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MARKETING ASPECTS OF AGRICULTURAL PRICE POLICIES IN BURMA

WITH

IMPLICATIONS FOR OTHER UNDERDEVELOPED ECONOMIES *

By

Ráy Billingsley **

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** Associate Professor of Agricultural Economics, Texas Technological College, until February, 1963.

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Introduction

The State Agricultural Marketing Board in Burma is the main agent to implement the Government's price policy for food. This paper will be concerned with a brief description of these price policies and the circumstances that were instrumental in their development, followed with a discussion of the monopoly position faced by the SAMB in Burma and its marketing operations and the implications these price policies have for other underdeveloped areas.

The Beginnings of the State Agricultural Marketing Board

The State Agricultural Marketing Board had its beginnings in 1944 when an Agricultural Rehabilitation Commission was created to formulate a plan for the rehabilitation of agriculture in Burma following Japanese occupation. The firms were aided in getting started back to work by an interest free loan of 15 million pounds from the British Government. The operational activities were to be carried on temporarily by the Civil Affairs Service (Burma), which was composed mainly of government officers employed in Burma prior to the war. Although it was envisioned that rice, oilseeds, cotton, pulses, sugar and salt would be included in the scheme, the interest from the beginning was predominantly in rice. This operation was later replaced by an Agricultural Project Board composed of government officials and private commercial members chosen for their business experience and commercial understanding of Burma. The main criterion for operation of the Agricultural Project Board was to be rehabilitation of the Agricultural Markets System and

the Agricultural Processing Capital in Burma following the war. The first area of concern was to provide a market for agricultural products and to see that food was allocated to deficient areas in the war-torn parts of Burma where food shortages were expected to occur. During the first year of operation, 1945-1946, total purchases amounted to 521,000 tons of rice with 43 per cent allocated to food deficit areas in Burma and the rest made available to the British Ministry of Food for resale to various food deficit importing countries.

The main purpose of the first Agricultural Project Board was to rehabilitate agricultural markets in Burma along lines following the prewar agricultural marketing pattern. Before the war, practically all of the agricultural marketing and processing activities were concentrated into the hands of a few large foreign-owned firms. There was considerable dissatisfaction with this effort to rehabilitate the prewar agricultural marketing structure and as a result, in the early part of 1946, the first agricultural projects board was dissolved and a new Board was formed. The immediate task facing the new Board was to examine the possibility of utilizing Burmese interest in regard to procurement of rice and to review further the position with respect to the other agricultural commodities. The new Board held that, wherever possible, consideration should be given to Burmese interests rather than to foreign firms. The result was that about half of the procurement zones were earmarked for Burmese interests but even with this arrangement there was still considerable discontent with the operation of the agricultural project boards. With Independence, the Agricultural Project Boards were abolished and the State Agricultural Marketing Board was created to take its place. The State Agricultural Marketing Board Act of 1947 was created in order to materially change the

emphasis in the operation of the agricultural marketing structure in Burma; whereas the first agricultural projects board was concerned primarily with rehabilitating the agricultural marketing structure existing prewar and the second agricultural projects board was interested primarily in Burmanizing the agricultural marketing agencies in Burma. The SAMB operation was to carry through on the Burmanization process and to ultimately hand over all of the agricultural marketing activities to Burmese agencies. It was felt that the profits from this operation would be substantial and that these funds could be used by the government in promoting various economic projects. The State Agricultural Marketing Act was inaugurated at the same time and was to put into effect an extensive land reform program in which all agricultural land was to be nationalized and redistributed to those individual cultivators who actually tilled the soil. In an effort to stabilize the price for rice internally, the government announced the price at which internal paddy was to be purchased. This price has remained substantially the same since the inauguration of the SAMB and because of the fluctuating international price, the fixed price has been from 30 to 70 per cent of the international price. This has resulted in rather tremendous profits for the SAMB and as such has created substantial funds to be used for economic development purposes. The government justified the low price paid to paddy producers by the fact that prewar the cultivators were exploited by foreign marketing firms and by landlords and as well as having to pay excessive interest rates for credit so that in effect the government claimed to simply be capturing the funds that had previously been going into foreign hands.

The evaluation of the changes in policy in the administrative procedures used by the SAMB in meeting its problems are very interesting

and provide a fruitful area for considerable future research not only to economists but to public administration and political science people as well. A close parallel to some of the administrative problems faced by the SAMB can be obtained by looking at the development of the TVA. In some respects, the problems faced by the Board of Directors of the SAMB and the stormy reaction from the public and from some of the members of the government has been comparable in many ways to the troubles of TVA. The fact, however, that Burma was engaging in the new activity of independence has perhaps made the solution to some of the problems faced by SAMB much more difficult.

The State Agricultural Marketing Board Act goes into considerable detail concerning the activities that SAMB can engage in and allows the SAMB to engage in any activity associated with marketing, processing or distribution of agricultural products in Burma, and if need be outside of Burma. In practice, however, rather firm control is exercised over the SAMB by restricting its financial activities.

The Economic Effect of SAMB

The SAMB is the government's main instrument for administering a price policy for rice. Since 1948 the SAMB has paid 300 kyats per 100 baskets of paddy (about one-half the price American farmers receive) and recently in an effort to encourage quality improvement, incentive payments have been paid for first and second grade rice. In addition to this, a cultivator may also receive additional payment for paddy delivered to a government storage godown rather than to a government buying station. The internal price for paddy is stabilized by setting up paddy buying stations all over the rice producing regions for the purpose of procuring paddy. The SAMB handles about 1/3 of the rice

production of Burma and during the past the proportion handled has varied from 23 to 43 per cent. From its profits, the SAMB has provided about 30 per cent of the government's revenue and this has varied in the past from 24 to 46 per cent. Most of the rice handled by the SAMB has been exported. Nearly all domestically consumed rice moves through private channels although the SAMB can release rice through retail channels if needed to protect consumers from undue raises in price.

Problems Associated with a Single Price for Rice

The rather rigid price policy that the SAMB follows in buying paddy from cultivators also carries over into its pricing policies for exported rice. Most of the rice exports in the past have been on a government to government basis and as such the SAMB has offered rice for sale at a uniform FOB price for all buyers. Although the rice is bought on a quality basis the quality differentiation is only on a broad basis and covers only such items as percent broken and color. Most of Burma's rice sales have been to countries where quality is not necessarily a determining factor. However, the fact that a very limited number of quality elements are specified in Burma's rice exports and the fact that the rice is offered at what amounts to the same price to everyone, results in Burma not being able to take advantage of any price differential opportunity that might be available. In fact, the reverse has been true. Some countries have balked at the quality of rice delivered and have refused to take some rice shipments or have renegotiated on price.

It is evident that Burma's monopoly position in the world rice market may in fact be very weak. The fact that the SAMB carries heavy weight in determining the domestic price for rice does not carry over

into the international market. Although Burma is a leading exporter of rice in the world market, its exports amount to a very small percentage of the total rice market.^{1/} If rice substitutes are taken into consideration, the Burmese contribution appears even smaller. Burma does not control enough of the international market to influence price very much, if any by withholding rice from the market. This is certainly true in the long run where substitute cereal crops, such as wheat, can be substituted for rice. It would also be expected that other countries could quickly take up any slack that would be caused by Burma withholding rice from the market. The demand elasticity for Burma's rice would be expected to be extremely high and this would be especially true for the long-run period.

In the domestic market the SAMB does not ordinarily operate as a monopoly since it handles only 1/3 of the rice produced within Burma. The other 2/3 of the rice produced is handled through private competition channels. It does have the right to set up rice selling depots in emergencies to keep localized short run rice shortages from having an adverse affect on the price for rice in the retail market but, in fact, this is seldom necessary and only a very small quantity of rice procured by SAMB is released through local retail channels.^{2/}

^{1/} During the period 1948-1950, Burma's rice production amounted to only 3 per cent of world production. See author's paper "The Economics of State Trading with Special Reference to the State Agricultural Marketing Board," Economics Paper No. 23, Department of Economics, Statistics and Commerce, University of Rangoon, Burma. May, 1962. Table II.

^{2/} It is recognized, of course, that the threat of intervention rather than the actual act of intervention can in fact represent a considerable influence on the market. This has been ably pointed out by Boulding in his writings. In the case of Burma, however, the intervention, or the threat of intervention, has in fact probably not been necessary.

As a result, the SAMB is not in a position to extract any monopoly profit from the demand side of the market either externally or internally. Since it is not in a position to act as a monopoly on the demand side of the market, where can we look to find the source of the rather impressive profits that SAMB built up during its period of operation? In order to get the answer, we must look at the supply side of the market for Burma's rice where SAMB is in a position to extract some monopoly revenue. Because the monopoly effect is exercised on the buying side, it can properly be labelled monopsony effect. Since the SAMB is the only buyer of rice for export, it is in a position to set the price for rice internally and, as such, is in a position to set this price at less than a free market price. Although the internal price for rice has been held constant at 300 kyats per 100 baskets during the whole existence of the SAMB, this price has varied from 30 to 70 per cent of the external international market price for rice. The difference between the domestic price for rice and the international price for rice less marketing and processing cost then is the only source of profit which accrues to SAMB. As a result, the total burden of this monopsony action falls entirely upon the cultivator. On the basis of the above condition we are now in a position to look at the economic effects the SAMB has on the rice economy in Burma. The main effects can be traced in Figure 1 which shows the demand effects in the domestic market on the left hand side of the diagram and the supply effects in the domestic market, on the right hand side of the diagram.

For purposes of explaining the model presented here, the following identities are needed:

D = demand faced by Burmese rice externally,

d = domestic demand for rice in Burma,

S = domestic supply for rice,
 P = world price for rice,
 p = internal domestic price for rice,
 X = quantity of rice produced internally,
 x = quantity of rice consumed internally,
 F = foreign exchange cost to Burma,
 I = internal transfer, cultivators to consumers,
 T = tax cost to cultivator.

For purposes of simplicity, the costs of marketing will be ignored in the following discussion. For purposes of empirical study it would be an easy matter to account for these and, in actual fact, these are for the most part borne by the cultivator because the government set price is applicable only at the ocean ports and in reality, the price received by the cultivator is less according to his distance from these ports.

There are several costs and transfers associated with the rice price policy followed by the SAMB. First of all, there is a foreign exchange cost resulting from a decrease in rice exports coming from two sources. The first source is due to the increase in the domestic consumption because of the low internal price for rice, thus allowing less rice for export which will reduce the foreign exchange made available and second the decrease in production by cultivators resulting from the lower price of rice. If the price of rice within Burma were allowed to rise to the world market price the foreign exchange coming to Burma from the sale of rice would be increased. This may be shown by the following equation:

$$(1) F = P(x_2 - x_1) + P (X_2 - X_1).$$

The foreign exchange cost, (F_1), due to the increase in domestic

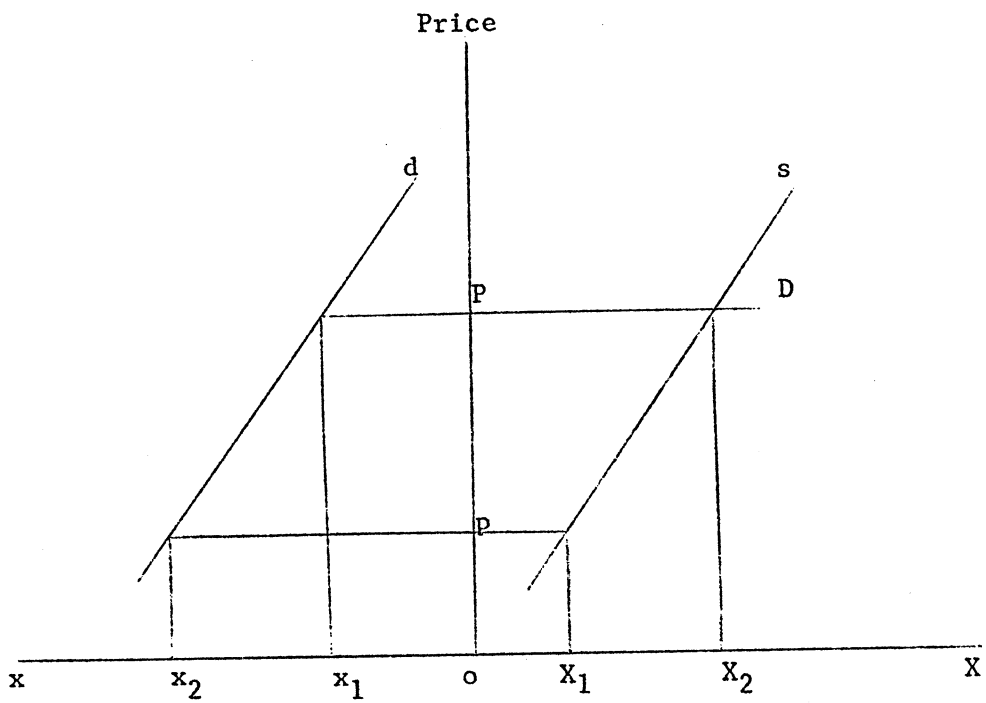


Figure 1.

consumption may be represented by

$$F_1 = P(x_2 - x_1).$$

The foreign exchange cost, (F_2), due to the decrease in production by the cultivator because of the low internal price may be represented by

$$F_2 = P(X_2 - X_1).$$

Both of these items represent the foreign exchange cost to Burma resulting from the domestic price policy followed by the SAMB.

The second effect of Burma's rice price policy is an internal transfer from cultivators to consumers. This, in effect, is a subsidy to consumers from cultivators and occurs because the consumers pay a lower price for rice and as a result of this lower price consume more rice. This effect may be illustrated by the following equation:

$$(2) I = x_2 (P - p).$$

The consumer's welfare is increased at the expense of the cultivator, first because he has more rice to consume at a given expenditure and because the internal demand elasticity for rice is probably less than 1, the consumer would have income left to spend on other consumer items. The cultivator, as a consumer, also shares in this transfer but is worse off in the sense that the alternative to consuming more rice results in less other goods being consumed. It could be argued, however, that since it would be expected that the demand elasticity at the cultivator level is less than at the retail level, the part of the transfer shared by the cultivator would be extremely small. The increase in consumption of rice by the cultivator, although small, would be the result of relatively increased costs of other consumer items and would represent an increase in the cultivators welfare, but would not likely be sufficient to ~~offset~~ ^{budget} the ~~income~~ effect due to the

use of this land and it was felt that the cultivators would not mind receiving a lower price for their rice in return for not having to pay high land rents. The relative point here, however, is not the exploitation that occurred before the war but rather the tax burden now placed on the cultivator by the SAMB. A tax is a tax whether it comes from a land tax or a tax on business interest operating in the rice trade. From an economic point of view, the item of importance is the effect of the tax on production, consumption and economic development. From the tax point of view, however, it might be of interest to compare the relative merits of an income tax with the other alternative tax schemes. In a recent study by Jonathan Levin, a discussion of the various tax aspects of Burma's SAMB has been made. In his study, Levin discusses the various definitions for estimating the cultivators' tax burden and concludes that the tax burden for the Burmese rice cultivators ranges from 30 to 75 per cent of the price he receives for his rice.^{4/} It has not been the purpose of this paper to compare the burden placed on the cultivator by the rice buyers prewar and the tax burden now placed on the cultivator by the government but rather to sift out the burden now placed on the cultivator by the government's price policy.

Conclusions

In conclusion, it must be stated that the full burden of the government's price policy for rice in Burma falls on the cultivator. The question remains to be answered whether or not this burden is justified and whether or not the government's use of the funds accruing from the profits of the SAMB result in more economic development

^{4/}

Levin, Jonathan, The Export Economics, Cambridge, Massachusetts, Harvard University Press, 1960, pp. 241-248.

than the extra funds in the hands of the cultivator. For the most part, these questions lie outside the scope of this paper but it is certainly true that free choice in spending this money on the part of the cultivator would result in more being spent for consumer goods and for religious purposes, but it is also quite likely that the return from the amount that would be spent on equipment, fertilizer and the like might be greater than the return from more grandiose economic development expenditures on the part of the government. It is obvious, however, that if the price of rice was allowed to increase and the cultivator taxed by some other means so that his income position remained the same, additional revenue could be obtained by the government from the non-rice growing sector and from an increase in foreign exchange. The implications for economic development are more obvious where the export commodity is not a food product. It would certainly be an unwise policy for Malaya, for example, to artificially depress the internal price of rubber and expect to get increased rubber for export. The situation is even worse with a product that can be consumed locally because the lower price can result, not only in a decrease in production, but also increase local consumption.

In most of the underdeveloped countries, agriculture represents the country's best source of funds for economic development. All too often, the governments of the underdeveloped areas try to siphon from agriculture the funds necessary for economic development expenditure. In many cases, the result is less capital in the sectors where the value of the marginal product is high and more capital in the sectors where the value of the marginal product is low. For economic development purposes, this is a shift in the wrong direction.

Underdeveloped countries need to be extremely careful in setting policies that affect development capital. Wealthy and stable countries (they are usually the same) can afford the luxury of allowing for the most part, the profit motive to guide their development expenditures. Underdeveloped countries, however, cannot afford this luxury because most of their development capital can be quickly soaked up by the consumption of luxury goods. On the other hand, unwise choices in alternatives on the part of the government in making development expenditures can also result in no appreciable economic growth.

In closing, one should mention that there is the matter of expediency. The problem of altering a country's course of action such as Burma's rice price policy can very likely present a stumbling block. The present policy appears to have the advantage of being relatively acceptable and any drastic change in policy might uncover latent discontent. Politicians face a more difficult task than economists in that they must be practical. But errors in judgement compound themselves if not corrected. Even for politicians there is a day of reckoning. Let us hope that the correct choice for an agricultural price policy can be made.