CHAPTER 4

PRICES AND PRICE POLICY

4.1 After two years of remarkable price stability the economy witnessed a sharp increase in prices during 1979-80. The Index of Wholesale Prices (1970-71 = 100) which had reached 182.9 in March 1977 recorded only minor fluctuations for the next twenty three months and stood at 184.7 in February 1979. Prices began to rise sharply thereafter and continued on an uptrend through the rest of the year. Between 31st March 1979 and 29th March 1980, the General Index increased by 19.9 per cent.

4.2 Expansionary fiscal policy and a high rate of monetary expansion in 1978-79 had created conditions favourable to a rise in prices. The existence of large food and foreign exchange reserves was originally expected to provide an ample cushion against inflation but this expectation was only partially fulfilled. The economy was be-set by supply constraints not only in agriculture but also in a number of key infra-structure sectors such as power and transport. Large foreign exchange reserves could not help in overcoming shortfalls in these non-tradeable sectors; so there was no escape from a widespread adverse impact on industrial production in 1979-80. Moreover, import prices rose sharply for many key commodities adding to inflationary pressure. Fiscal policy continued to be highly expansionary in 1979-80 and money supply also grew rapidly. The unsettled political situation prevailing during 1979 added to the inflationary expectations and speculative activity generated by the above factors and made it more difficult to contain these pressures.

TABLE 4.1

Index Number of Wholesale Prices

(1970-71 = 100)

	Weight (per cent)	Per cent variations				
		1976-77 / 1975-76	1977-78 / 1976-77	1978-79 / 1977-78	1979-80(P) / 1978-79	29-3-80(P) / 31-3-79
1	2	3	4	5	6	7
ALL COMMODITIES	100.00	+2.1	+5.2	No Ch.	+16.7	+19.9
I. Primary Articles	41.67	+0.8	+9.9	—1.3	+13.3	+17.5
(a) Food Articles	29.80	—5.1	+11.8	—0.7	+8.1	+10.4
Foodgrains	12.92	—12.3	+11.6	+1.3	+7.3	+11.8
Cereals	10.74	—10.7	+4.7	—2.3	+9.9	+15.5
Pulses	2.18	—19.8	+47.7	+14.8	—1.2	No Ch.
Fruits & Vegetables	6.13	+6.6	+19.3	—8.8	+18.1	+15.2
Condiments & Spices	1.09	—16.5	+21.6	—7.1	—20.0	—21.1
Eggs, fish & meat	1.90	+1.7	+11.6	+10.4	+10.4	+14.5
(b) Non-food Articles	10.62	+19.7	+6.3	—4.3	+14.3	+15.8
Raw cotton	2.25	+44.8	—2.3	—12.6	—2.5	+0.4
Raw Jute	0.43	+8.4	+17.4	—1.3	—5.5	—4.7
Oilseeds	4.20	+19.9	+21.7	—13.4	+16.4	+30.4
(c) Minerals	1.25	+2.0	+6.1	+2.9	+54.3	+80.0
Petroleum crude & Natural gas	0.60	+5.7	+6.4	+1.9	+66.7	+98.2
II. Fuel, Power, Light & Lubricants	8.46	+5.3	+1.5	+4.4	+15.0	+17.5
Mineral oils	4.91	+4.0	+0.2	+0.7	+13.3	+15.1
III. Manufactured Products	49.87	+2.3	+2.3	+0.2	+19.9	+22.3
Food products	13.32	+4.2	—2.5	—14.8	+36.8	+49.1
Sugar, Khandsari & Gur	(7.24)	+1.9	—14.8	—20.8	+57.6	+73.3
Edible Oils.	(3.72)	+5.9	+23.2	—9.8	+21.8	+25.8
Textiles	11.03	+5.4	+11.3	+3.6	+13.1	+11.2
Chemicals & chemical products	5.55	—2.4	+0.8	+2.5	+11.7	+16.6
Basic Metals, alloys & metal products	5.97	+2.9	+1.9	+9.0	+19.1	+17.6
Machinery & Transport Equipment	6.72	—1.4	+1.5	+6.5	+17.3	+15.4

P = Provisional.

Price Behaviour in 1978-79

4.3 In order to understand the movement of prices in 1979-80 it is useful to note some features of the behaviour of prices during 1978-79. The average level of the wholesale price index for 1978-79 showed no change from the previous year. This stability in the overall index was the result of divergent movements in the prices of agricultural and agriculture based commodities on the one hand and industrial commodities on the other. Agricultural prices declined under the cumulative impact of two good harvests. Prices declined particularly sharply in the case of fruits and vegetables, raw cotton and oilseeds. These developments also had an impact on prices of selected food products within the manufactured products group. Prices of sugar, khandsari and gur declined sharply during 1978-79 and the index was almost 21 per cent lower than in the previous year. Edible oils prices were also substantially lower. By contrast prices of industrial commodities and fuels rose through the year, *albeit* at a modest rate. The stability in the overall index reflects the fact that the decline in agricultural and agriculture based commodities offset the moderate price increases occurring in the rest of the economy.

Price Behaviour in 1979-80

4.4 The decline in agricultural prices in the previous year had set the stage for a rise in prices in 1979-80 at the slightest sign of a deterioration in supply. In the event, agricultural supply conditions did deteriorate and prices rose sharply, led by commodities whose prices had fallen precipitously in the previous year such as fruits and vegetables, sugar, khandsari and gur and oilseeds. In all these cases some price recovery was inevitable. Other factors such as lower production in the case of sugar and oilseeds or exports in the case of fruits and vegetables meant an even sharper increase in prices. However, the increase in prices in 1979-80 was not solely due to the reversal of the decline in agricultural and agriculture based prices. The rate of inflation in other commodities also accelerated sharply for a variety of reasons. As a result, the index of wholesale prices rose by 19.9 per cent between 31st March 1979 and 29th March 1980.

4.5 The monthly rate of inflation from March 1979 to April 1980 is given below. Prices rose sharply in March and April of 1979. The rate of increase decelerated somewhat in May and June but shot up again in July and August. Contrary to the usual pattern of a seasonal decline after September, prices rose, *albeit* slightly, in October. There was a marginal decline in November, but the index again shot up by 2.3 per cent in December when the normal pattern should have been of a continued seasonal decline. Inflationary pressure abated somewhat from January onwards and the price rise in the last quarter of 1979-80 was more restrained. However, there is still considerable latent inflationary pressure in the economy.

TABLE 4.2

Percentage Change in monthly average of wholesale price index over average of previous month

Mar. 1979	Apr. 1979	May 1979	June 1979	Jul. 1979	Aug. 1979	Sep. 1979	Oct. 1979	Nov. 1979	Dec. 1979	Jan. 1980	Feb. 1980	Mar. 1980	Apr. 1980
2.4	3.4	1.5	2.0	4.6	3.2	1.2	0.5	—0.3	2.3	—0.2	1.3	0.4	0.6

4.6 The inflationary upsurge in 1979 was initially triggered by sharply rising prices of a few agricultural commodities especially sugar, khandsari and gur, edible oils and fruits and vegetables. In all these cases, there was a substantial element of recovery from depressed levels prevailing in the previous year. Prices of iron and steel and coal were raised in April and July respectively reflecting adjustments that had become long overdue. The sharp increase in imported crude oil prices led to an increase in prices of petroleum products. As the year progressed the phenomenon of rising prices became more widespread affecting a wide range of commodities.

4.7 Nevertheless, the behaviour of prices over the year as a whole can be characterised as follows : a handful of commodities experiencing particularly sharp price increases making a disproportionate contribution to the overall increase in prices while other commodities showed a more moderate rate of inflation. Indeed, only nine items with a combined weight of about one-third in the overall index accounted for about sixty-six per cent of the total rise in prices.

TABLE 4.3

Variations in Wholesale Prices

	Weight in index (per cent)	Percentage increase between 31-3-79 and 29-3-80	Contribution to Total Increase (per cent)
Rice	5.13	20.8	4.4
Fruits and Vegetables	6.13	15.2	3.8
Sugar, Khandsari and Gur	7.24	73.3	22.7
Oilseeds	4.20	30.4	5.1
Edible oils	3.72	25.8	4.1
Petroleum Crude and Natural Gas	0.60	98.2	12.9
Mineral Oils	4.91	15.1	5.4
Coal Mining	1.15	54.8	3.5
Iron, Steel and Ferro-Alloys	3.47	19.3	3.9
All others	63.45	10.8	34.2
ALL COMMODITIES	100.00	19.9	100.0

4.8 Although the price rise between 31st March 1979 and 29th March 1980 had been quite pervasive, not all commodities showed an increase in prices. The sub-group, condiments and spices, declined by 21.1 per cent. Raw jute prices were lower by 4.7 per cent. Declines were also registered by raw tobacco (−7.5 per cent) and rubber (—2.4 per cent). In the pulses sub-group, arhar and urad prices declined by 4.7 per cent and 5.0 per cent respectively.

4.9 The Consumer Price Index is, for a number of reasons, inherently more stable than the Wholesale Price Index, though the movement in the two tends to be similar. Thus, between March 1979 and March 1980, the All India Industrial Workers' Consumer Price Index (1960=100) advanced from 332 to 373, an increase of only 12.3 per cent as against 21.7 per cent recorded by the Wholesale Price Index. Averaged over the period April 1979-March 1980, the Consumer Price Index was higher in relation to 1978-79 by 8.5 per cent, while the Wholesale Price Index was up by 16.7 per cent. Consequent on the increase in the Consumer Price Index, Central Government employees had to be given two more instalments of D.A. (i) with effect from August 1979 and (ii) with effect from November 1979 in order to neutralise the increase in the cost of living.

Price Policy

4.10 Agricultural price policy has consistently been moving in the direction of expanded coverage of the system of support prices. Efforts are also being made to announce support prices as early as possible, preferably at the commencement of the sowing season itself. While it has not been possible to achieve this objective in all cases, the interests of farmers have not suffered as the prevailing market prices have generally ruled higher than the support prices considered reasonable by the Government.

4.11 Support prices for arhar and moong were fixed in 1978-79 at the level of Rs. 155 and Rs. 165 per quintal respectively. For 1979-80 these had, on the recommendation of the Agricultural Prices Commission (APC), been raised by Rs. 10 to stand at Rs. 165 for arhar and Rs. 175 for moong. Urad had also been brought under the price support regime with an assured price equal to that for moong *i.e.* Rs. 175 per quintal. The National Agricultural Cooperative Marketing Federation (NAFED) has been entrusted with the responsibility of undertaking support operations for pulses, either directly or through State Cooperative Marketing agencies. In view of the prevailing level of prices, however, NAFED has not been called upon to give support to the market. Even so, an increasing volume of commercial purchases of pulses in primary mandis during the harvesting season have been made by NAFED and the National Cooperative Consumers Federation in order to feed the Public Distribution System which is selling pulses to ration card holders on a limited scale and on an experimental basis.

4.12 An increasing dependence on edible oil imports, has highlighted the extreme need for encouraging the increase in production and productivity of oilseeds in the country. For the major oilseed crop, namely groundnut, the APC recommended the maintenance of the support price at Rs. 175 per quintal. However, in view of the need to increase production of oilseeds in the future, the Government increased the support price of groundnut by Rs. 15 per quintal to Rs. 190 per quintal. However, these support prices remain largely notional as the market prices in general ruled at much higher levels. The APC did not, however, suggest any increase in the support prices for soyabean and sunflower seed, and those remain at Rs. 175 per quintal. As these crops have yet to achieve wide acceptance it would not have been in their interest to fix support prices at an unduly high level even though they are excellent sources of edible oil. Soyabean cultivation has, indeed, made considerable headway in Madhya Pradesh and NAFED's purchases out of the 1978-79 crop touched

TABLE 4.4

Minimum Support/Procurement Prices of Agricultural Commodities

(Rs. per quintal)

Commodity	Marketing Year*				
	1976-77	1977-78	1978-79	1979-80	1980-81
1. Wheat (Procurement price)	105	110	112.50	115	117
2. Paddy (—do—)	74	77	85	95**	..
3. Coarse grains (—do—)	74	74	85	95	..
4. Barley (Minimum support price)	65	65	67	..	..
5. Gram (—do—)	90	95	125	140	145
6. Arhar (—do—)	..	..	155	165	..
7. Moong (—do—)	..	..	165	175	..
8. Urad (—do—)	..	..	..	175	..
9. Mustard (—do—)	..	..	225	245	250@
10. Groundnut (—do—)	140	160	175	190	..
11. Sunflower seed (—do—)	150	165	175	175	..
12. Soyabean (—do—)	..	145	175	175	..
13. Cotton (320F kapas) (—do—)	..	255	255	275	..
14. Sugarcane (Statutory Minimum price)	8.50	8.50	10.00	12.50	..
15. Jute (W-5 grade) (—do—)	136	141	150	155	..

*Marketing year (April-March) for wheat, gram, barley and mustard; (July-June) for Jute; (Sept.-Aug.) for cotton and (Nov.—Oct.) for paddy and other kharif crops.

**Rs. 99 for fine variety and Rs. 103 for superfine variety.

@Recommended by A.P.C.

65 thousand tonnes. However, a substantial part of the procured stocks could not be converted into oil because of inadequate processing facilities. If further ground is to be gained, processing capacity has to be developed adequately. Considering the large volume of imports of soyabean oil, the vanaspati industry should be able to provide the necessary outlet.

4.13 Rapeseed and mustard is the second most important oilseed crop of the country. It is, however, a *rabi* crop whose marketing takes place after the winter is over. Nevertheless, in consonance with the policy that support prices should be announced at the time of sowing, the APC submitted its recommendations in August 1979. It suggested an increase of Rs. 5 per quintal over the support prices of Rs. 245 per quintal fixed for the 1978-79 crop. This increase is marginal in relation to the previous year, but a sharp step up of Rs. 20 per quintal had already been effected in the 1979-80 marketing year itself. What weighed with the APC in recommending the increase is the necessity of inducing some diversion of unirrigated wheat area to *rabi* oilseeds by enhancing the price differential in favour of the latter. A similar argument had been advanced in the case of gram in 1978-79.

4.14 As regards support prices for gram, the APC recommended an increase of Rs. 5 per quintal over the earlier support price of Rs. 140 per quintal and this was accepted by Government. The objective was to secure a shift from wheat to gram in unirrigated areas. It is not clear whether any such transfer took place during 1978-79.

4.15 The Government has accepted the recommended procurement prices of Rs. 117 per quintal for wheat as against Rs. 115 per quintal fixed for the 1978-79 marketing year. If wheat and gram are to be treated as competing crops, it is only logical that their respective prices should be announced simultaneously before sowing is under way, so that farmers can make an appropriate choice.

4.16 As regards the procurement prices of *kharif* cereals, the APC recommended Rs. 90 per quintal for the "common" group of paddy varieties as against Rs. 85 per quintal fixed for "coarse" varieties in the previous year. This stemmed from a reclassification of varieties undertaken by a Committee. Government, however, decided to fix the price at Rs. 95 per quintal. In addition, there would be a premium of Rs. 4 for fine and Rs. 8 per quintal for superfine varieties. The premium for parboiling is to be Rs. 5 per quintal.

4.17 Since the procurement price for *kharif* coarse cereals has generally been kept on par, with that for paddy, procurement prices for jowar, bajra, maize and ragi were raised to the level of Rs. 95 per quintal, even though the APC had favoured no change from last year's price of Rs. 85 per quintal. As procurement of coarse cereals is quite small, this increase is not material from the point of view of the Budget, whereas the increase in rice prices would significantly affect the subsidy payable on account of rice.

4.18 A rather serious departure from the APC's recommendations was made by the Government in the case of sugarcane. Though, for some crops, the Government had, on occasion, raised the support/procurement price by more than what the APC had felt justified, the increase was never large. But in the present case, as against the APC's recommendation for retaining the minimum statutory price of sugarcane at Rs. 10 per quintal, the Government decided on a figure of Rs. 12.50 per quintal, *i.e.*, an increase of 25 per cent.

4.19 The APC's recommendations in respect of jute and cotton (kapas) envisaged increases of Rs. 5 and Rs. 10 per quintal respectively in the support prices of the standard varieties, namely W-5 grade of jute in Assam, and 320-F/414-F/J-34 varieties of cotton. The new prices should have been Rs. 155 for jute and Rs. 265 per quintal for kapas, but in the case of the latter the Government fixed a higher price of Rs. 275 per quintal. However, even though cotton/kapas prices were somewhat depressed as a result of a good crop in 1978-79, and a larger usage of artificial fibres was enforced as a matter of policy, depressing cotton demand, nevertheless, the ruling market prices were higher than the official support price. Hence the Government's decision to raise cotton prices was largely psychological in nature. Cotton prices were fairly stable during 1979-80. The Cotton Corporation of India (C.C.I.) purchased 10.91 lakh bales of cotton during the 1978-79 season as against a target of 12 lakh bales. The Maharashtra State Cooperative Marketing Federation (MSCMF) also purchased 9.73 lakh bales, and thus helped to sustain the market. In the current season, C.C.I. had purchased nearly 10 lakh bales of cotton by the end of April 1980. In addition, the MSCMF is expected to have purchased 12 lakh bales during the period.

4.20 It was earlier feared that jute prices may rise sharply because of a bad crop resulting from drought conditions in the eastern parts of the country at sowing time, but these fears have proved groundless. The strike in the jute industry in January-February 1979 also helped to conserve supplies of raw jute. Hence, even though there was a rise of about 12 per cent in prices between May and August 1979, with the coming of the new crop prices in upcountry markets have been depressed. The Jute Corporation of India (JCI) had, upto the middle of April 1980 purchased 8.56 lakh bales of raw jute, as against 8.28 lakh bales in the corresponding period of last year, but failed to give adequate support to the market as prices have been ruling at the statutory minimum.

4.21 As mentioned above, the attempt to broaden the coverage of support prices to include coarser grains and pulses is an important aspect of price policy designed to counter the shift of acreage towards high value crops which has been observed in recent years. However, the effectiveness of support prices in achieving this objective needs to be examined carefully. The shift to high value crops has occurred because yields for these crops have improved substantially due to technological breakthroughs and increased irrigation while at the same time prices have not been allowed to fall because of price support measures. The combination of higher productivity with supported prices has altered relative profitability against the coarser grains and pulses leading to acreage switches with attendant slower growth of output and higher prices. Over the past several years prices of pulses including gram have risen much more than in the case of wheat and rice. Market prices for pulses including gram are significantly above support prices. In such a situation while the support price provides a measure of insurance, it is not likely to lead to a switch of acreage back into these crops.

Industrial Prices and Price Policy

4.22 Decisions to increase a number of administered prices played an important part in pushing up the price level. A long-delayed upward revision of prices was in respect of coal. For a number of years, the move to ensure remunerative prices to the coal industry had been shelved so as not to add to the costs of the user industries—mainly steel, power and railway transport. Coal India Limited has thus accumulated losses to the tune of Rs. 576.77 crores by 1978-79. The prices for Coal India Limited were raised (net of the abolition of the excise duty) in July 1979 by an average of Rs. 31.07 per tonne, or about 48 per cent. The adjustment had become inevitable after the wage revision effective from January 7, 1979, and even that had been delayed by six months.

4.23 Steel prices were raised in April 1979 with a view to augmenting the Steel Development Fund, and in order to meet the higher cost of pooling imports with domestic production. A surcharge of Rs. 100 per tonne was levied on pig iron, while in the case of steel items an additional surcharge of 15 per cent was imposed on the base price. While prices to the consumer naturally went up, there was little benefit to the producers directly since the surcharges would accrue to the Steel Development Fund. However, provision was made for an element of cost compensation, if considered necessary, on examination by the Bureau of Industrial Costs and Prices (BICP).

4.24 Aluminium prices were revised in October 1979 because of increased cost of production due to higher electricity charges and high cost imports necessitated by inadequate domestic production. As a result consumer price (inclusive of the pooling element) went up by about 14 per cent, and the average retention price rose by only about 8 per cent. The differential between the sale price and the retention price will accrue to the Minerals & Metals Trading Corporation (MMTC) which is the canalising agency for imports of aluminium.

4.25 Although the cement industry had been able to increase production through the use of non-traditional materials, a comprehensive review of the cement industry was carried out by a High Level Committee because additions to capacity had not been satisfactory despite certain concessions, and assurances regarding profitability, given to it. The Committee recommended a three tier system of retention prices, and the same was introduced in May 1979 to be in force upto March 31, 1982. Under this scheme low cost units would get Rs. 185 per tonne, medium cost units Rs. 205 per tonne and high cost ones Rs. 220 per tonne. As a result, the uniform F.O.R. price of cement, exclusive of excise duty and packaging charges, went up from Rs. 293.26 to Rs. 318.94 per tonne, or by 8.8 per cent. The consumer price, however, increased by only 6.2 per cent, *i.e.* from Rs. 430.57 to Rs. 457.28 per tonne.

4.26 Rising international prices added substantially to inflation in 1979-80. The country had to import considerable quantities of petroleum and petroleum products, edible oils, non-ferrous metals and newsprint. Higher import prices for these commodities led to increase in domestic prices.

4.27 Prices of non-ferrous metals (other than aluminium) are revised periodically, and one such revision coincided with the 1979-80 Budget. Consequently the impact was superimposed on the Budget proposals. There was a further increase in prices in July so that there was a rise of 17.3 per cent in the Wholesale Price Index for non-ferrous metals (excluding aluminium) and alloys between February and July 1979; upward revisions were also made in the last quarter of 1979-80. Between March 1979 and March 1980 the rise has been of the order of 16 per cent. (Aluminium prices have increased by 20 per cent).

4.28 Edible oil prices came to be affected by the levy of customs duty in the 1979-80 Budget, though the duty on STC's imports was reduced soon after. In any event, the high prices abroad would, sooner or later, have influenced the domestic prices of edible oils and oilseeds; this process was hastened by the levy of the customs duty. As for newsprint, international prices have risen by about 10 per cent over the year. Consequently, the STC had to revise its release prices from time to time. On an average there has been an increase of about Rs. 300 per tonne over the year. The price of indigenous newsprint was also revised upwards from Rs. 2700 per tonne in 1978-79 to Rs. 3,200 per tonne in the current year. The Wholesale Price Index, which covers NEPA only, thus rose by 15.9 per cent between March and May 1979. However, NEPA supplies only about 15 per cent of the country's requirements.

4.29 The impact of higher international prices has been felt most severely in the case of petroleum. Prices of crude were raised by OPEC countries four times during 1979, the first such increase being in January. The consequential increase in the prices of petroleum products was, however, held over until the 1979-80 Budget when additional excise duties were imposed as an alternative to an increase in base price. This resulted in raising the wholesale price index for mineral oils by 7.4 per cent at that time. The second and third revisions of crude prices took place in April and July 1979, but no changes in the prices of petroleum products were effected until the middle of August.

4.30 In this revision to begin with the additional excise duties on kerosene, H.S.D., motor spirit and LPG levied in the Budget were treated as a part of the basic price so as to compensate the refineries. In addition, prices to consumers were raised by 17 paise per litre in the case of kerosene and H.S.D. and by 35 paise per litre in the case of motor spirit. Prices of most other products were also increased, but naptha used by the fertiliser industry was spared as also were lubricants whose prices were already high. As a result of the new prices, the Wholesale

Price Index for mineral oils went up by 16.4 per cent between March 31, 1979 and August 25, 1979. However, on September 11, 1979 kerosene and H.S.D. prices were reduced by 7 paise per litre, through a corresponding reduction in excise duty. Crude prices have again been raised by the OPEC countries from October onwards. With the latest step up prices of crude oil in world markets are now more than double of what they were a year ago.

Public Distribution

4.31 The existence of large foodstocks was an important difference between the situation in 1979-80 and that prevailing in the previous inflationary period in 1973-74. Stocks of foodgrains with the Government rose from 16.3 million tonnes at the end of October 1978 to 18.7 million tonnes a year later. Stocks reached a peak of 21.4 million tonnes in July 1979. These stocks permitted the Public Distribution System to insulate the consumer to a large extent from the impact of rising wholesale price of foodgrains. While foodgrains prices increased by 11.7 per cent between 31st March, 1979 and March 29, 1980 issue prices were held constant.

4.32 The build up of foodgrain stocks during the early part of 1978-79 season (November-October) was remarkable for a significant change in composition. Whereas, normally, stocks of rice used to be only about one—fourth of the total, during the period January-April 1979 they exceeded those of wheat, and it was only after the commencement of the wheat procurement season that the position was reversed. The rise in the rice component owes its origin to the bumper harvest of 1977-78, so that by end-October 1978, rice stocks were 37 per cent of the total. At end-October 1979 they accounted for as much as 45 per cent. With the commencement of *kharif* marketing the proportion has begun to rise again and crossed 61 per cent by the end of March 1980, (when the total foodgrain stock stood at 14 million tonnes as against 16.2 million tonnes a year earlier).

4.33 Procurement in the 1979-80 *kharif* marketing season was naturally conditioned by the adverse effects on production of the serious drought conditions of this year. It is estimated that *kharif* production will show a decline of about 14 million tonnes in relation to the previous year. Consequently, procurement of rice (upto third week of April 1980) totalled only 35.5 lakh tonnes as against 56.4 lakh tonnes in the corresponding period of last year. The bulk of the shortfall is due to the States of Uttar Pradesh (6.9 lakh tonnes), Haryana (3.0 lakh tonnes), Punjab (4.2 lakh tonnes), Andhra Pradesh (3.5 lakh tonnes) and Madhya Pradesh (1.8 lakh tonnes).

4.34 The procurement of coarse grains has also suffered, and is running lower than that achieved in the previous year. However, the procurement and distribution of coarse grains is in any case not quantitatively significant. As regards wheat, production may not reach last year's level. Although early evidence on *rabi* procurement showed procurement to be ahead of the previous year, it is possible that the season will close with slightly lower procurement than in the 1979-80 (*rabi* marketing season). Considering that offtake from Government stocks, which had tended to decline in the early part of 1979, picked up in the latter half of the year, some depletion of stocks in the next few months is likely.

4.35 The decontrol of sugar in mid-August 1978 created a situation in which prices of sugar were left to find their own level in a situation of record production of sugarcane. Market prices fell to unexpectedly low levels-the Wholesale Price Index fell by 15 per cent between August 1978 and February 1979 which the producers found uneconomic. The industry reacted to this situation by controlling releases from the month of March onwards and prices, thereupon began to rise. To some extent this could have been tolerated as being a corrective for the unduly low levels prevailing as a result of over production, but an increase of 20 per cent in two months became cause for concern. Government had, therefore, to step in and monitor releases with a view to ensuring larger supplies to the consumers than were being maintained by the industry. Thus, control over monthly releases was resumed with effect from June 5, 1979 and an allocation of 5.55 lakh tonnes made for July as against 5.25 lakh tonnes in June. For August and September the releases were further augmented to the level of 6 lakh tonnes. The increase in allocation was accompanied by measures to ensure smooth (weekly) flow of sugar from the factories. Restriction on holding of stocks by registered dealers was also imposed. These measures did not succeed to the desired extent and the Wholesale Price Index further advanced by 8.8 per cent between April and August 1979.

4.36 By this time it was well known that the prospects for *kharif* crops were poor, and sugarcane was no exception. Releases could not also be maintained at 6 lakh tonnes per month in view of the decline in production which came to no more than 58.6 lakh tonnes in the 1978-79 season as against

64.6 lakh tonnes in 1977-78. In these circumstances Government resorted to sugar price control in September 1979 both at the factory and the retail level. The factories were divided into four zones, and ex-factory prices ranging from Rs. 260 to Rs. 270 per quintal were fixed for the various zones. The States were also grouped for the purpose of fixing maximum retail prices which ranged from Rs. 2.90 to Rs. 3.00 per kg. With this measure prices tended to stabilise. The controlled prices were, however, interim ones as the minimum statutory price of sugarcane for the 1979-80 season (beginning October 1979) was raised substantially from Rs. 10.00 to Rs. 12.50 per quintal. As new crop sugar normally comes into the market in December, an increase of Rs. 35 per quintal, on the average, in the ex-factory price was announced on November 22, 1979 but the retail price was to be left untouched upto 15th January, 1980 for the reason that the opening stocks of sugar (as on 1st October, 1979 at 20.62 lakh tonnes) were adequate for 3½ months' consumption. However, government adjusted the excise duty on old crop sugar to mop up the extra margin which would have accrued to the factories.

4.37 Despite the increase in ex-factory prices, sugar production showed no indication of rising. In the first 2½ months of the sugar season, production was only 6.03 lakh tonnes as against 7.76 lakh tonnes in the corresponding period of 1978-79, while despatches at 14.95 lakh tonnes were only slightly lower than in the previous year. Stocks as on December 15, 1979 were down to only 11.7 lakh tonnes as compared with 25.2 lakh tonnes a year earlier. A serious situation was thus developing and, on December 17, 1979, re-inroduction of dual pricing was announced. The levy portion was fixed at 65 per cent of production to be distributed through fair price shops at Rs. 2.85 per kg. For the period December 17 to December 31, 1979 a total quantity of 1.6 lakh tonnes was released for free sale. For January 1980 the quantum of free sale sugar was 1.50 lakh tonnes and of levy sugar 2.71 lakh tonnes. The monthly releases were maintained at about 4 lakh tonnes level in February and March, with 2.71 lakh tonnes of levy sugar and 1.25 lakh tonnes of free sale sugar.* There has been some dislocation of the sugar market as a result of the reintroduction of dual pricing policy. FCI had also not been in a position to take over adequate supplies from the factories and railways were not able to move sufficient quantities of sugar to the destination points. There has since been a significant improvement in the distribution of levy sugar and its transportation. The non-levy sugar market continued to remain volatile due primarily to the sharp decline in sugar production.

4.38 In pursuance of the recommendations of the Hathi Committee, the drugs (Prices Control) Order, 1979 was issued on March 31, 1979, providing, *inter alia* for ceilings on mark-up, *i.e.* 40 per cent for Category I, 55 per cent for Category II and 100 per cent for Category III formulations. The Order stipulates, in respect of Category I and II formulations, 'leader prices' based on the prices of efficient major manufacturers (their names having been notified separately). The manufacturers were required to bring down prices of essential drugs to the level of 'leader prices' immediately. In case the existing prices happened to be lower, the manufacturers are not permitted to raise them without prior approval from government. Similarly, the existing prices of Category III formulations cannot be altered till prices for individual manufacturers are fixed by Government; a relaxation has, however, been made subject to certain conditions, for smaller units (with sales turn over of less than Rs. 50 lakhs in the preceding year).

4.39 As demand for drugs in the domestic market is substantially in excess of production and supply, the services of sole selling agents are no longer considered necessary. Sole selling agents are, therefore, not to be appointed by a company for a period of three years with effect from April 18, 1979.

4.40 Brand names of five drugs, Analgin, Aspirin, Ferrous Sulphate, Chloropromazine and Paperazine and its salts were abolished in July 1979 in pursuance of the Government decision that single ingredient dosage forms be marketed only under generic names.

4.41 With shortages of certain key materials developing, attention had to be directed towards more equitable distribution. In the case of aluminium, the Government on May 7, 1979, announced new guide-lines under which the entitlement of a particular user unit would be determined on the basis of its capacity and highest offtake during any one of the last four years. Indigenous production and imports would constitute a common pool, and allocations would be made by the Bharat Aluminium Company, which would

*As the rising trend in sugar prices remained unabated in the following months, Government took a series of measures to bring them under control. For the month of May the monthly releases of free sale sugar were stepped up sharply from 1.25 lakh tonnes to 2.75 lakh tonnes and the movement of levy sugar from 2.8 lakh tonnes to 4 lakh tonnes. At the same time, to augment domestic supplies, a quantity of 2 lakh tonnes of sugar was arranged to be imported at short notice.

inform the MMTC about the allotment of the imported metal. The policy for distribution of EC grade aluminium for the year 1980-81 has been revised : the allocation would be made only for the first six months in the first instance ; subsequent allocations for the period October 1980 to March 1981 would be made in the light of units' performance. Allocations made in favour of cable and conductor units would be based on their capacity (as on April 1, 1980) in terms of weight and their best offtake during the four years preceding 1979-80. Guidelines for allocations to "new" units and revived ones have also been laid down.

4.42 In the case of steel, the output of TISCO also was in May 1979, brought within the distribution system administered by the Steel Authority of India Limited, so as to avoid duplication in allotment and to bring about uniformity in distribution. Alongwith more rational distribution, it is necessary to ensure that allottees do not misuse the supplies made available to them. Hence in September 1979, misutilisation of iron and steel was made punishable under the Essential Commodities Act. Purchasers of all categories of iron and steel specified in the first schedule of the Iron & Steel (Control) Order will have to give a declaration at the time of booking regarding the end use, and any use not conforming to this declaration will be punishable.

4.43 Shortages of paper have begun to develop despite increase in production, as demand has outstripped supply. Hence, with a view to preventing malpractices, as also to ensure availability of cultural varieties of paper to the common man at fair prices, the Government issued on June 30, 1979 a Paper Control Order, which complemented the Paper (Regulation of Production) Order 1978. Under this order, the ex-factory price of white printing paper was revised upward from Rs. 2,750 to Rs. 3,000 per tonne.

4.44 The shortage of paper, as also of other essential commodities, is being met through imports. During 1979-80, imports of printing paper have totalled 41,000 tonnes, of steel 1.33 million tonnes, of cement 1.48 million tonnes and of coking coal one million tonnes. Out of a total imports of 45,000 tonnes of rubber programmed for the year 1979-80, about one-half have been received. Similarly edible oils to the tune of one million tonnes were imported. Allocation of foreign exchange has also been made for imports of 30,000 tonnes of soda ash and some quantities have already arrived. 82,000 tonnes of aluminium were also imported in 1979-80.

4.45 With the resurgence of inflationary pressures in March, 1979 the need for an extended public distribution system re-asserted itself, and the then Government launched an integrated production-*cum*-distribution scheme from July 1, 1979. However, the new Scheme could not progress as most of the State Governments were not prepared to finance it, and would have preferred to rely on the Centre or on the availability of bank credit at concessional rates. The scheme, as introduced in July 1979 after discussions with the State Governments, entrusted to the Central Government the responsibility for the formulation of the national policy, adoption of measures for increased production, general price stabilisation, price support operations, imports, buffer stocking and arrangements for supplying to the State Governments commodities for which buffer stocks were to be maintained. On the other hand, the State Governments would have to shoulder full operational responsibility for distribution. It is expected of the State Governments that they would not neutralise the benefit of the Central subsidy on buffer stocking by imposition of taxes or levies on essential commodities. On the contrary, they would be expected to consider reduction of taxes on commodities distributed through fair price shops.

4.46 The coverage of the new scheme, in terms of population, aims at one fair price shop in every village, or group of villages having a population of 2,000 and above. In remote and inaccessible areas, particularly the tribal belt, the population covered may be only 1,000. As regards commodities, a number of these are already within the ambit of the Public Distribution System. Some items have been included on a partial, or experimental basis, and more are proposed to be added. Foodgrains, kerosene oil, soft coke, sugar (re-introduced from January, 1980) and common cloth already form part of the list. Edible oils (imported) and tea have also been made available through fair price shops. Among the latest inclusions are coffee, toilet soap, exercise books and match boxes. The extended use of the Public Distribution System is an important component of the anti-inflationary strategy of the Government. A conference of Civil Supply Ministers and Advisers to Governors in States was held in early March 1980 to revitalise and revamp the Public Distribution System.

4.47 During the oil year 1978-79 (November-October), 43,177 tonnes of crude rapeseed oil, and 3,720 tonnes of refined rapeseed oil, were lifted by the various States and Union Territories for distribution through Fair Price Shops. 41,749 tonnes of palmolein, and about 4,702 tonnes of RBD palm oil, were similarly lifted. Soft coke distribution through various outlets in the Northern and North-eastern regions during 1978-79 has been of the order of 1.3 million tonnes. The proposal for supply of coffee has not met with sufficient response; only Tamil Nadu and Kerala have shown some interest. The NCCF has taken up the distribution of tea, and had in the period July-November 1979, supplied 7 lakh kgs. to various State agencies against indents for a little over 1 million kgs. In the same period, approximately 120 tonnes of cheap toilet soap were supplied with the cooperation of the Indian Soap and Toiletries Makers Association. Distribution of match boxes has commenced in only a few States as the level of production of KVIC units is not significant and the scheme is confined to the output of the cottage industry. In any case, the industry is well organised in the south and local availability is assured. As regards exercise books, the Ministry of Education allots certain quantities of writing paper to State Governments at the controlled price of Rs. 3,000 per tonne. The State Governments reserve some proportion for text-books, and use the rest for making and distributing exercise books at fixed prices.

4.48 About 400 million sq. metres per annum of controlled cloth (mill) are being distributed through over 67,700 retail outlets, 80 per cent of which are in rural areas. In addition, 90 million sq. metres of cheap saris and dhotis produced in handloom sector are being distributed through cooperative outlets. The State Governments have been advised to confine the distribution of controlled cloth to the weaker sections of the population. Consequently, some of the State Governments have fixed income limits while others have decided to distribute the bulk of the cloth in rural areas only.

4.49 The varieties of controlled cloth produced by the N.T.C. and private sector mills are dhotis, saris, long cloth, shirting and drill. The consumer price, which has been fixed at the level of 31-12-1976, falls within the range of Rs. 1.50 to Rs. 3 per metre. On the basis of population the total allocation to the States and Union Territories comes to 2.67 lakh bales. As against this, releases from the mills during 1978-79 (after the introduction of the new scheme in October 1978) came to 2.54 lakh bales. The shortfall has thus been marginal, and can partly be attributed to production losses resulting from power cuts, etc. An attempt has also been made to codify the controlled cloth varieties with their specifications. In the previous scheme for production of controlled cloth the mills were free to choose a range of specifications with the result that the stocks received by cooperatives were of varying widths and not in accordance with the demand pattern of the State agencies. Under the revised scheme, the counts of warp/weft, reed/picks, width in cms. and length in metres is to be provided to the Textile Commissioner's office in advance every quarter so that production may conform to demand requirements.

4.50 With the deterioration in the price situation which set in from March 1979, and the expectations emanating from the poor monsoon, speculative activity gained ground. Strong administrative measures were therefore, necessary. As Parliament had been dissolved, the President issued on October 5, 1979, to be effective from October 15, an Ordinance to provide for preventive detention of anti-social elements like black-marketeers and hoarders. Necessary instructions were issued to the State Governments/Union Territories to take effective steps for the implementation of the Ordinance, including the setting up of Advisory Boards as required thereunder. While the Central Government constituted an Advisory Board early in November 1979, and a number of States and Union Territories expressed their willingness to implement the Ordinance there were a few which were not prepared to follow suit. Though the autonomy of the States has, no doubt, to be respected, it has to be appreciated that management of the economy can be made extremely difficult if cooperation is not forthcoming from all parts of the country. The "Prevention of Black-marketing and Maintenance of Supplies Ordinance" has been embodied in an Act by the new Government. It can be hoped that, with firm action on the part of all concerned, a decisive impact would be made on the price situation. A Control Room at the Centre has been established to monitor prices, in the first instance, of nine essential commodities, namely rice, wheat, vanaspati, edible oils, sugar, diesel, kerosene, soft coke and salt.

Prospects

4.51 The better prospects of the *rabi* crop after the widespread winter rains have brightened the hopes of an improvement in the price situation in the next few months. It is hoped that the prices of agricultural commodities and agro-based manufactures will not push up the price level as they did in the earlier part of 1979-80. The establishment of a stable Government at the Centre is also likely to result in a successful tackling of the problems of infrastructure which have bedevilled the economy in general, and the industrial sector in particular. Some abatement in inflationary pressure is already in evidence. As against an increase of 8.7 per cent in wholesale prices in June-September 1979 (on point to point basis), the increase tapered off to 2 per cent in October-December 1979 and further to 1.4 per cent in January-March 1980.

4.52 However, it would be a mistake to be complacent about the strength of inflationary pressures. As we have seen earlier cost push factors have contributed significantly to the upward pressure on the price level. The increases in petroleum prices in 1979-80 have had a significant impact on prices, directly as well as indirectly. The effects of the latest revision are still to be felt, and further increases in oil prices cannot but have further inflationary impact. The general increase in the costs of raw materials and intermediates because of all pervading impact of petroleum product prices, the rising prices of imports, the problems caused by the difficulties in infra-structure and the rise in wage costs will exert continuous upward pressure on prices*. Therefore, the containment of inflation will have to be a major objective of policy in the coming year.

*Prices of petroleum products (other than kerosene, LPG, LSHS and fuel oil used for fertilisers) and fertilisers were raised with effect from 8th June 1980.