CHAPTER 4

PRICE BEHAVIOUR AND PRICE POLICY

4.1 The declining trend in prices which emerged in September 1974 continued upto the end of 1975-76. The Wholesale Price Index (1970-71 = 100) which was 183.4 for the week ending September 28, 1974 reached the trough of 162.2 in the week ended March 20, 1976—a decline of 11.6 per cent in the course of 18 months. Since then, except for a decline in October and November, 1976, it rose steadily to 181.5 for the week ended March 26, 1977, at which level it was 11.9 per cent higher compared to the trough. There is usually a seasonal rise in the prices of agricultural products in the lean season that is from mid-May to mid-September. Thus the seasonal peak of 180.0 was reached in the week ending September 18, 1976, registering an increase of 11 per cent in about six months. In the following six months, however, the price increase was less than 1 per cent.

4.2 Food items and industrial raw materials contributed principally to the price rise in the first half of 1976-77, the former accounting for about two-thirds of the price rise and the latter for somewhat less than one-fourth. Individual commodities affected were : gur, groundnuts, groundnut oil and raw cotton, and accounted for half the total rise. Their prices rose in this period by 66.6, 71.6, 60.7 and 46.4 per cent respectively. A combination of circumstances seems to have brought about a situation, in which prices began to rise despite a record agricultural production in 1975-76. The decline in the prices of gram, barley, and groundnuts/groundnut oil in February-March 1976 was so sharp that price support had to be given to the market in the interests of the growers. Support prices were announced in April 1976 for gram and barley, with the result that the price fall was arrested in the case of the latter and slowed down in the case of the former. While a substantial quantity of HPS groundnuts had already been exported the State Trading Corporation purchased 5000 tonnes of groundnut oil as a price support action. Thus at least initially the rise in the prices of these commodities was a corrective to the steep fall which took place in the closing months of 1975-76. There was also a downward assessment of the cotton crop of 1975-76, and some damage was reported to the rabi crops in Haryana and Punjab from hail and untimely rains. This tended to generate a bullish sentiment and gave a spurt to speculative forces. The open market prices of another essential commodity, namely, sugar, also tended to rise as the crushing season came to an early close. With crushing itself having started rather late, and diversion of cane to khandsari manufacture having taken place, output of sugar during the 1975-76 season turned out to be 5 lakh tonnes less than in the previous year. Along-with sugar, gur and khandsari prices also ruled high—though the sugarcane crop was quite satisfactory.

4.3 A number of factors from the demand side also played their part. Money supply rose in 1975-76 by 11.3 per cent as compared to 6.9 per cent in 1974-75 due to twin factors of procurement and increasing foreign exchange assets. Though credit policy continued to be restrictive a part of the funds flowing into agriculture on account of procurement seems to have found its way into speculation. The low prices of edible oils not only encouraged household consumption but also led to a diversion into industrial uses and into the vanaspati industry much beyond the maximum stipulated usage of 25 per cent.

4.4 By about the middle of 1976, the prices were moving steadily upwards. The situation was accentuated by the unsatisfactory state of the monsoon. After making its appearance on schedule there was a prolonged lull. During the month of June rainfall was scanty in East Madhya Pradesh and Kerala, and deficient in Eastern UP, Bihar, Orissa, Jammu & Kashmir, and large parts of West Bengal, Andhra Pradesh and Kerala. Consequently, sentiment changed completely and the Wholesale Price Index moved up by 3.6 per cent during the month of July. The concern to which this naturally gave rise, resulted in the formulation of a strategy to contain inflationary pressure by ensuring greater availability of the key consumer goods. It was, *inter-alia,* decided to stagger exports of sugar and make larger releases for domestic consumption during the next three months in which there was a concentration of religious festivals. Imports of cotton were to be stepped up, while vanaspati manufacturers were required to use imported oils upto 50 per cent of their requirements. Exports of HPS groundnuts and groundnut oil were banned for the time being. The State Governments were asked to take action against hoarders and speculators, and the Reserve Bank to step up the margins for advances against cotton, oil-seeds and vegetable oils.

4.5 These decisions had some immediate impact inasmuch as prices tended to decline for some time, though ultimately the normal seasonal pressures prevailed. They rose by 0.5 per cent only in August while the next month saw a further increase of an equivalent order as the seasonal peak was reached.

4.6 Although the Wholesale Price Index in October and November was below that of September, the decline in prices associated with the start of the kharif marketing season was not sufficiently marked and there was an overall rise in the month of December. The Index fluctuated off and on during the quarter so that the net downward movement was quite small.

4.7 In the last quarter of 1976-77 there was again a small rise, the Wholesale Price Index moving up by 2.7 per cent. At 182.0 for March 1977 it was 11.9 per cent higher than for March 1976, though, as already brought out above, the bulk of the increase took place in the first half of the year. As the table below shows, Primary Articles registered an increase in prices of 18.9 per cent and Manufactured Products of 9.1 per cent. The third major group, namely, Fuel, Power, Light and Lubricants, advanced only 1.4 per cent. Within Primary Articles, the Index for foodgrains rose by 14.3 per cent, while raw cotton and oilseeds prices registered increases of 48.3 and 84.1 per cent respectively; the index for minerals declined. Under Manufactured Products, food group recorded a rise of 26.4 per cent, the sub-group of edible oils moving up by 72.1 per cent. The index for Machinery and Transport Equipment fell slightly while that for Chemicals and chemical products rose marginally.

Price Policy

4.8 Though a record kharif crop and an excellent rabi in 1975-76, a rising trend in industrial production, and large accretions to foreign exchange reserves, made for a situation in which some calculated risks could be taken in order to step up the tempo of growth, economic policy was considerably influenced by the need to keep prices under control. The large increase in money supply in 1976-77 pointed to an imbalance between aggregate demand and aggregate supply and thus justified the need for caution in deciding about administered prices.

4.9 It is this approach which guided price policy during 1976-77. Thus, in the case of wheat, the Agricultural Prices Commission came to the conclusion

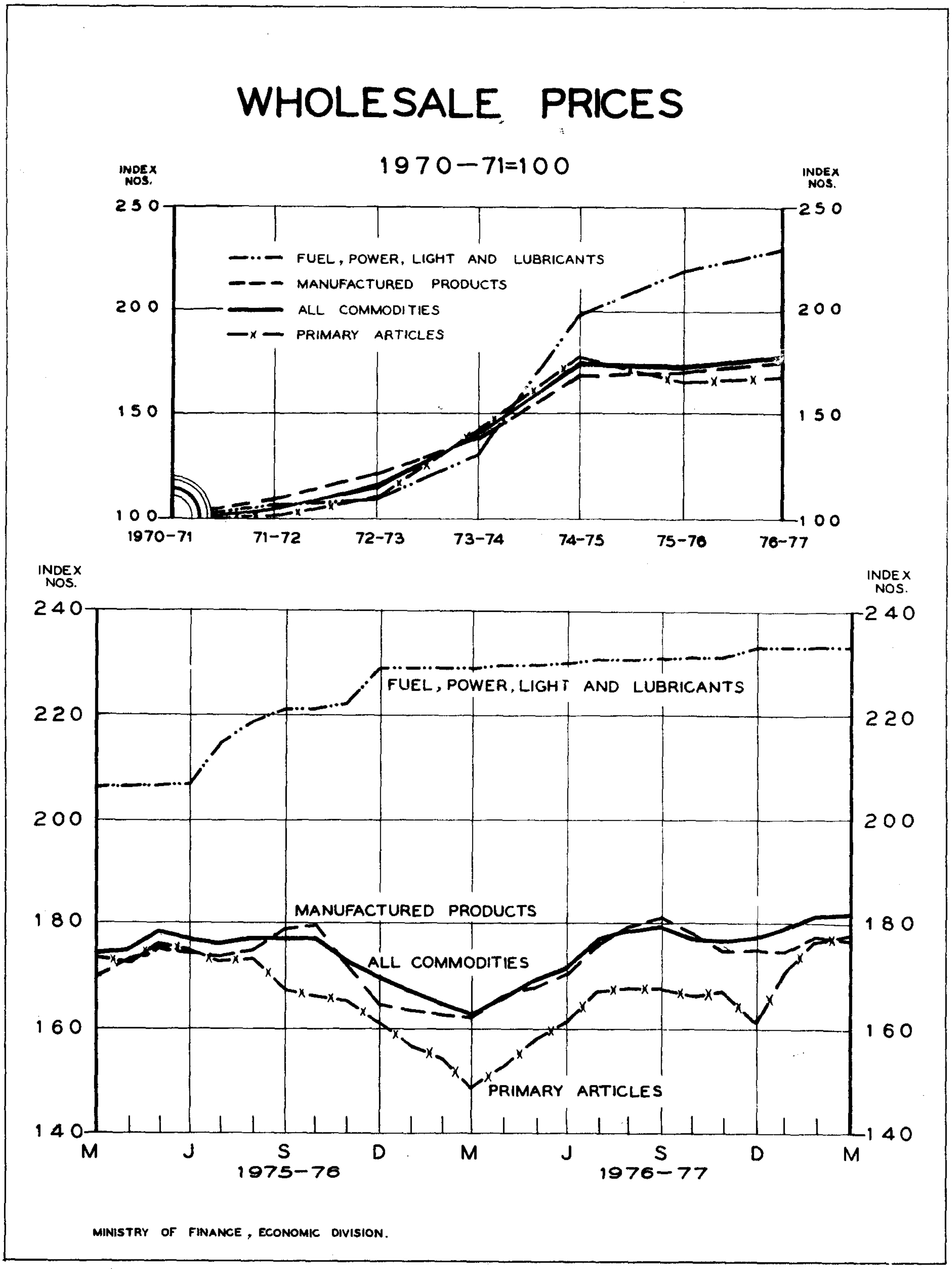
TABLE 4.1

Index Numbers of Wholesale Prices

(1970-71=100)

	Weight per cent	Per cent variations over the preceding year				Per cent Variations Mar. 1977* over Mar. 1976
		1973-74 (average)	1974-75 (average)	1975-76 (average)	1976-77* (average)	
	1	2	3	4	5	6
ALL COMMODITIES	100.00	20.2	25.2	(—)1.1	2.0	11.9
I. Primary Articles	41.67	28.1	25.2	(—)6.8	0.7	18.9
(a) Food Articles	29.80	22.7	26.0	(—)4.8	(—)5.2	14.3
Foodgrains	12.92	18.7	38.0	(—)11.1	(—)12.3	11.0
Cereals	(10.74)	16.4	42.3	(—)10.0	(—)10.7	10.1
Pulses	(2.18)	28.3	21.9	(—)15.8	(—)19.7	14.6
(b) Non-food Articles	10.62	36.5	11.7	(—)14.5	19	40.7
Raw cotton	2.25	51.0	22.1	(—)19.2	44.7	48.3
Raw Jute	0.43	(—)10.0	5.1	12.9	8.3	7.5
Oilseeds	4.20	56.3	9.4	(—)27.0	20.0	84.1
(c) Minerals	1.25	81.2	87.9	1.1	0.5	(—)1.5
II. Fuel, Power, Light and Lubricants	8.46	18.6	51.8	10.5	5.3	1.4
III. Manufactured Products	49.87	14.4	21.0	1.4	2.3	9.1
Food products	13.32	14.3	9.2	(—)2.9	4.2	26.4
Edible oils	(3.72)	48.8	16.6	(—)21.7	5.9	72.1
Sugar, khandsari & gur	(7.24)	2.3	3.8	6.9	1.9	11.7
Textiles	11.03	19.6	18.5	(—)7.8	5.2	13.1
Chemicals & chemical products	5.55	10.9	45.0	4.0	(—)2.5	0.2
Basic metals, alloys and metal products	5.97	22.0	24.2	7.1	2.9	1.9
Machinery & Transport Equipment	6.72	9.5	27.5	10.2	(—)1.4	(—)1.7

*Provisional.



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that, looking at the data on cost of production and the recent changes in input prices, and keeping in view the need for ensuring price stability in the economy, there was no necessity for any change in the existing level of procurement price, i.e., Rs. 105 per quintal for all varieties of wheat. This recommendation was accordingly, accepted. As regards the volume of procurement in the 1976-77 season, the APC recommended a figure of 5.2 million tonnes as against the previous year's target of 5.5 million tonnes. Actual procurement, however, touched 6.6 million tonnes, as against a little over 4 million tonnes in 1975-76. This high level of procurement, combined with imports against past commitments and a substantially reduced off-take from the public distribution system, resulted in wheat stocks rising to a level of over 12 million tonnes by the end of December 1976.

4.10 Similarly, the APC in its report on the price and procurement policy for kharif cereals adopted the position that there was need for lowering the unit cost of production and that the fiscal imposts on items like fertilisers, pesticides and pump-sets should be reviewed. Otherwise, given the over-riding importance of maintaining price stability, it would be inadvisable to raise the level of procurement prices. Consequently, the procurement price of kharif cereals (paddy, jowar, bajra, maize and ragi) was maintained at the existing level of Rs. 74 per quintal. There was, however, a small revision in the premium payable for parboiled rice so as to encourage its production in the surplus States of Andhra Pradesh, Punjab and Haryana. This was done in order to meet the requirements of consumers in West Bengal and Kerala who have a distinct preference for parboiled rice. The increase in the premium was to be reflected in the issue price also ; otherwise the issue prices, too, remained unchanged.

4.11 Certain administrative changes were, however, made in the procurement arrangements. Instead of the existing single-State zones, an enlarged rice zone was created in the South, embracing the States of Andhra Pradesh, which has a substantial surplus, Karnataka, Tamil Nadu and parts of Pondicherry. The northern zone was also extended to include Rajasthan whose demand for rice is small and is confined to the superior varieties. The target for procurement of rice was fixed at 4.4 million tonnes as against 5.5 million tonnes recommended by the APC. The target for Andhra Pradesh was reduced because of its responsibility for supplying the deficit areas in Karnataka and Tamil Nadu and the obligation of other States was reduced due to damage to the crop from drought or floods. In the new kharif marketing season procurement reached 4 million tonnes up to March 1977; this is despite the fact that overall, the rice crop in 1976-77 was below the previous year's level. Market arrivals of paddy/rice in the southern States were poor in 1976-77; however, Punjab, Haryana, and to a lesser extent U.P., made good the shortfall.

4.12 Considerations of price stability had also a major influence on decisions relating to commercial crops—jute, cotton and sugarcane—for which the APC had recommended small increases in the support/minimum statutory price. In the case of cotton it was not considered necessary to raise the support price since the ruling prices were very high. The recommendations of the APC suggesting higher support prices were turned down by the Government in respect of both jute and sugarcane. In the case of the former the APC recommended an increase of Rs. 5 per quintal over the existing price of Rs. 135 per quintal for Assam Bottom variety (this is Re. 1 less than for W-5 under the ISI grading scheme) at upcountry markets, as acreage under jute had declined for two years and it was feared that it might shrink even further. Government, however, felt that, with the decline in rice prices in 1975-76, the jute-rice parity had substantially altered in favour of the former and no such danger existed. Keen competition in the overseas markets in jute goods also required that there should be no increase in raw jute prices. In any event any increase in the statutory minimum price could have no effect on sowings in the 1976-77 season which were completed latest by May.

4.13 The Jute Corporation of India was provided enough finances to carry out an adequate price support operation in the upcountry markets. But a shortage of storage capacity forced it to work in a low key. Neverthless the JCI succeeded in giving support to the market by purchases of about 8 lakh bales of raw jute which compares very favourably with total purchases of 5.8 lakh bales in the 1975-76 season. In addition, the new ISI grading system was introduced with effect from 1st July, 1976. This is likely to prove beneficial to the interests of farmers because it is less arbitrary and is based on characteristics which have been defined with some precision. This provides a greater incentive for quality improvement and makes manipulation by buyers more difficult.

4.14 The APC's recommendations in regard to the price policy for sugarcane in 1976-77 were essentially the same as for the 1975-76 season. The minimum statutory price was recommended to be raised to Rs. 9.50 per quintal for a recovery of 8.5 per cent or less, but this very same recommendation had been rejected in the previous season. A study of the costs of production revealed that, on balance, there had been no increase in relation to the previous season, and Government felt justified in making no change in the statutory minimum price payable by mills. In actual practice this price had ceased to be of relevance, except to the limited extent that, after having paid the minimum price initially, mills are expected to share their profits on free-sale sugar with the growers. Since the mills have, in any case, to pay more than the prescribed minimum, either voluntarily to attract cane away from khandsari and gur, or under the price fixation resorted to by individual State Governments, and their overall profitability (for both levy and non-levy sugar) has to be determined with reference to realisation on free sale sugar, even this factor has become relatively unimportant.

4.15 The oils and fats situation in the country became once again a subject of concern. The sharp reduction in the prices of groundnut oil in early 1976 resulting from a bumper groundnut crop in 1975-76 brought about an increase in demand from all sections of the community—house-holds, vanaspati manufacturers, soap manufacturers and other industrial users. In the case of vanaspati the effect was compounded by the substantial increase in the prices of cottonseed oil as soon as it became known that the cotton crop for 1975-76 was on the low side. Whereas, normally, even after allowing for excise rebate, there should be a differential of about Rs. 100 per quintal between groundnut oil and cottonseed oil for it to be economic to use the latter in vanaspati production, the situation was such that this parity was rudely disturbed with the premium not only disappearing but moving in favour of cottonseed oil. In these circumstances, the use of groundnut oil shot up to more than 45 per cent as against the permissible level of 25 per cent while that of cottonseed oil came down to less than 25 per cent from the minimum required level of 30 per cent. Moreover, production of vanaspati during January-March 1976 (in which usage of groundnut oil was as high as 55 per cent) averaged 53.5 thousand tonnes per month as against only 39.7 thousand tonnes in the corresponding quarter of 1975.

4.16 To check the sharp fall in groundnut oil prices in the early part of 1976 the STC undertook purchases of 5,000 tonnes of oil with the intention of exporting the same if necessary. Since the exports of groundnuts, as well as those of other oilseeds were also rising, the STC's support operation served to set off a reaction and the price pendulum swung back again. The situation was tackled by temporarily banning the exports of groundnuts and groundnut oil and by raising the usage of imported oil in vanaspati from a minimum of 10 per cent to 20 per cent with effect from July 1, 1976, and to 50 per cent a fortnight later. The industry also opted for some kind of voluntary control on vanaspati prices so long as imported oils would be available. The situation was, by and large, saved from deteriorating and production of vanaspati was maintained at a satisfactory level during the lean period.

4.17 Certain other decisions were also taken in the course of the year. Support prices of Rs. 140 per quintal for groundnuts, and Rs. 150 per quintal (inclusive of a promotional element of Rs. 10) for sunflower seed were announced. At the administrative level a separate Vegetable Oils and Fats Directorate was set up in the Department of Civil Supplies for the better management of the oils and oilseeds economy of the country. With substantial imports being undertaken by the STC it was later decided to restrict use of indigenous oils (other than cottonseed oil for which a ratio of 30 per cent has been prescribed) in vanaspati manufacture to 10 per cent. Simultaneously, import of oilseeds/edible oils for direct human consumption was thrown open, and licences, valid for one year, issued to units engaged in the manufacturing, refining or blending of edible oils or in marketing the same. In addition to imports against free foreign exchange and Canadian aid, 50,000 tonnes of soyabean oil were also to come in under PL 480. With larger availability of imported edible oils, vanaspati manufacturers were required to use 75 per cent imported oil.

4.18 The cotton price situation in the country also began to worsen as the estimates of the raw cotton crop for 1975-76 were revised downwards substantially in early 1976. From a level of 141.2 in March 1976, the Index rose to 201.4 for July 1976. Since, even after the new cotton crop had entered the market, prices did no more than stabilise, Government had to embark on a programme of imports. A sum of Rs. 140 crores was initially released to the Cotton Corporation of India for the purpose and contracts placed for 5 lakh bales of raw cotton, of which more than three fourths has already been received and the rest is expected shortly. Further allocations of foreign exchange were made thereafter and the total imports would now be about 14 lakh bales. Prices abroad have been unfavourable as the world supply position has been tight, and these imports have only helped stabilise prices rather than bring them down, even after a subsidy of 20 per cent of the import price. Therefore, imports of man-made fibres were also permitted. The programme which originally covered 20,000 tonnes of polyester fibre and 50,000 tonnes of cellulosic/polynosic fibre was subsequently enlarged. Imports can be effected directly by mills, and not necessarily through the STC; moreover, the imports will be duty free. With the introduction of free licensing and decanalising of imports, licences for a value of Rs. 236 crores were issued to the industry which is now required to use a minimum of 10 per cent man-made fibres in admixture with cotton.

Public Distribution and Consumer Protection

4.19 The strengthening and extension of the system of public distribution of essential commodities continues to be one of the important elements of the Government's efforts to ensure price stability. From a nucleus of fair price shops catering to cereals and sugar, and special outlets for kerosene oil, the coverage of equitable distribution has steadily been expanded so as to embrace a larger number of commodities of daily use. *Pari passu* monitoring by Govrnment has increased substantially with the setting up of the Department of Civil Supplies and it is now in a much better position to bring about a balance between demand and supply of essential commodities at the local level. For example, reports of temporary shortages of baby food, kerosene, soft coke, cement and iodised salt having been received, these were met through arranging replenishment of supplies by the manufacturers. Similarly, it became necessary to put restrictions on the exports of onions and potatoes when their prices rose abnormally in the first few weeks of 1977. Tea prices also began to shoot up because the export market had become exceptionally favourable and, in the interests of the domestic consumer, not only was an export duty of Rs. 5 per kg. imposed, but the two main companies were persuaded to reduce the domestic prices of packaged tea.

4.20 Public distribution of food-grains and sugar is effected through a net-work of fair price/ration shops which currently number 2.4 lakhs. Although the coverage has increased over the years, releases of food-grains from Government stocks during 1975-76 (November-October) at 9.05 million tonnes were over 2 million tonnes lower than in the preceding year because of the larger availability in the open market, stemming from a bumper food crop. As imports continued to come in against past commitments, and procurement exceeded all expectations, 11.4 million tonnes were added in 1975-76 to stocks of 5.7 million tonnes at the end of October 1975, bringing the total to the record level of 17.1 million tonnes by the end of October 1976. As at the end of March 1977, the total stock was 18.0 million tonnes; of this wheat comprised 11.1 million tonnes, rice 6.2 million tonnes, and coarse grains 0.7 million tonnes.

4.21 This high level of stocks has posed considerable problems of storage, and all available space, including school buildings and unused air-strips, had to be mobilised for the purpose. In the middle of 1976, the Food Corporation of India, the Central Warehousing Corporation and the State Warehousing Corporations, had between them, an owned capacity of 7.8 million tonnes, and an additional 7.3 million tonnes of hired storage capacity. The effective capacity, after allowing for the requirements of receipt and despatch, was about 13 million tonnes. In the circumstances, about 4.5 million tonnes of CAP (cover and plinth) storage had to be resorted to. By the end of the year, however, the covered storage (owned and hired) had risen to 15.6 million tonnes, and CAP to 7.7 million tonnes, making for an effective capacity of 21 million tonnes. This would be barely sufficient if support purchases from the 1976-77 crop also turn out to be of a high order.

4.22 This is an embarrassing situation, as the costs of storage are quite high. Therefore, instructions were given for an increase in the quantum of ration from 8 kgs. or so, per head per month to 10 kgs. and this could be further temporarily increased to 12 kgs. per month, the extra quantity to be supplied in the form of wheat or wholemeal atta only. Likewise, orders were also issued for increasing the quantity of ration to 12 kgs. per adult labourer per month without the requirement of a ration card at all major irrigation and construction projects as well as at relief works. Moreover, price and distribution controls over wheat products were removed. In the new wheat policy for 1977-78, even the restrictions on wheat have been done away with.

4.23 Some relaxation was made during 1976-77 in rice consuming areas, though it was considered necessary to proceed with caution. For example, when there was a sharp rise in prices in June-July 1976, larger releases were made to the States of Kerala, and Tamil Nadu. However, there are certain limitations to the help that the Centre can render because of the preference for par-boiled rice in these regions. As mentioned earlier the premium for parboiling paddy was increased, and this should make for greater availability of such rice in the future.

4.24 The 1975-76 sugar season (October-September) opened with a stock of about 13 lakh tonnes, equivalent to a domestic consumption of about four months (not allowing for exports). Crushing, however, started late for a number of reasons, including attempts by the industry to get the Government to fix a higher price for levy sugar as well as to restore the excise rebate scheme for enhanced production. The latter had been withdrawn because it was felt that the loss to the exchequer was not balanced by any increase in the overall output, taking the season as a whole. As for the levy price, there had been some inter-zone anomalies in the previous price fixation. Industry also resented the new method of determining the levy price after taking into account overall profitability (and not merely the cost of production of levy sugar), though this approach was in line with the recommendations in the last Tariff Commission report. The question of levy prices was referred to the Bureau of Industrial Costs and Prices, which, in its interim report submitted towards the end of June 1976, recommended revised zonal prices which, besides correcting the earlier anomalies, had the effect of raising the average levy price by Rs. 8.33 per quintal. In order not to disturb the consumer price of Rs. 2·15 per kilo, government decided to reduce the excise duty for levy sugar from 20 per cent to about 14 per cent. As regards free-sale sugar, the impact of lower production began to be felt from February-March 1976 onwards, though a really sharp advance in prices only took place in July. As mentioned above, exports were thereupon staggered, and releases of levy and non-levy sugar for domestic consumption stepped up over the next three months-from 2.95 lakh tonnes in July 1976 to 3.17 lakh tonnes in August, and averaged 3.31 lakh tonnes for the period September 1976 to January 1977. The industry also undertook to stabilise the ex-factory price of the standard variety of sugar at Rs. 335 per quintal until such time as the new crop sugar was in the market. The Government, on its part, refrained from increasing the tariff value of free-sale sugar, though it was as low as Rs. 310 per quintal. For November and December 1976, the tariff value was nominally raised to Rs. 335 to be in conformity with the ruling price, the absolute rate of duty being left practically unaltered by reducing the basic duty from 37.5 per cent to 34 per cent ad valorem. Nevertheless, the new sugar season (October 1976—September 1977) did register some decline in prices, and this trend was further strengthened as the season progressed. Production of sugar in the first six months was 41.9 lakh tonnes as against 37.1 lakh tonnes in the corresponding period of the 1975-76 season. The reintroduction of the excise rebate scheme for excess production also seems to have contributed to this increase.

4.25 The production of controlled cloth has been declining continuously. Against the obligation of 800 million sq. metres production was only 323.5 million sq. metres during April-September 1975. A large number of mills were in financial difficulties and it became necessary to give them relief through waiving of the controlled cloth obligation for a period of one year upto December 1976. The effective quota was thus reduced to 400 million sq. metres per annum. By this time cotton prices had also eased (the wholesale price index dropped from 168.4 in October 1974 to 130.6 in October 1975) and production of controlled cloth during October-December 1975 and January-March 1976 quarters was around 170 million sq. metres. The sharp increase in cotton prices from the month of March 1976 onwards led to a decline in production and the output of controlled cloth fell from 206 million sq. metres in April-September 1976 to only about 40 million sq. metres in the October-December quarter. It, therefore, became necessary to review the situation, and a decision was taken to raise ex-mill prices by 35 per cent with effect from the quarter beginning January 1, 1977. The reduced obligation to produce controlled cloth was to remain operative for another year. The higher prices were expected to enable the mills to cover their cash outgo but not to provide for depreciation and return on investment. The increase at the ex-mill level was, however, not to result in any burden on the consumer as the Government decided to subsidise the National Consumers' Cooperative Federation to the required extent.

4.26 Simultaneously with the reduction of the controlled cloth obligation of the mill sector, it was envisaged that the part of the obligation relating to dhoties and sarees, could be passed on to the decentralised sector—in particular the handloom sector. The scheme was introduced on a pilot basis with effect from October 2, 1976. At present the scheme covers 20,000 looms in ten States, involving a production of about 2 million metres per month while the objective is to raise the production as soon as possible to 100 million metres and ultimately to 200 million metres per annum. It is estimated that production in the handloom sector would necessitate a subsidy of Re. 1 per metre, but this price would be well worth paying in the interests of employment.

4.27 In order to prevent an unduly large increase in the prices of raw cotton the Cotton Corporation of India has agreed to take a loss of upto 20 per cent on its sales of imported cotton in order that supply may be made at prices currently prevailing for the corresponding varieties of domestic cotton. Import duty on cotton was abolished upto March 1977, and on man-made fibres upto 31-10-1977.

4.28 In other ways, too, efforts were made to see that prices decline. The price of wheat issued to roller flour mills by the FCI was reduced from Rs. 135 per quintal to Rs. 125 per quintal in September while the price of bread has been reduced in several cities. The excise duty on woollen fabrics was reduced from 7 to 4 per cent; as a result the industry was prevailed upon to effect a cut in the wholesale prices of blazer and tweeds by 3 per cent and of knitting wool by 3-5 per cent. The cuts also apply to hosiery and ready-made garments. Other items subjected to price cuts on the initiative of the Department of Civil Supplies and Co-operation are biscuits and footwear. Fertilizer prices were again reduced as recently as February 7, 1977.

4.29 Measures of price reduction have necessarily to be accompanied by improved distribution if the benefits thereof are to reach the common man. Hence consumer cooperatives have to be developed as an integral part of the consumer oriented public distribution system. At present about 70,000 cooperative retail outlets are engaged in the distribution of essential commodities; their total turn-over in 1976-77 is expected to be of the order of Rs. 1,000 crores. Efforts are under way to strengthen rural consumer cooperatives also. The National Cooperative Development Corporation launched a scheme to provide financial assistance to marketing cooperatives/consumer stores to raise working capital finance. Fifteen States, involving 168 projects, had already availed of financial assistance under this scheme upto the end of November 1976. This will enable a large number of rural consumer cooperatives to enlarge their turnover. About 40 per cent of these projects are proposed to be set up in tribal, hilly and backward areas. Given the size of the country and the need to expand the cooperative distribution system to eliminate profiteering what has been achieved so far is far short of our requirements. Urgent action needs to be taken to expand the consumer cooperative movement.

4.30 The area of consumer protection was extended during the year to bring white printing paper and some brands of razor blades under the Indian Standards Institution (ISI) certification marks scheme, while a performance study of dry battery cells showed that the quality and standards of Indian batteries were, by and large, equivalent to, or even better than, the specifications laid down by the ISI. The Household Electrical Appliances (Quality Control) Order, 1976 stipulates that from July 1, 1977, 41 items will have to meet the standard specifications laid down by the ISI. The Standards of Weights & Measures Act, 1976, which received the President's assent on April 8, 1976, provides, inter alia, for consumer protection in respect of packaged commodities. While certain steps had already been taken in this direction in 1975-76, the new Act contains provisions for giving directions that packing should be in rationalised standard quantities by weight, measure, or number, so as to facilitate comparative assessment of prices by the purchaser.

4.31 To sum up : 1976-77 witnessed a reversal of the trend of declining prices and the economy was faced once again with inflationary pressures. Considering that prices went up by about 12 per cent over the year the various policy measures designed to contain such pressures cannot be said to have been successful in achieving their objective. A fluctuating agricultural output has always been recognised as a major factor to be reckoned with in this battle against rising prices. A buffer stock in food, it was felt, would give greater strength to deal with the price problem. The experience of 1976-77 shows that this strength is somewhat circumscribed in a large country like India by a number of factors. The variations in tastes and preferences limit the manoeuvrability of the authorities. The buffer stock also leads to monetary problems in the process of its creation which may not always be easy to control. It needs to be emphasised, however, that even with these limitations a food buffer stock is a tremendously powerful weapon against inflationary pressures.

4.32 The experience of 1976-77 also suggests that the battle against inflation needs to be fought on many fronts, i.e., all the essential commodities such as, pulses, sugar, edible oils and cloth. The accumulation of foreign exchange reserves gives us a greater margin of manoeuvrability in this regard than ever before. But experience shows that this needs advance planning and a great deal of administrative flexibility. It also points to the fact that our ability to control certain prices is limited by the state of international prices. If they are higher as in the case of cotton, there is no way of controlling domestic prices in the face of a decline in production. Finally, with regard to items like pulses, imports are not possible and, therefore, the ultimate solution to rising prices is increased production at home.