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this decision, the price policy was aimed at securing to the planter, an average return at Rs. 2.40 per point.

The position during the next 5 years is as indicated in Table III.

TABLE III—AREA, PRODUCTION, COST OF PRODUCTION AND FINAL PAYMENT (1955-56 to 1959-60)

Sl. No.	Season	Total Planted Area under Coffee (Acres)	Total Production of Coffee (Million Tons)	Estimated Cost of Production per point	Final Return to the Grower per point
				<i>(on Cwt. Basis)</i>	
1.	1955—56	2,54,449	35,028	2.35	2.56‡
2.	1956—57	2,60,401	42,572	2.22	2.81
3.	1957—58	2,68,472	44,490	2.33	2.51
4.	1958—59	2,72,298	46,605*	2.23†	2.45†
5.	1959—60*	NA	49,740*	2.11†	2.24†

N.A.: Not available.

\* Estimates subject to revision.

† On 50 Kgs. basis.

It may be seen from Table III that the production of coffee in India increased very considerably although the area did not increase to the same extent. The returns to the grower, however, fell steeply in recent years owing to the fall in the export earnings as a result of surplus coffee production in the world. Consequently, the profit margin that was being received by the growers is lessening and the earlier decision of basing the return to the grower on the average of the 7 years ending 1954-55 is no longer workable owing to a steep decline in the prices of coffee particularly in the export market. As a result of this, the price policy to be followed now is due for a revision and is receiving the attention at the hands of the growers, the Board and the Government. Suggestions have been made that it is better to link the return to the grower with the cost of production to be ascertained by an impartial authority like the Tariff Commission, and efforts should be made to revise or re-orient the marketing policies of the Board to handle the growing production more efficiently.

## PRICE POLICY FOR AGRICULTURAL DEVELOPMENT

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### *Effect of Price Level on Agricultural Production*

A satisfactory and dependable level of prices for farm crops is one of the greatest economic incentives for agricultural production. It is a common knowledge that Indian farmers have experienced wide fluctuations in the price

1. Views expressed are personal.

of major crops from year to year and from season to season. These fluctuations have caused great hardship both to producers and consumers. Greater fluctuations have also been observed in the prices of the same commodity at the same time in different markets in India. Some of these variations can be justified by the costs of transporting the commodity from one place to another. Others may be due to the quality differences. Even with these qualifications, the price disparities have been unreasonable.

The tendency for prices to be low immediately after harvest, which is the time when cultivator must sell his produce to meet his obligations, is the main price difficulty experienced by him. Then subsequently a rise in prices usually occurs which affects him if he buys foodgrains for home consumption or for seed. The Foodgrains Enquiry Committee Report (1957) reveals the fact in the following words: "The general price index declined by 17.6 per cent between the middle of 1953 and the middle of 1955 and then rose by 23.4 per cent by the middle of 1957: The price index of manufactured goods first fell by 2.8 per cent and then rose by 10.5 per cent during the same period. As against this, price index for cereals first slumped by 34 per cent and then shot up by 51 per cent." Apart from the level of food prices, it is the relative instability of food prices with its consequences in instability of the incomes of agricultural producers and of costs of living, cost of production, employment and other elements of the economy that forms one of the problems for consideration. Throughout this period, seasonal rises and falls also changed their character, troughs being deeper in the earlier years and peak more prominent in the later years, as may be seen from Table I.

TABLE I—FALL IN PRICES DURING THE YEAR FROM THE PREVIOUS PEAK TO TROUGH AND RISE IN PRICES FROM PREVIOUS TROUGH TO PEAK

		(per cent)		
Crop Year		Rice	Wheat	Jowar
1953—54	Trough	—22.3	—27.3	—14.1
	Peak	+ 3.4	+13.2	+ 6.5
1954—55	Trough	—20.0	—24.7	—44.9
	Peak	+12.5	+46.6	—
1955—56	Trough	— 4.9	— 7.1	—
	Peak	+29.9	+22.8	+166.7
1956—57	Trough	— 9.9	— 7.2	—12.5
	Peak	+22.0	—	+ 7.62

These variations have been much greater than variations in prices of labour, industrial production and other things that the cultivator must buy. Unless the situation is corrected by governmental action there will not be a favourable climate for adoption of the technological changes required for agricultural production.

There are also wide variations in harvest prices, thereby affecting adversely the agricultural production, as may be seen from Table II.

2. Government of India, Report of the Foodgrains Enquiry Committee, New Delhi, 1957, pp. 13-14.

TABLE II—INDEX NUMBERS OF HARVEST PRICES

(Agricultural year 1938-39 = 100)

Year	Commodity Groups			
	Foodgrains	Oilseeds	Miscellaneous Crops	All Commodities
1949—50	485	611	388	474
1950—51	534	716	368	511
1951—52	538	564	303	476
1952—53	535	522	278	461
1953—54	426	553	291	440
1954—55	376	338	239	333
1955—56	437	430	268	389

Source: Government of India, Indian Agriculture in Brief, Fourth Edition, pp. 85-86.

The uncertainties of price are specially troublesome to the many cultivators who incur loans for crop production and frequently for capital items such as purchases of bullocks, equipment, etc. Consequently they hesitate to incur added operating expenses and new investment for expanding production because they fear that the increased outlay will not be covered by sale of the additional produce. They are worried that the price will drop to levels that will reduce rather than increase their net incomes. At times an increase in production results into proportionately more decline of prices thereby affecting the economy of cultivators considerably as has been indicated by the Foodgrains Enquiry Committee (1957) in their report. "The fall in prices which followed the increase in production was significantly intensified by the phenomenon of acceleration of price movements. The decline in prices of different foodgrains was far out of proportion to the increase of production, with the consequence of an actual decline in the incomes of the cultivating population."<sup>3</sup> During recent years the price uncertainties have been especially serious for small farmers. They find themselves unable to afford to take the risks involved in wide price fluctuations.

The extreme price fluctuations for foodgrains by years, by locations, and by seasons of the year are undesirable not only to producers, but to other major groups in the Indian economy and to the Government itself. An increase in prices causes immediate hardship to consumers who under all circumstances tend to spend a high proportion of their incomes in foodgrains. A relatively stable level of price is preferred by all sections, but the present marketing structure is not conducive for its achievement.

To encourage increases in foodgrains production, the cultivator should be assured of a price which will enable him to invest in fertilizer, seed and new equipment knowing that, with average crop conditions, he can repay any debts with the added income that results from adoption of improved practices. Such assurance would constitute an important incentive to increased production.

### *Essentials of a Price Policy*

In a developing economy some rise in prices is inevitable. In fact it is the price to be paid for development, but if it generates speculative tendencies, resulting in withholding of stocks from the market, it will tend to aggravate

3. *Vide*, Report p. 9.

inflationary pressures. It is because of this instability in the market brought about by the operations of wholesale trade that the Foodgrains Enquiry Committee emphasized the social control over the wholesale trade to bring about stabilization of foodgrains prices.

Thus to sustain an increasing tempo of development of the economy, it is essential that the magnitude as well as the flow of marketable surplus should be increased. This means that side by side with measures directed to raising agricultural productivity, steps have to be taken to ensure a larger flow of marketed surplus out of the increased productivity. A well defined price policy can be a powerful instrument for facilitating a larger flow of marketable surplus.

The objective of price policy in regard to foodgrains have often been described as comprehending the maintenance of levels of prices which are fair to the producer as well as to the consumer and the avoidance of undue fluctuations in prices over time or space. In a way, the second objective would also conduce to the first by minimizing the variations in prices which hit the producer and the consumer and provide opportunities to the trader to magnify at the expense of both.

There is a wide measure of agreement on the desirability of ensuring comparative stabilization of prices or of avoiding unduly large fluctuations in prices (i) from one year to another, (ii) from one season to another within a year, and (iii) from one region to another within the country. While it is easy to agree thus about the desirability of achieving stabilization in prices, it is not so clear as to how situation of rising prices associated with relative scarcity of supplies whether due to shortage of output or marketed surplus or both, is to be tackled.

#### *Analysis of Alternative Policies*

(1) *Buffer Stock Operations*:—The Report of the Foodgrains Enquiry Committee recommended that “In our view, buffer stock operations can be a most effective instrument for the stabilization of prices of foodgrains. The main idea of such operations is simple. Whenever prices tend to fall, . . . , this organization should step in and start purchasing at reasonable prices. Similarly, when prices tend to rise, this organization should sell at reasonable prices.” It has also been stated that from time to time the buffer stock authorities will have to fix the limits of prices at which it would buy or sell, within the range of prices fixed by Government. Further it has been claimed that “If the organization starts operating from a position of strength, with sufficient stocks at its disposal and sufficient funds to invest, it will soon find itself in the position of a dominant trader in the economy and will be able to control the market effectively. It will then be able to control the market trend seeking to depress prices when the market is rising and support prices when the market is falling. This would thus go a long way to protect both the producer and the consumer against violent fluctuations in prices.”<sup>4</sup>

However the adequate stocks for buffer stock operations could only be accumulated at a time of falling prices. In a scarcity situation, the additional stocks required to arrest a rise in prices would have to be largely imported,

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4. Report, p. 85.

though there would remain possibility of some purchases in surplus pockets at harvest time. In a situation of scarce home supplies primary reliance on internal purchases, however, tends to be self-defeating as a means of meeting the scarcity. Besides, initial purchases made by the State tend to push up prices by more than the subsequent sales are likely to reduce them. Due to the necessity for some pipeline stocks the subsequent sales are also likely to be less than the internal purchases. Under these situations the purchase and sales on account of buffer stock operations perhaps may not have any general impact in the desired direction.

(2) *Socialization of Wholesale Trade*:—In times of inadequacy of supplies there has been a tendency to explore and discover new shortcuts, of which socialization of wholesale trade is one as has been recommended by the Food-grains Enquiry Committee that “until there is social control over the wholesale trade we shall not be in a position to bring about stabilization of foodgrains prices.”<sup>5</sup> In times of any serious scarcity of supplies and consequently rising prices the State control would be needed at all points in the long chain from production to final consumption. The belief that in a situation where excessive profits would tend to arise all along the line, control over one link in the chain, namely, wholesale trade can eliminate profiteering tendencies is basically fallacious. The device of socialization of the wholesale trade by itself has only limited scope in such a situation. It is not that State trading would be inappropriate in such a situation. It would be inadequate. For, effective State control is then called for not at one, but at a number of points and, therefore, has to be more comprehensive and more widely applied than mere socialization of wholesale trade ensures. Of course it could be justified to eliminate the private wholesale trade in the normal course of the State machinery of trading and more economical distribution could be worked out. By a progressive increase in the share of the State in the trading at the wholesale level the objective can be assured. Thus over a number of years the State may play a dominating role in the channelling and distribution of supplies. On an extensive basis building up of adequate warehousing and storage facilities is an essential prerequisite to successful State trading. Besides, socialization of the wholesale trade cannot by itself succeed unless the era of shortages has given place to comparative adequacy of supplies, home-produced or imported, over a period.

(3) *Application of Control Measures*:—The general aim of a price policy is the maintenance of levels of prices which are fair to the producer as well as to the consumer. But in a real scarcity situation prices tend to be more than fair to the producer and less than fair to the consumer. To correct this situation it would be necessary to apply control measures on a more comprehensive basis. The policy of control or regulation would then mean a relief to the consumer. It would then require the producer to part with his produce at a price lower than he would tend to obtain in a free market, with a view to securing the benefit for the consumer. This process requires a degree of control over supplies including procurement from the producer through control over wholesale trade and distribution, to rationing of supplies to the consumer, which ensures that the benefit of the sacrifice imposed on the producer actually accrues to the consumer. Thus undoubtedly it is difficult to exercise a comprehensive control at a number of points which also makes a large claim on administration. This process also requires ascertaining whether and when the

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5. Report, *Op. cit.*, p. 86.

pressures on prices are strong enough to warrant the imposition of comprehensive controls on procurement, trading and distribution of foodgrains. These are essentially matters for political appraisal and decision. The price controls in the country in recent years have been aimed at checking excessive price rises or falls rather than achieving continuing price stability. These programmes are also likely to fail to protect adequately the interests of either the producer or the consumer unless supplemented by heavy administrative burden as mentioned earlier.

The question arises what then are to be the elements of a price policy for agricultural development. The following objectives are essentially to be taken into consideration while formulating the price policy for agricultural development.

### (1) *Conformity with General Economic Conditions*

A price policy for agricultural development in the first place must take into account the economic context in which it has to operate and the general economic objectives of the country. It may be said that in general a price policy for agricultural development should aim at an increase in the volume of agricultural production and marketed surplus broadly commensurate with the rise in demand. It may help to ensure reasonable stability of prices over a period and a continuous rising price trend for foodgrains may be prevented. It is also equally essential that fiscal and monetary policies are attuned to the objectives of price stability in order to ensure broadly stable prices for foodgrains over a period. For it is not advisable to presume that foodgrains prices alone will remain stable in case the general level of prices continues to rise. In fact a rise in demand for foodgrains is commonly associated with the growth of inflationary conditions. In such a situation the task of food policy becomes particularly very difficult if at the same time an unusual growth in the demand for food is made by general economic conditions—as they lead to a shrinkage in marketed supplies, for it is found that inflationary conditions also tend to reduce the surplus available for the market.

### (2) *Assurance of Reasonable Prices to Producers*

It is a well-known fact that the fall in price at harvest time (relative to its later increase) is greater than is warranted by service costs alone. In order to meet his financial obligation, the cultivator is unable to retain the harvested produce which clearly indicates his weak bargaining power. It is, therefore, essential that any plan for increase in agricultural production must provide for a guarantee of reasonable prices to the producer. Besides, it must be recognized that farmers' worry in the context of rising prices is often not the announcement of minimum or guarantee prices but the extent of actual support given by the State to price of particular crops through effective purchases in surplus regions backed by adequate storage facilities.

### (3) *Maintenance of Fair Parity Prices*

The importance of price policy for agricultural production lies more in the relationship of prices of one crop to those of other crops to which the farmer can divert his land, than in the absolute level of prices. Principally agricultural production is affected by way of diversification of the land to the crop which



is relatively more profitable to grow. Higher prices do not necessarily contribute to large total agricultural production, though they may result in larger production of certain crops but correspondingly less production of other crops.

A successful price policy for agricultural development, therefore, requires establishment of proper relationship within the agricultural section between food and cash crop and between farm products and non-farm products so that terms of trade do not favour one section at the expense of the other. Therefore, a conscious and consistent price policy is necessary to guide production to planned targets. This policy should aim not merely at reducing price variations but should maintain relative positions among agricultural commodities to attain desired patterns of output.

#### (4) *Stabilization of Prices*

To overcome the hardships accruing to cultivator as well as to consumer on account of extreme seasonal, regional and yearly fluctuations in agricultural production particularly of foodgrains, thereby affecting adversely the agricultural development programme, the stabilization of prices at a desired level is a prime necessity.

The stabilization of prices may be termed as core of any price policy for agricultural development. It means a systematic and continuous effort to maintain prices of agricultural production particularly of foodgrains at the desired level. "This can be accomplished only by a permanent agency which can formulate price policy and implement this policy with the required action. We suggest that such an agency be given the responsibility for:—

- (1) determining base prices and the permissible range in variations from these prices,
- (2) announcing the prices well in advance of the sowing season,
- (3) initiating purchase or sales operations as required by circumstances,
- (4) establishing the locations for stock of each foodgrain and the recommended supplies to keep in reserve,
- (5) determining export and import duties and quotas and such other devices for controlling prices as may be necessary, and
- (6) encouraging the development of an effective grading system."<sup>6</sup>

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6. Government of India, Report on India's Food Crisis and Steps to Meet It, p. 26.