

## Price of Groundnuts in North Arcot District

by

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**Introduction :** The fruits of the tropical to sub-tropical annual plant "*Arachis hypogea*" are popularly called the "Groundnuts" or "Earthnuts" as the nuts mature under the ground surface. The kernels inside the pods resemble peas and hence are also termed as "peanuts". There is yet another name for this, as "Monkey nuts" since monkeys in zoos, are fed by the spectators with these nuts. This last name has really assumed more significance of late, because of the rapid fluctuations in the prices of the same. The prices are as varying and erratic as the actions of a monkey. The month-wise prices of groundnuts in North Arcot district are given in statement I appended, from 1935 onwards. A glance at the figures reveals that the trend of groundnut prices for the past twenty years has been a story by itself, full of interest and excitement.

**Price Fluctuations :** The price of groundnuts ruled round about Rs. 30 to 40 before World War II. What was only Rs. 25 per candy of 531 lb. groundnut kernels (shelled) at the beginning of the war in 1939, began to move up gradually and reached nearly rupees one hundred at the end of the war in 1946. In the post-war boom period, the prices shot up and aided by other conditions like the Korean war, groundnuts were sold at Rs. 220/- by 1951. There was a rapid decline in 1952, reaching Rs. 120/-. Again due to drought conditions, the prices spurted up to Rs. 230/- in 1953. Thereafter the story took a sad turn, and the prices declined rapidly month after month. The downward march continues still and it is time that the various factors responsible for the price structure of groundnuts are studied. The results of a preliminary survey of facts in North Arcot are presented in this article for focussing attention on the various aspects of this important problem.

**Market Price :** Many economists have tried to solve the riddle of determining the value of a commodity and yet the forecast of the value of a commodity, is in practice rather difficult. There were many old theories regarding value. The labour theory and the Marxian theory of value, stressed that the value of a commodity was determined by the amount of labour embodied or expended in it. The value was recognised later in terms of the cost of production. The utility

theory determined the value of the produce in terms of the utility of the commodity. This was later modified and the utility of that unit which the consumer was first induced to buy, in short called the "marginal utility", was considered the sole factor in determining value. Value, demand and supply are interrelated. Finally, it can now be stated that the value is determined for a particular commodity in the market by the equilibrium of the forces of demand and supply. The influence of the cost of production cannot also be ignored in determining the price. Having recognised the broad principles determining value, how they operate in the case of groundnuts grown in North Arcot district would be the next study.

**Production:** Groundnut production is virtually the monopoly of India and China. Out of a total of ten million tons of pods produced annually in the entire world, three million tons are accounted for in each of the countries, India and China. The United States of America, Senegal and Nigeria of West Africa are the only other countries producing some sizeable quantities. India figures prominently in the groundnut trade of the world. Of late, the policy in India is to allow exports mostly of groundnut oil only, instead of pods or kernels in order to develop the oil-milling industry in this country, besides retaining the valuable byproduct, the groundnut cake, for utilisation as cattle feed or as an organic manure. In China, the next best producer of groundnuts, the home market is of greater importance than the export market. Hence, the Indian production plays a significant part in the world trade of groundnuts.

Out of the production of three million tons of pods in India, roughly one-fourth is grown in Madras State. Andhra, Bombay and Hyderabad are the only other States worth mentioning as producers of groundnuts. Amongst the districts in Madras State, South Arcot and North Arcot are the two districts that produce the maximum amount of groundnuts, each accounting for one and a half lakhs tons of pods. The importance and the magnitude of the problem can be gauged from the above position.

**Cost of Production:** Let us now examine the economics of producing this commodity in the North Arcot district. Assessing the cost of production is beset with innumerable difficulties, as conditions differ from place to place. A rough idea for the entire district is presented below, after making proper enquiries in numerous places. The details of the cost of cultivation are as follow:—

Cost of cultivating one acre of groundnuts (Spreading variety)  
in North Arcot districts during 1954

	Rs.	A.	P.
<i>Preliminary Cultivation :</i>			
Three ploughings at 3 pairs per ploughing (at one rupee per pair of cattle and a man,) ...	9	0	0
<i>Manuring :</i>			
10 cartloads of farmyard manure (at Rs. 2/- per cartload including transport to field and spreading.) ...	20	0	0
<i>Seeds and Sowing :</i>			
30 M. M. of kernels at Rs. 1/- per M. M. ...	30	0	0
One ploughing for sowing the seeds (3 pairs at one rupee each.) ...	3	0	0
Three women to dibble the seed (at Rs. 0-8-0 each woman.) ...	1	8	0
<i>Note :</i> The crop germinates by about the eighth day.			
<i>Intercultivation :</i>			
First weeding or hoeing (about the 20th day after germination) ... 8 women. (at Rs. 0-8-0 per woman.) ...	4	0	0
Second weeding or hoeing (about the 50th day after germination) .... 8 women. (at Rs. 0-8-0 per woman.) ...	4	0	0
<i>Harvesting :</i>			
One watchman for the final month who will look after 6 acres on a daily wage of Rs. 0-12-0.) ...	3	12	0
Harvesting the pods ... 25 women (at Rs. 0-8-0 each) if paid in money. In some places, the wages are paid in kind at the rate of 1:10 to 13 which would work out to roughly 1½ bags of pods and the money value is the same. In some other places, the women are paid Rs. 0-0-0 for picking one marakkal of 4 M. M. pods, which also comes to the same amount.) ...	12	8	0
Total expenses per acre ...	87	12	0

*Income :*

Haulms  $1\frac{1}{2}$  cartloads (used for feeding cattle.)

15 bags of dried groundnut pods are obtained from one acre. (1 bag = 80 lb.)

*Note:* The bunch variety, which is rapidly spreading in this district, replacing the spreading variety of groundnut, requires 40 M. M. of seeds instead of 30 M. M. and for harvesting would require only 15 women instead of 25 women. The yield is only about 12 bags instead of 15 bags. In all other respects, the cultivation expenses are the same.

Thus the cost of cultivation of groundnuts works out to Rs. 80/- per 15 bags of dry pods or Rs. 16/- per bag of kernels (equivalent to three bags of dry pods).

**Market expenses and price-spread:** Next to the cost of production, let us estimate the marketing expenses. The traders in this district, purchase groundnuts from the producers either through brokers or commission agents. The main marketing season for groundnuts is between September to December every year. The prices during these months are naturally lower, as can be seen from the monthly averages given in Statement I. However, during some periods, because of other factors like the war, the prices did not vary according to the season (Statement I).

The pods purchased from the growers are dried and decorticated before being sold as kernels to the exporters or the oil crushers. A study of the "price spread" of groundnuts, would give us an insight into the marketing expenses to be incurred. Here again, because of the various deviations in the method of marketing groundnuts, the working out of the "price spread" is difficult. A rough idea is given below, taking into consideration the majority of conditions in North Arcot district.

*Price-spread from producer to consumer in the marketing of groundnuts in North Arcot district.*

(a) *Purchases by itinerant merchants:*

For one bag of 177 lb.  
groundnut kernels.

Rs. A. P.

Producer's price for  $3\frac{1}{2}$  bags of wet pods  
(64 M. M. each) at the village farm at  
Rs. 8/- per bag of wet pods

... 28 5 0

*Note:*  $3\frac{1}{2}$  bags of (64 M. M. each, weighing roughly 100 lb.) wet pods 3 bags (80 lbs. each) of dry pods and will yield 1 bag (177 lb.) of kernels.

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Cost of drying and bagging the pods	...	0	5	0
Handling and cartage charges from village to assembling centre from a place roughly 5 miles distant	...	0	12	0
Decorticating charges to get 1 bag of kernels	...	0	6	0
Weighing and stitching charges at the decorticator, for one bag of kernels	....	0	1	0
Margin for the itinerant merchant	...	1	0	0
		<hr/>		
Value realised by the itinerant merchant	...	30	8	0

(b) *Sales through a commission mundy :*

Rs. A. P.

Commission at Rs. 0—0—6 per bag of kernels (after the advent of the marketing regulation under the Madras Commercial Crops Markets Act)		0	2	6
or				
Commission at Rs. 0—0—6 per rupee and other charges from buyer (before the advent of the regulation)	...	1	0	0
Weighing and handling charges	...	0	1	0
Sales tax to be paid by the purchaser	...	0	8	0
Levy to the market committee	...	0	1	6
Transport to the purchaser's godown	...	0	1	0
Total cost for the consumer-exporter or the oil-mill owners before regulation under the Madras Commercial Crops Markets Act	...	32	3	6
After regulation under the Madras Commercial Crops Markets Act	...	31	6	0

(c) *Sales through the regulated markets directly by the growers :*

Rs. A. P.

Cost of drying and bagging the pods (own labour) nominal,	...	0	4	10
Handling and cartage charges from village to the regulated market, which is mostly his own (labour) nominal cost.	...	0	8	0
Decorticating charges	...	0	6	0
Handling charges at the regulated market (weighing free)	...	0	0	8
Levy to be paid to the Market Committee by the purchaser.	...	0	1	6

Transport charges to the purchaser's godowns	0	1	0
The producer receives for his 3½ bags of wet pods-nett	30	0	0
Total cost for the consumer in North Arcot district	31	6	0

Only small quantities are utilised in this district for crush g into oil. Out of a normal production of 1 lakh tons of kernels in North Arcot district 85,000 tons are available for marketing either for crushing into oil or for export. The oil-crushing capacity of the existing installations in this district is roughly 72,000 tons kernels, while the actual quantity crushed is only about 20,000 tons. Thus, in spite of having facilities for developing a good oil-crushing industry in this district the shyness of capital, the vagaries of the kernel prices, and the absence of parity between the prices of kernels and oil, has undermined the oil-milling industry in this district. Hence nearly 65,000 tons are exported, mostly to the nearby milling centres in South Arcot district or to the exporting centre, Madras.

(d) *Expenses for export to Madras from North Arcot district.*

	Per bag of 177 lb kernels		
	Rs.	A.	P.
Lorry hire charges (about 75 miles)	1	0	0
Expenses for the party at Madras	0	6	0
Commission at 1%	0	6	0
Weighing, handling and stitching charges at Madras	0	3	0
Sales tax paid by the purchaser at Rs. 0—0—3 per rupee	0	8	0
Total	2	7	0
Consumer's cost at Madras after regulation	33	13	0

The above price-spread data reveal that out of Rs. 33—13—0 the producer in North Arcot district receives only Rs. 28/- when he disposes it off through the brokers and commission mundies under the present conditions of regulation of groundnut trade in North

Arcot district under the Madras Commercial Crops Markets Act. If the producer sells his produce through the nearest regulated market, he gets Rs. 30—0—0 out of the consumer's price of Rs. 33—13—0 per bag (177 lbs.) of kernels. Thus nearly 89% of the consumer's rupee goes to the share of the producer, if he should market his produce directly through the regulated markets, while he gets only 83%, if it is sold through brokers and commission agents. The case was still worse, before the regulation of trade, when the producer got only 81% of the consumer's rupee as his share. Nearly two and a half rupees are lost per bag of kernels transported to Madras. This can be saved, if utilised within the district, by crushing into oil. Nearly two rupees more per bag of kernels is realised by the producer, if he should market his produce through the regulated markets instead of the commission mundies in North Arcot district itself. Hence, there is scope for improving the price paid to the grower in North Arcot district. The producer when encouraged, would naturally try to produce more and more. Finally the price-spread data reveal that the expenses of marketing are Rs. 0—14—0 within North Arcot district and Rs. 2—7—0 for sale at Madras, which amounts to Rs. 3—5—0 per bag of 177 lb. kernels.

**Parity Price:** Groundnut is the money crop for the dryland cultivator in this district and only one crop of groundnut is raised between July to October. The other crops like Cholan raised by him during the other seasons are used for domestic consumption. Hence, the ryot depends upon the groundnut crop for meeting his capital expenses, for marriages or death ceremonies or for purchasing his cloth and other requirements. These factors also have to be considered, along with the cost of cultivation and marketing expenses for determining the price of groundnuts. A dryland ryot of North Arcot district normally cultivates about four acres of groundnuts per annum, and allowing for his capital expenses of about Rs. 300/- per annum the extra value of groundnuts per bag of kernels works out to Rs. 5/-, Hence the value of groundnuts should be about rupees one hundred per candy of 531 lbs. of kernels (3 bags). The present price of ninety rupees is low and the ryots are naturally disappointed. This will have its own repercussions on the succeeding crop of groundnuts, whose area may be less. Hence, unless the price of groundnuts is maintained at about the level of rupees one hundred per candy of kernels, the incentive to produce groundnuts on a large scale may be hampered.

**Supply and Demand:** After the considering of the cost of production and marketing expenses, the supply and demand position should be examined to get at the reason for the fluctuation in prices. The prices in North Arcot district closely follow the prices at Madras as there is very little utilisation and consumption of groundnuts locally. In the pre-war years, before 1939, the Madras prices used to be largely influenced by the buying limits of the chief exporting firms like the East Asiatic, Louis Dreyfuss, Rallies etc., and as these were based on the London prices, there was generally close sympathy between the movement of prices at Madras and London. The London price for groundnuts used to move parallel to those of several other edible oilseeds and oils. The control over the exports, the expansion of the oil-crushing industry in Madras State and the establishment of the Vanaspathi manufacturing factories in India, upset the prices in India itself, and the prices at London, the hub of the World groundnut trade, no longer continued to be the deciding factor for the prices of groundnuts in Madras during and after the World War II. Of late, owing to the dearth of capital and over-production, the prices in India have tended to follow the London market once again. Hence, the supply position of not only groundnuts but also other oilseeds like castor, copra and gingelly is vital in the decision of the groundnut prices. The Indian crop alone does not compete, as other countries also have of late begun to compete in the London market. Hence, the prices fluctuate abnormally.

The meteoric rise in prices during and since the World War II is a phenomenon common to all agricultural products.

**Fair Price for Groundnut:** The price index number of the groundnut kernels at Vellore (North Arcot district) taking the price in 1938-39 as 100 and the comparison with the price index numbers of other commodities produced in North Arcot district, showing the parity in prices between the various commodities, is given in statement II.

It is found that the price index number of paddy in 1954-55 is 420, while the groundnut pods index is 431 and that of jaggery is only 164. The present price of first sort paddy which is about Rs. 10-8-0 per imperial maund is reported to be just about the economic level and measures are being suggested for stabilising the prices, by fixing floor price just about the present level. Hence, it can be taken as an indication that a price index level of about 420,

would be ideal, for forming an idea of the fair price of the other commodities also. By this standard, the price of groundnut pods should be about Rs. 11/- per bag of 80 lb. At this price, there would be parity between the price of paddy and the groundnut pods. Hence, the fair price of groundnut kernels from this angle also works out to Rs. 100/- per candy of 531 lb. (9 bags of pods.)

**Conclusion:** Having discussed the reasons for the fluctuation in prices, the remedies, if any for stabilising prices may be thought of. The violent fall in prices at harvest time is a matter of serious consequence to producers. To minimise its effects, co-operative societies and bonded warehouses can be set up for providing storage and finance to the cultivators; and regulated markets can be established for affording proper facilities for marketing their produce at favourable prices and to disseminate market news about prices, stocks and demand. The introduction of organised "futures" trading in the spreading variety, "Coromandel", at Madras would help in bringing the influence of supply, demand and international values, to bear more closely on Madras prices and prove beneficial to producers. Fixation of "floor" and "ceiling" prices at Rs. 100/- and Rs. 150/- respectively per candy of 531 lbs. kernels, may also help in stabilising the prices. Greater use of groundnut oil in India itself for industrial purposes like the manufacture of soaps, cosmetics, and Vanaspathi should be a stabilising factor in the marketing of groundnuts. Provision of improved shipping facilities by the Government of India would further improve marketing conditions. Greater provision of loans on groundnuts by banks, would also stem the fluctuations to a large extent.

STATEMENT I

*Price of groundnut kernels in North Arcot District*  
(Rs. per candy of 531 lbs.)

Pre-war Period

Year	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Year average
1935	39	35	37	40	38	38	39	37	25	36	34	35	37
1936	37	35	35	33	33	35	36	40	30	36	40	40	36
1937	38	38	38	35	35	36	36	39	30	28	25	28	33
1938	27	26	25	25	26	26	27	24	26	22	23	26	26
Month average	35	34	34	33	33	34	35	35	30	31	31	32	

## World War II

1939	25	24	22	23	28	27	28	32	30	29	31	31	28
1940	30	30	30	32	35	36	27	24	22	25	20	19	28
1941	21	18	20	23	24	27	31	34	25	26	31	33	26
1942	32	33	31	32	28	33	43	47	40	50	48	50	39
1943	60	65	75	82	89	90	87	81	82	82	78	75	78
1944	73	70	76	78	71	66	66	69	74	69	63	58	69
1945	63	63	65	64	58	56	65	75	79	74	74	76	67
1946	88	90	90	90	95	92	90	96	96	90	90	92	90
Month average	49	49	51	52	54	53	55	57	56	56	54	54	

## Post-war Period

1947	79	85	110	130	130	125	136	150	140	120	125	132	121
1948	136	130	126	136	136	140	140	144	142	145	142	145	139
1949	145	147	155	165	165	166	170	176	173	170	165	163	163
1950	165	160	170	195	191	190	192	190	185	188	187	200	185
1951	218	211	215	215	215	220	205	190	182	180	187	172	202
1952	170	160	120	130	125	120	120	135	140	151	160	160	140
1953	165	168	180	192	203	230	210	185	166	165	164	160	180
1954	160	156	160	160	148	135	130	125	105	105	99	104	132
Month average	155	153	155	165	164	166	162	162	154	153	154	154	
1955	95	97	94	93	90	90							

Source: Collected from the traders' accounts.

## STATEMENT II

*Price Index Nos. for important agricultural commodities in North Arcot District*

Year	Paddy 1st sort	Groundnut pods	Cane Jaggery
1938-'39	100 (Rs. 2-8-0)	100 (Rs. 2-10-0)	100 (Rs. 7-0-0)
1939-'40	108	121	90
1940-'41	122	91	51
1941-'42	135	126	80
1942-'43	180	275	175
1943-'44	265	319	137
1944-'45	213	255	124
1945-'46	270	329	159
1946-'47	260	469	238
1947-'48	275	588	157
1948-'49	1,115	610	204
1949-'50	393	712	334
1950-'51	440	688	314
1951-'52	492	674	200
1952-'53	470	681	253
1953-'54	378	679	275
1954-'55	420	431	164
	(Rs. 10-8-0)	(Rs. 11-5-0)	(Rs. 11-8-0)

Base: Year ended June 1953=100.