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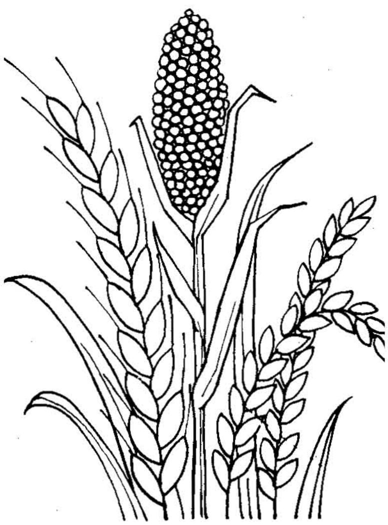

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REVIEW ARTICLE

Agricultural Price Policy in Asia*

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Countries in the third world are dissimilar in many respects. In particular, those that have achieved independence from colonial rule during the last five decades or so vary considerably - now, as they did under colonialism - with respect to the size of the population in relation to resources available, the structure of the economies they have inherited, the quantitative significance of their dependence on exports and imports to keep the economy going, the relative strength of internal and external barriers to rapid and all-round economic progress, and so on. Colonial legacy has many different facets. The countries in Asia, Africa and Latin America have started their independent lives from different sets of 'initial conditions', conditions recognised correctly as of much importance in determining the course of economic growth and development.

But they do share some common economic and political features. For example: an overwhelming dependence of the working population on agriculture and other primary activities, low levels of productivity per worker in all sectors and of yields per unit of land in agriculture, an extremely skewed distribution of land holdings and a practically non-existent or a weak factory-based modern industry. And, although the political structures that have emerged and consolidated themselves in these countries in the post-colonial phase have ranged in character from military dictatorship to pluralist democracy and further on to those professing socialism, and consequently, the paths chosen for economic development have also varied; it is most striking that in practically all these countries the State has assumed the paramount role in bringing about economic transformation, albeit with varying degrees of intervention in the market and of planning at the central level. Ideas differed but practices had common elements.

The necessity for the State to assume a leading role arose undoubtedly from the wide prevalence of poverty, the generally low standards of living, and the perceived inadequacy of normal market forces - given poor infrastructures and technical skills - to generate progress at a rapid enough rate to satisfy the basic aspirations of the people engendered by the end of foreign political domination.

The food situation tended to be precarious in most of these countries and consequently the first goal clearly was to improve domestic production at the fastest rate possible or to ensure the generation of export earnings - mainly from the foreign trade in primary products

* This review article is based in particular on the following studies:

1. *Implementation and Administration of Agricultural Price Policy in Asia*, G.S. Bhalla, N.S. Randhawa and D.S. Tyagi, FAO Economic and Social Development Paper 83, Food and Agriculture Organization of the United Nations, Rome, 1989. Pp. v+71.
2. *Selected Country Studies on Implementation and Administration of Agricultural Price Policy in Asia*, Food and Agriculture Organization of the United Nations, Rome, 1989. Pp. vi+137, v+94 and vi+83.
3. *Trade, Exchange Rate, and Agricultural Pricing Policies in the Philippines*, Ponciano S. Intal, Jr. and John H. Power, World Bank Comparative Studies: The Political Economy of Agricultural Pricing Policy, The World Bank, Washington, D.C., U.S.A., 1990. Pp. vi+393.

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- needed for the import of foodgrains to the required extent. However, with the archaic patterns of land ownership and use and the insufficient development of markets - in commodities as well as in credit - early experience clearly showed that the market mechanism could not be relied upon to promote a fast enough rate of growth, even with some intervention and support by the State in the development of irrigation, electricity and transport, essential for promoting the production of food and reducing the incidence of poverty. Likewise, such land reform as could be implemented under existing political constraints yielded poor benefits in terms of overall growth; more importantly, the writing on the wall, becoming increasingly distinct, was that a radical land reform - that could transform agriculture into a productive and growing enterprise for the rural masses - was no longer politically feasible. Moreover, the concentration of ownership in (and control over) land led in some of these countries to the emergence and gradual strengthening of 'farm lobbies', gaining in political power, working effectively not only to block land reforms but also to ensure high profits and incomes to big landowners.

The provision of price incentives to promote agricultural growth within the structure of existing patterns of political power and of property in land and its use, has thus emerged as a solution that appeared politically feasible to the ruling governments. From the policy making angle such a provision may at first sight look attractively simple but in reality is difficult to formulate and implement, given the underlying economic and political complexities. A major problem in this context arises from the fact that agriculture is characterised by wide fluctuations in output from year to year resulting from frequent droughts and the generally low levels of irrigation intensity. These fluctuations produce in turn drastic variations in prices, hurting the interests of producers when prices fall following good harvests and of consumers during poor crop years. For protecting the interests of producers and to promote growth, therefore, "it has become necessary for many countries to intervene in agricultural markets, with a view to [bringing] about some modicum of stability in prices and [providing] reasonable assurance of income to farmers. In addition, recognizing the importance of maintaining a favourable price climate for sustaining farmers' enthusiasm for expanding production, many developing countries have tried to use administered prices in conjunction with investment in new technology, supplied by appropriate infrastructure and institutions and adequate input supplies, as a positive and potent tool for accelerating growth in agricultural output. Since one of the major objectives of price policy has been to ensure reasonable prices for producers of important agricultural commodities, special agencies have been established in many countries to undertake direct purchases from producers at specified prices. The degree of success in implementing and administering price policy has varied widely across countries" (Bhalla *et al.*, 1989, *op. cit.*, p. 3).

"Setting prices at an excessively high level can soon become counter-productive, however, through adversely affecting demand and thereby constraining the potency of the price instrument. In developing countries, increases, particularly in foodgrain production, are required for increasing consumption. If higher production is sought through such price levels, at which there would not be effective demand for gains in production, then what purpose would this production serve? Hence, the level of administered prices affects the distribution of income, not only between agricultural and non-agricultural sectors, but also among small and large farmers and landless agricultural labourers. Therefore, any unrestrained rise in agricultural prices, while providing an incentive to producers, could adversely affect the quality of life of several sectors of the population. Thus, there is a need to balance and fix price levels by taking into account the interests of both producers and consumers" (Bhalla *et al.*, 1989, *op. cit.*, p. 2).

We should note that although economists talk about *stabilising* prices and incomes and political rhetoric refers to the 'holding the price line' or to 'remunerative prices' depending on whether it is the consumers or the producers who are addressed for political support, the objective in practice is to control the rate of inflation in agricultural prices, food prices in particular, within tolerable limits that ensure both a reasonable margin of profit to the producers and a satisfactory level of consumption among the poorer classes.

However, balancing the interests of producers and consumers cannot obviously be achieved through a price policy alone, for, supplementary measures such as the distribution of grain at subsidised rates or fixing implementable minimum wage levels may also be needed. But this is not the only factor that makes the design of price policy a difficult task. For instance, a policy of price incentives has usually to be combined with input and credit subsidies and also with the development and provision of infrastructures. Such policies requiring huge expenditures cannot be adopted uniformly across all crops and regions of a country. And, when selectively applied to derive maximum benefits from limited public funds, these policies necessarily lead to a widening of both inter-crop and inter-regional inequalities.

This is not specific to food crops alone because even commercial crops such as coconut, groundnut, cotton and sugarcane destined for both domestic and export markets, tend to be region-specialised and cultivated in the most suitable agro-climatic zones, generally in large holdings, by rich farmers. The policy of incentives, implemented through administered prices, subsidies and creation of infrastructures, has thus built-in features that promote income inequalities between regions and within them as well. It must be seen in a larger context as a problem interwoven with the more basic contradiction between growth and inequality that arises from the pursuit of certain developmental policies.

There is, besides, the question of how responsive output is to price incentives, given the specific institutional structures within which production is organised and whether, accordingly, the targeted rates of growth can be achieved with an optimal use of resources. In this context, it is well-known, for example, that supply elasticities (of output with respect to price) generally tend to be somewhat low and that greater gains in output - in the long run, at least - can be obtained through such measures as the expansion of irrigation and improvement in water use. Since, however, incentives and subsidies also induce private investment for raising the productivity of land, the choice is not necessarily a stark one between price incentives and public investment on an either - this - or - that basis.

But, caught in the trap of low productivity and stagnant levels of production and income that leave millions of people endemically hungry, some countries may choose the price incentive strategy for promoting quick growth on a regionally selective basis for achieving the goal of self-sufficiency at the national level. Such a policy, as Raj Krishna (1967, p. 525) has noted long ago, "is unavoidably a disequilibrium programme. The case for it is only that if effective, it may convert a disequilibrium of shortages into a disequilibrium of supplies in the markets for selected commodities." In other words, the long range goal of 'combining growth with justice' can only be attained through a regionally balanced spread of resources for promoting technological development: a policy of price-incentives must

A primary function of the APC is to ensure remunerative prices to the producers and also a year-round availability of commodities at reasonable prices to the consumers. An attempt has been made to undertake an in-depth analysis of data on prices quoted in different markets of various states since 1967-68 with a view to studying temporal and inter-regional variations in foodgrain prices in India. The four methods used for analysing temporal and inter-regional variations in prices are: (*i*) macro indices; (*ii*) price range and carrying costs; (*iii*) mean, peak and lean harvest prices and carrying costs; and (*iv*) coefficient of variation over the regions.

A detailed analysis of macro indices shows that the creation of buffer stocks after 1975-76 has tended to moderate significantly the extent of price rises in foodgrains. Thus, whereas in 1965-66 and 1972-73, a decline in the production of foodgrains resulted in a very sharp rise in foodgrain prices, in 1976-77 and 1979-80 a decline of a greater magnitude led to only moderate increases in foodgrain prices. The conclusion is that the existence of buffer stocks has played a positive role in checking undue price rises in the case of foodgrains even during the years, when domestic foodgrain output declined very sharply.

An analysis of price range prevailing in rice, wheat and coarse grains indicates that in many markets the rise in prices is very large and cannot be explained by the carrying costs. However, because of the erratic nature of individual price quotations arising from quality differences or other specific reasons, a better measure of price dispersion is .... the price change between the mean prices during the peak harvest season and the mean prices during the lean season. A detailed analysis of mean price data indicates that the rise in average prices is far lower than the price range discussed earlier. Further, the extent of rise in average prices can be well justified by the carrying costs of these commodities. It is also noticed that the extent of price rise, which was quite high up to 1974-75, has tended to come down since the adoption of the buffer stocking policy. Interestingly enough, for coarse cereals also, the rise in average prices was lower than what could be explained by the carrying costs.

When inter-regional dispersion of cereal prices is measured by using indices of prices during the peak harvest (and lean) months for all the markets in different states, relative to the price of a particular market, it was found that relative prices were quite large and fluctuated from year to year. These relative prices fail to provide a proper index of price dispersion. To arrive at a more meaningful index, mean deviation and coefficient of variation of prices were calculated for both the peak harvest and lean seasons for both wheat and rice. The coefficients of variation based on peak harvest months turned out to be quite high for both paddy and wheat, and exhibited a clear tendency to rise up to 1975-76. Similar results were obtained for coefficients of variation calculated on the basis of the lean month prices. There was a tendency for the coefficients of variation to fluctuate after 1975-76. Although no definite trend is visible, it appears that it has tended to slightly decline. Since the trend values are insignificant, it is not possible to derive any firm conclusions therefrom.

To sum up, the price policy in the case of rice and wheat has gone a long way in realizing the objectives set for it by the policy-makers. Not only have the cultivators of these crops been able, by and large, to obtain minimum support prices in periods of excess production, but they have realized those prices at sufficiently remunerative levels.

This has given them an incentive to invest for increasing production. Despite many institutional and infrastructural constraints, the price policy has also succeeded in ensuring a more rational utilization of production resources; it has encouraged thereby more advantageous cropping patterns in various regions.

Inter-seasonal price dispersion has tended to decline quite significantly after the introduction of the buffer stocking policy. However, inter-regional price disparities continue to be on the high side. All in all, the implementation of the price policy of major cereals in India has been a success story.

This may be a fair assessment of policy implementation but there remain some questions to be asked and answered. For example, the policy of revising support prices upwards every year as a consequence of political pressure by the farm lobby has led to some paradoxical situations in some periods: characterised by rising stocks with the government, increasing prices, low levels of consumption, especially among the poor, and the persistence of widespread poverty and undernutrition under conditions of abundant grain supplies. Indeed, since the public distribution does not adequately cover the rural areas, it may be argued that pricing policies have contributed to a worsening of inequalities in consumption; also that increasing prices - even though controlled within limits - have exacerbated rural income inequalities both between and within regions, policies favouring in general the well-endowed farmers with access to irrigation facilities. It is not altogether clear whether the rural poor would not have been better-off under normal market-functioning than with state intervention (that has, no doubt, supported the consumption levels among the urban poor and among those adequately served by the public distribution system in the rural areas of some states such as Andhra Pradesh, Gujarat, Kerala and Tamil Nadu). The final question we should ask is whether we could have achieved the same rate of growth in foodgrain production (matching with or getting slightly ahead of the rate of population growth) with investment of resources spreading across regions and crops more evenly than it has been under the preferred strategy for growth.[1]

Unlike the Indian studies, the one on the Philippines by Intal Jr. and Power (1990, *op.cit.*) brings political factors explicitly into the analysis. It is extremely interesting to read because there are many factors in the political economy of the Philippines which are similar to those operating in India. But there are differences as well. The authors suggest that in general individual loyalties prevail over economic group interests in the political power structure, although organised economic interests do exist: for example, those of rice landlords, sugar planters, coconut producers, labour organisations, small farmers, and chambers of commerce and industry. The authors suggest however that the influence of these groups has generally been weak compared to that of the 'vertical patron-client pattern of political relationships'. They say that there has been no political party that has represented the particular interests of any of these economic groups. Leaders at the national level simply try to create images that attract votes. What matters to them therefore is the maintenance of a delicate balance of interests. So, even as convictions differ on an ideological basis, most political parties follow similar policies serving 'virtually identical chains' of clients, paying lip service to the cause of the 'masses'. All this is familiar to us in India.

The authors look at the agricultural price policy in the Philippines against this background but at the same time consider an important related issue: the fixation of the peso-dollar exchange rate which has implications for agricultural incomes relative to the prospects of a highly protected domestic manufacturing industry. After a very detailed analysis of a number of sectors: rice and corn, as well as sugarcane and coconut (two important export crops), the authors conclude that price intervention has not systematically been designed to hinder or harm the agricultural sector.

The policies did not tend to favour particularly either producer or consumer interests, but rather were motivated to avoid seriously displeasing either side. The authors give a number of examples reflecting the tendency of the government to avoid unduly hurting one group in favour of another, especially poor consumers relative to rich producers. There is a parallel here with the Indian brand of the politics of populism. But populism has its costs. In the Philippines, as in India, "the political leadership comes overwhelmingly from the elite social class, and the interests of this class receive high priority in policy-making." Although its origins were in the landed aristocracy, the elite class had long ago branched into industry, commerce, finance and the elite professions. Hence the bias of the class is not necessarily for or against agriculture or any other economic sector. Rather, it is simply for the rich and powerful. As a result, the political leadership has been very successful in thwarting land reform and the development of a strong labour movement, despite the lip-service it has paid to the concern for the common man.

Other important political factors include the strong role reserved for the central government in guiding and regulating the economy, and the pursuit of personal aggrandisement at the highest political level. And when the basic political aim of leaders is the amassing of wealth, it is not surprising that the technocrats are given a big role to play in policy making. With the technocrats at the helm of affairs, the influence of such bodies as the International Monetary Fund and the World Bank grows and becomes binding, with predictable consequences to the economy.

On the whole, a consideration of the politics of price fixing brings into sharp relief the basic dilemma of growth vs justice.

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NOTE

1. See Janvry and Subbarao (1986). The authors conclude that investment in irrigation and technology would have reduced inequalities all-round.

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