FAIR PRICES

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While the concept of ‘prices’ can have validity without any relation to ‘value-judgements’, dependent as the ‘prices’ are on the impersonal forces of supply and demand, the concept of ‘fair’ price is based implicitly and wholly on value-judgements. What are the techniques of valuation? Who is to evaluate? What standards or criteria are to be laid down by the ‘People’/‘State’ for the use of valuators? Who is to arbitrate in case of differences regarding valuation? Law Courts? Administrative tribunals? Will the Parliament lay down mechanical rules as is done in U.S.A.? Or will it be left to bargaining at national level between contending parties under state supervision as is done in some European countries? These questions have perforce to be answered, either partially or fully, before one can proceed to a detailed discussion of the techniques of determining fair prices.

Proceeding on this premise, in this note, the discussion is divided into five sections (1) objectives (2) types of price support (2a) variations (2b) parity (3) techniques and judgement (4) stages and (5) preconditions.

1. Objectives:

As at given situation, the objectives of price policy would have to be more specifically defined than in terms of a mere political statement of being ‘fair’ both to producer and consumer. Given the existing income disparities, are we trying to correct the imbalance? Or are we merely aiming at increased rate of capital formation in certain specified priority sectors, without disturbing the existing imbalance, if that is possible? Or shall we try to align ‘fair prices’ towards ‘market prices’ and increase subsidy payments to the priority sector (either in cash or lower inputs prices)?

* Views expressed in this paper are not necessarily those of the organisations with which he is connected.
The answers to these questions have to be decided with due regard to (a) What is socially desirable? (b) What is possible under a given political system and power-complex? (c) What is organizationally possible? and (d) What is administratively feasible? Otherwise our studies will be little more than intellectual gymnastics.

2. Types of Price Support:

At the outset, it has to be conceded that mere theoretical discussion of fair-price levels without reference to a given situation and to clearly defined objectives is likely to be sterile and even mis-leading. In the present context of rising prices resulting from severe structural imbalances, fair farm-prices will have to be defined differently from those during a period of depression or acute inflation. Secondly, for the discussion to be more meaningful it is necessary to specify clearly the types of crops under discussion; it will be more meaningful to restrict the discussion to foodgrain prices only. It is within this broad framework, one can discuss the various types of price maintenance measures.

Essentially there are three types of price maintenance measures: (1) floor or minimum prices (2) support prices and (3) standard purchase prices. Floor or minimum prices can be defined as those prices below which the cultivators would find it uneconomical to continue production even at the present level. It would be correct to assume that, at present, our price policy will have to aim at achieving much more than this. However, highly favourable prices in form of support prices specifically for the purpose of increasing agricultural income as has been attempted in U. K. and U. S. A. cannot be made the objective of a price policy under the present conditions in India. Hence, the objective of a price policy would have to be to fix standard purchase prices@ "i.e. prices at which the cultivator would find it profitable to sell and yet on the basis of which the retail prices to the consumer will not be pushed very high". This implies four basic objectives viz: (1) 'incentive price level' to the producer (2) lowest possible 'intermediate costs' such as costs of storage and transportation, remuneration for risk bearing, interest on finance management expenses etc. (3) minimum fluctuations over space and

time and (4) equitable prices to the consumer. The following paragraphs need to be studied within this limited definition of 'standard purchase prices' discussed here.

It is not necessary to discuss here problems in regard to low intermediate costs, minimum fluctuations over space and time, and equitable price to the consumer; the discussion, therefore, is restricted mainly to the subject of "incentive price level" except when one or more of the three aspects have a direct bearing on incentive price level.

As the central problem of price policy is one of keeping price variations, during any definite period, within a given margin, the problem of providing necessary support to agricultural prices during a period of falling prices is simple when compared to one of keeping the prices at a given level during a period of continuous price rise. The 'incentive price' will have to be fairly low from the point of view of equity to consumer and fairly high for providing incentive for selling to Government and increasing future production.

Broadly speaking, the problems in determining incentive price level or the standard purchase price can be divided into two categories, 2 (a) measurement of variation in production costs: on the basis of factors which influence production costs and 2 (b) parity prices, or favourable terms of trade: that is incentive prices will have to be, by definition, higher than production costs as also in relation to cost of living.

(2 a) Measurement of Variations:—

There are essentially four major types of variations, which have to be taken into account while deciding on fair prices. These are (2ai) Inter-farmer variation (2a(ii) Inter variety variation (2aiii) Over-the-space variation and (2a(iv) Over-the-period variation.

(2ai) Inter-farmer variations:—

The disparities in quality of land, availability of resources, ability and willingness to incur additional development expenditure, size of holding, levels of managerial skills would result in different level of
costs of production on different farms. Should we take the ‘average’ of costs of production on different farms within an area or should we use the ‘marginal’ costs concept while determining the incentive price? Should we keep in mind the least efficient farmers, the average farmers or only the more efficient farmers?

(2a(ii) Inter variety variations :-

Even in a standardised crop like cotton, the variations from one area to another (within a single-quality zone) in the quality of cotton are so significant that there are large differences in the market prices. Super-imposed on these variations, there is the absence of any accepted standards or grades within a single variety. How do we evaluate the consumer preference for different varieties and grades which have even not been properly assessed. Obviously, there is an urgent need for a specialised Agricultural Products Standard Institute on the lines of the Indian Standard Institute for evolving standards & grades for each of the different varieties of foodgrains.

(2a(iii) Over the space variations :-

The lack of effective co-ordination between states in regard to procurement and sale of foodgrains clearly emphasises the need for evolving a policy based on equitable distribution of sacrifices so as to avoid a situation in which a surplus state is asked to procure foodgrains at prices at a given level while a deficit state with predominence of commercial crops is not expected to put a ceiling on prices of commercial crops. Even within a state, there is the question of inter regional variations which will have to be efficiently tackled.

(2a(iv) Over the period variations :-

The seasonality in prices of agricultural products (and for that matter even in money supply and bank credit) would make it incumbent on those trying to determine price level to take into consideration the need for keeping up adequate margin between prices offered to the producer at the harvest time and those offered during the lean season, unless of course the Government or its agents undertake the impracticable responsibility of procuring the entire crop within a short time from the producer.
Standard purchase prices to be decided upon by Government will have to take account of these four types of variations; otherwise it will mean creation of conditions for encouraging black-market.

(2b.) Parity:-

In our desire to have minimum controls over market prices, there is a visible tendency to underestimate the dangers of ignoring 'parity' between (i) competing crops (ii) competing end-use products (iii) sectors within the country and (iv) countries. These four aspects have to be considered over and above the four aspects discussed under the previous section dealing with 'variations'. While on the one hand, some farm management specialists among agricultural economists are prone to concentrate on 'variations', many 'general' economists have shown a marked tendency to concentrate on the 'parity'. Group interests like, producers, processors and consumers go on changing their view regarding the relative importance depending upon whether the agricultural prices are rising or falling.

It will be generally agreed by 'uninterested' groups, that both these aspects are equally important.

(2bi) Parity between competing prices:-

The problems of Jute/rice prices in Bengal, cotton/oilseeds/foodgrain prices in other parts are too well known to need any specific mention. But what is not adequately realised is that even within a group of crops, say millets, there is need for maintaining parity between superior and inferior millets.

(2bii) Parity between competing end-use products :-

A well-known example of this problem is that of sugar/gur khandsari prices. As regards, foodgrains, there is, on a smaller scale, the acute problem of paddy/parboile milled rice. Especially when processing is done in factories and large scale establishments such as flour mills, bakeries etc. the question of parity between prices of competing end-use products needs to be tackled effectively, at the stage of price policy formulation.
(2biii) Parity between sectors:—

Terms of trade between one sector and another which have assumed great prominence against the background of American experience is only one of the various problems of price policy. Especially in a country with a large unmonetised sector wherein even payment of wages, rents, interests and principal (credit) amounts are sometimes in form of kind-payments and wherein fertilisers, water, improved implements are so much in short supply, Government’s ability to regulate market supply of foodgrains is likely to be adversely affected unless this aspect is carefully taken note of.

(2biv) International terms of trade:—

This subject, though studied in great detail by International-trade experts, has been relegated to background in regard to agricultural price policy. Especially because of confusion regarding the farmer’s productive response to prices this aspect assumes great importance, particularly if P. L. 480 imports are not reduced from year to year.

3. Techniques and Judgement:

The complex problems in measuring ‘variations’ and at calculating ‘parity’ level become more formidable when the issues regarding the statistical techniques have to be decided upon. Are we going to use survey techniques or interviewer method? How are family labour wages, products used on farm, disposals in kind, barter transactions, interest payments, depreciation to be measured? Are production costs to be calculated on the basis of those of “model farms” or “average farms” or “small farms”? Are we going to use the concept of average costs or marginal costs? How are we going to measure costs of transport, storage, credit, risk bearing etc. borne by intermediaries between producers and consumers? What do we consider as fair return to intermediaries? How shall we adjust production costs and handling costs to problem dictated by the need to have some ‘parity’ with other prices?

No one will disagree with the view that the economists/statisticians will have to be called upon more and more to evolve better techniques
of measurements for a more precise estimation of costs. Achievement in this field will be of great benefit in years to come. But the value judgements of trained investigation are bound to claim precedence over statistical data in foreseeable future.

In the immediate future, the task of prices fixation cannot be tackled on the basis of any objective criteria or elaborate enquiries. Judgement based on the existing data regarding harvest prices, wholesale prices and consumer prices, perhaps some what on an arbitrary fashion, would be a better guide for determination of price levels at least for the next two to three years if not more. This therefore leads us to a discussion of the various stages of price fixation.

4. Stages of price fixation:

Considering the limitations of the existing data and the problems in using (in the immediate future) price policy as a dynamic instrument for allocation of resources, it would be more pragmatic to evolve the use of production cost data for price fixation gradually over a period of four years. In the immediate future, prices would have to be fixed on an ad hoc basis based on past experience perhaps in 2 or 3 stages. In the first stage for the country as a whole it may be necessary to fix basic levels of purchase price as also consumers’ prices with proper margins between one state and another*. At the second stage, once the standards, grade and variation are established by a Standards Institution it may be practicable to elaborately notify (for each grade quality and variety) standard purchase and sale prices for each region and location together with all the descriptive detail necessary for effective implementation.

While this is being done in a short period context, effective steps for ensuring substantial improvement in collection of data regarding prices, cost of production, inter relationship between prices of different crops, and in establishing standards, grade and varieties etc. will have to be taken. Before proceeding on to a price policy based mostly on

objective criteria, we may have to plan for setting up of a machinery for bargaining between producers, distributors and consumers (whether private, co-operative or state) and such other measures will have to be taken up simultaneously.

5. **Pre-conditions:**

Discussion about the theoretical problems in determination of price level, when in many cooperatively under-developed states there are not even the basic preconditions for implementing a price policy, is bound to be futile, unless one is aware of the measures that need to be immediately taken up in the next few years, so that at least after a few years we shall be in a position to implement such a price policy effectively. Obviously the first precondition for successful implementation of any price policy is a strong institutional base: a well integrated cooperative credit and cooperative marketing system of the type in existence in Maharashtra and Gujarat. The Jowar procurement scheme of Maharashtra was successfully implemented only because of a strong co-operative credit system and a strong co-operative marketing organisation. It is obvious that as long as more than 65% to 70% of the agriculturists are indebted to private money lenders, it would be futile for the Government to procure foodgrains directly from producers by-passing the private trade. Either the credit system will break down or the procurement operations will be a failure. In other words measures for development of credit and marketing co-operatives in all parts of the country so as to bring them to a minimum level of efficiency will have to precede any implementation of a comprehensive agricultural price policy; during the interim period the only solution is to resort to departmental machinery of the State Governments. Simultaneously, a strong statistical base and Agricultural Products Standard Institute would have to be built up. But perhaps the most important pre-condition for implementing a price policy is evolution of a secure long-term food policy, a national food plan and compilation of annual food budget on the lines advocated by Prof. D. R. Gadgil*. The detailed theoretical discussions of problems in determination of fair price-levels can have meaning only if measures on all these fronts are simultaneously taken for creating the necessary pre-conditions, so as to ensure the successful implementation of a national price policy.