CHAPTER III

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CHAPTER-III

COMPLEXITIES OF AGRICULTURAL PRICING : A CRITIC.

3.1 INTRODUCTION:

Agricultural pricing has always remained controversial issue in our country. However, it has got fundamental importance in the domain of agricultural aspect of the country. It has main concern for providing market for the products of the former at remunerative prices and at the same time, making availability of the goods to the consumers at reasonable price. This topic reviews the complexities of agricultural pricing.

3.2 THE PRICE VARIABILITY:

Agricultural price movement have been a matter of serious concern for the policy makers in our country, as the behaviour of agricultural prices has been violent affecting adversely the steady economic development. There are two important types of variability in agricultural prices namely, trend and cyclical variability. Former is related to the trend of price level which shows wide swing over time and the latter comprises cyclical and year to year fluctuations and inter year variations in commodity prices around the trend line. Even the relative structure of the agricultural commodity prices does not show a uniform pattern of behaviour. While a few commodity prices move in close harmony with each other, others persue widely deflected course often creating a deep valley or a mountain peak around the trend line of agricultural prices. Aptitude of inter-year variations also varies from commodity to commodity and changes over time their respective trends.

The agricultural prices have three dimensions:

1. The average level of prices in the domestic market.
2. The price spread i.e., the difference between the prices at different stages of marketing in relation to the average price, and
3. Inter-year and intra year fluctuations by the prices. Given the basic characteristics of agricultural production process and the nature of demand for form products, it is obvious that if left to the interplay of market forces, the fluctuations in product prices are much more than that in the output.The levels and fluctuation in prices of farm products affect the living standards of both farmers and consumers. These also have profound influence on growth of production, intersectoral distribution of income and levels of consumption. It is for these reasons that the marketing environment for farm products has remained under constant scruitiny and led the Government in both developed and developing countries to intervene in agricultural produce markets.

3.3. NEED OF AGRICULTURAL PRICE POLICY:

The prices of agricultural produce are important for farmers as these determine their incomes. The buyers of the commodities, also affected by these prices. As incentives for rising production and rational allocation of resources, as also for acquiring marketable surplus, there is the social interest involved in these prices. It is, therefore, of considerable significance that we have such a level and structure of prices that satisfy all these varied aspects of the economy.

The movements of agricultural prices, over the last years reveals two major feature: 1. Rising trend, 2. Many fluctuations. These are the greatest hurdle in the way of agricultural development. These have adverse effects on the pattern and volume of agricultural production. The variations in production also affect consumers.he two major aspects of price policy therefore are:

1. To protect producers interest by removing on at least mitigating the major uncertainties which afflict the agricultural economy, and
2. To safeguard the interests of low income consumers by assuring them minimum supplies of food grains at reasonable prices.

The main causes of instability of agricultural production lies in the irregular and seasonal nature of agricultural production and the low price elasticity of demand for most agricultural products. In the course of erratic price fluctuations, farmers cannot make investments in modern technologies for agricultural growth. So minimum price guarantee given by the Government is essential.

3.4 OBJECTIVES OF AGRICULTURAL PRICE POLICY:

The objectives of the agricultural price policy differ in different countries depending upon the place of agriculture in national economy, the production patterns and resource potentials available in the countries.

The major objectives of agricultural price policy should be to increase agricultural production by creating economic incentives for the farmers. The agricultural price policy has following important objectives:

1.To Allocate Resources:

As an allocator of resources prices give signals to both the producers and the consumers regarding the levels of production and consumption respectively. Farm prices while determining the income of farmers simultaneously affect the cost of living of those engaged in other sectors.

2.To Distribute Incomes:

Income distribution between sectors as well as within different sectors to some extent may also get affected by changes in agricultural prices. Increased or sustained higher price support levels for food can change the distribution of national income in favour of agriculture. It also affects the poor adversely because poor people spend more of their income on food. The agricultural prices also affect the income distribution in other sectors. Further, agricultural price policy if accompanied by simultaneous increase in operating efficiency of the marketing system may result in improving the bargaining power of the small holders. However if the agricultural sector characterised by large disparities in asset holding including land, will result disparities in income distribution within agriculture.

3.To Induce Capital Formation:

Price plays a crucial role in the capital formation so as to increase the productivity of individual crops. The price policy aims to encourage production by assuring the producer that the prices of his produce will not fall below a certain minimum. This is to cover costsand provide incentives. With the use of costly inputs as part of improved technology, Such an assurance becomes necessary for boosting production.

4.To Ensure Stability in Prices:

The price policy aims at stabilising prices to introduce certainty in the price situation in the agricultural sector as also in the economy as a whole. In India, agricultural price policy has a long history of Govt. intervention which goes back to British time. However, the objectives and farms of invention have undergone a substantial change over time.

3.5 AGRICULTURAL PRICE POLICY BEFORE 1965:

Before independence the major concern of the Govt. remained at undue price rise by imposing controls of various forms on marketing of farm products keeping the prices of farm products low was also part of the British commercial policy which enabled the industry to get cheap raw materials. Prire to beginning of the First Five Year Plan, two committees were appointed by the Govt. of India who in their recommendations hinted towards the desirable price policy. In 1947, the Foodgrains policy Committee was framed which recommended a policy of progressive decontrol, reduction of dependence on imports of foodgrains and a substantial increase in domestic production within the earliest possible time. Another committee known as Foodgrains Procurement Committee(1950) recommended the continuation and extension of system of rationing in the country. During this period the price policy included i) Procurement of food by the Govt.from the locally available surpluses of foodgrains at procurement prices which were lower than market prices ii) Imports of foodgrains iii) Equitable distribution of available supplies of non-producing consumers through schemes of statutory or partial rationing.

These policies were continued till June, 1952 when a policy of gradual relaxation of controls and a shift to free trade was decided. The Govt. restrictions were made responsible for food crisis during the period. But the period of free trade was rather short lived. During 1953-54 record production of cereals disappeared & later in 1955 prices of foodgrains again started rising. In such a way the restoration of controls in the later 1950's and their further intensification in the mid-60s.

It was in this setting that the Foodgrains Price Committee (1964) under the Chairmanship of L.K. Jha was asked to suggest the minimum support price for foodgrains for the 1964-65 season. As the relevant formed cost data was not available the committee determined the minimum support price on an advoc basis.

The minimum support prices are the administered prices which are fixed for major field crops in the country. They are in the nature of a long term guarantee to enable the producer to pursue his efforts, with the assurance that the prices of his produce would not be allowed to fall below the level fixed by the Govt. So as to enhance the produce, the producer for adopting improved technology and for miximising production the agricultural prices are not fixed in the sense that a farmer cannot at a price higher than the support price except in few unique situations.

The A.P.C. considers cost of production to be the most appropriate basis for fixing minimum support prices but, owing to serious gaps in the available cost data it has been fixing the support prices more or less on advoc basis.

3.6 AGRICULTURAL PRICE POLICY AFTER 1965:

Though prices were fixed for certain crops in India during the forties and minimum support prices were fixed for certain crops during the fifties the setting up of Jha Committee on Foodgrain Prices during the early sixties was the first serious attempt to evolve a sound agricultural price policy.

The committee recommended that the following guidelines be kept in view while fixing prices for agricultural crops:

1. Prices should give incentives for widest adoption of improved technology and for maximisation of production.
2. Prices should encourage optimum utilisation of land.
3. Prices should aim at ensuring balance between supply and demand for various crops as possible.
4. The impact of prices on exports and imports of the crope concerned should kept in view.
5. The effect of over all price policy on the other sectors the economy espcially with reference to wages, cost of living, cost structure etc. should be kept in view.

The committee recommended that as many crops as possible be covered by agricultural price policy, so that a balanced and interegrated price structure chould be evolved. The effords should be made to reduce the cost of production through supply of subsidised inputs.

Following the reports of Jha Committee the Agricultural Price Commission was setup in 1965.

3.7 THE AGRICULTURAL PRICE COMMISSION:

The period after 1965 marks the beginning of a new phase in the evaluation of agricultural price policy. As it is noted, early in 1965, the Govt. of India set up the agricultural price commission to advise on a continuing basis on the price policy of agricultural commodity. It is actually the beginning of a more stable meaningful price and distribution policy based on a long term national objective.

FUNCTIONS OF A.P.C.:

The main constituents of policy the agricultural price commission should look over are:

a. Announcement of minimum support prices for major food grains well in advance for the sowing season.
b. Fixation of procurement prices for purchasing a part of the marketable surplus at below market prices.
c. Running a public distribution system for safeguarding the interests of low income consumers.
d. Building up of buffer stocks to meet emergency situations and to mitigate annual price fluctuations.

The factors considered by the commission in formulating the price policy are cost of production, changes in input prices, input-output price parity, trend in market prices, demand & supply, intercrop price parity, international market price and policy between prices paid and prices received by the farmers, risk factor because of fluctuations in the yield of crop, effect of the price fixed on the industrial cost structure etc. The cost of production is obviously the most important factor considered for price fixation, if we have to ensure that the price fixed serves as an incentive for maximisation of production. It is also meant for widest adoption of improved technology.

The commission depends on the data collected through various farm management studies, and on the basis of data collected by the Directorate of Economics Statistics, particularly the latter. It also takes into consideration the cost of cultivation estimates supplied by the state Govt. and other recognised institutions. The cost `C' concept is the main basis of fixing the minimum prices for crops in India. Last `C' includes value of hired human labour, value of owned & machine labour, value of seeds, manure, fertilizers irrigation charges, value of insecticides and pesticides, depriciation of implements and farm buildings, level of revenue, casses and other taxes, interest on working capital, miscellaneous expenses like charges paid to the artisans, rent paid for leased in land, imputed rental value of owned land (less land revenue paid there on) imputed interest on owned fixed capital (excluding land) and imputed value of family labour etc.

3.8 BASES OF PRICE FIXATION:

The choice of method for determining the level of support prices will depend largely on the objective of price support policy. In the developing countries like India, the main objective of price policy is to augment agricultural production by providing an insurance against the risks involved in the adoption of improved technology. Therefore agricultural prices are so fixed as would provide sufficient incentives to the farmers for reaching the maximum possible in agricultural production. As such many criteria for fixation of prices for agricultural commodities were evolved.

At present the prices are fixed on the basis of one or more of the following criteria:

i.Cost of production criterian.

ii.Ruling prices criterian.

iii. Parity prices criterian.

I.Cost of Production Criterian:

The main advantage of this method is that it is based on the basic relation between price and cost. The average cost or the bulk line cost of production calculated with the help of cost accounting technique can be made a basis for determining the level of minimum support prices. There is another technique known as the budgeting technique. In this approach, the cost of recommended farm practices and their average yields are taken into account to estimate cost per unit of output.This criterian helps widely to protect primary producer against any loss due to an unexpected fall in prices. However, there are some practical difficulties in this method.

Since there are wide variations in agro-climatic conditions and farm practices, the cost of production is affected by number of factors like size of farms, quality of inputs. The cost of producing the same commodity differs between different farms and regions. Therefore, if may not sometime cover the cost of production on every farm. Moreover this criterian considers only the supply side totally ignores influence of demand in the determination of prices.

II.Ruling Price Criterian:

This criterian requires that the support price to be linked to the moving average of market prices in the recent past period. The main advantage of this method is that it allows both demand and supply changes to be reflected in price fixation.

In the event of an excess supply out look, demand effect should influence the price fixation via the moving average of market prices might have been kept deliberately low in the past, the moving averages may not properly reflect the market trends. The prevailing prices fail to provide necessary incentives for an increase in production on long term basis.

III. Inter Crop Price Parities:

According to this criterian, the support prices of different commodities should be fixed on the basis of their market price rations. Parity signifies the relationship of the administered farm prices with some index of prices paid by the farmers. The therotical basis of intercrop price parity is that, in a multi crop economy the allocation of land and other resources between different products depends on the movement of intercrop price rations. Hence, changes in support prices of some products without coordinating them with the prices of other competing crops may lead to undesirable product substitutions and accentuation of market imbalances1.

The parity approach may be utilized to stabilise, interrelationship between, agricultural and non-agricultural products as well as among those of different agricultural products. Parity ratio may be conceived in a number of ways some of these are calculated as given below:

1. $$\frac{\text{Price index of all agricultural commodities}}{\text{Price index of all manufactured commodities}} \times 100$$

This method is useful when we want to know or adjust the movement of terms of trade between the agricultural and manufacturing sectors.

2. $$\frac{\text{Price index of all agricultural commodities}}{\text{Price index of farm inputs}} \times 100$$

This concept of parity is useful when the objective is to protect the interests of the farmer as a producer. A rise in parity ratio will indicate favourable movement of the terms of trade for the farming sector.

3) $$\frac{\text{Price index of all individual agricultural commodities}}{\text{Price index of all agricultural commodities}} \times 100$$

This concept of parity is useful for bringing about adjustment in crop mix for the purpose of achieving planned targets of production in respect of certain crops. Parity rations should be made favourable for those crops whose production is required to be boosted.

It is to be pointed out that none of these criteria taken by itself has been found to be completely satisfactory. As such sometimes prices are fixed so as to satisfy more than one of these criteria. Efforts in this direction remained largely unsuccessful owing to continuing shortages.

3.9 EVALUATION OF AGRICULTURAL PRICE POLICY:

It cannot be over emphasised that agricultural output and agricultural prices are pace setters for the general price level in the Indian economy. The stability of agricultural output and prices can contribute largely to the stability of the general price index.

It is well established fact that, efforts for increasing agricultural production cannot be sustained for a long time unless the farmers are ensured the reasonable return for their produce and also a ligitimate share in the price paid by the consumers. No doubt efforts have been made by the Govt. to improve the marketing system but still the producers are not able to get remunerative prices. It necessitates to see the achievements as well as weakness of the agricultural price policy in this regard.

I. Achievement of Agricultural Price Policy :

The agricultural price policy have following areas of achievements:

1. Food Security:

By following a policy of buffer stock of foodgrains, widespread famines could be successfully prevented despite severe decline in food grains production in 1966, 1967 to lesser extent in 1973-75, 1979 and 1987.

The intervention helped in achieving self sufficiency in food and food security for the country. The production of cereals increased from

72 million tonnes during 1964-95 to 158 million tonnes during 1991-92. Between 1977 and 1990 the average annual net imports were no more than one percent of production of these cereals[2]

2. Increase in Production of Oil Seeds and Other Commodities:

The growth of production of oil seeds which was only 9.4 million tonnes during 1980-81 jumped to 17.9 million tonnes during 1991-92 and further to more than 20 million tonnes during 1992-93 and 1993-94.

The policy helped in increasing the production of other important agricultural commodities also. Between 1964-95 and 1991-92, the production of raw cotton increased form 58 lakh bales to 105 lakh bales, raw jute from 76 lakh bales to 92 lakh bales and sugarcane from 106 million tonnes to 239 million tonnes.

3. Improvement in Marketing Efficiency:

The buffer stock of foodgrains played a positive role. It has checked fluctuations in production by preventing a fall in the prices to un-remunerative levels during the years to bumper production. The checking of undue price rise when domestic output declined is also a positive aspect. Owing to the buffer stock operations in rice and wheat the extent of price rise which was quite high up to 1974-75 came down in later years.

4. Increased Monetization of Farm Economy:

Owing to that widening of production base of agricultural sector, the market orientation of the farm sector has considerably increased. According to National Statistics Organisation (CSO, 1993), the value of fertilizers, electricity, insecticides, pesticides, diesel oil, irrigation water, repair and maintenance services purchased by the farm sector during

1990-91 was Rs. 323 billion which was around two and half times the value during 1980-81.[3]

II. Weaknesses & Short Comings:

The working of the price policy in respect of agricultural is notable for certain positive results although some short commings too have surfaced on the following line:

a. Little Stability:

As for the achievement in terms of price stabilisation is concerned there is not much that can be said in favour of the policy. The short term prices have been fluctuating because of random impacts on supply. Generally, these are at the lowest at the time of harvest, some crops like pulses and oilseeds have suffered for lack of adequate price support.

b. Favourable/Unfavourable Terms of Trade:

There has been a deterioration in terms of trade since 1970's,[4] except for the period of relative parity in 1973-74 and 1974-75 in favor of agriculture. The trend has been sparked of in the midseventies with the fast escalation of prices of manufactured products. During the decade while the price index of agricultural products(base 1970-71=100) rose by 100 percent. The manufactured production increased by 150 percent.

The deterioration in term of trade can also be guaged by the decline in the ration of the index of agricultural prices to that of the prices of manufactured products. This ratio was 97.5 in 1977-78 and lower at 95.8 in 1978-79 & still lower at 87.6 in 1979-80. The trend, adverse to agriculture has however, been reversed in the eighties, and more so in the nineties.

In the eighties, the ratio of price index of agricultural products to price index of manufactured products moved in the range of 104-116, but with big fluctuations. In nineties, this favourable trade became steady with the ratio remaining consistently above 112 since 1991-92.

c. Increase in Farm Incomes Not Favoured Poor Farmers:

The price policy has been helpful in raising farmers' income. The increase in income has also been in the relative sense with farm prices rising faster than non-farm prices for a number of years. However, this benefit has occured mostly to large farmers who could command large credit & inputs for production have lager surplus to sell. In case of small, marginal farmers the gain weakens.

d. Prices of Farm Products:

It is argued that the prices of some farm products in the domestic market remained lower than that in the international market.

e. The another line of reasoning is that the subsidisation of some of the farm inputs leading to inefficiency in the use of those inputs and decrease in the resources available for public investment.

f. It is stated that there is encouragement to the production of certain crops like oilseeds at the cost of those crops in which the country has a comparative advantage.

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3.10 RECENT CHANGES IN THE AGRICULTURAL PRICE POLICY:

In view of significant development on the production front and changing macro economic environment in the country, there has been considerable change in the policies and measures for improving marketing environment for the farm products.

1. Since the 1991-92 crop season, the system of announcing procurement prices of cereals has been replaced by that of support prices. During the last 20 years procurement prices were fixed and public agencies procured predecided quantities of grains at these prices. In an attempt to achieve the targeted procurement various restrictions were imposed that resulted in depressing the prices in the surplus areas. Procurement of foodgrains at process below market price implied a tax on the producers surplus region. Presently only minimum support prices are announced and no formal targets of procurement are fixed. The quantities of cereals acquired by the public agencies are in the nature of price support purchase.

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2. In the case of wheat and coarse cereals interstate movement restriction imposed and quantities offered by the farmers at minimum support prices are purchased by public agencies. There is no levy obligation either on farmers or traders and the farmers remain free to sell their produce and take advantage of the market prices.

3. In the case of paddy also, minimum support prices are fixed and public agencies remain ready to buy all the quantities offered by the farmers at

that price. However, some states still impose movement restrictions on paddy and levy on rice millers. Under the levy system certain proposition of rice milled by the miller is collected as levy by the Government at a price derived from the minimum support price of paddy. Remaining part of the rice can be said by millers in the open market.

4. The minimum support prices are also announced for Gram, Ashar, Moong, Urad Groundnut, Soyabean, Sunflower seed, Musfard, Torid, Sunflower, Raw jute, VFC tobacco and copra. The farmers remain free to sell their produce in the market and no interstate movement restrictions are imposed. In the event of market prices tending to go below the support level, public agencies remain in readiness to buy all the quantities offered by the farmers at that price.
5. As regards to cotton, excepting Maharashtra, Cotton growers are forced to sell their produce any where in Maharastra .The state has acquired monopsony power of buying all the cotton grown in the state.
6. Apart form the minimum support price policy, state cooperative growers organisations and public agencies like National Agricultural Cooperative Marketing Federation(NAFED), Cotton Corporation of India undertake commercial purchases of oilseeds, cotton, raw jute and copra. The commercial purchases are made at market prices through open bidding. The entry of these agencies in the market increases the competition and helps the farmers in realising a better price.
7. There has been market intervention also for such commodities as Onions and Potato in which public or cooperative agencies buy the produce at a specified price with a view to providing price support to the farmers. There is no compulsion on the farmers to sell their produce to these agencies.

3.11 NEED FOR IMPROVEMENT IN THE CURRENT POLICY:

There is need to improve the present policy for agricultural process so as to ensure more benefits, under various areas. Some important of them are ,

1. There is need to have national policy for agricultural prices. The states have raised many times, the prices above those fixed by the centre, resulting in distortion in prices of different crops and different areas. There should be a clear cut policy, and the policies that state follow are coordinated with the national policy.
2. The second need is with regard to transfer of resources from agriculture. With incentive price to encourage production, it is also necessary to ensure that resources(in the form of saving) are also made available for development.
3. The price fixation should be made more scientific.This requires looking at the problem form two angles namely, the demand side and the cost side. In the former case account has to be taken of the fact agricultural prices in the past have for long remained depressed, and that much of the present rise in them is a correction of this past hangover. A mere lowering of the precent level of agricultural prices is not called for. In respect of cast particularing of the small farms care needs to be taken in calculating the costs of family labour as also the interest interest on owned fixed capital of rental value of owned land.
4. There is need of give more attention to the equity consideration in the price make up.

3.12 CONCLUSION :

The problem of agricultural prices and its effects on the composition of production is undoubtedly important; but even more important is the problem of achiving a rapied rate of increase in aggregate agricultural production. The role of APC to achive the various objectives of agricultural price policy is remarkable . However still it calls for planning management to keep agricultural prices in check and feed the nation under conditions of marginally adequate food output. It also necessitates the structural reform evolving a policy of lowering the consumer prices and increasing producer incomes.

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