

## CHAPTER 5

### PRICES AND PRICE POLICY

5.1 The upward trend in prices which began in March 1979 continued into the current fiscal year until July, 1980. Since then inflationary pressures have decelerated. The Wholesale Price Index (1970-71=100) increased by 13.2 per cent during fiscal year 1980-81 (upto January 17, 1981) as compared with 19.1 per cent during the corresponding period of 1979-80. According to the present trends the increase in the wholesale prices during 1980-81 is expected to be significantly lower than the 21.4 per cent during 1979-80 (on a point to point basis). Although rising costs and international factors, particularly the rise in crude and petroleum products prices, have continued to push up prices of non-food products, inflation during 1980-81 has also been caused to a substantial extent by a few food commodities and food products whose production was adversely affected because of the severe drought conditions which prevailed in most parts of the country in 1979-80.

5.2 Control of inflation has been a major objective of Government's policy. The main elements of the anti-inflationary policy are : augmentation of aggregate supply through higher production, better capacity utilisation, imports of essential commodities in short supply and regulated exports of those needed domestically; curbing the activities of hoarders, speculators and blackmarketeers; and constant monitoring of availabilities and prices of essential commodities. The Public Distribution System has been made a permanent feature of the supply management framework with a view to ameliorating the impact of inflation on consumers, particularly the weaker sections of the society. At the same time, the stance of monetary policy has been restrictive in view of the excess liquidity in the system without denying legitimate credit requirements for productive purposes. Fiscal policy has aimed at encouraging saving and investment and keeping the budgetary deficits within reasonable limits.

#### **Inflationary Pressures in 1979-80 and 1980-81**

5.3 The inflationary pressures that were triggered off in March, 1979 continued throughout 1979-80. The wholesale price index recorded an increase of 6.8 per cent in the first quarter and 8.7 per cent in the second quarter of 1979-80. The third quarter witnessed a contra-seasonal increase of 2.0 per cent. The increase was 2.6 per cent during the fourth quarter of 1979-80. For the year as a whole, the index increased from a level of 191.1 at end March, 1979 to 232.0 at end March, 1980. The increase in the index thus was 21.4 per cent during 1979-80.

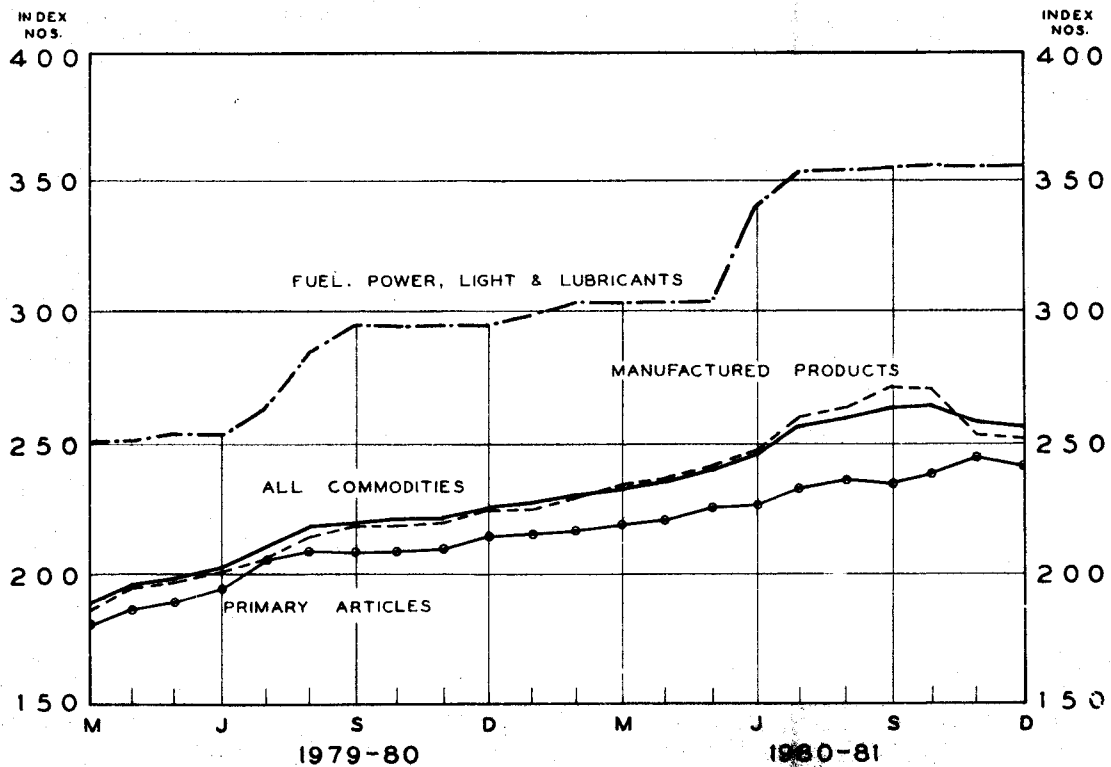
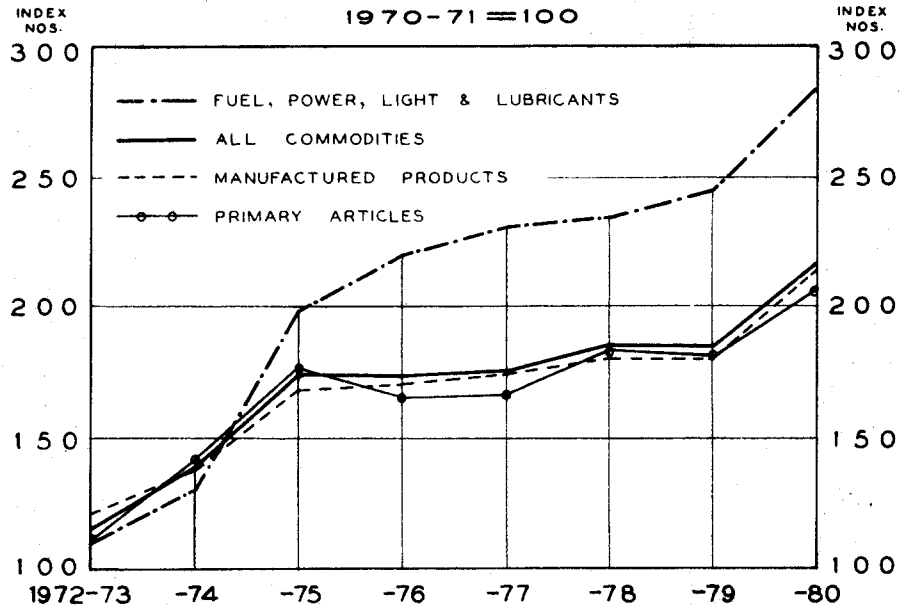
5.4 The forces underlying the inflation of 1979-80, which were discussed in the 1979-80 Economic Survey

continued to exert pressure on prices during the first half of 1980-81 also. However, since then there has been a marked deceleration. The wholesale price index increased by 8.2 per cent in the first quarter and by 5.7 per cent during the second quarter of 1980-81. However, in the third quarter, the general price index declined by 3.5 per cent compared with a rise of 2.0 per cent in the same quarter of 1979-80. The All-commodities Wholesale Price Index (1970-71=100) has increased by 13.2 per cent during 1980-81 (upto January 17, 1981). This rise is substantially smaller than the 19.1 per cent during the corresponding period of 1979-80. (Table 5.1)

5.5 A combination of factors was responsible for the continued inflation since March 1979. These were: increase in prices of imports, especially crude & petroleum products and consequent increases in the prices of certain goods and services, upward adjustments in administered prices, supply constraints caused by the inadequacies of the infrastructure and growing liquidity in the system. The impact of these factors was aggravated by the severe drought of 1979-80 which resulted in a decline in agricultural production and hydel generation and generally stimulated inflationary expectations.

5.6 The inflationary scene during the current year was dominated by increases in the prices of a few commodity groups the production of which was adversely affected by last year's drought. There was a sharp reduction in the production of cereals, pulses, oilseeds and sugar. The drought would have caused severe hardship, particularly to the poorer sections of the population, but for the massive effort which went into tackling the situation. This was made possible by the availability of sufficient buffer stocks of foodgrains and a well-entrenched public distribution system throughout the country. It is remarkable that despite serious decline in food production, the increases in the prices of cereals were contained during 1980-81 (upto January 17, 1981) to 10.4 per cent as against an increase of 16.9 per cent during the corresponding period of 1979-80. It was also possible to restrict the price increase of edible oils to 14.4 per cent during March 29, 1980 to December 27, 1980 as against 24.3 per cent in 1979-80 with the help of substantial imports and the increased distribution of edible oils for direct consumption through fair price shops. Since the beginning of January 1981, however, there has been a contra-seasonal increase in the prices of edible oils, mainly because of a less than expected *kharif* groundnut production in some areas of the country, and speculative hoarding of oilseeds and edible oils by certain sections of trade.

# WHOLESALE PRICES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

TABLE 5.1  
Index Numbers of Wholesale Prices  
(1970-71 = 100)

(1)	Weight (per cent)	Per cent variations					
		26-3-77	25-3-78	31-3-79	29-3-80	19-1-80	17-1-81(P)
		27-3-76	26-3-77	25-3-78	31-3-79	31-3-79	29-3-80
(2)	(3)	(4)	(5)	(6)	(7)	(8)	
<b>ALL COMMODITIES</b>	<b>100.00</b>	<b>+12.0</b>	<b>+0.3</b>	<b>+4.6</b>	<b>+21.4</b>	<b>+19.1</b>	<b>+13.2</b>
<b>I. Primary Articles</b>	<b>41.67</b>	<b>+20.1</b>	<b>+0.4</b>	<b>+1.4</b>	<b>+19.4</b>	<b>+18.7</b>	<b>+13.7</b>
(a) Food Articles	29.80	+16.6	+4.0	-1.0	+11.3	+10.6	+13.5
Foodgrains	12.92	+10.4	+7.2	-0.9	+12.5	+13.2	+19.0
Cereals	10.74	+9.2	-0.6	-0.6	+16.3	+16.9	+10.4
Pulses	2.18	+15.4	+42.9	-1.7	Neg.	1.3	+51.0
Fruits & Vegetables	6.13	+27.1	+9.4	-5.9	+19.0	+14.3	+12.1
Milk & Milk products	6.15	+7.7	+1.6	+6.8	+3.4	-0.4	+8.9
Eggs, Fish & Meat	1.90	+8.3	+19.1	+5.3	+14.5	+17.8	+11.8
Condiments & Spices	1.09	+13.7	+4.9	-15.7	-21.3	-10.1	+2.8
(b) Non-food Articles	10.62	+36.8	-9.0	+7.3	+14.8	+13.7	+13.5
Raw Cotton	2.25	+44.8	-14.2	-6.9	+0.4	-2.8	+23.0
Raw Jute	0.43	+9.1	+5.6	-8.9	-4.7	-0.9	+1.4
Oilseeds	4.20	+73.4	-10.9	-2.4	+31.8	+26.3	+25.1
(c) Minerals	1.25	+4.5	+2.6	+5.3	+97.5	+97.5	+15.0
Petroleum Crude & Natural Gas	0.60	+6.4	+1.9	+4.5	+120.3	+120.3	+16.1
<b>II. Fuel, Power, Light &amp; Lubricants</b>	<b>8.46</b>	<b>+1.4</b>	<b>+4.3</b>	<b>+3.9</b>	<b>+20.7</b>	<b>+20.7</b>	<b>+27.1</b>
Mineral Oils	4.91	+0.2	+1.5	+2.8	+20.0	+20.0	+39.6
<b>III. Manufactured Products</b>	<b>49.87</b>	<b>+8.3</b>	<b>-0.6</b>	<b>+7.5</b>	<b>+23.2</b>	<b>+19.0</b>	<b>+9.7</b>
Food Products	13.32	+20.4	-13.5	+3.5	+49.3	+34.5	+19.4
Sugar, Khandasari & Gur	7.24	+5.7	-19.7	+5.5	+73.4	+49.3	+20.5
Edible Oils	3.72	+62.4	-6.5	+3.5	+25.9	+20.7	+21.4
Textiles	11.03	+15.2	+5.4	+6.2	+13.0	+12.8	-0.4
Chemicals & Chemical Products	5.55	+2.2	+1.6	+3.8	+18.2	+17.6	+16.2
Basic Metals, Alloys & Metal Products	5.97	+1.9	+3.6	+11.6	+18.0	+17.5	+4.1
Machinery & Transport Equipment	6.72	-1.3	+4.5	+11.0	+15.7	+14.7	+10.1

P : Provisional.

5.7 The most seriously affected commodity was pulses, particularly gram, the production of which during 1979-80 was 42.9 per cent lower than that in 1978-79. As a result, the prices of pulses rose by 51.0 per cent and, although they have only a weight of 2.18 per cent in the index, contributed as much as 8.8 per cent to the rise in the overall index during 1980-81 (upto January 17, 1981). Drought conditions of the previous year exacerbated seasonal pressures during 1980-81 also. This is evident from the significant increase in the prices of fruits and vegetables i.e., 12.1 per cent as compared with 14.3 per cent during the last year. Their contribution to the overall increase in the index was 4.6 per cent as against 3.8 per cent in the comparable period of 1979-80 (Table 5.2).

5.8 The impact of external factors, particularly the sharp increase in crude and petroleum product prices is evident from the direct contribution of the conse-

quent increase in domestic prices of petroleum, natural gas and mineral oils (in June 1980 and later in January, 1981) on the general price level. The prices of the two groups (petroleum crude & natural gas and mineral oils) increased by 16.1 per cent and 39.6 per cent respectively during 1980-81. Though these two groups together have a weight of 5.51 per cent, yet their contribution to the overall rise in the Wholesale Price Index during end March, 1980—January 17, 1981 was 27.0 per cent as against a contribution of 23.8 per cent during the corresponding period of 1979-80. Apart from this direct impact the increase in petroleum product prices also gets reflected in the prices of those goods and services which use the former as inputs. It is not easy to quantify precisely the cascading effect of the oil price increase on the general price level, but it should be significant. International inflation also gets imported into the country through other major imports such as fertilizers, steel, cement, chemicals and chemical products, machinery and equipment. It is not possible to in-

TABLE 5.2

*Share of certain commodities/groups in the overall rise in the Wholesale Price Index (1970-71 = 100)*

Commodities/groups	Weight (per cent)	Between 31-3-79 and 29-3-80		Between 31-3-79 and 19-1-80		Between 29-3-80 and 17-1-81	
		%age change	%age share in the overall rise	%age change	%age share in the overall rise	%age change	%age share in the overall rise
<b>ALL COMMODITIES</b>	<b>100.00</b>	<b>+21.4</b>	<b>100.0</b>	<b>+19.1</b>	<b>100.0</b>	<b>+13.2</b>	<b>100.0</b>
(a) Administered prices	6.76	+42.3	21.5	+42.2	24.1	+31.8	30.6
(i) Petroleum crude & natural gas	0.60	+120.3	14.6	+120.3	16.4	+16.1	5.8
(ii) Petroleum products	4.91	+20.0	6.7	+20.0	7.4	+39.6	21.2
(iii) Fertilizers	1.25	+2.8	0.2	+2.1	0.3	+52.9	3.6
(b) Sugar, Khandsari, Gur & edible oils	10.96	+57.3	24.9	+39.6	19.2	+20.7	18.9
(i) Sugar, khandsari & gur	7.24	+73.4	21.1	+49.3	15.9	+20.5	13.7
Sugar	(2.19)	+36.4	3.1	+20.6	1.9	+25.5	3.9
Khandsari	(0.49)	+89.8	1.7	+56.5	1.4	+19.0	1.0
Gur	(4.56)	+88.7	16.3	+61.7	12.6	+18.9	8.8
(ii) Edible oils	3.72	+25.9	3.8	+20.7	3.3	+21.4	5.2
(c) Seasonal Items	31.30	+14.4	18.4	+12.7	18.3	+16.2	31.6
(i) Cereals	10.74	+16.3	6.7	+16.9	7.9	+10.4	6.5
(ii) Pulses	2.18	Neg.	..	+1.3	0.3	+51.0	8.8
(iii) Fruits & vegetables	6.13	+19.0	4.4	+14.3	3.8	+12.1	4.6
(iv) Milk & milk products	6.15	+3.4	0.8	-0.4	-0.3	+8.9	2.9
(v) Eggs, fish & meat	1.90	+14.5	1.5	+17.8	1.9	+11.8	2.0
(vi) Oilseeds	4.20	+31.8	5.0	+26.3	4.7	+25.1	6.8
(d) All Other Commodities	50.98	+14.4	35.2	+14.0	38.4	+5.1	18.9

sulate the economy from such effects. The international environment in regard to oil supplies and prices remains quite uncertain. The pressures on prices have been exacerbated by the continued problems in Assam and the war between Iraq and Iran which compelled some purchase of oil and oil products from the spot market at relatively high prices.

5.9 Some key commodities such as steel, cement, coal, fertilizers, aluminium, electricity, whose prices are administered account for about one-fifth of the total weight in the wholesale price index. In the context of continued inflationary pressures both at home and abroad, administered prices cannot be kept out of tune with other prices without heavy economic cost to the nation. Appropriate price adjustments are also necessary for the efficient functioning of these industries. The long delayed but inescapable upward adjustment in these prices also contributed to the increase in the general price level. During 1980-81 also, prices of certain administered commodities have had to be raised. Notable among these were the increases in the prices of levy sugar, rice, coarse grains, petroleum crude, its products and fertilizers. The contribution of the increase in administered prices of petroleum crude, petroleum products and fertilizers to the overall rise in the all commodities price index

during 1980-81 (upto January 17, 1981) is estimated at 30.6 per cent. Since then, the administered prices of coal had also to be raised by Rs. 26.84 per tonne for coal produced by Coal India Limited, that of steel by 20 per cent and of pig iron by Rs. 400 per tonne.

5.10 It is not possible to quantify the precise impact of the demand factor on the price increase. The economy witnessed a significant increase in deficit financing until 1979-80. The budgetary deficit of the Central and State Governments during 1976-77 was Rs. 134 crores. It was Rs. 1016 crores in 1977-78, Rs. 631 crores in 1978-79 and Rs. 2687 crores in 1979-80. There was considerable accumulation of foreign exchange reserves during these years. Money supply with the public increased by an average of 15.5 per cent during the 3 years 1977-78, 1978-79 and 1979-80. As a result, substantial excess liquidity continued to be generated. Its impact was not inflationary during 1977-78 and 1978-79 mainly because of the good agricultural production, substantial buffer stocks of foodgrains and easy availability of supplies needed by the economy which tended to dampen speculative expectations and discouraged speculative inventory building in sensitive commodities. However, shortages in certain sensitive commodities due to low agricultural production revived

dormant expectations which were aided by excess liquidity. During 1980-81 the deceleration in the inflationary pressures may have been, to a certain extent, the result of the slower expansion of money supply. The expansion in the broadly defined money supply i.e., aggregate monetary resources ( $M_3$ ) has been somewhat lower than in 1979-80. Although, actual budgetary deficit for 1980-81 is likely to be larger than that indicated in the budget estimate, its expansionary impact may have been partly mitigated by the fall in foreign exchange assets of banks because of a draw down in foreign exchange reserves.

### Consumer Prices

5.11 The increase in wholesale prices is reflected in the retail prices with a time lag but the movement in the two indices tend to be in similar direction, although the increase in the Consumer Price Index has been observed to be lower than that of the Wholesale Price Index. This is mainly because of the difference in the coverage of the two indices. The Consumer Price Index for Industrial Workers (1960=100) increased by 8.5 per cent during 1979-80. During the current financial year, the index has increased from 373 in March 1980 to 408 in December 1980 for which latest data are available. In relative terms the Index has increased by 9.4 per cent as against 12.7 per cent during the corresponding period last year (April to December). This increase was slightly lower than the increase of 10.1 per cent in the wholesale price index during the comparable period. As expected, the main source of increase in the consumer price was food

and food products. Ordinarily the consumer price index should be the indicator of inflation in the country. However, in view of the longer time lag in publication of consumer price indices, the wholesale price index is being used as a measure of inflation.

### Policy Developments

5.12 On the demand side, the stance of monetary and credit policies has been restrictive though care has been taken to meet the legitimate requirements for productive purposes. The introduction of the Special Bearer Bonds is also intended to have a deflationary effect. On the supply side, the emphasis has been on maximising production and availability of mass consumption goods, with supplementation through imports where necessary. At the same time, while ensuring that support/procurement prices of agricultural commodities should be remunerative for farmers, care was taken not to exacerbate inflationary pressures. Buffer stocking of foodgrains and revitalisation of the public distribution system continued to remain major elements of the stabilisation policy in the economy. In adjusting administered prices, care was taken to see that their impact on weaker sections of society was reduced to the extent feasible.

### Agricultural Prices

5.13 The price support operation of agricultural commodities is summarised in Table 5.3. It is intended to ensure remunerative prices to farmers and to establish a structure of relative prices which achieves a desirable cropping pattern.

TABLE 5.3  
Minimum Support/Procurement Prices of Agricultural Commodities

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	105**
3. Coarse grains -do-	74	74	85	95	105
4. Barley (Minimum support price)	65	65	67	..	..
5. Gram -do-	90	95	125	140	145
6. Arhar -do-	..	..	155	165	190
7. Moong -do-	..	..	165	175	200
8. Urad -do-	..	..	..	175	200
9. Mustard -do-	..	..	225	245	..@
10. Groundnut -do-	140	160	175	190	206
11. Sunflower seed -do-	150	165	175	175	185
12. Soyabean -do-	..	145	175	175	183†
13. Cotton (320 F) (Kapas) -do-	..	255	255	275	304
14. Sugarcane (Statutory Minimum price)	8.50	8.50	10.00	12.50	13
15. Jute (W-5 grade) -do-	136	141	150	155	160

\*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. 109 for fine variety and Rs. 113 for superfine variety.

@ Not announced.

†Rs. 198 for yellow variety.

5.14 In view of the rise in the prices of fertilizers, petrol and diesel it was decided to raise the procurement price by Rs. 10 to Rs. 105 per quintal for common variety of paddy and coarse grains. A premium of Rs. 4 and Rs. 8 per quintal was allowed for the fine and superfine varieties of paddy respectively over and above the level fixed for the common variety. In regard to pulses, the Government accepted the Agricultural Prices Commission's (APC) recommendation and raised the support price by Rs. 25 to Rs. 190 for *arhar* and for *moong* and *urad* also by Rs. 25 to Rs. 200 per quintal for the current year. For wheat the APC has recommended procurement price of Rs. 127 per quintal for the current season as against Rs. 117 last season. The Government has yet to take a decision in the matter.

5.15 The thrust of the policy for oilseeds has been to encourage import substitution by raising domestic production. This is also necessary with a view to saving substantial foreign exchange currently being spent on imports of edible oils. On the recommendations of the APC, the minimum support price for fair average quality of groundnut-in-shell has been raised by Rs. 16 to 206 per quintal for the 1980-81 season. The support price for sunflower and soyabean (black variety) has been fixed at Rs. 183 per quintal, as against Rs. 175 per quintal in the previous year; for yellow variety of soyabean, the price has been fixed at Rs. 198 for the current season. The National Agricultural Co-operative Marketing Federation (NAFED) has been entrusted with the job of carrying out these support operations.

5.16 The statutory minimum price of sugarcane for 1980-81 season has also been raised on the recommendation of the APC by 50 paise to Rs. 13.00 per quintal on top of a 25 per cent increase in the previous year for a basic recovery of 8.5 per cent subject to a proportional premium for every 0.1 per cent increase in recovery above that level. As a consequence, the issue price of levy sugar was also raised by 65 paise to Rs. 3.50 per kg. However, State Governments have raised the sugarcane price by a much bigger margin than was accepted by the Central Government.

5.17 For W-5 grade of jute in Assam, the statutory minimum price has been fixed at Rs. 160 per quintal for 1980-81 season as against Rs. 155 last season. Minimum support price of cotton (*kapas*) for fair average quality of 320 F/414-F/J-34 variety has been raised by Rs. 29 to Rs. 304 per quintal for the 1980-81 season. It may, however, be mentioned that while for jute the aforesaid price has provided support in practice, the market prices of *kapas* have ruled much higher than the support price, despite a good crop during the current season. This was mainly the result of the large scale purchases made by the public sector agencies at market prices.

5.18 To provide relief to the onion growers of Maharashtra the Government of Maharashtra arranged for the purchase of 25 thousand tonnes of onions at prices ranging from Rs. 50 to Rs. 75 per quintal in the current season. NAFED had also been asked to buy another 25 thousand tonnes.

5.19 Besides ensuring remunerative prices to farmers, the Government has also endeavoured to maintain consumer prices stable at reasonable level. However, in view of persistent upward revision in procurement prices of foodgrains, the issue prices to consumers cannot be kept unaltered without significant increase in subsidies, which in turn, get reflected in budgetary deficits with their inflationary implications. The issue price of rice which had not been changed since 1975-76, had, therefore, to be raised by Rs. 15 per quintal and that of coarse grains by Rs. 10 per quintal to avoid additional subsidy burden on the public exchequer.

### Industrial Prices

5.20 The upward revisions in the prices of petroleum and petroleum products during 1980-81 were inescapable on account of the steep escalation in international oil prices and the disruption in petroleum production in Assam which increased the country's dependence on oil imports. The Iran-Iraq war also compelled limited resort to the spot market for crude. The upward revision of petroleum product prices was essential to maintain the viability of the domestic petroleum industry. An increase of 65 paise per litre in the basic prices of petrol, high speed diesel and light diesel, and of Rs. 1.10 per litre for lubricants was effected in June 1980; these prices were further increased by 37 paise and 35 paise per litre respectively effective from January 13, 1981. The latest price revision has been extended to kerosene (+10 paise per litre) and cooking gas (+Rs. 5.03 for a 15 kg. cylinder).

5.21 Naphtha based fertilizer units were also affected by the increase in the prices of petroleum products. With effect from June 8, 1980 per tonne selling prices of fertilizers were increased from Rs. 1450 to Rs. 2000 for urea, from Rs. 2200 to Rs. 3050 for diammonium phosphate and from Rs. 805 to Rs. 1100 for potash. In terms of nutrients of N, P<sub>2</sub>O<sub>5</sub> and K, the price increase worked out to Rs. 1.20, Rs. 1.38 and Rs. 0.50 per kg. respectively. However, the presently available subsidies at 25 per cent and 33.33 per cent to small and marginal farmers respectively in drought affected areas were allowed to continue for the current year.

5.22 Price revision of drugs has been engaging the Government's attention for a long time. In the meanwhile, the input costs have risen considerably. Therefore, on the basis of recommendations of the Bureau of Industrial Costs and Prices (BICP), it was decided to allow upward adjustment in the prices of bulk drugs and formulations. As of mid-January 1981 the prices of about 90 bulk drugs and 60 formulations including 34 leader formulations have been revised. These increases are, however, expected to have only a marginal impact on consumer prices.

5.23 Aluminium prices were raised in July 1980 to neutralise the effect of increase in power tariff rates and higher prices of imported aluminium. The prices of non-ferrous metals are reviewed and fixed periodically in the light of prevailing prices in the international markets. For cement a three tier system of retention price continued. To compensate producers for

escalations in the cost of essential inputs like coal, freight, power tariff, stores and spares and wages, the Government allowed an increase of Rs. 13.65 per tonne in the retention price of cement from May 3, 1980. However, the price of cement to the consumers has since then been kept unchanged, as the incidence is being absorbed in the Cement Regulation Account. The existing subsidy of 5 paise a unit of power to cement factories operating thermal plants, in addition to 31 paise per unit for factories using captive diesel sets during the period of power cut was continued. It was also decided to subsidize the movement of coal by road to cement factories over distances in excess of 100 km. from the collieries.

5.24 Due to persistent increase in input costs, the price of white printing paper was raised from Rs. 3000 to Rs. 3500 per tonne, an increase of about 17 per cent, with effect from November 12, 1980. Simultaneously, price control over cream wove and cream laid paper was removed.

5.25 Efforts were also made to persuade industries to reduce the prices of certain industrial products on which tax reliefs had been provided or where unjustified increase in prices had taken place. As a result, leading manufacturers voluntarily reduced the prices of certain items such as tooth-paste, toilet soap and tyres and tubes. The price cuts ranged between 4 and 5 per cent for tooth-paste and between 2.5 and 3.5 per cent for toilet and washing soaps. The prices of tyres and tubes for passenger cars and scooters were reduced by 3 per cent comprising 2 per cent at the ex-factory point and 1 per cent at the retail level.

### **The Public Distribution System**

5.26 The Government decided in early 1980 to make the public distribution system a permanent feature of the economy and an integral part of the price stabilisation policy.

5.27 Stocks of foodgrains amounted to 21.40 million tonnes at end July 1979. On account of lower procurement and higher offtake, the stocks had declined to 11.85 million tonnes at the end of December 1980. The buffer stocks and effective management of public distribution system greatly helped in keeping the price rise in foodgrains under check during 1980-81 despite the severe drought of 1979-80.

5.28 The procurement in 1979-80 was adversely affected by the drought. The procurement of rice during the period October to December 1980 at 3.58 million tonnes, was significantly higher than 2.37 million tonnes procured during the corresponding period of 1979-80. The procurement of wheat was lower at 5.85 million tonnes during the period April to September 1980 as against 8.50 million tonnes in the corresponding period of 1979-80.

5.29 The offtake of foodgrains from public distribution system started increasing from April 1980 due to shrinkage in the overall availability of foodgrains during 1979-80. During the first 9 months of 1980-81 (upto December 1980) the offtake of rice increased to

4.34 million tonnes and that of wheat to 5.90 million tonnes as against 3.28 million tonnes and 5.14 million tonnes respectively during the corresponding period of 1979-80. As a result of lower procurement, increased offtake of wheat for public distribution and for National Rural Employment Programme and repayment of Russian wheat loan, the stock of wheat had declined to 5.0 million tonnes by the end of December 1980 compared with 8.4 million tonnes at the end of December 1979. These stocks would be sufficient to meet the requirements of the Public Distribution System and the National Rural Employment Programme for the months before the next wheat procurement starts. Steps have, however, been taken to conserve wheat stocks at a reasonable level by allocating more rice from the Central pool for both public distribution and the National Rural Employment Programme.

5.30 The scheme of controlled cloth is contractual rather than obligatory under which 400 million square metres of mill-made cloth is being distributed through the retail outlets. The estimated production of Janata cloth in the handloom sector during 1980-81 is about 275 million square metres and is also meant for distribution through retail outlets. A provision for subsidy of the order of Rs. 76 crores to be given to National Consumers' Co-operative Federation (NCCF) has been made during 1980-81 for distribution of subsidised mill-made controlled cloth for neutralising the increase in the ex-mill prices of controlled cloth. For the handloom sector there is a separate subsidy provision of Rs. 30 crores.

5.31 The supply position of sugar deteriorated since the crushing season of 1979-80 as sugar output came down substantially due to lower production of sugarcane. Monthly releases could be maintained only by running down the carryover stock substantially from 20.8 lakh tonnes at end September 1979 to 6.2 lakh tonnes at end September 1980. The Government resorted to import of 2 lakh tonnes of sugar for augmenting the availability of sugar. Public distribution system was, however, stretched to the maximum to distribute 65 per cent of the total production at a fixed price under the dual pricing policy which was re-introduced in December 1979. Stringent stock limits on traders in sugar and khandsari were imposed to augment supplies. In response to the voluntary offer by sugar factories to sell non-levy sugar at Rs. 4.50 per kg. ex-factory from 1st September 1980 to 15th November, 1980, non-levy sugar was also distributed by various State Governments through their public distribution networks at fixed price ranging from Rs. 6.00 to Rs. 6.50 per kg.

5.32 In the current sugar season, commencing from October 1980, the supply position of sugar has improved. By the end of December 1980, sugar production reached 14.15 lakh tonnes as against 10.57 lakh tonnes during the corresponding period of 1979, showing an increase of 33.9 per cent. In fact, this is the highest production during the last five years that has been achieved in the first three months of the crop season. As a result, sugar stocks have increased from 2.7 lakh tonnes at end October 1980 to a little less

than 10 lakh tonnes at end December 1980. This increase has been mainly the result of better production of sugarcane and various measures taken by the Government aimed at : increasing sugarcane supply to sugar factories by preventing diversion of sugarcane to khandsari units which were not allowed to start crushing operations before January 1, 1981 and providing incentives by way of excise rebate for early crushing to sugar factories and enhancement of compounded levy of excise duty on khandsari units. The excise rebate for excess production of sugar in the months of October and November 1980 was fixed at Rs. 43.60 per quintal for free sale sugar and Rs. 18.50 per quintal for the levy sugar. Incentives have also been provided for creating additional crushing capacity on a priority basis and modernisation and expansion of existing factories.

5.33 For augmenting domestic edible oils and stabilising prices, import of edible oils of about 10 lakh tonnes was made during 1980-81 through the State Trading Corporation (STC). The imported edible oils are meant for both vanaspati industry as well as for direct consumption through the public distribution system. During the oil year ending 31st October 1980, about 3.5 lakh tonnes of imported oils were lifted by different States for the public distribution system. Generally, the prices for consumers ranged from Rs. 8.25 to Rs. 8.50 per kg. for rapeseed oil, and Rs. 8.25 per kg. for R.B.D. Palm oil/Palmolein with marginal additions to cover costs due to local taxes and other overheads. With a view to making more imported oil available for direct consumption through fair price shops, the supply of imported oil to the vanaspati industry was reduced from 95 per cent to 70 per cent with effect from January 1, 1981.

5.34 The public distribution system has shown remarkable resilience and strength in the face of severe strains. As of now, it is handling about 11 to 12 million tonnes of foodgrains, 3.32 million tonnes of sugar, 3.5 lakh tonnes of imported edible oils, 400 million sq. metres of controlled cloth, 3 million tonnes of soft coke and 3.5 million tonnes of kerosene annually. Besides, it has distributed 416 tonnes of toilet soap, 1258 tonnes of tea and match-boxes of the value of Rs. 34 lakhs since July 1979. The spatial coverage of the public distribution system has also expanded. In December 1980, there were about 2.75 lakh

outlets of which 2.20 lakh were in rural areas and 0.55 lakh in urban centres. During 1980, 40,000 new fair price shops have been opened, most of them in the rural areas. The policy of entrusting the fair price shops to co-operatives with a view to progressively reducing the role of private trade in the public distribution system is being vigorously pursued. Several states have also established State Civil Supplies Corporations to handle the distribution of essential commodities under the public distribution system.

5.35 In a vast country like ours because of various factors such as transport bottlenecks and other infrastructural problems, some localised shortages do materialise. The situation requires constant review and monitoring of the availability and prices of essential commodities. For this purpose, regular machinery has been established at the Centre and has proved effective in correcting the localised imbalances quickly. It is necessary that such a machinery is strengthened and expanded.

### Outlook

5.36 The trends in the wholesale prices show that there has been an abatement in inflationary pressures in the economy. The rate of inflation during 1980-81 should be significantly lower than that during 1979-80. The prospects of a substantial increase in foodgrains production, higher production of sugarcane and a good crop of cotton should, with some time lag, have a salutary effect on prices. While higher agricultural production would generate more demand for consumer goods, better supply of agricultural raw materials should result in higher production of such goods. Of late, there have been noticeable improvements in power generation and coal production and also in movement of goods by the railways. Production of key industries has shown impressive gains. All these developments are expected to ameliorate inflationary pressures. However, the situation, though improved, continues to be difficult. Both international factors and domestic pressures for higher incomes and wages and sectoral prices will not make the task of price stabilisation easy. However, the trend of improvement noticed during the second half of 1980-81 has to be sustained, and moderation of inflation will continue to be the major objective of economic policy. In particular, the endeavour will be to minimise the burden of adjustments on the weaker sections of society.