A RESUME OF THE SEMINAR ON FIXATION OF SUPPORT PRICES FOR FOODGRAINS.

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A Seminar on Fixation of Support Prices for Foodgrains was organised at Vallabhb Vilayanagar from October 15 to 17, 1965. About fifty eminent economists, policy makers, government officials and progressive farmers participated in the Seminar. The following aspects of the problem of price fixation were discussed in five sessions of the Seminar, while the concluding session was devoted to drafting and discussing a statement, setting out broadly the consensus of views expressed during the previous sessions:

1. Current economic situation and relevance of support prices for foodgrains.

2. Guidelines for fixation of support prices for foodgrains.


4. The related aspects of food policy: (i) Regulation of inter-state trade, (ii) Procurement/purchase and distribution, and (iii) Price control.

5. Problems in implementing the foodgrains support prices and other ancillary measures of food policy.

Initiating the discussion on current economic situation and relevance of support price for foodgrains, the chairman of the session, Prof. M. L. Dantwala, suggested that fixation of support prices of foodgrains was of great relevance and importance in the context of the economic situation facing the country to-day. He, therefore, suggested that the discussion might usefully begin by defining support prices as precisely as possible so that subsequent discussion could be carried on the basis of agreed definitions. There were three types of prices, (i) Minimum guaranteed support prices, (ii) Procurement price, and (iii) Open market
price. Support price may be defined as the price at which the government would be under obligation to buy all stocks that may be offered to it for sale. The support price would have no direct incentive role to play, but would insure farmers against the risk of prices falling below a particular level. The support price would also have to be such as would not inhibit adoption of improved technology by progressive farmers. The real incentive to the farmer would come not from the support price, but from the actually realised price in the market, or if there is part procurement, from the weighted average of the procurement price and market price for whatever was not procured. In a situation of compulsory partial procurement, procurement price must be higher than the support price and lower than the market price.

From the discussion that followed, it became clear that there were two schools of thought, one in broad agreement with the definition provided by the chairman, and the other which contended that in the present context the support price must have an element of incentive in it in order to have any value at all. It was also argued that the procurement price did not provide any incentive as firstly, procurement was by definition a compulsory operation, and secondly, the procurement price would be lower than the open market price. If incentive had to be provided to the farmers for raising production, it must come through a sufficiently high support price at which farmers would be willing to offer their stocks to the government. At the end of a long discussion, it was agreed that as definitions were only to be adopted as an aid to further discussions, those suggested by Shri Dantwala would seem to serve the purpose as well as any other set of definitions.

Among the obiter dicta, the following may be mentioned: (1) the support prices should be forward looking in as much as they should cover something more than insurance; (2) as far as possible the procurement price should be at the equilibrium of the expected conditions of supply and demand so that the problem of hoarding would not arise; (3) support price will have to be announced for a period of 2 to 3 years in order to assure farmers that the risk entailed
in the adoption of improved practices is considerably reduced; and
(4) it was essential to have an effective machinery for implementing
support prices implying that the purchasing agency will be operating
within the walking distance of every village.

The afternoon session on the 15th was presided over by Shri
T. A. Pai. He initiated the discussion with the observation that while
farmers were initially content with minimum prices, they expected
adequate incentives to be provided to them for maximising foodgrains
production. Minimum prices should be used to increase productivity in
agriculture. Support prices should be based on the cost of production
of a model producer, operating on a commercial basis in a surplus
zone. This, it was contended, would solve the difficulty of the choice
of farmers whose cost of production should form the basis for price
fixation. For deficit zones, a margin for cost of transport and handling
charges should be added to the support prices fixed on the lines indic-
ated above for surplus zones. It would have to be ensured, of course,
that farmers obtain all the required inputs at controlled prices and in
adequate quantities. The basis of triennial average of harvest prices was
faulty as most of the sales during the harvest period were "distress" sales.

Could cost of production be considered as a good basis at all
for the fixation of support prices? There was plenty of data on cost
of production, but it was not easy to decide upon the farmer whose
cost of production could be regarded as representative. Should it be
the cost of production of the marginal producer, or of the average
producer, or of the model producer? The bulk-line approach whereby
the cost of production of the 80th units of output is taken as a basis
for price fixation is also not satisfactory in as much as it leaves out the
remaining 20 per cent of the producers. If the average cost is consid-
ered as the basis as many as 40 per cent of the farmers would not
receive their average cost of production, while the adoption of marginal
cost would imply that prices would be fixed on the basis of the cost
of production of the most inefficient farmer.

Clearly, therefore, cost of production cannot be taken as the sole
basis of price fixation. Moreover, to take cost of production as the sole
basis would be tantamount to regarding the supply price as all-important;
the demand side of the problem was also relevant. Whatever prices were decided upon, they had to be fair to the producer as well as to the consumer. Prices alone, it was urged, could not be employed for rehabilitation of our agriculture for which other remedies must also be sought. Finally, a warning was sounded that if the support prices were fixed at too high a level, there would be inevitable repercussions on input prices and a cost spiral might be set in motion.

Consideration was then given to the suggestion that the relative prices of competing crops should be a basis for fixation of support prices: if this is not done, there would be a danger of distortion in cropping pattern and in allocation of resources. It was not suggested nor would it be advisable to increase prices of food crops to a point where they would be more favourable than the prices of cash crops. Price parity did not mean income equality.

Another view was that the support price must be so fixed that it would take care of the increase in demand for foodgrains resulting from an increase in population and increase in income. In other words, the support price should represent the long term equilibrium price. It was conceded, however, that it would be difficult to determine exactly what such a price would be, as the supply would be continuously shifting.

The representatives of the farmers considered that in addition to the cost of production of crops, the following facts should be borne in mind:

1. There is an agricultural cycle in which one out of every four or five years is a bad crop year.

2. Utilisation of improved inputs is remunerative only in the case of commercial crops.

3. Farmers face hazards and uncertainties of numerous kinds; one of which is the prospect of total crop failure.

4. If farmers are to become production minded, they should be given remunerative prices.
Taking in to consideration these various factors and difficulties, it was broadly agreed that for the fixation of support prices, the relevant data would be (i) cost of production of foodgrains, (ii) cost of goods and services which the farmers buy, and (iii) relative prices of competing crops. A rigid formula for determining support prices was neither desirable nor practicable. A flexible approach was essential, and this was what fixation of support prices after giving due weightage to the three above factores implied.

At subsequent sessions, the discussions were conducted under the chairmanship of Prof. D. R. Gadgil. On the subject of effects of minimum support price on producers and consumers also, several points of view were advanced: (1) Support prices would have a beneficial impact by providing insurance against risk of a sharp downward movement and by stabilising prices for a long period. (2) Minimum prices would result in higher incomes for farmers, and consequently may reduce marketable surplus. This view was contended by most of the participants and the consensus was that the backward sloping supply wave is an exception rather than a rule: this, at best, would be a short-term phenomenon confined to a single production period. (3) A doubt was raised regarding the consequences to consumer, should speculative activities of traders not be effectively checked. The highly inelastic demand for foodgrains helped speculators in pushing up prices. The State would have necessarily to maintain and operate a large buffer stock to keep an effective check on such a tendency.

Shri Gadgil laid emphasis on the distinction between minimum guaranteed incentive price and minimum support price, and maintained that in the present context the former had much more relevance than the latter. In the long run, the interests of the producers and consumers did not conflict. In the short run, however, they might conflict and, therefore, State policy would have to take measures designed to safeguard the interests of the consumers.

Would Government be able to acquire adequate quantity of foodgrains, in a situation where free market was allowed to operate, however high the procurement prices? Probably not. It might then be necessary to fix a standard purchase price at which government
may assume powers of pre-emptive purchase. This suggestion was criticised on the ground that it would have adverse repercussions on the psychology of producers and may constitute a disincentive to production. As Government’s responsibility would be restricted to vulnerable sections of the population only, the supplies necessary to acquire at procurement price would be relatively small and should not be difficult to obtain. Many participants, however, were of the view that even though the State had greater responsibility towards vulnerable sections, the responsibility would extend to other sections also, if the market price moved up, far in excess of fair price.

Would it be worthwhile examining the possibility of increasing the production of non-foodgrains for exports to pay for import of foodgrains? Export possibilities of jute, tea, cotton, sugar, tobacco and oilseeds were examined. Because of the level of international prices of some of these commodities in many cases they were lower than the ones prevailing in the domestic market—the suggestion did not have much operational feasibility. The additional production that would be necessary moreover to earn the amount of money required to pay for the import of foodgrains would have to be considerable and scarcely feasible without encroaching on the area under foodgrains!

There was no alternative to formulating a policy which would ensure increased production of foodgrains. The aid received under P. L. 480 came in for severe criticism. Our drift in regard to a sound food policy and our lack of purposive action in implementation of essential measures for increasing food production were ascribable to the imports under P. L. 480. The seminar, however, remained divided on the advisability of discontinuing such imports.

The group then considered the various levels of trade that might require to be brought under social control, if stabilisation of prices were to be achieved. One of the members pointed out that supplies flowed to the assembling centres through petty traders and it might be necessary to control this channel through appropriate measures if adequate market surplus was to be obtained by the State.

At this stage, Shri T. A. Pai, explained the functioning of the Food Corporation. He narrated the difficulties which the Corporation had to face in the absence of a national food policy. The attitude
of the surplus States in regard to the management of surplus constituted the main hurdle in the way of the Corporation’s efforts to acquire adequate stocks. Most of the States treated the Corporation as a kind of godownkeeper! Happily, however, a few States such as Andhra, Kerala and Mysore had begun to take a more reasonable view. Shri Pai suggested that imported wheat should be released at current market prices and not as at present at a ridiculously low prices fixed for P. L. 480 wheat. In his opinion, there was need for maintaining in deficit areas stocks to last for at least three months.

This was sufficient provocation for many participants to point out that for the last 18 years there had been no food policy; it was urged that monopoly procurement at incentive guaranteed price furnished the only assurance to our problem. The plea of administrative difficulties was not considered very plausible and it was felt that difficulties were exaggerated. Rationing was essential to ensure fairness, and in this task he would allow retail traders to operate.

The objectives of a national policy should be to distribute the shortages equitably. For this purpose, there would have to be (i) a system of public distribution, (ii) procurement by the Government, and (iii) restrictions on private inter-State trade. Monopoly procurement involved an assumption by the government of full responsibility for distribution. This in turn involved ensuring sufficient supplies to cover the demand. Consideration would also have to be given to the possible reactions of the farmers to a compulsory levy. In particular it was emphasised that an agreement between the Centre and the State in regard to a national food policy and its implementation had become imperative.