

CHAPTER 5

PRICES AND PRICE POLICY

5.1 There has been a significant improvement in the price situation during 1981-82. During the calendar year 1981 the increase in the Wholesale Price Index for all commodities on a point to point basis was 7.9 per cent as against 13.5 per cent in 1980 and 22.0 per cent in 1979. During the financial year (upto January 15, 1982) wholesale prices increased by only 3.0 per cent on a point to point basis, compared with an increase of 14.0 per cent in the corresponding period of 1980-81 and 19.1 per cent in the corresponding period of 1979-80. The All-India Consumer Price Index for Industrial Workers (Base : 1960=100), however, has not shown the same rate of deceleration because of various reasons explained below. The increase in the Consumer Price Index during the current financial year (upto December

1981) was about 9.5 per cent as against 9.4 per cent in 1980-81 and 12.6 per cent in 1979-80.

5.2 Control of inflation continued to be an important element of economic policy and a number of measures were taken during the year to moderate the rate of inflation. The focus of anti-inflationary policies during the year was both on supply and demand management. Supply management effort was directed towards increased production supplemented by imports of edible oils, wheat and sugar in significant quantities. These were intended to improve the resilience and viability of the public distribution system. A number of substantive steps were also taken to effectively contain the expansion of money supply and bank credit.

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

	Weight (Per cent)	Per cent Variations						
		26-3-77	25-3-78	31-3-79	29-3-80	28-3-81	17-1-81	
		27-3-76	26-3-77	25-3-78	31-3-79	29-3-80	29-3-80	28-3-81
1	2	3	4	5	6	7	8	9
ALL COMMODITIES	100.00	12.0	0.4	4.6	21.4	16.7	14.0	3.0
I. Primary Articles	41.67	20.1	0.4	1.4	19.4	14.8	14.5	6.4
(a) Food Articles	29.80	16.6	4.0	-1.0	11.3	15.3	13.8	8.3
Foodgrains	12.92	10.4	7.2	-0.9	12.5	17.8	19.9	5.1
Cereals	10.74	9.2	-0.6	-0.6	16.3	11.3	11.3	8.3
Pulses	2.18	15.4	42.9	-1.7	Neg.	42.0	52.2	-5.5
Fruits & Vegetables	6.13	27.1	9.4	-5.9	19.0	17.3	10.3	8.0
Milk & Milk Products	6.15	7.7	1.6	6.8	3.4	12.8	8.9	10.4
Eggs, Fish & Meat	1.90	8.3	19.1	5.3	14.5	10.5	15.1	17.7
Condiments & Spices	1.09	13.7	4.9	-15.7	-21.3	32.1	2.8	24.6
(b) Non-food Articles	10.62	36.8	-9.0	7.3	14.8	12.0	14.7	5.5
Raw Cotton	2.25	44.8	-14.2	-6.9	0.4	35.1	29.2	Neg.
Raw Jute	0.43	9.1	5.6	-8.9	-4.7	-0.5	1.1	5.5
Oilseeds	4.20	73.4	-10.9	-2.4	31.8	18.0	25.3	5.8
(c) Minerals	1.25	4.5	2.6	5.3	97.5	17.5	17.2	-0.5
Petroleum Crude & Natural Gas	0.60	6.4	1.9	4.5	120.3	18.3	18.3	-2.0
II. Fuel, Power, Light & Lubricants	8.46	1.4	4.5	3.7	20.7	31.9	27.5	9.3
Mineral Oils	4.91	0.2	1.6	2.7	20.0	39.6	39.6	9.6
III. Manufactured Products	49.87	8.3	-0.6	7.5	23.2	14.7	10.6	-1.3
Food Products	13.32	20.4	-13.5	3.5	49.3	26.4	19.5	-13.8
Sugar, Khandsari & Gur	7.24	5.7	-19.7	5.5	73.4	32.1	20.5	-23.9
Edible Oils	3.72	62.4	-6.5	3.5	25.9	20.3	21.7	5.4
Textiles	11.03	15.2	5.4	6.2	13.0	3.7	2.0	1.9
Chemicals & Chemical Products	5.55	2.2	1.6	3.8	18.2	17.2	16.6	5.2
Basic Metals, Alloys & Metal Products	5.97	1.9	3.6	11.6	18.0	16.1	4.2	3.6
Machinery & Transport Equipment	6.72	-1.3	4.5	11.0	15.7	9.6	8.2	6.9

P : Provisional.

The year also witnessed certain major initiatives to mobilise additional resources and to mop up undecleared money.

Inflationary pressures in 1980-81 and 1981-82

5.3 As discussed in the last year's Economic Survey, the intensity of inflationary pressures triggered in 1979-80 was significantly reduced during 1980-81. The Wholesale Price Index (1970-71=100) which had moved up by 21.4 per cent during 1979-80 rose by 16.7 per cent during 1980-81. During the first half of 1980-81, the Wholesale Price Index increased by 13 per cent as against 17 per cent during the same period of 1979-80. During the third quarter, the Index declined by 2.5 per cent compared with an increase of 2.6 per cent in the corresponding quarter of 1979-80. However, in the last quarter it moved up again by 5.0 per cent.

5.4 The deceleration in price rise has continued in 1981-82 and has been relatively more widespread. The increase in the Wholesale Price Index during the first nine months (March 28 to December 26, 1981) has been only 2.4 per cent as against 10.7 per cent during the corresponding period of 1980-81 on a point to point basis. This is evident also from the quarterly and monthly rates. As against an increase of 6.0 per cent and 6.7 per cent in the first and second quarters of 1980-81, the increase in the current year has been 3.6 and 1.7 per cent respectively. In the third quarter of 1981-82 the Index has declined by 2.6 per cent as against a decrease of 2.5 per cent in the same quarter last year (Table 5.2).

5.5 The deceleration is evident in a larger number of commodity groups (Table 5.3). The increase in the

Index during the current financial year (upto January 16, 1982) has been significantly lower than that during the corresponding period of 1980-81 in cereals (+8.3 per cent as against +11.3 per cent last year), pulses (—4.5 per cent as against an increase of +52.2 per cent), edible oils (+5.4 per cent as against +21.7 per cent last year) and oilseeds (+5.8 per cent as against +25.3 per cent last year). There has been also a sharp decline of 23.9 per cent in the Index for the sugar, khandsari and gur group during the year in contrast to an increase of 20.5 per cent in 1980-81. The localised shortages in some items, e.g. onions, however, generated sharp increases in their prices and significantly affected the general price situation for a limited period.

5.6 Economic Survey, 1980-81, had identified the major factors responsible for continued inflationary pressures during the financial year and outlined the policies for controlling them. As is evident from Table 5.3, there have been notable changes in the contribution of different commodity groups to the general price rise during the period. An important result that stands out quite sharply is the general nature of the deceleration of inflationary pressures after 1979-80. The nature and extent of deceleration also reflects the impact of the anti-inflationary policies in the respective areas.

5.7 The upward adjustments in selected administered prices which have a weight of about 15 per cent in the Wholesale Price Index, accounted for 26.2 per cent of the total increase in the Index in 1980-81 compared with 32.2 per cent in 1979-80. For the current financial year, (upto January 16, 1982) the

TABLE 5.2

Monthly/Quarterly Rates of Inflation (Per cent)

(Monthly Average Basis)

Months/Quarters	1979-80	1980-81	1981-82
1	2	3	4
April	3.4	0.8	2.1
May	1.5	2.1	0.8
June	2.0	3.0	0.7
Ist Quarter	7.0	6.0	3.6
July	4.6	4.3	2.1
August	3.2	1.0	1.1
September	1.2	1.3	—1.5
IInd Quarter	9.3	6.7	1.7
October	0.5	0.3	—0.3
November	—0.1	—2.3	—1.4*
December	2.3	—0.6	—0.9*
IIIrd Quarter	2.6	—2.5	—2.6*
January	0.3	2.4	
February	1.6	2.1	
March	0.8	0.4	
IVth Quarter	2.7	5.0	

*Provisional.

INDEX NUMBERS OF PRICES

— WHOLESALE PRICES (1970-71 = 100)
- - - CONSUMER PRICES (FOR INDUSTRIAL WORKERS ADJUSTED TO 1970-71 = 100)

WHOLESALE PRICES
CONSUMER PRICES

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average increase in administered prices was lower at 5.6 per cent as against 20.6 per cent during the corresponding period of 1980-81. Within the administered

commodities, major adjustments were made in the prices of petroleum and petroleum products during 1979-80, when these prices were raised by 120 per cent and

TABLE 5.3

Behaviour of Prices of certain Commodities/groups

	Weight per cent	Between 31-3-1979 and 29-3-1980		Between 29-3-1980 and 28-3-1981		Between 29-3-1980 and 17-1-1981		Between 28-3-1981 and 16-1-1982	
		% age change	% age share	% age change	% age share	% age change	% age share	% age change	% age share
ALL COMMODITIES	100.00	21.4	100.0	16.7	100.0	14.0	100.0	3.0	100.0
A. Administered Prices	14.96	32.2	30.5	26.2	34.6	20.6	32.3	5.6	45.5
(i) Petroleum crude	0.60	120.3	14.6	18.3	5.2	18.3	6.2	-2.0	-3.3
(ii) Petroleum Products	4.91	20.0	6.7	39.6	16.8	39.6	19.9	9.6	27.5
(iii) Coal mining	1.15	54.8	3.3	29.6	2.9	0.4	0.1	Noch.	—
(iv) Electricity	2.40	6.5	0.8	10.4	1.5	9.5	1.6	15.7	11.8
(v) Fertilizers	1.25	2.8	0.2	52.9	2.9	52.9	3.4	7.3	3.0
(vi) Iron, steel & ferro alloys	3.47	19.5	3.6	19.7	4.6	1.7	0.5	2.8	3.9
(vii) Non-ferrous metals	1.18	18.6	1.3	9.0	0.7	5.5	0.6	6.1	2.6
B. Sugar, Khandsari, Gur & Edible Oils	10.96	57.3	24.9	28.9	20.9	20.8	17.9	-16.5	-74.3
(i) Sugar, Khandsari & gur	7.24	73.4	21.1	32.1	16.9	20.5	12.9	-23.9	-80.4
Sugar	(2.19)	36.4	3.1	28.9	3.5	25.5	3.7	-8.3	-6.4
Khandsari	(0.49)	89.8	1.7	36.2	1.4	19.0	0.9	-24.0	-6.0
Gur	(4.56)	88.7	16.3	32.7	12.0	18.9	8.3	-28.9	-68.0
(ii) Edible Oils	3.72	25.9	3.8	20.3	4.0	21.7	5.0	5.4	6.1
C. Seasonal items	31.30	14.4	18.4	16.3	25.2	16.5	30.5	7.6	66.3
(i) Cereals	10.74	16.3	6.7	11.3	5.7	11.3	6.8	8.3	22.5
(ii) Pulses	2.18	Neg.	—	42.0	5.7	52.2	8.4	-4.5	-4.2
(iii) Fruits & Vegetables	6.13	19.0	4.4	17.3	5.1	10.3	3.6	8.0	13.4
(iv) Milk & Milk products	6.15	3.4	0.9	12.8	3.5	8.9	2.9	10.4	15.5
(v) Eggs, Fish & Meat	1.90	14.5	1.5	10.5	1.3	15.1	2.2	17.7	11.8
(vi) Oilseeds	4.20	31.8	4.9	18.0	3.9	25.3	6.6	5.8	7.3
D. All other commodities	42.78	13.1	26.2	8.0	19.3	6.7	19.3	5.0	62.5

20 per cent respectively. In contrast, during 1980-81, the burden of adjustment was shared by coal where prices rose by 29.6 per cent, fertilizers (+52.9 per cent), iron and steel (+19.7 per cent), electricity (+10.4 per cent) and other non-ferrous metals (+9.0 per cent). During the current year, electricity prices have been raised by 15.7 per cent and fertilizers and petroleum products by 7.3 per cent and 9.6 per cent respectively.

5.8 The consequential direct impact of the upward adjustment in administered prices was inevitable. However, it should be noted that besides reflecting

economic costs and improving the viability of production, such adjustments were also necessary for restricting the aggregate demand and improving public sector finances, and thus reducing budgetary deficit.

5.9 There has been a dramatic change in the contribution of the sugar, khandsari and gur group in the overall price situation. Although this group has only 7.24 per cent weight in the Wholesale Price Index, it had played a dominant role in generating inflationary pressures during the last two years. In the current financial year, its role in decelerating these

pressures has been substantial. The Wholesale Price Index of this group shot up by 73.4 per cent during 1979-80 due to the severe drought during the year and inadequacy of policies to check these prices. With the reintroduction of dual pricing policy in December, 1979 and adequate releases of levy and free market sugar helped in containing the price rise of this group to 32.1 per cent during 1980-81. Expectation of a better sugarcane crop and the sustained effort in this direction during 1981-82 ultimately led to a significant decline by 23.9 per cent in the index for this group (upto January 16, 1982). The contribution of this group to the overall price rise had declined from over 21 per cent in 1979-80 to 16.9 per cent in 1980-81. During 1981-82 the decline in the wholesale prices of this group helped significantly in containing overall inflationary pressures.

5.10 Edible oils and oilseeds have played an important role in escalating inflationary pressures during the last three years. In 1979-80, the prices of edible oils increased by 25.9 per cent and those of oilseeds by 31.8 per cent due to a serious imbalance in supply and demand. Large imports of edible oils in 1980-81 and their distribution to vanaspathi units and for direct consumption through fair price shops helped in containing price increases during 1980-81. Edible oil prices increased at a lower rate of 20.3 per cent and those of oilseeds by 18 per cent. During the current financial year, upto January 16, 1982, the situation has further improved as the price increases were only 5.4 per cent for edible oils and 5.8 per cent for oilseeds. However, inflationary pressures in the group still persist.

5.11 Cereal prices increased by 16.3 per cent in 1979-80 in the wake of severe drought conditions. Despite the continued after-effects of the severe drought, it was possible to contain the increase in cereal prices to 11.3 per cent during 1980-81 and 8.3 per cent during the current year (upto January 16, 1982) with the help of an improved public distribution system. Indeed, the high level of food stocks built up in earlier years proved extremely useful in meeting the expanded requirement of the public distribution system due to the situation created by the drought. The pricing policy for cereals was, however, designed to provide remunerative prices to the producers without creating unduly large burden of subsidies on the Budget. The procurement prices of paddy and coarse cereals were raised by 9.5 per cent in the marketing year 1981-82 followed by a corresponding increase in their issue prices, the direct impact of which was reflected in their wholesale prices. The persistence of inflationary pressures in this group highlights the need for continuing viable food stocking, public distribution and pricing policies.

5.12 The impact of prices of pulses on the overall price increase has varied. The production of pulses in the country has oscillated around a fairly

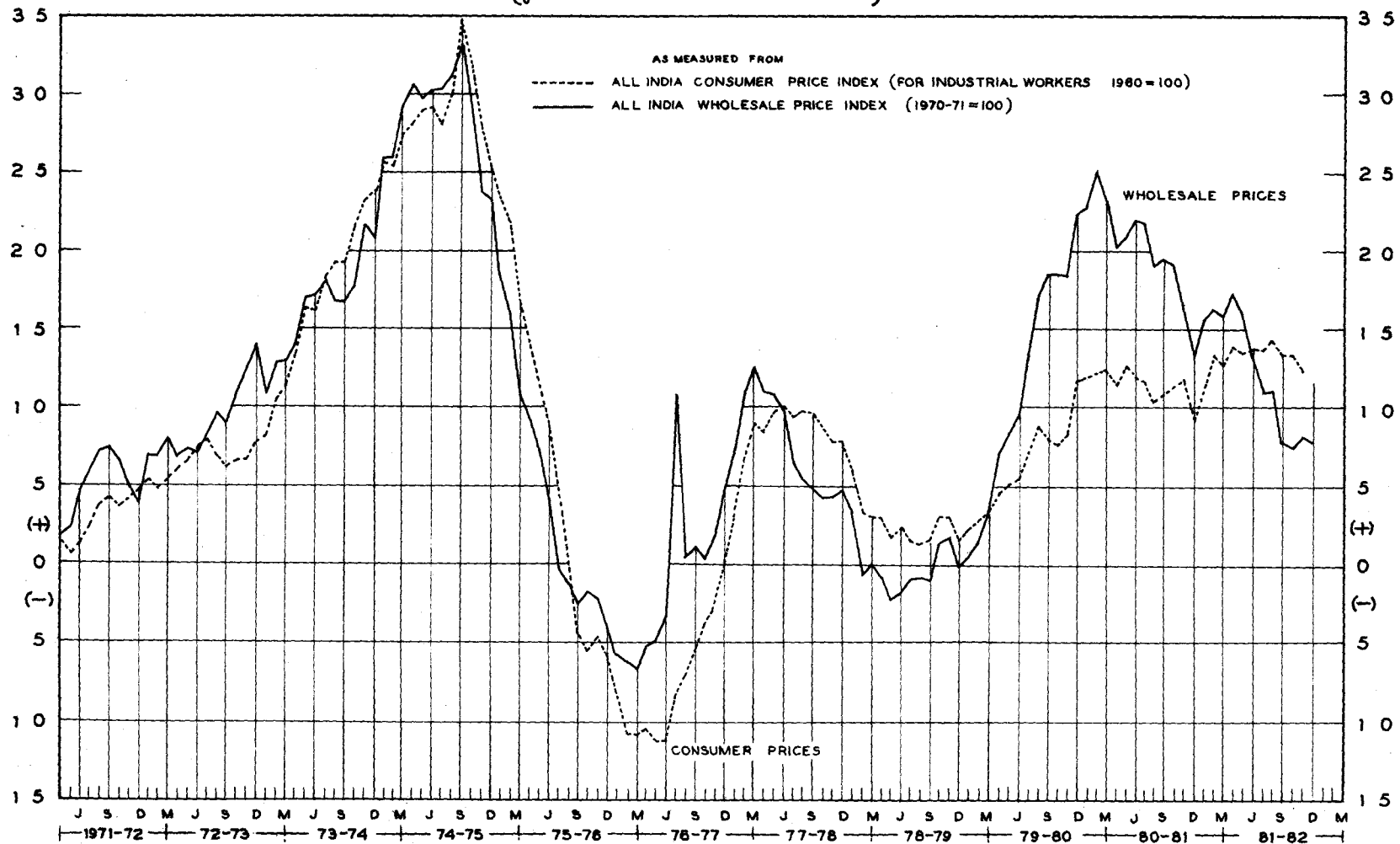
stagnant level during the last decade. In those years when production was good prices remained either unchanged or declined marginally. But when production has been even slightly lower, this group has exerted disproportionately strong price pressures. This is evident from the stability of the wholesale price index of pulses during 1979-80 and a slight decline during the current financial year as against a sharp increase of about 42 per cent in 1980-81. The possibility of substantial imports of pulses from abroad is extremely limited. A slight shortfall in production generates exaggerated speculative expectations which by creating artificial scarcities push up prices sharply. In order to increase production, efforts to raise productivity in the medium term have been intensified, short term steps concentrated on curbing anti-social practices of certain elements of trade.

5.13 Certain groups of seasonal products have generated sustained inflationary pressures during the last three years. As most of the items in these groups are essential commodities, the behaviour of their prices has a noticeable impact on the inflationary psychology. In particular, the prices of fruits and vegetables, milk and milk products, eggs, fish and meat have shown a continued upward trend since 1979-80. For example, fruits and vegetables prices increased by 19 per cent during 1979-80, by 17.3 per cent during 1980-81 and further by 8.0 per cent during the current financial year upto January 16, 1982. Milk and milk products prices rose by 3.4 per cent in 1979-80, by 12.8 per cent in 1980-81 and by 10.4 per cent during the current financial year. Eggs, fish and meat prices increased by 10.5 per cent in 1980-81 on top of 14.5 per cent in 1979-80. During the current financial year, these prices have further risen by 17.7 per cent. As is to be expected, a certain degree of price escalation in these commodities is the reflection of the general price inflation. These are also commodities which are not easily amenable to effective supply management. In the context of the overall inflationary situation and the rising demand for these commodities, their prices have tended to increase progressively. While in the short term, efforts have been limited to overcoming localised shortage a medium term strategy has to aim at higher production and more efficient marketing of these commodities.

5.14 During 1979-80, 1980-81 and 1981-82 commodity specific price increases have tended to generate disproportionately large impact on the overall inflationary situation. Consequently, the impact of a large number of "other commodities" on the overall price rise was relatively modest. For example, the increase in wholesale price indices of "other commodities" accounting for 42.8 per cent weight in the overall wholesale price index, was 13.1 per cent in 1979-80 which was substantially lower than the increase of 21.4 per cent in the All Commodities Index. During 1980-81, also the wholesale prices of "other commodities" increased by only 8 per cent while the overall price increase was 16.7 per cent. In these two years the

ANNUAL RATE OF INFLATION

(% CHANGE OVER 12 MONTHS)



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relative contribution of the "other commodities" in the overall price increase was 26.2 per cent and 19.3 per cent respectively. During the current financial year, although the relative contribution of "other commodities" to the overall increase in the Index is larger, the actual increase in their average wholesale price index has only been 5.0 per cent.

5.15 Excess liquidity in the system has persisted as a result of large increases in aggregate monetary resources (M₁) during the last several years. There was also the cascading impact of cost-push factors, particularly related to inputs which have downstream effects. It has been necessary to pursue anti-inflationary policies on the demand side also. A cautious and restrictive monetary policy has been followed. Efforts have been made to mobilise substantial additional resources and to keep budgetary deficits within prudent limits.

Consumer Prices

5.16 Price increases in certain essential commodities are more conspicuously reflected in the All-India Consumer Price Index (CPI) for Industrial Workers' (1960=100) where such commodities have much higher weights. The CPI increased by 8.8 per cent in 1979-80 and by 11.4 per cent in 1980-81.

During the current financial year (upto December 1981), the Index has increased by 9.5 per cent as against 9.4 per cent and 12.6 per cent during the corresponding periods of 1980-81 and 1979-80 respectively on a point to point basis. The deceleration in the CPI during the current financial year is more evident since September 1981. The increase in the Index during the third quarter of 1981-82 was 0.9 per cent as against 1.5 per cent during the same quarter last year (Table 5.4).

5.17 The increase in the Consumer Price Index during the current financial year (upto December 1981) works out to be higher than that in the Wholesale Price Index (WPI) which implies that the significant deceleration in the latter is not fully reflected in the former. The apparently divergent trends in the two indices are due to several reasons. For the common items in the two indices, there is usually a time lag before the variation in Wholesale Price Index percolates to the retail level. Moreover, the coverage in terms of price quotations and locations for the two indices is very different. The weighting diagram of the Consumer Price Index is based on the Family Budget Survey during 1958-59 while the weights of the Wholesale Price Index in the base year 1970-71 are based on the levels of transactions (market surplus in agriculture, value of product for

TABLE 5.4

Variations in Consumer Price Index and Wholesale Price Index

A. All India Consumer Price Index Numbers for Industrial Workers (1960=100)

	1979-80			1980-81			1981-82		
	Index	Monthly rate of inflation	Annual rate of inflation	Index	Monthly rate of inflation	Annual rate of inflation	Index	Monthly rate of inflation	Annual rate of inflation
1	2	3	4	5	6	7	8	9	10
April	337	1.5	4.7	375	0.5	11.3	427	1.7	13.9
May	339	0.6	5.0	382	1.9	12.7	433	1.4	13.4
June	345	1.8	5.5	386	1.0	11.9	439	1.4	13.7
July	353	2.3	7.0	394	2.1	11.6	447	1.8	13.5
August	360	2.0	8.8	397	0.8	10.3	454	1.6	14.4
September	363	0.8	8.0	402	1.3	10.7	456	0.4	13.4
October	365	0.5	7.4	406	1.0	11.2	460	0.9	13.3
November	368	0.8	8.2	411	1.2	11.7	462	0.4	12.4
December	374	1.6	11.6	408	-0.7	9.1	460	-0.4	12.7
January	371	-0.8	11.7	411	0.7	10.8			
February	369	-0.5	12.2	418	1.7	13.3			
March	373	1.1	12.3	420	0.5	12.6			

TABLE 5.4

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

Month	1979-80			1980-81			1981-82		
	Index	Monthly rate of inflation	Annual rate of inflation	Index	Monthly rate of inflation	Annual rate of inflation	Index	Monthly rate of inflation	Annual rate of inflation
April	195.5	3.4	7.1	235.0	0.8	20.2	275.7	2.1	17.3
May	198.5	1.5	8.4	240.0	2.1	20.9	277.9	0.8	15.8
June	202.4	2.0	9.6	247.2	3.0	22.1	279.8	0.7	13.2
July	211.7	4.6	13.3	257.8	4.3	21.8	285.7	2.1	10.8
August	218.5	3.2	16.9	260.3	1.0	19.1	288.8	1.1	10.9
September	221.2	1.2	18.5	263.8	1.3	19.3	284.6	-1.5	7.9
October	222.2	0.5	18.5	264.6	0.3	19.1	283.8	-0.3	7.3
November	222.0	-0.1	18.4	258.6	-2.3	16.5	279.8(P)	-1.4	8.2
December	227.0	2.3	22.4	257.1	-0.6	13.3	277.3(P)	-0.9	7.9
January	227.7	0.3	22.7	263.2	2.4	15.6			
February	231.3	1.6	25.2	268.8	2.1	16.2			
March	233.2	0.8	23.3	270.0	0.4	15.8			

P : Provisional.

sale in industries and value of imports etc.) during 1969-70. Consequently, the weights of even common items in the indices are quite different. For example, the all-India average weight of rice in the CPI is 18.1 per cent as compared to 5.1 per cent in the WPI. Similarly, the weight of sugar, khandsari and gur is 2.65 per cent (excluding khandsari since khandsari is not in the CPI basket) in the CPI as against 7.24 per cent in the WPI. A large number of goods and services which account for a substantial weight in the CPI do not figure in the WPI as do several other commodities which have significant weights in the WPI but are not included in the compilation of the CPI. Evidently, the two indices would tend to diverge particularly in a situation where inflationary pressures are mainly generated by certain specific commodities.

5.18 The inherent differences in the two indices have become more evident during the period under review. The divergence between the two indices has not only been due to the time lag between the two sets of prices but also because of the much higher weight in the CPI of those items whose wholesale and retail prices have continued to increase during the recent years. For example, cereals, edible oils, fruits and vegetables, milk and milk products, eggs, fish and meat whose prices have continued to increase during this period, have almost twice as much weight in the CPI than in the WPI.

5.19 Part of the reason for the difference in the behaviour of the two indices is also to be found in the fact that the prices of items distributed through the public distribution system have not been relatively stable during both 1980-81 and 1981-82. These items have a higher weight in the CPI than in the WPI. As a result the rates of increase in the CPI in 1980-81

and the decline in 1981-82 were moderated. Another factor which has contributed to a lower rate of decline in the CPI this year is the price behaviour of sugar and allied products, particularly gur. As mentioned above, this group has a much lower weight in the CPI than in the WPI. During 1979-80 as well as 1980-81, this group had witnessed substantial increase in prices which contributed to accentuation of the rate of inflation as measured by the WPI. In 1981-82, however, the sugar group has shown a substantial decline in prices. Because of the different weights of this group in the two indices, the impact of the decline has been reflected more sharply in the WPI than in the CPI. Finally, increase in administered prices of many products, such as petroleum, coal, fertilisers, iron and steel, non-ferrous metals, etc. was lower in 1981-82 than in 1980-81 or 1979-80. These products naturally do not figure in the CPI. This also had the effect of moderating the increase as well as the decline in the CPI during the course of the last three years.

5.20 These factors explain the differing behaviour of two indices in the recent period. Over a longer period of time, however, it is to be expected that the trend in the two indices would be similar as macro-economic factors which affect the behaviour of wholesale prices are likely to be relevant for consumer prices also. An analysis of the behaviour of the CPI and the WPI since 1970-71 shows that this indeed has been the case. The long term trends in the behaviour of the CPI and the WPI are similar, but the variations around this trend are often larger in respect of the WPI than in the case of the CPI. If the rate of inflation, as measured by the WPI, is kept under control, it is to be expected that with some time lag, this would also be reflected in the behaviour of the CPI.

Policy Developments

5.21 Control of inflation continued to be the major concern of economic policy during 1981-82. Both supply and demand management were emphasised within a comprehensive package of anti-inflationary policies. In both instances, general as well as specific measures were used. A concerted effort was made to improve the performance of the infrastructure which had acted as a severe constraint on domestic production and supplies. Steps were taken to raise production of key industries and productivity in agriculture. Wherever necessary domestic supplies were augmented through imports of mass consumption commodities, public distribution system was substantially strengthened and expanded. Existing legislative instruments and administrative arrangements were vigorously used to curb artificial scarcities and to minimise bottlenecks in supply and distribution. Many specific steps were also taken in respect of administered prices. On the demand side, policy was directed to restraining expansion of money supply and bank credit without restricting the flow of credit to productive and priority sectors of the economy; and promoting savings and capital formation. Major efforts were also made to mobilise additional resources both for achieving stability and medium term growth. Steps were also taken to unearth and mop up black money.

5.22 Various general and specific steps mentioned above are discussed in relevant chapters in the Survey. In the following paragraphs, specific measures in respect of pricing policy in agriculture, industry and the working of the public distribution system are analysed.

Agricultural Prices

5.23 Agricultural price support policy now covers 15 crops. The minimum support/procurement prices for these agricultural commodities for 1976-77 to 1981-82 are presented in Table 5.5. During these years, the aim of supporting agricultural prices has been to ensure remunerative prices to farmers and to maximise procurement for public distribution and buffer stocking.

5.24 For the 1981-82 season the procurement price of paddy was raised by Rs. 10 to Rs. 115 per quintal for the common variety. This was higher than the Agricultural Prices Commission (APC) recommended price of Rs. 113 per quintal. A premium of Rs. 4 and Rs. 8 per quintal respectively for fine and super-fine varieties was given over and above the level fixed for the common variety. The procurement prices of coarse *kharif* cereals were also raised to Rs. 116 per quintal for the 1981-82 season. In making recommendations, the APC, besides taking into account the relevant factors, also sought to compensate farmers for the impact of the upward adjustment in the prices of petroleum products and fertilizers in July 1981.

5.25 The procurement price of wheat was raised by the Government from Rs. 117 per quintal in the 1980-81 marketing season to Rs. 130 (as against Rs. 127 recommended by the APC) for the 1981-82 season. This increase of Rs. 13 per quintal was because of higher unit cost of production, and the need of stepping up wheat procurement.

TABLE 5.5
Minimum Support/Procurement Prices of Agricultural Commodities

Commodity	Marketing Year*					
	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
1	2	3	4	5	6	7
1. Wheat (Procurement price)	105	110	112.50	115	117	130
2. Paddy -do-	74	77	85	95	105	115**
3. Coarse grains -do-	74	74	85	95	105	116
4. Barley (Minimum support price)	65	65	67	—	105	116
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	270
11. Sunflower seed -do-	150	165	175	175	183	250
12. Soyabean -do-	—	145	175	175	183	210†
13. Cotton (Kapas 320F) -do-	—	255	255	275	304	@
14. Sugarcane (Statutory Minimum Price)	8.50	8.50	10.00	12.50	13.0	13.0
15. Jute (W-5grade) -do-	136	141	150	155	160	175

*Marketing year (April-March) for wheat, gram, barley and mustard, (July-June) for Jute, (September-August) for cotton and (November-October) for paddy and other *kharif* crops.

**Rs. 119 for fine variety and Rs. 123 for superfine variety.

@Not announced.

†Rs. 230 for yellow variety.

5.26 The support prices in respect of oilseeds were raised for the 1981-82 marketing season by Rs. 64 to Rs. 270 per quintal for groundnut, by Rs. 67 to Rs. 250 per quintal for sunflower seed and by Rs. 27 to Rs. 210 per quintal for soyabean (black variety). The extent of increase in support prices of groundnut and sunflower seed works out to 31 per cent and 36.6 per cent respectively during 1981-82 as against the increases of 8.4 per cent and 4.6 per cent during the 1980-81 season. The higher increases in support prices for oilseeds during the current season are intended to achieve rapid increase in productivity over the medium term. The price support operations are to be carried out by the National Agricultural Co-operative Marketing Federation (NAFED).

5.27 The Government remains committed to providing remunerative prices to farmers. However, it is to be recognised that prices for agricultural products cannot be raised without raising issue prices for the public distribution system. This is inevitable if higher subsidies are to be avoided. Increasing subsidies imply higher budgetary deficits and would be counter productive in an inflationary situation. In view of this, issue prices of rice were raised by Rs. 10 per quintal effective from 1st October 1981. For similar reasons, the issue prices of wheat which remained unaltered since 1978, were raised by Rs. 15 per quintal with effect from 1st April 1981.

5.28 In the case of sugar, the viability of the dual pricing policy crucially depends on its proper distribution as levy and free sale sugar. As the ex-factory price of sugar is based on the average costs of a large number of units with different levels of efficiency, the level of consumer prices of levy sugar has *inter alia* an important bearing on the viability of the industry. Though the statutory minimum price of cane was kept unchanged for the 1981-82 season, the issue price for sugar was raised by Rs. 15 to Rs. 365 per quintal with effect from 15th November 1981 to compensate for higher input and other costs.

Industrial Prices

5.29 In respect of administered industrial prices, prices of petroleum products were raised by 9.47 per cent to 25.58 per cent, effective from July 11, 1981. This step was aimed at containing the growth of consumption of crude and petroleum products and to mobilize resources for the accelerated programme of oil exploration and production. Under the accelerated programme, crude oil production is expected to go up to 63.34 million tonnes during the Sixth Plan period as against the earlier target of 51.3 million tonnes. The price of kerosene was raised less than proportionately, i.e. by 15 paise per litre only. The prices of naphtha, benzene and toluene which affect the cost structure of fertilizers, drugs and pharmaceuticals were not raised.

5.30 To contain the budgetary subsidy on fertilizers, their prices were increased with effect from July 11,

1981. The selling prices were increased from Rs. 2000 to Rs. 2350 per tonne for urea, from Rs. 3050 to Rs. 3600 per tonne for Diammonium Phosphate and from Rs. 1100 to Rs. 1300 per tonne for muriate of potash. In terms of nutrients (NPK) the increase works out to Rs. 450 per tonne. This was done to compensate for the increase in the cost of inputs of domestically produced fertilizers and distribution costs. Simultaneously, in order to reduce the adverse impact of the price increase on consumption of fertilizers, the APC was advised to take into account the increased cost of fertilizers while recommending the support/procurement prices. The subsidy on fertilizers to small and marginal farmers under the Integrated Rural Development Programme was continued.

5.31 Administered prices of some other commodities were also raised in line with increases in cost of production. The retention and consumer prices of cement were raised with effect from July 23, 1981 by Rs. 34.74 and Rs. 81.91 per tonne respectively. The increase in cement price per bag of 50 kg. works out to Rs. 1.74 in the case of producers and Rs. 4.10 for consumers. The new three-tier retention prices work out at Rs. 233.39 per tonne for low cost units, Rs. 253.39 for medium cost units and Rs. 268.39 for high cost units. The retention price for new units comes to Rs. 344.39 per tonne. The revised f.o.r. prices of cement (both indigenous and imported), inclusive of excise duty and packing charges in turn work out at Rs. 532.53 per tonne. The prices of aluminium were raised by Rs. 1445 a tonne with effect from March 27, 1981. As a result, the ex-factory price of commercial grade aluminium went up to Rs. 12,842 per tonne and for electrical conductor grade aluminium to Rs. 12,942 per tonne. The selling price worked out to Rs. 18,636 per tonne for electrical conductor grade and Rs. 18,492 per tonne for commercial grade aluminium. With the latest price increase (effective from December 3, 1981) of Rs. 2,469 per tonne, the ex-factory prices come to Rs. 15,411 per tonne for electrical conductor grade and Rs. 15,311 per tonne for commercial grade aluminium; their respective selling prices came to Rs. 18,802 per tonne and Rs. 18,679 per tonne following reduction in excise duty from 40 per cent to 22 per cent.

5.32 The prices of controlled cloth were raised by 15 per cent for handloom cloth and by 50 to 60 per cent for mill made cloth. Prices of printing paper were raised from Rs. 3500 per tonne to Rs. 4,200 per tonne (or by 20 per cent) with effect from 1st November, 1981. Effective from 1st July, 1981, the ex-godown prices of electrolytic and special high grade zinc have been raised to Rs. 16,000 and Rs. 16,100 a tonne from Rs. 15,750 and Rs. 15,850 a tonne respectively. The prices of 170 bulk drugs and 1000 formulations (including 350 leader formulations) were also revised.

Public Distribution System : Buffer Stocks, Procurement and Distribution

5.33 The public distribution system was further strengthened during the year. Since January 1980, 61000 fair price shops have been added, most of which are in rural areas. More than 12 million tonnes of foodgrains are expected to be distributed in the current financial year compared with 13.04 million tonnes in 1979-80 and 13.79 million tonnes in 1980-81. During 1980-81 the off-take of rice was 6.10 million tonnes and of wheat 7.54 million tonnes. Besides, 4.3 lakh tonnes of edible oils were distributed through the fair price shops during 1980-81 as against 3.5 lakh tonnes in the preceding oil year. Despite difficult supply situation the releases of levy sugar for public distribution were maintained during 1980-81 at about last year's level. About 75,000 tonnes of white printing paper was allotted to various States and Union Territories to enable them to make available exercise books for students at reasonable prices. Toilet soap and safety matches were also provided at reasonable prices. Kerosene, cement and steel continued to be supplied at controlled prices through retail outlets throughout the country.

5.34 Under the new 20-point programme, public distribution system is to be so developed that it remains a permanent, reliable and efficient feature of the economy. It will be expanded and strengthened to cover all areas in the country particularly rural areas as well as the backward, remote and inaccessible areas. Attention would also be given to cater to the requirements of industrial workers and the student community. The programme will include mobile fair price shops in areas where rural works are in progress. Preference will be given to co-operatives and national cooperative organisations will have an enlarged role. With a view to making the public distribution system function effectively the 20-point programme envisages active role of voluntary consumer organisations with greater involvement of women.

5.35 An essential requirement for the successful operation of public distribution system is the availability of adequate level of buffer stocks which in turn depends on effective procurement and distribution. Table 5.6 gives the details of monthly procurement, offtake and stocks during 1979-80—1981-82. After effectively meeting the expanded requirements for public distribution during 1979-80 and 1980-81, stocks of foodgrains had come down to 9.87 million tonnes at the commencement of the current financial year as against 13.9 million tonnes at the end of March 1980 and 16.15 million tonnes at the end of March 1979. These stocks increased to 13.67 million tonnes at the end of June 1981 as a result of wheat procurement, but even at this level these were lower by 15.8 per cent compared with 16.23 million tonnes at the end of June 1980. At end December 1981 stocks again came down to 11.24 million tonnes as against 11.74 million tonnes at end December 1980, showing a decrease of 4.3 per cent. With *kharif* procurement, the level of stocks will

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again increase but at the current level of procurement and offtake, stocks at the end of March 1982 may not be much higher than the level of last year.

5.36 The relative proportion of wheat and rice in total stocks has changed significantly during the last two years. Wheat stocks rose from 3.07 million tonnes at the end of March 1981 to 7.73 million tonnes at the end of June 1981, but declined to 5.07 million tonnes at the end of December 1981. At this level, the stock of wheat was slightly higher compared with the level of about 5 million tonnes at the end of December 1980. The monthly offtake of wheat from the public distribution system averages about 5-6 lakh tonnes. Therefore, the wheat stock situation would have been tight after meeting the wheat requirement of the public distribution system and the National Rural Employment Programme (NREP) during the remaining lean months. Wheat stocks are being augmented by importing 2.25 million tonnes during the year.

5.37 The stocks of rice have fallen sharply from 7.11 million tonnes at the end of February 1981 to 4.19 million tonnes at the end of October 1981; at this level these are lower by 23.3 per cent than a year before. However, with *kharif* rice procurement, which is expected to be higher this year than last year the overall stock situation is likely to be comfortable.

5.38 Despite an intensive drive, the procurement of wheat in the 1981-82 marketing season was below target. In the current financial year, i.e. upto the end of December 1981, 6.58 million tonnes of wheat and 4.93 million tonnes of rice have been procured as against 5.86 million tonnes of wheat and 4.12 million tonnes of rice in the same period last year. At this level, the overall procurement of wheat is higher by 12.4 per cent than that in the corresponding period of 1980-81. Procurement of rice shows an improvement of 19.7 per cent compared with the achievement in 1980-81. As in the previous year the bulk of the procurement of wheat has come from Punjab and Haryana.

5.39 Though the procurement of rice during the current year has picked up, some disquieting developments have taken place which will adversely affect the pace of procurement in the coming months. Some State Governments have offered higher procurement prices than the support prices fixed by the Central Government and prices at which the Food Corporation of India (FCI) is authorised to make purchases. Higher prices offered by the State Governments are bound to create confusion in the market and will inhibit the procurement operations of the FCI. It is important to maintain discipline in these corporations.

5.40 Despite good crops last year, the offtake of foodgrains from fair price shops has been high. This reflects the growing scope of the public distribution system. Seasonal variations apart, about one million tonnes of foodgrains are distributed per month. It may be noted that the

TABLE 5.6

Procurement, Offtake and Stocks of Foodgrains during 1979-80 to 1981-82

(000 Tonnes)

Months	Procurement			Offtake			Closing Stocks		
	1979-80	1980-81	1981-82	1979-80	1980-81	1981-82	1979-80	1980-81	1981-82
April	785	1114	1123	756	1126	954	16021	13781	9847
May	5753	4484	4656	646	1349	959	19601	16935	13589
June	1909	459	1061	617	1296	1057	21504	16234	13667
July	316	79	161	783	1386	1234	21404	14828	12624
August	58	37	77	864	1222	1224	20656	13370	11365
September	26	27	95	1029	1138	1252	19846	12523	10140
October	557	946	924	1139	1049	1134	18685	11628	9882
November	1484	1952	1992	1275	902	1085	18036	11984	10448
December	604	929	1562	1416	1010	1164	17519	11739	11240
January	540	674		1348	963		16642	11486	
February	393	353		1517	959		15425	10961	
March	202	230		1650	1394		13911	9873	
Total	12627	9375	11651*	13040	13794	10063*			

*Figures relate to the period April to December.

offtake of wheat has been lower in the current year compared with the preceding year. This has been the result of the steps taken to bring about a better balance between wheat and rice in the public stocks. The allotment of wheat to the State Governments and Union Territories for the public distribution system and for the roller flour mills has been rationalised since August 1980. The short-fall in wheat allotment was more than made up by an increase in the allotment of rice to the State Governments.

5.41 Even though sugar production during 1980-81 season was higher at 51.4 lakh tonnes compared with 38.5 lakh tonnes in the previous season, 2.16 lakh tonnes of sugar had to be imported, particularly to meet the festival demand. Assuming offtake of around 55 lakh tonnes for internal consumption and 5-6 lakh tonnes for exports, total availability of sugar at the close of the current season should be at a comfortable level to enable creation of a buffer stock during the year. To maximise production during the 1981-82 sugar season incentive was provided for early crushing in the form of excise rebate of Rs. 23.55 a quintal for free sale sugar and Rs. 15.30 a quintal for levy sugar (for the two months October and November 1981). Incentives have also been given for creating additional crushing capacity on a priority basis and for modernization and expansion of existing sugar factories.

5.42 The country continued to import large quantities of edible oils to bridge the gap between demand and domestic supply. Imported oil has been supplied

for direct consumption through fair price shops as well as for the vanaspati industry. During the 1980-81 oil year (November—October), 4.25 lakh tonnes of imported oil were distributed for direct consumption compared with 3.50 lakh tonnes during 1979-80 at prices ranging from Rs. 8.25 to Rs. 8.50 per kg. for 1980-81. As 70 per cent of the oil required for the production of vanaspati is being supplied through imports at fixed prices, the industry announced voluntary restraint at prices not exceeding Rs. 192.00 for a tin of 16.5 kgs. during the year. Customs duty on edible oils imported by private traders against import licences issued before canalization of imports has been raised to 150 per cent. However, the duty on imports by the STC was maintained at 5 per cent. This step was necessitated by the need to mop up a part of the huge margins of profits by private importers.

5.43 The prices of controlled cloth were raised effective from 1st July 1981. Simultaneously a higher subsidy on controlled cloth was granted. The subsidy on dhoties and sarees produced by the handloom sector has been raised from Rs. 1.25 a metre to Rs. 1.50 a metre and on those produced by the National Textile Corporation (NTC) mills from Rs. 1.90 a metre to Rs. 2.00 per metre. The subsidy on long cloth under revised scheme is fixed at Rs. 1.50 a metre. The total provision of subsidy on controlled cloth works out to Rs 125 crores for the current financial year as against Rs. 76 crores in 1980-81. The subsidy on controlled cloth is funded through the levy of an additional excise duty on textiles and textile articles. The target of production of controlled cloth

which is meant for distribution through retail outlets, envisages an increase from 400 million square metres to 650 million square metres. The scheme of production of Janata Cloth in the handloom sector, which is the counterpart of controlled cloth in the mill sector, is being implemented in 14 States, and one Union Territory by the Handloom Apex Cooperative Societies and the State Handloom Development Corporations.

5.44 It is obvious that decline in the rate of inflation does not mean that absolute level of prices during 1981-82 would be lower than in the last year. If the present trend continues, the increase in the level

of prices during the financial year as a whole should be less than 10 per cent. Although the rate of inflation is substantially lower than what it was during the previous year, it still indicates the persistence of inflationary pressures in the economy. Government's demand and supply management policies have a major impact on the behaviour of general prices in the economy. However, it would be unrealistic to expect that these policies by themselves could influence the behaviour of all individual and relative prices particularly when supply and demand conditions affecting these individual products are not often under the control of the Government. Measures for restraining aggregate demand and increasing supplies of essential commodities have, therefore, to continue.