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Price Trends and Development Strategy

Prices serve as major incentives to development--even traditional farmers are affected to some extent by prices and will increase production if possible in the face of higher prices.

What are some probable future price trends and how might these affect development in the Helmand Valley? The general retail price level in Afghanistan has been increasing over the past few years and particularly during the past year. However, it is probably still below the levels of Pakistan and Iran, excepting for the price of wheat and a few other items. General retail prices as well as prices to farmers will probably continue to increase for some time. And evening of price differentials between Afghanistan and neighboring countries can be expected. Increased farm prices for farm-produced consumer items will have less positive affect as incentives to increase production than might be expected. This is because the major block of consumers in Afghanistan are also farmers. However, price increases for commercial crops such as wool and cotton would provide more incentive for increasing production and would tend to raise the general income level of farmers.

The important point to be made here is that farmers would benefit less from higher farm prices than might be expected because they (as consumers) will also have to pay higher prices for their consumer goods. In other words, gains from higher farm prices will be offset by higher consumer prices, and this applies to a very large segment of the economy of Afghanistan (approximately 85%). Subsistence farmers will not be affected very much as they buy and sell very little.

Higher prices for commercial crops could mean some economic advantage for the farmer-producer sector which would eventually be shared with the consumer sector. Farmers in the HAVA are generally more advanced than most Afghanistan farmers and more commercial in their production patterns. They will likely develop at a faster rate because they can reduce costs and also benefit from price increases for commercial crops. However, they will be more at the mercy of market fluctuations than the average farmers, and the market will probably go through some gyration as it develops to handle the changing needs of Afghanistan.

WHEAT

Assuming some success for the national accelerated seed program and a larger and/or quicker success for the wheat program in the Helmand Valley, we can be reasonably certain that the price of wheat will decline. At present, wheat prices are far above world prices and prices in neighboring countries. Normal Afghan wheat prices were high compared to world prices in 1970. Even so, Afghan flour prices are very little above or lower than U.S. flour prices. This is due to lower milling and distribution costs. Afghan farmers have four alternatives in the face of declining wheat prices:

1. Divert land to more profitable crops
2. Intensified production (cut costs by higher double cropping)
3. Continue as before
4. Discontinue farming.

Only traditional subsistence farmers are likely to react as in No. 3. If suitable alternatives exist, many commercially inclined farmers will react as in No. 1, divert land. This points to diversification and increases in such fields as fruits, vegetables, forage and livestock. Many farmers are likely to attempt to maintain their farm incomes with existing resources by intensification as in No. 2, especially since the means of doing so are clearly at hand--improved seeds, fertilizer, and opportunities for double cropping corn, mung beans, vegetables and probably cotton with wheat or barley.

If future conditions warrant readjustment to larger farm size, some farmers will be forced to Alternative No. 4, discontinue farming. This will also depend on off-farm employment opportunities. As the larger landowners intensify and mechanize, some tenants will be replaced. This trend will offset in the short run by tendency to bring more land into production as tractor power becomes available. The HAVA is in a favorable position because of adequate water and available land.

LIVESTOCK

Considering cost of production for livestock for sheep and beef cattle, local meat prices are inordinately low at present and may be expected to increase. Greater demand and higher prices of mutton in nearby countries causes smuggling from Afghanistan. Prices in Iran are

are approximately triple domestic prices which makes smuggling rather attractive. This is especially true in years of poor ranch conditions. There is some question as to how well fattening sheep exported the greater distance to the Persian Gulf or Arabian Sea countries could compete with the smugglers market in Iran.