

## A Note on the Different Modes of Price Fixation in the Regulated and Unregulated Markets in Madras and other States

by

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In a country like India which is and is bound to remain so predominantly agricultural, the importance of a rational system of marketing cannot be over-emphasised. A mere improvement in production does not very often confer a proportionate benefit on the grower or assist to improve his economic position, because the grower who is ordinarily an indebted man is compelled to sell his produce immediately after the harvest, which usually coincides with a slump in the market. The middleman or the village petty merchant and the wholesale dealer in the assembling centre often get a much bigger share of the price paid by the consumer than the actual producer who labours in the field for a full season. Any plan for improving the lot of the village farmer must therefore, tackle the problem of rural marketing and enable the producer to get as big a share of the price paid by the consumer as possible, eliminating the share of the middle men as much as practicable. This in fact is the aim of all the Regulated Markets controlled by Market Committees set up under the Madras Commercial Crop Markets Act 1933. Though the Regulated Markets seek to assist the grower in many ways, such as bringing the producer into direct contact with the purchaser, elimination of unauthorised deductions and allowances, restricting of brokerage and commission charges to reasonable levels, ensuring cash payment on the spot and the like, the most important service rendered is in the system of fixing the prices for the produce brought into the market. If the price fixation is to be done to the best advantage of the grower the following conditions have to be satisfied.

1. The produce for sale must be kept open for examination and quotation of prices by as many purchasers as possible so that a really competitive price is assured to the seller.
2. The seller must have the final voice in fixing the price i. e. to accept or not the maximum price offered by the purchaser on a particular lot while the buyer shall not have the liberty to go back on the rates once offered by him.
3. All payments must be made on the spot or within such short intervals as may be fixed by the market rules, and the Market Committee must undertake the responsibility for enforcing fulfilment of the contracts entered into between the purchaser and seller at the time of fixing the bargain, without encroaching on the civil rights of either party.

4. All weighments or measurements of produce must be done by those licenced by the Market Committee using only scales and weights or measures bearing the stamp of accuracy affixed by the Market Committee.
6. There must be provision and means of settling disputes arising in the course of transaction expeditiously, by impartial arbitrators.

With a view to achieve these objects the following procedures are adopted in the sales yards of Regulated Markets.

- i. Auction by shouting of each lot of the produce and selling to the highest bidder if the rate offered is acceptable to the seller as in Guntur Tobacco Market.
- ii. Auction by secret chit tender as practiced in the market yards of the South Arcot Market Committee.
- iii. Fixing price by auction for the best quality of the produce and then fixing the rates for individual lots by making allowances for difference in quality from the ideal for which the price is fixed by auction, as in the Adoni Market.
- iv. Fixing prices by private negotiation under cover or by open words between the buyer and the seller or his commission agents as described against Tirupur, Amraoti or Dhulia Markets.

The comparative merits of each system are discussed below with reference to the actual details of the systems adopted in some of the important market yards in the country.

(i) *Amraoti Yard*: This is one of the oldest of the Regulated Markets in India and the commodity dealt with is cotton. The market yard opens at 5-00 A. M. when carts with kapas and lint from various villages enter the yard by the main gate and the carts are conducted into the stalls of commission agents of the sellers' choice. At 6-00 A. M. the price ranges and important market quotations including American and Liverpool futures are put up on the notice board of the market yard. The regular trading then starts. The buyer goes to each cart, examines the stuff and quotes his rates for the same under the cover of cloth, the sellers' commission agent acting as the intermediary. When the commission agent thinks that a fair bargain is obtained, he informs the cartman accordingly. It is only when the cartman who has previous instruction from the owner (if the owner is not present on the spot) or the owner himself (if present in person) accepts the rate, the price is openly declared. Immediately an agreement is filled up in duplicate in the prescribed form showing details of the buyer, seller, rate fixed etc., and signed by both commission agent and the purchaser. A fee of one anna per cart is charged by the market committee to the buyer as its fee. Weighment is done by licensed weighmen and the payment is made

on the same day. Thus in effect the transaction is one under private negotiation through brokers or commission agents. Details of bargaining are kept secret. The chief defects are :

- i. The illiterate cultivator is entirely in the hands of the commission agent who is often inclined to favour the buyer.
- ii. The ancient practice of fixing the price under cover of cloth by secret signs is still in vogue. This keeps the seller in the dark as to trends in the market with reference to the published market data even.
- iii. After a few weighments the buyer or his broker frequently finds fault with the quality and asks for a price reduction. The cultivator who usually comes from a long way, bearing all the costs of transport is usually left with no alternative at this stage but to agree to such arbitrary demands. Although market rules provide that prices shall be fixed in the market yard, and that no deduction shall be made except when the quality of cotton is inferior to the sample on the basis of which price is fixed, these rules are only loosely enforced and the general practice is to make deductions in weighments by 1 to 4 Dhadis (7 to 28 lb.) from the actual weight of a cart load. Occasionally carts are also allowed to be taken directly to the ginning factories without entering the yard at all.

(ii) **Dhulia Market:** This is the biggest of the Regulated Markets in Bombay State transacting business of over 50 to 60 thousand bales of lint per year. As at Amraoti the prices are offered under cover after seeing the produce. The ruling prices at Bombay and America are received by telegram and put up every day at the entrance of the yard for the information of buyers and sellers. The practice of settling prices under the cover of cloth is unfortunately in vogue here also. The rest of the procedure is more or less as in Amraoti, but there is better check over the weights and weighment and mal-practices in weighment seem to have been checked. No deductions are allowed in weighments.

(iii) **Adoni Market in Madras State:** The auction sale of cotton and groundnut brought for sale is conducted at 10-00 A. M. on all working days. There are 58 commission agents at this centre and they are divided into six groups, each group being composed of an equitable number of the big and small commission agents and of stocks coming to their shops. If any day happens to be a holiday, the arrivals in shops allotted for that day shall be auctioned next day along with the stocks of the group allotted for that day. Thus each commission agent gets his turn of auctioning the produce of his constituents once a week and in his shops on other days also the sellers so desire.

Prior to the commencement of the auction the buyers go round the shops allotted for that day and examine the stocks put up for sale. In the auction the rate declared is understood to be for the best quality of the season's produce. After the auction declaration, the highest bidder is enjoined to purchase all the produce placed for sale by the Commission Agents in the godowns allotted for the day, at the rate declared in the auction. Produce in the other godowns is allowed to be purchased by the other traders by mutual bargaining and negotiation. For each transaction the rate declared in the auction will be ruling rate for the day. If the produce is found to be of inferior quality reductions in rates will, however, be allowed with the consent of the seller. After the bargain is struck by the buyer, no alteration in the rates will be allowed. In case there are no buyers for the day to purchase the goods in the commission mundies other than those allotted for that day, the highest bidder in whose name the auction has been knocked down is further bound over to purchase the entire produce from other shops as well. This latter provision aims against irresponsible or insidious excitement being promoted in the auction. If there are any disputes in respect of the transactions the committee's decision is final.

The chief defects in the system are that the grower is entirely dependent on the commission agent, and deductions in rates are allowed on the plea of poor quality which might more often than otherwise be used against the interest of the seller, in the absence of any standard and recognised specifications as to quality. The buying commitment in respect of the entire produce in the allotted godowns for the day insisted on might have the effect of limiting the bid to the general average of the quality of the produce in those godowns. This rate is then applied to be the one for the best quality of the season's produce. This kind of bulk auctioning without reference to any specific goods militates against any proper appraisal of quality and against adequate recompense being paid for improvements in quality. Instances are not unknown of prices above the declared rate in auction being offered and accepted. Individual buyers who are inclined to offer better prices in this way are ostracised by the entire body of other traders and in effect a dominating clique among the traders is promoted to the disadvantage of the sellers. The system on the whole is a most undesirable one and it does not encourage individual traders to study the market and operate on it intelligently.

(iv) **Tirupur Yard:** No auction sales are usually held at this yard. The prevailing market rates at Bombay New York and Alexandria are obtained daily and published on the notice board of the Committee. The buyers go round the commission agents' mundies inside the market and offer their rates after examining the stocks available for sale. The price offered by the buyer is noted in a chit and if the rates are acceptable to the commission merchant or to the seller if present, the bargain is struck. In the case of lint, price bargaining takes place outside the market yard and as soon as the transactions are finalised, the buyer and the seller come to the yard and sign the contract form in the presence of the Superintendent of the Committee and leave a sample with the Committee. This practice might be considered to be a weakness in the regulation of the markets as under the existing statutory restrictions no buying and selling can take place outside the market yard within a five mile limit of Tirupur. In case of any dispute in passing the deliveries against such sales, the sample with the Committee is made use of for settling the dispute. In the case of kapas, the merchants report to the Committee at the end of the day in the prescribed form showing details of names of sellers and purchasers, rate and quantities sold. No deductions are allowed for poor quality etc., after the rates are once agreed to.

Here also the growers have to depend on the commission agent, since there is no auction sale in the yard. Though the seller has the option to reject the rates arrived by the Commission agent and the buyer, it is seldom exercised, as in most cases the commission agent acts for the seller. Weights are strictly checked by the committee and no deductions whatever are allowed.

(v) **South Arcot Market:** This is the most important and perhaps the best organised market in South India. More than 90% of the groundnut marketed in the district gets sold through one or other of the eight markets set up by the market committee at important and convenient assembling centres. More than 70% of the quantity thus sold in these markets is brought in by the growers themselves and sold direct without the intervention of an intermediary. Thus the ideal of bringing the producer in direct contact with the purchaser to the exclusion of middlemen as far as possible is achieved in this market to a great extent. Groundnut is brought in the form of kernels in bags and the sale is conducted by secret tender system. Every morning, except on holidays, when the yards commence working, the lots belonging to individuals are given lot

numbers as they arrive. They are then poured out of their bags, shuffled, rebagged and weighed and the weights of each lot is also notified. Slips are then prepared giving lot numbers and these are issued to buyers assembled in the yard between 10-00 A.M. and 11-00 A.M. in two or more rounds of auction fixed at convenient intervals. The buyers go round the lots, examine the quality of each and write in the bid slips against each lot the price they offer for that lot. After quoting prices for all or as many lots as each merchant might be interested in, the slips are deposited in a hundi box kept for the purpose. The box is opened at an appointed hour notified beforehand. After collecting all the slips from the box the Superintendent of the yard reads the prices offered for each lot and the maximum for each lot is announced. If the owner is satisfied, which is usually the case, the sale is confirmed by notifying the price confirmed and the name of the buyer. The weighment chitta made out initially is also completed for each lot with the entry of the name of the buyer and the price determined and one copy each is furnished to the seller and the buyer. In the copy to the seller, the total amount due is also calculated and noted for the benefit of the sellers as a precaution against his being cheated in the calculations. The payment is arranged on the spot by the buyer and he clears the lot. If, however, the rate offered by the highest tenderer is not satisfactory to any seller, he is at liberty to take the produce back or keep it in the Market Committee's godown for reauction on the same day or the next day. Weights and sales in use within the Committee's markets are provided by it and they are tested and kept accurate at frequent intervals. Weighment is also done in the immediate presence of a clerk. This system is perhaps the best and simplest among all the systems followed in the markets of this State. The main difficulty in adopting this system in other yards will be the existence of long-established commission agents functioning between the producer and the purchaser.

(vi) In western countries, open auction by shouting is the method usually followed, as can be seen from the tobacco markets of Kentucky in America.

The sales usually start at 9-00 A. M. and continue throughout the day with a short recess at noon, the buyers moving from warehouse to warehouse. During the height of the season, three sets of buyers operate, in order to keep the tobacco moving and to prevent congestion. At the time set for sale at a particular floor, the various buyers gather round and the auctioneers take their place

near the first basket in the first row. The floor manager of that particular warehouse works one basket ahead of the auctioneer and the buying crew, and as the latter come up to the basket he states what he thinks of the minimum value thereof per pound. Starting with this, the auctioneer then calls out the bids and if necessary even goes below the minimum suggested to get the bidding started, and then advances as bids are made in the usual way. The lot is invariably sold to the highest bidder. On the tobacco which is priced \$ 6 per cwt, the bid to be raised must be increased by at least 10 cents and for lots priced \$ 6.50 to 20, each rise must be by 20 cents and for lots priced from \$ 20 to 30 the increase must be only in dollars. These limits are evidently prescribed to facilitate quick sales. The sales are in fact so quick that an average auctioneer disposes of not less than 200 baskets per hour. As each basket is knocked down, the buyers initial the price paid and the commercial grade of the leaf are then entered on the basket as well as in the warehouse office book. The buyers may be representatives of large and small factories, or of foreign Government monopolies, brokers buying for commission or for speculative purposes or mere speculators or 'pin hooks' as they are called by the Trade. The only restriction is that each buyer must be a member of the Lexington Tobacco Board of Trade, for being recognised on the floor. This Board represents tobacco commercial interests and consists of manufacturers or their agents, company buyers, brokers, warehousemen and speculators. The actual farmers are only indirectly represented through their membership in the warehouse companies.

An adaptation of this system of open auction by crying is followed in the market yards of the Guntur Market Committee for the sale of tobacco. Tobacco entered for auction is given an identity card describing the seller, in each lot. Auctioning proceeds bundle by bundle. The bundle is opened for buyers to examine quality and bidding is initiated by an upset price amount fixed by the Committee's auctioneer. The highest bid is marked in the identity card and attested by the auctioneer and the buyer or his representative who also marks the grade as appraised by him. Weighment and settlement at the price declared in the auction follow. The auction in this manner proceeds from 8-00 A. M. to 12-00 noon each day. This system fails to register much advantage to the sellers when there is no buying competition due to lack of sufficient buyers. It also requires the buyer to wait till the

particular lots in which he is interested is brought up for auction. At present only one auctioneer is employed and in days of heavy arrivals he is unable to get through the entire lot within the allotted time of 8-00 A. M. to 12-00 noon.

(vii) Some such system of auction by shouting is followed in some of the unregulated markets in South India also, like the groundnut market attached to the Leigh Bazaar at Salem and the mango market at Vellore. This system has the great advantage of quick and ready disposal, when large numbers of people bring their produce for disposal, side by side with the presence of a good number of buyers. In the other unregulated markets like the tobacco market at Palghat, arecanut markets at Mangalore and the various cattle markets in the State, the system of secret bidding and bargaining under cover of cloth is still in vogue. The parties to these close bids are also usually the buyers and the commission agents acting on behalf of the owners of produce. The system has its own drawbacks from the point of view of the growers' interests, as already explained before.

Considering all aspects, the best system for adoption by the regulated markets in the State seems to be either the open auction by shouting as followed in the West and in Guntur tobacco markets or the secret tender auction followed in the South Arcot Markets. The systems followed in Adoni and Tirupur which promote the dominance of commission agents are not conducive to the interests of the producers.

**Summary:** The main modes of price fixation followed in the different markets are:—

1. The closed bargain system of fixing the prices under cover of cloth by the sellers' commission agents and the buyers and announcing the rates on obtaining their acceptance by the sellers, followed by regular execution of agreement in the form prescribed by the market committee as is done in Amraoti and Dhulia markets.
2. The system of negotiating the prices by the sellers, commission agents and the buyers and reporting the agreed rates to the market committee for signing the contract as is done at Tirupur.
3. The rather complicated system of auction sale followed in Adoni market of allotting different groups of merchants for taking part in auctions held on each day of the week fixing the price in terms of the best quality of the produce and then allowing deductions in rate for poor quality, and compelling the highest bidder of the day to purchase all stocks put up for sale on that day.
4. The comparatively simple system followed at Cuddalore and other markets in South Arcot of allotting numbers to each lot that is put up for sale and allowing all the buyers to examine each lot and offer their maximum rate for each lot in a slip of paper containing a list of all the lots put up for sale on that day. The maximum rates quoted for different lots are then tabulated by the market superintendent and

announced. If the sellers agree to the highest offers made, the transactions are finalised and the contracts signed in the prescribed form.

5. The open auction by shouting and disposal on the spot as is done in the more advanced markets like the tobacco market at Guntur or the still more advanced tobacco market at Kentucky in U. S. A.

The main disadvantage in the first three systems is that the producers are left entirely in the hands of the commission merchants who are often inclined towards the purchasers. In markets like Amraoti and Adoni arbitrary deductions in weight are often made against the alleged poor quality of the produce, even after the transactions are finalised. At Adoni there are other restrictions also operating against the interests of the seller such as restricting of a day's auctions to a particular group of merchants, fixing rates on the basis of an imaginary best quality which invariably results in the bidder claiming deductions against poor quality.

The special advantage of the Cuddalore system is that the producer is brought into direct contact with the purchasers and facilities are allowed for free and open competitive bidding by the buyers. As the bids are made after examination of each lot no deductions are allowed for quality or any other factor after the terms are once finalised. This system as well as the open auction by shouting followed at Guntur are the best among the systems now in vogue in India and they also conform more or less to those in vogue in the more advanced western markets. The main impediment in introducing these systems in all the markets would be the existence of so many commission merchants who act as links between the producers and the purchasers to the disadvantage of the former. It is to be considered how best this difficulty could be got over and a fairly uniform system enforced in all market yards.

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