FIXATION OF SUPPORT PRICES FOR FOODGRAINS

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In discussing the problem of support prices of foodgrains, our attention must be focussed to evaluating its contribution to provide solutions to the three major economic problems confronting our society—efficiency, stability and equality of economic opportunity. In each case support price is inadequate unless appropriate supplementary policies or conditions exist.

Before considering the main problems involved in the fixation of support price, it is necessary to have a look at the distinguishing characteristics of Indian agriculture. All academic considerations about fixation of support prices of foodgrains in the typically existing conditions cannot bring the same effect as are brought about in other conditions obtainable in developed countries.

A large part of agricultural production in India is subsistence production and never reaches the market but is used directly by the people who produce it. Its implications are often overlooked.

Subsistence production may be defined as, “that part of agricultural production which is not marketed but it is used directly by the producers and their families”.

According to K. C. Abercrombie, in India estimates of the “marketable surplus” indicate that subsistence production is 63 per cent of the total for wheat, 69 per cent for rice, 76 per cent for maize, 74–81 per cent for the various millets and sorghums, 56 per cent for gram, 16 per cent for groundnuts, 20 per cent for linseed, 7 per cent for potatoes, 3 per cent for tobacco, 7 per cent for grapes, and 33 per cent for mangoes. Not only is subsistence production a high percentage of total agricultural production but it also represents an even higher proportion on the total food consumption of agricultural population.
Land reform measures involving the break up of large estates have brought an increase in share of subsistence production.

Food production has failed in recent years to keep up with domestic demand.

Urbanisation is likely to continue to make heavy demands on the agricultural sector. Rising incomes are also altering the pattern of domestic demand. Subsistence production has fallen to as little as 1 per cent of the total value of agricultural production in the United Kingdom, 3 per cent in the United States and 5 per cent in Canada. The difference in the situations is indicative of the changes that may be expected with economic development.

Vigorous measures are necessary to ensure that production is expanded fast enough to meet the demand.

For Government assistance to be most effective it needs to be tailored as far as possible to the requirements of producers at different stages in what has been called the "transition" to market agriculture.

It would be useful if all rural surveys took account of the extent to which agricultural production is for subsistence.

It is important to distinguish between those areas with plentiful land and those with heavy pressure of population on the land. In the former, production can be increased simply by the introduction of labour saving devices; but in the latter such improvements have little effect and it is necessary to increase the productivity of the land through such measures as the use of fertilizer and irrigation.

At the earliest stage the provision of basic transport and marketing facilities is clearly the main need in order to develop production for the market. The availability of suitable consumer goods is of considerable importance, as they stimulate the desire for cash with which to purchase them.

Initially, marketing measure may need to include such active steps as the establishment of centres for buying livestock from nomadic herdsmen.
Among more conventional measures, steps to ensure the supply of requisites for increased productivity, such as fertilizers, improved seeds and implements, combined with elementary extension work, may be effective at a comparatively early stage.

Many other measures, however, are unlikely to be necessary or fully effective until producers have already advanced a good way into the exchange economy. These include institutional credit, guaranteed prices, land tenure changes, more advanced extension work, more sophisticated marketing services, and the organization of cooperatives.

Finally, government measures aimed at the expansion of production for the market must take account of the reactions to price changes of producers who consume a large part of their own production. Such producers react at the same time in their capacity as both producers and consumers. The normal consumption of their own produce is barely adequate and they therefore try to balance the relative advantages of consuming more of it or selling more. If the price of, say, the staple grain goes up they may be able to afford to sell less and increase their own consumption. If the price goes down they may have to sell more, at the expense of their own consumption, to satisfy their minimum needs for cash.

At the national level such reactions may have little effect, since the greater part of production for the market is generally supplied by large producers who do not react in this way.

Broadly speaking, economic policies focus attention upon two types of issues—the allocation of resources and the distribution of income.

In the above context, the first aim is not achieved.

Planning needs the price mechanism. In the words of Arthur Lewis, "In fact, the essential issue in the discussion of planning is not whether there shall be planning but what form it shall take, and in particular whether the state shall operate through the price mechanism or in supersession of it. The fundamental difference is between methods that achieve their result by persuasion and those that achieve it by command."
Thus planning has to have economic criteria for making the use of scarce resources: that it must in the interest of conserving its limited administrative talent rely as far as possible on the impersonal forces of the market; that in fixing its price controls, it must make liberal provision for producers rather than provide ill-gotten gains for black marketeers, bureaucrats and the bribers and that, in the interest of flexibility and rapidity, it must establish as far as possible islands of freedom, which those in desperate need of resources can tap at a price far higher than the current artificially pegged government rates. In short, planning for efficient and rapid economic development urgently and desperately requires the price mechanism. But it is in the field of unleashing the creative enthusiasm of the people that the price mechanism embodies what we may call an "incentive technology".

The first thing for the Government to do is to see how it can provide incentives and institutions which will enable the agricultural sector to deliver the goods within the frame work of the agreed priorities and goals of development; next, failing this, how physical controls can be used where they must, and in so doing use them in a liberal, persuasive manner rather than a harsh, penalising manner. There should be a system in which the maximum incentives are created for maximising the "marketable surplus" of food from the agricultural areas to the urban centres.

Most research in recent years has pointed out in the direction of attaching greater importance to human factors in bringing about economic growth, rather than a mechanical application of formulae about capital or natural resources. What is required is growthmanship, which is likely to be achieved by the factors called three E's—energy, enterprise and education. Government can play a substantial part in providing education. Enterprise, with a few exceptions, is something which governments can not provide; it is something which must come from individuals, and the best that government can do is to refrain from taxing or regulating it too severely. As for energy, or the willingness to work hard, this is something which lies deep down in the character of the people, and has little to do with governments, except that this, too, can be destroyed by prolonged misgovernment.
Measures for the improvement of subsistence production may, therefore, merit a more prominent place than they are given at present.

The greatest bottleneck:

Majority of the holdings in India are uneconomic. Cooperative system of farming has been adopted as the only way of solving this bottleneck.

But a section of the people doubts about the success of cooperative farming which belief has been intensified by its snail like pace. They believe that cooperation is a laudable ideal, but like all others, unattainable at least in the sphere of farming.

Although we have been experimenting with cooperative farming for long, yet it has not attained any success worth mentioning.

Under the circumstances some people question as to why instead of cooperative farming in its usual form, namely with joint or collective use of land, a new type of cooperative farming may not be advocated, namely, "Individual farming on cooperative lines."

Dr. Otto Schiller, a German Professor has suggested this method. Dr. Schiller served in West Punjab on behalf of the Food and Agricultural Organisation of U. N. O. as an expert in Cooperative Farming. As a result of studies, he came to the conclusion that the proposals which he made for West Punjab would with certain modifications, be made applicable also to East Punjab and some other states of India.

Cooperative or no cooperative, subsistence production has to be replaced by production for the market. Only then considerations of support price etc. will bear fruit. Among other things size of business is the most important.

Support Price For Food Grains & Formulae For Minimum Price Fixation:

Since seventy one per cent of our farmers have a holding of less than five acres of land, 24½ per cent of the farmers hold between 5 to 20 acres and the remaining 4½ per cent have holdings of over 20 acres,
only a small percentage of the second group, and the greater part of the third group come within the range of the cultivators to be affected by the support prices of food grains, for the support prices fixed hitherto would cover the cost of production of only the efficient cultivators.

Farmers produce raw or basic commodities, and these being sensitive to price changes fall lower than the average price of all commodities; while wages and taxes responding sluggishly to price changes, remain comparatively high, making it impossible for the farmer to meet his expenses of production at the price offered for his commodities.

The real problem is not the rise in the price level but the disparity that occurs among the prices of basic commodities, the general price levels, rents and taxes. It is not enough, therefore, merely to set "fair prices" or "ceiling prices". What is important is to maintain an equilibrium between the prices of basic commodities, the general price level, wages and rents.

**Parity-Prices:**

Parity-price is one that will buy the same quantity of other products as it would during some special base period. A parity must be maintained between the prices of agricultural commodities and that of manufactured goods.

An attempt to control the prices of agricultural commodities without a simultaneous attempt to control wages and prices of implements, live stock and fertilizers or prices of commodities farmer buy would hit farmers on both sides. According to Richard L. Kohls, the parity formula for finding out parity ratio for agriculture as a whole is as follows:

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\text{Current index of prices received (base period)} \times \frac{\text{Current index of prices paid (base period)}}{100} = \text{Parity ratio.}
\]

The parity price for an individual commodity calculated is as follows:

Average price of commodity.

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\text{Average index of all prices received most recent 10 years} \times \text{Current index of prices paid = Current parity price.}
\]
Though the desired purchasing power is tied to the base period, the base period for prices of a commodity is to be calculated for the most recent ten years.

This is a formulized method for arriving at the "fair" price. In this, changes occurring in the supply-demand pattern of a commodity are incorporated into the parity price.

But merely doing the calculations would not make the price on the market equal parity.

The Food Grains Corporation, the Agricultural Prices Commission in conjunction with the Ware Housing Corporation may take up the activity of support prices with such additions, alterations and adjustments as may be determined.

In the case of most storables the farmer may sell his commodity to Government which may be stored in ware houses. He may get the price reflecting the amount of the support price. The basic commodities—wheat and rice, should be mandatorily supported at a fixed 90 per cent of parity formula, initially, as in America, subject to modification later as the exigencies may require.

**Average Cost of Production**

Although the large extent of its area and a great variety of the physical and natural feature and climate, combined with natural fertility of soil, enable the country to produce almost every kind of vegetable life, yet there are clear cut crop, forest, fruit and vegetables and animal husbandry zones in India.

The only satisfactory level of price will be that which meets the average cost of production.

It is unfortunate that in our country no attempt has yet been made to evolve a simple method of keeping farm accounts and popularise amongst the farmers. Neglect of this aspect of agricultural economics has left no scientific criteria for fixation of prices. If only a few per cent of cultivators have sizeable acreage of cultivation, they are also those
who are in a position to maintain records of cost of cultivation of at least major crops provided this aspect is included as an item of the Economic Planning.

As a long term measure, it is advisable that this point may be given priority even now so that as large number of cultivators as possible may keep their farm accounts. Even if they do not maintain precision yet this will give better basis than conjectural basis as at present.

As a short term measure, special machinery may be set up in the field of Agricultural Economics to launch a survey of cost of production of a few major food crops. This programme should be part and parcel of Five Year Plans. For the purpose of survey, the unit may be different crop regions in each state. The cultivators may be divided into three groups, those cultivating less than say 20 or 25 acres, those who cultivate say 25 to 75 acres and those who cultivate above 75 acres. Finally, an average cost of cultivation may be worked out for all the three groups. This figure will be quite helpful as guideline for fixing support prices of food grains. In considering the level of prices of food grains, appropriate to the particular area, regard should be had to (a) the cost of articles entering into the cultivator’s cost of production, (b) cost of articles entering into his standard of life, and (c) Average cost of cultivation.

Implications of Minimum Support Prices For Food Grains for (i) Producers (ii) Consumers and (iii) International Trade.

If the parity of price is maintained support price is based on the basis outlined, it would conducive to both the producers and the consumers. Support price may not be of great help without stabilization of prices. Stabilization does not mean the elimination of violent changes in the price of a few commodities only but the maintenance of an equilibrium and the letting of the price of commodities to fluctuate in a mass.

What then is the kind of stabilization desirable? (1) Firstly, should India try to establish stability of prices within its boundaries or should she stabilize exchange rates and take other measures to attain an external stability?
Internal stability is desirable for the well being of the citizen of the country, where as external stability is good for foreign trade. It seems impossible to have both internal and external stabilities, unless the same stable measure of value is universally accepted. If it is a choice, then internal stability is more desirable.

(2) Secondly, should commodity prices or wage level be stabilized? As far as can be judged from history, the best periods of economic activity and human welfare have been the periods when commodity prices have been rising slightly.

Fixing the wage level will not only take away the initiative but also produce inefficient workers.

From the national point of view it is undesirable to stabilize wages. All efforts should be directed to stabilize commodity prices.

(3) Thirdly, is it desirable to stabilize the price of manufactured article or that of raw or basic commodity? Basic commodities should have preference over manufactured articles. Without first safeguarding the interests of producers and consumers of the country, there will always be snag in the way of international trade. The real problem is to produce real surplus first ensuring better quality and competitive price of commodities.

Arbitrary fixation of support prices of only the food grains without serious attempts to remove the bottle neck to produce more and allowing economic forces to play their roles the future of international trade is very dim.

Too often programmes which attempts to regulate agricultural production or to support farm prices have been assumed to raise automatically the price of food at the consumer level, This need not be so.

The farmer over the years has received less then half of the consumer’s Rupee. The remainder has gone to pay the various costs of processing and marketing the finished products. A basic cause for much of this marketing cost is due to the nature of both agricultural production and the product itself. High risk costs, high spoilage losses, and high storage and financing costs are due to some extent to the widely
fluctuating nature of agricultural production. Support programmes which may tend to limit price fluctuations for the producer will also reduce them for processors and handlers. Such developments could result in less risk from fluctuating prices as well as from excessive spoilage which might occur in fluctuating situation. Market movement and siorage operations might be undertaken in a more orderly manner. Some of the speculative operations might be reduced. In such instances, marketing charges might be reduced.

Machinery for Implementing The Programme of Minimum Support Prices of Food Grains.

If unnecessary expenditure on administration and corrupt practices are to be avoided and democratic principles are given practical shape, no other machinery than the Village Panchayat in each village is the appropriate nucleus for implementing the programme of minimum support prices of foodgrains. Local social workers like Sarvodaya and Bhoadan workers may associate themselves with the Panchayats to see that justice and fair play are maintained.

Cooperative marketing should be introduced in each village. According to the Cooperative Village Management Plan every activity is to come within the purview of the village cooperatives, then why this important function to be seperaten? Village marketing cooperatives under the supervision of the Village Panchayat associated with local social workers especially the Sarvodaya and Bhoadan workers may perhaps prove more successful in the venture than any other machinery. Over and above, the officials of Community Development, Agriculture Department and Cooperative Department, as also the central cooperative banks may devise some joint agency to guide and control the work of village cooperatives and panchayats. Simultaneously, effort should be made to have only regulated markets. The above machinery, in conjunction with the Food Grains Corporation, the Agricultural Prices Commission and Central Ware Housing Corporation outlined above may prove satisfactory. Thus the fixation of support price of food grains based on parity price with average cost of production as also combining the elements of forward pricing with simultaneous
efforts of replacing subsistence production by market production is likely to achieve the goals of Agricultural Price Policy. The basic aspects of a forward price system are few and simple. As D. Gale Johnson puts them:

(1) The price should be announced sufficiently far in advance to enable farmers to adjust their programmes to the prices.

(2) The prices should cover a sufficient period of time to permit farmers to complete their production plans with considerable certainty.

(3) The price announcements should be sufficiently clear and precise so that each farmer can readily interpret their implications for him.

(4) The prices adopted should be those that achieve the desired output.