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RAPPORTEUR'S REPORT

ON

PRICE POLICY FOR AGRICULTURAL DEVELOPMENT

Rapporteur: PROF. M. L. DANTWALA *

Though as many as 17 Papers have been submitted on the subject of "Price Policy for Agricultural Development in India," the issues raised and the ground covered by them are somewhat limited. Most of the writers have devoted considerable space to preliminary issues like the importance of agricultural development and of the price policy. Some have given a factual account of price trends and the price policy pursued during the last few years. Only one Paper deals with a specific commodity—coffee—and the problems confronted (by the Coffee Board) in determining the price.

The objectives of the price policy have been defined variously but in such broad general terms as to be almost unexceptionable. In simplest terms, a good price policy is defined as one which would be "fair to the producer as well as to the consumer." More elaborately, it has been defined as a policy which would "ensure movements of relative prices that would be consistent with the priorities and targets of the Plan." However, when one seeks answers to operationally crucial questions such as how exactly should fairness be measured or the *relative* prices be determined and what should be the mechanism through which their precise movements be *ensured*, the Papers do not shed much light. Further, the possibility of a conflict between any two otherwise unexceptional objectives such as optimum allocation of resources and maintenance of parity prices and incomes between producers of agricultural and non-agricultural commodities is not fully discussed.

Stability of prices—or avoidance of excessive fluctuations—has been emphasized as an important objective of price policy. The characteristics of fluctuations—seasonal, secular and cyclical—in prices have been explained but, while dealing with the causes of instability and remedies for its avoidance, the distinction between the various types of fluctuations has not been always kept in view. There appears to be some confusion regarding the definition of seasonal fluctuations in prices: some defining it in terms of the difference between the post-harvest and pre-harvest prices, others by reference to the trough and the peak periods within a season. It is perhaps necessary to note that the two—the post-harvest and the trough, the pre-harvest and the peak—may not be identical particularly if the secular trend happens to be contra-seasonal. If the latter (secular trend) is more dominant, the practical relevance of seasonal fluctuations may be greatly reduced. Further it is a moot point whether any meaningful conclusions can be drawn from the seasonal movements of the group index of cereal prices, especially in view of the fact that the harvesting seasons for rice and wheat are not simultaneous but follow each other, thereby neutralising the seasonal rise and decline in each other's prices. The definition of price spread like that of seasonal fluctuations is also somewhat imprecise. For example, in one Paper, the price

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spread is measured by reference to the price received by the farmer immediately after the harvest and the prices at which the wholesalers sold the commodity (or the retailers bought it) towards the end of the season. This is the so-called difference between the producers' price and the consumers' price. In all such calculations there is an implicit assumption that the farmers sell their produce immediately after the harvest, say within the first quarter (an assumption which is largely correct) and the middlemen sell most of it towards the end of the season (an assumption which is not correct). It is obvious that the consumers buy their requirements all through the year and though the traders might hold the commodity for a period of six months or longer, it is unrealistic to assume that all their sales take place only towards the end of the season. Strictly speaking, the measurement of the price spread should be with reference to a given point of time, indicating the differences in prices on a given day in the producers' market, the wholesalers' market, the retailers' market and the consumers' market.

Several writers have emphasized the importance of marketing institutions and practices in the discussion of the price policy. It is obvious that the incentive effect of (higher) price on the farmers will be completely lost if as a result of faulty or exploitative marketing arrangements, the same is not transmitted right up to the farmers' end.

The most crucial question in the discussion of the price policy is that of the effectiveness of prices in realising the production aims. On this question, the Papers could be divided into distinct groups. One group has complete faith in the capacity of prices to influence the production and even to determine it in a manner consistent with planned priorities and targets. The other group is more sceptical regarding the capacity of prices to achieve any such definitive results, not simply on the elementary ground of the importance of the biological factor in determining production, but on economic ground as well. Much would depend upon the elasticity of demand and of the aggregate consumer expenditure on (say) foodstuffs. If the latter bears almost a constant ratio to total income—as the recent FAO Survey on the State of Food and Agriculture reveals—higher prices may not result in higher incomes. Some members of this group, for example, have argued that in a situation in which subsistence farming predominates prices do not have much significance for production. Others argue that the changes in product prices percolates soon to factor prices and also to the prices of other products exchanged with the products of agriculture. Still others argue that the same results (*viz.*, increase in production) can be better achieved through a policy of subsidising the inputs, like seed and fertilizer, and thereby not only increase production but also reduce costs. The former group, *i.e.*, those who recommend an active price policy, consists of some less sophisticated who simply demand higher prices for agricultural produce (not bothering to define, higher than what?) and others who advocate adoption of policy measures for 'minimum', 'stabilized', 'parity', or 'integrated' price. The economic and institutional devices which would help to realise these objectives of price policy include the maintenance of buffer stocks, built up either through imports or procurement, levy and open market purchases, co-operative marketing, State trading, transport regulation, etc. In the discussion on this subject the immediate (or the next year) effect of price change should be distinguished from that of a persistent trend, one way or the other.

Much would depend upon what exactly one desires the price policy to achieve. Do we want it to (1) avoid excessive fluctuations not only in prices

but also in incomes, (2) maintain parity—ideologically or historically sanctified—relationships, (3) raise agricultural incomes, (4) keep costs of developments low, (5) ensure a crop pattern, or (6) ensure a production performance in conformity with planned targets?

Can all these objectives be simultaneously achieved—is there no conflict *inter se*? If some have to be sacrificed, which should those be? In which fields is a price policy more suitable in terms of its effectiveness? How much of it can be translated into workable operations? And finally, if fully operated, what would it need in terms of administrative personnel and competence and what would be its social and political implications?

Special mention may be made of Papers based on field investigations. Kahlon and Johl have worked out correlations between (1) seasonal fluctuations in *arrivals* and *price* in the *Moga* wheat market, (2) “irregular” price fluctuations in the producer market (*Moga*) and the importing market (Amritsar), and (3) a regression equation of “irregular” prices in the export market with (a) “irregular” *price* fluctuations in Amritsar market, and (b) irregular *arrivals* in the *Moga* market. In regard to (1) a high degree of negative correlation was discovered. No. (2) showed a high positive correlation and as for (3) irregular price fluctuations in Amritsar were highly significant—for fluctuations in *Moga* market—but irregular *arrivals* (in *Moga*) were not. It is for consideration whether conclusions under (1) conflict with conclusions under 3 (b). E. S. Michael gives the results of a field study on regional variations in prices. For this purpose, he has evolved an “Index of Integration” by “working out the mean of the wholesale prices of a commodity (say rice) ruling at various centres for a particular year and thereafter calculating the percentage relationship between the wholesale prices of different market centres and the mean,” *i.e.*,

$$\frac{\text{The wholesale price of rice at Kakinada in 1952} \times 100}{\text{Mean of prices at all rice centres in 1952}}$$

Five commodities have been studied—rice, wheat, cotton, *gur* and groundnut. His general conclusion is that “there is favourable trend towards regional price integration in the case of all the five selected commodities.” Amiya Gupta examines the farmers’ share of the consumer rupee—referred to as price spread—by reference to price data of Bolpur (W. Bengal) market. His conclusions are: (1) the farmers’ share of the consumers’ rupee (at wholesale level) has not suffered any persistent diminution; (2) there is a tendency for the farmers’ share to fluctuate widely between the years; (3) as the season advances, the price spread increases. S. P. Sinha has worked out a relationship between the “purchasing power of net returns per acre” (of four crops) and the acreage sown to them in the following year. The relationship—farmers’ response to price changes—did not appear to be significant. On the other hand, larger crops appeared to result in higher returns to farmers. The two together would imply that while higher prices may not result in higher production, higher production would yield higher income.

The content of these studies and the conclusions to which they led have been stated above without any comment. It may however be just mentioned that the concepts used and measurement techniques adopted need much scrutiny before the results are accepted as valid.

In the light of the material presented in these Papers, I may suggest that the discussion on the topic may be organized around the following issues:

- (1) Inter-relationship between agriculture and the rest of the economy in the process of development—actual and desired. The price policy would depend upon the view taken regarding this relationship and strategy of development.
- (2) Difference, if any, in the agricultural price policy in developing and developed economies.
- (3) Objectives of price policy, consistency and conflict between them, priorities.
- (4) Nature of price uncertainty—seasonal, secular and cyclical—and their inter-relationships.
- (5) The impact of price on (i) production, and (ii) marketable surplus; relative role of prices and other factors—weather, tenure, marketing arrangements.
- (6) Problem of price determination, formulation in concrete terms of minimum prices or integrated prices or parity prices and the mechanics of its implementation.
- (7) Regulation and control of prices: minimum price, minimum-maximum range, open market purchases, procurement, levy, imports, buffer stock, distribution of Government stocks—rationing and retail distribution.
- (8) Marketing, trade and transport regulations, licensing of traders, co-operative marketing, export regulations, State trading and transport zones.

SUMMARY OF GROUP DISCUSSION

Chairman: PROF. M. L. DANTWALA

The Group commenced the discussion on this topic with an attempt to define the objectives of price policy. It was soon realized that it would be more useful to indicate priorities and preferences in the choice of objectives rather than give a comprehensive list of all theoretically determinable objectives. Since these priorities were to be determined in the light of the requirements of planned economic development, it was suggested that it would be desirable to emphasize the resource-allocation and growth role of the price policy rather than its distributive functions. Even in regard to the former, it was felt that it would be unrealistic to expect the price policy to devise a pre-planned structure of relative prices which would *ipso facto* ensure the pattern of output envisaged in the Plan. Any such attempt would pre-suppose a thorough knowledge of the demand and supply elasticities of scores of commodities and the existence of a causal relation between prices and production immaculate enough to achieve the desired pattern of output with the instrument of laboratory prices. Two allied questions were mentioned: (1) the degree of interference which such an opera-

tion would involve in the working of the economy; and (2) the administrative competence that would be needed for the purpose. It was, however, agreed that the price policy could, and should, be utilized for the limited purpose of influencing specific situations or correcting a trend patently inconsistent with the objectives of planning.

The largest amount of consensus was on the stability objective of price policy. It was assumed that stability visualized here was not fixity or rigidity of prices but rather the avoidance of excessive or unwarranted fluctuations. It was even contended that some secular rise in prices would not be inconsistent with the objective of stability. Stability, it was argued, would constitute a more effective incentive than sporadic higher prices. The most important element of stability was an assurance that prices will not be permitted to fall below certain levels, and at those levels there would be an assured market. Production and investment programmes could be recommended, and would be acceptable to the farmers only on the basis of such an assurance. It was pointed out that subsidizing of inputs which was considered as an alternative device for augmenting production and incomes was strictly not an alternative because in the absence of an assured minimum price, there would be hesitation to undertake technological improvements and investments even though subsidized. The material gain of subsidy, it was possible, may be completely submerged by a steep fall in prices. Here, however, a plea was made to distinguish between the insurance aspect and the allocative function of prices. It was also mentioned that if higher prices are felt to be necessary for providing incentive to the marginal producer, appropriate taxation policy should be devised to obviate unmerited gains.

It may be mentioned that there was a view which considered fluctuations as an essential function of prices and any drastic interference with them through administered prices as unwarranted. One participant characterized administered prices as no better than theological prices. A counterpoint to this was the question as to what extent free market prices particularly for agricultural production which often reflected the impact of vagaries of nature rather than the result of planned allocation of resources, could be relied upon as a proper guide for allocation of resources. Could the price in a famine year be relied upon for its resource allocation function even if one approved of its role in rationing demand? This is perhaps an extreme case of a specific situation mentioned earlier. But examples of similar other specific situations could be cited where price policy—administered prices—would have a positive role to play. In any case, it is difficult to see what allocative meaning could be attached to (the not-so-unusual) erratic price fluctuations within a season.

As for the impact of prices on marketed surplus, it was stated that while there was some empirical evidence (in India) to show that it had a positive influence on the commercial crops, no such effect could be empirically observed in the case of foodgrains. Some participants were of the view that in the case of foodgrains, the correlation may be negative. Such a comparison between commercial crops and foodgrains was, however, difficult because while there was a positive price policy in regard to some of the commercial crops, there was no such policy in the case of foodgrains. Even in the case of commercial crops, the experience was divergent. In the case of sugarcane, the positive effect of the changes in prices on production could be distinctly observed. In the case of lac, however, a substantial increase in production had taken place without any significant rise in price. The contributing factor in this case was the improvement in marketing practices.

There was considerable discussion on the question of the nature of price uncertainty. It was pointed out that the seasonal fluctuations and year to year changes in prices should be clearly distinguished. The factors influencing the two were quite different and different types of remedial measures would be needed for their regulation. While the former could be tackled to a large extent by improvement in marketing practices, the latter involved a wider range of policies—fiscal, monetary and developmental.

It was felt that a much better understanding of the marketing process and the trading practices of middlemen was needed for devising appropriate remedies for the problem of seasonal fluctuations. Of no less importance were the questions of concepts and methodology used in the measurement of seasonal fluctuations and the conclusion to be drawn from it. Concepts like marketing costs, marketing margins, seasonal 'dip', price spreads, farmer's share of the consumer's rupee, etc., needed more precise definitions.

It was pointed out that a study of price spreads would be essential for the purpose of ascertaining whether the farmers were receiving a fair price. This was on the assumption that fair price at a given point of time could be defined as one which a non-profit-making body could afford to offer to the farmers in the light of the prevailing market condition. Apart from an emergency or when the market is rigged by vested interests, the prices prevailing in the terminal or consumer's market could be taken as reflecting the current market conditions. If so, the price spread would be the appropriate instrument for assessing the fairness of the prices offered to the farmers. This way of looking at the price spreads meant that its measurement would be with reference to a given point of time. This interpretation of the price spread did not, however, receive unanimous support. It was contended that there was a time lag between the purchases of a commodity and its sale and, therefore, anticipations or expectations were an important determinant of the price paid to the farmer. However in a well organized commodity market with futures trading, expectations too are reflected in current price quotations. In any case, on a given data, in the absence of administratively determined prices, no guiding criterion other than the prices prevailing in the terminal market, would be available for assessing the fairness of the price offered to the farmer. At best, after the event, we can have a retrospective look and judge the fairness of the farmers' price in terms of the consumers' price or the sale price of the wholesaler. In doing this also methodology would be important. The sample should be adequate as also the timing of the price quotations at the two ends. The best method—as was suggested in one Paper—was to take weighted averages of prices of all sales by farmers (say, in a regulated assembling market) and of all sales by wholesalers in a season, consumer's prices being very difficult to ascertain and collect.

A question to which adequate attention could not be given for want of time was the criteria for price determination, in case this became necessary either for the announcement of the minimum price or a price range. The cost of production criterion which could provide guidance for this purpose (practical difficulties of obtaining reliable data apart) suffers from some limitations. The experience of the Coffee Board in this connection—related in one of the Papers submitted at the Conference—was significant. After operating for a few years with the cost of production criterion, the Board was constrained to give it up in favour of "average return to the grower made by the Board during seven years ending 1954-55." Under Indian conditions, the variations in unit costs of production of a crop would be

so large as to make simple averaging highly unrealistic. Certain statistical devices like bulk-line estimates or an appropriate system of weightage would need to be adopted. But if this is done, a problem would arise of the sub-marginal producer whose costs were above the bulk-line or the weighted average costs. Further, if price determination became subject to group pressures, there was likelihood of the maximum prices of the previous year becoming the minimum prices for the current one.

The problem of remedial measures for the purpose of price stabilization was also not adequately discussed. Most of the contributors, however, had suggested in their Papers maintenance of buffer stocks as one of the most suitable remedies. The operation of buffer stocks which is explained as purchase by the official agency when prices are low and sales when prices are high, over-simplifies the problem. Apart from the difficulty involved in judging what levels could be considered low or high, the operation of the buffer stock programme would run into serious difficulties if the low and the high prices do not alternate rhythmically and the periods of glut or scarcity are prolonged. It would be extremely difficult to build up buffer stocks during periods of continually rising prices, unless of course stocks could be imported from abroad.