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This note prepared for a seminar discussion discusses the problem of government disruption of private-sector marketing of food grains in such countries as India, Pakistan, Brazil, Turkey, and the Philippines. The government actions controlling prices and supplies under conditions of shortages leave the private-sector producers and traders unprepared to handle later surpluses, since prices are unresponsive to supply and demand conditions. Research needs to be conducted existing capacities and incapacities of the market structure, transport facilities, storage patterns and facilities and the role played by government agencies in regulating the marketing of food grains and other scarce commodities.

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Agricultural Shortages and Surpluses: A Marketing Trap for the Developing Countries*

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Agriculture Shortages and Surpluses: A Marketing Trap for Developing Economies

Until recently many of the developing economies have been faced with a marketing shortage situation in their agricultural sectors, particularly with respect to food grains. This led to the marketing systems that were geared to (1) mobilizing the much needed surpluses from the producers, and (2) rationalize the distribution of the commodities whose supply fell short of actual demand in the economy.

The mobilization requirement led the governments to interfere with the normal trade patterns and in some cases even to monopolize the trade in essential products such as food grains.* The actions resulted in tampering with the prevalent channels and patterns of marketing, market arrivals and sales as well as the mechanism of price determination and price discovery. Distributional requirements often resulted in changes in the role of the various market agencies in storage and shipment patterns and a considerable re-orientation in the whole structure of storage and transport. The economies plagued with serious and prolonged shortages of food grains such as India and Brazil in respect of wheat, had to develop transport facilities such that the consumer centres were conveniently fed with imported stocks from the seaports.

In a sense, scarcity conditions in these countries distorted the established systems of private marketing. The price system for example became more production oriented in order to provide incentives to the producers for higher production. In practice, support and procurement, prices not only ensured

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*Particularly outstanding case is that of grain marketing in countries like India, Pakistan and Brazil, Turkey and Phillipines.

higher than normal prices to the producers, more so they kept moving up year after year.*

Another important influence of the price policy happened to be that the seasonal price differences were reduced and in many cases entirely eliminated. This left little incentive for the private trade to build up stocks in post-harvest periods and hold them on to the lean periods. Where trade operated under contracts, licenses, or quotas, the traders in essence worked only as agents and not the independent business decision makers. Price mechanism, thus, became an ineffective indicator of demand and supply conditions and private trade got vertically disrupted and generally operated under conditions of business uncertainty. Governments in some cases had to shoulder the increasing financial and organizational burden. In many cases, serious distortions and disruptions occured in the trade through systems of built-in favours and particialities accorded by the public controlling agents. The net result was that (1) price expectations of the producers were raised, (2) the price mechanism became unresponsive to the real changes in demand and supply conditions, (3) the private trade became skeptical, uncertain and to some extent reactionary, and (4) the government had to shoulder the increasing financial burdens of market adjustments and play the pivotal role of an organizer and operator of the controlled markets in commodities which were short of demand. This was a monumental responsibility. The most crucial aspect is that it distorted the whole market organization to tackle mainly the scarcity and shortage marketing situation; and left the market unprepared to handle the agricultural surplus

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*In India, for example, procurement price went up from Rs.49.50 per quintal in 1964-65 to Rs.76/-per quintal in 1967-68 and stayed on at this level for 3 years in spite of tremendous increases in production; procurement increasing from only 5 thousand tons to 815 thousand tons in this period. Similarly, Brazil prices of wheat kept increasing from Cr$2.46 in 1962-63 to Cr$27.00 per 60 Kgs. in 1969-70, and Cr$29.40 in 1970-71. Production in this period increased from 303,396 metric tons to 1,234,510 metric tons.

in products like wheat, which later developed.

Additional storage facilities as mentioned earlier developed mainly at the sea-ports to accommodate shipments from outside of the country and little of the storage capacities was developed in the consuming or producing areas. Similarly transport was also geared to the shipments from sea-ports to the internal consuming centres.* This was a development no doubt consistant with the conditions of domestic shortages. However, with the break through in agricultural production technology, especially with seed-fertilizer revolution, some of these countries immediately found themselves in difficulty. Producing areas and regions inside these countries started producing unprecedented marketable surpluses. For this changed situation of increasing internal surpluses, the market organization turned out to be unable to handle the produce efficiently. The price mechanism was tied to high support levels and did not respond to the change in supply conditions. The transport as well as storage facilities were also inadequate and inappropriately located to handle internal flows. Governments suddenly found themselves heading for very large financial, organizational and operational responsibility. Private trade, cautious as it was made by the earlier public policies, was not ready to swing into the business. The market organizations, thus, got trapped between the requirements of shortages and emerging surpluses.

Since most of the developing economies have little absorptive capacity for surpluses and are too sensitive to shortages due to lack of appropriate storage and holding capacity, marginal deficits in the agricultural production get reflected in feelings of serious shortages and small increases in production create conditions of large surpluses and sometimes gluts. The small

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*Brazil, Turkey, and India are typical examples of such a built-up of sea-port storage capacity and transport system geared to distribute the imported wheat from these ports to the consuming areas.

capacity for handling the produce, if get oriented to handle the import marketing situation, creates serious inadequacies when increased output quickly changed the requirements of marketing.

Faced with such a situation of inadequate and often inappropriate marketing organization and its performance, these economies need to rethink their approach and remodel their market structure to be flexible and responsive to the changing demand and supply conditions for various agricultural commodities. In order to create such a responsive market, policies and actions need to be based on empirical evidence instead of the present system of administrative hunches in many developing countries. Well planned research efforts need to be, therefore, directed at the following aspects.

i) Existing capacities and incapacities of the market structure and organization vis-a-vis the nature and extent of present and projected future marketable surpluses of the various agricultural products in different regions of these economies.

ii) Physical facilities in terms of number, location, size and design of the market places vis-a-vis changing needs of the producer-sellers and market functionaries.

iii) Transport systems and facilities from the producers through the different market channels to the ultimate consumer and their flexibility to adjust to the changing demand on them.

iv) Storage patterns and structure of stores, particularly in respect of total capacity, distribution of the capacity from producing through the consuming points.

v) Role played and required of the public agencies in the organization and physical handling of the products and its regulatory functions, their advisibility, adequacy and appropriatness in the changing market situation.

vi) Above all the price-distortions and adjustments the governments have been making and plan to keep introducing in the future in response to the shortage conditions gradually giving way to the situation of increasing surpluses within most of the producing regions of these countries.

It should be recognized that the production of a commodity is not complete until it reaches the hands of its consumer at his place in the form and at the time he needs. An efficient (or inefficient) and appropriate (or inappropriate) marketing of the commodity not only reduces (or adds to) its cost to the consumer and makes it convenient (or inconvenient) to reach it, it equally reflects back on the efficiency and incentives in the production of the commodity. Market policies, therefore, need to be very carefully planned.

Taking up first the problem of physical facilities, new market places need to be created especially where surpluses are coming from a large number of small producers. Such small producers, for many of whom surpluses may be a new experience, are not expected to possess a business acuemen to explore the best market place or agency for them. They normally dispose of their produce to the nearest buyer or in the nearest market. The new markets, therefore, need to be established at places as far as possible nearest to most of the producer-sellers, with appropriate capacity to handle the quantities of surpluses. Alternatives to a market place can be a market organization extending its pipeline and contacts to the producers or groups of producers in an optimal way in respect to costs and operational efficiency. What is the size and capacities of the present market places and existing market organization vis-a-vis existing and potential surpluses? Is the market capacity and organization optimally located and distributed among producing regions, areas and groups of producers? Is there any further need to expand these physical capacities and to what extent? Where new markets are

established? Of what size and shape should they be? What should be the market organization consistant with different patterns and sizes of marketable surpluses? These are a few of the questions that must be answered on the basis of empirical investigations in different developing countries before they embark upon any policy to enlarge or modify their markets and market organizations to handle the emerging problems of increasing surplus from increasing number of producers.

Another important issue is transport planning. Two categories of transport can be distinguished. In the case of say railways, where the costs of tracks become partially irretrievable, once the system is laid out, it becomes partially inflexible. In the case of other category, such as trucks and trolleys (road transport) the capacity is relatively more flexible. Since rail transport for large bulks remains comparatively less costly, facilities in this direction tend to be built up for moving the produce from existing production or import points to the consuming centers. As mentioned earlier, these capacities may become too inflexible to cope with new centers of surpluses and deficits that emerge in a changing production situations. Producing areas and regions in these countries have remained neglected in transport planning. Coupled with the lack of adequate storage capacity, the producing area markets were often glutted. In many cases produce was damaged while lying in the open. Northern India, West Pakistan, and Southern Brazil markets, for example, were typically handicapped on this account in the post-harvest period of their wheat crop. The questions here that must be empirically examined for a policy decision on storage and transportation development in such countries are: (1) What are the potential marketable surpluses and consumer needs for different commodities in different areas of the country in next one decade or so? (2) What commodities and what quantities would need to be transported between different points? (3) What will be the rate of change in this transshipment pattern? What quantities of different commodities will need to be

stored, and how long a period at different points in the distributional channels? The storage and transport decisions would need to be made in conjunction with each other, because there is a certain amount of trade-off between the two. Designing the new storage and type of transportation are again very crucial issues with respect to costs and efficiency. Storage in the developing countries at present is either too much old style which is inefficient and often wasteful, or is extremely modern which is not consistant with capital labor resource-endowment of these countries. Transport is of the type that may be consistant with the old style storage technology but does not lend efficiency to the modern style storage. Transportation and storage, thus, need to be planned as an organic whole to achieve highest efficiency and flexibility to adjust to changing production-consumption and surplus-deficit patterns in these countries.

As stated earlier, public agencies have been playing substantial and increasing roles in the shortage situation, sometimes even replacing the private trade or reducing its role to insignificance in countries like India, Brazil and some African countries. This financial and organizational burden could be perhaps conveniently carried because of lower volumes of business in the shortage conditions. But with increasing surplus and the volume of business shooting up, it becomes increasingly burdonsome for the public agencies to shoulder these financial and organizational responsibilities. Also with the private trade left limping and uncertain, transfer of business back does not come smooth. In some cases the momentum of public operations may not leave it to be considered very desirable by the democratic governments to transfer this responsibility back to the private trade. In order to avoid such organizational and operational difficulties, the public policy has to be more certain and flexible. What alternative or combination of alternatives with respect to public participation vis-a-vis role of private trade will be most suitable is a policy issue that remains yet to be fully explored for

these countries which are endevouring to regulate and control the private trade to the benefit of the producer and the consumer both.

Price controls and supports have been handy in many developing countries as a tool to encourage domestic production and ensure equitable distribution of the short-supply agricultural commodities, especially the food grains. Support prices, export subsidies and government entering the market to purchase, import and distribute commodities short of supplies introduced price distortions and created new distribution channels. The price distortions once made have a tendancy to perpetuate and feed upon themselves and leave it difficult to adjust these prices to the new demand and supply conditions. As a result, the market price situation stops reflecting fully the changing demand and supply conditions. It may be that price controls and supports become necessary in the shortage situation, but the level of controls and supports, and the basis on which prices are adjusted are some of the vital questions that as yet need to be answered for these developing countries.