AMIC – INFOSERIES – 6

Agricultural Market Intelligence Centre

Department of Agricultural Economics

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Farm Harvest Prices in Kerala: Growth and Instability

Introduction

The small, family-size farms that dominate the agricultural production scenario in most developing countries are responsive to price as well as to other economic signals. Consequently, agricultural prices play a corrective role in achieving efficient allocation of a country's resources within agriculture, between agriculture and non-agriculture, and between domestic production and imports (Ahamed and Mellor,1988). Price policy is effective in helping farmers to get reasonable profits to promote farm investment, technological advancements and gains in productivity (Dev and Rao, 2010).

The post independent price policy pursued by the Government of India was characterized by an overwhelming concern for the interest of the consumers, especially their access to food grains. Food prices were kept low in order to provide cheap food for urban consumers. However, this did not provide incentives for Indian farmers to increase production or productivity. The present agricultural price policy is aiming to strike a balance between the interests of both the consumers and the producers.

Growth in Farm Harvest Prices

The extraordinary complexity of agricultural price policy arises from the immense magnitude of the economic forces involved. That is why Governments decide on the appropriate level of agricultural prices and their range of fluctuations in the context of changing economic circumstances, political acceptability and national goals, resulting in an “administered price policy” regime. The trends in farm commodity harvest prices are be viewed in this context. The trends in the State Average Harvest Price (FHP) of major commodities produced in Kerala are presented in Fig. 1 a and b and Table 1.

Table 1. State Average Harvest Price of Principal Crops of Kerala

Year	Paddy (Rs/Qtl)	Husked coconut (Rs/100)	Cashew (Rs/Qtl)	Tapioca (Rs/Qtl)	Pepper (Rs/Qtl)	Rubber (Rs/Qtl)
1995-96	547	331	2700.00	253.00	7320.00	5204
1996-97	607	480	2730.00	300.00	8780.00	4901
1997-98	583	443	2848.00	297.00	17440.00	3580
1998-99	627	485	3538.00	313.00	18090.00	2994
1999-00	684	476	3638.50	368.00	20506.00	3099
2000-01	646	281	2336.70	349.00	12467.97	3036
2001-02	600	341	2569.33	321.00	6745.43	3228
2002-03	650	476	2730.30	394.00	7692.17	3919
2003-04	695	583	2831.75	389.00	6802.46	5040
2004-05	651	635	3533.00	404.00	6032.00	5224
2005-06	611	495	2899.54	433.00	5979.84	6699
2006-07	682	473	2463.90	470.00	10730.62	8325
2007-08	788	486	3000.42	520.00	12901.42	9391
2008-09	916	544	3665.09	556.00	11475.64	8916

Source: - Compiled from Economic Review (various issues), Government of Kerala

Fig 1.a. FHP of Paddy and Tapioca

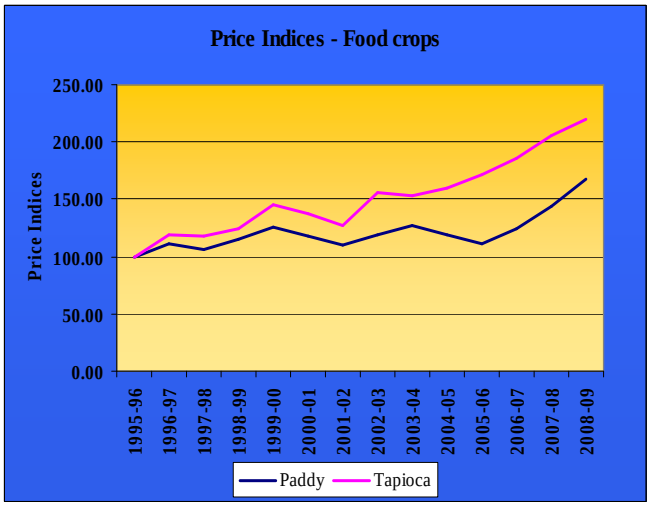
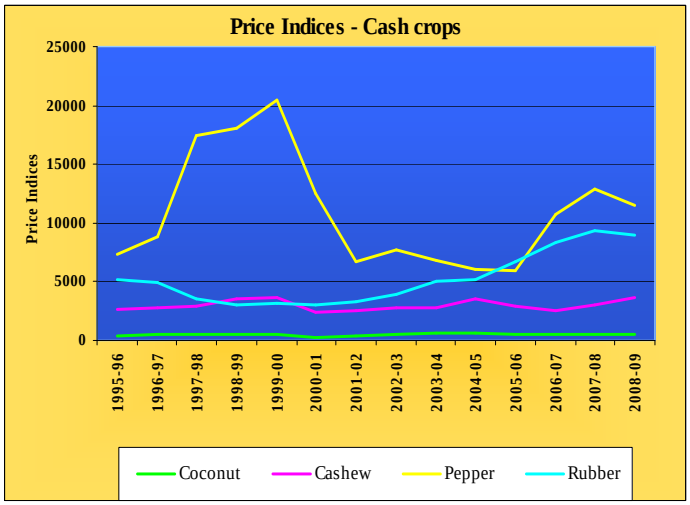


Fig 1.b. FHP of Cash Crops



The Compound Growth Rate of Farm Harvest Price of Principal Crops in Kerala was worked from 1995-96. It revealed that commodities, irrespective whether they are food or cash crops, have recorded growth in the farm harvest prices - but with differing magnitudes. The farm harvest price of rubber recorded the maximum growth in price, followed by tapioca. The farm harvest price of pepper registered negative growth during the period of analysis.

Table 2. Growth Rate and Instability Index of Farm Harvest Price of Principal Crops in Kerala

Sl. No	Commodity	Compound Growth Rate of FHP (% per annum)	Instability Coefficient of FHP (CV %)
1	Paddy	1.04	14.06
2	Tapioca	2.29	22.96
3	Coconut	1.08	20.51
4	Cashew	0.27	15.13
5	Pepper	- 0.94	44.19
6	Rubber	3.07	42.75

Instability in Farm Harvest Prices

Another notable feature of the behaviour of farm harvest price was revealed by the instability analysis conducted by working out the coefficient of variation (CV). Pepper prices were subjected to maximum price fluctuation during the reference period. Crops like pepper and rubber were subjected to high price volatility (CV > 30 %), while tapioca, coconut and cashew were subjected to medium price instability (30 % < CV > 15 %). Paddy prices alone had a price stability (CV < 15 %), probably kept under check by the administered price policy to protect the poor rural and urban consumers.

References

Ahamed. R., and Mellor. J. 1988. Agricultural Price Policy for Developing Countries. International Food Policy Research Institute, Washington DC,344 p.

Dev, S. M., and Rao,N.C.. 2010. Agricultural Price Policy, Farm Profitability and Food Security. *Economic and Political Weekly*, 40(26 & 27): 174 -182.