

CHAPTER 4  
THE PRICE BEHAVIOUR

4.1 The strong upward pressure on prices which developed in 1972 was accentuated in 1973. Compared to an average increase of 7.8 per cent in 1972, the wholesale price index went up by 19.2 per cent in 1973. The seriousness of the price situation gets magnified if, instead of looking at the average increase in the price level over the year, we compare the level of the wholesale price index at the beginning and end of the year. Thus, whereas between December 1971 and December 1972 the wholesale price index increased by 13.7 per cent, the index in December 1973 was 24.0 per cent higher than in December 1972. Although prices rose almost every month in 1973, the largest increase took place in the period May to

July. The index registered a mild decline for a brief period in August-September. However, from October 1973 onwards, the index again rose every month, though at a much smaller pace than in May to July.

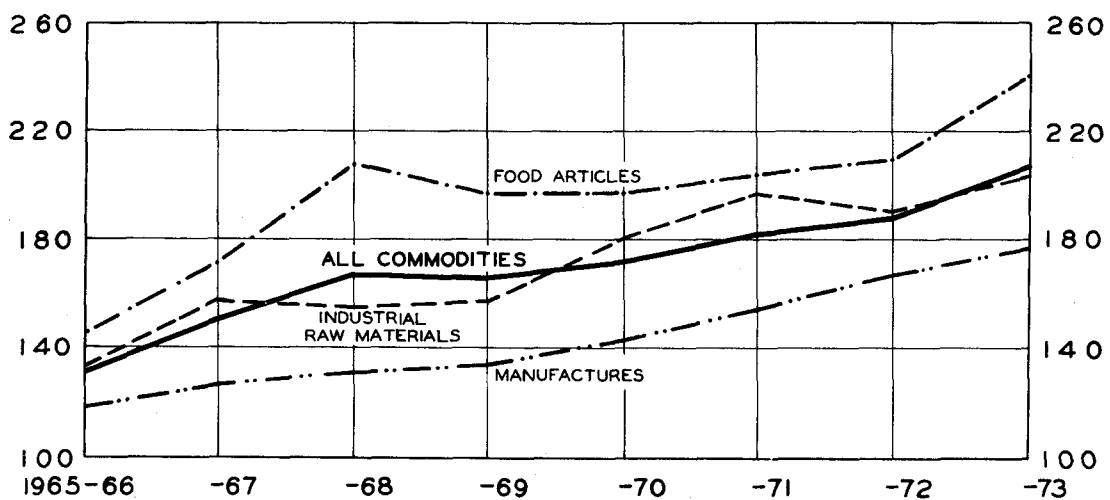
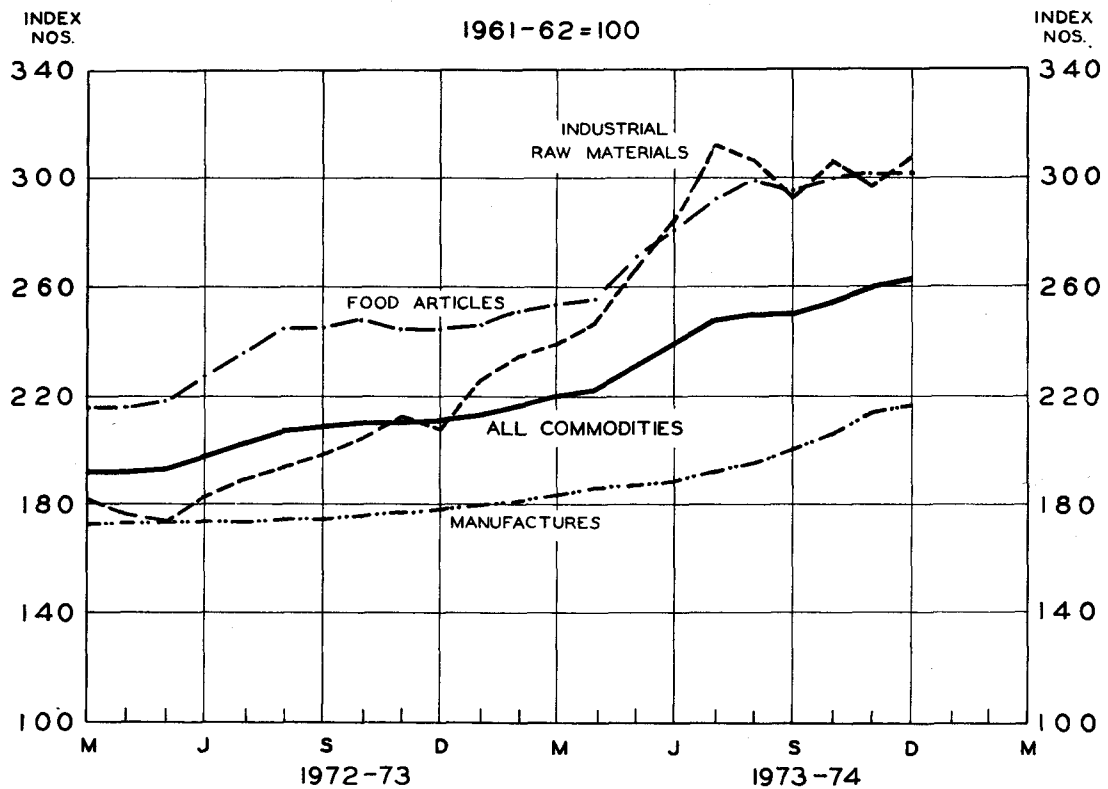
4.2 Inevitably, the increase in wholesale prices had its repercussions on the cost of living. The All India Consumer Price Index, which went up by an average of 6.3 per cent in 1972, registered a further increase of 16.8 per cent in 1973. The index for December, 1973, at 260 was 24 per cent higher than the index for December, 1972.

TABLE 4.1  
*Index Numbers of Wholesale Prices*

(Base : 1961-62=100)

	Weight (per cent)	Per cent variations over the preceding year				Dec. '73 over Dec. '72
		1970	1971	1972	1973	
ALL COMMODITIES . . . . .	(100.00)	6.2	3.9	7.8	19.2	24.0
Food Articles . . . . .	(41.30)	5.2	1.8	11.4	20.9	23.3
Foodgrains . . . . .	(14.78)	3.4	0.1	13.3	18.1	21.3
Cereals . . . . .	(12.10)	2.3	-1.5	10.8	16.6	21.7
Pulses . . . . .	(2.68)	7.7	5.9	22.0	22.9	20.4
Edible oils . . . . .	(5.37)	17.8	-8.9	2.3	49.2	40.5
Sugar & allied products . . . . .	(6.48)	-8.7	21.5	33.4	6.5	-0.8
Liquor & Tobacco . . . . .	(2.50)	-8.7	2.5	17.3	10.4	5.1
Fuel, Power, Light & Lubricants . . . . .	(6.10)	4.6	5.3	5.5	10.5	29.5
Industrial Raw Materials . . . . .	(12.10)	10.4	0.4	-1.2	44.0	41.6
Raw cotton . . . . .	(2.44)	15.9	22.3	-24.1	40.2	57.2
Raw jute & mesta . . . . .	(1.16)	-9.6	-7.4	8.1	2.2	-24.4
Oilseeds . . . . .	(5.24)	16.1	-7.1	2.8	57.9	53.1
Chemicals . . . . .	(0.70)	4.1	3.3	2.7	5.2	6.9
Machinery & Transport Equipment . . . . .	(7.90)	7.7	7.5	6.4	6.2	10.7
Manufactures . . . . .	(29.40)	7.7	8.4	6.1	11.4	21.6
Intermediate products . . . . .	(5.70)	13.4	10.0	8.1	19.0	33.5
Finished products . . . . .	(23.70)	6.1	7.9	5.5	9.0	17.9

# WHOLESALE PRICES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

4.3 An analysis of price movements in 1973 brings out the leading role of food articles and industrial raw materials in influencing the price behaviour. The two groups together accounted for 78 per cent of the increase in the wholesale price index in 1973. In the food articles group, prices of all sub-groups (cereals, pulses, edible oils and sugar and allied products) went up substantially, and in most cases (with the notable exception of sugar) at a much faster pace than in 1972 (Table 4.1). In 1972 also, prices of food articles had played a major role in raising the wholesale price index. However, whereas, in 1972, industrial raw materials did not contribute to the upward pressure on prices, this group became a major contributory factor to price inflation in 1973. This was largely due to a very sharp increase in prices of raw cotton and vegetable oilseeds. By contrast, in 1972 prices of raw cotton declined sharply while those of vegetable oilseeds registered only a mild increase. The group of manufactures played a secondary role, both in 1972 and 1973, although, in the latter year, prices of manufactured goods rose much faster than in 1972. However, it is worth noticing that, since the end of July 1973, there has been a shift in the relative importance of various groups in bringing about an increase in the wholesale price index. While, in the earlier part of the year, the role of food and raw materials was predominant, after July the sharp increases in prices of manufactured goods emerged as the most important single factor in the rise of the price index.

4.4. It is obvious that the steep fall in agricultural production in 1972-73 was the most important causal factor in the price inflation of 1973. Even with a strong counter-cyclical monetary and fiscal policy, a decline of nearly ten per cent in agricultural production was bound to put considerable pressure on prices. Since the short-run demand for basic wage goods, such as foodgrains, is highly inelastic, even a minor shortfall in production can bring about violent fluctuations in prices. The fluctuations in prices can be particularly acute in countries like India where the marketed surplus forms only a small part of total output of foodgrains, so that even a small decline in production leads to a disproportionate fall in the marketed surplus.

4.5. In addition, a number of other factors helped to strengthen the inflationary psychology. The introduction of a major structural change in the marketing of wheat, namely, the takeover of wholesale trade in April 1973, was bound to meet with resistance from the landed interests and traders, so that, even in a normal crop year, some disruption of the flow of market arrivals could have been expected. However, the hoarding of wheat by farmers and traders came in the wake of a steep fall in the production of foodgrains during the 1972 kharif season. As such, it magnified the extent of shortages, and gave added strength to the inflationary expectations. Because of limited stocks of foodgrains with the public sector agencies, the operations of the public distribution system could not effectively counter the inflationary state of expectations. As a result, the pressure on prices further increased.

4.6 The continued expansion of monetary demand, in the background of a steep fall in the production of wage goods, also was a contributory factor to the price inflation. Money supply with the public increased by 15.8 per cent in 1973. Coming as it did in the wake of an increase of 12.9 per cent in 1972, the observed increase in money supply in 1973 intensified inflationary pressures. The abnormally high levels of budget deficits in recent years have also aggravated inflationary pressures, not only by accelerating the growth of money supply but also because they strengthened the expectations about the persistence of inflation. Thus, even though there may be no mechanical relationship between the size of budget deficits and the growth of prices, large and persistent budget deficits, accompanied by sluggishness of commodity production, strengthen the inducement to hoard in anticipation of higher prices in the future, and, as such, they feed the psychology of inflation.

4.7. As stated earlier, the production of foodgrains which declined by 3.0 per cent in 1971-72 declined further by 9.5 per cent in 1972-73 to 95.2 million tonnes. The production of wheat declined by 1.5 million tonnes, of rice by 4.4 million tonnes, and that of coarse grains and pulses by 2.4 million tonnes and 1.6 million tonnes respectively. As a result of reduced output, the procurement of foodgrains in the marketing season 1972-73 (November-October) was only 8.0 million tonnes (2.7 million tonnes of rice, 0.3 million tonnes of coarse grains, and 5.0 million tonnes of wheat) as compared to the expectation of 10.6 million tonnes (4.0 million tonnes of rice, 0.6 million tonnes of coarse grains, and 6.0 million tonnes of wheat). The procurement of foodgrains in 1972-73 was less than in 1971-72 when it amounted to 8.4 million tonnes (3.1 million tonnes of rice, 0.2 million tonnes of coarse grains, and 5.1 million tonnes of wheat). In order to bring about greater balance in demand and supply, the Government imported 2.4 million tonnes of foodgrains in the marketing season 1972-73 as against only 0.9 million tonnes during the 1971-72 season. However, as brought out in the following table, the total availability of foodgrains in 1972-73 marketing season was much lower than in 1971-72. As a result, the pressure on prices was bound to be accentuated.

TABLE 4.2  
*Availability of foodgrains*

	(in million tonnes)	
	1972-73 (November- October)	1971-72 (November- October)
1. Domestic Production . . . . .	95.2	105.2
2. Procurement . . . . .	8.0	8.4
3. Releases from Government stocks . . . . .	11.6	10.2
4. Total availability (1—2+3) . . . . .	98.8	107.0

4.8 By all accounts, the production of foodgrains in the kharif season of 1973 registered a significant increase. However, for several reasons, this did not make any visible impact on prices. For one thing, the kharif foodgrains output in 1973 is estimated to be no higher than in 1970. Since, in the meanwhile, population has grown by nearly 6.5 per cent, the per capita availability is not likely to have improved. Moreover, in the background of strong inflationary psychology generated in the last two years, well-to-do peasants may have been tempted to hold on to their marketable surplus longer than usual. Even small peasants, who normally sell their entire surplus soon after the harvest and buy grain for their seed requirements later in the year, may have revised their behaviour in the light of the recent trend of prices. Besides, any downward tendency that may have developed in the wake of a normal kharif crop was counter-balanced by substantial upward revision of procurement and issue prices of kharif foodgrains announced in October 1973. In November, the Government also raised the issue prices of wheat. These changes raised the group index of foodgrains by 5.5 per cent and the wholesale price index by 0.9 per cent.

4.9 Among non-foodgrains, sugar-cane was the only commodity whose production increased in 1972-73. It will be recalled that the production of sugar-cane declined from 13.0 million tonnes (in terms of gur) to 11.6 million tonnes in 1971-72. As a result, prices of sugar and allied products went up by 33.4 per cent in 1972. Since production of sugar-cane went up to 12.6 million tonnes in 1972-73, the pressure on prices of sugar and allied products was moderated in 1973, and there was a comparatively mild increase of only 6.5 per cent in their wholesale prices. Since the price of levy sugar, representing 70 per cent of production, remained constant, the entire increase in sugar prices was on account of non-levy sugar. On the face of it, it is somewhat surprising that higher production of sugar did not stabilise prices. However, it is not difficult to explain this phenomenon since, as brought out in the following table, total releases of sugar for sale in the domestic market in the sugar season 1972-73 were lower than in 1971-72.

TABLE 4.3  
Availability of sugar

Season	(in lakh tonnes)	
	1971-72 (October- September)	1972-73 (October- September)
1. Carry-over stocks . . . . .	14.10	5.99
2. Production . . . . .	31.13	38.72
3. Total availability (1+2) . . . . .	45.23	44.71
4. Internal consumption . . . . .	37.80	35.16
5. Exports . . . . .	1.44	0.97
6. Total offtake (4+5) . . . . .	39.24	36.13
7. Closing stocks (3-6) . . . . .	5.99	8.58

4.10 As production of five principal vegetable oilseeds declined both in 1971-72 and 1972-73 (from 9.3 million tonnes in 1970-71 to 8.8 million tonnes in 1971-72 and 6.7 million tonnes in 1972-73 on November to October basis) reduced availability exerted a strong upward pressure on prices of vegetable oilseeds and oils. In the marketing season of 1972-73 upto June 1973, the Government imported 52.5 thousand tonnes of rapeseed as against 31.3 thousand tonnes in 1971-72 and 43.9 thousand tonnes in 1970-71. However, imports were insufficient to make good the gap between demand and supply and, as a result, prices rose steeply in 1973. Due to expectations of a much better kharif crop, prices of groundnuts and groundnut oil declined in October and November 1973. In December, again, there was a sharp increase in prices. Although the production of vegetable oilseeds is expected to increase substantially in 1973-74, this, by itself, is no assurance of a steep fall in prices. After all, the expected output of 9.3 million tonnes will be no higher than in 1970-71.

4.11 The production of raw cotton declined by nearly one million bales in 1972-73 marketing season (September-August). Imports of raw cotton declined from 7.5 lakh bales in 1971-72 marketing season to 4.6 lakh bales in 1972-73. As a result of reduced availability of raw cotton (despite a higher level of opening stocks in 1972-73 as compared to 1971-72), a sharp rise in prices of imported cotton, and generally buoyant demand for cotton textiles, prices tended to rise in 1973. In spite of the expectation of a better crop in 1973-74, prices did not show any strong declining tendency in the closing months of 1973. The expectations of low imports, continued high prices of Egyptian and Sudanese cotton, and the activities of the State trading organisations helped to keep prices firm. The Cotton Corporation of India, which purchased only 5.2 lakh bales in the domestic market in 1971-72 and 3.88 lakh bales in 1972-73, has planned to purchase about 28 lakh bales in 1973-74. One cannot predict, at this stage, the quantity of raw cotton that the Cotton Corporation will actually purchase in 1973-74 marketing season. However, it is obvious that sizeable procurement of raw cotton by public sector trading agencies, super-imposed on buoyant private demand, will prevent prices from falling despite a very good crop.

4.12 Thanks to a bumper crop of jute and mesta in 1973-74 (July-June)—estimated at 7.5 million bales as against 6.0 million bales in 1972-73—prices of jute showed a declining tendency in the later part of the year. In order to arrest a steep fall in prices, the Jute Commissioner had to ask jute mills to purchase certain minimum quantities of raw jute. In October 1973, the Reserve Bank of India enhanced the credit limits of jute mills to accommodate stocks of raw jute equivalent to four months' consumption requirements as against the earlier limit of three months. Although the support price of raw jute was fixed at Rs. 125 per quintal, the Government wanted to maintain an average price of Rs. 157.68 per quintal at Calcutta during 1973-74. As part of its price support operations, the Jute Corporation of

India has set for itself a procurement target of 10—12 lakh bales of raw jute.

4.13 Within the group of manufactures, prices of both intermediate products and finished goods increased substantially in 1973. However, prices of intermediate products rose much faster than those of finished goods. The wholesale price index for rayon yarn and metals increased significantly after July. In September and October, the administered prices of iron and steel items were revised upwards. A sharp increase in international prices of non-ferrous metals not only raised the cost of imports but also raised prices charged by domestic producers (such as, in the case of zinc, where the price payable to domestic producers was fixed on the basis of the price charged by MMTC for imported supplies).

4.14 Among finished products, the largest increases were recorded by mill cloth, metal products and oilcakes. In all these cases, an important part of the explanation is to be found in the behaviour of the prices of corresponding raw materials, thereby suggesting that prices of manufactures, as a whole, were being adjusted in the light of changes in cost structure. However, prices of certain products, such as cotton textiles, rose much faster than justified by an increase in input costs, indicating that producers took full advantage of the buoyant demand by raising prices.

#### **Developments in Price Policy**

4.15 The most important development in price policy in 1973 was nationalisation of the wholesale trade in wheat in April 1973. The basic objective of the scheme was to enable the Government to procure enough wheat to meet the needs of an expanding public distribution system at stable, though remunerative, prices. It was felt that, in the absence of monopoly procurement, the State would not be able to prevent violent fluctuations in prices of foodgrains in the wake of fluctuations in output.

4.16 Under the scheme of takeover of wheat trade, private wholesale trading was banned all over the country. Procurement and issue prices were made uniform throughout India. In order to make procurement operations a success, each State was constituted into a separate wheat zone and, in addition, all major producing, consuming and heavily deficit areas were cordoned off. All movements of wheat including purchases for Government stocks, were to be handled by the Food Corporation of India or other public sector agencies. However, in the interest of preserving orderly marketing arrangements, private retailers were permitted to operate, subject to limits of stocks, quantity which could be purchased or sold by them in a single transaction, areas of operation and prices to be charged from consumers.

4.17 The procurement target for wheat out of the 1973 rabi crop, which was initially fixed at eight

million tonnes, was later on scaled down to six million tonnes. However, procurement of wheat during the period April to December, 1973 fell short not only of the target but also of the actual procurement during the corresponding period of 1972. The fact that production of wheat in the rabi season declined from 26.4 million tonnes in 1971-72 to 24.9 million tonnes in 1972-73 was, no doubt, a contributory factor to this outcome. It is also obvious that the active opposition of landed interests and private traders, and a lack of effective administrative arrangements in some States, hampered the procurement effort. It has been suggested that the procurement price of wheat, fixed at Rs. 76 per quintal for standard red Mexican variety for the 1973 rabi crop, meant an effective reduction in the net return to farmers from their sales as compared to the preceding year (when a part of output was sold at higher free market prices), and that this factor induced the farmers not to sell their entire surplus wheat to the public sector agencies. There is no doubt some substance in this argument. However, the fact that shortfall in procurement was lower in a State like Punjab, where costs of cultivation tend to be higher than in many other States, suggests that the unsatisfactory performance of procurement cannot be adequately explained by reference to the alleged unremunerativeness of procurement prices.

4.18. The experience with the procurement of wheat in 1973 had a major impact on the evolution of price policy for the kharif cereals. An ambitious procurement target of 5 million tonnes of rice and 1.65 million tonnes of coarse grains was set for the 1973-74 marketing season. While the existing zonal arrangements and restrictions on inter-State movements were retained, the choice regarding the method of procurement (as between take-over of wholesale trade, a graded levy on producers, a levy at the rice processing point, or a combination of the preceding two methods) was left to State Governments. The new policy also lays greater emphasis on more remunerative prices to secure the procurement targets. The distinction between the guaranteed minimum price (or support price) and the procurement price was revived. In order to provide farmers with an adequate incentive to increase production, the guaranteed minimum prices for the kharif cereals during 1973-74 marketing season, announced at the time of sowing, were increased as compared to the procurement prices of rice and coarse grains in the preceding season. Subsequently, in October 1973, the procurement prices were fixed at a level higher than the guaranteed minimum prices. As a result, the procurement price for standard variety of paddy was raised from an average of Rs. 54 per quintal in 1972-73 to the uniform level of Rs. 70 per quintal in 1973-74. Similarly, while the procurement price for bajra was raised from Rs. 60 per quintal in 1972-73 to Rs. 72 per quintal in 1973-74; the procurement price of jowar, maize and ragi was raised from

Rs. 58 for jowar and maize and Rs. 57 for ragi to Rs. 70 per quintal. The revision in procurement prices was accompanied by substantial increases in the issue prices of kharif cereals with effect from November 1, 1973.

TABLE 4.4  
Issue prices of foodgrains

	Before 1-11-73	After 1-11-73
<b>I. Rice</b>		
(i) Coarse . . . . .	100	125
(ii) Medium . . . . .	111	140
(iii) Fine . . . . .	120	150
(iv) Super fine . . . . .	128	160
<b>II. Coarse grains</b>		
(i) Jowar . . . . .	65	80
(ii) Bajra . . . . .		
(iii) Maize . . . . .		
(iv) Ragi . . . . .	60	80

4.19 As part of the general strategy of relying on more remunerative prices for the success of the procurement effort, the Government announced, in November 1973, new support prices for the wheat crop to be harvested in April, 1974. As against the procurement price of Rs. 76 per quintal in 1972-73, the new guaranteed minimum price has been fixed at Rs. 85 per quintal for standard red Mexican variety of wheat. Simultaneously, in order to keep the burden of food subsidy within reasonable limits, the issue prices of wheat, issued from Central stocks to State Governments, were also revised upward by about 15 per cent from November 8, 1973.

4.20 The procurement of rice during the period October 1973—January 1974 amounted to 2.50 million tonnes as compared to 1.49 million tonnes in the corresponding period of 1972-73. While this is a significant improvement over past performance, it must not be forgotten that a major proportion of procurement is accounted for by Punjab and Haryana. In a number of traditionally rice growing States, the procurement effort has been less than adequate. The procurement of coarse grains during the same period amounted to 2.61 lakh tonnes as against only 1.24 lakh tonnes during the corresponding period of 1972-73. However, it is no more than one-sixth of the target of 1.6 million tonnes set for 1973-74. Without a vigorous procurement effort, a viable system of public distribution can be sustained only on the basis of imports. However, with the steep increase in oil prices in the closing months of 1973, sizeable imports of food on normal commercial terms are no longer a feasible proposition. As such, there is no alternative to stepping up the domestic procurement effort. If procurement is looked upon as a means of providing supplies to vulnerable sections at reasonable prices, it must be ensured that the costs of procurement and public distribution are kept to the minimum. In addition, it has to be recognised that, while producers have to be offered remunerative prices, a continued escalation of procurement prices will either lead to a massive increase in the burden of food subsidies or, else,

to a level of issue prices inconsistent with the objective of providing foodgrains to more vulnerable sections of society at reasonably stable prices.

4.21 As mentioned earlier, the procurement activities of public sector trading organisations, like the Cotton Corporation of India and the Jute Corporation of India, are designed to stabilise prices at a level considered remunerative to growers. The support prices of raw cotton have yet to be announced. However, it is clear that the declared intention of the CCI to procure nearly 28 lakh bales in 1973-74, if implemented, will prevent raw cotton prices from declining despite a bumper crop. In the case of raw jute, as mentioned earlier, while the support price was raised from Rs. 115 per quintal in 1972-73 marketing season to Rs. 125 per quintal in 1973-74, the declared policy of the Government is to stabilise prices at about Rs. 157.68 per quintal at Calcutta. To that end, the Jute Corporation plans to procure 10 to 12 lakh bales during the 1973-74 marketing season.

4.22 In order to sustain the expected breakthrough in the production of raw cotton, and to stabilise the production of raw jute, it is no doubt necessary to offer remunerative prices to growers. However, if inflationary pressures are to be contained, due care has to be taken to ensure that the operations of public sector trading agencies do not stand in the way of desirable adjustments in prices. The objective of ensuring stable prices does not imply that prices in a year of bumper crop have to be stabilised at near peak levels reached under conditions of acute scarcity.

4.23 The sugar policy did not undergo any substantial changes in 1973. The minimum prices of sugarcane for the 1973-74 season were fixed at the same level as for 1972-73. The dual pricing policy for sugar continued to be enforced in 1973. However, the ex-factory prices of levy sugar fixed in 1972 had to be modified in the light of the final report of the Tariff Commission. As a result, the average ex-factory price of levy sugar increased from Rs. 150.91 per quintal in 1972-73 to Rs. 158.60 per quintal in 1973-74. In order to ensure that the increase in ex-factory price of levy sugar did not lead to an increase in issue prices, the excise duty on levy sugar was reduced from 26 per cent to 20 per cent *ad valorem* with effect from December 15, 1973. Simultaneously, in order to protect Government revenues, the excise duty on free sale sugar was increased from 30 per cent to 37.5 per cent.

4.24 Consequent upon steep increases in prices of vegetable oils, prices of vanaspati, which are statutorily controlled, had to be raised three times (in January, June and July) during 1973. At the same time, industry was prevailed upon to place its entire output at the disposal of Government for distribution through fair price shops. In order to conserve supplies of groundnut oil (which is directly used in liquid form in western India) ceilings were prescribed on the utilisation of groundnut oil in the manufacture of vanaspati. Further, fiscal incentives were enhanced to encourage the progressive utilisation of cotton

seed and rice bran oils in vanaspati making, and of rice bran oil and other minor oils in soap-making. As a result of improved crop prospects in 1973-74, prices of oilseeds and oils showed a declining tendency in the latter half of 1973. Vanaspati prices were, therefore, lowered twice—once in the middle of November and again on December 1, 1973. However, on account of a significant subsequent rise in prices of vegetable oils, the Government felt it necessary on February 1, 1974 to raise prices of vanaspati.

4.25 The statutory control over prices of certain varieties of cotton cloth meant for the weaker sections of society was continued during 1973, and the scheme for production of 100 million square metres of such cloth every quarter also remained in operation. Prices of controlled cloth have not been changed since May 1968 even though raw cotton prices have risen considerably since then. This is probably one reason why the proportion of controlled cloth in the total output of mill-made cloth has declined substantially. Government was also deeply concerned about the steep rise in prices of non-controlled cloth in 1973. In July 1973 an informal scheme was introduced under which prices were to be pegged at November 1972 levels, plus 10 per cent, for a period of three months, pending a decision in regard to the whole question of cloth prices and control. The scheme was extended upto the end of February 1974 as the wider issue of statutory control of cloth prices is still under examination.

4.26 Controls on prices exist in the case of a number of intermediate products too. In the case of yarn, both cotton and non-cotton, arrangements were being made, on an informal basis, from time to time to ensure adequate supplies at reasonable prices to the weavers in the decentralised sector. However, the sharp rise in prices of cotton yarn during February 1973 compelled the Government to impose statutory distribution and price control on all yarns produced for sale in the internal market with effect from March 13, 1973. This was done especially with a view to mitigating the hardships of the decentralised sector of the textile industry, as also of the hosiery industry. Under the scheme, the mills were required to notify to Government the anticipated production of each count group, and allotment of yarn was made to different State Governments, the Handloom Export Promotion Council and the Federation of Hosiery Manufacturers' Association during each quarter. With normalisation of production, consequent on improvement in power supply, the distribution control was gradually relaxed, beginning with yarn of the lower counts. From October 20, 1973, control on distribution was removed for all counts 80's and below; price control for these counts was also lifted with effect from January 14, 1974. As regards viscose staple fibre yarn, the voluntary scheme of distribution and price control is still in force.

4.27 It has been the Government's policy not to permit upward revisions in prices of controlled commodities unless warranted by unavoidable increases in the cost of production. The retention price of

cement was, thus, raised by Rs. 10 per tonne, as an interim measure, with effect from September 15, 1973, pending the receipt of the final report of the Tariff Commission. While this gives some relief to producers, it does not, of course, ensure that consumers are able to get all their requirements at controlled prices. In a situation in which production is inadequate to meet the entire demand at the controlled price, there is always the danger of emergence of black markets, with middlemen pocketing huge untaxable windfall gains. For example, as a result of acute shortage of iron and steel, the open market prices have ruled at a much higher level than controlled prices. An increase in prices of iron and steel products all along the line would have, no doubt, transferred to producers at least a part of windfall gains being made by middlemen selling their quotas in the black market. However, beyond a point, a uniform increase in prices of such essential intermediate products as iron and steel goods could have serious adverse effects on priority users of these products. To meet this situation, a differential pricing system was introduced in October 1973. Under this scheme, prices of plates, structurals and railway materials which enter as essential inputs in the production of high priority industries were left unchanged. At the same time, in order to mop up a part of profits being made in the so-called free market, steel producers were authorised to raise prices of other categories of iron and steel products. The higher profits thus earned by steel producers will be earmarked for approved expansion schemes.

4.28 Mineral oils offer a prime example whereby higher import costs can upset the domestic price structure. Upto October 1973, the pricing policy for petroleum products was so designed as to raise prices to the extent warranted by changes in the price of crude, while, at the same time, insulating, to the maximum extent possible, a mass consumption item like kerosene, and important inputs like naphtha for fertilisers and diesel oil for transport (including agricultural tractors). Anticipating further increases in the price of crude oil, and the need to moderate the growth of consumption of petroleum products, the excise duties on motor spirit and kerosene were raised in November 1973 so as to restrict consumption. However, no increase was effected in the price of naphtha, and the price of HSD was brought down slightly to bring it into parity with that of kerosene.

4.29 An important point brought out by the preceding review of the price situation in 1973 is that, in a number of cases where prices are administratively controlled, it became necessary to revise them in order to maintain the incentive to increased production. These revisions, no doubt, pushed up the price index. However, they were unavoidable if the phenomenon of scarcity and shortages was not to be perpetuated. Recent experience indicates that, in the interest both of greater production and stable prices, systematic periodic reviews and adjustments of administered prices are to be preferred to drastic changes effected after long intervals.