CHAPTER 18

STABILIZATION OF AGRICULTURAL PRICES.

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STABILIZATION OF AGRICULTURAL PRICES.

Agriculture as organised at present in this country is a "deficit" industry. The pressure of population on land, the uneconomic character of the holdings, the poor technique and the low efficiency of farming operations have all contributed to the low levels of productivity and incomes of the farmers. Agriculture perhaps is the only business in which the producer continues to produce irrespective of profit, because to him it is not the pursuit of an occupation but a way of living.

Agriculture in India is of the subsistence type and four-fifths of the cultivated land is under food crops. The value of food grains produced in the country accounts for nearly 70 per cent of the value of agricultural production. A relatively small proportion of agricultural production enters into the cash economy and smaller still in the export trade. Yet even a small change in the prices of exports is sufficient to influence the prices in the internal market and the purchasing power of the producers concerned. Large among the most important factors which have prevented agriculturists from making more sustained efforts to improve the yield of the land. Under the present circumstances the agriculturists cannot afford to take heavy risks, and they naturally hesitate to adopt new techniques of investment in improvements or even to avail themselves of the facilities and services offered by the state. A fall in the prices reduces the income of the agriculturist and the position of the agriculturist, bad as it is, becomes worse. The incomes of the agriculturists make up the bulk of the purchasing power in the country and wide changes therein produce like changes in the fortunes of domestic industries. Thus the high proportion of the population on land makes our economy peculiarly susceptible to
Reorganization of agriculture as has been suggested, has as its main objective, the increased production from the land. A policy designed to increase the national agricultural production to its optimum potential, connotes an "economy of abundance" in which there exists under certain conditions the danger of the supply of the produce concerned exceeding the effective demand with a consequent fall of prices. The agriculturists can hardly be expected to show the necessary enthusiasm or will to work out that policy unless they are convinced that the benefits will flow to them in a large measure. The agricultural producer can therefore be more readily induced to co-operate in a drive for expansion of production if he has the feeling that his surplus produce will in any event fetch a price not lower than a given minimum. The State should guarantee minimum prices for agricultural produce and the incentive provided by such a guarantee will be easily understood by the producer and will evoke his willing response. Such a guarantee should be an essential part of any policy of agricultural development.

It was during the great depression of the thirties that a policy of active state intervention in the field of agriculture was devised and implemented even in the predominantly industrial countries of the world. In the United States of America the Agricultural Adjustment Acts of 1933 and 1938 provided for production and marketing controls and benefit payments supported by processing takes as a means of attaining parity prices.

In the United Kingdom, the Wheat Act of 1932 guaranteed an average price of 10 sh. per cwt. for all wheat of millable quality up to a maximum total of 27 million tons, later raised to 36 million. The method was to make a deficiency payment to farmers of the
difference between the average price received and this standard price when the former fell below the latter. The payments were made from the proceeds of a levy at the required rate imposed on wheat flour sold by millers or importers of flour. The Agriculture Act of 1937 extended state aid to growers of oats and barley; though as an alternative to claiming assistance under the wheat Act. * In Canada, Australia and New Zealand special assistance was rendered to agricultural producers by guaranteeing minimum prices.

In India the agriculturists were particularly hit hard during the depression because while the collapse of prices out into their receipts, the payments of land revenue, rent, interest charges etc., remained normally unaltered except for such remissions of taxation as were granted. The agriculturists had to sell such capital as they possessed in the form of land and ornaments and contracted fresh debts. With falling prices, the value of land which was the only security they could offer also declined and credit dried up. While other Governments were taking active measures for raising prices and maintaining purchasing power, state policy in India concentrated on remission of taxation and retrenchment of public expenditure.

During the period of the war, the price policies in the various countries were designed to meet the difficult situation by a variety of measures including the fixation of minimum and maximum prices, the subsidisation of the cost of living and the rationed distribution of food. In India too the state was compelled to intervene actively in the economy of the country and the government strove to maintain prices within a range fixed by statutory maxima and minima, combined with control of procurement, movement

* Agriculture in Britain - (Central Office of Information London-1949).
and rationing.

The planned economic development of India has as its main objective maximisation of production and the attainment of a higher standard of living. For the fulfilment of the objectives defined in the Plan, it is necessary to have a price policy which would secure not only a stable level of prices but would also maintain the parities between agricultural and industrial prices or between sectional prices such as those of food grains and raw materials so as to provide the right measure of incentive for producers.

In agriculture the desire expansion of production cannot fully be achieved without measures which will secure efficient units of production and wide application of improved farming technique. Such measures will be adopted only if it is economically worth while to do so. The agriculturists must be made to feel that the enlargement of the size of the unit by the information of comparative farms and the investment of capital in improvements on a large scale will ultimately bring about an increase in their incomes and prosperity. An effective increase in agricultural incomes can be secured in the long run only by raising the physical output per acre in relation to costs. In order that a drive for this purpose should secure the full and enthusiastic co-operation of the producers, it is essential to provide them with a sense of security by an active policy of price support. The drive for expansion of production in the rural agricultural sector will succeed only when the guarantee of a minimum remunerative price for his produce is held out to the agricultural producer.

In a scheme of planned economic development, the
monetary policy of the country assumes special importance. The monetary policy is an instrument for acting upon the incomes of all classes of the population.

However special measures are necessary for acting upon the incomes of particular classes and particular sectors of the economy. "In the case of agriculture, in particular, a more frontal attack is called for, and specific measures have to be taken which would have a direct effect on the level of agricultural costs and incomes."* The success of these measures will ultimately depend upon the pursuit of a complementary monetary policy which alone can sustain them.

Agriculture in India is entitled to preferential treatment. As the Co-operative Planning Committee said "while the risks are high in all lines of production, they are particularly serious in the sphere of agriculture, because of the vagaries of the monsoon, the inelasticity of production, the large number of small producers and the wide range of price fluctuations. Moreover the fluctuations in agricultural prices, in particular unbalance the whole economy of the country since they affect the incomes of more than 70 per cent of the population thereby affecting the demand for all types of commodities.

Besides they also influence the prices of industrial goods through their effects on the cost of living and on costs of raw materials. The position of the agriculturists is rendered particularly helpless in a period of slump of agricultural prices. The State must therefore adopt a policy of actively supporting agricultural prices within a range which is fair both to the producer and consumer if stability is to be imparted to the economic system.  

* Report of the Prices sub-committee P.31.
The effective guarantee of a minimum price will not only introduce an element of stability in agriculture but will also promote stability in other spheres of economic life. As the Famine Enquiry Commission have said, "a fair return to the cultivator is one of the foundations not only of agricultural prosperity but general prosperity also. The prices of agricultural produce are a matter of crucial importance in the economic system because of the influence on the whole productive structure, through the costs of raw materials and the costs of labour." The prices of raw materials affect the prices of the manufactured products, which have to face competition both at home and abroad and the prices of food determine the cost of living which would determine wages.

Stabilization of agricultural prices would impart stability to industrial prices. At the same time it serves to stabilize the purchasing power of the large agricultural population and thereby provides a steady demand for the industrial products. Industrial development will be accelerated and a high level of industrial employment and income will have favourable repercussions on the agricultural economy by increasing the demand for agricultural produce and inducing the prosperity of the agricultural population.

As the Prices Sub-Committee points out, "a policy of maintaining the incomes of the agriculturists by guaranteeing prices at a minimum level has to be associated in practice with an undertaking to provide supplies to the consumers at reasonable prices not exceeding a specified maximum." * The guiding principle of a policy of guaranteed prices should be to fix prices within a range which would be fair both to the producer and to the consumer and be capable of being enforced in practice. The State should provide an assured market to the producer at the minimum prices by guaranteeing to purchase all that

* Report of the Prices Sub-Committee 1944 - Government of India.
is offered to it at that price and it should undertake to release supplies at the maximum price when the market prices threaten to exceed the prescribed maximum so that the needs of the consumers may be adequately met.

A policy of price support is already in force in many other countries such as the U.S.A., Canada, United Kingdom etc. In the United States of America, the Government assured twenty farm commodities of prices supports in the immediate post-war period, to the extent of 90% of the parity prices. The Agricultural Act of 1949 continued the high level of price supports for some products and raised them higher for others through the application of a new parity-price formula. In Canada the Agricultural Prices support Act of 1944 set up a Board with authority to purchase staple agricultural products, whenever such products cannot be sold in the market above certain floor prices. The Board is charged with the obligation of securing a fair relationship between the returns from agriculture and those from other occupations. In the United Kingdom the Government has established a system of guaranteed prices and assured markets for milk, livestock, eggs, wheat, barley oats, rye, potatoes and sugar beet. The main objective of agricultural price-fixing is, in the words of the Agriculture Act, 1947, to secure a stable and efficient agriculture capable of producing such part of the nation's food as in the national interest it is desirable to produce in the United Kingdom and of producing it at minimum prices consistently with proper remuneration and living conditions for farmers and workers in agriculture and an adequate return on capital invested." * Prices have been fixed annually since February 1945 for almost the whole output of agriculture. The Agriculture Act guarantees to the farmer an adequate price

* Agriculture in Britain - Central Office of Information, London, 1949
and a certain market for his principal products, that is about 75 per cent of all agricultural products. The farmer will know the actual prices and the size of the guaranteed market for crops at least 18 months before they are harvested and for livestock products for the ensuing 12 months. In addition, for livestock products minimum prices and size of market will be known from two to four years ahead. Thus the guarantee of prices covers a certain volume of produce and enables the farmers to plan their production well ahead.

A policy of price support by state action raises the question of the level at which prices should be stabilized. The prices sub-committee has reiterated the view that the prices should be maintained at a level which would be fair both to the producer and to the consumer. The prices must be maintained at a level which will cover the cost of cultivation according to improved methods and will provide a net income to the agricultural producer which is approximately equivalent of the income obtainable in other comparable occupations which are open to him. A fair price should assure the agricultural producer an income sufficient to maintain him and his family at a standard of living which is equal to that enjoyed by other comparable classes of the population.

The determination of the fair price is however under present conditions difficult. The cost of cultivation varies according to soil and climatic conditions, crops produced and size of holdings and several other factors. What may be considered fair to one producer under certain conditions of cultivation may not be fair to another producer whose conditions of cultivation are entirely different. The cost cultivation could only be estimated by detailed and continuous enquiries specially planned
and conducted for the purpose. With the reorganization of the agriculture and the formation of co-operative farms it would become necessary to keep an elaborate system of accounts for the purpose of determining the costs and prices of agricultural produce. The adoption of improved agricultural techniques will reduce the costs per unit of output and tend to lower the level of prices. The fair prices fixed can be progressively reduced as efficiency increases and production expands. The Prices sub-committee has declared that the fixation of a fair price is not an isolated measure for the transference of incomes from one class to another and that it is a part of an integrated drive for increasing efficiency, expanding production and raising the standard of living.

The fixation of fair prices would ultimately work out in the interests of all sections of the population. The rural producer and the urban consumers are both interested in the stability of costs and incomes. "Our aim should therefore be the fixation of fair prices which would provide stable incomes to the agriculturists as well as stable costs of living to the urban workers. The stabilization of the costs of living would no doubt lead to the stabilization of wages which together with the stabilization of the costs of raw materials would make for stable prices of manufactured goods. A policy of price fixation, accompanied by a strong drive for efficiency, will thus be in the interest of all classes of the community."

The difficulties in working out the figures for agricultural costs are great. In regard to the cost of cultivation, while the land revenue and interest on debt - in so far as these are fixed in cash - have not risen, the prices of bullocks, * Report of the Prices sub-committee - P.45.

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implements, labour manure and all other requirements have gone up since 1942. The precise rise in prices of these materials are not available and the increase in the cost of production would depend on the proportions in which these factors are utilised. Also the cost of cultivation varies from region to region and often even from holding to holding. The enquiry into the cost of production of certain crops which was conducted by the Imperial Council of Agricultural Research revealed very wide variation in costs.

Nor even a correct estimate of changes in the cost of living of the class of agriculturists in the country could be made. We have only for our data the rural prices of a few commodities which the farmer buys. Even these figures are available only from 1943. From these figures alone, no correct conclusion could be drawn. The price increases in different places have been different - cloth, kerosene and other food items account for very different proportions in the farmer's budgets. There has been to some extent curtailment of consumption owing to price increases in the case of certain commodities which could not be purchased at controlled prices. Consequently it is difficult to form a correct estimate of the cost of living in rural areas which would adequately reflect the changes in the purchasing power of the farmers' money incomes.

It is necessary to create the suitable machinery for the collection of data relating to agricultural costs. Until the relevant data become available it will be necessary to proceed on a less scientific basis and maintain agricultural prices at reasonable parity with agricultural costs. Agricultural prices refer to the prices received by the agriculturist for his produce.
Agricultural costs refer to the prices paid by the agriculturist for the goods and services entering into his costs of production and his costs of living.

The linking of agricultural prices to agricultural costs involves maintaining a certain ideal relationship between them. In the absence of the data which can enable us to determine what relationship would be appropriate, we have to proceed on the basis of the relationship between agricultural prices and agricultural costs which prevailed during a particular period in the past when such relationship was commonly accepted to be fair to all the interests concerned. It will be necessary of course to make adjustments in the relationship from time to time in the light of changing circumstances.

It is on the parity principle that the policy of price support in U.S.A. has been based. Parity has provided the basis for computing benefit payments to farmers since 1933 and for war-time ceiling and support levels. As defined in the Agricultural Adjustment Act of 1938, "Parity shall be that price .... which will give to the commodity a purchasing power with respect to articles that farmers buy equivalent to the purchasing power of such commodities in the base period." Until 1950 the base period for most commodities was August 1909 to July 1914, the five years before World War I. The parity price is arrived by multiplying the farm price for a product in the base period by an index which measures price changes since the base period of goods that farmers buy interest and taxes. Since the 35-year old base was not considered to be satisfactory, in the Agricultural Act of 1949 the parity concept was modernised to become effective in 1950. The old (1910-14) relationship between farm products and commodities
interest and taxes was retained but the relationships among farm products were related to their respective market prices during the preceding ten years.*

The parity price does not rigidly stabilize prices at any absolute level but permits them to fluctuate in relation to changing conditions of costs, thereby providing the necessary elasticity in the economic system. "It links agricultural prices and costs by a certain relationship based on past experience as to what may be considered fair and thus prevents the hardships that the producer and the consumer may otherwise have to bear on account of violent fluctuations in prices." ** The parity formula provides a basis which may be considered fair to all interests and until adequate data of costs of production and cost of living are collected this basis should be used for calculating fair prices of commodities.

The Prices sub-committee expressed the view that the most appropriate period in the past for use as a base period for purposes of parity is the quinquennium 1924-25 to 1928-29. The question arises whether the 24-year old base fits with the changed conditions of production and consumption. The base period must be near enough to approximate the conditions prevailing in the present. Moreover the general price level prevailing in the base period must not vary by a very wide margin. Hence the choice of the quinquennium averages prices ending 1938-39 made by the Famine Inquiry Commission is to be preferred. In fact the adoption of the parity formula is in this country difficult. A correct relationship between agricultural price and agricultural costs can hardly be established. Unfortunately no index showing the prices of goods that farmers buy, interest and taxes was retained but the relationships among farm products were related to their respective market prices during the preceding ten years.*

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** Report of the Prices sub-committee - P.56.)
that they pay is available for the country as a whole. It becomes necessary therefore that the data relating to agricultural costs should be collected which will enable us to fix fair prices of agricultural produce.

It is very difficult however to peg market prices at a fixed point as they are continually liable to change owing to varying conditions of supply and demand. It is therefore desirable to peg market prices within a certain range with a minimum and maximum at the two ends. The minimum price is of importance from the point of view of the producer since it gives him the assurance that his income would not fall below a minimum level and introduces a certain element of stability and security in his life. The maximum price is of importance from the point of view of the consumer because it prevents a rise in his cost of living and assures supplies to him at that price.

The determination of minimum prices depends on a number of considerations. Agricultural prices have to be considered in relation to the general level of prices which would be influenced by the monetary policy of the country. The level of prices within the country has to be in reasonable conformity with the trend of prices in the world as a whole. This is of special importance in the case of commodities that enter into export trade. The financial resources available to the state for implementarion of the price guarantee is also an important factor.

The minimum prices should under no circumstances be permitted to fall below a certain rock-bottom level determined by fixed elements in agricultural costs, since a fall in the market prices below this level will completely upset the economic balance. The close link between agricultural and industrial prices clearly indicates that a fall in agricultural prices cannot be avoided if
a catastrophic fall takes pace in industrial prices. Hence Government should adopt a policy of preventing any sudden collapse of industrial prices.

The minimum prices for the selected commodities should be determined and announced at the beginning of each crop year well ahead of sowing operations. The minimum price for a commodity should be calculated for the principal producing areas and for other areas should be worked out so as to allow for the normal costs of transport, marketing and other incidental charges. Also the minimum prices should be calculated on the basis of the fair average quality of the product, suitable differentials being allowed in respect of other grades and qualities. The maximum prices should be based on the minimum prices and under no circumstances should be lower than the fair parity prices. The maximum prices should be announced as soon as the crop prospects are known and should remain in force for a year.

The minimum and maximum prices should be enforced by the state carrying out purchase and sale operations on its own account. The state should prevent prices from falling below the floor level by purchasing freely at floor prices and from rising beyond the ceiling level by selling from its buffer stocks. The success of state policy in maintaining market prices within the range set up the minimum and maximum will depend largely on the capacity of the state to influence the supply in the market, by withdrawing a part of the supply through its purchases and by adding to the supply through its sales as may be necessary. These purchase and sale operations involve the building up of national reserve stocks and also the regulation of imports and exports.
The necessary machinery must be created in order to carry out the functions involved in the adumbration of a price policy. The Prices sub-committee recommended that an All-India Agricultural Prices Council should be set up on a purely voluntary basis consisting of representatives of the state governments. This body should lay down the price policy fix the minimum and maximum prices and enforce them.

The Agricultural Prices Council should have under it two bodies: (a) a Price Determination Commission, (b) a Commodity Corporation. The Price Determination Commission, after examining all the available data, should determine the level at which minimum and maximum prices should be fixed and submit its recommendations to the Agricultural Prices Council. The Council will fix the minimum and maximum prices for different crops in different regions taking into account all the relevant factors. The Commodity Corporation will take such measures as may be necessary to make the prices fixed by the Council effective in the market. It will undertake to purchase all that is offered to it at the minimum price fixed and to sell from its stocks at the maximum price.

The State will have to construct the necessary storage accommodation at different centres elsewhere it has been argued that the state should render financial aid to the co-operative societies in order to enable them to construct godowns for the development of orderly marketing of agricultural produce. The state should construct the storage depots required for its reserve stocks at its own cost.

The Famine Enquiry Commission stressed the supreme importance of stabilising the price of wheat and rice on the
ground that food crops constitute roughly four-fifths of the cultivated area of the country and of these wheat and rice are the most important. The Prices sub-committee expressed the view that prices of important millets like jowar and bajra will also have to be fixed in order to maintain the prices of the cereal group as a whole. In addition, though the fixation of the prices of cereals may be sufficient from the point of view of increasing the production of food and maintaining agricultural incomes this involves the danger of upsetting the general pattern of production so far as crops other than food crops are concerned. Commercial crops such as jute, cotton, sugarcane and oilseeds are of some importance in the agricultural economy of the country. It will not be proper therefore to leave out commercial crops although they may be outside the cereal group proper.

A planned production of food grains and commercial crops indeed depends for its fulfilment on an appropriate price policy. "The aim of policy should, therefore, be to maintain the relative prices of different agricultural commodities at such levels, that without being influenced by excessive price stimuli in one direction or another, it is possible to secure increase in food production to the desired levels pari passu with increase in the production of commercial crops."

If the prices of only a few commodities are fixed while the prices of other commodities remain unfixed, there is a danger of lopsided production which may upset the crop plan as a whole.

The Planning Commission has fixed the targets of additional production in agriculture to be achieved by 1955-56 as follows:

* (The First Five Year Plan - A draft outline - P.79.)
Food Grains - 7.6 million tons - 14 per cent increase
Cotton - 1.26 " bales - 42 "
Jute - 2.09 " bales - 63 "
Sugarcane - 7 lakh tons -12 "
Oil-seeds - 4 " tons - 8 "

The production figures for 1955-56 as envisaged in the plan compared with figures for 1950-51 are as follows:

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<thead>
<tr>
<th></th>
<th>1950-51</th>
<th>1955-56</th>
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<tbody>
<tr>
<td>Food grains including gram and pulses (million tons)</td>
<td>52.7</td>
<td>61.6</td>
</tr>
<tr>
<td>Cotton (Lakh bales)</td>
<td>29.7</td>
<td>42.2</td>
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<tr>
<td>Jute</td>
<td>33.0</td>
<td>53.9</td>
</tr>
<tr>
<td>Sugarcane (million tons)</td>
<td>5.6</td>
<td>6.3</td>
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<tr>
<td>Oil-seeds</td>
<td>5.1</td>
<td>5.5</td>
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The Planning Commission has stressed the importance of maintaining a structure of relative prices if the production programme is to be fulfilled. The production of commercial crops is apt to be influenced by price changes to a much greater extent than the production of food grains. It may be noted in this connection that many of these crops compete with food crops for the purpose of cultivation and the price factor largely influences the production plans of cultivators. In the context of the present difficult situation, this implies that the prices of commercial crops should not be so high as to encourage any diversion of land away from food crops. Nor should the area under Commercial crops be restricted as the increase in the production as envisaged in the plan must be secured. The plan therefore lays stress on the need to avoid deliberate price incentives of a varying order for different crops. Excessive price stimuli
in favour of some crops, either through price changes or through relaxation of controls may have the effect of jeopardising the achievement of the agricultural targets. It should be stated that the relative prices of food crops and commercial crops should be fixed at such levels that they will evoke the desired response and enthusiasm of the agriculturists in the attempt to achieve the targets of production.

Thus a programme of agricultural development depends for its success on the implementation of an appropriate price policy. The general economic situation is still in flux and the price-levels continue to rule high. It is not feasible to suggest with confidence any particular level for the fixation of agricultural prices in India. But the guarantee of prices alone will enable us to achieve the targets fixed in the Plan. It will promote measures of agricultural development, stimulate efforts to expand production and will lead to the attainment of higher levels of productivity and incomes.

The successful execution of the five-year plan requires the maintenance of a certain level of prices and costs. Even if within the next few years a reduction in agricultural prices is called for as a preliminary to any general reduction of prices undertaken as a matter of state policy, such reduction should not be disadvantageous to the agriculturists. Agricultural costs tend to become rigid and it is necessary to maintain a reasonable parity between agricultural prices and agricultural costs.

Stabilization of prices is not an end in itself. The
aim of stabilization measures is to enable the farmers to improve their net incomes and to reach higher standards of living. It has been said before that the stabilization of incomes of the agricultural population will induce stability to the economic system as a whole.