STABILIZATION OF AGRICULTURAL PRICES WITH SPECIAL REFERENCE TO PAKISTAN

BY

ASIF RAHIM

WHENEVER we talk of stabilization of agricultural prices we generally mean the stabilization of falling prices. But strictly interpreted, a policy of stabilization would aim at eliminating a very great fall, as well as an abnormal rise in agricultural prices. It is because of the abnormally low prices of agricultural produce as compared with those of industrial goods, which prevailed for some years before World War II, that we have come to think only of stabilizing falling agricultural prices. But the need for keeping prices of agricultural produce within reasonable limits was amply demonstrated by the recent abnormal rise in prices of food grains in the Punjab. We, shall, therefore, be using stabilization of agricultural prices in the wider sense of the term, meaning thereby the ensuring of a reasonable price for the produce of the agriculturist.

The question may be asked, why stabilize agricultural prices at all? What is the ultimate aim of such a policy? After all, stabilization of agricultural prices, apparently, does not seem to be an end in itself. The need for the stabilization of agricultural prices will become apparent as we examine the problem in detail, (for there are many aspects of the question), but we can state the objective as being to provide the agriculturist with a reasonable price for his produce, thus giving him a more or less stable income, and eliminating the uncertainty out of agriculture, as far as possible. Stabilized agricultural prices would provide the necessary incentive for progressive agriculture. Any scheme of agricultural reform aiming at an increase in production must, therefore, ensure a reasonable and more or less constant price for agricultural produce from season to season.

But this is not the only reason for the importance of stabilized agricultural prices. The problem of stabilization of agricultural prices is linked up with the wider problem of maintaining the general price level within a country. It stands to the credit of the late Lord Keynes that he pointed out the very great importance of a stable price-level in maintaining the economic activity in a country at a constant level. Keynes held that in order to avoid depression with all its evil consequences, it was essential that the business-man be assured of a reasonable profit. Anything that happened to undermine the confidence of the business class would naturally lead to a shrinkage in economic activity and might ultimately lead to depression. Fluctuation of prices cuts at the root of this very confidence by making the market uncertain, and it may well bring about a depression.

A trade depression, with the large scale unemployment and misery that it brings in its wake, is of course a menace to the prosperity of every country, whatever the character of its economy. But it has come to be recognized that a depression hits countries with an agricultural economy harder than countries which have reached a comparatively advanced stage in industrializing themselves. Experience gained in periods of depression in the past justifies the above conclusion. That agriculture is always at a disadvantage in a period of falling prices also follows from its very nature as a productive process. For agriculture shows certain special features which render it more susceptible to price changes than the manufacturing industries. The most important among these characteristics are: inelasticity of supply, the length of the productive process, and the lag between agricultural and other prices.

The inelasticity of supply in the case of agricultural products is due to a number of causes, some of them beyond the control of the farmer. In response to an increase in demand, the supply of agricultural products may increase to a certain extent, but the possibility is limited by the early setting in of the Law of Diminishing Returns. Agriculture is a partnership between man and nature. And natural factors like climate and rainfall set a limitation on the results that can be achieved through human endeavour. So that production cannot be increased beyond a certain limit in response to a rise in demand. On the other hand in the event of a decrease in demand for agricultural products, the supply tends to remain the same as before. As a matter of fact it might increase in some cases. This is because the farmer is bound to his farm and cannot think of selling away his land Agriculture is not a business with him but a way of life. He goes on producing as long as the prices are enough to cover his variable costs. And in some cases he might actually produce more during a period of low prices to compensate himself for the loss of income that he suffers as a result of the fall in prices. This further depresses the prices of agricultural products. The inelasticity of supply of agricultural products was responsible for the disparity of prices between agricultural commodities and industrial goods, during the depression of the nineteen-thirties. In spite of a very heavy fall in prices between the years 1929 and 1932, agricultural output hardly declined while the output of industry fell by more than a third.[1] So that prices of industrial goods did not fall as heavily as the prices of agricultural produce, and the price disparity worked to the disadvantage of agriculture.

Agricultural interests suffer during a period of falling prices on account of the length of the productive process also. Costs are incurred by the farmer many months before he can sell his crop. The farmer clearly stands to gain during a period of rising prices. But a period of rising prices cannot compensate him for the loss that he suffers during a period of falling prices. The farmer is usually illiterate and does not spend very prudently. As a result of his shortsighted optimism, he spends all that he earns during periods of prosperity. So that a fall in his income due to falling prices catches him unawares and results in a sharp decline in his standard of living, sometimes running him into debt. Thus fluctuation of prices results in a net loss to the farmer.

As pointed out earlier, during a period of falling prices the prices of industrial goods fall less sharply as compared with the prices of agricultural commodities. This results in a lag between industrial and agricultural prices. On account of this lag, not only does the farmer’s money income fall as compared with the incomes of other workers, but he also pays higher prices for the things he buys, than the prices paid by other members of the community for his own produce. Agriculture thus suffers both ways.

Moreover agriculture is a seasonal industry. The cultivator, always in need of money and lacking space for storage, sells the whole of his crop in the harvest season, thus flooding the market and causing the prices to fall. This temporary flooding of the market at harvest time causes prices to fluctuate from season to season.

All these characteristics of agriculture make it obvious that the farmer is a victim of circumstances beyond his control. In order to help him tide over his difficulties in the short period, it is imperative that agricultural prices be supported at a reasonable level.

The importance of such a policy for a country like ours cannot be overemphasized. To say that Pakistan is a predominantly agricultural country, would be an understatement. When more than 80% of the population in a country depends upon agriculture for its livelihood, she can hardly boast of any other occupation. Agriculture is not only an important source of employment in the case of Pakistan, it is her very life blood. During the years 1950-51 and 1951-52, jute and cotton accounted for more than 80% of our total earnings of foreign exchange.[2] So that all our defense stores, capital equipment, and essential consumers goods had to be paid for from our earnings of foreign exchange from the exports of jute and cotton. Not only that, expert duties on jute and cotton are one of the most important sources of revenue to the Central Government. It is obvious therefore that the prices of these two commodities are not only the concern of a particular province but the whole of Pakistan. Anything that affects agriculture adversely will not only affect the standard of living of the section of population directly dependant on agriculture, but will also affect the interests of industry indirectly. For a fall in the income of 8% of the people in the country will mean a fall in the purchasing power of almost the whole of the community. This in its turn will affect industrial prices, and therefore, the general price level. On the other hand agricultural prices are important to the people engaged in other occupations from the point of view of consumers also. So that stabilized agricultural prices will at the same time, mean stable wages and stable incomes, and will help stabilize the tempo of economic activity in the country.

The importance of a policy of stabilization of agricultural prices in the case of India was recognized by the Famine Enquiry Commission in its final report in 1945. The Commission observed that the maintenance of agricultural prices at a reasonable level was a factor of fundamental importance in an agricultural economy. The Commission recorded that all the progress made by the Co-operative movement towards improving agriculture was undone in a matter of weeks by the crash in prices in 1929.[3] The feeling of helplessness returned leading to indifferent agriculture. It was realized that if agriculture was to be raised out of the doldrums, some sort of a reasonable price would have to be guaranteed.

With the report of the Famine Inquiry Commission we approach the question of deciding about the most suitable commodities for price stabilization. The Commission had pointed out the overwhelming importance of food crops, especially wheat and rice, in the case of India. This view was based on the fact that more than four-fifths of the total area cultivated in India in 1938-39 was under food crops, and that wheat and rice were the main crops with a world wide demand. It was, therefore, felt that if the prices of these two commodities were kept within reasonable limits, the prices of other agricultural products would also tend to stabilize. The position in Pakistan, however, is different. Pakistan produces slightly more than its own requirements in food crops. On the other hand she holds the world monopoly in jute, and is an important exporter of cotton. Jute and cotton are the chief earners of foreign exchange for Pakistan, and also go to provide the Government with revenues in the form of export duties. So that in the case of Pakistan, cash crops, *viz.*, jute and cotton, play the dominant role. The prices of these two commodities must be stabilized irrespective of other prices. The trade dead-lock with India and the competition from substitutes has precipitated matters and the Government of Pakistan has appointed a Jute Board and a Cotton Board to look after the interests of the growers of jute and cotton, respectively. Food crops although not so important from the point of view of international transactions, are important because of their consumption within the country. In view of the world shortage of food, the prices of food-grains are not expected to fall in the near future. On the other hand the prices of food crops must be watched carefully in view of the unsocial activities of certain elements in the country who create an artificial scarcity in the home market by smuggling food-grains across the border. This causes hardship to the poor public and needs an efficient anti-smuggling machinery to check it. It is felt that if food-grains could be prevented from being smuggled to India, their prices would come to settle at a reasonable level, fair to the cultivator, as well as the consumer.

Having decided about the commodities whose prices should be stabilized, we are faced with the practical question: how to stabilize them? The methods of price stabilization are all aimed at giving the Government some control over the supply in the market. These include acreage adjustment, creation of buffer stocks, setting up of machinery for buying and selling the commodities in question, fixation of maximum and minimum prices, control of imports and exports and international commodity arrangements.

Acreage adjustment was tried in India in the case of cotton and jute. When the entry of Japan into the last war closed the most important export market for Indian cotton., it was felt that if the supply of cotton was not restricted, it would result in a heavy fall in prices. Consequently the Government decided to divert land from cotton to food crops, keeping in view the shortage of food at the time. Similarly the acreage under jute in Bengal has been regulated by Government since 1941, under the Bengal Jute Regulation Act of 1920.

Taking into consideration the serious slump in prices of jute as a result of India's refusal to buy our jute at reasonable prices, and the general recession in world demand for raw materials consequent upon the end of the stock piling programmes of various countries, the Government of Pakistan also decided to restrict the supply of jute by regulating the area under jute. (Another reason for the fall in demand for jute during the current year was, that most of our regular buyers restricted their purchases because of the abnormally high prices of jute that prevailed throughout last year.[6] This again justifies our earlier conclusion that a policy of stabilization should eliminate very high, as well as very low prices.) But as was to be expected in an industry like agriculture, in which nature plays such a dominating role, it was found at the end of the year 1951-52 that the production for the current year would exceed the limit aimed at.[7] The Government have realized that it is very difficult to restrict acreage in a period of high prices with a view to avoid a heavy fall in prices during the next season. The year 1951-52 yielded a surplus of 15 lakh bales, the whole of which was bought by the Jute Board appointed by the Government. Inspite of efforts to limit the area under jute during the current year to about 35% of last year's, the crop is expected to be in the neighbourhood of 70 lakh bales. With last year's surplus to be held back, it is estimated that 60 lakh bales could be disposed off at fair prices, with India taking about 20 lakh bales, (which she is expected to do, if jute Is not allowed to be smuggled across the border) and 40 lakh bales going to other countries. So that the current year is expected to yield another surplus in the neighbourhood of 10 lakh bales.[8] Although the Government have decided to take stringent measures in future to regulate the acreage, it becomes apparent that a policy of acreage adjustment must be supplemented by other measures to ensure efficient marketing.

Another step that the Government can take is to hold buffer stocks of agricultural commodities in order to bring about an equilibrium between demand and supply. The stocks can be accumulated during years of surplus production, and released in years of lean production. The Jute and Cotton Boards have been created to serve this purpose to some extent. A similar policy must be followed in case of wheat and rice in order to avoid temporary shortages. Buffer stocks, however, require storage space. Adequate storage facilities are not yet available in Pakistan. The Government is already going to spend Rs. 50 lakhs to increase the storage capacity of East Bengal. The new godowns are expected to be ready in the next few months and would give the province a total storage capacity of 34 lakh bales of jute — enough to accommodate the two surpluses of 1951-52 and 1952-53.[9] Proper storage facilities should also be provided for food-grains in order to avoid the damage done by rats and other pests. That would help stabilize the prices of food grains and enable us to become self-sufficient in our food requirements.

The holding of buffer stocks also requires the creation of machinery for the purchase and sale of the commodities in question. The Government of Pakistan has created the Jute Board and the Cotton Board to arrange for the buying, and subsequent selling, of the surplus crops respectively. In case of food grains the buying and selling should be done through the food departments in the provinces in the open market. It would be impossible to maintain the prices of food-grains at a uniform level throughout the country without the creation of this machinery for procurement and selling, the introduction of rationing in urban areas, and the planned movement of food grains from surplus to deficit areas. The present policy of the Punjab Government to procure food grains through executive officers is defective in so far as contributions are demanded from all the cultivators under the threat of force, without regard to the fact that some of them have no surplus to spare.

This brings us to the question of the fixation of maximum and minimum prices. It might seem an easy task to fix the maximum and minimum prices of a commodity, but actually it calls for sound judgement and a thorough knowledge of the conditions of demand and supply. The importance of fixing the prices of agricultural produce at the proper level and in keeping with the conditions of demand and supply was emphasized by the action of the Punjab Government in fixing the procurement price of wheat higher than the price prevailing in the market at the time. This caused an artificial upward trend in the market by creating a scarcity scare which could not be checked later on. And one cannot help remarking that the procurement price was fixed, keeping in view not the interests of the nation, but the interests of a class. In the case of jute and cotton also the prices must be fixed in accordance with world prices. Abnormally high prices in a season would discourage exports in the next season as was shown this year in the case of jute.

Any programme of price-stabilization necessitates the control of imports and exports, so that supply may be kept in line with demand. This also involves the problem of fixing import and export duties. It has to be admitted that the Pakistan Government has followed a short-sighted policy with respect to the export duties on cotton. The Governments belated effort to encourage exports by abolishing export duty on desi cotton, and reducing it by 50% in the case of other varieties, can be compared to the action of an ally who arrives on the battle field too late, and is then too strong. It is felt that had this relief come earlier, the Government would not have suffered an adverse balance of payments to the tune of Rs. 46.7 crores. This underlines the importance of formulating our import and export policies with an eye on world conditions of demand and supply. Moreover an efficient control of imports and exports presupposes eradication of the evil of smuggling. India refused to come into the open market to buy our jute because she depended on the jute smuggled out of East Bengal. In Western Pakistan an artificial scarcity of food was created by food-grains being smuggled into India. The recent anti-smuggling measure adopted by the Government are very opportune and are already showing signs of improving the situation. Strict vigilance shall have to be maintained against smugglers till such time as the nationals of Pakistan become conscious of their duty towards their state.

All that has been said earlier makes it clear that we cannot fix the prices of our agricultural produce without any regard to world prices. The prices of our jute and cotton are subject to the forces of world supply and demand. And as long as we have surpluses to be sold in the world market we cannot help keeping our prices in step with the world prices. International commodity arrangements are essential if we are to know how much we are going to sell, and at what prices. The Prime Minister of Pakistan, however, recently observed that within three years enough jute and cotton mills would be set up in Pakistan to enable us to ensure a reasonable price for these commodities after controlled sowings, irrespective of the rise or fall in world prices. But this conclusion seems to be too optimistic. Considering that we could not hope to consume all of our jute products within the country, it becomes apparent that our surplus shall have to compete with jute products produced in India and elsewhere in the world. And the prices obtained for these jute products shall at least partly determine the prices paid for our jute within the country. So that even in the long run the international factor cannot be entirely ignored.

In the end we must remember that stabilization of agricultural prices is a short term measure to protect the farmer from circumstances beyond his control. It is not, and should not be a subsidy to defective production. In the long run production and marketing must be improved if our commodities are to compete in the world market. Prices could then be stabilized at the price level prevailing in the world market without causing a drain on the national exchequer, and ensuring at the same time reasonable profit for the cultivator.