

IV—THE PRICE SITUATION

41. The year 1968 witnessed a marked improvement in the price situation. Prices at the end of the year were ruling lower, albeit marginally, than the preceding year's level. The annual average of the general price index (1952-53=100) at 209.5 for 1968 showed a fall of one per cent over the year; this average level of prices had risen by 13.8 and 15.4 per cent in 1966 and 1967 respectively. What is interesting to observe is that, for the first time since 1955, the price level has shown a decline in relation to a preceding year.

42. The current price situation suggests that there is now a better balance between demand and supply in the economy. Money supply in 1968 had expanded at a slower pace than in the preceding year; over the year as a whole, the increase in money supply has been of the order of 6.5 per cent as against an expansion of 8.3 per cent in the preceding twelve months. On the other hand, national output had increased in real terms by 8.9 per cent in 1967-68 and is expected, on the present assessment of agricultural and industrial production, to show an increase of about 3 per cent in 1968-69. However, total supplies in the economy during any year may be appropriately considered to be an average of the national output during the current year and the preceding year. On this basis, supplies available during 1968-69 are higher by about 6 per cent; and the increase in money supply so far for the year is only slightly larger.

43. Price behaviour during 1968 falls into three distinct phases. During the first half of the year, prices fluctuated within a narrow range. The general price index which had declined from its peak level of 224.5 in October, 1967 to 207.8 at the end of December, 1967, rose mildly during the first half of January, 1968 due mainly to the substantial withdrawal of subsidy on foodgrains. Thereafter the index declined and reached 198.8 on March 2, 1968. There was then a rise to 207.3 by June 1, 1968 and a subsequent decline to 203.4 at the end of June, 1968. The subsequent three months which marked the second phase witnessed a rapid rise in prices, with the index reaching the year's peak of 222.1 by the end of September, 1968. This rise was largely accounted for by steep increases in the prices of pulses, edible oils and industrial raw materials, particularly oilseeds and raw jute, and was induced partly by seasonal factors and partly by the anticipated shortfalls in the production of some of these commodities, notably raw jute. The last quarter of the year marked the third phase when, reflecting very largely the improved outlook on food situation and other aspects of the economy, prices started declining and reached 206.3 at the end of December, 1968.

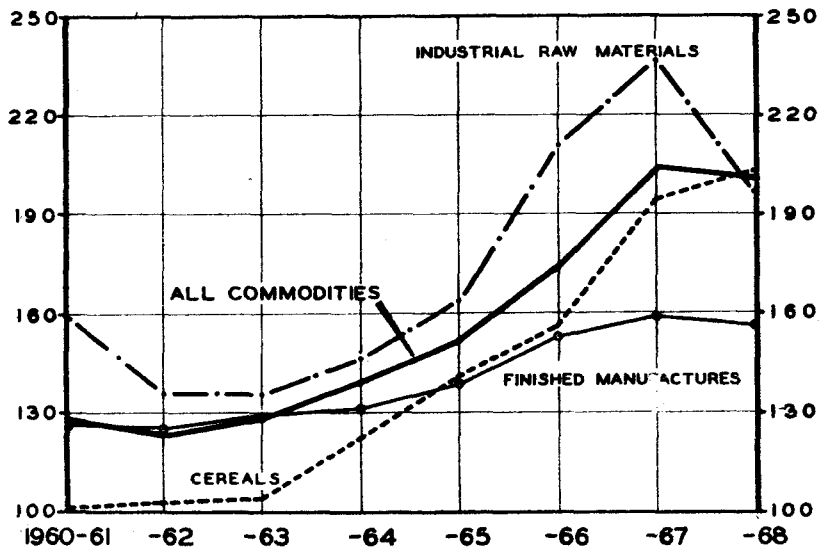
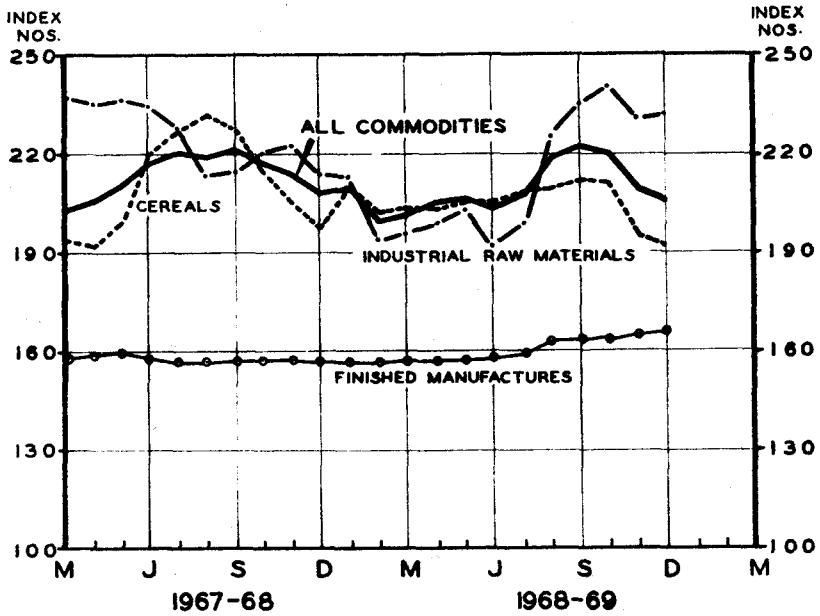
44. As stated at the outset, prices at the end of December, 1968 were at a level which was fractionally lower than at the end of the preceding year. The most pronounced decline in prices was in the case of food articles, particularly foodgrains, which registered a decline of 9.5 per cent over the year. While wheat and rice prices were lower by 1.9 per cent and 0.5 per cent respectively in relation to their preceding year's levels, the price decline was much more marked in the case of coarse cereals and pulses. Bajra and jowar prices were down by 8.4 per cent and 8.9 per cent respectively and pulses by 30.3 per cent. Prices of gur and edible oils were also distinctly lower than the preceding year's levels. On the other hand, the price index of industrial raw materials showed an increase of 7.5 per cent but this was mainly on account of raw jute prices which rose by 67 per cent over the year. The pressure on raw jute prices emanated from the large decline in production expected during the current year. Prices of manufactures also showed a modest increase of 4.8 per cent over the year but again the increase in prices of jute manufactures was most prominent (43.6 per cent), although prices of chemicals and metal products and, to some extent, those of machinery and transport equipment were also higher. The other two group indices also showed increases. An increase of 2.3 per cent in the index for fuel, power, light and lubricants reflected very largely the upward adjustment in the prices of coal effected in July, 1968.

45. The policy of ensuring remunerative prices to the agriculturals was maintained. As stated elsewhere in the Survey, the procurement prices for kharif foodgrains, which have been in effect support prices, have been fixed by and large at the same or somewhat higher levels in 1967-68. The minimum support prices for raw cotton were raised by 2 to 5 per cent.

46. In the case of industrial commodities, the policy of gradual relaxation of controls as and when supplies improve has been continued. During the year, price controls were completely removed in respect of paper and paper boards and considerably relaxed in the case of drugs and medicines. Thus, medicines of Ayurvedic, Unani and Siddha systems are now completely exempt from the price control, and, in the case of allopathic and homoeopathic drugs, the control is restricted only to drugs sold with a specific brand name. In the case of cotton textiles, the area of price control was reduced from 40 to 25 per cent of the total mill production and upward price adjustments sanctioned in the case of controlled commodities. These price increases were, however, accompanied by suitable adjustments in the rates of excise duty in order to ensure that there was no rise in prices charged to the consumers. In the case of sugar, the policy of partial decontrol has been continued for the 1968-69 season but the proportion of levy sugar (i.e., sugar supplied to consumers at controlled rates) was raised from 60 to 70 per cent, having regard to the large increase in sugar production likely to take place in the current year. In November, 1968, Government also decided to rescind the maximum prices for raw rubber and rely on the import mechanism for regulating the stock levels and prices of natural rubber.

WHOLESALE PRICES

1952-53 = 100



47. During the year, Government also agreed to price increases in the case of coking coal and steel, mainly with a view to compensate these industries for increases in production costs. In the case of coal, the increase of Rs. 3.25 per tonne agreed to related to coking coal to be supplied to steel plants, coal washeries, etc. Of this, an increase of Rs. 2.50 per tonne became effective from July 1, 1968 and this included an excise duty of Re. 0.75 per tonne to be set aside for the purpose of conserving and developing coking coal. A further increase of Rs. 0.75 was to be allowed after a method of joint sampling had been found acceptable to both the coal and steel industries. In the case of steel, it may be recalled that the Joint Plant Committee had made certain upward revisions in prices in May, 1967 and again in January, 1968. The latest revision announced by the Joint Plant Committee was on July 31, 1968 and had led to an increase in the prices of all categories of steel. The average increase in the prices of steel worked out to Rs. 57 per tonne.

48. The recent price stability is also reflected in the movement of the All India Working Class Consumer Price Index. The index (1949=100) at 214 for November, 1968 was lower by 0.9 per cent as compared to its level a year ago. The twelve monthly average of the consumer price index had touched 215 in August, 1968 as a result of which the Central Government had to pay additional dearness allowance to its employees with effect from September 1, 1968. It is, however, noteworthy that between May and November, 1968, the twelve monthly average of the all India consumer price index had remained steady within the range of 214.67 and 215.50.