

**AN ANALYSIS OF WHEAT PRICES :
A CASE IN AGRICULTURAL PRICE MOVEMENTS
IN INDIA**

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1.1. DEVELOPMENT IN A DUAL ECONOMY.

One characteristic which the Indian economy shares in common with other less developed economies of the Third World is unevenness of the state of development of the various sectors inside. Even as the overwhelming majority of the population eke out a precarious livelihood from a traditional agricultural sector where crop production is largely for subsistence and only marginally for market exchange, a not-too-small industrial sector organised on the capitalist principle of profit maximisation exists quite incongruously like ^a pockets of opulence amidst widespread poverty and destitution. These are essentially dual economies where inter-sectoral flow of productive resources does not take place despite a wide differential in the factor prices. In these labour-surplus economies inadequate supply of capital and machinery prevents gainful absorption of rural manpower in the organised sector and as a result quite a large population is confined within feudal agriculture and less than fully utilised. The fact that agriculture is to a considerable extent family based assures them equal share in the produce and even for hired labour a custom-bound wage rate frequently remains well above the marginal product. Traditional agriculture is more a means of subsistence than a business endeavour.

These countries are handicapped by colonial exploitation and ^usleeping centuries of stagnation at the lowest level. Economic development in these labour-surplus resource-poor dual economies has to be a deliberate effort with a blue print for phased activities. This process of planned development was initiated in India in 1951. By now more than two decades have passed and we can indulge

in some retrospection.

The problems associated with industrialisation of these labour-surplus agricultural economies have been analysed by a number of writers in the tradition of Lewis-Ranis-Fei [21, 34]. We can start from a state of widespread disguised unemployment in the traditional sector where marginal product of labour is Zero. Now, a part of the surplus labour may be transferred from the traditional sector and be employed in Industry at a fairly low rate of wage (so long as this wage rate is above the average product of labour in agriculture), if some additional capital can be provided to start with. In the next phase the surplus generated in Industry by this (relatively) cheap manpower will provide further investible resource and permit a second wave of migration from the traditional sector. This process may continue till all surplus labour is removed from agriculture. Now the wage rate in the traditional sector itself would be equated to marginal product and labour supply to the industrial sector would no longer be infinitely elastic at the institutionally fixed wage rate. However, even before all surplus labour is removed from agriculture, production will decline with migration of population to industry as soon as Zero-marginal product phase is over. Hence a steady level of production can be maintained only if there is capital formation in agriculture resulting in productivity increase. It is hoped that when a decline in agricultural output takes place and prices of agricultural commodities rise relative to industrial commodities the higher rate of return in agriculture will attract investments and in due course there will be a replenishment of the supplies of agricultural products. Now, we can easily see why the wage rate in the organised sector will start rising even before the traditional sector gets

fully commercialised. As soon as agricultural goods become scarce relative to their demand, their prices increase relative to industrial products. However the workers in the industrial sector must be paid enough to command the consumption basket (of wage goods, supposedly only agricultural) as before. This implies that the product-wage rate has to increase even though the real wage rate has not increased. In the subsequent stage, when the wage rate in the traditional sector itself gets linked up with marginal product industry can draw further manpower from agriculture only by increasing the real wage rate steadily. A rising product-wage rate in industry would reduce the surplus generated in that sector and thereby stop the process of self-sustained development altogether. The intersectoral terms of trade has to be watched very cautiously and should not be allowed to move too adversely for industry. This is a lesson learnt by the less developed countries the ~~max~~ hard way.

1.2 SOME 'STRUCTURAL' FACTORS.

But, what happens in the traditional sector ? will not an improving income-terms of trade attract investment in agriculture ? In other words, how does the farmer respond to an increase in the price of farm products ? This is where the so called "structuralist" theory of inflation in an under-developed economy becomes relevant. Based on the experience of a large number of Latin American economies the "structuralist" theory asserts that inflation is the result of the structural imbalances created by the development process and an anti-inflationary policy has to be an integral part of the overall development policy of the economies. Among the structural factors identified by the structuralists (and readily

accepted by many others outside) is the slow response of agricultural production in general, and food production in particular, to rapidly rising urban demand. One reason why the farm economy does not react quickly to price incentives is the ownership structure of farms. The absentee landlords of the "Latifundia" are far removed from the production and decision making processes and regard their estates as status symbols or at best store of value. On the other hand the share-cropper has little incentive (and more frequently lesser resources) to bring about long-term improvements in production conditions because he has the perpetual risk of ejection hovering on his head. An interesting model of some-feudal agriculture and backwardness was constructed by Bhaduri [6] . The 'Jotedar' or landlord in Bhaduri's model (apparently not 'absentee') has two sources of income : (1) the legal share in production as income from property and (ii) the usurious income he earns on the consumption loans of grain given to the share-cropper or the 'Kishan'. Bhaduri has pointed out that under certain conditions a small improvement in productivity while increasing his property income will reduce his usurious income (since the Kishan's share in output goes up and his dependence on consumption loan goes down) and in the bargain the landlord may be worse off. On the other hand a major increase in productivity while increasing his property income sufficiently to compensate for the loss of interest income will end his extra-economic power over the hether to indebted Kishan and this trade off between economic gains and political power is not very likely. And so we remain in square one. One could bring a set of functional intermediaries - the traders - in the picture and the Lewis-Ranis-Fei model gets complicated further . The traders procure grains

from the producers after harvest and maintain their inventories from which they supply to the consumer in the market through out the year. Now a rise in urban market price may add to trading profits and may not necessarily percolate down to the actual producer. In the underdeveloped economies where credit facilities are seldom, if even^r, available to the smaller producers the pious conclusions of competitive equilibrium can hardly be applied. In fact the big farmer may very well act as a trader and procure grains from smaller farmers at low rates and earn large profits. In such a case the big farmers' interest in increasing agricultural productivity may be little. In practice perhaps the income from money lending (as different from crop loans to share cropper) to neighbouring producers, who do not have adequate cash balances to purchase inputs (like fertilisers) from the market, will become the main source of income for a small number of very big farmers as with the spread of the so called, New Agricultural Strategy there is a rise in the paid out cost of crop production. (Such a disturbing trend was reported from the district of Ludhiana, Punjab in EPW p 994 joint number 21 and 28 June, 1975). In any case one must recognise that the price mechanism does not come to play a stabilising role by automatically increasing agricultural production. Perhaps the answer lies in radical Land Reforms, extension of agricultural credit to the lower strata of farmers, construction of the infra-structure like irrigation projects and regulated supply of non-traditional inputs (like chemical fertilisers and seeds) through official channels. No doubt this is a large bill and calls for large investment in agriculture and social overheads.

1.3- THE PROBLEM OF MARKETED SURPLUS.

But if this were the only problem the task of development in a dual economy would be relatively simple. All the above can be taken care of through a proper allocation of investible resources between the different sectors of the economy so as to achieve a proper balance. What is lacking in theoretical models of dual development is a proper understanding of the problem of mobilisation of the marketable surplus in the traditional sector. It is assumed, almost wishfully, that as the working population diminishes in the traditional sector, those remaining there would not increase their consumption and the quantity consumed so long by the migrating workers could be utilised to feed them in the urban areas. Hanis-Fei, for example, have mentioned in passing (foot note 6) that it may be impossible to induce those left behind in agriculture to release the entire surplus but have neglected such a problem. This casual manner of dispensing with such a crucial problem is clear proof of a lack of understanding of the proper dimension of the problem. What is not realised is that whether or not above the marginal product the traditional wage rate in agriculture is at the subsistence level and the peasants can hardly be expected to remain satisfied with their old consumption levels in the face of an increase in per capita availability inside the traditional sector. The alternatives before the policy maker are not many. They may either be given a price incentive to part with this marketable surplus or they have to be coerced. In a free enterprise system outright confiscation of the produce or such coercive measures are ruled out. On the otherhand if market prices are allowed to increase freely we face the kind of difficul-

ties mentioned earlier. Essentially the State has to satisfy two opposing parties with conflicting interests. On the one hand the farmers have to be persuaded to part with some part of their produce at a price lower than they could earn in the market on the other hand the urban consumer has to be provided with a minimum quantity of wage goods at a subsidised price so that industrial wages are not pushed upwards by rising food prices. Low foreign exchange reserves rule out large scale import of food from abroad over any considerable period. A system of State procurement and public distribution of foodgrains and in some cases industrial raw materials has to be a part of the nation's development strategy. Indeed over-zealous targets of industrial production - particularly in the so-called 'heavy industries' without any reference to the quantum of marketable surplus that could be mobilised from agriculture may unleash the forces of inflation and in the end put the entire development process in jeopardy. This has happened in India, at least.

1.4 PRICE PARITY INSIDE AGRICULTURE.

But there is another aspect of the agricultural price question which we must not overlook. It is the relative level of ^{prices of} individual agricultural products. If amongst the alternative crops before the farmer the price of some one is allowed to move out of step with the others the farmer may reallocate his productive resources so as to adjust for this change in the relative prices. If for example the price of a certain crop, which is an essential wage good, is controlled by a suitable policy of procurement and distribution by the Government while the price of a substitute crop increased freely the farmer may decide to allocate more

acreage to this other crop. This will affect the production of that essential crop. In that sense the State must fix its procurement price at a level which will not affect the resource allocation adversely for this crop. The extent to which there is any reallocation of land between the different crops will depend on a host of other factors like the relative costs, yields and variability in the price and yield of the competing crops. We shall take up the question in a later section.

1.5 SCOPE OF THIS STUDY.

What we have tried to emphasise in the above paragraphs is the crucial role played by the marketable surplus of agricultural commodities (particularly foodgrains) as the single most important factor that controls the rate of industrial development of a dual economy. A nation's success in its growth efforts is almost completely determined by its ability to regulate the terms of trade between industry and agriculture through a correct handling of the marketable surplus problem. Ideally the entire structure of interdependence between the variables like urban demand, rural supply response, the State intervention and ^{the} like for the related agricultural commodities should be conceptualised in a multi-sectoral macro-econometric frame work. Then only could we approximate the operation of the economy with the different forces criss-crossing the entire human ecology with even a modest degree of realism. Unfortunately that would involve a work on a different scale altogether. Instead, we have limited the scope of our study to an enquiry into the nature and cause of the movement of wheat prices over the two decades (1952 - 3 to 1971-2).

During the past decade wheat has gained in importance very significantly in India's food economy. Quantitatively, the rate of growth in wheat production has been much larger than that in other foodgrains. Since the mid-sixties wheat has been accounting for an increasing proportion of the total foodgrains output. The share of wheat in foodgrains production was 12.7% in 1955-6, 13.3% in 1960-1 and 14.2% in 1965-6. However the share increased rapidly from 17.4% in 1967-8 to 25.4% in 1972-3. Strategically also, wheat happens to be the most ^{important} if not the only vehicle of the so called Green Revolution. Indeed, the success or failure of the new technology is usually measured by only one indicator namely the output of wheat. The concern shown in the Economic Survey (1974-5) at the loss of momentum for growth in wheat production since 1971-2 and the anxiety over the vulnerability of a particular variety (Kalyansona) to a new rust disease is appreciable enough. None the less, it is an index of the magnitude of stakes involved with this crop.

The major share of area brought under HYVP has gone to wheat. The Governments' policy of building upon the irrigated Rabi areas to usher in a breakthrough in food production has resulted in a significant increase in the concentration of wheat output in the hands of a smaller number of bigger farmers in a few states. This has led to an increased bargaining strength of the so-called 'Kulak' elements in the overall balance of contending class forces.

In fact, wheat has become the symbol of a newly-emerged big farmer / trader class whose strength can be seen to move

directly in proportion with the price of this crop. In a sense an analysis of wheat price changes necessitates a political-economic (more the former than the latter) Study. ²Krisherajiⁿ (19), Mitra (25) and others have approached the problem from this side. As a matter of fact, the annual furore over the fixation of procurement price of wheat shows a much greater degree of noisiness than is warranted by its weight in the official price index. This at least would suggest an increasing price-sensitivity of a subsistence crop.

We, however, focus our attention on the economic aspect of the problem. In the next chapter we devise a conceptual framework for the study and try to place the question of price determination in the proper perspective by recognising the most important forces that influence decisions taken by the various economic agents involved in the process.