

CHAPTER 4

PRICES AND PRICE POLICY

Price Trends

4.1 Wholesale prices have shown a great deal of stability from March 1977 onwards. While the Wholesale Price Index (1970-71=100) moved up from 162.6 for March, 1976 to 182.9 for March 1977, there was no net change over the next twelve months. The post-rabi seasonal rise in prices took the Index up to 188.7 for July 1977 after which there was a small decline for two months. The seasonal decline proper, associated with the coming into the market of the *kharif* crop, began then and the Index dropped from 188.2 for September 1977 to 182.9 for March 1978, *i.e.*, the same as a year earlier. There was a further fall to 182.5 in April before the commencement of the seasonal upswing. With this drop in April the Index came down to a level below that obtaining twelve months earlier, and this situation continued upto the end of September 1978.

4.2 On the basis of weekly data, the Wholesale Price Index rose by 2.0 per cent between April 1 and September 30, 1978, the corresponding increase in the first six months of 1977-78 being 2.5 per cent. Foodgrains showed a rise of 3.7 per cent largely because of rice (+9.0 per cent) and pulses (+14.3 per cent). Declines in the sub-groups fruits and vegetables and "other food articles"—the latter includes tea (-14.1 per cent)—however, moderated the impact on food articles as a whole which showed a rise of only 1.8 per cent. Non-food articles registered an increase of 2.7 per cent, an advance in oilseeds prices of 6.1 per cent and of 7.3 per cent in the index for miscellaneous raw materials having been partially offset by declines in the prices of both cotton and jute.

4.3 The fuel, power, light and lubricants group registered in the first half of the current fiscal year an increase of 1.6 per cent, largely because of enhancement of electricity rates by several State

Governments. In manufactured products, basic metals, rubber and rubber products, and silk, art silk and synthetic fabrics advanced appreciably. The food products group experienced a small decline because of the impact of the sugar, khandsari and gur sub-group.

4.4 The fact that prices rose by no more than 2.0 per cent in the first six months of 1978 has influenced the behaviour of the price level since. Normally, the seasonal rise upto mid-September is followed by a declining trend which lasts for three months or more. This year, however, while the Wholesale Price Index showed a fall during the month of September, it registered a small rise in October but has tended to decline thereafter. The underlying strength of the seasonal deflationary influences asserted itself from the latter half of November. Between September 30, 1978 and January 27, 1979 there was a decline of 1.1 per cent.

4.5 The contra-seasonal rise in prices which took place in October was, thus, not a cause for concern. Since the seasonal rise itself had been small the subsequent fall also was of moderate proportions. Moreover, the prices of a large number of commodities which contribute to the seasonal decline were already much lower than what they had been last year. This factor, too, made for a smaller fall than might otherwise have been the case. For example, cereal prices as on 30.9.1978 were 3.9 per cent lower than a year earlier. Rice prices were down by 4.3 per cent, jowar by 3.6 per cent and of bajra by as much as 12.0 per cent. Fruits and vegetables and condiments and spices were lower by 6.8 per cent and 18.2 per cent respectively. Similarly, prices of raw cotton had registered a decline of 11.6 per cent and of oilseeds of 12.1 per cent. Along with oilseeds, edible oil prices had fallen by 10.5 per cent. The sugar, khandsari and gur sub-group showed a decline of 23.6 per cent over the year.

TABLE 4.1
Index Numbers of Wholesale Prices (1970-71=100)

1	Weight per cent	Per cent Variations				
		1975-76	1976-77	1977-78	April- Dec. 1978*	Dec.1978*
		1974-75	1975-76	1976-77	April- Dec. 1977	Dec.1977
2	3	4	5	6	7	
All Commodities	100.00	-1.1	2.1	5.2	-0.6	-0.4
I. Primary Articles	41.67	-6.6	0.8	9.7	-1.4	-2.8
(a) Food Articles	29.80	-4.9	-5.1	11.8	-0.1	-3.6
Foodgrains	12.92	-11.1	-12.3	11.6	2.1	-2.0
Cereals	(10.74)	-10.0	-10.7	4.7	-2.8	-4.1
Pulses	(2.18)	-15.8	-19.7	47.7	21.1	4.6
Fruits & vegetables	6.13	-9.2	6.6	19.3	-8.2	-15.1
Condiments & spices	1.09	20.6	-16.5	21.6	-4.5	-17.3
Eggs, fish & meat	1.90	2.2	1.7	11.6	11.9	7.8
(b) Non-food Articles	10.62	-14.6	20.2	6.3	-6.7	-1.3
Raw cotton	2.25	-19.2	44.8	-2.3	-13.5	-9.7
Raw jute	0.43	12.9	8.4	17.4	0.7	-6.9
Oilseeds	4.20	-27.0	19.9	21.7	-14.6	-14.2
(c) Minerals	1.25	4.0	2.0	6.1	1.7	-0.3
II. Fuel, Power, Light & Lubricants	8.46	10.5	5.3	1.5	4.8	5.0
III. Manufactured Products	49.87	1.4	2.3	2.3	-1.0	0.4
Food Products	13.32	-2.9	4.2	-2.5	-16.0	-14.1
Sugar, khandsari & gur	(7.24)	6.9	1.9	-14.8	-23.1	-21.0
Edible oils	(3.72)	-21.8	5.9	23.2	-11.2	-7.8
Textiles	11.03	-7.8	5.4	11.3	2.9	2.3
Chemicals & chemical products	5.55	4.0	-2.4	0.8	2.1	2.9
Basic metals, alloys & metal products	5.97	7.1	2.9	1.9	8.2	10.6
Machinery & transport equipment	6.72	10.4	-1.4	-1.5	5.8	5.1

*Provisional.

4.6 On the other hand, there were certain circumstances tending to push up, or to delay a fall, in prices in the last quarter of 1978. The unprecedented floods in the country in August-September contributed their part in disrupting communications and preventing orderly marketing of crops. This is quite apart from the damage done to the kharif crops themselves, and the standing jute crop. Moreover, the new kharif procurement prices helped to give some support to the market; the raising of the minimum statutory price for sugarcane had the same effect. Manufacturers of tyres and tubes took advantage of the crisis in rubber supplies, and shortages in items like paper and soda ash also developed. In short, while the food articles group showed a moderate decline, manufactured products, in particular jute manufactures, paper products and rubber products, registered an increase. Non-food articles under the Primary Articles group also showed a net rise as a decline in oilseeds prices was more than offset by increases in the case of jute and mesta, raw hides and skins, lac, etc.

4.7 The sources of the relative price stability during the current year so far (April—December 1978) have been a fall in the prices of raw cotton (-13.5 per cent), oilseeds (-14.6 per cent), cereals (-2.8 per cent), fruits and vegetables (-8.2 per cent) and food products (-16.0 per cent) particularly sugar, khandsari and gur (-23.1 per cent) and edible oils (-11.2 per cent). Among themselves these account for 36.7 per cent of the total weight of the Wholesale Price Index. Evidently, the impact of a good agricultural crop during 1977-78 was significant—both directly and also through cheaper inputs for some of the agro-based industrial products. Indeed, the contribution of sugar, khandsari and gur having a weight of 7.24 per cent, was quite significant in keeping the prices stable. Commodities which remained the major destabilisers of prices were pulses, eggs, fish and meat, fuel and power, basic metals and machinery groups.

4.8 While the Wholesale Price Index has been fluctuating within narrow limits, the same cannot be said of the Consumer Price Index (1960=100).

Whereas the former shows a marginal fall between December 1977 and December 1978, the latter has registered an increase of 1.5 per cent. During the current financial year also, i.e., between March and December 1978, the Wholesale Price Index is 1.0 per cent higher while the Consumer Price Index has risen by 4.4 per cent.

4.9 This seems to be due to several factors. In the first place, while the Wholesale Price Index has been revised with 1970-71 as base year, the Consumer Price Index still has 1960 as base. The new Consumer Index with base 1971 is yet to be released. This means that expenditure pattern changes which might have taken place in the wake of changes in production and relative prices at the wholesale level are not taken into account in any comparison that may be made today between the official wholesale and retail price indices. For example, the weight of rice in the Wholesale Price Index has decreased between 1961-62 and 1970-71 and that of wheat has risen. The operations of the public distribution system have also made for more widespread consumption of wheat and wheat products than was the case eighteen years ago. Consequently, a new Consumer Price Index would *ipso facto* have a lower weight for rice (and a higher one for wheat) than the 1960 Index.

4.10 There are, secondly, basic differences between the coverage of the wholesale and consumer price indices. While the former includes a large number of commodities (raw materials, machinery etc.) which do not form part of the family budget, the latter includes services the prices of which change at infrequent intervals. This characteristic normally imparts a greater degree of stability to the Consumer Price Index in that both upward and downward movements tend to be less sharp than in the case of the Wholesale Price Index. On the other hand, the inter-linkages between various constituents of the Wholesale Price Index itself makes for larger variations in the overall. To take an illustration, a good crop of oilseeds will result in a fall in the prices of not only seeds but also vegetable oils and oilcakes. The cumulative effect would be much larger than for edible oils which alone is included in the Consumer Price Index.

4.11 Despite these differences which show up at the index level, by and large the movements in individual commodity prices both at wholesale and retail level have been similar. The divergence between the Wholesale Price Index and Consumer Price Index

over the past year would, therefore, seem to be because of local factors. The initial point of departure was the absence of a seasonal decline in the last quarter of 1977 in so far as the Consumer Price Index was concerned. It appears that the cyclonic disturbances in the South had something to do with this, the Consumer Price Index remaining unchanged at 330 for the three months October, November and December 1977. However, some of the lost ground was made good when there was a decline of 5 points each in January and February 1978, bringing the Index down to 320. The subsequent rise upto 330 by July 1978 must be considered on the high side; it is particularly so in relation to the Wholesale Price Index in whose case the seasonal rise has been rather small. One of the commodities responsible is pulses, prices of which have continued to rise, and, even at the wholesale level, increased by 10 per cent between April and December 1978. But the increase of 5 points in September 1978, and of another 4 points in October, would largely be accounted for by the disruption of economic activity in the wake of the unprecedented floods of August-September. With restoration of normalcy, the Index remained stable in November and declined by 5 points in December 1978.

Price Policy

4.12 As has already been mentioned a substantial degree of stability in wholesale prices has prevailed over the past year and a half. The policies which were initiated last year have, therefore, been continued in the current year also.

4.13 Tea and coffee were two commodities whose prices had risen abnormally during the second half of 1976-77. The imposition of export duties had helped to bring down their prices in the domestic market. This was particularly so in the case of tea for which the wholesale price index dropped from 344.3 in April 1977 to 190.0 in November, before rising again to 244.1 in April 1978. A declining trend then set in with the approach of the peak production season. As, however, exports of tea in the first half of the current fiscal year had not been satisfactory even in relation to the reduced target of 200 million kgs. for 1978-79 (as against an export of 240 million kgs. in 1976-77) the export duty of Rs. 5 per kg. was reduced to Rs. 2 per kg. in September 1978 and completely abolished in February 1979.

4.14 In coffee, the export duty was sharply stepped up to Rs. 2200 per quintal by April 1977. Prices tended to decline thereafter, and the export duty was also brought down in stages to as low as Rs. 400 per quintal in September 1978. The wholesale price index

for coffee which stood at 147.1 in January 1977 has now stabilised at around 120.

4.15 The export of turmeric was banned in January 1978, the wholesale price index having risen as high as 285.0 in October 1977. As a result of the ban there was a drop to 217.1 by February 1978, but a rising tendency then developed and another peak at 288.8 was touched in July. However, in October 1978, the index was lower than a year earlier. The ban was lifted in January 1979. Similarly, the ban on exports of cummin seed (since removed in January 1979) resulted in a fall in its index from 504.0 in the first half of January 1978 to 300.1 by the end of November.

4.16 The index for edible oils in October 1978 stood 7.5 per cent below the level of October 1977 even though the seasonal decline in prices has not been significant. This situation obtains because of the large imports of edible oils both on Government and private account. Thus, for the oil year 1977-78 (November—October), the State Trading Corporation contracted for imports of 5.05 lakh tonnes while actual arrivals were 5.47 lakh tonnes (including some spill-over from 1976-77). Private sector imports have been estimated to be approximately of the same order. It has recently been decided that all edible oil imports will henceforth be canalised through the State Trading Corporation. This has been done in order to avoid competitive bidding, as also to ensure smoother flow of supplies.

4.17 Raw rubber prices have been a cause for anxiety in the current year. The decision to export domestic raw rubber led to a rise in its wholesale price index from 138.4 in March 1978 to 242.9 in September. Government thereupon decided to import about 15,000 tonnes of rubber and the announcement itself helped to reverse the rising trend. Notwithstanding a decline of 22 per cent in October 1978, prices are 39 per cent higher than a year earlier. Consequently the prices of tyres and tubes have risen by 22.4 per cent and 17.5 per cent respectively over the year.

4.18 Shortages have become chronic in pulses and oilseeds, and price policy has been oriented towards giving an adequate incentive to farmers to expand production. In pulsus, a support price for gram had been first introduced for the 1976-77 rabi marketing season following the bumper crop of 1975-76. The support price of Rs. 90 per quintal then fixed was raised slightly the next year, and raised sharply to Rs. 125 per quintal in 1977-78 in order to provide

some advantage over unirrigated wheat. The announcement was made at the time of sowing itself so that crop planting decisions would be influenced. The support price has now been raised to Rs. 140 per quintal for the coming season.

4.19 After gram it was felt that the major kharif pulses should also be given the benefit of a support price. Accordingly, support prices for arhar and moong at Rs. 155 per quintal and Rs. 165 per quintal respectively were announced for the 1978-79 season on the recommendation of the Agricultural Prices Commission (APC). As in the case of gram, the support operations have been entrusted to the National Agricultural Cooperative Marketing Federation (NAFED), but such intervention may not actually be necessary in view of high prevailing market prices. Nevertheless, some purchases are being undertaken by NAFED as pulses are being included on an experimental basis in the expanded public distribution system.

4.20 Apart from pulses, anxiety attaches to the supply position of oilseeds. Support prices have been in existence for groundnut, soyabean and sunflower seed. For rapeseed and mustard a support price of Rs. 225 per quintal was in force for the 1977-78 and 1978-79 rabi marketing seasons. This has been raised to Rs. 245 per quintal for the 1979-80 marketing season and support operations will be entrusted to NAFED. As for groundnut, soyabean and sunflower seed a uniform support price of Rs. 175 per quintal has been fixed for the 1978-79 season. This implies an increase of Rs. 15 per quintal for groundnut, of Rs. 30 per quintal for soyabean and Rs. 10 per quintal for sunflower seed.

4.21 In view of the high prices ruling in the market for a number of years a support price for cotton (kapas) has not been of much practical significance. It was, therefore, decided to continue the existing support price of Rs. 255 per quintal for kapas of PA-320F variety for the coming season.

4.22 To provide effective price support the Cotton Corporation of India has planned to undertake commercial purchases as well as purchases for NTC mills in the 1978-79 season, and has fixed a target of 12.05 lakh bales which is almost double the purchases made in the 1977-78 season.

4.23 The Government of India has also allowed the revival of the State Cotton Monopoly Scheme of the Government of Maharashtra, and is providing financial help for the purpose. The Maharashtra State Cooperative Marketing Federation will offer guaranteed

prices to growers at a level 20 per cent higher than the support prices fixed by the Government of India. Cotton growers will also be permitted to sell cotton to cooperative textile mills.

4.24 For jute, the minimum statutory price for the 1978-79 season, was raised by Rs. 9 to Rs. 150 per quintal for W-5 grade in Assam, as recommended by the APC.

4.25 At the time that a support price was introduced for gram for the *rabi* marketing season 1976-77 a formal announcement was also made for barley, and for the same reason. The support price was Rs. 65 per quintal which was retained for the next year also. For 1978-79, the support price has been raised to Rs. 67 per quintal for barley of fair average quality.

4.26 A procurement price of Rs. 85 per quintal has been accepted for the other inferior cereals, jowar, bajra and maize, and also for paddy for the 1978-79 *khari* marketing season. Despite the increase in the procurement price of paddy by Rs. 8 per quintal and the consequent burden on the exchequer, a decision has been taken not to enhance the issue price of rice. The issue price of wheat has, however, been raised by Rs. 5 per quintal with effect from December 1, 1978 in order to meet a part of the extra subsidy (about Rs. 13 per quintal of rice). Since issues of wheat from the public distribution system are larger than those of rice the net increase in food subsidy may not be large.

4.27 Government decided to raise the procurement price for wheat for the 1978-79 season to Rs. 112.50 per quintal. In a departure from earlier practice, and following the lead given for gram last year, the APC was required to suggest appropriate support/procurement prices for the 1979-80 *rabi* marketing season at the time of the sowing season itself. The majority in the Commission have suggested a small increase of Rs. 2.50 per quintal over last year's price, i.e., Rs. 115 per quintal. Government's decision on this is still to be announced.

4.28 For four seasons the statutory minimum price of sugarcane has been kept constant at Rs. 8.50 per quintal linked to a recovery percentage of 8.5. This was so despite the Agricultural Prices Commission's recommendation for a small increase of Re. 1 in their reports for 1975-76 to 1977-78 seasons. Government did not feel the need to accept the Commission's recommendation as the actual prices realised by farmers were much higher than the statutory minimum. In fact, in most States "State advised" minima were in

excess of the Centrally fixed price. Consequent on complete decontrol of sugar with effect from August 16, 1978, and looking at the impact this was likely to have on prices obtained by cane growers who were in a weak position because of over-production, the statutory minimum price payable by sugar mills has been raised to Rs. 10 per quintal for the season beginning October 1, 1978. With this increase the State Governments are expected not to have, or to revise downward at least, their own "advised" prices which have been responsible for the glut in the previous season. Since sugar-cane output this year is expected to be no less than in 1977-78 it is desirable that as large a proportion as possible should be crushed by the sugar mills, and that growers should not be forced to sell to gur and khandsari manufacturers.

4.29 In view of the substantial increase in investment costs, the Government had sought to encourage the establishment of new capacity in the cement industry through an assurance that output from such capacity would be guaranteed a return on capital employed of 14 per cent (subject to a limit on the capital cost per tonne). As this was found unattractive Government agreed to a post-tax return of 12 per cent on net worth. At the same time, in the context of the short term needs of the economy, the Government decided to grant relief to those units which, in spite of power shortage, continued their production using captive power plants. Cement units which have captive thermal plants are to get a relief of 5 paise per unit, whereas for diesel generation the relief is 25 paise per unit. The above relief is subject to a ceiling of 120 units per tonne of cement production. Also, this relief is available only on captive power generation which was used to produce cement during periods of notified power shortage by the concerned State Electricity Boards. A cash subsidy of Rs. 30 per tonne has also been allowed to cement manufacturers for additional output over and above the best production level in the past 3 years or over 85 per cent of the installed capacity, whichever is higher. It had, moreover, become necessary to import a certain quantity of cement (and to stop exports) because of increased demand for reconstruction after the cyclones in the South last year, a demand which could not be met by domestic producers as capacity utilisation in the industry was already high. Since import prices were considerably higher than the cost of production at home, price adjustments became inevitable. The disruption in coal supplies in the wake of floods, and the impact of an arbitration award, in respect of wages, too, necessitated a revision. Hence, on December 7, 1978, the Government raised the

cement price by Rs. 39.91 per tonne. Of this, Rs. 8 would be on account of the higher priced cement imports, Rs. 13.38 for increased wages, and Rs. 18.53 (for a period of 4 months) to compensate for the use of furnace oil in place of coal by some cement factories. As a result of these changes, the ultimate consumer will now have to pay an additional sum ranging from Rs. 2.10 to Rs. 2.25 per bag of cement, depending on the element of freight.

4.30 Because of complaints of malpractices in the distribution of cement in a situation of shortage, eleven States and two Union Territories have from October 1, 1978, taken over the distribution of cement in their areas. Thus, cement has also been added to the list of commodities coming within the purview of the public distribution network.

4.31 In order to encourage the setting up of mini cement plants (capacity upto 200 tonnes a day) Government announced towards the end of December 1978 certain incentives. Cement from mini plants will be exempt from distribution control giving them a benefit of Rs. 30 per tonne; they would also get a 50 per cent rebate in excise duty for five years from the start of production. These will be over and above the existing incentives and facilities provided by the Government. Plants set up in hilly or inaccessible areas would get some extra relief.

4.32 The Government also decided towards the end of May 1978 to increase the prices of saleable steel (all categories) by an average of Rs. 175 per tonne mainly to compensate higher input costs. It also decided to levy a development surcharge of Rs. 100 per tonne with effect from June 4, 1978 on non-priority categories, *i.e.* plates, structurals and railway materials to generate funds for rehabilitation and modernisation of industry and to update its technology. Three other decisions were also announced simultaneously. The first was to abolish the dual pricing system which was in vogue since 1973, *i.e.*, one price for ex-plant deliveries and another for ex-stockyard deliveries. The second envisaged the extension of ex-plant delivery facility, hitherto given to large consumers, to medium and small scale units also, thus ending the discrimination against the latter resulting from the large spread between ex-plant and ex-stockyard prices. For deliveries ex-plant, the incidental charges of handling at stockyards only will be added. These incidental charges will not, however, be levied on off-take by Small Scale Industries Corporations, which will give them a distinct price advantage. It is also the Government's intention

to keep the prices of all categories under an informal price control so that the steel plants do not, of their own accord, increase prices. The third decision was to introduce the system of pooling of the prices of imported and domestically produced steel so that higher imported steel prices are shared equitably by all consumers. The prices of steel items being imported to augment supplies were subsequently raised with effect from September 12, 1978. The increase is Rs. 100 a tonne for plates, joists, structurals and coils.

4.33 In July 1978, the Government granted a price concession upto Rs. 150 a tonne to the State Small Industries Development Corporations (SIDC's) for purchasing steel items from stockyards. The Corporations in turn will sell steel to small units, the net advantage to the latter being Rs. 40 a tonne. With this, the small units will be getting both the advantages—pricing and ready availability.

4.34 For building up a buffer stock, the Government decided to waive, in September 1978, the customs duty on all the steel items imported by the Steel Authority of India Limited (SAIL). Incidentally, this will help in reducing the pooled price for these items.

4.35 A new distribution policy has also been worked out under which traders will be given a fixed percentage of steel items on the condition that they will take special measures to boost consumption in the rural areas. Traders will have to set up depots in important rural centres for marketing steel items needed by consumers in rural areas.

4.36 The ex-factory price of levy aluminium had to be raised in March 1978 on an interim basis, taking into account the excise levies on power and coal. Subsequently, as a result of an enquiry conducted by the Bureau of Industrial Costs and Prices, the dual pricing policy for aluminium introduced in July 1975 has been abandoned with effect from October 18, 1978. Instead of a separate price for levy (electrical conductor grade) aluminium and non-levy (commercial grade) aluminium there is now a uniform ex-factory price for aluminium ingots of Rs. 8,682 per tonne, with retention prices having been fixed for individual producers on the basis of cost of production and a graded post-tax return on net worth based on capacity utilisation. However, the stipulation that 50 per cent of production should be of EC grade continues, and a small differential of Rs. 100 per tonne has been provided by fixing the price of EC grade metal at Rs. 8,732 per tonne as against Rs. 8,632 per tonne for the

commercial grade. The differential (compound) excise duty on the two types of metal has also been replaced by a uniform levy of 40 per cent *ad valorem* (basic) at the ingot stage. These changes should have resulted in a decline of about Rs. 1360 per tonne in the price of commercial grade metal. The reduction in the price of electrical grade metal would come to about Rs. 530 per tonne; consequently, the subsidy to State Electricity Boards was withdrawn. As regards commercial grade metal, it was expected that the primary producers would reduce the price of semi-fabricated items on account of the reduced ex-factory price. Consequent on meetings with the primary producers, they agreed to reduce by Rs. 368 the price of aluminium circles of utensil grade which cater to the weaker sections of society. Subsequently, the Government, on December 6, 1978 withdrew the specific duty of Rs. 840 (basic plus special) on, *inter-alia*, aluminium circles.

4.37 Over the past year or so, there has been a conscious movement towards reducing the rigidities which controls bring in their wake. In order that the whole problem of controls and subsidies may be studied in depth a committee, under the chairmanship of Shri Vadilal Dagli, was appointed in February 1978 to assess whether controls had been an effective instrument for national planning and guidance of the national economy. The Committee's report, which is expected soon, would indicate the areas in which controls have become counter-productive, and would help in making for smoother working of the economic system. Similarly, in respect of subsidies, it would be possible to identify the sectors in which the benefit to the economy is not commensurate with the draft on the exchequer.

Public Distribution

4.38 Public distribution of foodgrains during 1977-78 (November—October) was 10.6 million tonnes, half a million tonnes less than in the previous year, though procurement at about 11 million tonnes was of the same order. However, the stocks of foodgrains with Government dropped from 17.4 million tonnes at the end of October 1977 to 16.3 million tonnes at the end of October 1978 on account of export of about 9 lakh tonnes to USSR in repayment of the wheat loan. There was a net increase in rice stocks as procurement in 1977-78 was higher, and releases less, than in 1976-77. Procurement of wheat was also slightly more than in 1976-77 but issues from Government godowns were a million tonnes larger. Part of the increase would be due to allocation to the

State Governments for the Food for Work Programme. The build up of rice stocks has, similarly, permitted its larger issue in rice-eating States which should give a boost to the programme.

4.39 Procurement in the kharif marketing season (1978-79) has got off to an excellent start. As of January 31, 1979 rice procurement touched a level of 4.0 million tonnes as against 3.0 million tonnes in the corresponding period last year. As usual, Punjab accounts for more than half of total procurement, with Haryana and U.P. providing the bulk of the remainder. This good performance is partly the result of the increase in procurement price and partly an indication of a good rice crop despite the floods of August-September last.

4.40 The distribution of sugar through fair price shops has ceased from September 1978 after the decision to decontrol it with effect from August 16, 1978. This brings to an end the dual pricing policy first introduced in August 1967. The decontrol decision follows a phenomenal increase in sugarcane output—estimated at 187.8 million tonnes in 1977-78 as against 140.6 million tonnes two years earlier—and the consequent rise in sugar production to a record 64.8 lakh tonnes, from the previous year's 48.4 lakh tonnes. Stocks which stood at about 16 lakh tonnes on September 30, 1977 rose to over 33 lakh tonnes a year later, despite the fact that despatches from sugar mills were higher by 6 lakh tonnes. With open market prices of sugar falling substantially, the dual pricing system could be sustained only on the basis of an increase in the levy price. This would have had to be followed either by enhancement of the issue price or by a further reduction in the excise duty. The latter step, besides adversely affecting the gur and khandsari industries, would have meant sacrifice of revenue and an inroad into the resources available for development. The former would have resulted, on the other hand, in closing the gap between the controlled price of Rs. 2.30 per kg. and the open market price. The balance of convenience seemed to lie in decontrol which would, in any case, have the same effect as an enhancement of the issue price. As events have turned out, the consumer is now able to get as much sugar as he likes at Rs. 2.50 per kg. or less, though at the time of decontrol it was anticipated that open market prices may stabilise at Rs. 2.75 per kg. or so. Thus, the consumer, by and large, has not suffered as a result of the decontrol decision. It is anticipated that domestic consumption may rise from 45 lakh tonnes to as much as 52 lakh tonnes if prices remain at a reasonable level.

4.41 While sugar has been withdrawn from the fair price shops a small beginning has been made in the distribution of pulses in State Capitals and cities with a population of 10 lakhs or more. Depending upon the number of ration units, 2 or 3 kgs. of pulses are being supplied to ration card holders at prices which are at least 50 paise per kg. below the market rates. In order to augment the supply of pulses in the country NAFED had imported 10,000 tonnes of lentils last year. This year arrangements have been made to import over 50,000 tonnes.

4.42 Vanaspati production rose by 10.1 per cent in 1976-77 (November—October). There has been a further rise of 9.1 per cent in 1977-78 with a total output of 63.8 lakh tonnes. Accordingly, there has been no shortage, prices have been stable and supplies have been maintained even during the peak demand period of October-November. Production has been sustained at a high level as the State Trading Corporation has been importing substantial quantities of edible oils for the Vanaspati industry and also for direct consumption. While the State Trading Corporation was earlier meeting 75 per cent of the vanaspati industry's requirements, this proportion was raised to 80 per cent with effect from August 1, 1978. Sesamum oil is to be used to the extent of 5 per cent, and cotton seed oil and minor oils together for the balance of 15 per cent.

4.43 Rapeseed oil is being imported mainly for direct consumption and issue to State Governments after refining. The retail price, which was initially Rs. 8.50 per kg. was brought down to Rs. 7.50 and further to Rs. 7 per kg. in May 1978. However, international prices of edible oils have risen substantially this year. This development necessitates rethinking regarding the volume of imports and the determination of a more rational programme of imports.

4.44 The scheme for production and distribution of controlled cloth has been encountering considerable difficulty. Despite various concessions given from time to time the response from the private sector has been half-hearted. Consequently, in the textile policy announced in August, and which became effective on October 1, 1978, it has been decided to phase out the production of controlled cloth in the organised sector and to leave the supply of cheap cloth to the handloom sector ultimately. For the time being mill-made controlled cloth would be limited to 400 million square metres, and would be produced by both the National Textile Corporation and private sector mills. A certain

proportion of the total would be earmarked for production by NTC mills and the balance would be offered to private sector mills on a contractual basis. The latter would be free to tender at prices not exceeding the level of production costs indicated by the National Textile Corporation for similar varieties. However, in case of a failure of the private sector mills to take up the full quota, the National Textile Corporation would be responsible for meeting the shortfall. The new scheme does not envisage any increase in the consumer price over the level of December 1976, as the National Co-operative Consumer Federation (NCCF) would be receiving a subsidy from the Government. The burden of subsidy has been distributed over the entire textile industry (including art silk and woollen sectors) through a special excise duty at 10 per cent of the effective basic duty, levied by an Ordinance in October 1978.

4.45 The distribution of controlled cloth is made through about 62,000 outlets, mainly in the cooperative sector, more than three-fourths of which are in the rural sector. For distribution of soft coke, which is mainly consumed in the Northern and Eastern regions, there are over 33,000 outlets of which more than half are in rural areas. Public distribution also covers kerosene oil for which there are almost 2.5 lakh outlets, three-fourths in the rural sector. Its offtake increased by 6.9 per cent in 1977 and by 12.2 per cent in the first nine months of 1978. Nonetheless, local shortages have been reported from time to time and the Department of Civil Supplies has initiated appropriate action. The floods in August-September last have, however, created some difficulty in the way of smooth supplies of kerosene, as also of diesel and soft coke. But these problems are being overcome.

4.46 Tea is another item which has attracted Government's attention. The tea export duty of Rs. 5 per kg. imposed in April 1977 had the effect of reducing prices at the wholesale level, but this was not adequately reflected in retail prices. To some extent, the discrepancy was due to the fact that the latter included costs of packaging which remained unaffected. Hence a scheme was evolved for distribution of loose tea to consumers at reasonable prices. NAFED and NCCF, therefore, commenced sales of loose tea at Rs. 16.50 per kg. from September 1977. In 1977-78 their sales came to more than 8.5 lakh kgs. and for 1978-79 a figure of 25 lakh kgs. is expected. The price has been reduced to Rs. 16 per kg. from September 1, 1978. The number of centres selling loose tea is now 180 which will rise to 300 by June 1979.

4.47 Yet another essential commodity is printing and writing paper which is being supplied at fair prices. In March 1978, the Paper (Control of Production) Order, 1974 was replaced by the Paper (Regulation of Production) Order, 1978 which provides for compulsory production, by mills having a capacity of 25 tonnes per day or more, of 30 per cent of white printing paper and 33 per cent of coloured printing paper (of which not less than 20 per cent shall be creamlaid or wove paper). The Order provides also for stamping on every ream of paper, and every gross of paper board, the ex-factory sale price and retail price. The position in regard to supply of white printing paper to meet the requirements of the education sector and the D.G.S. & D. at a concessional price of Rs. 2750 per tonne continues.

Prospects

4.48 The overall price situation in 1977-78, and 1978-79 so far, has been satisfactory. This does not, however, imply that inflationary pressures cannot raise their head in the near future. In particular, the significant increase in the liquidity of the system is a factor which can present a potential threat. Fortunately, the crop prospects in the current year have been good, despite damage caused by floods, and the psychology of

shortage has not been allowed to operate. Food stocks and foreign exchange reserves provide added reassurance about our ability to maintain price stability. The increase in industrial production this year, and hopes of a reasonably good performance during the next, should also generate conditions favourable for price stability. The credit policy, of course, has to be constantly on the alert to prevent speculation and building up of excessive inventories of raw materials which might disturb the existing state of balance in the economy.

4.49 On the whole, maintenance of price stability has been a positive achievement of the Government's short-term demand and supply management policies. However, it has not been without a cost. The tangible costs are the substantial amounts of outlay on holding buffer stocks and subsidies on the distribution of essential commodities at lower than economic prices. Several steps taken to maintain prices under check also have long-term implications for domestic production. These indicate the necessity of a certain adjustment in production, but, more importantly, the need to increase incomes of the mass of the people and simultaneously raise productivity in various sectors.