CHAPTER 4

PRICES AND PRICE POLICY

4.1 After a rise of about 12 per cent between March 1976 and March 1977, wholesale prices have registered a reasonable degree of stability, there having been a net increase of 0.6 per cent between March 26, 1977 and January 21, 1978. The Wholesale Price Index (1970-71=100) as on the latter date stands only 2.3 per cent above the level obtaining a year ago. Starting from 182.1 for the week ended March 26, 1977 the Index reached 189.4 in the middle of July. Although this was the highest point touched by it, the true seasonal peak was 189.0 for the week ended September 17, 1977, a rise of 3.8 per cent in about six months. Since then the Index has declined by 3.1 per cent to stand at 183.2 for the week ended January 21, 1978. Thus, the post-kharif seasonal decline has continued beyond mid-December, after some set-back in the latter part of November and early December because of the effects of the cyclones in the South. On the other hand, after several years, the winter rains in the north and north-west have come in time (i.e. late December), and this augurs well for the rabi crops and, hence, for the price situation during the remaining months of the year.

4.2 However, the price situation does not call for any complacency. Although the index of wholesale prices rose by only 2.3 per cent over the year ending January 21, 1978 the increase in some groups was much higher. Foodgrains stand higher over the year by 8.6 per cent, largely on account of pulses whose prices have advanced by as much as 38.4 per cent. Fruits and vegetables are up by 24.2 per cent, eggs, fish and meat by 15.5 per cent and condiments and spices by 28.3 per cent. The prices of milk and milk products, too, are slightly higher than a year ago. 'Other food articles' show a nominal decline of 0.7 per cent, but this group has been rather volatile. A sharp increase in the latter half of 1976-77 has been succeeded by a fall of 33.6 per cent between March 26 and January 21, 1978.

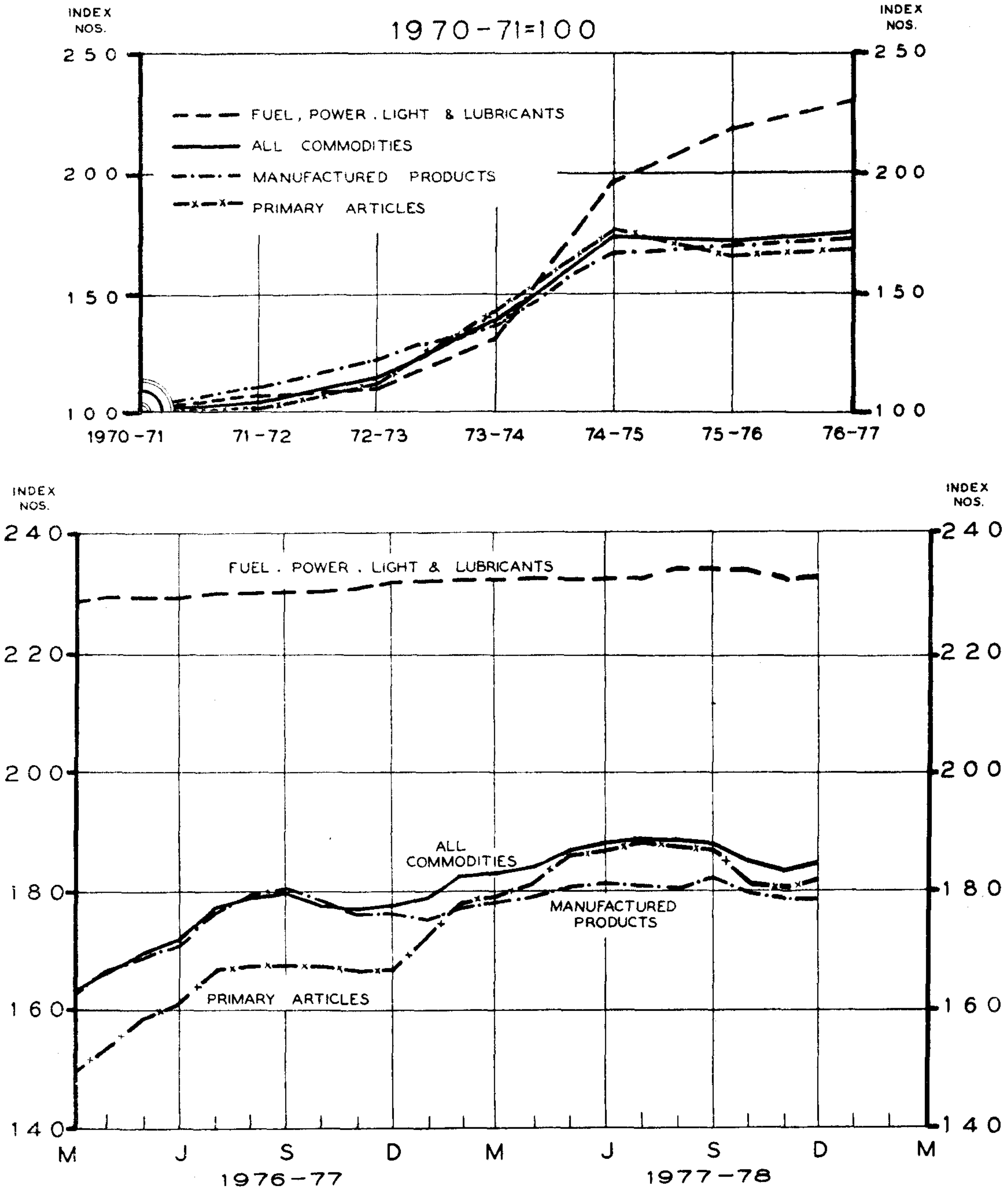
4.3 Non-food primary articles have behaved rather better over the past year, registering a fall of 8.6 per cent, the seasonal decline having been of the order of 5.3 per cent. Because of substantial decline in cotton prices, fibres have come down by 7.8 per cent and 'other non-food articles' (which include hides and skins, etc.) by 12.9 per cent. Oilseeds prices have declined over the year by 5.9 per cent due to a seasonal decline of as much as 13.2 per cent.

4.4 In the case of Manufactured Products, groups other than food products have shown upward variations. Food Products (manufactured) have undergone a seasonal decline of 15.0 per cent so that the group Index is lower by 7.0 per cent over the year. However, this is due to two groups. The sugar, khandsari and gur group has registered a seasonal decline of 20.7 per cent and of 11.7 per cent over the year. A seasonal fall of 12.4 per cent in the index for edible oils has resulted in a net decline of 2.5 per cent over the year. This position obtains partly because of the large imports of edible oils, both for the vanaspati industry and for direct consumption, and the arrival of the kharif oilseed crop in the market. The prices of groundnut oil, coconut oil and cotton-seed oil have declined over the year, but those of mustard oil are still 6.7 per cent higher.

4.5 The group index for Textiles has advanced by 9.1 per cent over the year—jute textiles by 23.6 per cent and cotton textiles by 8.1 per cent. The rise in the latter has been more in the decentralised sector than in the mill sector and seems to reflect the fact that, on an average, raw cotton prices in 1977-78 so far have ruled higher than in the corresponding period in 1976-77. Although the season started with an appreciable decline, the position later changed for the worse as the prospects of the cotton crop did not turn out to be as bright as anticipated earlier.

4.6 The movements in the Consumer Price Index generally follow those in the Wholesale Price Index with a time lag of a few weeks. Moreover, since the former is influenced by controlled prices to a larger extent than the latter, and also includes services in which price changes are infrequent, it is generally more stable than the Wholesale Price Index. This, it appears, is not true for the current year in as much as, on an average, the All-India Industrial Workers' Consumer Price Index (1960=100) shows a rise of 9.0 per cent during April-December 1977, while the Wholesale Price Index (1970-71=100) has moved up by only 6.6 per cent. Again, while the Consumer Price

WHOLESALE PRICES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

Index has advanced by 5.8 per cent between March and December 1977 the Wholesale Price Index has registered an increase of less than one per cent. A part of the deviation may be due to the wide difference in the base years and part may be due to the volatility of some of the items which find a place in the Wholesale Price Index but not in the Consumer Price Index.

TABLE 4.1

Index Numbers of Wholesale Prices (1970-71 = 100)

	Weight per cent	Per cent Variations				
		1974-75 / 1973-74	1975-76 / 1974-75	1976-77 / 1975-76	April-Dec. 77* / April-Dec. 76	Dec. 77* / Dec. 76
1	2	3	4	5	6	7
ALL COMMODITIES	100.00	25.2	—1.1	2.1	6.6	4.0
I. Primary Articles	41.67	25.2	—6.6	0.8	12.6	8.1
(a) Food Articles	29.80	26.0	—4.9	—5.1	13.0	12.3
Foodgrains	12.92	38.0	—11.1	—12.3	12.4	14.7
Cereals	(10.74)	42.3	—10.0	—10.7	6.2	4.4
Pulses	(2.18)	21.9	—15.8	—19.7	50.0	68.4
Fruits & vegetables	6.13	6.7	—9.2	6.6	21.1	20.7
Condiments & spices	1.09	55.7	20.6	—16.5	23.6	35.8
Eggs, fish & meat	1.90	19.3	2.2	1.7	11.0	11.4
(b) Non-food Articles	10.62	11.7	—14.6	20.2	12.4	—1.9
Raw cotton	2.25	22.1	—19.2	44.8	2.1	—9.7
Raw jute	0.43	5.1	12.9	8.4	20.9	20.4
Oilseeds	4.20	9.4	—27.0	19.9	35.9	7.8
(c) Minerals	1.25	87.9	4.0	2.0	7.0	6.8
II. Fuel, Power, Light and Lubricants	8.46	51.8	10.5	5.3	1.1	0.1
III. Manufactured Products	49.87	21.0	1.4	2.3	3.2	1.6
Food Products	13.32	9.2	—2.9	4.2	0.7	—3.9
Sugar, khandsari & gur	(7.24)	3.8	6.9	1.9	—13.7	—11.7
Edible oils	(3.72)	16.6	—21.8	5.9	37.0	7.8
Textiles	11.03	18.5	—7.8	5.4	12.5	9.9
Chemicals & chemical products	5.55	45.0	4.0	—2.4	0.9	0.1
Basic metals, alloys and metal products	5.97	24.2	7.1	2.9	1.8	2.0
Machinery & Transport Equipment	6.72	27.5	10.4	—1.4	0.9	1.2

*Provisional.

Price Policy

4.7 In view of the sharp increase in the level of wholesale prices in 1976-77 efforts had to be directed towards containing their rising trend. Obviously, special attention had to be directed towards those commodities which had been most under pressure. In addition to the overall monetary and credit measures referred to elsewhere, action was taken to check price rises in specific commodities.

4.8 Tea was a commodity in which the rise in prices was very sharp because international demand shifted towards it due to a poor coffee crop in Brazil. This was compounded by the poor tea crop in Sri Lanka due to adverse weather conditions. The wholesale price index for tea, which stood at 192.0 at the end of October 1976, rose to a peak of 352.2 by end March 1977. An export duty of Rs. 5 per kg. was levied in April 1977 to restrict exports in the interests of domestic consumption and to siphon off some of the excess profits being made by the industry. The impact was immediate and tea prices declined upto the end of May when the Index stood at 283.6. The falling trend continued in the peak production months and by December 3, 1977 the index was down to 178.2. At this level it was 9.2 per cent lower than a year earlier. Meanwhile in view of the high absolute level of tea prices Government had decided to arrange for sale of loose tea through NAFED and NCCF at Rs. 2 per kg. below the ruling price. These agencies are now purchasing tea directly at the auctions with a view to securing larger quantities for public distribution.

4.9 The Government has regulated the exports of fruits and vegetables though production in the country has risen substantially, and actual exports form only a small proportion of total production. Thus the prices of onions failed to decline during January-March 1977 when the southern crop—the major crop—becomes available, and the index climbed substantially by the middle of May. At this point of time a ban on exports was imposed, with the consequence that there was a decline of 25.4 per cent in one week. But prices began to rise sharply thereafter as the ban was replaced by regulated exports, and, in September 1977 reached a level which was double that in May 1977. Currently, they are 18 per cent higher than last year. In potatoes, whose exports were regulated as early as February 1977, there was a 50 per cent increase between March and October. There was an anti-seasonal rise in November, but in December a substantial decline has taken place; even so prices are 32 per cent higher than last year.

4.10 There is thus a definite policy on the part of Government that exports of essential items will not be permitted at the expense of the domestic consumer. Very recently, the export of turmeric and cummin seed has been banned, while eggs have been placed on OGL subject to a minimum price of Rs. 40 per hundred. Again, there is a continuing ban on the exports of pulses, HPS groundnuts and some varieties of oilcakes.

4.11 The policy of regulating exports in the interests of domestic consumption has its counterpart in imports of commodities like edible oils, cotton and artificial fibres. For the present it seems that imports of all these will continue. The edible oil import programme on Government account for the oil year 1976-77 (November-October) came to 6.2 lakh tonnes of which 5.6 lakh tonnes were actually received during the period. In addition, licences were issued to the private sector and private imports are believed to have been of the order of 3-4 lakh tonnes, so that total imports during November 1976—October 1977 would have been around 9 lakh tonnes.

4.12 For the oil year 1977-78, the indications are that a large quantity of edible oil imports will be necessary because of Government's commitment to continue supplying 75 per cent of the oil requirement of vanaspati industry. This proportion had obtained from February 19, 1977 upto June, while for the July-September quarter, it has been raised to 90 per cent. It was later brought down to 75 per cent to enable the domestic producers of cotton seed oil to find a market which the vanaspati industry alone provides.

4.13 The import programme for 1976-77 included substantial quantities of rapeseed oil for direct consumption, as the indigenous mustard crop had suffered a decline for the second year in succession. However, acceptability continued to be poor until refining was undertaken though even afterwards the off-take by State Governments has been low. This is despite the fact that the refined rapeseed oil is being subsidised to the extent of Rs. 1,000 per tonne and is being sold at a price of Rs. 7.50 per kg. On the other hand, there are also indications that its use may spread to non-traditional areas where groundnut oil has, so far, been the only, or principal, oil in demand.

4.14 For the cotton year 1976-77 (September-August), the Cotton Corporation of India contracted for 11.6 lakh bales of which 8 lakh bales arrived during the year. However, prices abroad were high and sales to the mills had to be subsidised. Only then was it possible for imports to have a sobering effect on cotton prices. The wholesale price index for cotton which stood at 209.4 for March 1977 declined to 197.8 for August, and with the commencement of the new season further fell to 175.7 for November 1977. Despite some rise thereafter the prices are lower by 12.2 per cent over the year. Substantial quantities of viscose and polyester fibres have also been imported to relieve the cotton shortage. A compulsory usage of 10 per cent man-made fibre was prescribed in order to reduce the demand for cotton.

4.15 A more long term solution to the problem of rising prices is increased domestic production. While research effort has to be directed to areas such as pulses, cotton and oilseeds to achieve the kind of breakthrough obtained in wheat and rice, in the short run incentives have to be offered to increase production both through a greater use of inputs and bringing a larger area under these crops. Price and procurement policy has an important role to play in this regard. The support price for kapas of 320-F variety has been thus sharply raised from Rs. 210 to Rs. 255 per quintal on the recommendations of the Agricultural Prices Commission (APC). Although the increase may appear to be academic in the context of the ruling high prices its significance lies in the fact that it may encourage cotton cultivation in new areas.

4.16 A relatively satisfactory situation with regard to cereals has emerged, but chronic shortages of pulses and oilseeds and frequent shortfalls in the production of cotton and jute continue. Therefore, it was decided during 1977-78 that measures would be taken to increase production significantly. At the same time public distribution of other commodities particularly edible oils and pulses, would be undertaken to the extent possible.

4.17 Though the APC in its report on price policy for the 1977-78 season recommended that the procurement price of wheat of all varieties should be maintained at Rs. 105 per quintal and suggested a notional procurement target of 5.5 million tonnes more in the nature of a support operation, Government took the stand that there should be no target of procurement and that the purchase price should be raised to Rs. 110 per quintal. Since the apparent increase in the purchase price tended to neutralise the earlier system of payment of bonus no material change took place. Government also removed all restrictions on the movement of wheat; yet procurement of wheat (upto January 28, 1978) has come to 5.16 million tonnes as against 6.60 million tonnes in the corresponding period of the 1976-77 rabi marketing season.

4.18 For the 1976-77 season, Government had fixed support prices for barley and gram as their prices had crashed in the wake of the bumper crop in 1975-76. For 1977-78, also, support prices were fixed at Rs. 65 and Rs. 95 per quintal respectively. But a significant departure has been made this year with the announcement in advance of a support price of Rs 125 per quintal for gram for the coming season. This level of price is expected to neutralise the advantage which unirrigated wheat enjoys over gram and thus boost the output of this grain which is both the most important of the pulses and an inferior cereal. According to the reports available, the area under gram has reacted favourably, while a productivity increase may also be expected because of the timely winter rains this year.

4.19 In the case of Kharif cereals, the APC had recommended an increase of Rs. 3 in the procurement price of paddy to Rs. 77 per quintal. The price for coarse cereals (jowar, bajra, maize and ragi) was to remain unchanged at Rs. 74 per quintal. The Commission also recommended a procurement target for rice of 5 million tonnes. As regards zonal arrangements, it felt that the existing rice zones could be selectively enlarged keeping in view their viability and the need for increasing the rice component of the buffer stock of foodgrains. Government accepted the recommendations regarding prices but, as in the case of wheat fixed no target for procurement and also made free the inter-State movement of rice, paddy and other kharif coarse cereals. Non-fixation of a target also entailed withdrawal of the incentive bonus scheme, so that the Central Government's commitments, despite the higher procurement price, would remain relatively unaffected. In these circumstances, issue prices were left unchanged. The new policy initially gave rise to some misgivings regarding the success of procurement. However, actual procurement is running ahead of the levels attained last year. Thus, rice purchases upto February 1, 1978 have totalled 3.07 million tonnes as against 3.03 million tonnes in the corresponding period of the 1976-77 kharif marketing season. However, procurement in the same period in 1975-76, when the rice output was comparable, was half a million tonnes more.

68 M. of Fin./77—4.

4.20 Another case of enhancement of the support price over and above that recommended by the APC is provided by groundnuts. As against Rs. 155 per quintal suggested by the Commission (compared to Rs. 140 for 1976-77) the Government announced a price of Rs. 160 per quintal. To some extent this decision was governed by the prior pronouncement of the Gujarat State in this very regard, but the Central Government chose not to disagree as the difference was small and the support price was, in any case, academic. At the same time the support prices for soyabean and sunflower seed were raised to Rs. 160 and Rs. 145 per quintal respectively (inclusive of a promotional premium of Rs. 10) as these crops offer the maximum scope for augmenting the supply of edible oils in the country.

4.21 It was decided that the existing dual price policy for sugar should continue. The minimum statutory price for sugarcane was, therefore, not raised because a higher cane price would have enabled sugar mills to secure an enhanced price for levy sugar. Later in the year Government felt that prices in the open market were rather high, looking at the record production, and the fact that larger releases for domestic consumption had also not had a sufficient impact. In these circumstances a decision was taken in November 1977 to reduce the duty on free-sale sugar from 45 per cent to 27.5 per cent. The duty on levy sugar was also reduced by 2.5 per cent so that it is now only 12.5 per cent. This will enable a small increase in the levy price and will give some relief to the producers. With the lowering of the excise duty on non-levy sugar, and the release of 50,000 tonnes of sugar held by the STC for export purposes in the internal market, open market prices have fallen to less than Rs. 400 per quintal.

4.22 The APC's recommendations in respect of raw jute envisaged no change in the existing support price which stood at Rs. 136 per quintal for the W-5 grade in Assam. This was because there had been no increase in the cost of production, the support price was comfortably above the cost of production and the interests of the processing industry had to be safeguarded. Government, however, decided that the support price should be enhanced by Rs. 5 per quintal because of the need for proper incentives to growers to increase the production of jute in the country. As a matter of fact raw jute prices have been very much on the high side this year. In July 1977, the beginning of the season, they were 31.4 per cent higher than in July 1976 and the Jute Corporation of India has not been called upon to give support to the market. On the contrary, the Jute Commissioner had to fix maximum prices (Rs. 225 per quintal for W-5, Calcutta delivery) towards the end of October, 1977, and to prescribe stock limits with mills. Despite the latter, reports are that the ceiling limits have been pierced. One reason for this may be the cornering of stocks by mills/traders at the primary markets themselves, so that there are hardly any surpluses for the JCI, which largely operates in the secondary markets, to purchase. To prevent speculative inventory building Government has decided to license dealers in baled jute.

4.23 With regard to manufactured products there are a few cases where prices have been allowed to be raised. Cement prices have been raised by a rupee per bag so as to compensate for the higher cost of imports which have been necessitated by shortfall in production and the emergency requirements of the cyclone-hit areas. The statutory minimum price for raw rubber has been raised from Rs. 525 to Rs. 655 per quintal, but tyre manufacturers have been restrained from increasing their own prices as these were already high. Prices of coal have not been raised in spite of the coal industry being in the public sector as it would have affected adversely such bulk consumers as the steel plants, railways and the power industry.

Public Distribution and Consumer Protection

4.24 Efforts by Government to make the public distribution system more effective, and to extend its coverage wherever possible, continue. Its monitoring activities have helped to alleviate local shortages of vanaspati, baby food, cement, kerosene, salt and matches. That such shortages can occur even when the overall supply position is satisfactory highlights the significant role that has to be played by the public agencies in this regard. Thus, the supply of kerosene has been stepped up during the current year and is running 8 per cent higher than last year, while production of vanaspati during 1976-77 (November-October) has been higher by 10 per cent.

4.25 At the end of September 1977 a Pulses and Edible Oils (Storage Control) Order was issued under the Essential Commodities Act. This order prescribed, *inter alia,* the maximum limits of stocks that could be held by wholesalers and retailers in respect of pulses, edible oils and vanaspati, and a period of 15 days was allowed to dispose of the excess stocks that might have been held by them. Subsequently, however, imported edible oils were excluded from the purview of the prescribed stock limits. As the Stock Control Order was essentially a de-hoarding measure, the ceiling limits were intentionally kept low so that the cornered stocks may come quickly out into the open. Even at that time Government had the intention of modifying the stock limits, particularly from the point of view of distinguishing between the larger and smaller consuming centres. With the arrival of the kharif crops into the market higher stock limits were prescribed, effective from December 6, 1977, for relatively high population centres and notified primary *mandis.* Further, oilseeds dealers and millers were brought under the discipline of stock holding, that is to say, stock limits were fixed also for possession of oilseeds, oils and pulses by millers. On the other hand, relief was provided to small retailers by raising the minimum stock for taking out a licence.

4.26 Simultaneously with the promulgation of the Stock Control Order, Government fixed the maximum end-retail price of mustard oil at Rs. 10 per kilo. The result has been that the wholesale price index for this commodity which stood at 248.0 on 1st October declined to 205.8 by the end of December. This outcome was obviously the result of a parallel reduction of 15 per cent in the prices of rapeseed and mustard induced by the price control order. Since rabi prospects are excellent it is hoped that mustard oil will be available in adequate quantities shortly. Therefore, the price control order has been withdrawn.

4.27 Public distribution of foodgrains has been at a substantially higher level during the marketing year (Nov.-Oct.) 1976-77. This came to 11.1 million tonnes as against 9.0 million tonnes in 1975-76. The distribution of rice increased by one million tonnes in 1976-77. Depletion of stocks of rice has, however, been nominal, while overall there has been a rise of over 3 lakh tonnes to 17.4 million tonnes at the end of October 1977. This situation obtains because, though procurement during 1976-77 (Nov.-Oct.) came to only 10.9 million tonnes as against 13.2 million tonnes in the previous year, imports of over 1.6 million tonnes have taken place.

4.28 The sugar season of 1976-77 (October-September) opened with a stock of 8.45 lakh tonnes. Production during the year came to 48.40 lakh tonnes and releases to 41.06 lakh tonnes. Thus, the year closed with a stock of 15.79 lakh tonnes. During 1976-77 releases for domestic consumption were stepped up so that they came to be 1 lakh tonnes more than in the 1975-76 season. Both levy and non-levy sugar releases were higher ; they are now at a level of 3.8 lakh tonnes per month as against less than 3 lakh tonnes a year ago. One reason for this is a decision to make available sugar in larger measure to the rural areas. Accordingly, allotments to State Governments are now being made on the basis of population. Alongwith larger releases for domestic consumption, export commitments have come down. Thus, combined with the downward adjustments in excise duty, these have had a restraining influence on sugar prices. In turn, gur and khandsari prices have also been affected favourably.

4.29 Government is currently engaged in the task of formulating a National Edible Oils Policy. A group has been constituted to make an in-depth study of the problems involved so that both medium and long term plans can be prepared. In the meantime, all possible efforts are being made to step up the production of oilseeds in the country. Pulse crops are also engaging the attention of Government, and it is proposed to make a beginning in the public distribution of pulses with the help of NAFED.

4.30 Part of the strategy of controlling price increases consists in insulating high consumption centres and meeting their requirements directly, so that they do not act as a magnet to attract supplies and raise prices unduly in producing areas. It was on this ground that imported rapeseed oil was initially marketed only in places like Calcutta and Delhi, before being extended to cities with a population of 4 lakhs and above or those having municipal corporations. It has now been decided that State Governments may extend the scheme to small towns and villages, subject only to the condition that the oil will be sold through licensed fair price shops and at a price not exceeding Rs. 7.50 per kilo.

4.31 This review of developments, during the past year brings out the fact that the price line has been held reasonably well and that we are on the way to developing an integrated price, procurement and distribution policy. However, a great deal needs to be done regarding the development of a support organisation in commodities other than cereals as also a public distribution organisation which will make available essential commodities at reasonable prices. Agencies like the NAFED and NCCF have to be developed to undertake these tasks on a country-wide scale. The problem with regard to distribution is not to set up a hight cost organisation, as a wholly government organisation is likely to be, but to make use of existing agencies such as cooperatives to offer adequate service at low cost. Considering the unsatisfactory working of a large proportion of cooperatives the task is not going to be accomplished in a short while. It is nevertheless well worth persevering with them because of the long run benefits.

4.32 It has been seen that imports do not necessarily help to bring down prices for the domestic consumer. This has prominently been the case in edible oils. Apart from the high prices abroad regional habits and preferences militate against a successful national policy. This handicap can only be overcome by giving recognition to blending of oils, with proper safeguards to prevent adulteration.

4.33 There is no doubt that, in most recent years, money supply expansion has been excessive in relation to the growth in real output, and that this has worked against price stability. An appropriate budgetary and monetary policy is, therefore, necessary. Since excess liquidity implies that conditions in which consumers can easily be exploited tend to exist, the efforts made in the field of consumer protection need to be intensified. The stresses and strains which are inherent in forcing the pace of development need to be treated as a datum in the situation—and not as a by-product of the developmental effort to be tackled only when matters are tending to get out of hand.