SUPPORT PRICES OF FOODGRAINS

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It has been agreed by all concerned that the problem of agricultural prices is a most difficult and ticklish one. This difficulty makes it all the more important for an agricultural country such as India to make the country self sufficient in food production in a very short time. Fixation of remunerative and incentive prices of food grains is one of the most important factors to induce the cultivator to increase production of food grain. In this paper it is proposed to discuss the five points put up by the organisers of the seminar. I have changed the order of the points for the sake of convenience.

(1) Guidelines of formula for fixing minimum support prices for Foodgrains.

The general principle of economics lays down that the market price of a commodity is determined by the cost of production to the marginal producer.

It is a matter for consideration whether this law could be applied to agricultural production in the same way as to industrial production.

At the outset one is inclined to say that in view of the present agricultural economy in which the cultivator is inclined to go in for a crop which gives him the highest return at least possible cost and trouble and often times prefer to grow cash crops rather than food crops, the law of economics stated above could be and should be applied for production in the agricultural Industry. The self sufficient village economy of the olden days is vanishing in favour of production on commercial lines. As agriculture is being commercialised, the production of the Agricultural Industry should be placed on the same footing as industrial production. Cultivators go in for commercial crops, like tobacco, cotton, jute etc., and meet their food requirements by making purchases from those who produce food grains.
Accepting this basic principle the next question that arises is how to arrive at the cost of production of foodgrains on which support prices could be determined. This is a very difficult problem, no doubt, as it is realised by the agricultural economists all over the world that the cost of production of agricultural produce varied widely from farm to farm and area to area in the same areas. It is also observed that farms in a homogenous tract do not incur uniform or similar costs. Low cost producers of one season incur high costs in other seasons. Thus there are great variations in the cost of production of the same crop from farm to farm and from season to season. Also standardisation of agricultural produce is not easy as the quality of produce depends mainly on natural factors, among other things. As such it is not easy to work out the average cost of production according to the quality of the products.

Taking into consideration the great variations in the cost of production of agricultural produce, a workable solution of the problem lies in evolving a suitable formulae for the purpose in view. This workable basis should be the life long experience of intelligent cultivators and their help should be invoked for working out the cost of production of foodgrains on which support prices could be based. Taking into consideration the information supplied by intelligent and experienced cultivators, a workable formulae could be arrived at. The units of human and bullock labour required for different types of soils, for each item of cultivation could be fixed and on the number of operations normally carried out for a crop, the cost of units used could be ascertained. In the same way the cost of other items could be fixed on realistic lines rather than on set notions.

An attempt has been made in the report of the Gujarat Krishi Pradesh Bhav Tapas Samit. (Committee for investigating into the cost of production of agricultural produce in Gujarat), to arrive at such a formulae for main food crops, for working out the cost of production. For details a reference to that report is invited.

A reference to that report may raise some questions in the minds of the readers regarding the factors taken into consideration in arriving at the figures of cost of production. The first and fore most question
that may arise is about the selection of samples for the survey. It is argued that random selection method is not applied for selecting the sample and hence it is not a representative sample. It is also said that there are great variations in the cost of production and that for want of random selection standard error could not be worked out.

Let us consider the objections raised above. One has to think seriously whether random selection is the only method for solving all economic problems. Random method, no doubt, is quite suitable for scientific experiments laid down with a view to finding out whether the results of researches could be gainfully applied to the fields of the cultivators. But the notion that random selection is the one and only method for selecting a sample for all purposes is erroneous.

In working out a cost of production of an industrial product, will the industrialist agree to make a random selection of the manufacturers and agree to the cost thus arrived at? The most efficient manufacturers will produce the commodity at the least cost and the less efficient at high cost. Yet the least efficient remains in the field so long as there is demand for the commodity produced by him and that is why the law of economics lays down that market price of a commodity is determined by the cost of production to the marginal producer.

On this analogy random selection of the cultivator, in arriving at the cost of production of foodgrains is not a scientific and suitable method. The method of selection of a sample depends upon the commodity and the object of the survey. One and the same method of selection cannot and should not be applied for different object such as the settlement of land revenue, in which aid of farm cost data is invoked. Farm costs are also taken into consideration to study the extent of rural indebtedness; the cooperative society works out cost data to find out whether the loans made to the members could be productively utilised, so that both the interest and principal would be repaid from the profits of agriculture.
Agriculture departments have their own views in studying farm costing, the principal object being to find out the extra profit accruing to cultivator as a result of introduction of agricultural improvements. Cost data are also collected by certain committees and commissions such as the Indian Central Cotton Committee, in their investigation into the marketing of cultivators’ own cotton in the different states of India, in the banking inquiry committee, in the inquiry into the revision settlement of the Bardoli and Chorasi Taluka and the like.

In solving all such important problems different methods of selections of samples for the cost studies have been made use of according to the nature of the problem. All of them have not adopted this stereotype method of random selection. Looking to the purpose in view we have therefore in our survey of “Cost of production of food grains in Gujarat”, adopted the most suitable method of Modal selection, that is the selection of zones growing the crop on a wide scale, villages in the zones that grow the crop on an extensive scale and holding of farmers whose main crop happens to be the food grain crop under study. To make the inquiry realistic and feasible it is also necessary to make selection from among the modal holders those farmers who are experienced and intelligent enough to give out the overall effects of their life long experience about the crop, from which average effect could be arrived at. This contention is borne out by the agricultural prices commission’s report in which it is stated that “Minimum prices could be related to the cost of cultivation properly defined and measured .....only the cost of the relatively efficient and innovating farmers is relevant for this purpose”. Thus random selection is not appropriate for the object in view is supported by the commission.

As to the items to be taken into account in working out the cost of production, it depends upon the object of the survey. If the object is to work out the market price on commercial lines the “Net profit” method is found to be suitable. If it is desired to find out the earnings of the farm families, “family labour income” method should be adopted, whereas if the object is to find out the total earnings from his farming business the “Farm Business income” method will serve
the purpose. But if the object is to know the overall economic condition of the farmers, the “net surplus” method should be adopted.

In this “Net surplus” method all manipulations in calculating the cost of items of production, at arbitrary market rates for the materials used in kind by the farmers and also for his family and bullock labour are avoided. Such calculations involve artificial conditions. If the market prices of such materials rise during any year the calculated cost will increase and if it falls, the cost may decrease, but in actual practice as he does not purchase the commodities from the market such fluctuations in cost do not affect his actual economic position in any way. Calculations of the cost of production of commodities used in kind at market rates give out artificial results regarding the actual economic positions of the farmers. In the “Net surplus” method, therefore, all artificial calculations are avoided. The cash surplus from the farming business is arrived at, by taking into consideration the cash expenditure actually incurred by the farmers in crop production, and the cash earnings received from the crop actually sold in the market. A difference between the cash costs and cash earnings is the “Cash Surplus” of the farming business. It is now to be found out whether the cash surplus is sufficient to meet his cash needs or whether there is any deficit or surplus to sell.

In the same way, the “The net production” of crop is arrived at by deducting from the total production payments made in kind to labour, the balutas, quantity fed to cattle or used for seed etc., and the quantity actually sold. It is then examined if the balance of foodgrains left over with the farmer is sufficient to meet the needs of the farm family for a year. This method depicts the real economic position of the farmer, as all calculations of the materials used in kind at the fluctuating market rates are avoided.

This makes it quite clear that the method to be adopted depends upon the objects of the study. In the case under study the object being to arrive at support prices of food grains, the cost of production is to be worked out to fix market prices of food grains, the “Net profit” method on the lines of commercial production, is the most suitable method.
Keeping in mind the principles discussed above we may consider the five points raised by the organisers of the seminars. For the sake of convenience, I have taken the second point first.

(1) Guidelines or formulae of fixing support prices of foodgrains.

The country should be divided into the crop zones having the highest area under a particular food grains crop and obtaining substantial total production of the crop, even though the productivity may be low. This is made clear by an illustration. The average annual acreage under paddy in the country during the period of five years from 1958-59 to 1962-63 comes to about 8,33,010,000 acres, i.e., over 8 crores of acres and the annual production comes to about 3,17,10,000 tons i.e., over 3 crores tons. Each of the five states of Bihar, Madhya Pradesh, Orissa. Uttar Pradesh and West Bengal put over a crore of acres under paddy, all the five states making a total of about 5-1/2 crores of acres i.e. about 65 per cent of the area under paddy in the country. The total annual production being 1,78,98,000 tons i.e. about 56 per cent of the total production of the paddy in the country.

For fixing the support prices of paddy, therefore, these five states may be taken as a basis and support prices may be fixed on the cost of production of the modal farmers of the states. For other states growing paddy the support prices may be fixed on the basis of the support prices of the surplus states plus the cost of transport and handling charges from the surplus zones to the states normally importing paddy for consumption.

I have taken the paddy crop as an illustration and the same principles could be applied to other food grains’ crops also.

Another important point to be taken into consideration for fixing the support prices is that they should be revised from season to season on a sliding scale in parity with the price movements of commodities required by the cultivators for production and also domestic consumption. Thus side by side with fixing the support prices, the index number of prices should be worked out for such materials and support prices should be revised from season to season on the basis of the index numbers.
The third guide line for fixing the support prices of foodgrains is the total cost incurred by Government for the imported foodgrains including cost, freight, cost of handling and management, losses of foodgrains due to various causes, investments and interest etc., The support prices to be paid to our farmers should not be less than the prices per unit of the imported grain thus arrived at.

On the lines of the above considerations we may now attempt to define support prices of foodgrains.

(2) Defining Support prices of Foodgrains:

"Support prices of foodgrains are those prices, which are not less than the cost of production of modal farmers in the crop zone. These prices should compare well with the profits of agriculture accruing from the commercial crops of that zone. The prices should be variable on the basis of consumers goods and prices of goods normally used by the farmers for production. These prices should not be less than the prices worked out per unit on the all out expenditure incurred by Government for imported foodgrains".

(3) Now let us consider the third point regarding the implications of minimum support prices of foodgrains for (1) Producers, (2) Consumers, (3) International trade.

Support prices of foodgrains on the lines discussed above is expected to encourage the cultivators to go in for production of foodgrains. It is also necessary for this purpose to make arrangements to supply the cultivators with all the materials required for foodgrain production at controlled rates, in sufficient quantities and at the proper time. It is also necessary to see that the support prices go directly into the hands of the cultivators and not in the hands of middleman. This precaution is absolutely necessary because the bulk of the cultivators being hardpressed for money are obliged to sell off their produce at distress prices as soon as the crop is harvested. In substantial number of cases, even standing crops are sold before harvest at prices previously fixed which are very low. In such cases the advantage of support prices may pass off into the hands of the Sahukar. Such a state of
affairs will not prove encouraging to the actual tillers of soil to go in for food production to a large extent. In the aboriginal and backward tracts, even to day, inspite of the existence of cooperative societies, a bulk of the farmers are still in the clutches of Sahukars, who supply the cultivators on credit all their requirements during the year and in return procure all the produce raised by the farmer immediately on harvest, so much so that even just after harvest, the cultivator has to borrow foodgrains for day to day consumption from the Sahukar. No grain is left with the cultivator even for sowing in the next season when seed of low quality is obtained for sowing form the Sahukar at exhorbitant rates. Thus it is quite necessary to safeguard the interest of the producers.

As to the implications of support prices of foodgrains for the consumers it may be stated with confidence that the prices to be paid by the consumers will not in any case be more than the prices paid at present by them, if the whole distribution agency is properly arranged and controlled. My reasons for this hope are that to day there is a very wide difference between the prices actually received by the cultivators and those actually paid by the consumers. The prices paid by the consumers at a distance of about 25 miles outside the food zones are about the double of those received by the producing cultivator within the food zone. This wide difference cannot be said to be a result of economic cost of transport etc, but is a result of mal-administration, which is not within the scope of this paper to discuss.

For our purpose it will suffice to say that the wide gulf between the prices received by the cultivators in the producing zones and the prices paid by the consumers even at short distance outside the food zone is a result of factors other than economic. Here I simply want to stress the point that the support prices paid to the producers will not in any way cause hardships to the consumers if proper and effective distribution is arranged. We may further discuss this point while considering the machinery for implementing the programme of minimum support prices of foodgrains.

As for the third point namely the effect of support prices on international trade, I feel that the point does not arise as we do not produce food grains for export, as we are not self sufficient in food grain products. However, a passing reference is made to this point above in the discussion of guidelines.
(4) Machinery for implementing the programme of minimum support prices of food grains.

In order to make sure that the support prices go directly into the hand of the cultivators, it is necessary that the purchase of food grains, should be made directly from the cultivators by the Government or by licence authorities. For this purpose first of all, land revenue and loans advanced to the cultivators may be collected, as far as possible in the form of food grains. Sales to private wholesale agencies should be stopped altogether.

(2) There should be no restriction of any kind of movement of food grains from the surplus to deficit areas. The movement between states should be on government account only.

(3) Each state will be the wholesaler. It will give the food grains to the retailers who should be licensed. Private wholesale agency should be wiped out because it is the private wholesalers who encourage hoarding and black marketing.

(4) If the licensed retailer is found to make any undesirable sales or adultration, his license should be immediately cancelled. His deposits and stocks should be confiscated by the Government. He should be arrested under the Defence of India rules and treated accordingly.

(5) The most important of all measures is to make strenuous efforts, on war basis, to increase production of foodgrains, in a very short time, to make the country self sufficient in food. Stability of the whole organisation could be assured only by making the country self sufficient in food by increasing production. The recent starting of National Tonnage Club of Farmers on an all India basis from the current year is expected to increase food production. But to make India self sufficient in food it is necessary that production should be linked with equitable distribution.