AN INTEGRATED APPROACH TO PRICING & MARKETING OF AGRICULTURAL PRODUCE

Bhanu Pratap Singh

FORUM OF FREE ENTERPRISE
PIRAMAL MANSION, 235 DR. D. N. ROAD,
BOMBAY 400 001.

"Free Enterprise was born with man and shall survive as long as man survives."

—**A. D. Shroff**
1899-1965
Founder-President
Forum of Free Enterprise

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The present agricultural pricing and marketing policies are, to say the least, out of date and therefore irrelevant in the context of the present Indian agricultural situation. These were conceived and implemented when the country was faced with shortages and dependent on imported foodgrains. In those days the open market prices of farm products were very high, and it was the consumer who needed protection. Now there is marginal surplus and it is the producer who needs protection. Moreover, the present policies do not take into account the vast potential of Indian agriculture, which has become evident now. It does not require much logic to prove that policies and arrangements required to meet the potentially surplus situation will have to be very different from those which were evolved during the days of scarcity.

In India, we have abundance of land, water and sunshine. Our cultivated area nearly equals the harvested area of the U.S.A. Our irrigation system is

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*The author, a former Union Minister of State for Agriculture and Irrigation is a well-known authority on this subject. This text is from an article in "Farmers Voice" magazine of February-March 1981, and helps to understand the causes behind farmers' agitations in different parts of the country.

already the largest in the world, the potential is twice as much. In our country, crops grow throughout the year. Our coal and hydro-electric power potential are almost inexhaustible. In technology, too, we are not behind many advanced nations. Our scientists and technicians are in great demand abroad; our new seeds are sought after in other countries; our tractors, pumps and diesel engines are being exported in increasing numbers. In fact, we have all that is needed to make India a great agricultural nation. This is the unanimous opinion of all our agricultural experts. Their opinion is based not on theoretical deductions; but on practical results already achieved, on a small scale, over the National Demonstration Plots, spread throughout the country and, on a large scale, in the State of Punjab. Average yields on the National Demonstration Plots are three to four times the national average. The cultivated land area of Punjab is less than three per cent of India's total, but its contribution to farm production is 10 per cent. If Punjab's performance is duplicated on all the irrigable land in India the country would emerge as the largest exporter of farm products. This potential has been neglected all along in planning exercises — perhaps deliberately.

The question naturally arises why there is such a wide gap between the potential and performance of our agriculture. The answer is very simple. Agriculture has been neglected and agriculturists unjustly treated. Our past has been feudal and colonial, in which the status of agriculturists was that of serfs. The social relationships and mental attitudes of the past still persist. The low status accorded to agriculturists in our society is evident from the fact, that they are the only producers, who have no say, at any stage, in the determination of the price of their produce, and also that, their interest is always subordinated to those of the urban consumers, industrialists and the public exchequer. In all development programmes, stress is only on achieving higher production, but steps have not been taken to ensure that the benefits of higher production accrue to the producers.

It is well known that Indian agriculture suffers from capital starvation. It is estimated that on an average a minimum of Rs. 8,000 per hectare is required to convert primitive farming into modern farming. Lest this figure be considered exaggerated, suffice it to say that it costs Rs. 8,000 on an average to provide irrigation to one hectare of land through the State irrigation works. As no more than 10 per cent of Indian farming has so far been modernised, the additional requirement of funds for this purpose would be Rs. $(142 - 14) \times 8{,}000$ million $=$ Rs. 1024 billion. Where is this fabulous amount of money to come from, if capital formation *within* the agricultural sector is prevented through manipulation of prices ?

In recent years, more public funds have been invested in agricultural and rural development, more high-yielding varieties of seeds have been evolved, and more area brought under irrigation than ever before in any comparable period; and yet, the increase in production of foodgrains has hardly kept pace with the growth in population. Why is this so ? The explanation is simple. While the State has been investing more and more, the farmer's own capacity to invest has been eroded. The case of rural economy is comparable to that of a patient, who is being given blood-transfusion in trickles, while being bled profusely at the same time.

Reliance is often placed on Government spending and institutional financing to bring about rural transformation. While greater budgetary allocation for rural development undoubtedly helps in building up the infrastructure, this alone will not suffice if, simultaneously, Kisan exploitation continues through price twists. As is well known, there are too many leakages from Government spending, and its return is not even 50 per cent of what a farmer could get, if he had his own capacity to invest. Comparison of cost of providing irrigation facilities per hectare through State and private tube-wells is revealing in this respect. Therefore, what is required is not so much an increment in Government spending, as a policy which would assist capital formation within the farm sector.

An average Indian farmer is, most of the time, on the horns of a dilemma; whether to buy half a bag of urea for his field, or a new *sari* to replace the tattered one for his wife; to buy the new seed, or pay the tuition fee for his son. Placed in such a predicament, he naturally decides to buy the *sari*, and pay the tuition fee in preference to the use of fertiliser or the new seeds. If the increased cost of living, along with the increased cost of production, is not neutralised by enhanced support prices, the savings from agriculture, if at all, get diverted, as a priority charge, to meet the higher cost of living and, to that extent, the application of modern technology and, consequently, the acceleration of crop production suffers. No doubt, the consumption of modern inputs in comparison with the past has gone up; but even now, it is at a very low level compared to what it should or could have been, had a just price policy been pursued.

Farmer's income, profit, living condition, saving and, what is most important, his capacity to invest in land are determined by the quantity of non-farm products, that he can purchase in exchange for a bag of wheat, rice, or any other commodity that he produces. His purchasing power is determined by the relationship, at a particular time, between prices received by him for his produce, and those he has to pay for his necessities.

At this stage, it needs to be explained that freedom of the farmers to sell their produce in the open market is illusory. First, the Government uses its huge buffer stocks and tax payers' money, to the tune of Rs. 650 crores, to distribute foodgrains at less than their economic cost. Secondly, most of the farmers being poor with no appreciable holding capacity, and there being no warehousing facility available in the countryside, they are compelled to part with their produce at whatever price is offered to them. Thirdly, due to wagon and diesel shortages, movement of food-grains on private account has become very difficult, if not impossible. This can be seen in the variation in prices for the same commodity, viz. wheat, ranging from Rs. 135

to Rs. 225 a quintal in the different parts of the country. Fourthly, export-import decisions are in the hands of the Government, which most of the time, exercises it against the interests of agriculturists. Imagine these conditions being imposed on any industrial produce: Government heavily subsidising the distribution of that produce, very little movement of the produce possible on account of transport bottlenecks, no credit available against the finished produce, and no permission to export on private account. Apply all these conditions to any industry, and that industry would collapse within six months. The same has happened in the case of the farm economy too. It has survived longer, only because farmers could survive at below-subsistence levels.

The open market prices are not natural but contrived. The Government, taking advantage of certain circumstances, and using many subtle devices, has kept the open market farm prices unduly depressed. This fact is proved by the sudden spurt in the price of wheat in recent months. Price of wheat has reached its natural level now, when due to depletion of Government stocks, it is no more possible to dump subsidised wheat in the market. The same will happen in case of rice, if rice stocks also get depleted. The capacity of the Government to keep foodgrain prices depressed is dependent on its stock position, and willingness to spend taxpayers' money on subsidised distribution of foodgrains.

The other means, by which the Government can depress farm prices are through liberal imports and ban on exports of farm products. Nobody is opposed to the exercise of regulatory powers by the Government, as long as it is done judiciously, and not *always* against the interest of one section of the community viz. the farming community. The fact that these powers have not been used judiciously is evident from the increasing divergence between farm and non-farm prices, as shown in the Table at the end.

But even this comparison does not fully bring out the inequity in the Government administered prices. The index of farm prices includes the prices of such commodities as fruits and vegetables, milk, fish, eggs and meat etc. over which the Government does not exercise any control, except through export restrictions. Therefore, the prices of these supplementary foods are comparatively higher and to that extent push up the price index of *all* farm products. But these supplementary foods are produced, mostly, on the outskirts of big cities and the benefit of their higher prices accrues to farmers of those areas only. The main products of Indian agriculture are still the cereals which are grown on 70 per cent of the cultivated land. It is the price of these that the Government has been able to keep unduly depressed with the help of large buffer stocks which were created, in the first instance, through heavy imports (18.6 million tonnes in three years: 1973-74 to 1975-76). In doing so, the Government ignored the interest of the producers, as will be evident by comparing the indices of procurement prices of wheat with prices of inputs.

In dealing with the farm prices issue, too much sanctity is sought to be attached to the recommendations of the Agricultural Prices Commission (APC), which form the basis for fixation of support prices. Before proceeding to examine the rationale of the recommendations made by the APC, it needs to be said that only those recommendations of the APC have been accepted, which suit the interest of the consumers; and not others, which would benefit the producers. For example, the APC had recommended reduction in input prices, but the same has not been implemented.

Now about the rationale behind the determination of farm prices on the basis of cost of production, it should be noted, that in no country, where farm prices are sought to be regulated, the cost of production is made the basis of price fixation. This is so, for very good reasons. Cost of production varies from region to region, from year to year, from farm to farm, from variety to variety, and from one level of intensity of cultivation to another. The variations in the cost of production are so wide (two to three times) that averaging makes no sense. Moreover, according to APC's own admission, the figures of the cost of cultivation, which they use, are at least one year old, and not of the season for which the prices are to be fixed. The APC also discards on flimsy grounds those figures of the cost of production, which do not suit its objective of keeping the farm prices low. For example, the cost of production of wheat in Punjab and Haryana in the year 1976-77 was Rs. 101.39 and Rs. 139.03 per quintal respectively. The APC did not even mention in its main report the higher cost of production in Haryana, though the findings of the cost of production studies in Punjab and Haryana stood on the same footing.

There are two other serious objections against the methodology of the A.P.C. First, that in all their studies of the cost of production, the element of risk involved in agricultural production has been ignored. It is well-known, that due to floods, drought, hailstorm, incidence of pests and diseases, which are beyond human control, crops are adversely affected and sometimes totally destroyed. How is the farmer to be compensated for these losses, if no cover is provided for such risks? Secondly, that the A.P.C. in its cost calculation takes into account the actual consumption of inputs, which is admittedly very low in India. Law of diminishing return puts all those farmers at a disadvantage who apply inputs, at higher rates, as recommended by agronomists for optimum production. The system of pricing on the basis of actual consumption of inputs tends to perpetuate low productivity of Indian agriculture.

The claim that increases in the cost of production have been taken into account in determining procurement prices, is not borne out by facts. Procurement price of wheat remained constant at Rs. 76 per quintal for five years from 1969-70 to 1973-74, and at Rs. 105 per quintal for three years from 1974-75 to 1976-77, while during these five and three year periods, the cost of various inputs rose sharply.

In the face of these facts, it is hard to believe that the higher costs of production were taken into consideration in determining the procurement prices.

It has been claimed: "The existing arrangement, in which procurement prices of agricultural commodities, as fixed on the basis of recommendation of the Agricultural Prices Commission, seems to be working quite satisfactorily, subserving the objectives of securing increased production, protecting the interest of farmers and maintaining price stability".

Many questions arise. Are the present arrangements satisfactory? If yes, for whom and at what social cost? Is this stability due to the satisfactory performance of agriculture, or due to the system itself? Cannot the same result be achieved at a lesser cost by a modification of the present system?

The domestic foodgrain production has just kept pace with the growth in population. In India, growth in agricultural production should not be judged in terms of adequacy to prevent starvation deaths, but in terms of what percentage of our potential in production has actually been achieved, and to what extent our nutritional level has gone up. Judged by these two criteria, our performance in agriculture has been poor. We appear to be self-sufficient in food, because nearly half the population cannot buy two square meals a day. Also, as compared to countries in South East Asia, our growth rate of agricultural production (during the nine years 1967-69 to 1976-78) has been the slowest, except that of Nepal.

As regards the claim that the present system of procurement and distribution has protected the interests of the farmers, nothing can be farther from truth. The present system has pauperised the farming community in comparison with the rest of the population, has reduced their purchasing power, and increased their indebtedness.

The only justification for the continuance of the existing arrangement, which has some substance is that it has stabilised prices. But even here the beneficiaries are only the urban consumers. The needs of the rural poor have received scant attention. Though the number of rural poor exceeds the total urban population, their share in the subsidised foodgrains distributed through the public distribution system is not even one-fourth of the total. In yet another way, the needs of the rural poor have received scant attention. The procurement and distribution of coarse foodgrains which is produced and consumed by the poorest of the poor, mostly *Adivasis*, has been almost totally neglected by the Food Corporation of India.

It is well known that the annual subsidy involved in the public distribution of foodgrains is Rs. 650 crores, and this is only the visible portion of it. There are hidden subsidies too. The annual losses of the Food Corporation of India (FCI) are about one and a half to two per cent of the stock. This is included in the bill for subsidies. But what is *not* taken into account is the deterioration in the quality of stock. The FCI classifies its stocks in four categories: A, B, C and D. Only A and B category wheat is supplied to the fair price shops. C and D category wheat, which in fact is deteriorated stock, is supplied to the roller flour mills, to the extent of two-thirds of their aggregate requirements, the rest being of A and B category. The volume of deteriorated stocks generated in the FCI is about the same as the offtake of this stock by the flour mills. In fact, the flour mills in India have been used as captive consumers of the deteriorated stocks of the FCI which would not fetch even Rs. 100 per quintal in the open market. Tax-payers' money to the tune of about Rs. 100 crores is paid as subsidy on that portion of the wheat (nearly 3.4 million tonnes), which is supplied to flour mills, and which serves no public purpose, except to cover up the inability of the FCI to maintain its stock in good condition. Besides the facility of dumping its deteriorated stocks, the FCI also gets its credit at concessional rate of interest.

Mere announcement of higher support prices will not help agriculturists, if adequate facilities for marketing and warehousing are not available to them within walking distance from their homes. The present facilities available at district head-quarters and *mandis* are available only to traders and large farmers, but not to small producers. The latter, who require maximum protection, are left at the mercy of the local traders who take undue advantage of their weakness. It is for their betterment that more and more funds are proposed to be pumped into the rural sector in the form of subsidies etc. But unless adequate arrangements are made for marketing their produce, at places within their reach, and at prices which will motivate them to make extra efforts for increasing production, no lasting benefit will accrue from the heavy investments proposed to be made.

For a correct appraisal of the present marketing situation, a quick review of the two marketing systems at present in vogue — private trade and public distribution system — is necessary. The private trade is known to perform well at minimum costs, in normal times. But in times of scarcity, it does not behave and indulges in profiteering. To curb this profiteering tendency of the private trade, in times of shortages, the public distribution system has been set up. But its distribution services are very costly. Subsidy that is paid to the Food Corporation of India is about Rs. 650 crores. Besides the subsidies that the Union Government has to pay, some of the State Governments are also losing money on the public distribution system. The subsidies and losses on the quantity of foodgrains distributed through the public distribution system work out approximately at Rs. 50 per quintal, including the cost of buffer stocking. No doubt nearly half of this amount is accounted for by the cost of holding the buffer stock, but the purpose of that is also the same, viz., to maintain supplies. Therefore, the total cost should be taken into account in evaluating the system. The wheat which was procured at Rs. 117 per quintal is made available to the consumers from fair price shops at Rs. 141 per quintal plus Rs. 50 in the form of subsidy and losses, i.e., at a total commercial cost of more than Rs. 191 per quintal.* No doubt, the Food Cor-

*The figure of Rs. 191 per quintal seems to be an underestimate in the light of the Finance Minister's observation in *Rajya Sabha* on March 16, 1981, "If I remove all the subsidy on wheat. I will have to raise the issue price of wheat by 74 paise per kg. If I remove the subsidy on rice. I will have to raise it by 64 paise per kg." As well known the current issue price of wheat is Rs. 130 per quintal.

poration of India provides the needed security against undue price rise, but at a tremendous cost. The question is: can a poor nation like ours afford to pay such a cost. Public distribution system serves well in times of scarcity, but it is an avoidable drag on our economy in normal times. Therefore, while the public distribution system should be maintained, its size of operation during normal times should be limited, and the main responsibility for distribution of foodgrains should be shifted to a new co-operative marketing system, which is more dependable than the private trade, in times of scarcity, and less expensive than the public distribution system in normal times.

The oultine of such a new marketing system is given below:

1. Import of foodgrains and other farm products should not be resorted to, except to meet extreme scarcity conditions.

2. The whole country should be treated as one market, or in other words, there should be no restriction on the free movement of foodgrains from one part of the country to another.

3. The agricultural prices should be determined according to the principle of parity, which seeks to maintain a balance between prices received by farmers and prices paid by them, with reference to an agreed base year. The prices thus determined will be called the parity prices.

4. Having determined the 'parity' price of important farm products, the Government should make

it known that it would not intervene in the foodgrain trade, so long as the trade operated within 85 per cent and 115 per cent of the 'parity' price, which should respectively be called the 'support' and the 'intervention' prices.

5. When the market price falls below the 'support' price of any foodgrain, the Government will purchase directly from farmers at the 'support' price.

6. When the market price rises above the 'intervention' price the Government will have the right to acquire all stocks in excess of the family needs of the stockist, be he a farmer or a trader.

7. To facilitate take-over of stocks in case of need, it should be enjoined upon all stockists, including agricultural producers, that any stock above 100 quintals be kept only in licensed godowns. The condition of licensing should, however, be very simple; it would suffice if the stockist maintains a register and sends a monthly return of his stock position to the prescribed authority.

8. To prevent distress sales by small farmers, co-operative warehouses should be established at all *vikas kendras*, where any farmer may deliver his produce and get paid promptly at the rate of 'support' price. Later on, the farmer may take out his stock, and sell it in the open market, at a higher price, after repaying the advance with interest and storage charges. However, if the open market price rises above the 'intervention' price, the Government shall have the right to acquire stocks at the 'parity' price.

9. Export of perishable farm products, for which the Government shall not provide support, will be freely allowed. Productivity of such crops is so high, that production can be expected to match the demand — both external and internal — within a short period of time.

10. To promote production and export of high value horticultural crops, the Government should provide infrastructural facilities for grading, processing, cold storage and refrigerated transport, etc.

Relative Prices of Farm Products vis-a-vis Non-farm Products — Divergence Widens

	Index Numbers of Wholesale Prices (Base : 1970–71 = 100)					
Average	'General' or 'All Commodities' Index	Index of Farm Products			Index of Non-farm Products (Derived)	Percentage Excess of (5) over (4)
		Food Articles	Non-food Articles	Weighted Average of (2) and (3)		
	(1)	(2)	(3)	(4)	(5)	(6)
Weight	1000.00	297.99	106.21	404.20	595.80	
1973	131.6	128.6	137.6	131.0	132.0	0.8
1974	169.2	165.3	164.7	165.1	172.0	4.2
1975	175.8	170.2	144.5	163.4	184.2	12.7
1976	172.4	152.2	154.2	152.7	185.8	21.7
1977	185.4	170.8	182.6	173.9	193.2	11.1
1978	185.0	173.5	169.0	172.3	193.6	12.4
1979	206.5	181.3	187.2	182.9	222.5	21.7
1980 (P)	247.9	201.0	210.7	203.5	278.0	36.6

(P) = Provisional and subject to revision.

Source : Office of the Economic Adviser, Ministry of Industry, Government of India.

Price Distortions Affecting the Farm Economy

Sl. No.	Type of Price/Commodity	Index of Prices (1970-71=100)	Reduced purchasing power (in percentage) of what it was in 1970-71 of one quintal of wheat at the proposed procurement price in terms of different commodities
I.	**Output**		
	Procurement Price of Wheat		
	1980-81	153.9	
	Proposed for 1981-82	171.1	
II.	**Inputs**		
	Wholesale Price of*		
	1. Electricity	246.4	69.4
	2. Fertilisers	259.5	65.9
	3. Insecticides	341.6	50.1
	4. Kerosene	293 4	50.3
	5. High Speed Diesel Oil	339.4	50.4
	6. Lubricating Oil	404.4	42.3
	7. Bricks	427.7	40.0
	8. Pig Iron	303.8	56.3
	9. Tractor	301.9	56.7
	10. Agricultural Phowrah	371.4	46.0
	11. Trailers	337.4	50.7

* Relates to week ended February 21, 1981.

Sources: (i) "Economic Survey, 1980-81," Table 5.3, p. 29. Ministry of Finance, Government of India.

(ii) Office of the Economic Adviser, Ministry of Industry, Government of India.

Percentage Variations in Prices of Inputs

Commodities	Percentage Variation in Prices During the Period 1969-70 to 1973-74	Percentage Variation in Prices During the Period 1974-75 to 1976-77
Procurement Price of Wheat	Zero	Zero
Wholesale Prices of		
Insecticides	+40.47	+ 9.04
Electricity	+12.16	+25.58
Tools and Implements	+ 3.76	+ 4.68
Cement	+17.37	+17.37
Pig Iron	+36.44	+12.02
Fertilizers	+14.44	+ 4.16
Lubricating Oil	+45.83	+ 0.80
Diesel Oil	+39.69	+43.05

Widening Disparity Between Per Capita Incomes from Agriculture and Other Professions 1973-74 to 1979-80

Year	Net Domestic Product at Factor Cost (Rs. crores)			Estimated Population (Million)			Per Capita Income (in Rupees) of		(3a) as % of (3b)
	Total	Originating from		Total	Dependent on		Agriculturists	Non-Agriculturists	
		Agriculture	Other Professions		Agriculture*	Other Professions			
	(1)	(1a)	(1b)=(1-1a)	(2)	(2a)	(2b)=(2-2a)	(3a)= (1a)/(2a)	(3a)= (1b)/(2b)	(4)
1973–74	50,749	25,284 (49.8)	25,465	579	405.3	173.7	623.8	1,466.0	42.6
1974–75	59,737	27,304 (45.7)	32,433	591	413.7	177.3	660.0	1,829.3	36.1
1975–76	62,394	25,937 (41.6)	36,457	604	422.8	181.2	613.5	2,012.0	30.5
1976–77	67,597	26,894 (39.8)	40,703	616	431.2	184.8	623.7	2,202.5	28.3
1977–78	76,330	30,869 (40.4)	45,461	629	440.3	188.7	701.1	2,409.2	29.1
1978–79	81,429	30,535 (37.5)	50,894	641	448.7	192.3	680.5	2,646.6	25.7
1979–80	90,374	30,698 (34.0)	59,676	654	457.8	196.2	670.6	3,041.6	22.0

* Assumed as 70 per cent of the 'total' population during the entire period.

Note : Figures in parentheses in col. (1a) represent the percentage share of the sector in the total NDP of the year.

Source : "National Accounts Statistics, 1970-71 to 1978-79," (forthcoming) by the Central Statistical Organisation supplemented by the
Note dated 27th January, 1981

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—Eugene Black

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