it has been successful in achieving both its objectives. The Scheme itself has since its inception moved through three clearly

1. Amount of production in 1962 is arrived at by multiplying the net harvested area of 795,824 acres in the main season and 472,599 acres in the minor season with 38.02 bushels and 37.69 bushels of average yield per acre respectively (30.257+17.812=48·069 million bushels).

definable stages. During the first stage lasting from 1948 to 1954, the Price Implementing Organization itself appears to have been hardly effective and both farm incomes and production were largely unaffected. The second stage lasting from 1955 to 1958 was a period of improved efficiency in the implementing organization and the benefits of the price guarantee consequently began to reach a wider circle of cultivators every year. Nevertheless, the effect on production was on the whole inconsiderable, and the total output, average yields and the area cultivated recorded, if at all, only minor increases. The most rewarding and fruitful stage commenced in 1958-59 when not only was the Price Implementing Organization itself further improved by the establishment of a network of Multi-purpose Co-operative Societies throughout the country and the provision of additional storage for purchases of produce, but increased attention came to be paid to all the other factors of productive efficiency which had hitherto been either largely overlooked or, insufficiently taken care of. During this period, improvements to the Price Implementing Organization were coupled with developments in research and extension, the provision of adequate credit and institutional services to farmers, the supply of improved varieties of seed, subsidised fertilizer and improved equipment and, through tenurial reforms, the provision of social and economic incentives for increased production. As was to be expected, both production and farm incomes have shown substantial progress during the period following 1959 and, according to present indications, are likely to progress even more rapidly in the next few years.

Following the increase of production and the improved efficiency of the Price Implementing Organization, new problems have naturally come to the forefront. There is little doubt that these problems can be solved and if the present momentum in improving both the price implementing organization and the other services required for increased production is maintained, Ceylon stands a good chance of achieving self-sufficiency in her staple food in the not too distant future. The history of the Guaranteed Price Scheme for paddy in Ceylon confirms to the last detail the wisdom of the following observation contained in the Report of the Expert Panel on Price Stabilization and Support Policies which met in Rome in 1959 :

> "In many countries, especially economically less-developed countries, the full effect of price supports, particularly when used as incentives to increased production, will not be obtained unless parallel improvements can be made in institutional factors such as marketing, the provision of credit, and sometimes the system of land tenure, to ensure that price changes actually affect the farmer. Equally, improvements in these institutional factors, and other non-price measures to raise output and productivity, will often not be fully effective unless they are combined with measures to support and stabilise prices."