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(Organ of the Indian Society of Agricultural Economics)

Vol. VI	MARCH 1951	No. 1

CONFERENCE NUMBER

PROCEEDINGS

of the

ELEVENTH CONFERENCE

held at Lucknow, December, 1950

SUBJECTS

1. Administrative Machinery for the Economic Reconstruction of Rural Areas.

2. Fixation of Agricultural Prices in Theory and Practice.

3. Effects of Industrialisation on Rural Life and Rural Economy.

Rs. 6-8-0

THE INDIAN SOCIETY OF AGRICULTURAL ECONOMICS
BOMBAY

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To promote the investigation, study and improvement of the Economic and Social conditions of agriculture and rural life through :—

(*a*) periodical conferences for the discussion of problems ;

(*b*) the publication of papers, separately or collectively ; or in a periodical which may be issued under the auspices of the Society ;

(*c*) co-operation with other institutions having similar objects, such as the International Conference of Agricultural Economists and the Indian Economic Association, etc.

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comes, not absolutely at the old level, but a little lower, so that the burden of the calamity which has overtaken them, may be spread over the whole community. To determine this price, the level of agricultural income at the economic price should be used as basis.

While this may be said to be the theory which should govern the statutory fixing of minimum and maximum prices, in the actual practice, price fixation would require the employment of support measures too to effectuate the fixed prices, such as, guaranteeing minium prices, maintaining buffer stocks, production control, import regulation, distribution of markets and ensuring of supplies. It would be futile indeed to attempt a piecemeal price regulation or to display any half-heartedness in the enforcement of the fixed prices. It should be always remembered that the price system is an integrated whole, and if confusion is to be avoided, all the key prices must come in for regulation, with all the support measures needed for enforcement.

STABILISATION OF AGRICULTURAL PRICES.

by

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Agricultural prices both independently and as an integral part of a mixed economy provide an interesting study. Agricultural production as contrasted with industrial production reveals certain characteristics and they emphasise the need for a special policy for agriculture. In theoretical discussions the "Individual Firm" is taken as a unit of economic analysis. As a corollary to this in agriculture the 'Farm' can appropriately be considered as a unit of agricultural production, in its relation to fluctuations in prices over time. It has been noticed during the inter-war period that in spite of a heavy fall in prices of all commodities all over the world, the index of agricultural production showed a remarkable stability. For example in U.S.A. agricultural production which expanded about 10% during 1914-18 continued to expand further in the face of lower prices and a decline in foreign demand. The trends of stability of agricultural production in comparision with the industrial is seen in the following table:

World agricultural and non-agricultural production.*
(Average annual production in 1925-29=100)

1929		1930		1931		1932	
A.P.	N.A.P.	A.P.	N.A.P.	A.P.	N.A.P.	A.P.	N.A.P.
163	115	105	106	103	91	102	79
1933		**1934**		**1935**		**1936**	
A.P.	N.A.P.	A.P.	N.A.P.	A.P.	N.A.P.	A.P.	N.A.P.
104	86	104	98	104	107	107	121

(A.P. Agricultural Products. N.A.P. Non-Agricultural Products).

It will be seen that the non-agricultural output fell by 21 per cent in 1932 while the agricultural output remained almost stable during the period of seven years that we have taken. In other words the firm and the farm exhibit a notable disparity in response to fall in prices. The firm can more readily adjust its output when prices fluctuate while the farm is characterised by a general lack of response to changes in prices. This disparity between the industrial and agricultural production and the price behaviour is the result of certain major influences. Firstly production costs in agriculture are almost all fixed or contractual in nature. Rent or revenue, payment of interest and family labour are all fixed or contactual costs. The only variable costs are hired labour, seeds and manures and fertilizers. These in the aggregate form a very small percentage of total costs. As opposed to this in industry a great proportion of total costs are devoted to costs which are variable in nature. When prices fall it is possible and often cheaper to curtail production rather than maintain it, in case of the individual firm. While because of the fixity of costs the farm cannot balance prices and costs in face of falling prices. The factors that contribute to the emergence of a disequilibrium are to be found in the nature of costs.

The comparative stability of agricultural output in relation to fluctuations in prices, can also be analysed from the point of view of the period of production. The period of production in agriculture is fixed; which is an aspect of the seasonal naure of agricultural production. The period between 'input' and 'output' is fixed, and this being so the agriculturist is helpless in the contingencies both of rising and falling prices. The output is predetermined and is in no way related to rise or fall in prices. This means that if prices fall when the output has not come on the market the agriculturist cannot effectively counteract them. If prices

* Nanavati and Anjaria, Indian Rural Problem, p. 83. 1944 Ed.

are falling they will fall more; if they are stable they will be depressed and if they are rising they will not rise or rise less rapidly. (We are for the moment assuming that there are no stocks with the agriculturist because the various manipulations with the stocks is a part of the policy of stabilising prices.) In cases of continuously falling prices the harvest coming on the market will accentuate the fall in prices. In such situations the problem of selling the output at the most profitable price becomes one of disposing the crops at any price that prevails. Agriculture is competitive and like the entrepreneur of the competitive market the farmer sells his output at the ruling price. It is rightly observed by O'Brien: "The trade cycle in agriculture is a cycle in profits rather than in output, a reduction in the standard of living of the producers rather than unemployment. The farmer had therefore a more pressing and urgent need for some policy of price stabilisation than any other member of society".

The case for stabilisation of agricultural prices is mainly raised with reference to the trade cycle. These sweeps of events affect agriculture more severely than the industrial sector of the economic system. The relation between changes in the agricultural situation and the industrial fluctuations is much more complicated than many people think. Independently of the industrial sector agricultural output has its own variations and fluctuations. These have been explained and the chain of causation runs from cosmic influences to weather conditions, from weather conditions to harvests, and from harvests to general business. (This is the theory associated with the names of W. S. Jevons and H. L. Moore). Professors Pigou and Robertson consider the cyclical fluctuations in crop yield as analogous to inventions, wars, earth-quakes etc. which appear at irregular intervals. These set in motion cumulative processes of expansion or contraction in the industrial system, or alternatively reinforce or retard a concurrent expansion or contraction.* The third view held by Professors Hansen and J. M. Clerk studies agriculture as an integral part of an industrial economy. According to these writers agriculture is not an active but a passive element. Agricultural production being remarkably stable is not a basic cause of cyclical fluctuations. Booms and depressions arise from factors existing in industrial organisation; agricultural income reflects and intensifies these cyclical changes. In the words of Prof. Hansen, agriculture is the "football of business". Agricultural policies, therefore, must be considered only as a supplement to general policies affecting the whole economy. Once fluctuations in the rest of the economy are controlled, the need for

* Industrial Fluctuations.—Pigou, and Banking Policy and the Price Leval,—Roberson. For an excellent treatment of this problem see Haberler's Prosperity and Depression Ch. 7.

special agricultural policies will be reduced; until this is done however, special policies are needed to prevent cyclical fluctuations from disorganising and penalising the most stable segment of the economy.

Price policies in general describe actions which are deliberately undertaken for the purpose of affecting, limiting the movement of, or setting specific prices. There are other terms which are widely used to connote special types of price tempering. They are: price-pegging, price raising, price manipulation, price stabilisation and resale price maintenance. Of these price stabilisation has the broadest connotation. At the same time it must be said that price stabilisation is usually concerned with the general price level than with the price level of any particular crop or commodities. Since agriculture is passive as described above, the price policies also will be a part of the general policy of price stabilisation adopted for the entire economy. This policy is a part of the monetary and banking policies followed by the Government. But there are certain considerations which are of vital importance. These may be taken as points which will guide any programme of price stabilisation.

The ultimate objective of any policy of price stabilisation is to guarantee an even flow of income to the producer—the farmer or the businessman. This flow of income, if it is assumed to be unchangeable or rigid implies a demand of unit elasticity. We may be justified in our former assumption but we are certainly discouraged in the latter by facts of experience. This implies that even the most carefully drawn out programme of price stabilisation will be full of extra measures in guaranteeing steady income. And even these presuppose a number of conditions for their entire fulfilment. To maintain an even flow of income the stabilising authorities will require ready stocks to iron out fluctuations in prices. The various manipulations with these stocks resemble the open market operations of the central banks. The release and absorption of stocks will counteract any fall or rise in prices. Such a programme when adopted in India will raise some more difficulties. How much of stocks can we maintain looking to the food situation that has been so chronic with us? Besides Indian agriculture has its regional aspect from the point of view of agricultural practices as also the diet-needs of our people. It must also be realised that in India out of the total agricultural production a considerable percentage does not come on the market. For example, the Report on the Marketing of Wheat shows that about 50% of the total output of wheat is retained in the village. This indicates in a way, the magnitude of the problem of procurement that the stabilising authorities will confront.

The stabilised price and hence the stabilised income cannot be at any arbitrary level; it must be related with the other sectors of the economy. It is necessary to maintain a certain parity with the prices of manufactured commodities. But such a relationship being once established should be subject to revision. Firstly, rigid parity prices prevent desirable production adjustments from occurring in response to changes in demand and costs of production. Current costs of production vary greatly between areas and sometimes between farmers of the same area. The relative position of prices as between products, therefore, should be kept flexible in order to reflect changes in the relative cost of production. If resources are to be used efficiently, production must be flexible between different products within agriculture, and also agriculture and the rest of the economy. Parity prices that remain unchanged for long periods do not reflect economic changes.

In India, however, the problem of stabilising prices has to be understood in two different senses. Firstly, the need for making agricultural production immune from the uncertainties of price fluctuations is as great, if not more, as it is in any other country. Secondly, and this requires careful consideration, the case for stabilising agricultural prices is also placed with the aim of raising the income of the farmer. Agricultural occupation in India is not remunerative to many of our farmers even in normal times. In the very opening chapter the authors of the Congress Agrarian Reforms Committee's Report write: "Behind the varied systems of land tenures, agricultural conditions and practices prevalent in the different provinces, the agarian economy of India to-day presents a remarkably uniform picture of inefficiency, low productivity and small units of production". Agricultural inefficiency in India is the result of a complex of causes and circumstances, but the chief among these is the small unit of agricultural cultivation. The unit of production—the farm—being so small that the equilibrium of prices and costs is not maintained even in normal times. In other words the cost of production is unduly high in India. In such a condition stabilising price is working at the wrong end of the problem by mistaking the symptoms for the cause. The aim of any programme of agricultural rehabilitation in India is to maximise net returns per acre, and in stabilising price we are stabilising the Gross Returns. We can, doing this, stabilise his net income but we cannot entertain any hopes of raising his net returns by such a policy of stabilising prices. So long as slices of fixed and contractual costs—either in cash or kind—are being regularly deducted from the total revenue of the farm, any programme of stabilising prices alone will not assist us much in the uplift of agriculture. Policy of stabilising prices therefore should be considered as one, the appropriateness of which will be judged only when the costs are reduced. In short, we must realise the limited objective of a policy of price stabilisation viz. to iron out undue fluctuations in prices, and thereby contribute to the stability of the economy.

Looked at from the point of view of the entire economy a programme of price stabilisation is a programme of transferring incomes from one sector to the other. The experiments of price stabilisation have been carried out in countries where agriculture forms a small part of the economy. In such economies the problem of transferring incomes is carried out smoothly. It becomes just a part of the policy of re-distributive taxation. In a country like India with unbalanced nature of her economy, legitimate doubts could be raised as to the efficiency with which incomes can be transferred. Further, the various price policies pre-suppose a fairly integrated economy for their successful working. The firm and the farm should be working on the same basis and principles. In India, at least we require a highly systematised agriculture in place of the present planless drift. Price stabilisation can combat against some of the organic and inherent characteristics of agriculture as an economic activity, but it can hardly solve the defects that Indian agriculture has.

AN APPRAISAL OF U. S. PRICE-POLICIES FOR AGRICULTURE.

by

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In the field of agricultural policy, price-policies adopted for U. S. Agriculture have since long become a subject for scrutiny and observation by agricultural leaders and economists the world over. There is little doubt, that the U. S. experiment is extremely interesting but its chief value, however, lies in what it could not achieve than in what it could.

The Agricultural Adjustment Act of 1933 marks the real beginning of what has been called the Parity-price concept for U.S. agriculture. Previous experiments with farm prices consisted chiefly in withholding or diverting surplus production so as to result in higher prices for farm-products. These attempts evidently did not go far enough and it seemed that for equitable and stable farm-prices two things were required: (1) Some 'adjustment' in production itself (instead of merely tackling the problem at marketing level) to prevent recurrent surpluses in certain commodities and (2) a guarantee of a price-floor at some level in