

IV. PRICE TRENDS

128. Price movements during 1972 were characterised, first, by a mid-year rise much in excess of the normal seasonal rise during this part of the year, and, later on, by the complete absence of the seasonal decline which usually takes place in the last quarter of the year. The Index of Wholesale Prices (1961-62=100) rose from 193.2 in May to 208.0 in September, and, instead of declining thereafter, rose further to stand at 211.4 in December. Consequently, wholesale prices in 1972 recorded an average rise of 7.8 per cent as against a rise of less than 4 per cent in 1971.

TABLE V

Index Numbers of Wholesale Prices

(Base : 1961-62=100)

Per cent variations over the preceding year[@]

	Weight (per cent)	1969	1970	1971	1972*	December* 1972 over December 1971
ALL COMMODITIES	(100.00)	+2.1	+6.2	+3.9	+7.8	+13.7
Food articles	(41.30)	-3.7	+5.2	+1.8	+11.4	+19.5
Foodgrains	(14.78)	-2.9	+3.4	+0.1	+13.3	+17.2
Cereals	(12.10)	-0.6	+2.3	-1.5	+10.8	+14.7
Pulses	(2.68)	-9.7	+7.7	+5.9	+22.1	+25.1
Edible oils	(5.37)	+23.2	+17.8	-8.9	+2.3	+26.3
Sugar & allied products	(6.48)	-31.9	-8.7	+21.5	+33.4	+38.5
Liquor & tobacco	(2.50)	+13.8	-8.8	+2.5	+17.3	+20.5
Fuel, power, light and lubricants	(6.10)	+4.1	+4.4	+5.3	+5.5	+4.0
Industrial raw mate- rials	(12.10)	+14.9	+11.0	+0.4	-1.3	+18.1
Raw cotton	(2.24)	+7.8	+15.9	+22.3	-24.1	-9.4
Raw jute & mesta	(1.16)	+17.3	-9.6	-7.5	+8.1	+43.2
Oil seeds	(5.24)	+21.7	+16.2	-7.1	+2.7	+24.8
Chemicals	(0.70)	+9.4	+3.6	+3.3	+2.7	+0.2
Machinery & trans- port equipment	(7.90)	+1.8	+7.5	+7.5	+6.4	+4.9
Manufactures	(29.40)	+6.2	+7.7	+8.3	+6.1	+5.0
Intermediate pro- ducts	(5.70)	+6.6	+13.4	+10.0	+8.1	+10.9
Finished products	(23.70)	+6.1	+6.1	+7.8	+5.5	+4.4

[@]Based on annual averages.

*Provisional.

129. The situation that emerged was obviously the result of a setback on the agricultural front, combined with the delayed impact of the unusual stresses and strains through which the economy had to pass in 1971. The substantial increases in Government expenditure since 1971 that took place in the face of a declining trend in the rate of growth of national output also aggravated the situation. This conglomeration of factors not only accentuated the normal seasonal pressure on prices from May to mid-September, 1972, but also prevented the post-kharif seasonal decline from taking place. In this respect, the contrast between 1972 and 1971 is particularly noticeable. In 1971, too, the seasonal uptrend in prices was on the high side. However, the subsequent downtrend was quite sharp, and the index for December 1971 was only 2.8 per cent higher than that for December 1970. As against this, wholesale prices in December, 1972 were 13.7 per cent higher than in December 1971.

130. 1972 began with a marked rise in prices. The price index moved up from 185.9 in December 1971 to 191.3 in January 1972, or by nearly 3 per cent. However, during the next four months the general price index remained fairly stable, rising only slightly to 193.2 in May 1972. This stability was principally due to a decline in the prices of industrial raw materials, particularly cotton and oilseeds. The food articles group recorded an increase of over 7 per cent during the first five months of 1972. A major factor contributing to the increase was the sharp rise in the prices of sugar and allied products. The sub-group index for cereals also continued to move up, despite open market releases by the Food Corporation of India, and the coming of the new wheat crop.

131. The relative price stability during the early months of 1972 was disturbed in June as there was considerable delay in the advent of the monsoons. Although there is normally a seasonal rise in prices from May to mid-September, the poor prospects for the 1972 kharif crop added to the pressure on the prices of foodgrains and other agricultural raw materials. As a result, the usual seasonal decline in prices which commences around the middle of September failed to materialise, and, on the contrary, there was a small increase, mainly on account of industrial raw materials, edible oils and pulses. The adverse impact on cereals was, however, softened by larger releases from the public distribution system.

132. A distinctive feature of price behaviour in 1972, as compared to 1971, was the pronounced increase in the prices of food articles. In 1971 the rise in the food articles group index had been less than 2 per cent, and that, too, had been the consequence of an average increase of about 22 per cent in the prices of sugar and allied products. The prices of cereals and edible oils had actually declined, while those of other food articles had remained stable. In 1972, as against the average increase of 7.8 per cent in the overall price index, the index for the food articles group went up by as much as 11.4 per cent. The rise in prices of foodgrains was still higher at 13.3 per cent; prices of cereals went up by 10.8 per cent and those of pulses by 22.1 per cent. Prices of sugar and allied products increased by as much as 33.4 per cent and this factor accounted for about one-third of the total increase in the wholesale price

index that occurred in 1972. The rise in the prices of foodgrains and sugar and allied products (together accounting for a weight of 21.26 per cent) was responsible for about two-thirds of the total price increase in 1972.

133. An analysis of the price behaviour of important commodities in 1972 reveals that the price rise in the case of wheat was much less than for other cereals. The average increase in the price of wheat was less than 5 per cent as compared to an increase of 10.4 per cent in the price of rice. Prices of jowar went up by 13.9 per cent, of bajra by 41.4 per cent, and of maize by 28.8 per cent. As regards pulses, while the prices of arhar increased by 12.3 per cent and those of masur, urad and gram from 22 to 26 per cent, prices of moong went up by 37.1 per cent. The prices of edible oils remained fairly stable upto May 1972. However, the poor prospects for the new oilseeds crop led to a significant increase in prices thereafter, and there was an average rise of 2.3 per cent in the prices of vegetable oils over the year as a whole.

134. In contrast to the steep rise in the price index for food articles, that for industrial raw materials registered a decline of 1.3 per cent in 1972. This was mostly due to a fall in prices of raw cotton which had risen abnormally in 1971. The prices of other important raw materials like raw jute, oilseeds and certain miscellaneous raw materials recorded increases in 1972.

135. Apart from food articles, the only group index which advanced substantially in 1972 is that for liquor and tobacco. Higher prices of tobacco, partly due to an increase in excise levies, and partly because of larger exports, were responsible for this development. Since, however, the group has a very small weight in the wholesale price index, price movements in this group have only a minor impact on the overall index. Similarly, in the case of chemicals, a shortage of caustic soda and soda ash served to push up the group index, though its impact on the overall price index is also not significant.

136. The remaining groups of fuel and power etc., machinery and transport equipment, and manufactures rose by an average of about 5.5 to 6.5 per cent. The direct and indirect consequences of fiscal levies as also the general inflationary trends in the economy contributed to this outcome.

137. The pressure on prices in 1972 was reflected in the Consumer Price Index also. However, the availability of essential consumer goods such as foodgrains, sugar, cloth and kerosene at controlled prices helped to moderate this pressure. Thus, the All India Consumer Price Index for Industrial Workers (base 1949=100) rose from an average of 230.5 in 1971 to 245.3 in 1972, showing an increase of 6.4 per cent as against an increase of 7.8 per cent in the Wholesale Price Index.

Developments in Price Policy

138. Price support measures continue to be an important element of Government policies for increasing the agricultural production. During the 1972-73 marketing season, the procurement price of wheat was maintained at the level of 1971-72. There was also no change in the issue

price of wheat for releases from Central Government's stocks. For the first time, the Government announced the procurement price of wheat for 1973-74 marketing season at the time of sowing. In order to maintain the existing incentive, the procurement price of wheat for the 1973-74 marketing season has been fixed at the same level as in 1972-73. Thus the price of indigenous common wheat and Mexican varieties of wheat remains constant at Rs. 76 per quintal. The procurement price of indigenous red variety of wheat has also been left unchanged in the range of Rs. 71 to Rs. 74 per quintal.

139. The procurement prices of paddy/rice and coarse grains for 1972-73 marketing season were generally kept at the same level as in the preceding year. However, slight upward revisions were allowed with a view to achieving the procurement targets laid down by the Agricultural Prices Commission. The procurement prices were fixed at Rs. 58 per quintal each for maize and jowar, and at Rs. 60 per quintal for bajra. In the case of paddy, procurement prices for standard varieties were raised by Rs. 2 per quintal in the States where they were Rs. 54 per quintal or below, and by Re. 1 where they were Rs. 55 per quintal; no increase was allowed in the States where such prices were Rs. 56 per quintal. Procurement prices of rice were raised corresponding to the increase in paddy prices. Keeping the procurement targets in view, the State Governments were advised, not only to continue the existing zonal restrictions, but also to tighten them still further to the extent considered necessary, particularly in the post-harvest period. The main producing States have, accordingly, restricted the exports of maize, bajra and jowar to other areas; intra-state restrictions have also been imposed in some States on the movement of paddy and rice.

140. With a view to easing the pressure on the prices of foodgrains which had developed in January 1972, the Food Corporation of India had started open market sales of wheat in several parts of the country. Later, however, in view of the need to conserve the Government stocks for meeting the increasing demands on the public distribution system, open sales were discontinued about the middle of the year.

141. In order to control prices and to relieve distress arising out of the drought in 1972, the State Governments were advised to extend the public distribution system so as to cover as much area and population as possible. As a result of this, the number of fair price shops increased from 1,21,000 at the end of December 1971 to 1,65,000 at the end of December 1972, the population covered rising from 307.6 million to 395.8 million. The releases through the public distribution system were stepped up, and the monthly off-take increased from 0.64 million tonnes in May, 1972 to 0.96 million tonnes in November 1972. However, in view of the arrival of the new kharif crop in the market, there was some reduction in releases of foodgrains from Government stocks in December 1972. The foodgrains released from Government stocks for distribution through the fair price shops during January to November 1972 amounted to as much as 9.6 million tonnes, as against 7.1 million tonnes in the corresponding period of 1971.

142. The Government has accepted, as a matter of policy, the take-over of the wholesale trade in wheat and rice by the public sector agencies. Care would have to be taken, however, that the necessary arrangements are perfected in time so as to eliminate any possibility of dislocation of

the supply and distribution system. The arrangements for storage of foodgrains by the public sector agencies will have to be greatly strengthened. In addition, if the take-over of wholesale trade is not to lead to increase in subsidies from the public exchequer, costs of procurement and distribution of foodgrains by the public sector agencies will have to be kept firmly under control.

143. In order to ensure availability of sugar to the common man at reasonable prices, voluntary arrangements were made with the sugar mills to enable distribution of 60 per cent of the sugar production through the fair price shops from January 1, 1972 at a fixed price of rupees two per kilogram. The sugar industry having expressed its inability to continue with this scheme beyond June 1972, these arrangements had to be replaced by a statutory partial control from 1st July, 1972. The policy of statutory partial control is being continued during the 1972-73 season which commenced on 1st October, 1972, but the proportion of levy sugar (including the requirements for export) has been raised to 70 per cent. At the same time, a uniform issue price throughout the country has been introduced. The common issue price was fixed at Rs. 2 per kg. during the months of October and November while the previous season's stocks were being drawn upon. From 1st December 1972, however, the price had to be raised to allow for the increase in the minimum price of sugarcane and other elements of costs. While the incidence of these factors was judged to be of the order of 20 paise per kilogram, the increase in the price was limited to 15 paise. This was made possible by an adjustment of 4 percentage points in the excise duty on levy sugar. Attempts are also being made to reduce distribution margins; from January 1973, in most States wholesalers have been replaced by the Food Corporation of India for moving levy sugar from the factories and supplying it to the fair price shops.

144. The prices of edible oils came under considerable pressure in mid-1972 following expectations of a substantial decrease in the output of groundnuts. Vanaspati prices, which are statutorily controlled had, therefore, to be raised on a number of occasions since June 1972. In order to ease the pressure on prices of groundnut oil, its usage in the production of vanaspati has been restricted to a maximum of 45—50 per cent, while the compulsory minimum usage of cottonseed oil has been raised from 10 to 15 per cent. Liberal fiscal incentives have been provided for use of cottonseed oil above the statutory minimum of 15 per cent through excise duty rebates. Similar concessions are also available for the use of rice bran oil in the production of vanaspati. Along with these measures larger imports of edible oilseeds and oils have been arranged to augment their availability, and thus help to contain the price rise. It is expected that one lakh tonnes of rapeseed and more than 50 thousand tonnes of palm/soybean/rapeseed oil will have entered the country by March, 1973.

145. Statutory control over the prices of certain varieties of cotton cloth meant for the weaker sections of society was continued during 1972, and the scheme for production of 100 million square metres of such cloth every quarter also remained in operation. In view of the reported malpractices, the arrangements for distribution of controlled cloth were streamlined from November 1972; the sale of controlled cloth has been withdrawn

from the normal trade channels, and has been canalised through the co-operative stores and the fair price shops, leaving only a small proportion to be handled by mills' own retail shops. The controlled prices of cloth have remained pegged at May 1968 levels; moreover, the new arrangements have resulted in a further reduction in the retail prices to the consumers, in as much as the earlier margin of 20 per cent between the ex-factory price and the retail price has been brought down to 12.5 per cent.

146. For ensuring equitable distribution and fair prices, controls are exercised in respect of a number of industrial goods, either on a statutory basis or through informal arrangements with the producers. The measures adopted for strengthening and streamlining the distribution system for such consumer goods as levy sugar and controlled cloth have been described in the preceding paragraphs. The wholesale prices of crushed and uncrushed salt, at the salt works in Tamil Nadu and Gujarat, for despatches by sea to the port of Calcutta, were controlled with effect from January 1, 1972. The life of the Price Review Board, set up in 1970 to ensure that drugs and medicines are available at the prices fixed by the Government, and that there is no disruption in their supplies, was extended upto the end of 1973.

147. There are also controls on the prices of a number of intermediate products. In the case of yarn, both cotton and non-cotton, though there **has been no statutory regulation of prices and distribution, arrangements have been devised from time to time to ensure adequate supplies at reasonable prices to the weavers in the decentralised sector; this has been done by fixing quotas for delivery by mills and through an informal arrangement for the regulation of prices at the factory level.** The requirements of the weavers in the decentralised sector for nylon filament yarn, viscose filament yarn and viscose staple fibre yarn are being met under a voluntary agreement between the spinners and weavers. The sale of indigenously produced viscose staple fibre to the spinners was brought under statutory regulation in December, 1972.

148. Wherever prices are subject to a statutory control, upward revisions are allowed only if studies show that they are warranted by unavoidable increases in the cost of production. In 1972, price increases were allowed in the case of certain steel items such as billets, bars and rods, and structurals and rails, to the tune of Rs. 80, Rs. 85 and Rs. 50 per tonne respectively from July 22, 1972 (these were in addition to the price increases which had to be allowed on account of higher excise duties imposed in December 1971, and again in March 1972). In the case of zinc produced indigenously, where prices are regulated on an informal basis, ex-factory prices were raised to Rs. 4,090 per tonne effective from February 1, 1972; but this was done after the cost structure of the zinc producers had been examined by the Bureau of Industrial Costs and Prices.

149. Apart from exercising some form of control over individual commodities directly, attempts to hold the price line must rely on the creation of an environment in which speculators find it difficult to operate. In a period of shortfall of production, speculative stock holding and manipulation of the market have to be discouraged. To this end, the availability of credit, and the freedom to indulge in forward trading, have to be

regulated. During the year, use has been made of both these instruments in order to keep inflationary pressures in check.

150. Forward trading in commodities which are in short supply has, very often, a de-stabilising effect. The Government has, therefore, been pursuing a policy which aims at counteracting such undesirable activities. Forward trading is now permitted only in the case of a few export commodities, or of agricultural commodities which are of minor significance. In 1971 a series of steps were taken to prohibit futures trading in all edible oils, as also in gur. Certain loopholes in the Forward Contracts (Regulation) Act were also plugged. In 1972 certain additional measures were taken with a view to securing more effective regulation and control over forward trading in edible oilseeds and oils. For example, forward contracts, including non-transferable specific delivery (n.t.s.d.) contracts, in mahua-seed and its oil and gram chilka were prohibited on July 5, 1972 as it had been noticed that these commodities were being used as a cover for illegal trading in banned items. Further, on August 16, 1972, certain changes were effected in the legal position with regard to forward contracts, as a result of which such contracts, including n.t.s.d. contracts, in cottonseed, copra, coconut oil, sesamumseed, sesamum oil, kardiseed and kardi oil were, in effect, suspended. A demand from the trade for resumption of forward contracts in caconut oil was not acceded to, as it was felt that the relatively low prices prevailing at the time were only a correction for the abnormally high levels reached earlier.

151. An important ingredient of monetary policy has been the imposition of controls on advances against agricultural commodities which are subject to large fluctuations in output and in prices. This is in combination with other monetary devices which influence the availability of bank credit in general. The statutory liquidity ratio was raised from 28 per cent to 29 per cent from August 4, 1972 and further to 30 per cent from November 17, 1972, while the framework of selective credit controls was modified in the light of the crop prospects. For preventing a speculative build-up of stocks of sugar, gur and khandsari, the control on advances against these commodities was tightened in December 1971. The minimum margin on advances against these commodities to parties other than those manufacturing sugar, and to sugar mills in respect of stocks which have left the factory premises, was raised from 50 per cent to 65 per cent; the availability of credit to sugar mills was also reduced. In July 1972 the minimum margins in respect of bank advances against groundnuts to all parties, and against stocks of vanaspati to vanaspati manufacturers, in the State of Gujarat, were raised for checking speculative activities in these commodities in that State; these regulatory measures were extended to the State of Maharashtra in November 1972. Along with this, the basis of fixing credit ceilings was changed from bank-wise to party-wise in respect of bank advances against foodgrains, oilseeds and vegetable oils (including vanaspati); for foodgrains, the ceiling limit was also lowered and maize was brought within the ambit of credit control. At the same time, as part of the policy for the busy season, and in the interests of greater production, some relaxation was made in order to meet the needs of small growers. As against this, and in view of the decline in the jute crop,

certain measures were initiated in December 1972 to regulate the availability of bank advances against raw jute stocks.

152. Despite vigorous efforts made by the Government to control the price rise, the wholesale price index registered an unusually large increase in 1972. This was a manifestation of the strong imbalances generated by continuing increases in expenditure, and the unsatisfactory behaviour of agricultural production since 1971-72. The considerable damage suffered by the agricultural production in the kharif season of 1972-73 implies that these imbalances may persist in 1973. The situation calls for determined measures not only to restrain aggregate demand but also to increase production. In the Indian setting, the prices of agricultural commodities, particularly foodgrains, are the most important determinant of the overall trend of the price level. The pursuit of an effective price policy for foodgrains is, in turn, crucially linked with the success of the procurement drive. As such, highest priority attaches to the fulfilment of procurement targets.