

VI THE PRICE SITUATION

93. Although the average level of prices during 1969 was only slightly higher than that during 1968 there was considerable pressure on prices during the year. Wholesale prices rose sharply between February and July 1969 but declined appreciably between August and mid-November. There has been renewed pressure since then. The price situation during the year was affected by the reduced availabilities of certain essential agricultural commodities as well as by the relatively faster growth of demand. The yearly average of the index number of wholesale prices (1961-62=100) stood at 168.7 for 1969 and was 2.1 per cent higher as compared with the yearly average of 165.3 for 1968. However, the monthly average of wholesale prices during January 1970 stood 6.8 per cent higher than the level a year ago.

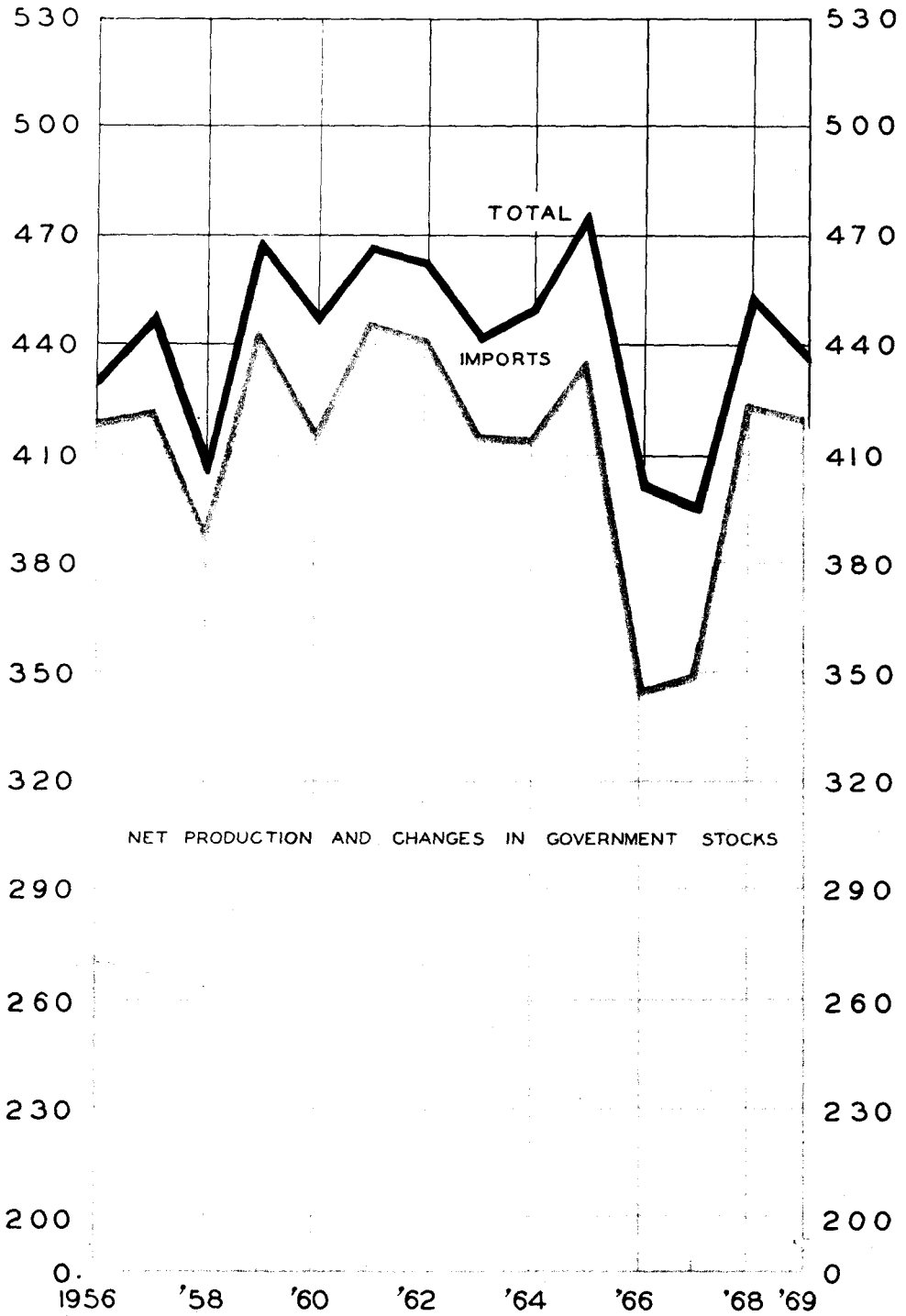
TABLE XII
Yearly Average of the Index Numbers of Wholesale Prices
(Annual Variations (Percentage))

	1966	1967	1968	1969
1	2	3	4	5
All commodities	+11.9	+15.0	-0.5	+2.1
Food Articles	+14.0	+26.3	-1.9	-3.7
Liquor & Tobacco	-0.1	+8.8	+22.9	+13.8
Fuel, Power, Light and Lubri- cants	+8.3	+5.5	+5.3	+4.1
Industrial Raw Materials	+18.9	+6.1	-5.2	+14.9
Chemicals	+12.8	+11.5	+6.9	+9.4
Machinery and Transport equip- ment	+6.9	+5.6	+0.9	+1.8
Manufactures	+8.8	+4.3	+1.4	+6.2

94. The price trends in the current year have to be viewed in the context of a modest increase of 1.8 per cent in national output in 1968-69. More significantly, the net output of agriculture registered a fall of 1.1 per cent in 1968-69 as against a spectacular rise of 19 per cent recorded in the preceding year. While the production of rice and wheat in 1968-69 was higher than in the preceding year, that of coarse grains and pulses was smaller. The per capita net availability of foodgrains for 1969 worked out to 438 grams as compared to the per capita net availability of 452.9 grams for 1968. Similarly, there was a marked fall in the production of oilseeds, particularly

PER CAPITA AVAILABILITY OF FOODGRAINS

(GRAMS PER DAY)



groundnuts, raw cotton and raw jute in 1968-69. The aggregate demand, on the other hand, expanded at a relatively faster rate due to recovery in industry and better export performance.

Price Trends in 1969

95. The pressure on prices in the early part of the year was largely due to the decline in the levels of production of agricultural commodities, notably, coarse grains, pulses, particularly gram, raw cotton, raw jute and oilseeds, particularly groundnuts. The general index of wholesale prices (1961-62=100) which stood at 160.9 during the week ended February 1, 1969 (i.e. 2.7 per cent lower than the preceding year's level), started edging upward during the subsequent two months and reached 165.1 at the end of March, 1969. The price index remained more or less stable during the month of April, 1969 but with the onset of the slack season started rising thereafter and touched its peak of 175.2 in the week ended July 26, 1969. Between the weeks ended February 1, 1969 and July 26, 1969, the general price index recorded an increase of 8.9 per cent of which 24 per cent was accounted for by cereals, 20 per cent by edible oils, 10 per cent by pulses and 13 per cent by other food articles. Industrial raw materials and manufactures contributed 24 per cent and 9 per cent respectively to the overall price rise during that period.

96. Prices during August 1969 remained more or less stable at the preceding month's level but tended to soften thereafter, in anticipation of higher production of foodgrains, raw cotton and oilseeds, particularly groundnuts. During October and the first half of November 1969, prices assumed a distinct downward trend, and during the week ended November 15, 1969, the index number of wholesale prices touched 167.9; at that level while prices were 1.1 per cent higher than their preceding year's level, they were 1.1 per cent lower than their corresponding level in November, 1967.

97. From the middle of November, 1969 prices again tended to harden; this was largely due to the absence of winter rains in certain parts of the country which affected adversely the anticipation of the rabi crop and to the downward revision of crop estimates, particularly of groundnuts and raw cotton. In the case of groundnut oil, the pressure was accentuated as a result of increased speculative demand from the vanaspati and soap manufacturers. During these six weeks the general price index rose by 2.3 per cent whereas during the corresponding period of the last year, it had shown a fall of 2.2 per cent. While prices of rice declined by 5.1 per cent those of wheat rose by 6.8 per cent; similarly, prices of gram, edible oils and raw cotton rose by 11.6 per cent, 7.3 per cent and 2.7 per cent respectively. Compared with the level of prices prevailing a year ago, the monthly average of the index number of wholesale prices for December 1969 therefore, showed an increase of 4.6 per cent; groupwise, prices of food articles, industrial raw materials, chemicals and manufactures were higher by 4.1 per cent, 7.3 per cent, 7.9 per cent and 6.6 per cent respectively as compared to their preceding year's levels.

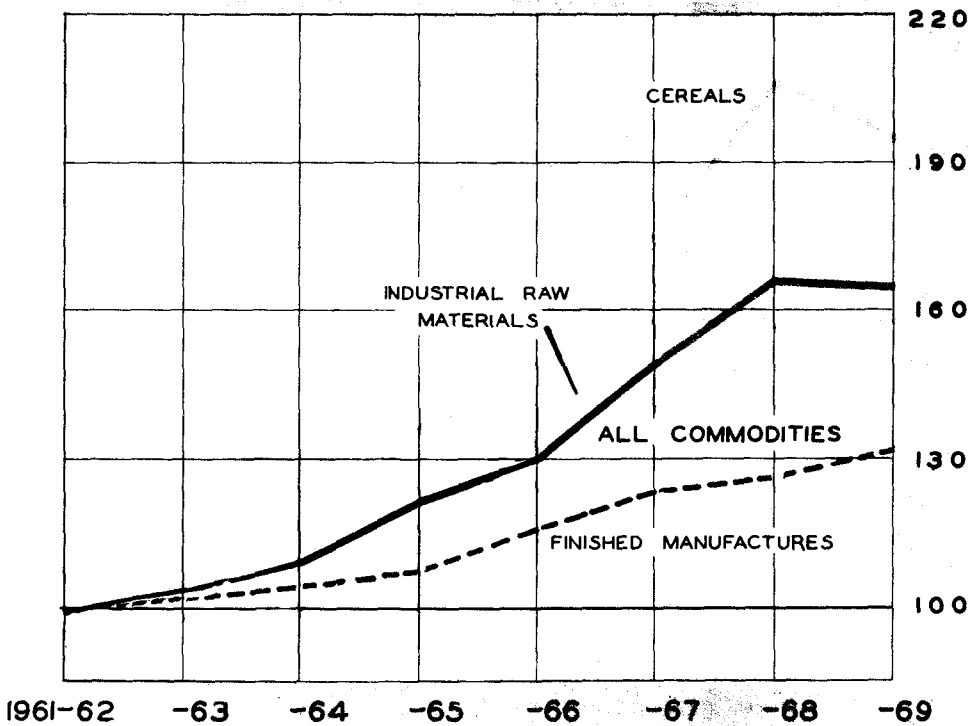
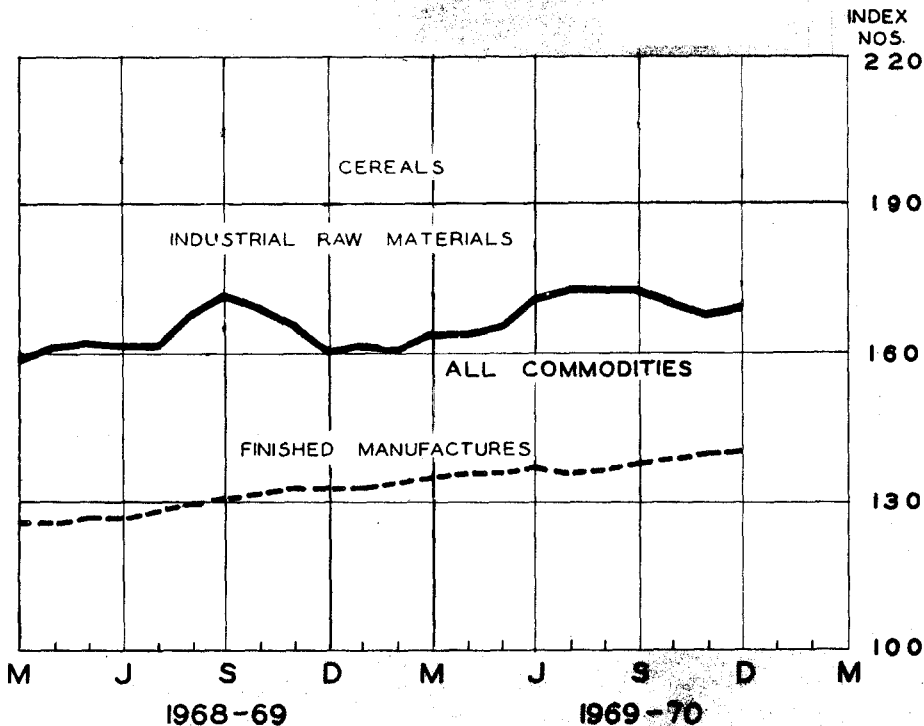
98. Prices in 1969, therefore, did not evince the same degree of stability as they had done in 1968. Very largely this was on account of lower levels of production of certain agricultural commodities in 1968-69 and more recently on account of the downward revision in the crop estimates for 1969-70; this affected not only the prices of foodgrains and industrial raw materials but also such items of manufactures as textiles and oilcakes. But partly, the pressure on prices also emanated from demand out of larger incomes due to greater activity in the economy. Thus, for instance, wheat prices have been ruling higher despite the fact that market arrivals of wheat during the 1969-70 season so far have been faster than during the corresponding period last year. The higher level of wheat prices is also attributable to large scale food procurement by the Food Corporation of India and increased public demand for indigenous varieties. A small part of the price rise has also been due to certain policy decisions taken by Government. Thus, effective from 4th May, 1969, Government decided to increase the issue prices of imported wheat and rice. Similarly, a part of the increase in the prices of chemicals and manufactures can be attributed to the adjustments in the rates of excise duty on petroleum products, synthetic yarn etc., as well as to increases in prices allowed by Government in respect of coal, cement and steel. The increase in the prices of manufactures and chemicals also reflected revival of demand in the economy.

Price Policy

99. It became necessary, therefore, to take various measures in the course of the year to deal with the price situation. These included imposition of credit controls by the Reserve Bank as in the case of raw cotton and vegetable oils and oilseeds, arrangement of larger imports of raw cotton and soyabean oil, fixation of monthly purchase quotas by mills for raw jute and restrictions on the holding of stocks of raw cotton with mills. More recently, the Reserve Bank has taken further steps to tighten the control on bank advances against oilseeds and oils, cotton and kapas and foodgrains, details of which have been given earlier in the survey.

100. In the field of price administration, a major endeavour of Government policy has been to maintain a framework of price stability. Government decided to maintain the minimum statutory price of sugarcane for the 1969-70 season at the same level as for the 1968-69 season. Similarly, the support prices for raw cotton and raw jute were left unaltered at their 1968-69 levels. Government also decided to continue its policies of partial decontrol of sugar and cotton cloth. In sugar the success of the policy of partial decontrol was evident from the fact that the open market prices of sugar at the end of December, 1969 were ruling about 40 per cent lower than their preceding year's levels. On the other hand, Government has been intervening to hold the price line whenever necessary. Thus, in September 1969 Government decided to bring under statutory control prices of passenger cars. In December 1969 prices of synthetic rubber were subjected to statutory control. In view of the rubber shortages, it was also decided to bring tyres and tubes of all

1961-62 = 100



categories of automobiles within the purview of the Essential Commodities Act; previously, only tyres and tubes of cars and tractors were being treated as essential commodities. Government has also been trying to restrain the prices of vanaspati by trying to arrange for the industry adequate supplies of imported soyabean oil; 43.4 thousand tonnes of soyabean oil were imported during 1968-69 and it is proposed to import 95 thousand tonnes during 1969-70.

101. Effective from 15th April, 1969, Government had introduced in the case of cement a uniform retention price of Rs. 100 per tonne in place of the earlier three-tier system of retention prices of Rs. 90.50, Rs. 93.00 and Rs. 96.00, and it was also decided at that time that cement would be completely decontrolled with effect from 1st January, 1970. Government has since rescinded its earlier decision to decontrol cement, and the statutory control over cement is being continued in order to guard against a possible price rise. However, Government agreed to certain price increases for both coal and steel; these were allowed in order to compensate for increases in wages and costs of raw materials. In steel the producers have been allowed an increase in prices, on an average, of Rs. 75 per tonne with effect from January 1, 1970. In addition, an export cess of Rs. 2.50 per tonne has been allowed, which will go to the Engineering Goods Export Promotion Council.

102. Government has already entrusted the State Trading Corporation with the task of undertaking price support operations in raw jute and, in recent months, the Corporation has been successfully entering the market in order to prevent prices of raw jute falling below the support prices. It has also been decided to canalise import of raw cotton through a public sector agency which will also hold stocks of both indigenous and imported raw cotton.

103. In brief, while the average level of wholesale prices in 1969 showed a modest rise of 2.1 per cent over the preceding year's level—the average price level of food articles was in fact lower by 3.7 per cent—prices had come under marked pressure in the first half of the year. There were also renewed price pressures towards the end of 1969, and during January 1970 the monthly average of wholesale prices stood 6.8 per cent higher than the level a year ago. The All India Working Class Consumer Price Index (1960=100) which had risen steadily from 169 for February 1969 to 179 for July 1969 remained steady at that level during August and September. Thereafter, it slid back and stood at 177 for December 1969. Whereas the yearly average of the Consumer Price Index for 1969 showed a decline of 0.9 per cent over the yearly average for 1968, the index for December 1969 stood 3.5 per cent higher than its corresponding level a year ago. The latest movement of prices again serves to emphasize the need for securing in the economy a proper balance between aggregate demand and aggregate supply.