

ON FIXATION OF PRICE IN AGRICULTURE ON THE BASIS OF COST OF PRODUCTION *

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Every time there is pressure on the agricultural produce markets, there has been demand from various quarters to fix the price of the agricultural produce through state intervention. Different bases for fixation of price have been suggested, an important and persistent one being the cost of production of the commodity.

The demand for choosing such a basis is quite old. During the past half century in many countries farmers' organizations and others have demanded the fixation of the price of produce on the basis of the cost of production. In India the demand was put forward and seriously considered for the first time some two decades ago, when the sub-committee on Agricultural Prices of the Policy Committee on Agriculture examined the question in 1947. The sub-committee recorded that it could not recommend the cost of production approach for fixation of fair prices until the necessary data had been collected on a scientific and proper basis. There was no agency at the time for collecting such data in the country, and no useful body of data was available for use by the sub-committee in its task. The sub-committee, therefore, recommended the cost-price parity basis for fixation of prices.

The rather short-lived Commodities Prices Board drew attention to these observations of this sub-committee, in discussing the bases for fixation of *rabi* grain and pulse prices in India, in 1947.¹ But it also noted that in the U.K. "these calculations are made the basis of the bargaining which leads to price determination and are not used by themselves to determine prices directly."²

During the last few years there has been a renewal of the demand, from many quarters, for fixing agricultural produce prices on the basis of cost of production. From the point of view of availability of cost data, the situation is also different today. Since 1954, the Direc-

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¹ Sovani, N. V. (ed.) : *Reports of the Commodity Prices Board, G.I.P.E.* (Pub. No. 20), Poona, 1948.

² *Ibid.*, p. 13.