“All in all, Pakistan’s agriculture shows more positive response to market influences than superficial inferences drawn from its subsistence nature would lead the observer to expect.”

(Cummings, J.T.)
Introduction

• Govt’s intervene to stabilize prices of agricultural goods to ensure a reasonable price to the consumer and producers
• Support Price? Procurement Price?
• Motivations: to safeguard the interests of both producers and consumers and moderate the impact of excessive fluctuations in output.
Introduction

• Agricultural price policy encompasses both outputs as well as inputs, because these two tiers are interdependent.

• Agricultural price policy: ‘a policy of the government whereby it acts to influence or determine the prices of agricultural outputs and inputs.’
Importance and Need

1. To remove uncertainty
2. To increase agricultural production
3. Keynesian arguments
4. Lag between agricultural prices and other prices
5. Lack of storage facilities
6. Stabilize the tempo of economic growth
7. Income disparities
8. To increase the standard of living
Objectives

1. Stabilization of prices
2. Induce greater production
3. Supply of food to urban consumers at reasonable prices
4. Generate public revenues
Stabilization of prices

• Carried out through fixation of support prices below which market prices are not allowed to fall
• Mechanism?
Induce greater production

• Direct and positive correlation between argi prices and production
• Provide incentive to growers to bring more acreage under cultivation of a crop to expand production
• Supply responsiveness of agri output to changes in price prompted our govt to use this policy tool to increase production of certain agri commodities
• Time series data: stagnant prices accompanied with stagnant output
Reasonable food prices for urban consumers

• Relatively a more organized and vocal pressure group

• Absolute necessity for the survival of a political government
Generate Public revenues

- Wide margin between procurement prices at which the government purchases the agricultural commodity, and the price at which they are exported
- Difference appropriated by the government
- Augments efforts of resource mobilization
- Implicit tax on agriculture??
Agricultural output price policy in Pakistan

• ‘output price policy’ refers to the fixation of procurement and support prices
• Food and cash crops included in the policy account for nearly 2/3rd of the annual cropped acreage
• Early period characterized by the unwillingness of the govt. to use the output policy to expand production.
Agricultural output price policy in Pakistan

• Resulted in frequent food shortages, esp. of wheat
• Increase in price of wheat => rippling effect, thus leading to an increase in the overall cost of living
• Govt. concerned with stability of prices for urban consumers rather than expanding frontiers of food prod during the early years.
Agricultural output price policy in Pakistan

- Table: rice and sugarcane prices also kept low.
- Establishes a direct and +ve relation between support prices and output.
- Next four decades: govt. successfully uses output price policy to increase the production of the 3 major crops of Pakistan.
Price fixation process

• APComm responsible for reviewing and recommending support/procurement prices
• Recommendations forwarded to the Federal Ministry of Food, Agriculture and Cooperatives.
• Final approval accorded by the federal cabinet after discussing the proposals.
Price Fixation Criteria

APComm takes into account the following:

• Cost of Production
• Parity index between competing crops
• Import Parity Price
• Export Parity Price
• Buffer Stocks
Impact on Income Distribution

- Benefits big landlords at the expense of small farmers
- Support price policy serves to widen the gap in productivity between the large and small farmers
- Further worsens income inequalities between the rural rich and the poor
- Input price policy also favors big landlords => easier access to subsidized inputs such as seeds, fertilizer, machinery etc.
Input Price Policy

• Refers to government subsidies given on agricultural inputs such as fertilizers, improved seeds, pesticides, tubewells, electricity and agricultural machinery.

• Objectives?

• Superior to high output price policy, as even small farmers can benefit from it
Input Price Policy

• Subsidization of technology ensures its speedy adoption

• Drawbacks?
  – Cost of inputs is only a small part of the total cost of production
  – Low input price may lead to unwanted substitutions (e.g., chem fertilizers instead of organic manure, K-int tech, wastage of water)
Input Price Policy

• Subsidy on inputs should only be temporary
• Should not be continued indefinitely
• Objective: help farmers adopt new technology and expand production and income, thereby enabling them to stand on their own legs.
Input price policy in Pakistan

- Subsidies can be classified into two categories from an operational point of view:
  - Explicit subsidy: covers the difference between the real cost and the subsidized rate at which the input is supplied to the cultivator (e.g. fertilizer, pesticides)
  - Implicit subsidy: concealed in concessional prices charged by the govt. for the provision of certain inputs, such as water rate, credit, electricity
Input price policy in Pakistan

• Subsidies can also be classified from the budgetary point of view:
  – Current subsidies: financed from revenue budget and are given on agri products used for consumption purposes, e.g. wheat, sugar, edible oils etc
  – Development subsidies are financed from development budget and are given on agri products used for dev purposes, e.g. tubewells, fertilizers, pesticides.