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Conditions of Agricultural Price Policy and Trade Deterioration

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ABSTRACT: Appropriate agricultural policy must offer incentives to farmers to scale up the output and at same time protect interest of consumers. In short term, pricing strategy must offer consistency in harvest prices to bypass uncertainty. The medium-term goalmouth is to achieve consistency in terms of commerce for cultivation to promote speculation in agriculture. It has been experienced that agricultural prices have superior flexibility than industrial pricing both in upswing besides down swing. The increase in the prices of agricultural goods has been definitely smaller than the rise in the prices of commodities in general. If higher and higher procurement costs are set, it may drive up the overall price level. But some connection between what the farmers sell and what they purchase will have to be created, because agricultural inputs have been increasing unnaturally. This study argues that footings of commerce between agricultural in addition to industry alter in the course of economic growth.

KEYWORDS: Agricultural, Deterioration, Policy, Prices, Trade.

1. INTRODUCTION

Agricultural pricing policy in India faces a problem - how to maintain food prices high to stimulate agricultural output and reduce the price to safeguard buyer’s interests. Price strategy has been a successful instrument in developed in addition to emerging nations, in cleaning up the surpluses, encouraging agricultural output in addition to helping poorer parts of society [1]. It may alter the allocation of resources and income redistribution not just in the agriculture sector but also in non-agricultural industries. India is regarded as an agricultural nation and also its economy known as agrarian economy.

The population increase is a measure cause for shortage of agricultural product. This increase of population is accountable for rising pricing of agricultural goods. Therefore, there is a necessity to focused strategy to boost the production as well as regulate the pricing of food item. Although, various policies has been introduced by government to help in boosting food production and regulating the costs of food [2]. There is one more issue that is arises now a days which is to preserve the food grain for a long time as it will assist to address the problem of shortage of food for longer period of time.

Appropriate agricultural policy must offer incentives to farmers to scale up the output and at same time safeguard interest of consumers. Agrarian Bill Commission was formed in 1965 besides subsequently retitled as Commission on Agricultural Costs and Prices (CACP). The necessity to provide incentives to farmers was recognized for adopting better information for maximising agricultural manufacturing [3]. Besides, there was a need to preserve sensible utilisation of terrestrial in addition to other creative resources, especially for developing a manufacturing pattern roughly in accordance with national needs. Moreover, conditions of commerce between agriculture in addition to non-agricultural sector were constantly worsening. In this backdrop, impact of price agriculture policy on rest of economy, mainly on cost of existence, level of wages, manufacturing cost structure should be carefully reviewed.

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Besides the cost of production of the commodity, CACP was charged with the duty of evaluating the trend in the wholesale price of commodity, the necessity for balanced growth of various crops and the patterns of trade between agricultural in addition to non-agricultural commodities [4]. In addition to wheat, CACP has suggested procurement price for grain, such as rape seed, mustard, and barley. However, coarse grains such as barley rarely appear in public distribution stockpiles indicating the insufficient development of marketable surplus of these grains. Therefore, the price strategy of CACP has not been quite effective in attaining balancing growth in various crops and their patterns. An optimistic price strategy must exact market deficiencies that are result of unequal competition owing to many rigidities besides asymmetrical evidence. Proper market signal should achieve intended national objectives in terms of general output, cropping decorations, remunerative revenue to farmers in addition to assured supply of essential products at sensible values to consumers [5].

In short term, pricing strategy must offer consistency in crop values to prevent indecision. The medium-term goal is to achieve stability in terms of employment for cultivation to promote speculation in agriculture. It has been demonstrated that agricultural prices have greater flexibility than industrial values both in upswing in addition to down swing. The greater flexibility in agricultural pricing indicates the existence of low rice elasticity of demand and supply of agricultural goods. The long-term strategy aims at steady adjustment of all prices towards their equilibrium level. A sensible pricing strategy should be one intended to take advantage of the price responsiveness of producers to guarantee sufficient supply of agricultural goods and at the same time protect the interest of the weaker parts of the consumers [6].

Prebisch and Singer (1950) separately studied series of values of basic merchandises and factory-made products. Based on data in the series, barter relations of skill for basic goods exported demonstrated a strong tendency to decrease. The reason for this secular decrease was identified in lower request elasticities plus greater source elasticities characterising agricultural commodities as primary spreads of developing republics as compared to their chief imports, i.e., manufactured goods.

This prevalent view was partly accountable for the significance that agricultural in addition to rural development has had in developing economies. The understanding was reinforced by virtually continual decrease of agricultural commodity prices the globe has known since 1980s. Both World Bank in addition to IMF were secondary empirical indication of a long-term decreasing trend rather than repeating behaviour, thus indorsing emerging countries to increase their exports towards industrial assets.

Prebisch and Singer published in 1950s study series of values of basic commodities in addition to industrial products. Their series evidence, barter representations of trade for major goods shipped demonstrated a significant tendency to degradation. The motivation for this secular decrease was identified in lower request elasticities as well as larger source elasticities characterising agricultural commodities as primary spreads of developing nations as linked to their chief imports, i.e., manufactured goods. This prevalent understanding was partly answerable for decreased position that agricultural and rustic growth has engage in leisure in emerging economies.

Both the World Bank and IMF were using this empirical evidence of a long-term worsening trend rather than repeating behaviour, thus indorsing emerging republics to increase their exports towards manufacturing properties. Since Prebisch Singer experiential evidence was

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presented, literature has shaped a plethora of works arriving at their original predictions which can be classified into two main categories: (i) educations aiming to test long-run rationality of PS hypothesis in addition to investigate relationship between main goods and factory-made goods on price series and (ii) studies which concentrate on analysis of short-term variations of agricultural value series.

Terms of commerce between agricultural and industry vary throughout the course of economic growth. Growth process is usually started in agricultural sector. As labour and capital is moved from agriculture to industry, economists think there is a potential for terms of trade shifting in terms of agricultural sector as development progresses. Per capita production will be growing at a faster rate in the industry sector than agriculture sector which will result in higher demand for agricultural output than industrial output. Rapid pace of technical development in industrial sector will bring to a greater rise in the supply of industrial goods than that of agricultural products. With this shift, capital flow from agricultural to industrial sector will slow down and rate of growth in industrial sector would then begin to decrease.

There is a chance that capital will migrate to agricultural sector from industrial sector when marginal productivity of capital grows greater in agricultural sector. There are many models which attempt to demonstrate that terms of trade will shift in favour of agriculture as development progresses. While Fei and Ranis believe that terms of commerce change only when the excess labour in agricultural sector has been depleted, Jorgenson perspective that terms of trade begins shifting as soon as industrialisation starts via movement of manpower and capital from agriculture to industry. If there is no intervention from the State relations of employment will turn in contradiction of industrial sector as growth progresses.

Economists have thus proposed methods to maintain conditions of trade against farming in early stages of growth via artificial means like price restrictions, high taxes on agriculture sector. In the U.K., the repeal of Corn Laws in the 19th century had aimed at lowering relative costs of food in addition to raw materials in proportion to the prices of manufactured products. In USSR, collectivises of agriculture was carried out to extract from peasants their entire surplus at a cheap price for fast development of industrial sector. Argentina adopted negative pricing policies by keeping the prices obtained by farmers low and part of foreign currency generated from exports was diverted for the advantage of industry by means of multiple exchange rate.

At the same time, industrialists were protected by hefty import tariffs on competitive goods and import licensing system. In India, from the commencement of planning, terms of trade remained against agriculture. Terms of trade cannot be maintained against agriculture for long once the development process has started. Terms of trade against agriculture will negatively impact economic development if one sector restricts the expansion of the other, and it is more probable that agricultural growth restricting the growth of industrial than vice versa. Therefore, altering the policy for terms of trade advantageous to agriculture is one of the required strategies to accomplish the growth goal [7]. The comparatively low level at which prices have been maintained in the interest of consumer in many emerging nations is mismatched with inducements required for continuous upsurge in manufacturing.

The method of fixed pricing for essential nourishment crops are progressively becoming recognized in emerging republics. This is the reason why attempts were made by various governments at later stage of development to change relationships of trade in goodwill of agronomy by decontrolling the prices of agricultural products or deliberately raising their support prices and arranging supply of agricultural inputs at subsidised rates.

2. AGRICULTURE PRICING POLICY IN INDIA

CACP was established up on a permanent basis to alter a balanced in addition to combined pricing structure in perspective of overall needs of economy and interest of producers and consumers. It established up minimum support prices to the producers so that any temporary excess in the market produced by either the supply or demand factors would not be allowed to reduce the income of producers to unreasonably low level. Minimum support prices ensure price stabilisation, improvements in agricultural terms of trade and insurance to producers [8].

In the absence of minimum support price, the government has declared purchase prices. Normally, procurement prices are set below the level of market prices and above that of minimum support prices. The trend of open market pricing of inputs, the necessity to narrow down interstate inequalities of prices, and to strive to provide fair returns to the farmer without being harsh to the consumer affect the fixing of procurement prices. One of the components of pricing policy is to maintain a floor price so that in times of oversupply, values do not fall below a certain level [9]. The economic policy of 1991 sums up the functions of CACP as to formulate recommendations after making comprehensive review of the structure of prices, cost of production, paid out costs and attributed value of possessed assets counting land besides family work, variations in input charges, input/output value parity, demand and supply situations, inter-crop price parity, effects on industrial cost construction and overall price level, and on cost of living, intercontinental market values, parity among prices remunerated and prices conventional by farmers etc. [10]. In Table 1 shown the Trends in Minimum Support Prices from 2011- 2021.

Table 1. Trends in Minimum Support Prices from 2011- 2021.

Sl.No.	Commodity	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
I	Kharif Crops											
1.	Paddy - Common	1000	1080	1250	1310	1360	1410	1470	1550	1750	1815	1868
2.	Paddy – Grade A	1030	1110	1280	1345	1400	1450	1510	1590	1770	1835	1888
3.	Jowar - Hybrid	880	980	1500	1500	1530	1570	1625	1700	2430	2550	2620
4.	Jowar - Maldandi	900	1000	1520	1520	1550	1590	1650	1725	2450	2570	2640
5.	Bajra	880	980	1175	1250	1250	1275	1330	1425	1950	2000	2150
6.	Maize	880	980	1175	1310	1310	1325	1365	1425	1700	1760	1850
7.	Ragi	965	1050	1500	1500	1550	1650	1725	1900	2897	3150	3295
8.	Tur	3000	3200	3850	4300	4350	4625^	5050^^	5450^	5675	5800	6000

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9.	Moog	3170	3500	4400	4500	4600	4850^	5225^^	5575^	6975	7050	7196
10.	Urad	2900	3300	4300	4300	4350	4625^	5000^^	5400^	5600	5700	6000
11.	Cotton - Medium stapple	2500	2800	3600	3700	3750	3800	3860	4020	5150	5255	5515
12.	Cotton Long stapple	3000	3300	3900	4000	4050	4100	4160	4320	5450	5550	5825
13.	Ground nut	2300	2700	3700	4000	4000	4030	4220*	4450^	4890	5090	5275
14.	Sunflower	2350	2800	3700	3700	3750	3800	3950*	4100*	5388	5650	5885
15.	Soybean	1400	1650	2200	2500	2500	-	-	3050^	3399	3710	-
16.	Sesame	2900	3400	4200	4500	4600	4700	5000^	5300*	6249	6485	6855
17.	Niger seeds	2450	2900	3500	3500	3600	3650	3825*	4050*	5877	5940	6695
II	Rabi Crops											
18.	Wheat	1120	1285	1350	1400	1450	1525	1625	1735	1840	1925	1975
19.	Barley	780	980	980	1100	1150	1225	1325	1410	1440	1525	1600
20.	Gram	2100	2800	3000	3100	3175	3500**	4000^	4400!	4620	4875	5100
21.	Masur (Lentil)	2250	2800	2900	2950	3075	3400**	3950!	4250*	4475	4800	5100
22.	Rapeseed Mustard	1850	2500	3000	3050	3100	3350	3700*	4000*	4200	4425	4650
23.	Safflower	1800	2500	2800	3000	3050	3300	3700*	4100	4945	5215	5327
24.	Toria	1780	2425	2970	3020	3020	3290	3560	3900	4190	4425	-
III	Other Crops											
25.	Copra - Milling	4450	4525	5100	5250	5250	5550	5950	6500	7511	9521	9960
26.	Copra - Ball	4700	4775	5350	5500	5500	5830	6240	6785	7750	9920	10300
27.	De-husked coconut	1200	1200	1400	1425	1425	1500	1600	1760	2030	2571	2700
28.	Jute	1575	1675	2200	2300	2400	2700	3200	3500	3700	3950	4225
	** Including Bonus of Rs.75 per quintal.											

	^ Including Bonus of Rs. 200 per quintal
	^^ Including Bonus of Rs. 425 per quintal
	* Including Bonus of Rs. 100 per quintal
	$$ Minimum of Support Price of Soyabean yellow is also applicable to black variety during 2015-16 and 2016-17.
	! Including Bonus of Rs. 150 per quintal.

MSP provide definite price in addition to assured market to farmers in addition to shield them from pricing in addition to market deficiencies. The definite pricing in addition assured market are predicted to encourage greater speculating and adoption of current undeveloped techniques. Further, with globalisation following in freer employment in agricultural commodities, it is really important to safeguard farmers in addition to their attention.

4. DISCUSSION

As growth process is usually started in agricultural sector and labour and capital is moved from agriculture to industry, there is a potential for terms of trade shifting in terms of agriculture sector as development progresses. Per capita production will be growing at a faster rate in the industry sector than agriculture sector which will result in higher demand for agricultural output than industrial output. Rapid pace of technical development in industrial sector will bring to a greater rise in the supply of industrial goods than that of agricultural products. With this shift, capital flow from agricultural to industrial sector will slow down and rate of growth in industrial sector would then begin to decrease. There is a chance that capital will migrate to agricultural sector from industrial sector when marginal productivity of capital grows greater in agricultural sector. Fig.1 has been displaying an outcomes of number of form labourer and real former.

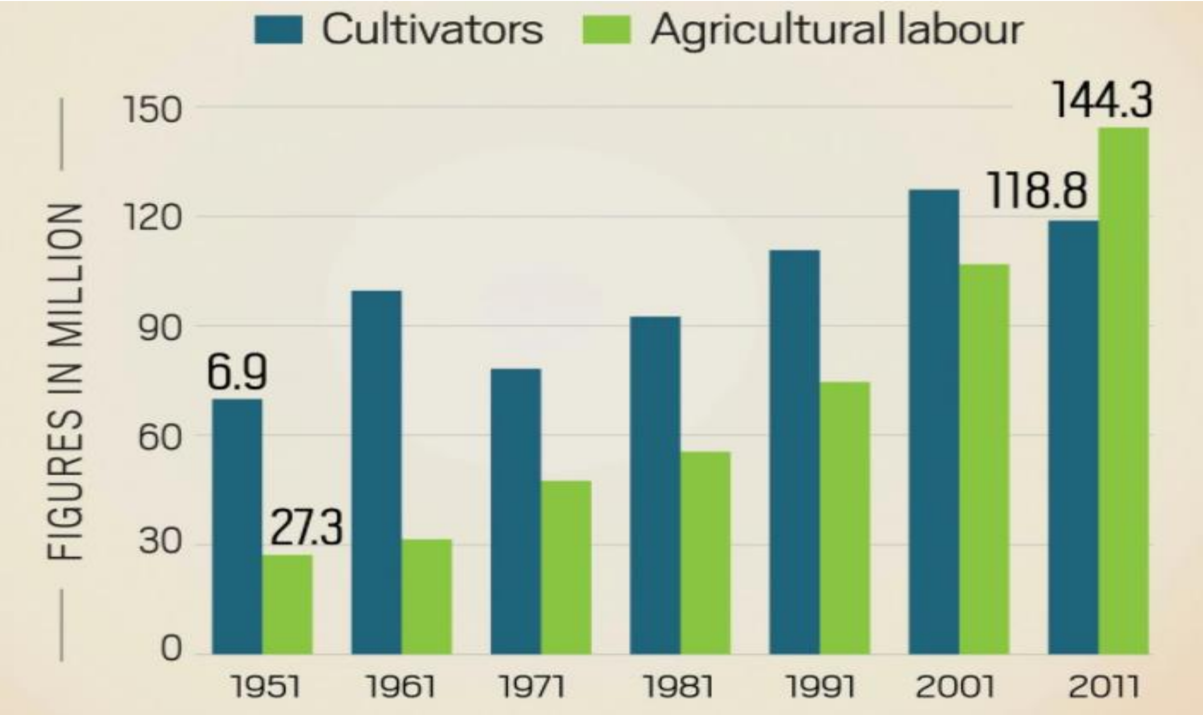

Fig. 1: Number of Form Labourer More Than Real Former

3. CONCLUSION

CACP formulate recommendations after making comprehensive review of the structure of prices, cost of production, paid out costs and credited value of possessed assets counting land and domestic labour, variations in input values, input/output worth parity, demand in addition to supply circumstances, inter-crop price parity, effects on industrial cost structure and general price level, and on price of living, intercontinental market prices, parity in the middle of prices paid in addition to prices conventional by farmers etc. Fixation of procurement prices should account the changes in productivity, although this strategy is rarely implemented in reality. Food grain stockpiles with the Government are at a historic level. Most customers are purchasing cereals on the open market since price of cereals supplied via public distribution system is deemed high in relation to their quality and open market pricing.

Open market supplies at higher prices are preferred on quality grounds. There is no actual price support for commodities like cotton, sugarcane, and potato. Hence, we see recurrent gluts bringing price collapses and misery to farmers at one time or the other. Moreover, pricing strategy would be effective only when it is backed up by efficient procurement machinery. The economy is facing inflationary scenario. The increase in the prices of agricultural goods has been definitely smaller than the rise in the prices of commodities in general. It is not desirable to keep strict parity between agricultural and non-agricultural product prices. If higher and higher procurement costs are set, it may drive up the overall price level. But some connection between what the farmers sell and what they purchase will have to be created, because agricultural inputs have been increasing unnaturally.

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