



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

1000 Journal of Agricultural Economics

SUPPLEMENT TO
INTERNATIONAL
JOURNAL OF
AGRARIAN AFFAIRS
DOUBLE NUMBER 1974-1975

Pam
Fi

Contributed Papers Read
at the 15th International
Conference of Agricultural
Economists

PAPERS 1-17

*Produced by the
University of Oxford Institute of Agricultural
Economics for the International Association
of Agricultural Economists*

OXFORD 1975

PRICE £1.50

AGRICULTURE AND SCIENTIFIC APPROACH TO THE PRICE POLICY
OF AGRICULTURAL PRODUCTS

Dusan Tomic

In this paper I would like to explain the results of my research regarding agricultural price policy in Yugoslavia.^{1/} Herein someone might find a proposal on how to build a complex, integrated and modern scientific approach to the price policy for agricultural products which might be considered as my contribution in this field of work.

Yugoslav agriculture is entering a phase of development in which most important tasks in the process of social development have to be fulfilled. That moment requires the complex investigation of long-term agrarian problems so as to point out the real situation of agriculture today, the directions to be followed, and the means, measures and methods to secure its optimal development.

The price policy for agricultural products, accordingly, has to play a prominent role in the long-term process of development of Yugoslav agriculture. Amongst the economic conditions of production price policy ranks most highly, since the position of agriculture in the prime distribution is determined mostly by price.

Price Policy of Agricultural Products: Role and Character -

During the post-war period the agricultural price policy in Yugoslavia has been determined by the over-all policy of economic development, the position of the agriculture in prime distribution, the demand for agricultural products and the complex of institutional conditions concerned with the process of production. It has passed through two basic phases which were essentially and qualitatively different.

A. The starting phase of accelerated economic growth in Yugoslavia during the first post-war years up to 1956 was characterized by an administrative system and concentration of resources directed to the building-up of industry. The price policy for agricultural products had second-grade importance within the system of administrative regulation of production and distribution of material goods.

The basic target of price policy for agricultural products in the system of administratively ruled production was redistribution of the realized amount of surplus value in agriculture - that is to increase social

1/ TOMIC, Dusan, Scientific Adviser, Economic Institute, Belgrade, Yugoslavia.

Politika cena poljoprivredno-prehrambenih proizvoda i njene društveno-ekonomske reperkusije (The Price Policy of Agricultural Food Products and its Socio-economic Repercussions), Institute of Economic Sciences, Belgrade, Yugoslavia, 1972.

accumulation, to accelerate industrialization of the country, and to protect the level of living in order to provide the essential needs for the nutrition of the population. The compulsory collection and low prices of agricultural products were well-known ways of obtaining the accumulation from agriculture. In that time, price policy was not supported by scientific research since the prices of agricultural products were determined and fixed by state bodies administratively.

Unequal exchange between agricultural and other sectors had, as a consequence, the stagnation of agricultural production, the small amount of accumulation directed to agrarian investment, and a very unfavourable economic position for agriculture. The serious lagging behind of agricultural production acted as one of the essential disproportions which injected elements of instability into the growth of the market and the economy as a whole.

B. The Economic development of Yugoslavia after 1956, was aimed at a complex development of the economy as a whole, which was a condition for achieving stable growth of productive forces. The second phase of economic development of the country has been marked by radical changes in the character of industrialization and the way of regulation and management of the economy. So far, during this period there was created a process of gradual abandonment of the administrative system together with all other non-economic components of the previous system. Consequently, it has been substituted by a new set-up of socio-economic life based on self-governing and market principles of economy. The carrying out of the Economic Reform measures in 1965 formed a closing act to that process, bringing all economic activities into relatively harmonious economic relationship.

A new stage in the development of the agrarian sector came with a new course in economic policy. Hence, the continual creation of over-all conditions to re-enforce the material base for more intensive growth of agricultural production has been a landmark of this stage. The significance of price policy and its consideration, as the most important economic instrument, grows greatly owing to wider recognition of agriculture in economic growth and enlargement of market conditions in the process of production. Accordingly, the price policy for agricultural products started to be the essential economic factor and regulator for determinating the position of agriculture in the market in relation to the exchange with non-agricultural activities, and reinforcement of the material base which appears as a precondition for faster growth of agricultural production.

The fundamental principles of the current price policy for agricultural products have been fixed by the Social Plan of Economic Development of Yugoslavia from 1971 to 1975. In principle, the prices of agricultural products are to be formed according to the particular conditions of production and the supply and demand on the domestic market.

To secure more stable conditions of growth and realization of agricultural products, the regime of guaranteed and minimum purchasing prices for contracted agricultural production has been passed. These prices have been formed in accordance with the average domestic conditions of production on social farm estates.

Besides, the price policy in agriculture has to be based upon sound economic criteria, social regulation of market prices; social understanding and self-governing agreements about prices of agricultural products

The Features and Effects of Agricultural Products Price Policy

The influence and activity of price policy for agricultural products, so far, have not grown in parallel and proportionately to the increase of its importance upon the growth and position of agriculture. Accordingly, the basic function of this price policy neither operated, fully as desired, nor became a relative stable and stimulating factor towards improving agricultural production. This needs to be highlighted by the adequate results of investigations which could be summed up as follows:-

1. The price policy in agriculture shows a permanent increase in the purchasing prices of agricultural products. Such tendencies directly enacted towards the gradual enlargement of the material base in agriculture and contributed also to the ever-increasing trend of agricultural production.

2. Except in a few years, agriculture was in an unsuitable economic position, leading to the overspill of surplus of work into other economic activities. Inconsistency between prices of agricultural products and those of non-agricultural activities directed to serve the needs of agricultural production has been synthetically expressed by the unfavourable conditions of production causing the deterioration of the economic position of agriculture.

3. The purchasing prices of agricultural products remained on a relatively low level, although showing permanent increase.

4. The low level of purchasing prices of agricultural products did not permit more radical improvement in the material position of agriculture. The possibilities of agriculture for more intensive growth were greatly limited, especially in the social sector, due to the low level of purchasing prices of agricultural products, constantly increasing costs of production, too big an obligation of payments for investment credits, and the low level of material base.

5. The dynamics of purchasing prices was different for the various individual agricultural products, since some of them obtained a relatively more favourable position on the market.

6. The price policy for agricultural products acted not only as a factor to increase income by improvement and growth of agricultural production, but even as a factor for redistribution of national income, also. It was found that from the total augmentation of social product of agriculture during the period under consideration, only 60% was the result of direct growth of agricultural production, while 40% of the increase came through the effect of increased purchasing prices for agricultural products.

7. The development of agriculture is characterized by a small elasticity of supply in relation to the prices of agricultural products. The elasticity was only 0.37.

8. Unequal fluctuation of prices has permanently disturbed the internal parity relations of purchasing prices of agricultural products. The internal disparities of prices among individual groups of agricultural products, particularly fodder and cattle, have had, as a consequence, the oscillation of agricultural production and the slowing down of change in the productive structure of agriculture.

9. The price policy did not exert a stronger influence on the change in

the structure of agricultural production, because it was not based on a long-term economic concept of agricultural development, Low prices of agricultural products could not cover the additional costs of production which appear as a condition for undertaking larger activities on improvement and augmentation of production of more intensive cultures in order to cause deeper changes within the structure of agricultural production.

10. The constant increase of retail prices of agricultural products call forth a considerably faster and higher increment expenditure on nutrition than the cost of living and real personal earnings. Therefore, the consequence was a relative deterioration in the purchasing power of food product consumers. The great differences in prices between average purchasing and retail prices of agricultural products set limits to the mass consumption and the demand for agricultural products, particularly those of high-value. All this has had sharp negative repercussions on the growth and improvement of agricultural production.

11. The low level of purchasing prices of agricultural products, a slow growth of agricultural production and high increase of total costs of production, have recently led to the deterioration of economic effectiveness in the production of the most important farm and cattle-breeding products.

12. The economic and agrarian policy recognized the changes in purchasing prices of agricultural products just at the moment when this production was endangered, or when the economic position of agriculture was seriously deteriorated.

13. Insufficient influence and effect of price policy on improvement, growth and structure of agricultural production and the creation of income herein, was the consequence not only of the unfavourable over-all economic conditions of production, but even more because of insufficiently developed researching work on a comprehensive study of conditions and backgrounds for the formation of prices of agricultural products.^{1/} It made and still makes enormous hindrances for the more intensive development of agriculture.

Comprehensive Scientific Approach to the Price Policy of Agricultural Products

On a higher level of both productive forces and real personal income, the agriculture will have to fulfil constantly increasing requirements of prospective demand for agricultural products. The economic position of agriculture, in that sense, will become a determining factor in the progress

1/ In definition and formation of price policy for agricultural products, the economic and agrarian policy face enormous difficulties since in the national economic literature there are few works on costs of production, level and structure of production price and on conditions of growth of production, considered for the most important agrarian products. During the last decade, the average prices of production and economic results of production of the more important agricultural products in the social sector, were investigated on the basis of systematic testing research. Such results have been used as a basis for determination of the levels of purchasing prices of agricultural products. However, the investigation of costs of production, productive prices and the conditions of reproduction on individual farms was neglected.

of high-productive and intensive commodity production. The relative economic position depends on equal treatment of agriculture in prime distribution and much more real weight on its economic contribution to the development of the economy as a whole.

Starting from this point of view, in the concept of economic conditions of the process of production and the weighing of the economic contribution of agriculture, the price policy of agricultural products has a determining place. That fact shows that the problem of building up a comprehensive scientific body of research into fundamental policy and analysis of agricultural products has to be treated as a programme of the utmost importance for the further development of agriculture.

The investigation of policy and analysis of prices have to be developed as the most significant field of agro-economic, scientific and research work. The basic goal, scope and character of investigation have to provide more comprehensively the entire process of price formation from the producer to the consumer including the study of policy, and analysis and prediction of prices of agricultural products.

The content of the research work in the field of the policy, analysis and prediction of prices of agricultural products is a very complex question.^{1/} Hence, the complex scientific approach to the price policy of agricultural products have to be based on components as follows:-

a) The demand complex of agricultural products - The investigation of demand of agricultural products in Yugoslavia has been done only recently, parallel with carrying out middle-term and long-term programmes of agriculture development, but the work is still loose and incomplete.

The estimation of long-term and short-term demand and demand elasticity for agricultural products is of a particular significance for the augmentation of the volume and the development of structure of agricultural production, price interrelations of agricultural products, the development of substitution and price policy in agriculture.

Accordingly, those researches must be based on the studying and estimation of numerous factors including: income, consumption of food products

1/ The essential aspect of scientific approach to price policy for agricultural products has been considered in this paper; at the same time, it does not neglect its techno-organizational side. The question of organization, in all its aspects, acquires full attention, since in Yugoslavia the work in the realm of systematic investigation and analysis of price policy of agricultural products has been insufficiently organized. The organization of scientific and research work in the field of price policy is a rather compound problem. Therefore, it has to be considered from the standpoints of price research in general, and by individual economic activities.

nutritional habits, substitution of products, consumption according to categories of consumers, consumption in relation to the different levels of prices of agricultural products, etc. The point here is that the demand for each individual product is, more or less, determined by a large number of factors.

b) The supply complex of agricultural products - Setting up and maintaining the balance between demand and supply of agricultural products is one of the main goals of long-term development of agriculture in Yugoslavia. Hence, the investigation of the supply of agricultural products must be put in the fore-ground both from the standpoint of price policy in agriculture and the satisfaction of demand for agricultural products.

Many productive, techno-technological, economic, social, climatic and other factors act upon the supply of agricultural products. Hence, research into the supply of agricultural products must include the volume of production, balance of distribution of production, average costs of production, regional aspects, time dimensions, etc.

The main aim of research into the supply elasticity is seeking to find a proper reaction of agrarian producers in relation to the kind of production increment, by individual products and branches of agriculture, which is under the permanent influence of the level and fluctuation of prices of agricultural products. The time gap of the supply reaction on the increase of prices is different from the individual agricultural products. This depends on natural resources, the character of production, width of the production activities, the application of new technology, etc. The dynamic evaluation of production growth potentials is an important element in relation to the formation and more stimulating action of price policy for agricultural products.

c) Complex of factors determining prices of agricultural products - Research on productive factors, costs of production and the relationship between demand and supply, have to provide the ground for pointing out the basic elements and relationships to be used in the formulation of price policy for agricultural products.

The cost principle has been adopted as the most important element of price policy in agriculture to be used as a guideline in agrarian production as well. The existing way of valorization and application calls for further elaboration and improvement of the cost principle in both theoretical and methodological senses.

The research into the total complex of factors determining prices has to make clear how much the production respecting the agricultural products was determined by previous prices and to define the relevant important components of price policy in agriculture: a) estimation of economically rational level and dynamics of prices of agricultural products, b) recognition of the structure and the changes in the structure of prices of agricultural products, c) setting up proper internal parities relating to prices of agricultural products, (being a very important pivotal element to direct the structure of agricultural production), d) treatment of agricultural prices according to product quality, e) prediction of prices of agricultural products in the long-term and carrying out of the long-term projection of the price fluctuations for agricultural products, f) follow the changes and fluctuations in prices as a need to make adjustments both with predicted prices in the long-term and goals of development policy in agriculture, etc.

d) Complex of territorial aspects of price policy for agricultural Products - Agrarian policy in Yugoslavia has dealt with the regional aspects of price policy for agricultural products insufficiently. Nevertheless, the regional aspect is specially important from the standpoint of development of agriculture, since there is a high degree of heterogeneity amongst individual agricultural areas.

For a rational price policy in agriculture, and for the increase of demand of agricultural products by activation of productive capabilities and possibilities regarding individual agricultural areas, research into product prices and differences in prices among regions is particularly important.

e) Complex of interrelationships of prices in agriculture - The external parity of prices makes an essential component of price policy for agricultural products. The relation between the over-all level of prices, especially price levels of products used in agriculture, and prices of agricultural products, attains prime importance both from the standpoint of the complete recognition of the economic position of agriculture and the establishment of the price policy for agricultural products.

The analysis of the over-all level of prices and levels of agricultural product prices should demonstrate the purchasing power of agricultural products, the position of agriculture in prime distribution and the joint influence of agriculture and the economy on the entire economic development.

f) Complex of relationships between productive and retail prices of agricultural products - The price policy in agriculture must pay far more attention to the investigation of the relationship between productive and retail prices of agricultural products. Herein, the margin has to be highlighted according to every element and on all levels of turnover. The differences between productive and retail prices of agricultural products is closely reflected in the consumption and demand for agricultural products on the one hand, and on growth and structure of agricultural production, on the other.

g) Complex of agricultural product price agreements - In searching to find the proper solution for a rational setting up and effective acting upon agricultural price policy the complex of agricultural product price agreements have to be accorded more attention. It is very important, since in the circumstances of the socio-economic development Yugoslavia, the negotiations stand as a prominent component of the development of the market economy based on self-governing principles.

The negotiation about prices of agricultural products on an equal base between agriculture, from one side, and processing and distribution from another, might greatly contribute to the reduction in the fluctuation of prices, to the increase of consumption of high-valued products and to the optimal development of agricultural production.

Research into the complex of negotiations among agriculture, processing and distribution on prices of agricultural products represents qualitatively a new appearance and requires enormous work. In that direction, the most important problems consist of the way to provide scientifically available material so that interested sides could come to an agreement about production and prices of agricultural products, effectively and with full confidence.

h) Complex of method of work and documentation - The elaboration of agricultural price policy functionally depends on the application of modern methodology of work and utilisation of qualitative and trustworthy statistical and documental material.

By and large, this complex in Yugoslav agriculture presents itself as a problem of its own kind. Firstly, the possibilities of modern methodology and technique of work are not completely utilized. Secondly, the available statistical and documental material is not complete and totally satisfactory. The most difficult problem is the collection of statistical data about prices of agricultural products on individual farms and in individual regions with all the real elements and details of price structure.

In the field of research into price policy of agriculture, in the period ahead, there must be intensive work in order to apply widely modern methodology and techniques of study, to provide complete and qualitative documental material, and improve the organization of research work. All this together makes a base for real recognition of productive prices of agricultural products, the setting up of a rational price policy in agriculture and the marking out of the optimal development of agricultural production.