

Stabilization of Agricultural Prices

Munawar Ahmad Saeed

Agricultural products are characterized by a high degree of uncertainty in total yield and, therefore, in prices. The output of many commodities entering into International trade has recently shown violent fluctuations. The fluctuations in prices have been even more marked. This is due to the following causes:—

The production of agricultural commodities in a given year is in a large measure governed by factors beyond human control. Agriculture is a partnership between man and nature in which the former may propose, but the latter may dispose (as she often does).

The scope of controlling the price by adjusting supply to demand, therefore, is limited. Compulsory or voluntary reduction has sometimes been suggested and practised as a means to restore the parity of values between agricultural and non-agricultural output. Such measures can produce substantial effect only if planned and practised on an international basis. Carried on separately, they cannot affect the total world supply except where a nation happens to have a monopoly in a particular field. Moreover, reduction of food especially in a period of depression can hardly be recommended as a socially desirable goal.

The cultivator is at a disadvantage in marketing as well. He has to dispose his produce off, as soon as he reaps it. Unless all unnecessary intermediaries are weeded out, the price stabilization schemes cannot help the cultivator.

Account has to be taken of those cyclical and secular changes in prices which offset all parts of economic life. Agriculture is apt to suffer more in such a time, since numerousness of agriculturists makes it difficult to make a unified effort to raise the prices.

These causes and element of uncertainty in agriculture is a sufficient case of stabilization of agricultural prices. The special problems of agricultural and industrial countries also go to support the case.

Many countries of ECAFE region depend on a limited number of goods for their export. At the same time their margin of income over expenditure is but

little. As this little margin is used for their development purposes, any instability in the price of primary commodities will have a very harmful effect on their development programmes.

In some of the under-developed countries the foreign exchange earnings dominate the national income. Their favourable or un-favourable balances of payment synchronize with an increase or decrease in the prices of the commodity they export. This can create wide fluctuations in the national economy since “their ability to cope with a recession is many times limited by their absence of proper experience in fiscal and monetary policies.”

This uncertainty of prices obviates a steady and easy balance of payments in international trade.

Such fluctuations discourage investment (especially foreign investment) in primary industries.

Quite small industrial fluctuations can very adversely affect the economy of primary producing country. Since industrial fluctuations are hard to be avoided, agriculture has to be considered separately.

The experts reporting ‘Measures for International Economic stability’ hold that ‘large scale depression will be avoided in future’. The trend of prices, they maintain, “is likely to be upward rather than downward. Thus a basic problem in the way of international commodity is solved.” The problem mentioned here is the fear of depression and the consequent uncertainty in the future conditions of trade and the risk born thereon.

On the other hand, it will be reasonable to say that if a depression threatens the world economy, it can be sufficiently coped with an International scale only.

In this age all the countries are economically interdependent. Economic stagnation and distress in one part of the world can prove harmful to the stability of the economy all over the world.

Thus measures on national and international scales should be adopted to have stabilization of prices in agricultural commodities.

THE PROBLEMS

The path of such measures bristles with difficulties. We have first to define what we mean by stabilization of agricultural prices. It is not an absolute fixity

of prices but seeks only to mitigate the undue price fluctuations. It tries to avoid the extreme upward or downward trend of prices and to bring them round a just and fair level. What is a just and fair level of prices? "A price," we are told by UNO experts in 'Measures for International Economic stability', "can be called fair just or equitable as well as reasonable as long as it does not perform extreme upward and downward gyrations which are caused by abnormal and transient conditions or serve no useful economic purpose. Barring such extremes, variations along the long run course of prices are neither unfair nor unreasonable" (p. 3).

This fairness in prices should seek to consider the interest of both the countries entering into an agreement.

Parity price does not seem to be the ideal of stabilization. Free competition does not always do full justice to the developing countries due to their low bargaining power.

Moreover, the changing conditions of trade will not let us fix a price once for all. Price, therefore, has to be decided by negotiation and perhaps re-negotiations are necessary every year.

Stabilization of agricultural prices often goes with the belief that the cost of production can be stabilized in agriculture. This belief overlooks that the most important element of the cost of production in agriculture is the farmer's own labour in other words the cost of maintenance of the farmer and his family. If he is a producer of food, his cost of production is outside the reach of general price fluctuations. In the other case, his concern of food crop is extended since he has to buy it. If all the agricultural prices were to move together in the same direction the difficulty would not be so much. Moreover, he has to buy non-agricultural goods and thus general price level affects his cost of productions.

Thus agricultural price stabilization is justified only if the prices of other things were assumed to remain constant (or to fall.) This leads us to general price stabilization. General price stabilization raises many difficulties in international trade and foreign exchange and can hardly be recommended by any economist as a desirable goal. The only possibility that remains is to provide subsidies and grants to the farmer when cost of living rises.

MEASURES TO BE TAKEN ON NATIONAL SCALES

Measures have to be taken on national as well as international scale to avoid undue price fluctuations. Where as measures on national scale cannot

produce substantial effect without international measures they are nevertheless necessary to avoid undue fluctuations which feed speculators and intermediaries at the loss of the cultivator.

1. The main cause of avoidable fluctuation is lack of steady, planned production with a process of balance planning and development thing will improve.

2. Marketing reforms should have a primary consideration in this respect. If storage facilities are provided the margin of fluctuation within the year can shrink considerably. All unnecessary intermediaries should be weeded out so that the real benefit should go to the cultivator himself, and not to the intermediaries.

3. Periods of prosperity and adversity in agriculture synchronize with inflation or deflation in the markets of the products of underdeveloped countries. Special care has to be taken about monetary and fiscal measures because they can affect prices to a considerable degree. Such measure will also diminish the pressure of international price movement on the economy of a nation.

4. U.N.O. Experts remarks "Domestic policy developed to prevent a dissipation of investment funds, public revenue, and foreign exchange earning at boom time and hence to assure continued investment at times of falling export proceeds .may be reinforced by establishment of buffer funds.

5. Stockpiling and their liquidating is perhaps the most important single factor affecting prices. When stockpiling is to take place, perhaps no country would consult others but when it has to be liquidated the raw material producing country should be consulted if possible. Moreover, such liquidations should be deliberate.

6. Acreage adjustment can be used for raising the prices, the important consideration here is the gross and net increase in the value of the good. This ultimately depends upon the elasticity of demand and supply.

7. Fixation of maximum and minimum prices within the country is quite a practicable suggestion but it can succeed only if the government is prepared to buy and sell within those limit infinitely.

INTERNATIONAL COMMODITY AGREEMENT AND OTHER MEASURES

Both exporting and importing countries acting upon independently can do much to save their economy from fluctuation in a world market through

marketing boards, varying taxes or subsidies, and similar measures designed to stabilize internal prices or income. It may, it is true, prove difficult for governments of exporting country to resist producer's demand for high agricultural prices and general demand to consume the profit for marketing board in increasing countries there is a danger of increasing subsidies which it becomes difficult to take back when once granted.

Long term agreements in one-quantity and prices may take the shape of bilateral or multilateral agreements. Bilateral agreements are between two governments. They do not have the price stabilization as their primary object, but the supply of, and the demand for, commodities required or produced respectively. It has to be re-negotiated every year and the success naturally depends upon the good will of the two countries.

Multilateral agreements like international wheat agreement cover a number of producers and sellers and naturally their enrollment depends upon the universality of the commodity concerned, If most of the producers do not enter the agreement, there may be still larger price fluctuation in the part of the trade not included in the agreement. In a multilateral agreement the prices and quantities are more or less specified by deciding the highest and the lowest prices. If the market price is within these limits the agreement does not affect the bargain. If the price is higher the seller forgoes some of his benefit by selling at the maximum selling price which the agreement has already decided. With a fall in prices, similarly the agreement expects its member country to pay a bit higher price equalling at least the "minimum" price.

International quotas and stockpiles may be used to control both supply and demand. But as "Measures for International Economic Stability" point out, "they tend to freeze the geographical pattern of production and may lead to unnecessary unemployment of the sources. It is better to stockpile a commodity in times of reduced demand than to limit its production. Only where surplus cannot be dealt with stockpiles, should international quotas be considered."

INTERNATIONAL BUFFER STOCK AGREEMENTS

"It is an organization for maintaining price stability or insuring future supplies by purchasing and withdrawing supplies from the market when current supplies fall short of demand. Its open market operation follow the practice of exchange stabilization funds which are set up to maintain, the stability of a free foreign market. They have large stocks in a commodity, and can stabilize its price by their market operation.

Commodity reserve currency schemes. Some monetary reforms can be brought to help the policies of stabilization. The purpose being that the stabilizing authority should be able to pay for commodity with newly created money. If it is to be carried on an international scale, “the managing authority will issue new money equivalent to gold and flow into the foreign exchange reserves of the countries, whose commodities were purchased. The scheme may be operated through various national agencies.”

Contra-Cyclical lending has offset the disturbance created by business depression. Such loans are repaid after the currency and trade conditions improve.

References

1. U.N.: Commodity Trade and Economic Development.
2. U.N.: Measures for Economic Stability.
3. Malhotra: Stabilization of Agricultural Prices.

— - —