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PRICE POLICY FOR AGRICULTURAL DEVELOPMENT

M. BALASUBRAMANIAM

*Lecturer in Economics, Annamalai University
Annamalainagar*

Price policy should be conceived of as a long term, continuing policy because Indian agriculture is tending to move from subsistence farming to a commercial production under planned phases of development. The recent trend is to apply the technique of farm budgeting and linear programming to work out a farm plan that would maximize profits and minimize costs. The success of these techniques depends, in a large measure, on relatively stable cost-price relationship in the long run. Hence a long-run price programme is of critical importance for the orderly economic progress of the country. The practical administrative and other arrangements have to be planned for the implementation of such a long term policy. The immediate minimum programme in this connection will itself have two aspects. The first is the stabilization of prices of agricultural produce as both protection and incentive to the agriculturist producer. The second is the holding of the price level, especially as otherwise it impinges on the less affluent classes of consumers. The two are closely interrelated.

The central area in the whole set of consideration is foodgrains and their prices. Stabilization of the prices of foodgrains has to be considered in relation to at least three aspects: (i) prices of substitute crops; (ii) prices affecting the agricultural producer in his cash outlay in production effort; and (iii) prices affecting the agriculturist as consumer. In relation to (i) the position of the major cereal foodgrains crops appears as follows: In the jute areas, jute is a substitute crop for rice; outside the jute areas, there is no real competing crop for rice. In wheat areas certain oilseeds crops may be considered as the only important substitutes. For millet areas, cotton and groundnut are the effective substitutes. Pulses are grown largely as mixtures. If we disregard jute for certain special reasons, the stabilization of supply and prices of foodgrains will require operations also in regard to the prices of oilseeds and cotton. Prices and supply of such crops as sugarcane, tobacco and the garden crops do not play an important part in this context.

The most important prices that affect the poorer consumers, both rural and urban, are those of foodgrains. Other important consumption commodities are cloth, sugar and *gur*, edible oil, salt and kerosene. Sugar, salt and kerosene are at present under control and prices of edible oil are connected with those of oilseeds.

The prices of cereal foodgrains and of cotton have been continuously under some sort of control for almost two decades. Among prices of concern for the agriculturist as producer, those of diesel oil and of kerosene are obviously amenable to Government control. The same applies to prices of imported fertilizers. The pricing and distribution of cement, iron and steel, and fertilizers, have been under Government control for many years. Among consumer prices, prices of cloth have not always been under control but occasions have arisen even recently when Government has felt it necessary to think in terms

of price control over cloth, and there are sufficient instruments and agencies with Government to undertake control of prices of cloth if need arises. It can be seen that there has already been considerable thinking and, either action or preparation for action on the part of Government. The only sets of relevant prices that in recent years, have not acted upon in any significant manner by Government, are the prices of vegetable oil, oilcakes and oilseeds.

In a consideration of regulation and stabilization of prices, we may distinguish between those commodities whose supply originates with a small number of producers or comes through a few points amenable to control and those in which production and supply are scattered in the hands of numerous producers over a wide area. (The detailed operation of a small number of large scale producers can be watched and controlled through a relatively small administrative mechanism but the small scale and great dispersal over space of farmers make direct control of their operations very difficult, if not impossible.) The more difficult problems in relation to the stabilization of agricultural prices are thus at the producers' end; in contrast, the real problems of prices of supplies which are imported, or of cloth and sugar, fertilizers or cement are at the retail distributive end. We must put into the field an effective system through which purchases of agricultural produce are so made as to keep the variations in their prices during any defined period within a given margin. This problem may be split into two: the first is in relation to support of floor prices; this is relatively simple. Given administrative, purchase and storage arrangements which are scattered enough through the country to provide an effective alternative purchaser to every producer who has otherwise to sell to the local trader, floor prices can always be made effective. Whereas it is thus not difficult for the State to act effectively to check a downward movement of prices, the matter is different with an upward movement. A Government operating with a set of standard purchase prices will not obtain supplies as long as the price at retail is such or expected to be such as to leave comfortable margin to the wholesaler at prices above the level of Government standard prices. Therefore attention has to be paid to the possibility of Government making a stable and continuous offer in terms of purchase prices over considerable areas. Whereas in locations and periods where and when costs of transport, of stocking and carrying are low, private traders may be able to outbid Government, they cannot do so when Government operations are large scale and continuous.

The possibility of Government obtaining supplies at standard prices will depend on its ability to sell, side by side, sufficient quantities at reasonable prices through spread-out distributive outlets at retail. However, Government can undertake such an operation only if it has initial supplies with which to operate. Without the initial stocks, prices at retail cannot be controlled and, without such control, acquisition through purchase at wholesale from the producer is rendered doubtful.

The vital requirement of initial operative stocks may now be said to be definitely satisfied in relation to the entire wheat consuming region. In this region sale of Government wheat may set a limit to retail prices not only of wheat but also of millets, because wheat in this region is an accepted and even a preferred grain. This may not be so in the rice regions or in the predominantly millet regions. For all these parts of rice regions where wheat is not accepted or is not part of the normal dietary, Government must acquire ability to sell rice at retail at given prices. The position of the millet regions

comes halfway through. In the predominantly millet region, wheat is not unknown, but is not preferred. However, the millets market is a strictly limited market; and with wheat plentiful at reasonable retail prices in all urban markets, control of retail prices of millets, unless the first year of operation is especially a bad year, ought not to prove intractable. The crucial point, apart from acquiring adequate stocks of rice immediately, is to have retail supplies spread out, especially in relation to strategic high-price markets and to have arrangements in relation to these completed by the harvest season. The arrangements must be known to the trader to be so complete and continuous that he will not think it possible to create an artificial scarcity at any time later. It is only the possibility of increasing retail prices some months after the harvest that can induce the wholesaler to attempt to outbid Government.

Price fixation requires the immediate determination, for each State and region and for each foodgrain, of a set of prices for purchase from farmers and for sale to consumers. There is also the aspect of differentiation in regional producers' prices. At present, because of zonal arrangements, differences between wholesale prices from State to State are in a number of cases even larger than the difference in procurement prices under food control during the war and after. Progressive integration of the national economy and the objective of doing away with unnecessary regulation requires that as a long-term aim, we must move towards a uniformity of producers' prices and that the differences in these prices from region to region should not be higher than warranted by a reasonable calculation of transport and other costs. In determining the retail prices, the level at which consumers' prices are to be satisfied, the cost of imported grains and the volume of subsidies and the procurement prices in the region are to be taken into consideration.

The immediate initial problem for Government is to settle purchase prices and consumer prices at levels which do not too greatly upset present operations and expectations and yet do not deflect Government policy from its proper long term objectives sketched above. For example, it may be granted that for the current year's operation, producers in no region should be offered prices lower than those ruling at harvest last year. On the other hand, for the consumer, a significant reduction of retail prices below existing levels should be attempted. Within these limits regional prices should be fixed in such a manner that the criterion of a low margin between purchase price and retail price is satisfied and as large a movement as practicable is made towards relative equality in all-India prices. The differentiation in the price levels of the various regions should make due allowance for cost imposed by distance, so that the consumer in the heavily surplus area gets some advantage of his nearness to areas of plentiful production and the producer in the deficit areas obtains an extra margin related to inadequate production in his region. The immediate result of the process should be that producers' prices will be increased chiefly in regions in which they are relatively low at present and consumer prices specially decreased where they are relatively high.

An immediate announcement in this regard is also necessary for indicating to the country the nature of a firm long-term Government policy. Otherwise, the fear is that at harvest producers' prices will be unduly lowered because of the existence of Government supplies and that retail prices will later become unduly high because of absence of adequate and appropriate Government action.

In relation to oilseeds, the main distributing element is the licensing of ex-

ports of oilseeds, oilcakes and oil. Severe fluctuations in the market are significantly related to variations in export policy or expectations regarding the variations of quotas. There are two steps necessary for eliminating this. Firstly, the import and export policy itself must be defined in long term ends and should not be varied on account of each temporary change. Secondly, processes of determination of quotas and speculation prior to announcement ought not to be allowed to disturb the market.

This can be done if operations for purchase for export are undertaken by a single agency on the basis of previously announced prices, preferably prices operating over periods like six months or a year. This is no more than what is at present actually done by boards which control exports of important commodities in a large number of other countries of the world. It is necessary that arrangements should obtain in the case of oilseeds as well as for oil and oilcakes.

Whether the State Trading Corporation should undertake this or whether it should be entrusted to special bodies completely public or semi-public with participation of established traders in the particular commodities is a matter for policy decision with a view to gaining the greatest economic and administrative efficiency.

Coming to the aspect of "coverage of controls", we have to note that Government have powers to control prices. Fertilizer prices are regulated through the Central Fertilizer Pool. Stabilization of raw jute prices through regulated purchases by the manufacturing interests is also envisaged. Both under the Essential Commodities Act and under the Industrial Development and Regulation Act, the prices and distribution of a number of commodities are subject to control. Government can also adjust the rates of excise duty from time to time on all excisable articles so as to alter suitably the relationship between particular prices. At present these adjustments can be made only when the budget is being presented. It would be desirable to examine whether in the interest of flexibility Government should take powers to alter excise duties suitably within defined limits in the course of the year.

The coverage of controls on different items and the extent to which prices may have to be adjusted upwards or downwards will have to be determined in the light of the trends in production and demand as they arise from time to time. In the case of sugar, the problem at present is one of dealing with a surplus. It may be possible to export a part of this surplus. But since the domestic cost of production of sugar is higher than the world prices, sales abroad will have to be subsidized. Over a period, the internal demand for sugar will steadily rise, and the aim of policy should be to improve yields rather than to increase the area under cane cultivation at the cost of other crops. In regard to cotton, from the point of view of the consumer, lower prices of cloth would be desirable, but it has to be borne in mind that the shortage of raw cotton has to be made good by imports which cost foreign exchange. In situations like this, a price incentive for increased production could justifiably be preferred. In the case of oilseeds, the need is to export more; at the same time domestic demand for oils is rising rapidly. The need here is to regulate prices in the interest primarily of exports. Prices for commercial crops will need to be regulated on a consideration of all these aspects.

The question of appropriate price parities links up with the issue whether the grower always gets the benefit of the prices that the consumer pays, or

whether his gains are intercepted by middlemen. Whatever the normal spreads between these prices, there is no doubt that the margin between producers' price and the consumers' price tends to go up in periods of shortage. The same holds for imported commodities for which demand is in excess of the available supplies. The State Trading Corporation has sought to reduce these margins by importing some commodities in bulk and selling them to actual users. To the extent possible middlemen's margin either in respect of imported commodities or in respect of domestically produced ones should be reduced by means of trading through Governmental or co-operative agencies.

In regard to open market operations in foodgrains, we have to note that in an economy like ours, where a substantial proportion of the expenditure incurred by the families in the low income groups is on foodgrains, reasonable stability of foodgrains prices is of vital importance. The experience in this field over the last decade and more has shown clearly that this is a field in which neither complete control nor complete decontrol is feasible. Government must always be in a position to regulate effectively the course of foodgrains prices. In regard to wheat the supplies in hand and the imports expected over the next three years offer reasonable assurance of price stability except perhaps in the event of serious crop failure. The situation in regard to rice is more difficult as it will not be possible, in the event of shortage, to import adequate quantities of rice within the available foreign exchange resources. The position in regard to other cereals and pulses has always been highly variable.

A major difficulty in the past has been inadequate storage facilities with the Government. It is essential as a part of long-range food policy that the storage and warehousing facilities under Government's control should be rapidly expanded. While imports have assisted and will assist for some time more in adding to the stocks with the Government it will be essential more and more to add to these stocks by domestic purchases, as production increases. Similarly whenever or wherever in the country prices of foodgrains tend to rise, Government should be prepared to sell adequate quantities from its stocks. These open market operations need to be undertaken flexibly and at a large number of places, so that their impact is felt directly at the points where it is needed.

In relation to zoning arrangements, where and to what extent they will be necessary, will have to be determined in the light of practical considerations. Similarly, whether the purchase and sale operations should be undertaken directly by the Central Government or through the State Governments is a question on which decisions will need to be taken on pragmatic grounds. A net work of co-operative and Governmental agencies close to the farmer, licensing and regulation of wholesale trade, extension of State trading in suitable directions and a considerable sharing by Government and co-operatives in distribution arrangements at retail stage are essential for the success of purchase and sale operations for stabilizing prices and correcting seasonal and regional variations. Regulation and control of prices are an aspect of the problem of institutional changes—that is, a strengthening of public and co-operative as against private agencies—that must necessarily accompany developmental planning.

In relation to "Price Policy and Regulatory Agencies", we have to note that the Government of India tried to stabilize agricultural prices by changes in their monetary, fiscal and credit policies but the price policy in a large measure was in a state of flux. Realizing the injurious effect of sharp changes

in agricultural prices, the Government appointed a Foodgrains Enquiry Committee on June 24, 1957 to suggest a price programme for stabilizing agricultural prices. The Committee recommended the setting up of Price Stabilization Board and a Foodgrains Stabilization Organization. Now the question arises as to the level at which prices should be stabilized to minimize price fluctuations. The Government has taken certain steps to bring some stability in agricultural prices through both marketing and production-stabilization operations under the Second Plan. But the long-run price stabilization policy demands the consideration of cost of production of bulk-line farmers.

SUGGESTIONS

The Price Stabilization Board as recommended by the Foodgrains Enquiry Committee should include agricultural economists who would be conducting surveys in respect of cost structure to locate the level at which bulk-line cost would be considered fair both to the vast majority of small producers and low income group consumers. They would also be making extensive analysis of the factors responsible for variations in agricultural prices and of the unpredictable year to year variations in the supply of individual agricultural produce. They would also investigate how much marketable surplus increased in response to the application of improved technology under the planned production programme.

(1) In the beginning a comprehensive study of cost of production of important commodities may be undertaken for a period of five years to study the yearly trend in the cost of producing these commodities and then a device may be worked out for computing an index of the bulk-line cost of production each year by an agreement between the agricultural economists and agricultural statisticians.

(2) Since the bulk-line cost would cover the studies of important agricultural commodities, the minor crops so essential for conservation farming and not covered by price support may prove very unremunerative. This may lead to indiscriminate farming practices. It is therefore essential that certain guaranteed prices in relation to the index of the prices of important commodities be assured for all these minor crops as well.

(3) The role of cost studies may also be viewed as one related to the development of marketing programme. The price received by a cultivator of his produce out of the consumer's rupee is a point that involves a relationship between cost of production and the price received by him.

(4) Agricultural economists who are well equipped both in basic knowledge and technical information can give competent guidance to any marketing programme. In States where the agricultural marketing staff is working independently of the technical control of agricultural economists, it would be worthwhile to put the former under the technical guidance of the latter as a part of a broader agricultural price policy.

(5) The responsibility of ensuring adequate supply of food at fair prices in every nook and corner of the country should, irrespective of the part assigned to the States, belong to the Union Government and the Union Food Ministry should have the advice and assistance of a Council approved by the President.

This Council should be composed of not more than five members who should be persons of public spirit, known for their proficiency in agriculture and trade economies and not belonging to any organized political party or school of economic opinion. The Council should be entrusted with the responsibility of (a) compiling information regarding food supplies and price levels and issuing that to the public in a suitable form periodically, (b) holding regional conferences of the Food Ministries and their officers to review the food and price position, (c) appointing *ad hoc* agencies to study and consider problems relating either to a specified area or to a specific commodity, (d) recommending the quantum of buffer stocks to be maintained by Governments, (e) advising about the opening of fair price depots, (f) in the event of the Government fixing the price levels and the agriculturists having to suffer loss in consequence, determining the quantum and the mode of compensation or subsidy to be given to them by the Government, and (g) advising the Government on the import of food-grains from foreign countries and on inter-State movement of foodstuffs.

The Government should adopt no taxation or financial policy and no measure relating to agriculture, irrigation, electricity, transport, industry and commerce, which is likely to affect food production and food prices, without the prior advice of the Food and Prices Council. There should be a chief Food Commissioner for the whole of India, working directly under the Food Minister of the Union Government. There should also be a Food Commissioner for each State, to implement the measures and policies determined by the Centre and to administer connected matters within the State. It should be the definite responsibility of the Centre to ensure that the State Governments co-operate loyally with the authorities of the Centre as regards both production and distribution of food and also all connected policies. All talks of fixing limits to the extent of agricultural holdings should be dropped in the interests of the country, for at least ten years. The various legislative measures mooted by the State Governments and the loose talk about co-operative farming indulged in by responsible leaders had been strong disincentives to people likely to find employment for their talents and money in agriculture and had gravely disturbed agricultural economy and adversely affected prices. So the elimination of these disincentives is the first incentive now called for. There could be no more vital or more urgent duty for a Government, than ensuring adequate food supply to the population. The other duty that could take rank with it is that of military defence. In essence, both duties are indeed only two aspects of one and the same supreme object, *viz.*, protecting the nation's very existence. Food is protection against sickness and death, while the army is protection against a foreign enemy.

CONCLUSION

Fiscal and monetary policies have continually to be orientated towards restraint in consumption and maximization of savings. The role of direct regulations and controls is essentially to correct imbalance in selected sectors and for this purpose buffer stocks and market operations are vital. These operations have to be directed towards keeping price fluctuations in respect of foodgrains and other basic essentials within defined maximum and minimum limits. Price rigidity is incompatible with development and some prices cannot but rise. The object must be to regulate within defined limits the prices of basic essentials. Price regulation involves action at various points. The necessary incentives to larger production have to be preserved. Therefore it is necessary that

Government would set up and promote the necessary co-operative and State agencies for purchase and sale of foodgrains at appropriate stages so as to strengthen its power to influence the course of prices and to prevent anti-social activities like hoarding and profiteering from getting the upper hand.

If the framework of system envisaged above is raised as early as possible and it is built up fully by 1965 there is no reason why our food problem should not be completely under control by the end of the Third Five-Year Plan. It is only under such stabilized conditions and with an assured and announced Government policy, that the production programme of Government in the agricultural sector has any real chance of attaining success.

PRICE POLICY FOR AGRICULTURAL DEVELOPMENT*

P. C. BANSIL

Planning Commission, Government of India

New Delhi

The objectives of price policy may differ according to the specific situation in a country. In India and countries of the Far East, for example, in determining the price policy, the emphasis is on increased agricultural production, while in the U.S.A. the problem is actually how to dispose of the surpluses. But in general, the objectives of price policy may be stated as follows:

1. To adjust supplies to demand and *vice versa*.
2. To reduce violent or abrupt fluctuations in prices. In fact, this is just a corollary of the first objective. The balancing of supply and demand itself is a way to control wide price fluctuations.
3. To encourage production of commodities needed by the country to improve people's diet, to provide raw material for running industries and even maintain the health of soil—a permanent asset of national importance all the world over.
4. To ensure a balanced production of various grains and other farm products.
5. To ensure a reasonable living to the farmer.

* This represents the personal views of the author who is obliged to Dr. G. D. Agrawal for his valuable comments on an earlier draft.