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June, 1968
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**A STUDY OF MOVEMENT IN PRICES OF SELECTED ITEMS OF
FOODGRAINS AND INDUSTRIAL RAW MATERIALS
IN INDIA 1939 to 1967-68**

By
M. B. Mathur

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PREFACE

Agricultural prices play an important role in economic development through their effect on agricultural production incentives, on income distribution and on domestic capital formation. A development oriented policy with respect to agricultural prices must see current agricultural prices in the perspective of longer term history, in the perspective of short term fluctuations in response to weather phenomena, and even in a world of considerable insulation of domestic prices from trade influence, they must also be seen in the perspective of international price levels. Mr. M. B. Mathur has performed a useful service in pulling together a large amount of data regarding Indian agricultural prices and price relationships, and providing a useful analysis of these data.

M. B. Mathur's study is one of a series of studies of agricultural prices being carried out at Cornell University as part of a USAID financed contract for research on agricultural prices. We are grateful for the assistance provided by the Agriculture and Rural Development Service of USAID and, in particular, to Douglas Caton and Norman Ward of that Division.

The broad program of study, of which M. B. Mathur's study is one part, covers three major areas of enquiry: (1) the role of prices in intersectoral income and capital transfers; (2) the effect of price relationships on agricultural production and marketings and; (3) the factors affecting urban prices of agricultural commodities. Thus in total these studies are concerned with the affects of agricultural prices on the non-agricultural sectors of the economy, with their affects in the agricultural sector and with the manner in which agricultural prices are determined. Over the course of the contract a substantial number of studies will be carried on in various countries and dealing with various aspects of the processes. At the completion of these studies an effort will be made to pull them together into an integrated view of the role and functioning of agricultural prices in the development process.

June, 1963
New Delhi, India

John W. Mellor

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CHAPTER 1

Prices During The War

There are two good reasons to study the movement of prices during Second World War (August 1939 - August 1945). Firstly, in this period depression gave place to inflation and secondly, it engendered the forces that caused the post-war inflation which took the country nine years to overcome. The movement of price during this period may be studied under the following periods, (i) August 1939 to March 1941, and (ii) April 1941 to September 1945.

(1) August 1939 to March 1941:

When the war broke out India was suffering from the effects of depression. The index number of prices with 1929 = 100 was 71 so that prices were 29 points below those prevailing before the onset of crisis. Following the outbreak of war in Europe, prices and industrial production took an upward trend in India. As a result of increased demand from allied countries price level rose from 100 in August 1939 to 108 in September 1939, the first month of the war. Speculative activity which started in the Jute market communicated itself rapidly to cotton, cereals and other sections of the market and the index number rose from 118 in October 1939 to 131 in November 1939 and 137 in December 1939. As compared to the pre-depression level of prices (1929=100) it came to 97. Thus within four months of the outbreak of war, prices had gone up by 37% and had nearly attained the predepression level.

January 1940 to March 1941: The prices having reached their peak in December 1939 began to sag month by month during 1940. This will be apparent from the following figures. (page 2)

Index Number of Wholesale Prices in India by Groups of Articles
(Week ended 19th August 1939 = 100)

Month & Year	Food & Tobacco	Other Agri. Commodities	Raw Materials	All Primary Commodities	Manufactured Articles	Chief Article of Export	General Index
Sept. 1939	107.6	118.1	103.2	107.6	110.4	110.0	108.2
Dec. 1939	127.5	124.4	125.5	135.9	144.5	146.7	137.3
Mar. 1940	118.8	159.0	127.2	123.0	133.9	134.6	129.3
June 1940	106.3	119.2	117.0	112.4	120.0	112.9	114.1
Sept. 1940	106.1	104.8	117.7	110.3	111.6	109.1	110.5
Dec. 1940	107.7	104.7	126.2	114.0	119.7	115.4	115.2
Mar. 1941	104.8	102.9	124.5	111.8	127.2	111.9	114.9

The above table indicates that by December 1939 the prices of all articles rose but the lowest rise was in the price of raw materials of which raw materials form a part. The price of manufactured

Articles also went up by 44 percent. Chief articles of export include both manufactured (e.g. jute manufactured) as well as raw materials and due to a rise in the price of both these the index of this group rose by 46.7 percent. During this period the prices of cotton and jute (raw as well as manufactured) were doubled. Later the fall of prices was heaviest in the case of these very commodities.

From December 1939 prices started falling and by September 1940 they were down by 27.3 points. The situation remained the same till March 1941 when the prices were nearly the same as in December 1940 and were 5 percent higher than the price level at the outbreak of war.

A number of factors were responsible for fall in price from 137.7 in December 1939 to 115.2 in March 1941. In the first place it was a reaction against the undue optimism generated by the outbreak of war. The prospects of a large demand did not materialise. The prompt institutions of price controls and fears of increased Government control of prices coupled with other contributory factors such as restrictions on exports, exchange control and prospects of a liberal jute crop also influenced the price level. Also due to war fears, people withdrew money from the credit structure of the country and locked it up in gold and silver. As the dealers did not buy their usual stocks of commodities but locked away their money instead, prices were bound to slump.

(ii) Movement of Prices - April 1941 to September 1945:

From April 1941 to September 1945 i.e. till the cessation of hostilities prices in India showed an almost continuous increase and by September 1945 they had reached the level of 242.2. Having touched the level of 241.4 by June 1943, prices showed a small decline and remained stabilised at about 237 but since July 1944 there was an upward turn so that by the beginning of January 1945 the index had reached the peak of 250.3. Thereafter prices again showed a decline to 237 in July 1945 and finally the war ended with the General Index of wholesale prices at 242.2.

During 1941-42 prices rose by 22 points or 18 percent. While the price of 'Food and Tobacco' group steadily increased from 108.1 in March 1941 to 132.9 in March 1942, the index of other agricultural commodities after rising from 102.9 in March 1941 went up to 150 in September 1941 and then by March 1942 declined to 116.8. The manufactured articles after rising to 166.3 in September 1941, fell to 157.8 in December 1941 and reached 162.5 by March 1942. The price indices of chief articles of export after reaching 147.7 in September 1941 declined to 138.7 in March 1942.

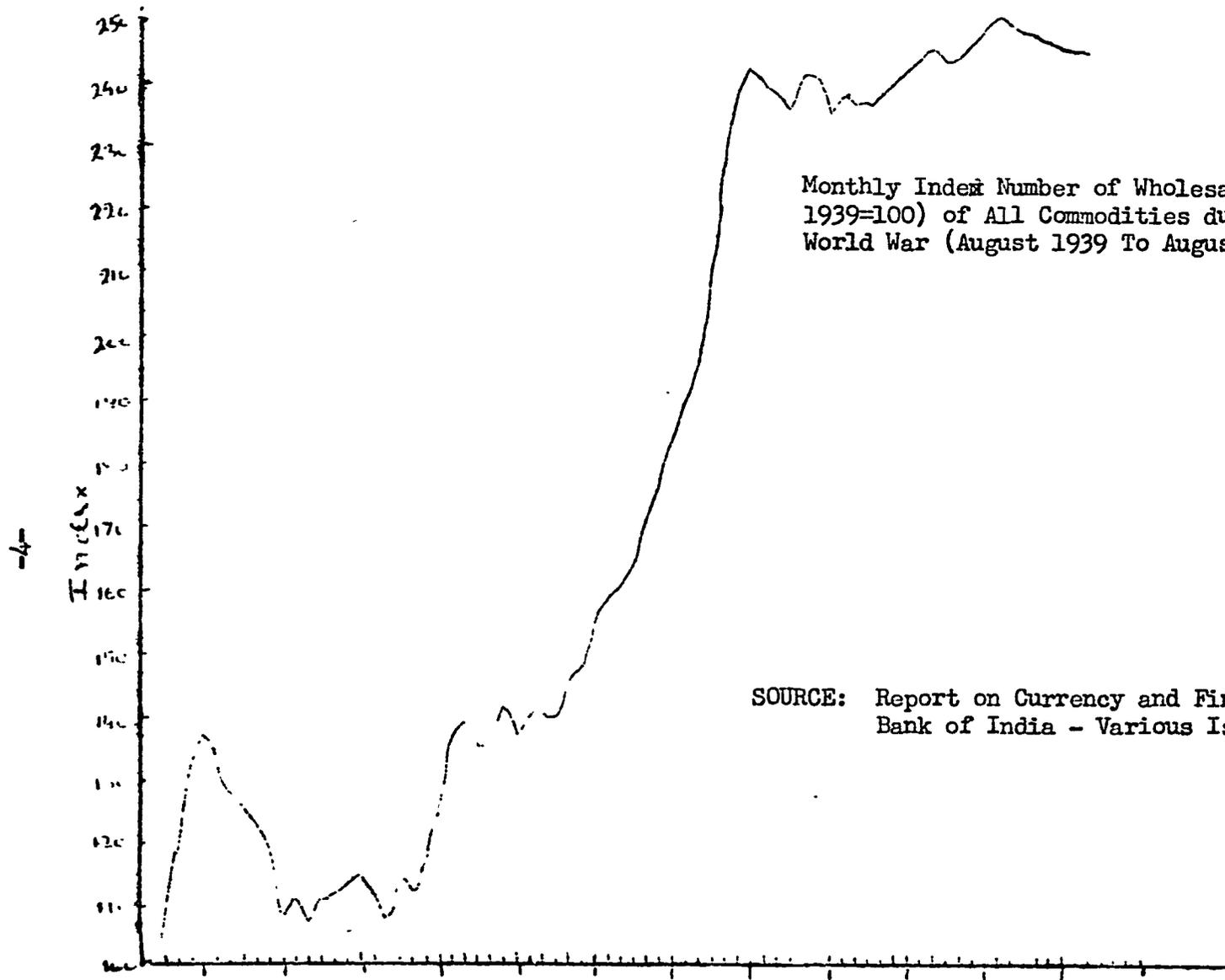
The year 1942-43 makes a definite shift to a steady and steep rising prices by all commodities. Prices of all articles increased practically every month and by the end of the year the General Index had gone up by 7.4 points or by 47 percent over the level of March 1942 in which year prices were on the increase. This period may rightly be regarded as one of inflationary prices. The Report on Currency and Finance for 1943-44 summarises the position in these words. "By the end of 1942-43 the

cumulative effects of wartime expansion of currency, the rise in the money income of a larger portion of the community together with the reduction in the supply of consumer goods, had in the absence of an adequate system of controls on distribution and prices and of machinery to absorb excess purchasing power, resulted in a large increase in the living costs and price levels. This was further aggravated by the hoarding of essential commodities on a larger scale, profiteering and speculation.

The movement of prices during 1943-44 reveals the effects of controls in not only arresting the upward trend but in effecting some decline in prices. The General Index which was 227.9 in April 1943, rose to 240.8 in October 1943 and then declined to 236.3 by March 1944. The rise in the price of foodgrains till the end of November 1943 when it reached 303.1 was because of a serious shortage in many of the deficit areas like Bengal and Travancore Cochin. The decline later in the prices of foodgrains and other agricultural commodities were mainly due to Government's measures for the regulations of food prices. The index of industrial raw materials steadily rose from 172 in March 1943 to 197 in March 1944. Prices of manufactured articles after touching 259.5 in July 1943 gradually fell to 252.3 in March 1944. It was caused by the various stabilisation measures introduced under adhoc control orders and the comprehensive Hoarding and Profiteering Prevention Ordinance intended to regulate the production and distribution of commodities in common use, as well as the incidence of releases of larger supplies for civilian consumption and increased imports of commodities such as drugs and footwear and iron and steel goods.

The index number of wholesale prices during 1944-45 averaged 244.2 showing a rise of 3 percent comparable to an increase of 33 percent and 25 percent respectively in 1943-44 and 1942-43. The index rose from 232.1 in March 1944 to 245.0 in August 1944 declined to 243.4 in September and October 1944 and then rose up in the next three months so that by January 1945 it had touched the peak of 250.3. In the last two months the index declined and at the end of March 1945 stood at 247.8 - 15.7 points or about 7 percent higher than that in March 1944. This trend is noticeable in all important commodities. The rise in prices by about 16 points during the year 1944-45 indicates that the forces that were pushing prices upwards were still active and but for the imposition of controls, prices would have ruled much higher.

During April 1945 to August 1945 the General Index declined from 247.8 to 244.1. Whereas the prices of food articles went up from 234.1 to 239.4 and of raw materials from 208.7 to 210.8, the index of other agricultural commodities fell from 273.8 to 268.0. The index number of manufactured articles also declined due to improvement in overall supply position following larger imports and larger indigenous production. The overall demand of defence forces on Indian production also declined. The end of war, thus saw the general price level at about 2 1/2 times of that prevalent in the beginning.



CHAPTER II

POST WAR PRICES (Upto 1951)

The war came to an end in August 1945. The post war period may conveniently be divided into three parts. (1) September 1945 to October i.e. before the policy of decontrol. (2) November 1947 to September 1949 when the experiment of decontrol caused prices to soar high. (3) September 1949 to April 1951. This includes the devaluation of rupee and the outbreak of Korean War. By mid April 1951 prices had reached the peak level.

1. Prices from September 1945 to October 1947:

After the termination of the war prices tended to move steadily upwards. Except for a slight fall in the prices of raw materials and manufactured articles, all other prices showed a rise. Prices were more or less steady upto October 1945, but thereafter they went on rising. By March 1946 the General Index had gone up from 244.1 in August 1945 to 253.2 i.e. by 9 points or 4 percent. The index of Food articles (the series with less base last week of August 1939=100 was started in February 1944) also moved up from 239.4 to 244.3.

During the year 1946-47 prices rose much higher. The table indicates that whereas the average rise in the General Index in 1945-46 over 1944-45 was only 1.3 points in 1946-47 it shot up by 30.5 points or by 12 percent over 1945-46.

The rise in the index number was steady and persistent throughout, the pace being relatively higher after September 1946 following the relaxation of some of the controls. The maximum rise was recorded by the index number of the chief articles of export; it moved up by 60.4 points or by more than 25 percent. The increase was not confined to any one group but all groups, without exception, recorded rises. The general index stood higher by 36.4 points or 15.5 percent.

The Economic Advisors general index, when decontrol was decided upon in November 1947, stood at 302.0 i.e. about 9 points or 3 percent over the March 1947 figures. The index of food articles, by then, had moved up by 15 points, of industrial raw materials by 21.7 points, of semi-manufactured articles by 3 points while the miscellaneous group had fallen by about 7 points. This was in consonance with the general rising tendency which had become so prominent in the preceding year, but in comparison to the extent of rise in 1946-47, it may be said that the prices were tending to stabilise.

The upward trend in prices, after the cessation of hostilities was entirely contrary to expectations. Instead of the development of general slump, owing to the cessation of the war expenditure of the order of Rs. 500 crores and the drying up of the income stream, the actual course of prices proved to be highly inflationary.

Index Number of Wholesale Prices in India

SOURCE: Report on Currency & Finance 1946-47

Month & Year	Agr. Commodities	Primary Commodities	Manufactured Articles	Chief Art. of Export	Gen. Index	Food Arts.	Industrial Raw Materials*
1944-45	265.4	240.5	258.3	243.9	244.2	232.9	----
1945-46	272.6	246.2	240.0	248.9	245.5	237.0	249.8
1946-47	313.8	280.0	259.1	296.8	275.4	256.8	316.3
April 46	294.3	256.3	240.6	262.8	252.7	244.6	232.2
May 46	299.3	259.6	239.2	266.7	255.0	242.6	233.9
June 46	302.8	270.5	240.0	279.9	263.5	245.5	290.7
July 46	303.8	275.7	250.5	289.5	270.1	248.2	296.1
Aug. 46	303.5	277.3	250.2	291.2	271.3	252.4	297.0
Sept. 46	303.2	277.7	248.6	289.0	271.1	253.6	292.9
Oct. 46	321.7	286.9	262.9	303.2	281.5	255.1	303.5
Nov. 46	336.0	293.6	275.6	313.4	289.6	262.0	354.0
Dec. 46	326.0	287.5	277.8	310.7	285.4	263.2	348.5
Jan. 47	314.6	284.5	279.9	313.4	283.5	276.0	343.3
Feb. 47	324.8	291.1	277.0	322.6	289.2	275.4	352.1
March 47	335.8	298.1	274.3	327.4	292.7	271.3	362.9

* A new series, figures for which are available from March 1945 (base year ended August, 1939=100)

Causes:

In the first instance the very basis for the expected downward movement of prices may be doubted. Of the total outlay of the Central Government, the recoverable war expenditure had been necessarily purely inflationary and it was mainly owing to this expenditure that the wartime inflation had developed and the total amount of notes in circulation and the money supply had increased several fold. During 1944-45 and 1945-46 the prices remained steady inspite of increase in the note circulation due to the war time controls on the one hand and the hoarding of currency on the other. Thus this part of the Government outlay had already created a latent purchasing power, which at the end of war period, was bound to inringe upon the available supply of goods and services so the cessation of recoverable war expenditure could not bring about a depression or slump. It had already sown the seeds of inflation which had been kept in check from rising still further.

This period represents that phase of inflation which is characterised by the activation of the latent forces generated by the excessive issue of the currency during the war.

11. Price Movement from November 1947 to March 1949:- (The experiment of decontrol)

The two important events of this period are (i) partition and (ii) decontrol. Although the partition of the country was decided upon in June 1947 and effected in August 1947 yet its effects began to manifest themselves later and exercised their influence in this period. The policy of general decontrol began in November 1947, but it had to be reversed at the end of 1948 when controls had to be reimposed.

Effects of Partition:-

The greatest harm that partition did to the economy of India was that it cut across the economic unity of the country. Even before partition, India was deficit in foodgrains which was further aggravated by the partition. The larger part of Pakistan's land enjoyed irrigation facilities. While 45.2 percent of the net sown area was then served by irrigation work in Pakistan, the corresponding percentage in Indian Union was only 12.7 percent. Partition caused deficiency of two important raw materials for India i.e. jute and cotton. Also partition had the further effect of increasing India's defense expenditure.

This partition caused a serious shortage of foodgrains and raw materials which were vital to the economy of India and contributed to the worsening of the price situation in the years to come.

Control:

After the termination of hostilities, the prices in India kept on rising and the rise was particularly pronounced during the year 1946-47. Since March 1947 although the rate of increase had, to some extent, slack

ened yet the upward trend was still noticeable. There was a fairly acute shortage of foodgrains, the industrial production was on the decline and due to transport bottlenecks the distributive system did not work efficiently. Prices and cost of living tended to chase each other.

Due to Inter-State restrictions on the movement of essential commodities, prices in surplus areas were different from those of scarce areas. Also the administration of controls in India was not free from defects; it led to corruption and black marketing. It was also felt that controls might have been necessary in the abnormal circumstances created by the war but there was hardly any justification for their continuance after two years of the cessation of the war. It was also believed that the controls not only hampered production but caused the prices to rise by creating artificial scarcities and encourage the producers and traders to hoard goods and gain by speculation. So it was argued that if the controls could be removed and the normal trade channels allowed to function prices of all essential commodities would tend to fall and scarcity will disappear.

Towards the end of 1947 Government announced their policy of gradual decontrol in regards to foodgrains; earlier the Government had freed pulses and sugar from production and distribution controls and later decontrolled cotton, cotton cloth and yarn.

Prices after decontrol:

Decontrol caused the prices to soar so high that the controls were reimposed at about the end of July 1948. Recontrol was first applied to wheat and then cotton and foodgrains. The effects of decontrol and recontrol are illustrated from the following tables: (page 9)

It will be seen from the table that Economic Advisor's general index, before, decontrol in November 1947, stood at 302.0 increased sharply till it reached the peak of 389.6 in July 1948 - an increase of 29 percent. In all the commodity groups prices rose. Food articles rose by 32.5 percent, manufactures by 30.7 percent, industrial raw materials by 19.1 percent and miscellaneous group by 16.6 percent. The commodities whose prices recorded the highest rise were the decontrolled ones. Thus cereals in the food group showed an increase of 49.4 percent, oilcakes and cotton yarn in the de-manufactured article group of 99.1 percent and 76.3 percent respectively, textiles in the manufactured articles group of 42.5 percent and fibres and leathers in the industrial raw material group of 30.5 and 9.9 percent respectively.

As a result of the measure of recontrol adopted at the end of July 1948, the wholesale priced index, which had soared to 389.6 in July 1948, fell to 322.9 in August, and after moving narrowly around this level upto October, tended to decline almost continuously during the succeeding three months touching 370.2 in March 1949 - a decline of 5 percent over the peak level reached in July 1948. Except industrial raw materials all group prices showed net decline. Textiles and cotton yarn fell by 17.7 and 2 percent respectively.

This fall in price, however, was very small as compared to previous years. The general index in March 1949 at 370 was higher by 22.5 percent

Movement in Price Indices Since (Base: Year ended November 1947)
(Base: Year ended November 1947)

CE: Report on Currency & Finance 1948-49, 1949-50, 1950-51, 1951-52

Category Group	Nov. 47 (1)	Mar. 48 (2)	July 48 (3)	% increase (+) or de- crease (-) of Col. 3/1 (4)	March 49 (5)	% increase (+) or decrease (-) of Col. 5/3 (6)
<u>Articles</u>	294.8	347.1	390.7	+ 32.5	376.5	- 3.6
Grains	317.0	408.9	473.9	+ 49.4	466.8	- 1.5
Alses	573.0	362.4	440.3	- 23.2	445.4	+ 1.2
Others	220.3	259.4	269.9	+ 22.5	246.1	- 8.8
<u>Mineral Raw</u>	337.9	397.7	449.9	+ 19.1	462.8	+ 2.9
Others	355.5	403.9	464.1	+ 30.5	458.5	- 1.2
Minerals	474.0	432.8	521.0	+ 9.9	562.6	+ 8.0
Others	292.2	309.8	301.6	* 3.2	320.5	+ 6.3
Others	327.5	351.0	335.4	+ 2.4	363.6	* 8.4
<u>Manufactured</u>	252.5	285.8	338.2	+ 33.9	322.4	- 4.7
Others	299.6	285.9	313.7	+ 4.7	305.8	- 2.5
Mineral Oils	147.8	167.0	179.1	+ 21.2	187.9	+ 4.9
Mineral Oils	540.3	430.7	547.9	+ 1.4	577.9	+ 5.5
Woolen Yarn	294.6	373.4	519.4	* 76.3	425.5	-18.1
Others	140.8	167.7	168.8	+ 19.9	170.8	+ 1.2
Leaves	202.8	413.2	403.8	+ 99.1	394.2	- 2.4
Others	234.0	225.8	215.2	- 8.0	255.4	+18.7
<u>Manufactured Art.</u>	283.2	324.3	370.2	+ 30.7	329.4	-11.0
Others	319.8	374.8	455.8	+ 42.5	375.2	-17.7
Mineral Products	217.0	239.5	239.8	+ 10.5	247.5	+ 3.2
Others	239.1	261.5	271.0	+ 13.3	272.4	+ 0.5
<u>Manufactured</u>	460.8	448.7	537.3	+ 16.6	515.2	- 4.1
Utilities	302.0	340.7	389.6	+ 29.0	370.4	- 5.0

than the pre-decontrol level and by 3.7 percent than March 1948. Apart from this there has also been a considerable widening, during 1948-49, of the disparities of Indian price level, as compared with those in U.K. and U.S.A. In March 1949, the price level in India (Base 1937=100) was 171 percent and 189 percent respectively of the prevailing levels in U.K. and U.S.A., the corresponding percentage a year ago have been lower at 160 and 171.

Other Causes of Rise in Prices:

Besides decontrol other factors also contributed towards this rise in prices. Total money supply tended to remain stable during the first six months of 1947-48 but during the second half it spurted up sharply. During the first half of 1947-48, money supply receded by Rs. 70 crores to Rs. 2140 crores at the end of September 1947 but in the later half of 1947-48 it recorded a sharp rise of Rs. 176 crores or 8 percent. This was partly due to heavy governmental outlays following the partition and partly to the widening of free sector of internal trade following the policy of decontrol in December 1947.

In the first two months of 1948-49 viz April and May 1948 money supply rose by Rs. 48 crores reflecting mainly a continuance of the trend witnessed during the previous year. But during June to September 1948 it was reduced by Rs. 70 crores. It was in this period that the prices after reaching the decontrol peak in July 1948, began to decline owing to the re-imposition of controls.

Budget Deficits:

During the two years 1947-48 and 1948-49, on account of the heavy defence expenditure and the expenses incurred on the food subsidies and repatriations of refugees, the budget of the Central Government both on revenue and capital account showed deficits.

Fall in Production:

On top of the policy of decontrol and increase in the cash balances held by the public there was an overall decline in agricultural and industrial production especially in 1947-48.

The continued rise in the cash balances of the public, also presumably caused by the gradual widening of the free sector of internal trade following decontrol indicates the persistence of inflationary conditions, attributable mainly to the lag in agricultural as well as industrial production and is reflected in a continued rise during the year in the general price level and living costs. (Report on Currency and Finance, 1948-49 p. 106).

From March 1949 to April 1951:

The two important events that characterise this period are (i) devaluation of the Rupee in September 1949 and (ii) the outbreak of Korean War. This period, from March 1949 to April 1951, represents a

continuous and persistent rise in prices which gathered momentum after the outbreak of Korean War when the price level reached the peak in Mid April 1951.

Prices Upto September 1949:

As pointed earlier in the later half of 1948-49 prices tended to recede from the decontrol peak reached in July 1948. The general index number in March 1949 was 370.2 as compared to 389.6 in July 1948. But this slight improvement was shortlived for in April 1949 prices again began to rise and continued to rise till October 1949. The general index moved up from 370.2 in March 1949 to 389.8 in September 1949 i.e. the peak level of post-decontrol reached in July 1948. By October 1949 the general index had gone up to 393.3 - a rise of 6.2 percent over the March 1949 level. The movement of individual commodities will be evident from the following table:

Index Number of Wholesale Price In India
(April 1949 to October 1949) Base 1939=100

CORCS: Report on Currency & Finance 1949-50, Statement 13

Month	Food articles	Industrial raw Mat.	Semi Manufactured	Manufactured articles	Miscellaneous	General Index
March 1949	376.5	462.8	322.4	329.4	515.2	370.2
April 1949	373.8	462.8	325.2	347.0	528.5	376.1
May 1949	377.0	463.8	324.5	347.1	526.1	377.1
June 1949	381.6	459.7	326.3	349.2	502.3	378.3
July 1949	395.9	449.4	326.7	344.7	535.1	380.6
Aug. 1949	410.6	460.5	330.8	348.6	541.6	389.0
Sept. 1949	403.1	468.5	335.0	351.4	547.1	389.8
Oct. 1949	406.8	477.9	332.2	352.6	588.8	393.3

During the period April-October 1949, all the constituent group indexes showed an increase. 'Food articles' rose by 8.0 percent, Industrial Raw Materials by 3.3 percent, Semi manufactured by 3.0 percent, manufactured articles by 7.0 percent and Miscellaneous group by 14.3 percent. The jump in the price index in October 1949 may be attributed to the extent to devaluation. It is, of course, difficult to ascertain to how much of this rise was in continuation of the upward trend in prices already in force and how much of it was due to the first impact of devaluation. The Government succeeded in keeping the prices steady. In two months,

November and December 1949, the general index had fallen by 12 points or 3 percent. This was due to the reduction effected in the controlled prices mainly in those of foodgrains and partly in those of the manufactured articles. This will be evident from the following figures.

Index Number of Prices October 1949 - March 1950

SOURCE: Report on Currency & Finance 1949-50, Statement 13

Year & Month	Food Articles	Industrial Raw Mat.	Semi Manufactured	Manufactured Art.	Miscellaneous	Gen. Index
Oct. 1949	406.8	477.9	332.2	352.6	588.8	393.3
Nov. 1949	405.1	472.4	333.9	344.2	612.0	390.2
Dec. 1949	374.1	477.6	334.1	343.8	609.8	381.3
Jan. 1950	379.1	486.2	335.5	344.6	614.9	384.7
Feb. 1950	395.3	493.3	338.1	346.5	632.3	392.3
March 1950	396.2	490.1	338.2	347.4	630.6	392.4

As compared to October 1949, in December 1949, the prices of foodgrains fell by 32.7 points or about 8 percent and of manufactured articles by about 9 points or 2.5 percent. But soon the effects of devaluation began to assert themselves and the downward trend in prices was reversed in January 1950. By the end of March 1950, practically the whole of the improvement of the preceding two months was lost. The general index moved up from 381.3 in December 1949 to 392.4 in March 1950, and the same was in all the constituent groups.

The next increase in the general index during 1949-50 was 6.0 percent relative to the level at the close of 1948-49. The corresponding increase in 1948-49 was 8.7 percent.

Post-war:

The main event of 1950-51 which affected prices was the outbreak of Korean War in June 1950. The upward movement of prices after devaluation and particularly after June 1950, continued during the first quarter of 1951 but the general index had moved up from 392.4 in March 1950 to 395.6 in June 1950, thus recording a total rise of only 0.8 percent since March 1950 and of 1.7 percent since devaluation. During the period April-June 1950, food articles rose by 1.7 percent while the miscellaneous group rose by 9.7 percent.

The outbreak of Korean War gave rise to a sudden spurt of speculative hoarding activity. The shortage of essential goods resulting from

stocking coupled with heavy outlays on re-armament programs generated boom conditions and fresh inflationary forces. Within a month of the outbreak of war i.e. by July 1950 the general index rose from 395.6 to 405.2 or a rise of 10 points. With a view to hold the price line, government took steps to relax import controls, and prevent hoarding of food-grains through the amendment of the Essential Supplies (Temporary Powers) Act, 1946. Export duties were increased. The general index had increased from 405.2 in July 1950 to 412.5 in September 1950 - a rise of 7 points. The measures outlined above had some steadying influence and by November 1950, the general index had declined to 410.9. In the next two months, however, prices again moved upwards and by January 1951 the general index rose to 414.3. In the last two months the upward course became more pronounced, specially after the intervention of Chinese in the Korean War and the index touched 438.6 in March 1951 and the all time peak of 462.0 on April 14, 1951. Thereafter prices began to decline.

Other contributory factors to the rather steep rise in prices in this year were the rising import prices, Also due to natural calamities there was a loss of foodgrains in 1949-50 to the extent of 5.5 million tons. During 1950-51, the production of cotton textiles, jute manufactures and sugar also declined chiefly owing to the scarcity of raw materials.

For the last two years India was having a highly adverse balance of trade. In 1950-51, to improve the balance of payments position, exports were much encouraged while imports were reduced and the two sides nearly balanced. But large exports of essential commodities like cloth etc. caused a great scarcity of commodities in the country and helped the upward movement of prices.

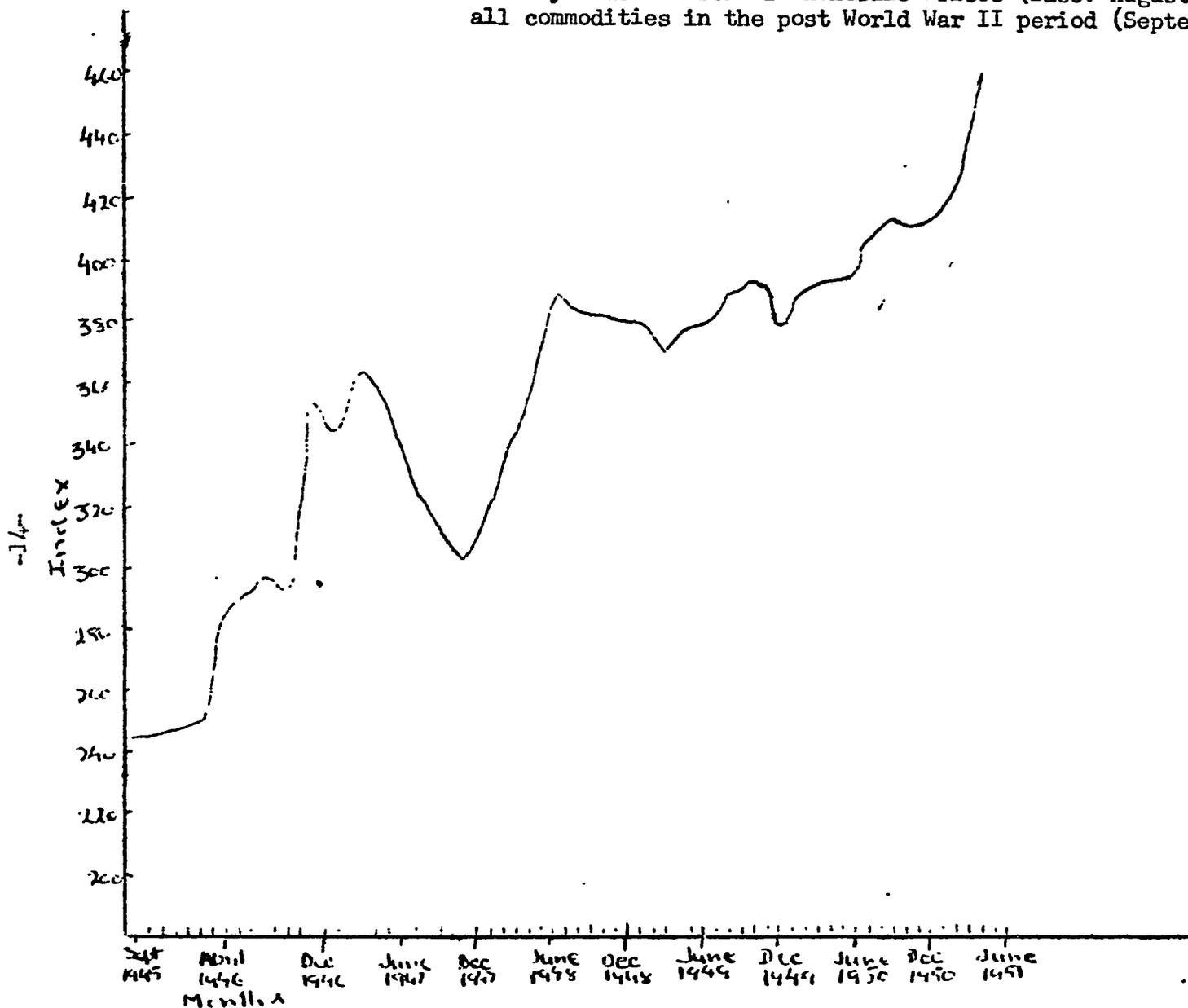
Also during 1950-51, money supply with the public showed a pronounced rise of Rs. 99.2 crores, in contrast to decline of Rs. 16.4 crores in 1949-50 and Rs. 43.3 crores in 1948-49. The increase in money supply had its effects on raising the price level by 11.8 percent during the year 1950-51.

Following the Korean War prices increased not only in India but in all important countries. In India the rise in prices was less marked. Thus between June 1950 and April 1951 prices rose in India by 16.6 percent as against 23.9 percent in Australia and 16.0 percent in U.S.A.

Prices during the year 1951-52 behaved as follows:

(Graph on next page.)

Monthly Index Number of Wholesale Prices (Base: August 1939=100) of all commodities in the post World War II period (September 1945 to April 1951.)



SOURCE: Report on Currency & Finance - Reserve Bank of India, 1945-46 & 1950-51.

CHAPTER III

Price Trends During The Three Plan Periods

The annual average weekly general index of wholesale prices (1952-53=100) at 165.1 for the year ended March 1966, recorded a net rise of 47.7 percent over the fifteen years covering the three plans. The index for 1950-51, which is the pre-plan year, stood at 111.8. The movement in prices during the fifteen years was marked by four distinct phases. The first phase comprising the period 1951-52 to 1955-56 i.e. the period of the First Plan, was one of decline in prices of 17.3 percent. Prices rose by 35 percent during the second phase (1956-57 to 1960-61) which was the period of Second Plan. There was a relative stability in the first two years of the Third Plan which constituted the third phase of the price movement. During these two years the annual average weekly index of wholesale price rose by only 2.4 percent. In the fourth phase, comprising the last three years of the Third Plan (1963-64 to 1965-66), the rise in prices was of the order of 29 percent. This phase of rising prices has continued through 1966-67.

Trends in wholesale prices during each of the three Plan periods are indicated in the following table:

Change In Prices During Plans

	First Plan (1951-56)	Second Plan (1956-61)	Third Plan (1961-66)	Percentage Change in the Index 1966-1967
All Commodities	-17.3	+35.0	+32.2	+15.7
Food Articles	-23.0	+38.6	+40.7	+18.4
Liquor & Tobacco	-17.8	+35.7	+24.3	- 4.6
Fuel, Power, Light & Lubricants	+ 2.8	+26.1	+27.5	+ 5.3
Industrial Raw Materials	-24.3	+46.9	+30.1	+20.9
Manufactures	- 3.4	+24.3	+20.3	+ 9.2

In contrast to the decline in prices in the First Plan, there was a large rise during the ten years covered by the Second and Third Plans. All the commodities groups contributed, though in varying proportions, to the rise in prices during these two periods. Compared with the trends in the Second Plan the rise in prices during the Third Plan is somewhat smaller except in the case of food articles.

A more appropriate measure of price rise which is of analytical significance, is the rise in the index of industrial production.

Compound Rate of Rise in Prices
Percentage

	<u>15 Years</u>	<u>10 Years</u>	<u>Third Plan Period</u>		
	<u>1950-51/ 1965-66</u>	<u>1955-56/ 1965-66</u>	<u>1960-61/ 1965-66</u>	<u>1961-62/ 1962-63</u>	<u>1963-64/ 1965-66</u>
General Index	2.7	5.9	5.8	1.2	8.9
Food Articles	2.8	6.9	7.1	2.5	10.3
Industrial Raw Materials	2.5	6.7	5.4	-3.2	11.5
Manufactures	2.4	4.1	3.8	2.1	5.0

It will be seen that the rate of increase in prices was steep and was concentrated in the Third Plan period and particularly in the last three years. The pace at which prices increased during the Third Plan was the same as that during the ten years 1955-56 to 1965-66. Again the annual rate of increase in prices during the last three years of the Third Plan far exceeded the rate of rise recorded either in the fifteen years period, or in the ten years period as a whole. Thus, the steady rise in prices which began around the commencement of the Second Plan, acquired the characteristic of strong inflation during the three years 1963 to 1965-66. It will be noticed that the compound rate of increase in prices of food articles exceeded the rate of rise in the general index in all the periods indicating thereby the role of food articles in the general price rise.

An important feature of the price movement during Third Plan period is the narrowing down of the range of seasonality in price movements. An analysis of the indices of two commodity groups, food articles and industrial raw materials which account for about 60 percent of weight of the all commodity index, for the period 1951-52 to 1965-66 shows that the range of seasonal fluctuations in prices has been narrowing down more or less consistently over the period. The relatively smaller seasonal amplitude of prices particularly during the Third Plan may be attributed generally to two factors: (1) price regulation by the government and (2) trends in domestic production and market arrivals. In the case of foodgrains, for instance, while short-fall in domestic output have generally resulted in smaller seasonal declines in the post harvest period during 1961-62 to 1965-66 the rise in the prices in the lean season has been dampened to some extent by larger availability through imports or through release from government stocks.

An equally important factor which seems to have reduced the seasonal amplitude of foodgrains prices during the Third Plan is the regulation of prices by the government. Such factors as fixation of floor and ceiling prices, better storage and marketing facilities in important producing areas seem to partly explain the lower range of seasonal fluctuations in prices.

of raw cotton and jute.

Average of Amplitudes of Seasonal Indices (Percentage)

Period	All Com- modities	Food Arti- cles	Cere- als	Pul- ses	Indus. Raw Mat.	Raw Cot- ton	Raw Jute	Ground nuts
1951-52 to 1955-56	4.1	7.4	7.3	10.0	2.5	4.5	14.8	14.6
1956-57 to 1960-61	3.9	7.4	7.1	8.3	2.0	4.3	8.0	13.8
1961-62 to 1965-66	3.9	7.6	6.7	9.0	2.1	3.9	4.9	13.1

It is clear from the above table that the range of seasonal variations in prices seems to have narrowed down to an extent in respect of cereals and pulses among food articles and in respect of raw cotton, raw jute and groundnuts among industrial raw materials.

Another feature related to the narrowing seasonality in prices movements is the stickiness of prices. From about the beginning of Second Plan prices have tended to be sticky in the sense that once having risen, prices did not move down to the extent normally expected.

Seasonal Variations (Percentages) in the Wholesale Price

Index during 1961-62 - 1965-66 (Base 1952-53 = 100)

Period	All Comm- odities	Food Arti- cles	Cereals	Pulses	Industrial Raw Materials
1961 ¹	+ 4.2	+ 8.2	+ 5.0	+ 4.3	+ 0.5
1961-62 ²	- 5.8	- 6.4	- 3.5	+ 1.4	-12.6
1962 ¹	+ 7.0	+11.9	+ 7.9	+21.2	+ 3.5
1962-63 ²	- 2.9	- 6.3	- 6.3	-11.3	- 3.2
1963 ¹	+ 7.8	+13.4	+14.1	+10.2	+5.3
1963-64 ²	- 2.7	- 3.8	- 0.8	+ 7.8	- 3.9
1964 ¹	+19.9	+27.7	+29.5	+55.5	+25.8
1964-65 ²	- 6.1	-11.1	- 8.4	-16.2	- 5.6
1965 ¹	+11.3	+14.7	+ 9.0	+10.8	+15.5
1965-66 ²	+ 3.9	- 0.3	+ 3.5	-11.7	+12.3

1. Refers to lean season generally covering the period March-August of that year.

2. Refers to period of seasonal decline generally covering the months August-March of the following year.

The combined effect of narrowing seasonality and stickiness of prices has been to bring about a cumulative rise in the price level.

The persistent rise in the general price level indicates a basic imbalance between aggregate supply and aggregate demand superimposed on this basic imbalance (which became accentuated in the Third Plan) were the monetary factors which accelerated the rate of rise in prices. The following table shows the relative growth of net national expenditure at market along with the growth in the net national output at constant prices during the three plan periods.

	PERCENTAGE		
	First Plan	Second Plan	Third Plan
Growth in Net National Expenditure at Market Prices	+ 6	+44	+50*
Growth in Net National output at Constant Prices	+18	+22	+14
Change in Wholesale Prices (Base 1952-53=100)	-17	+35	+32

* Actuals are available only for the first two years of the Third Plan. For the remaining three years expenditure at market prices was estimated by using the ratio of money supply to net national expenditure for 1962-63. It is observed for earlier years that estimates of net national expenditure based on this ratio come close to the actuals.

In the First Plan the growth in net national expenditure was much smaller than in real output, indicating thereby the expansion in aggregate monetary demand was not sufficient to absorb the increase in overall supplies, particularly agricultural supplies. In the result, the wholesale prices declined by 17 percent. In the Second and Third Plans, however, the increase in net national expenditure was much larger than the rise in net national output, while the increase in real national output averaged 4.7 percent and 2.7 percent a year during the Second and Third Plans respectively, net national expenditure rose at the rate of 7.6 percent and 8.5 percent a year during the Second and Third Plans respectively. In fact, in the last three years of the Third Plan, the rate of rise in net national expenditure averaged 11 percent a year compared to 3 percent in real national output. Thus during 1956-57 to 1965-66 the gap between spending and real output widened steadily, reflecting the imbalance between aggregate demand and aggregate supply.

On the supply side, the growth of agricultural output, particularly of foodgrains, which is of crucial importance to the price situation has been uneven.

Changes in Indices of Agricultural Production (Percentage)

	<u>First Plan</u>	<u>Second Plan</u>	<u>Third Plan</u>	<u>1951-52 to 1965-66</u>
1. All Commodities	+22.2 (+4.2)	+21.7 (+4.3)	- 7.4 (-1.1)	+37.8 (+2.5)
2. Foodgrains	+27.4 (+5.3)	+16.9 (+4.0)	-11.5 (-1.9)	+34.1 (+2.6)
3. Other Agricultural Commodities	+13.2 (+2.8)	+27.3 (+5.1)	- 0.1 (-0.3)	+43.9 (+2.7)

In the First and Second Plans agricultural Production increased by over 20 percent, however in the Third Plan period it showed a decline of 7.4 percent, while the output of non-agricultural commodities fluctuated widely, that of foodgrains showed a smaller rise in the Second Plan than in the First and declined by nearly 12 percent in the Third Plan. The annual rate of increase in foodgrains output declined from 5.3 percent in the First Plan to 4.0 percent in the Second, while in the Third Plan a rise was converted into one of decline averaging about 2 percent a year. Thus during the Third Plan, there was a substantial shortfall in supplies of foodgrains and the gap in supplies could be filled up only by stepping up imports. The share of imports in the total supply of foodgrains averaged 7.5 percent during the Third Plan compared with 4.9 percent and 2.6 percent in the Second and First Plan respectively.^{1/}

As in the case of foodgrains, availabilities of non-food agricultural commodities particularly agricultural raw material like raw cotton, raw jute were augmented through larger imports during the period of Third Plan.

The share of imports in the net national output (at current prices) averaged 7.3 percent in the First Plan and 8.5 percent in the Second. For the first four years of the Third Plan the average worked out to 7 percent. The increase in imports relative to the increase in total supplies (represented by net national output) was smaller in the Third Plan than in the Second. In the Second Plan while the average net national output rose by 26 percent, average imports increased by 45 percent. During the first four years of the Third Plan, however, imports increased by 11 percent while net national output increased by 35 percent. The smaller increase in imports during the Third Plan is largely due to the severe imports restrictions imposed consequent on the persistent foreign exchange difficulties. Moreover, the availability of aid could have only a limited impact on the flow of consumer goods, as bulk of the aid (other than PL 480) was directed for the import of investment goods.

Share of Imports in Net National Output

	First Plan	Second Plan	Third Plan
1. Net National Output ² (Annual Average Rs. Crores)	9972	12478	16855
2. Merchandise Imports ³ (Annual Average Rs. Crores)	730.1	1060.5	1181.0
3. 2 As Percentage of 1,	7.3	8.5	7.0
1. Four Years of the Third Plan			
2. At Current Prices			
3. Based on Exchange Control Statistics. The data relate to both private and Government Imports.			

Thus output and availability, the principal factors on the supply side of the price situation have tended to be less elastic in the context of growing requirements. On the other hand the important long term factor leading to a pressure on prices is the demand rising from a growing population, increase in incomes and the growth of urbanization.

II. Sectional Price Trend:

An analysis of prices of individual commodities or commodity groups is useful in understanding inter-relationships between prices and their significance to the different sectors of the economy.

The price index of the group 'Food Articles' which accounts for a little over 50 percent of the weight of the general index, declined by 23 percent in the First Plan. In the Second Plan and the Third Plan, however, the index increased by 38.6 percent and 40.7 percent, respectively, the annual rate of increase in these two periods being 6.9 percent and 7.2 percent. A good part of the increase in Third Plan was concentrated in the last three years 1963-64 to 1965-66 when the annual rate of rise was 10.3 percent compared with 2.5 percent in the first two years. Considering that the changes in the general price index closely follow the trends in the prices of foodgrains, trends in prices of 'Food Articles' are analysed here mainly with reference to foodgrains prices.

Prices of cereals which declined by 20.3 percent in the First Plan period increased by 38.3 percent in the Second and further by 41.8 percent in the Third Plan. The annual rate of increase 7.5 percent in the Third Plan was more or less the same as in the Second Plan (7.2 percent). However, a large part of the increase in cereals price took place in the last three years of the Third Plan. Among cereals, wheat prices recorded a larger rise in the Third Plan than in the Second, while prices of other cereals recorded a relatively smaller rise. The prices of pulses, an important component of foodgrains, were in line with those of wheat.

Annual Rate of Rise in Indices of Cereal Prices (Percentage)

	<u>Second Plan</u>		<u>Third Plan</u>	
	1956-57 - 1960-61	1961-62 - 1965-66	1961-62 - 1962-63	1963-64 - 1965-66
Rice	+ 6.8	+ 5.6	+ 1.4	8.4
Wheat	+ 5.3	+ 9.4	-----	15.6
Jowar	+16.7	+12.9	+ 3.9	15.6
Bajra	+10.5	+ 8.7	- 2.2	15.9
Cereals	+ 7.2	+ 7.5	+ 0.6	12.6

The substantial rise in price of foodgrains, both cereals and pulses in the Second Plan and Third Plan reflect the persistent gap between demand for supply foodgrains.

The growth rate of output of foodgrains, which averaged 5.3 percent per annum in the First Plan, declined to 4.0 percent in the Second. In the Third Plan, however, output of foodgrains showed wide fluctuations. During the first four years i.e. 1961-62 to 1964-65, the increase averaged 2.5 percent a year while in 1965-66 there was a substantial decline of 19.2 percent. In the result, the gap between output and demand widened particularly in the Third Plan, necessitating larger imports.

Annual Average Million Tonnes

	Estima- ted De- mand (1)	Produc- tion (2)	Gap (1-2) (deficit) (3)	Impo- rts (4)	Availi- bility (5)	Imports as % of Availability (6)
I Plan: 1951-65 (1951-56)	65.3	65.8	+0.5	1.8	67.6	2.6
II Plan (1956-61)	75.5	75.2	-0.3	3.9	79.1	4.9
III Plan (1961-66)	90.3	80.5	-9.8	6.5	87.0	7.5

Col. 2 & 4, Report of Foodgrains Policy Committee, 1966 p. 19

Apart from the gap between demand for and supply of foodgrains, there are other aspects of supply of foodgrains which are important from the point of view of foodgrains prices. Generally speaking, foodgrains output has been subject to a cycle of good years followed by bad years and this trend was pronounced in the Third Plan, particularly in regard to the fluctuations. Though there were three good years and two bad years

in each five years period of the Second and Third Plans, the extent of decline in output in bad years was much larger in the Third Plan (about 13 percent a year) than in the Second (about 6 percent a year). The extent of increase in output in good years, on the other hand, was much smaller in Third Plan (5.4 percent a year) than in the Second (10.5 percent). These short term fluctuations in output influence the course of foodgrains prices considerably.

Imports of foodgrains played an important role in moderating the rise in prices of foodgrains in the Third Plan. Cereal imports which averaged 6.5 million tonnes a year, accounted for 7.5 percent of availability (output plus imports) in the Third Plan compared with 5 percent in the Second. Wheat imports which accounted for 88 percent of total cereal imports, averaged 4.5 million tonnes a year during the Third Plan. At this level wheat imports amounted to 40 percent of wheat output and was thus much larger than the estimated marketable surplus of wheat (33 percent). But for the substantial imports of foodgrains, particularly wheat, prices of foodgrains would have shown a much larger rise in the Third Plan. Wheat imports on a large scale dampened the rise in prices not only of wheat but also of other cereals. Apart from restraining the extent of rise in wheat prices through increased availability of wheat, wheat imports acted as a moderating influence on prices of other cereals by effecting a shift in demand from other cereals to wheat, the prices of which were relatively lower due to subsidies.

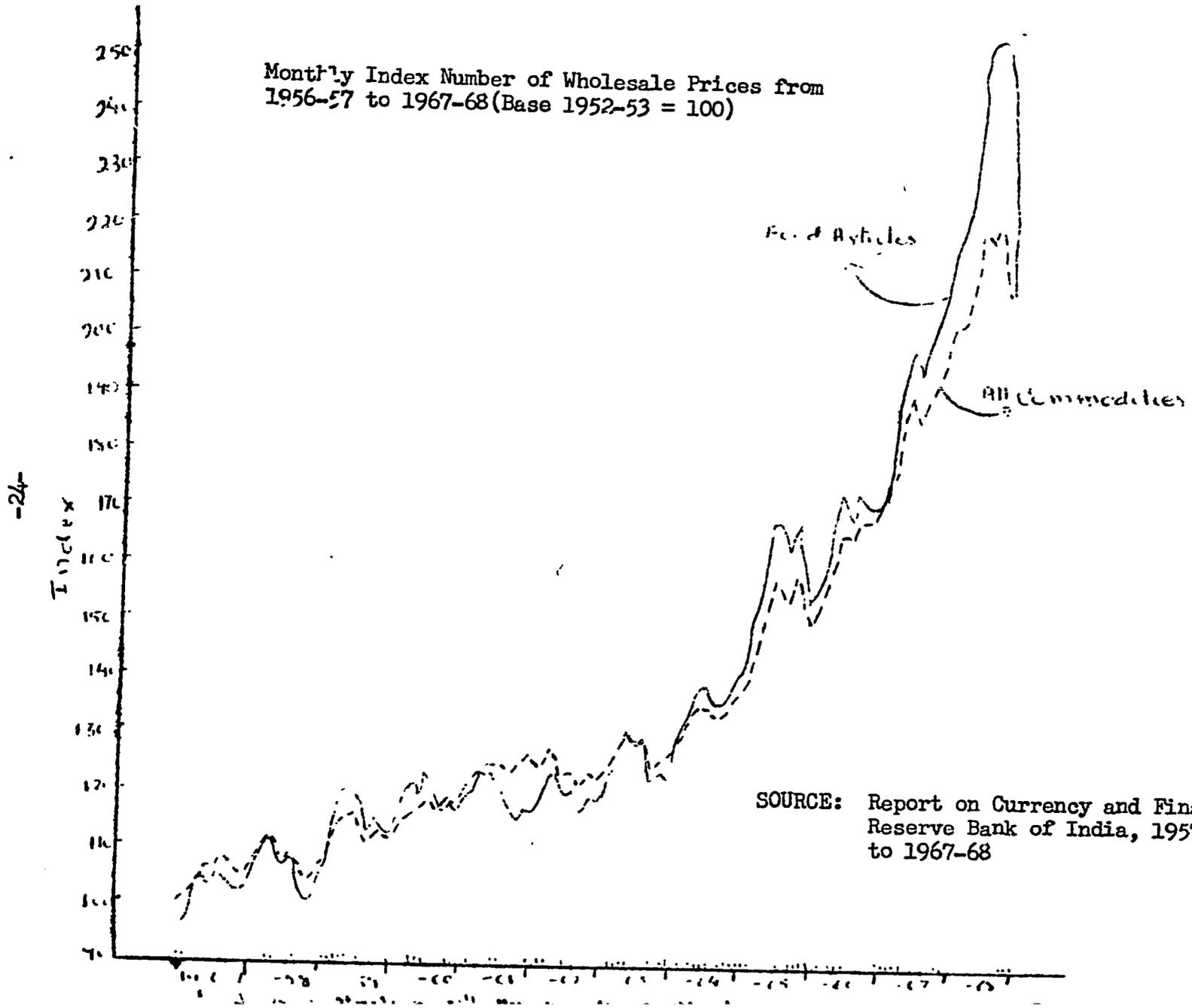
Raw Cotton

Prices of raw cotton which declined by 17.3 percent in the First Plan increased in the Second and Third Plans by 15.4 percent and 15.6 percent respectively. The annual rate of increase in raw cotton prices was almost the same in both the Plans, i.e. around 3 percent, but the year to year variations were quite large. These wide fluctuations in raw cotton prices resulted from the erratic behavior of output of raw cotton in relation to steady trends in consumption.

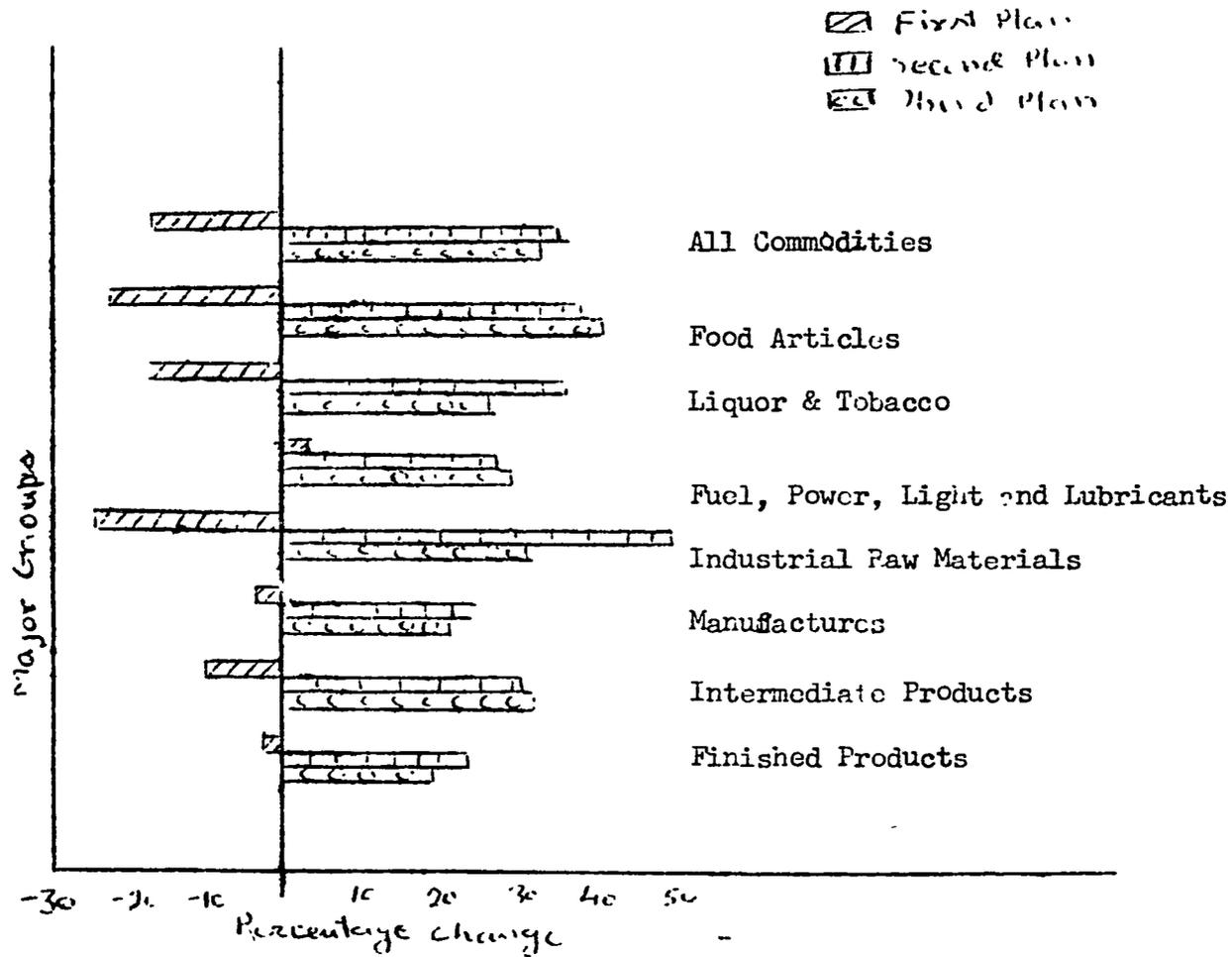
In the Second Plan, annual output of raw cotton averaged 45.7 lakh bales while consumption averaged about 51 lakh bales. Similarly, in the Third Plan annual consumption of raw cotton was around 62 lakh bales while output at 52 lakh bales fell far short of the requirements. Thus the gap between output and consumption which was about 6 lakh bales a year in the Second Plan widened to 10 lakh bales in the Third Plan necessitating larger imports. Imports of raw cotton averaged 8 lakh bales a year in the Third Plan compared with 7 lakh bales in the Second. The increase in raw cotton consumption over the two plan periods was largely due to the increase in the number of cotton mills and in the installed capacity. (Indian textiles Bulletin, October 1966). As a result of the increase in the number of mills and spindales installed, raw cotton consumption increased at an average rate of 2.7 percent a year in the Second Plan and at 4.5 percent in the first four years of the Third Plan. In the last year of the Third Plan consumption of raw cotton declined by 8.6 percent following the cut in production consequent upon the accumulation of stocks.

Production of raw cotton showed erratic movements in the Second Plan and Third Plan. It was characterised by two years of decline in output and three years of increase. The total

decline in the poor years was larger in the Third Plan than in the Second (30 percent compared with about 23 percent). The total rise in output in good years, on the other hand, was 22.5 percent in the Third Plan, compared with 63.8 percent in the Second. This two fold effect on prices was moderated to an extent by imports of raw cotton which averaged about 7 lakh bales and 8 lakh bales in the Second and Third Plans respectively.



Percentage change in the wholesale price index of major groups in First, Second and Third Plan (1952-53=100)



Effects of Drought on Prices in the Affected States

1965 was the worst year for Indian Agriculture. India experienced a worst drought of its kind in recent years in 1965, resulting in substantial damage to 1965-66 crops. The production of foodgrains in 1964-65 was 89 million tonnes. So in 1965-66 the short fall in production of foodgrains was of about 16.7 million tonnes. All major crops shared this decline in production. The production of wheat and rice declined by about 22 percent and 13 percent respectively. The production of foodgrains in 1966-67 did not improve much. It showed a marginal rise of 2 million tonnes and was 14 million tonnes lower than the record level of production of 89 million tonnes in 1964-65. Altogether there was a decline of 31 million tonnes in production of foodgrains over the two years 1965-66 and 1966-67.

Weather conditions have fortunately been quite favorable in 1967-68. Apart from weather conditions, other measures taken to beat the drought, it seems are now being rewarded. According to the latest estimates, the production of foodgrains during 1967-68 is expected to be about 95 million tonnes--6 million tonnes more than the bumper crop of 1964-65. In view of this supply position is now likely to ease considerably.

In 1965-66 because of the decline in production, prices of cereals moved up by 6 percent and prices of pulses showed a marginal decline of 2 percent. But the second successive bad year caused the prices of cereals and pulses to rise by 18 percent and 22 percent respectively. With the arrival of bumper crop of 1967-68, the prices of cereals and pulses are now declining.

Rice:

In the first half of 1965 the monthly wholesale price index number of rice (1952-53=100) showed little variation. But because of the drought in 1965-66 price index from June 1965 started rising and by December 1965 it had gone up to 147.1 from 128.4 in June 1965. The rate of rise in the wholesale price index number of rice was further accelerated in 1966. As 1966-67 crops, too were not satisfactory, the price of rice kept on rising throughout the crop year. The wholesale index rose to 174.4 by December 1966 from 150.2 in January 1966. So in the calendar year 1966 the wholesale price index of rice rose by about 16 percent. In January 1967, it was 180.4 but by August 1967 it touched the all time peak of 230.0

The expectation of a bumper crop in 1967-68 and the availability of imported rice caused the wholesale price index of rice to decline by December 1967 to 192.5 from 230.0 in August 1967.

Wheat:

In case of wheat the wholesale price index registered a decline in the first half of 1965 as a result of the bumper crop in 1964-65. The monthly wholesale price index of wheat (1952-53=100) which in January 1965 was 151.2 declined by June 1965 to 131.3. So in the first half of 1965 the index declined by nearly 20 points.

The drought of 1965-66 checked this downward trend. The wholesale price index of wheat rose by August 1965 to 144.4 and then it again declined in October and November and by December 1965 it was 139.4 -- 11.8 points less than what it was in January 1965.

In early 1966 the index dropped from 140.7 in January to 135.1 in April 1966. After that price index started rising gradually. But the failure of crops in second successive year caused the prices to rise at an accelerated pace. From 147.0 in September 1966 it went up to 191.0 in March 1967--a rise of about 30 percent. After a little seasonal decline price of wheat again started rising and by July 1967 it had touched 217.7. Again in the case of wheat too, the availability of imported rice and the expectation of a bumper crop in 1967-68 caused the wholesale price of wheat to decline by December 1967 to 195.3

But in view of the difficult food situation from 1965 government introduced and continued the policy of controlled distribution to ensure regular supply of foodgrains at reasonable prices to as large a number of people as possible. It is only by importing large quantities from abroad and maximising internal procurement that the distribution of foodgrains at a mass scale could be maintained. The total imports of foodgrains in 1967 amounted to 8.7 million tonnes which in 1966 was 10.4 million tonnes and in 1965--7.46 million tonnes. In spite of a second successive year of low production the procurement in 1966-67 as in 1965-66 exceeded 4 million tonnes. It may be recalled that out of a bumper crop of 89 million tonnes only 3.8 million tonnes were procured in 1964-65.

The drought of 1965 caused the production of foodgrain to decline in 1965-66 and the serious scarcity conditions developed in the states of Andhra Pradesh, Gujarat, Mysore, Maharashtra, Madhya Pradesh, Orissa and Rajasthan. Out of a total of 330 districts 125 were affected. In 1966-67 not only were the same states affected again, but the drought in Bihar, Eastern Uttar Pradesh and some areas of Madhya Pradesh was of an unprecedented intensity and resulted in acute scarcity conditions in these areas.

Andhra Pradesh:

About 35% of the area of the state was affected by the drought. The entire district of Anantapur and Chittoor in Rayalseema and Khamman and Nalgonda in Telangana were seriously affected.

Month end wholesale price of rice in Kakinada in Andhra Pradesh from 1960 to 1964 remained between Rs. 50 to Rs. 70 per quintal except for a shortwhile in early 1963 when the price had gone down to Rs. 47 per quintal. The drought in 1965 would have caused the price of rice to rise much above Rs. 70.00 per quintal. But the introduction of controls and rationing prevented any spectacular rise in price. Not only 1965-66 crops but of 1966-67 crops failed too. So the controls had to be continued.

Gujarat:

Out of 19,000 villages in the states nearly 30 percent i.e. about 5,500 villages with an estimated population of 47 lakhs were affected by scarcity or near scarcity conditions in the state.

Gujarat Government too started a number of relief measures to meet the situation. The State Government subsidised the price of foodgrains to be sold to the laborers on scarcity works. Maize was sold to the laborers at 0.45 paise per kg. and wheat at 0.50 paise per kg.

To meet the problem of drinking water, the state government undertook an extensive program of deepening and repairing of the existing wells, sinking of new wells and developing local source of water supplies in the affected villages.

Madhya Pradesh:

The drought affected in a greater or lesser degree, 27 out of 43 districts in the state. The districts which were seriously affected were Rewa, Damoh, North Bastar, Sidhi and Jhappna.

relief

Here too, to provide the relief/works were started. The rate of daily wages initially low, were increased and two earning members in a family could earn enough to purchase grains for themselves and their dependents.

The month end wholesale price of rice in Raipur, Madhya Pradesh rose gradually from 1960 to 1964. In January 1964 it was about Rs. 38.00 per quintal and by December 1964 it went up to Rs. 58.00 per quintal. The maximum rise in price of rice took place in August 1961 and in August 1963. From Rs. 40.00 per quintal in July 1961 it went upto Rs. 49.00 per quintal in August 1961 and from Rs. 50.00 per quintal in July 1963 it rose to Rs. 59.00 per quintal by August 1963. In early 1964 the month end wholesale price of rice in Raipur touched Rs. 62.50 per quintal but in the later half of 1964 the price came down to Rs. 58.00 per quintal. Because of the drought the rationing and controls were introduced in 1965 and continued till the end of 1967. With the withdrawal of controls, price of rice rose sharply. From the controlled price of Rs. 69.00 per quintal in November 1967 the free market price by April 1968 rose to Rs. 97.00 per quintal.

The month end wholesale price of wheat too in Sagar, Madhya Pradesh rose gradually from 1960 to 1964. In January 1960 it was about Rs. 41 per quintal and by December 1964 it had reached Rs. 61 per quintal -- most of this rise took place from July 1963 to August 1964. Controls and rationing were introduced in 1965 and were continued in 1966. With the removal of controls the price of wheat in the first half of 1967 rose sharply. In April 1967 it was only Rs. 59 per quintal but by June 1967 it rose to Rs. 142 per quintal. And in September 1967 after a little decline it touched the all time peak of Rs. 150 per quintal. The expectation of a bumper crop caused the prices to decline in the last quarter of 1967 and the first quarter of 1968. From Rs. 150 per quintal in September 1967 it came down to Rs. 90 per quintal by April 1968.

Maharashtra:

Scarcity conditions were declared in 19 out of 27 districts in the state. About 15 thousand with a population of about 124 lakhs were affected. The worst affected districts were Ahmednagar, Poona and Añola.

The month end wholesale price of rice in Ratnagiri in Maharashtra was about Rs. 77 per quintal in January 1960. But by November 1963 it came down to Rs. 57 per quintal. It then went up sharply to Rs. 81 per quintal by August 1964. The controls were then introduced and are continued.

The State Government took a number of measures to keep the situation under control. A number of fairprice shops were opened. To solve the drinking water difficulties, wells were deepened and the water was supplied in areas of acute scarcity by rails, trucks, camels and bullock carts.

Mysore:

Out of the 19 districts in the State, 16 districts with an estimated population of 75 lakhs were affected by the drought. The distress was, however, mainly confined to the southern part of the state.

The monthend wholesale price of rice in Shimoga, Mysore rose from about Rs. 45 per quintal in January 1960 to about Rs. 73 by August 1964. In the last quarter of 1964 price declined but in 1965 because of the drought controls were introduced. But in June 1965, after the withdrawal of controls the monthend wholesale price of rice shot up to Rs. 104 per quintal by July 1965. From then onwards price kept on rising and touched an all time peak of about Rs. 142 per quintal in September 1966. The price of rice after reaching the peak of Rs. 142 per quintal started declining and by December 1966 it came down to Rs. 90 per quintal. Because of second successive failure of Crops in 1966-67 the price of rice in Shimoga, Mysore kept on rising in the first half of 1967 and by July 1967 it rose to Rs. 126 per quintal. The prospects of bumper crop in 1967-68 caused the price of rice to come down to Rs. 105 per quintal.

Also to relieve the distress of the affected population, the State Government took energetic steps. It started a number of relief works. The State Government distributed 5 kgs. per head per month in all towns by a sort of informal rationing but the laborers on relief work got 10 kgs. of foodgrains per month.

Orissa:

In Orissa all the 13 districts were affected by scarcity but six namely Kalahandi, Bolangir, Dhenkual, Sundergarh, Sambalpur and Koraput were the worst affected. It is estimated that 64 lakhs people were affected by the drought.

The month end wholesale price of rice declined in 1960 and 1961. It was

Rs. 54.91 per quintal in January 1960 but by December 1961 it came down to Rs. 44.21 per quintal. But from January 1962 the price of rice started rising sharply. By November 1962 it was Rs. 62.29 whereas in January 1962 it was only Rs. 42.87 per quintal. After a little decline in December 1962 and January 1963 the monthend wholesale price of rice in Balasore Orissa started rising again from February 1963. It touched the peak of Rs. 77.00 per quintal in May 1963. The price then declined in the latter half of 1963 and early 1964. From April 1964 the price of rice started rising and by November 1964 it was Rs. 70.00 per quintal. The controls were then introduced in December 1964 and continued till December 1965. The free market price of Rs. 68.00 per quintal in January 1966 rose to Rs. 85.00 per quintal by October 1966. After a little decline in December 1966 the price in 1967 kept on rising and by October 1967 it touched Rs. 105 per quintal. It was primarily because of the failure of crops in second successive year. Again after a little seasonal decline in November December 1967 the price of rice in early 1968 kept on rising sharply and went as high as Rs. 128.00 per quintal by April 1968.

So from 1962 there was a rising trend in price of rice in Orissa which again got momentum because of the drought in 1965 and again failure of crops in 1966-67.

Rajasthan:

Scarcity conditions prevailed in 11,126 villages with a population of 55 lakhs. Out of a total of 32,240 villages and a total population of about two crores. The number of districts affected with scarcity conditions was 23 out of a total of 26 districts in the State.

The monthend wholesale price of wheat in Kotah, Rajasthan varied around Rs. 40.00 per quintal from 1960 to 1962. From November 1962 the price started declining and took an upward turn from October 1963 and by February 1966 it touched the peak -- Rs. 57 per quintal. The controls were maintained throughout 1965 and the free market price in 1966 showed again the rising trend. From Rs. 59.25 per quintal in January 1966 the price of wheat rose to Rs. 85.50 by December 1966. The price of wheat as a result of second successive crops failure kept on rising in the first half of 1967 and touched an all time peak in June 1967 when the price of wheat was as high as Rs. 105 per quintal. Adequate imports and expectation of a better crop in 1967-68 caused the price to decline in the latter half of 1967 and early in 1968. By April 1968 the monthend wholesale price of wheat in Kotah, Rajasthan came down to Rs. 73.73 per quintal but it was still 54.5 percent higher as compared to the corresponding price in 1964.

Punjab:

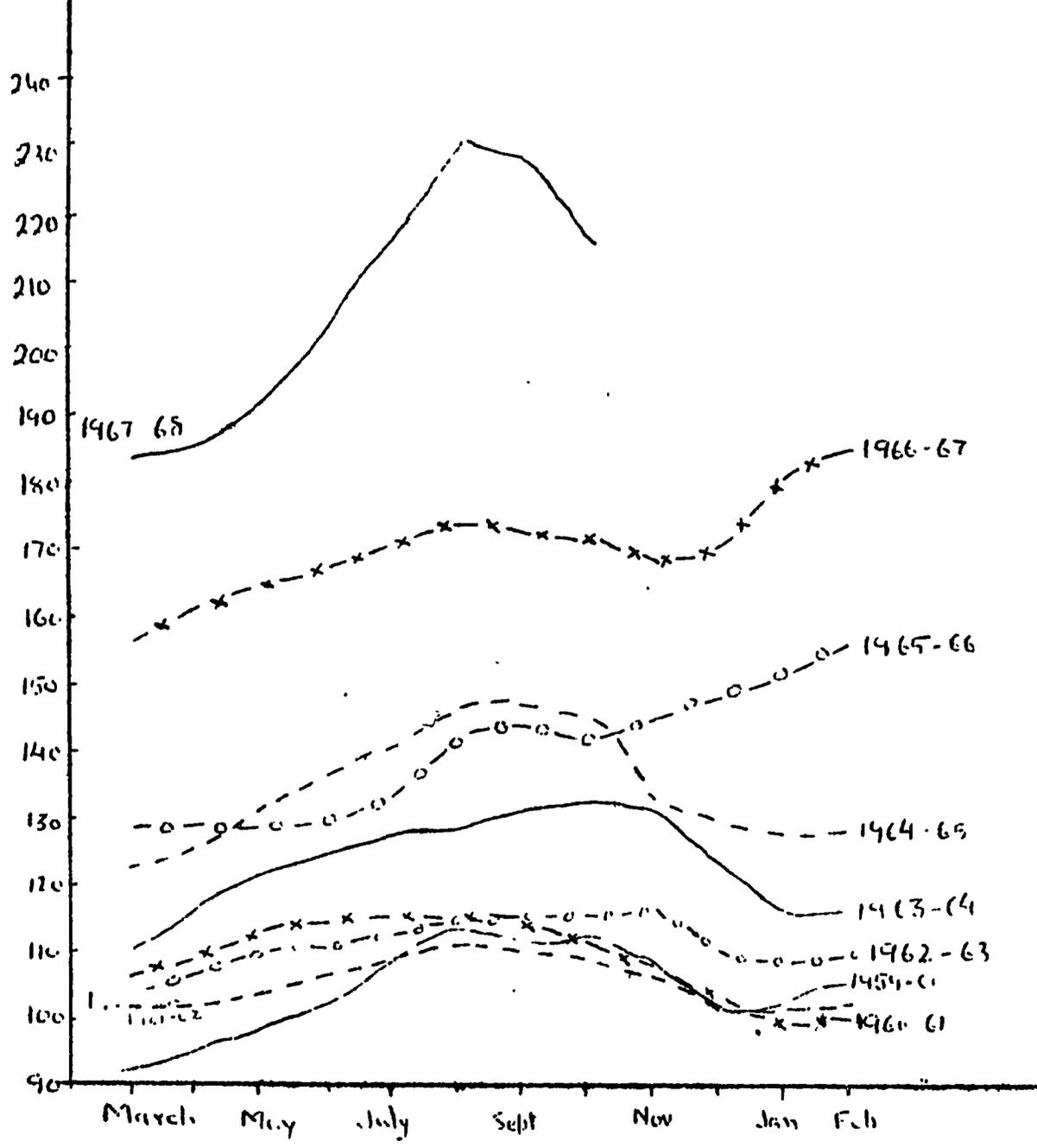
The districts of Hissar, Mohindergarh and Rohtak of Punjab were affected by the drought. Altogether 744 villages with a population of about 8 lakhs were affected by the drought in these three districts. These affected area are adjacent to the western arid zone of Rajasthan. While in Rajasthan there was both dearth of foodgrains and decline of employment and income as a result of drought, in Punjab there was only

only shortfall in income due to crop failure . There was fairly adequate supply of foodgrains, specially of wheat and Bajra in the affected areas.

The monthend wholesale price of wheat in Ferozepur, Punjab varied little in 1962 and 1963. But in early 1964 the price rose sharply but declined to the same extent by mid 1964. However, in the later half of 1964 it kept on rising continuously and ~~it~~ reached Rs. 67.50 per quintal in December 1964. In 1965 the free market price ruling in Punjab registered a decline. In December 1965 it came down to Rs. 57.00 per quintal from Rs. 67.50 per quintal in December 1964. In Punjab the price rose maximum in the latter half of 1966 and early half of 1967 and in February 1967 it was as high as Rs. 124 per quintal. From March 1967 the price of wheat in Ferozpur, Punjab started declining and by November 1967 it came down to Rs. 79.00 per quintal.

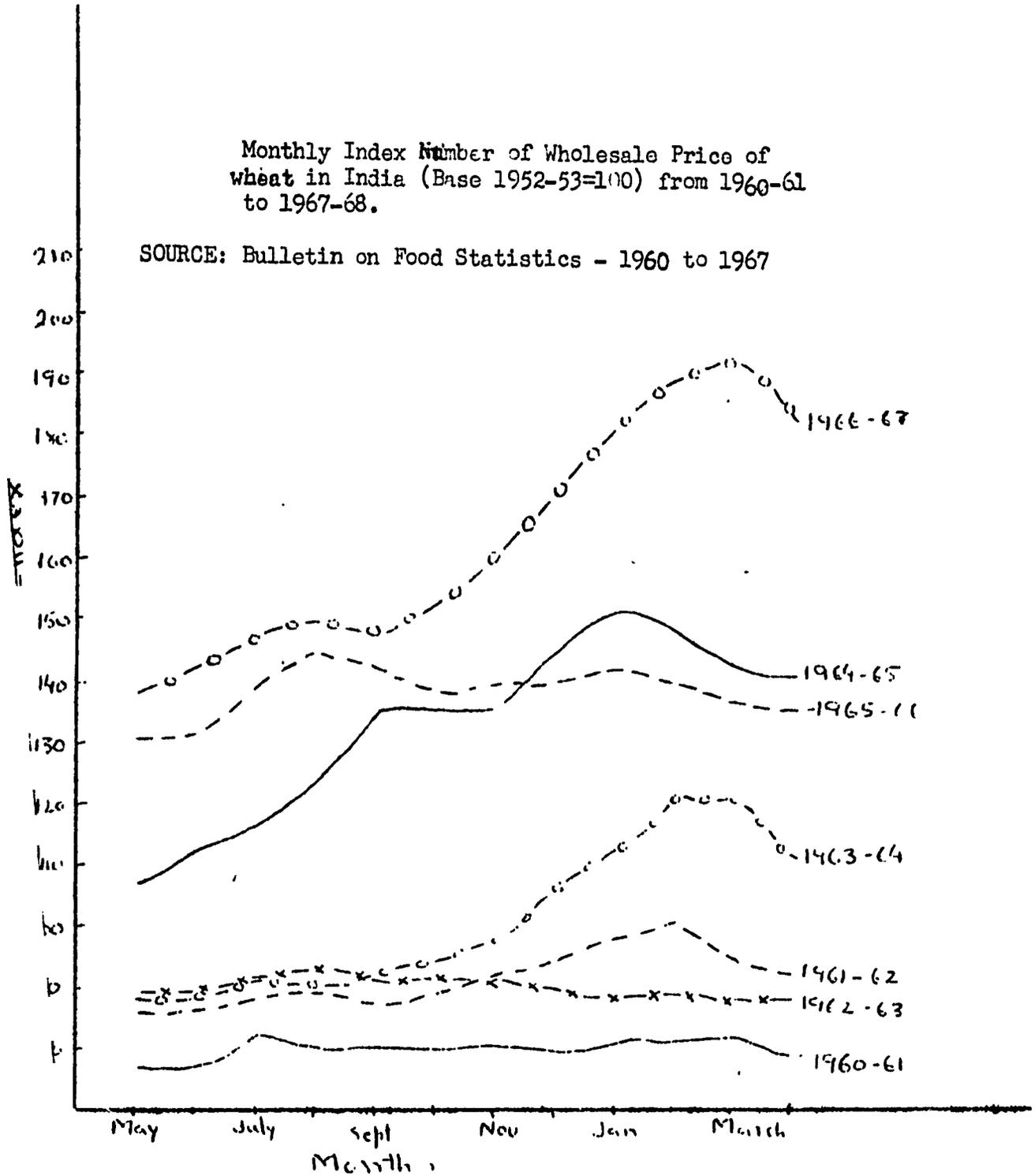
Monthly Index Number of Wholesale Price of Rice In India (Base 1952-53=100) from 1959-60 to 1967-68

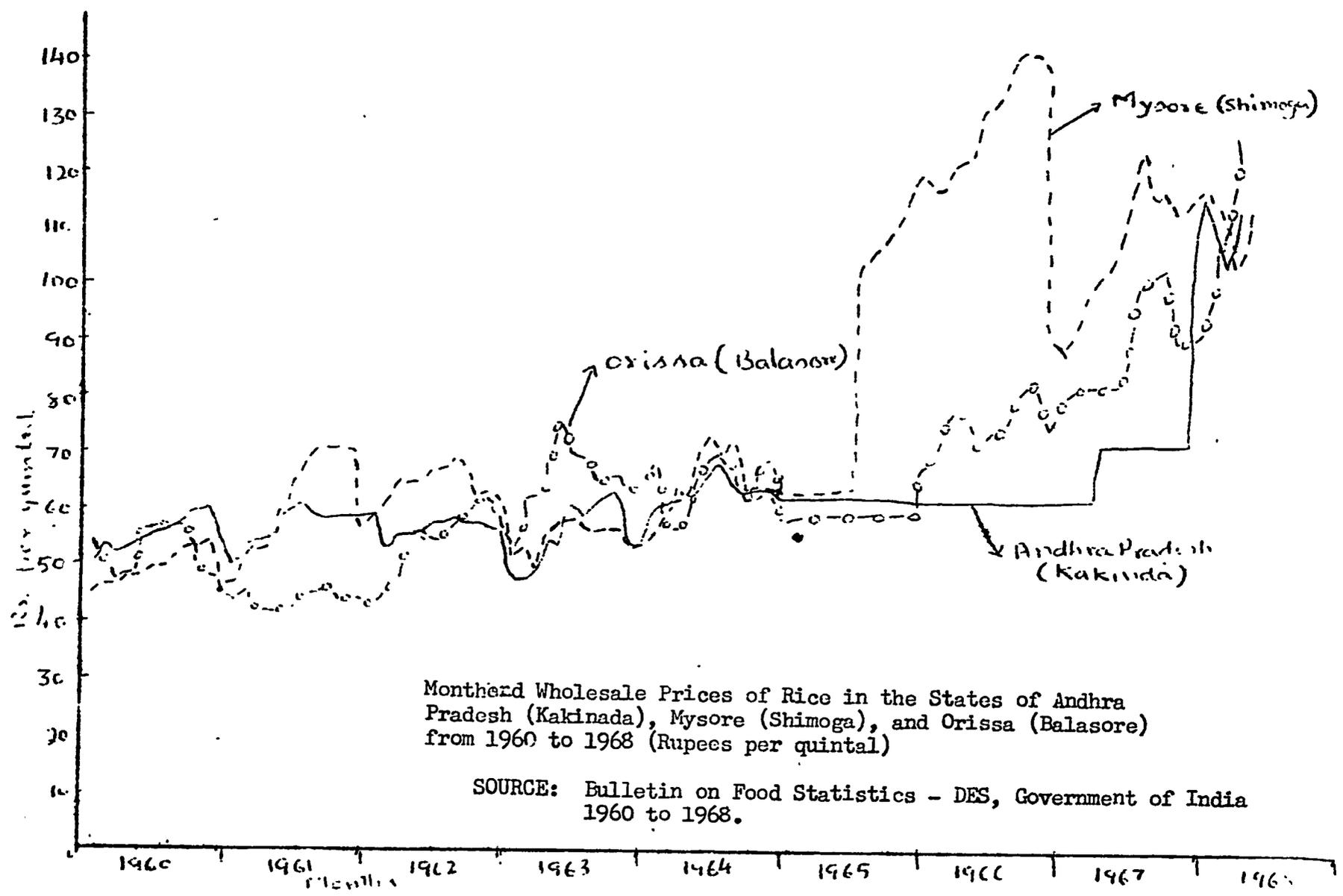
SOURCE: Bulletin on Food Statistics - 1959 to 1967



Monthly Index Number of Wholesale Price of
wheat in India (Base 1952-53=100) from 1960-61
to 1967-68.

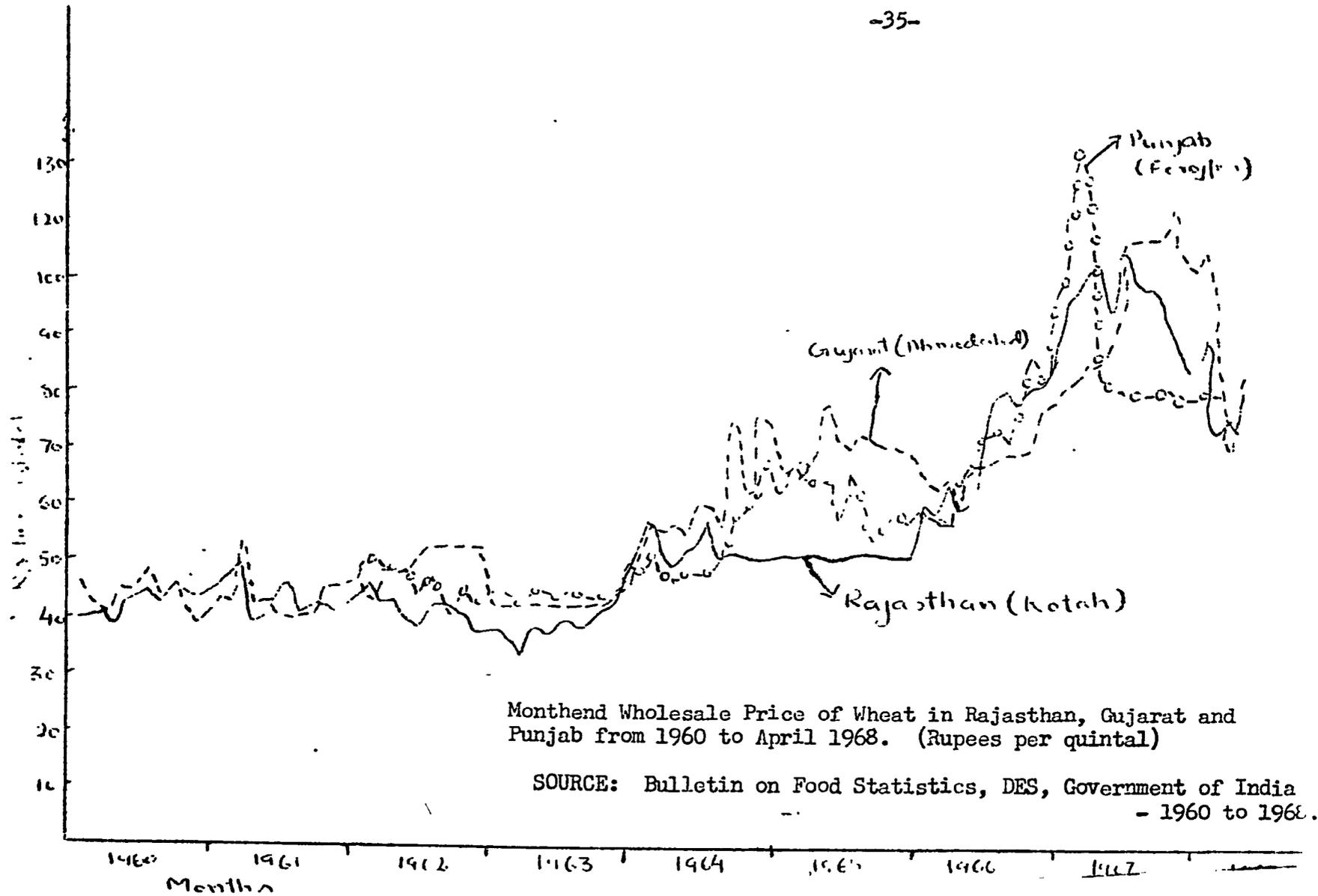
SOURCE: Bulletin on Food Statistics - 1960 to 1967

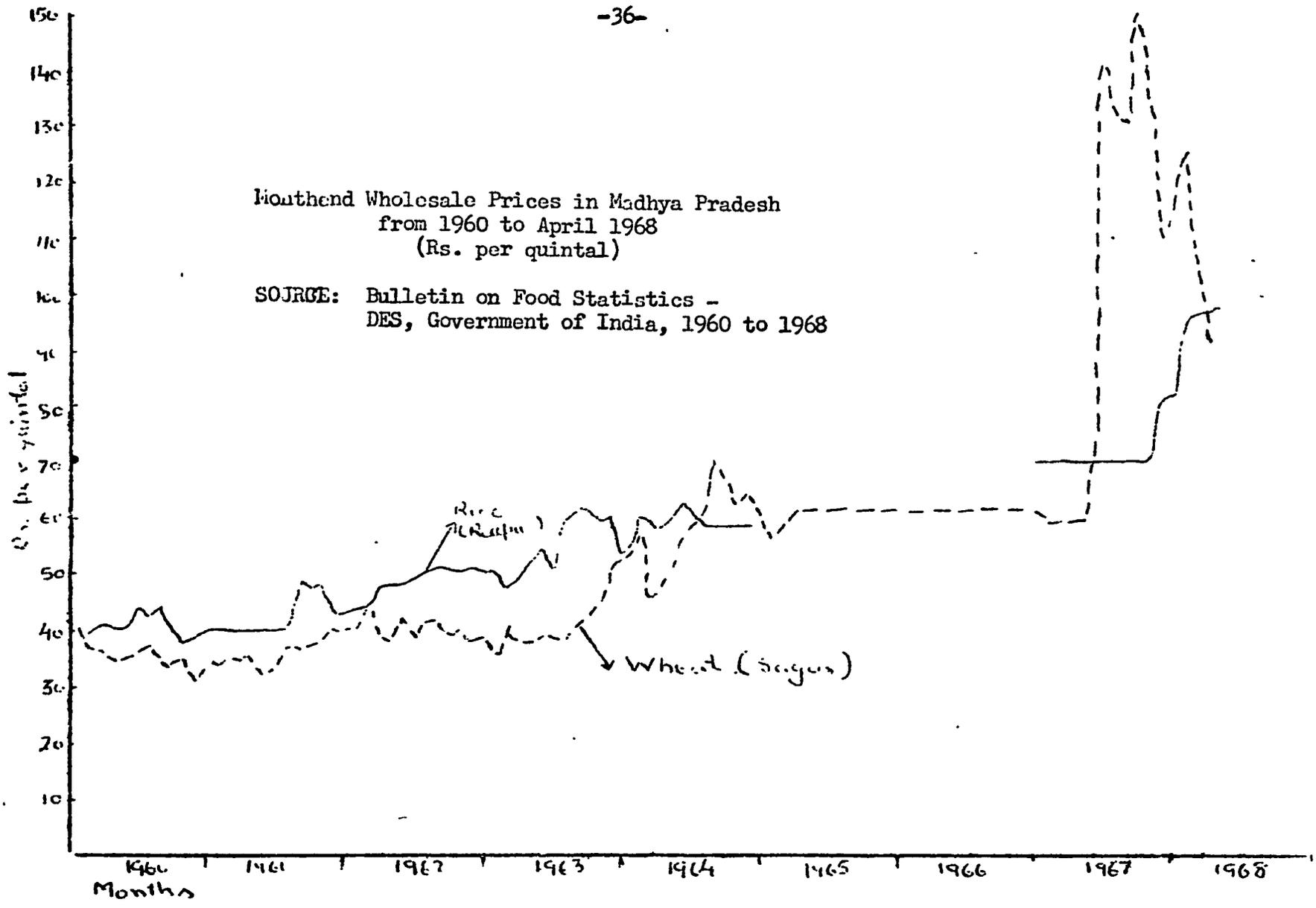




Monthly Wholesale Prices of Rice in the States of Andhra Pradesh (Kakinada), Mysore (Shimoga), and Orissa (Balasore) from 1960 to 1968 (Rupees per quintal)

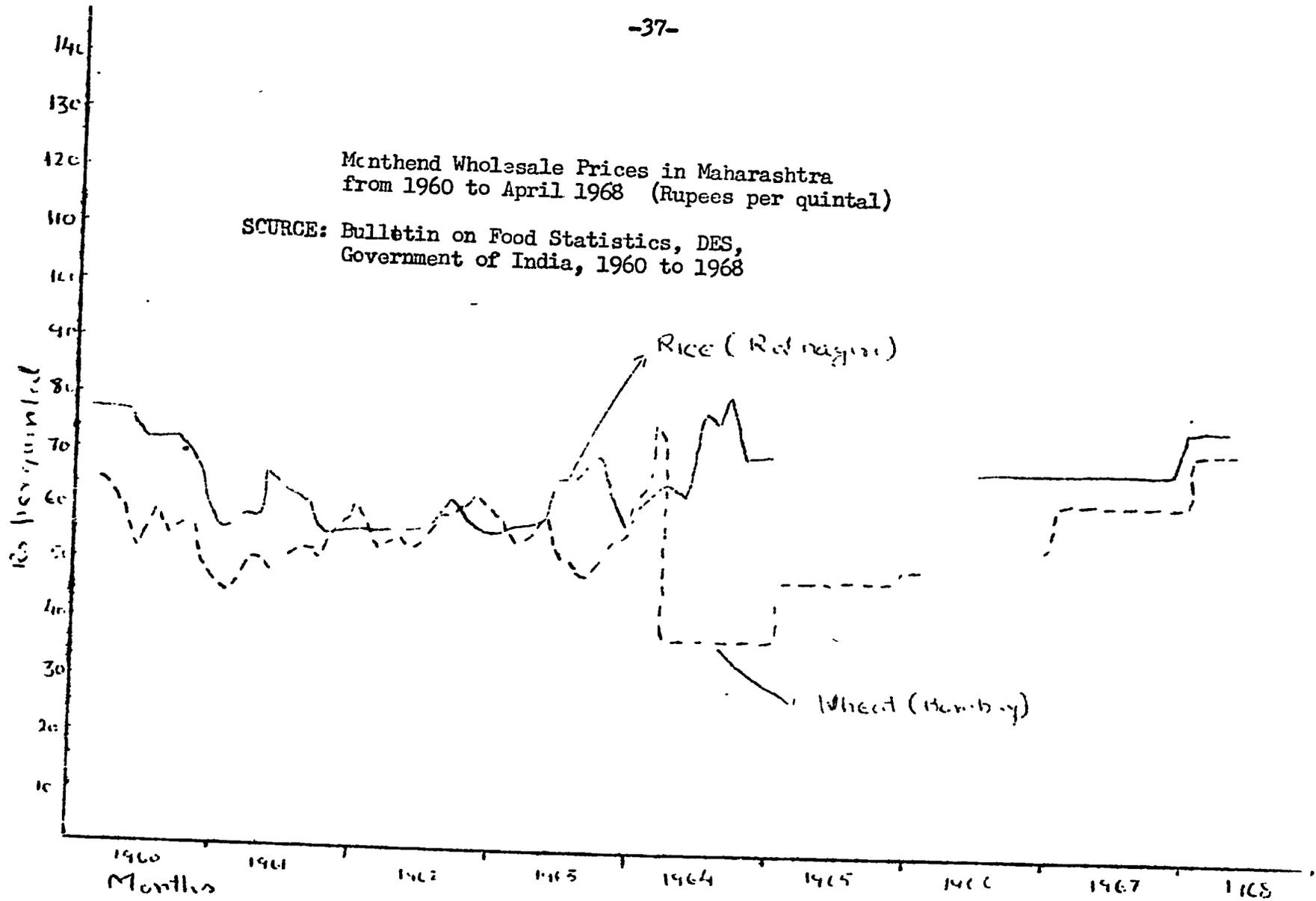
SOURCE: Bulletin on Food Statistics - DES, Government of India 1960 to 1968.





Monthend Wholesale Prices in Maharashtra
from 1960 to April 1968 (Rupees per quintal)

SOURCE: Bulletin on Food Statistics, DES,
Government of India, 1960 to 1968



CHAPTER V

Comparison of the Movement in Prices of Selected
Items of Foodgrains and Industrial Raw Materials
in India and other important producing countries.

I. Wholesale Price of Wheat in India, U.S.A. and Australia:

The wholesale price of wheat in India kept on rising almost continuously from 1950 onwards. In Australia the wholesale price of wheat showed downward trend. The wholesale price of wheat in U.S.A. was highest till 1955. It remained steady from 1955 to 1960 and rose from 1960 to 1962. From 1962 price of wheat in U.S.A. started declining sharply and from 1964 price of American wheat is the lowest.

Between 1950-52 wholesale price of wheat in India remained fairly steady. In 1952 it was 7.3 cents/kg. and by 1952 it was 7.2 U.S. cents/kg. In U.S.A. and Australia prices of wheat went up in 1951 and declined in 1952 so that the prices in 1952 in these two countries too were not much different from that of 1950. In Australia the wholesale price of wheat went up by 13 percent from 7.8 U.S. cents/kg in 1950 to 8.8 U.S. cents/kg in 1954 and in 1952 it declined to 8.2 U.S. cents/kg. So the Australian price which was 0.5 cents/kg higher as compared to price in India in 1950 was in 1952 higher by 1.0 cents/kg. In U.S.A. the wholesale price of wheat in 1951 rose to 8.9 cents/kg from 8.4 cents/kg in 1950. In 1952 it declined to 8.5 cents/kg so the U.S. price, compared to price in India was higher by 1.1 cents/kg in 1950 but by 1952 it was higher by 1.3 cents/kg.

In 1953 the price of wheat in India rose by 15.3 percent but in 1954 it declined by 16.7 percent. So in 1954 it was in fact 0.2 cents/kg. lower than the price level of 1952. In Australia in 1953 price of wheat declined by 22.0 percent and in 1954 it declined further by 7.8 percent. So in 1954 Australian price was lower compared to Indian price by 1.1 U.S. cent/kg. In USA price dropped by 2.4 percent in 1953 and went up in 1954 by 4.8 percent. So the price in India compared to USA was still lower by 1.7 cents/kg. in 1954.

From 1954 to 1956 price of wheat in India rose sharply. In 1955 it went up by 10.0 percent and in 1956 it rose further by 20.9 percent. In Australia in 1955 price declined by 8.5 percent but in 1956 it rose by 5.5 percent. So the price of wheat in India as compared to Australia was higher by 3.6 cents/kg in 1956 whereas in 1954 it was higher by 1.1 cents/kg. In USA too price declined by 8.0 percent in 1955 and rose in 1956 by 1.2 percent. In 1956 the price in India, as compared to American price was higher by 1.2 cents/kg whereas in 1954 it was lower by 1.7 cents/kg.

In 1957 price of wheat in India declined by 8.6 percent but in 1958 it rose by 20 percent. In Australia the price went up in 1957 by 5.3 percent but dropped in 1958 by 6.6 percent. Thus in 1958 the gap widened to 4.6 cents/kg. i.e. the price in India was higher as compared to Australian price by 4.6 cents/kg. In USA the price declined by 1.2 percent and

7.6 percent in 1957 and 1958 respectively. So the Indian price as compared to American price was higher by 3.7 cents/kg in 1958 which in 1956 was higher by only 1.2 cents/kg.

After having touched the peak of 10.2 cents/kg in 1958 price of wheat in India dropped in 1959 and 1960 by 10.8 percent and 3.3 percent respectively. From 1958 to 1960 price in Australia remained more or less constant at 5.6 U.S. cents/kg. Though the gap narrowed yet the price in India as compared to Australia was still higher by 3.1 cents/kg. During 1958-60 price in USA too remained constant at 7.1 cents/kg and because of the decline in price of wheat in India the gap narrowed and the price in India was higher by only 1.6 cent/kg in 1960.

The price in India again started rising from 1960. In 1961 and 1962 it rose by 5.8 percent and 6.5 percent respectively. Prices in Australia and USA too went up in 1961 and 1962. In Australia it went up by 5.4 percent and 1.7 percent respectively whereas in USA it rose by 5.6 percent and 10.7 percent respectively. So in 1962 the price in India was higher by 3.8 cent/kg as compared to price in Australia and by 1.5 cents/kg as compared to price in USA.

In 1963 price of wheat in India declined by 2.0 percent and in USA it declined by 6.0 percent but in Australia it went up by 3.3 percent. In 1964 the price in India rose by 6.3 percent whereas in Australia it went down by 3.2 percent. In 1965 price in India rose sharply by 11.6 percent but in Australia it remained constant. So in 1965 when the price of wheat in India touched 12.5 U.S. cents/kg in Australia it was only 5.9 U.S. cents/kg.

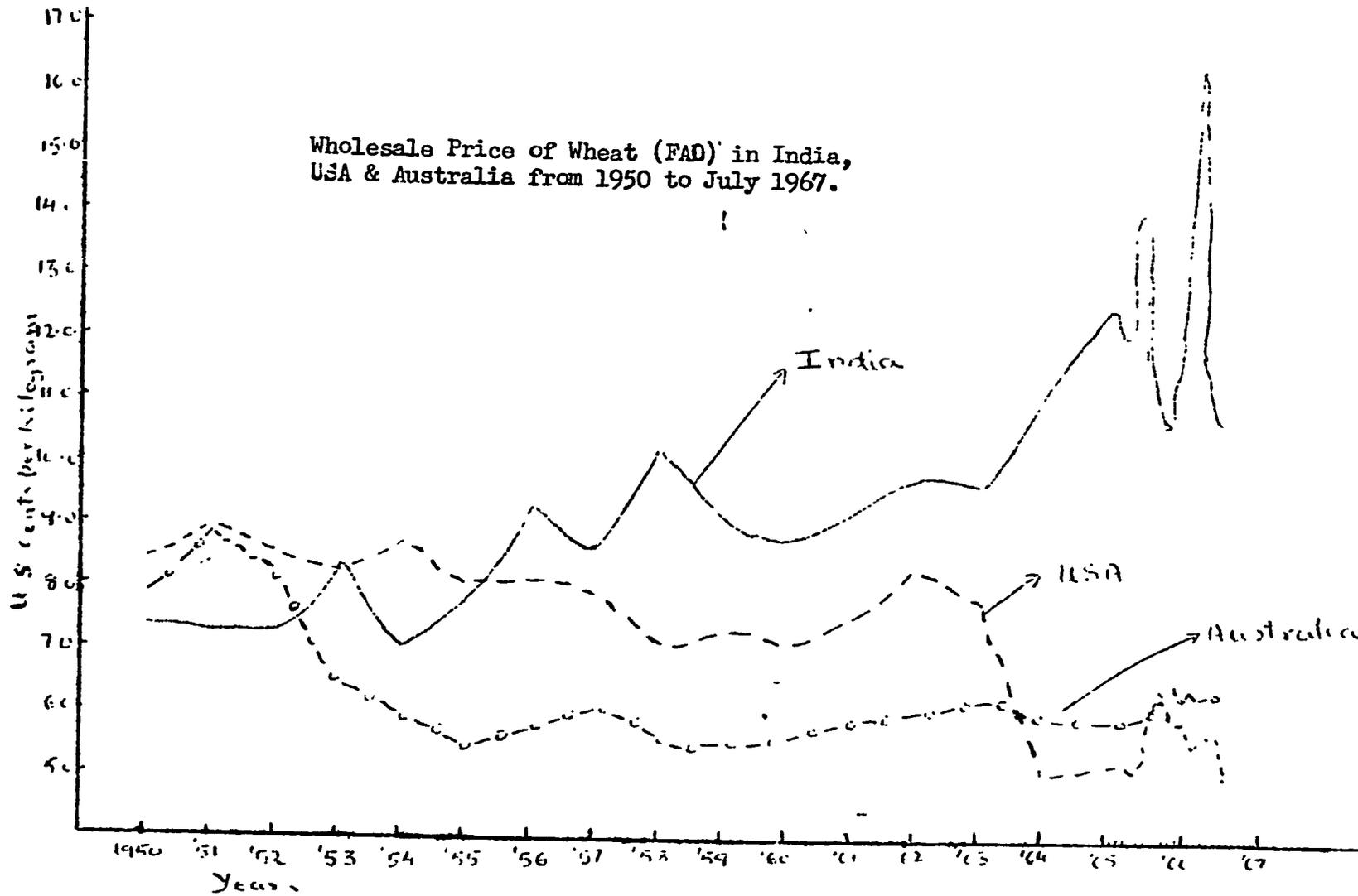
Wholesale price of wheat in India declined from 12.8 U.S. cents/kg to 12.0 U.S. cents/kg from January to March 1966. During April and May price rose by 2.0 U.S. cents/kg but because of devaluation of Indian Rupee in June 1966, prices in U.S. cents/kg declined from 14.0 U.S. cents/kg in May 1966 to 10.8 cents/kg in June 1966. From then onwards price kept on declining and in September 1966 it touched 9.5 cents/kg. But during October - December 1966 price again rose and by December 1966 price reached to 12.8 U.S. cents/kg the level of January 1966. The rising trend maintained itself in early 1967 and by February 1967 the price of wheat in India had reached the level of 16.5 U.S. cents/kg which was 2.5 cents/kg more than the predevaluation price of 14.0 cents/kg in May 1966. But because of the various stabilising measures undertaken the price of wheat in India started declining from March 1967 and by July 1967 it was only 9.3 cents/kg more than the price of June 1966, the month of devaluation of Indian Rupee.

In Australia price of wheat in 1966 remained fairly stable. From January to April 1966 price remained constant at 5.9 U.S. cents/kg. From May to October 1966 it rose gradually and reached 6.6 cents/kg by October 1966 and from then onwards it declined to 6.3 U.S. cents/kg by April 1967.

In USA the price of wheat went up by 21.1 percent from 5.2 cents/kg in January 1966 to 6.3 cents/kg in September 1966. From September 1966 it started declining and by July 1967 it was 5.0 cents/kg - i.e. 0.2 cents/kg less than the level of January 1966 at 5.2 cents/kg.

The gap between Indian and Australian prices which was 6.9 U.S. cents/kg in January 1966 widened to 8.0 by May 1966. In other words the price of wheat in Australia as compared to India was lower in January 1966 by 6.9 U.S. cents/kg but by May 1966 it was lower by 8.0 U.S. cents/kg. The gap between Indian and American prices too widened from 7.6 cents/kg to 8.7 cents/kg. But because of the devaluation of Indian Rupee in June 1966 the Indian price in terms of U.S. cents/kg declined. The declining trend in Indian prices following devaluation continued upto September 1966. Consequently the gap between Indian and Australian prices narrowed from 8.7 to 3.2 cents/kg in the same period.

From October 1966 price of wheat in India again started rising and by February 1967 it went up by 47.3 percent. Consequently the gap between Indian and Australian prices again widened from 3.0 U.S. cents/kg. in October 1966 to 10.2 U.S. cents/kg in February 1967 and the gap between Indian and American prices too widened in the same period from 3.2 to 11.0 cents/kg. It amounts to saying that the price of wheat in India in February 1967 was higher as compared to prices of wheat in Australia by 10.2 U.S. cents/kg and as compared to that of wheat in U.S.A. it was higher by 11.0 cents/kg. But because of the downward trend in the wheat price in India from February 1967, the gap between Indian and American prices again narrowed down to 5.7 cents/kg by July 1967.



SOURCE: FAO Production Year, 20th Vol. 1966 (table 163 p. 5)

II. Wholesale Price of Rice in India, U.S.A. & Thailand:

Wholesale price of rice - both of coarse and fine varieties exhibited a rising trend in India right from 1950, whereas in USA the wholesale price of rice showed downward trend. In Thailand up to 1965 price of rice showed declining tendency; but in 1966 it touched an all time high level.

Between 1950 - 1952 in India the wholesale price of rice like that of wheat remained fairly constant. Of the fine quality rice in India, the wholesale price rose in 1952 to 9.4 cents/kg from 9.1 cents/kg in 1951. In USA; the price of medium quality rice went up by 14.2 percent from 21.8 cents/kg. in 1950 to 24.9 cents/kg in 1952. In Thailand there was not much of a change in price level. The wholesale price of rice in Thailand in 1950 was 10.2 U.S. cents/kg which by 1952 rose to 10.7 cents/kg.

The price of fine quality rice in India in 1950 as compared to the price in USA was lower by 12.7 cents/kg but by 1952 it was lower by 15.5 cents/kg. In 1950 - 52, the price in India were lower even compared to those in Thailand. The price of fine quality rice in India compared to the medium quality rice in Thailand was lower by 1.1 cents/kg in 1950 and in 1952 it was cheaper by 1.3 cents/kg. The price of rice in India did not change much from 1952 to 1955; but in USA it declined from 24.9 in 1952 to 19.6 in 1955 and in Thailand too it declined from 10.7 cents/kg in 1952 to 9.6 cents/kg in 1955. The gap between American and Indian rice narrowed from 15.5 cents/kg in 1952 to 10.2 cents/kg in 1955. Similarly the gap between the price in Thailand and the price in India too narrowed from 1.3 cents/kg in 1952 to only 0.2 cents/kg in 1955. So upto 1955 the price of rice in India was cheapest as compared to the prices in USA and Thailand.

However, in 1956 the price of rice in India went up and kept on rising till 1958. The price of rice went up in India from 1955 to 1958 by 42.4 percent. In USA too the price of rice rose but only by 3.4 percent from 1955 to 1958. But in the same period price in Thailand declined by 16.6 percent. So from 1956 Indian rice ceased to be cheapest. It was cheaper as compared to American rice but compared to Thailand it was costlier by 5.4 cents/kg in 1958.

In 1959, the price of rice in India declined but again rose in 1960. Similarly, the price of rice declined from 13.4 cents/kg in 1958 to 13.2 cents/kg in 1959 and rose in 1960 to 14.6 cents/kg. In USA the prices declined in 1959 and 1960. In 1958 it was 20.3 cents/kg but in 1960 it came down to 18.1 cents/kg. In Thailand too prices declined in 1959 and 1960. It was 8.0 cents/kg in 1958 but in 1960 it was 6.1 cents/kg.

In 1960 the American price was higher as compared to Indian price of rice by 3.5 cents/kg. In Thailand the price of rice was lower when compared to the price of rice in India by 8.5 cents/kg.

In 1961, price in India declined but rose again in 1962 and 1963. In 1960 rice in India costed 14.6 cents/kg but in 1961 it costed 13.1 cents/kg. In 1962 it costed 14.6 cents/kg. In 1963 it costed 14.6 cents/kg. In USA the price of rice

went up from 18.1 cents/kg in 1960 to 20.5 cents/kg in 1961. In 1962, the price in USA remained constant and in 1963 it declined to 19.3 cents/kg. In Thailand the price rose in 1961 and 1962 but declined in 1963. From 6.1 cents/kg in 1960 it went up to 7.1 cents/kg in 1961 and to 8.5 cents/kg in 1962 but declined to 7.4 cents/kg in 1963.

So the gap between American price of rice and the price of rice in India narrowed from 7.7 cents/kg in 1961 to 1.7 cents/kg in 1963. The Indian rice though cheaper as compared to American rice was costlier when compared to that of Thailand. In 1961 Indian rice costed more compared to Thai rice by 5.7 cents/kg but by 1963, it was costlier by 10.2 cents/kg. In India the price of rice after declining in 1964 to 13.7 cents/kg rose in 1965 to 14.3 cents/kg. In USA the price remained constant in 1964 at 19.3 cents/kg and declined in 1965 to 18.4 cents/kg. In Thailand the price in 1964 declined to 6.8 cents/kg and by 1965 it was 6.9 cents/kg.

The gap between American and Indian rice which in 1963 was 1.7 cents/kg widened in 1964 to 5.6 cents/kg and in 1965 it narrowed to 4.1 cents/kg. Rice was cheapest in Thailand and compared to Indian rice, it was in 1965 cheaper by 7.4 cents/kg whereas in 1963 it was cheaper by 10.2 cents/kg.

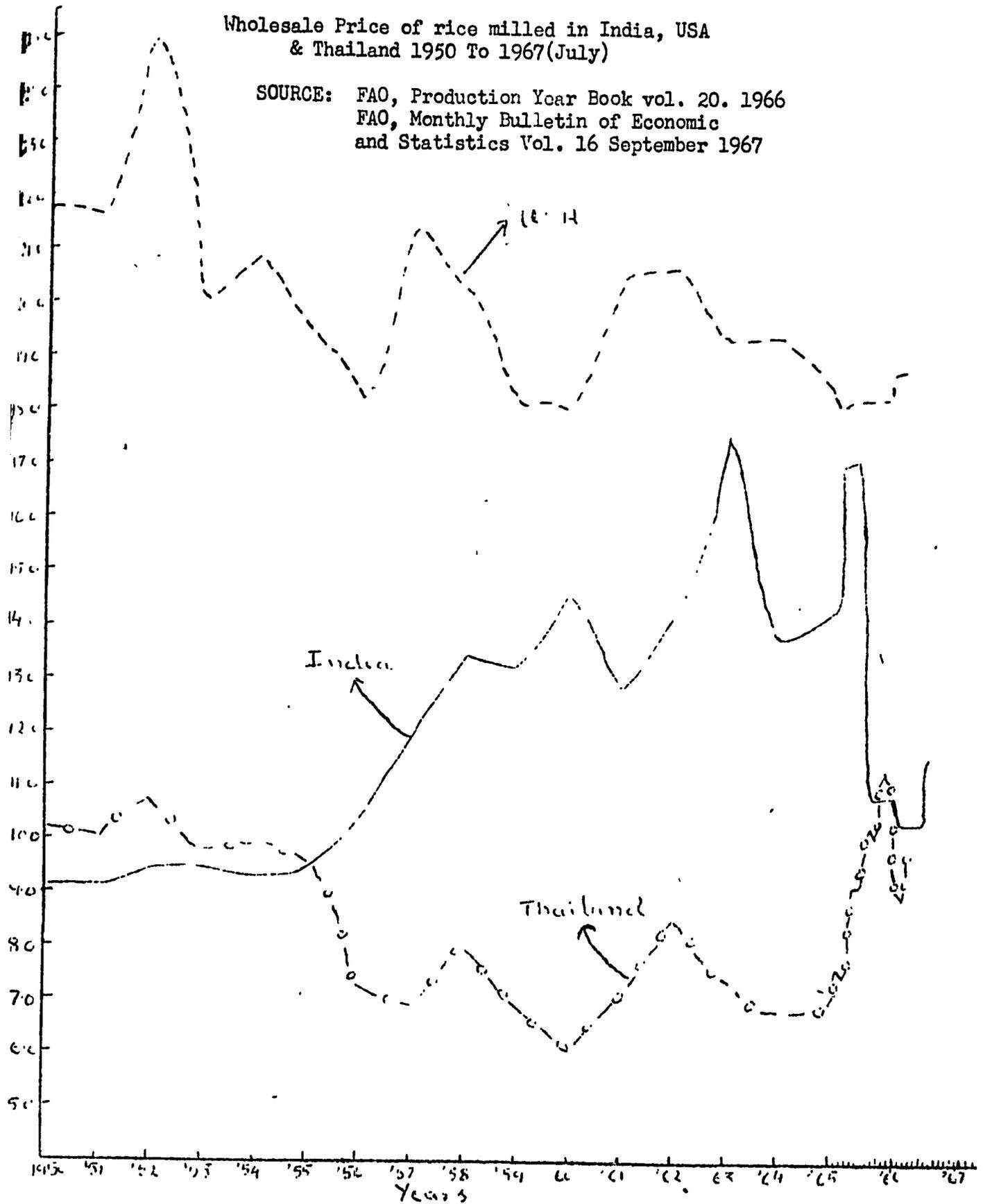
The price of fine quality of rice in India rose from 14.3 cents/kg in January 1966 to 17.0 cents/kg in February 1966 and because of controls it remained there till June 1966 when Indian Rupee was devalued. Consequently by July 1966, the price of rice declined to 10.8 cents/kg. It was kept at the same level till December 1966 and from January 1967 it was maintained at 10.3 cents/kg till June 1967 when it rose to 11.6 cents/kg. In USA the price did not fluctuate much. It was 18.0 cents/kg in January 1966 and by March 1967 it had reached only 18.7 cents/kg. In Thailand price of rice in 1966 rose almost continuously. From 7.6 cents/kg in January 1966 it rose to 11.3 cents/kg by October 1966--a rise of 48.7 percent. After touching all time peak in October 1966 the price in Thailand started declining and by January 1967 it was 8.9 cents/kg but by February 1967 it again rose to 9.8 cents/kg.

The American rice was still most expensive. Of course, because of a sharp rise in Indian price the gap between price of American rice and fine quality Indian rice was less than one cents/kg in early 1966. But after devaluation and the introduction of controls the gap by March 1967 had widened to 8.4 cents/kg.

The prices of fine quality rice in India and medium quality rice in Thailand were not much different in later half of 1966. In October 1966 the Thai price was higher by 0.5 cents/kg. This was because of a decline in Indian prices as a consequence of devaluation and controls etc. and sharp rise in Thai prices. In February 1967 Thai price was 0.5 cents/kg lower than Indian price.

Wholesale Price of rice milled in India, USA & Thailand 1950 To 1967(July)

SOURCE: FAO, Production Year Book vol. 20. 1966
FAO, Monthly Bulletin of Economic
and Statistics Vol. 16 September 1967



III. Wholesale Price of Cotton in India and USA:

Wholesale price of cotton in USA shows a downward trend right from 1950 where as in India the price is always on the increase.

From 1950 to 1952 price of American cotton declined from 0.94 U.S. dollars/kg to 0.76 U.S. dollars/kg. In India too in the same period wholesale price of cotton declined but only from 0.45 to 0.42 U.S. dollars/kg. From 1952 to 1956 American price declined further to 0.71 U.S. dollars whereas in India the price rose to 4.6 U.S. dollars/kg.

The gap in American and Indian prices of cotton which in 1950 was of 0.49 U.S. dollars/kg narrowed to 0.35 U.S. dollars/kg by 1952 as a result of decline in price of cotton in USA. By 1966 because of the increase in Indian price and decline in U.S. price the gap narrowed to only 0.25 U.S. dollars/kg.

This trend of gradual decline in wholesale price of cotton in USA and of rise in India continued upto April 1966, when the American price was more by only 0.05 U.S. dollars/kg. In June 1966 with the devaluation of Indian Rupee the wholesale price of cotton in India in terms of U.S. dollars/kg declined from 0.60 U.S. cents/kg in April 1966 to 0.42 U.S. dollars/kg in June 1966 and further to 0.38 U.S. dollars/kg in July 1966. With the decline of price in India, price of cotton in USA too declined from 0.65 dollars/kg in July 1966 the wholesale price of cotton in USA declined to 0.48 dollars/kg in September 1966. The price in USA from then onwards remained steady and by September 1967 it was 0.51 dollars/kg. In India too the wholesale price of cotton after declining in June - July 1966 started moving upward and by September 1967 it went to 0.44 dollars/kg. when American price was higher by only 0.07 dollars/kg.

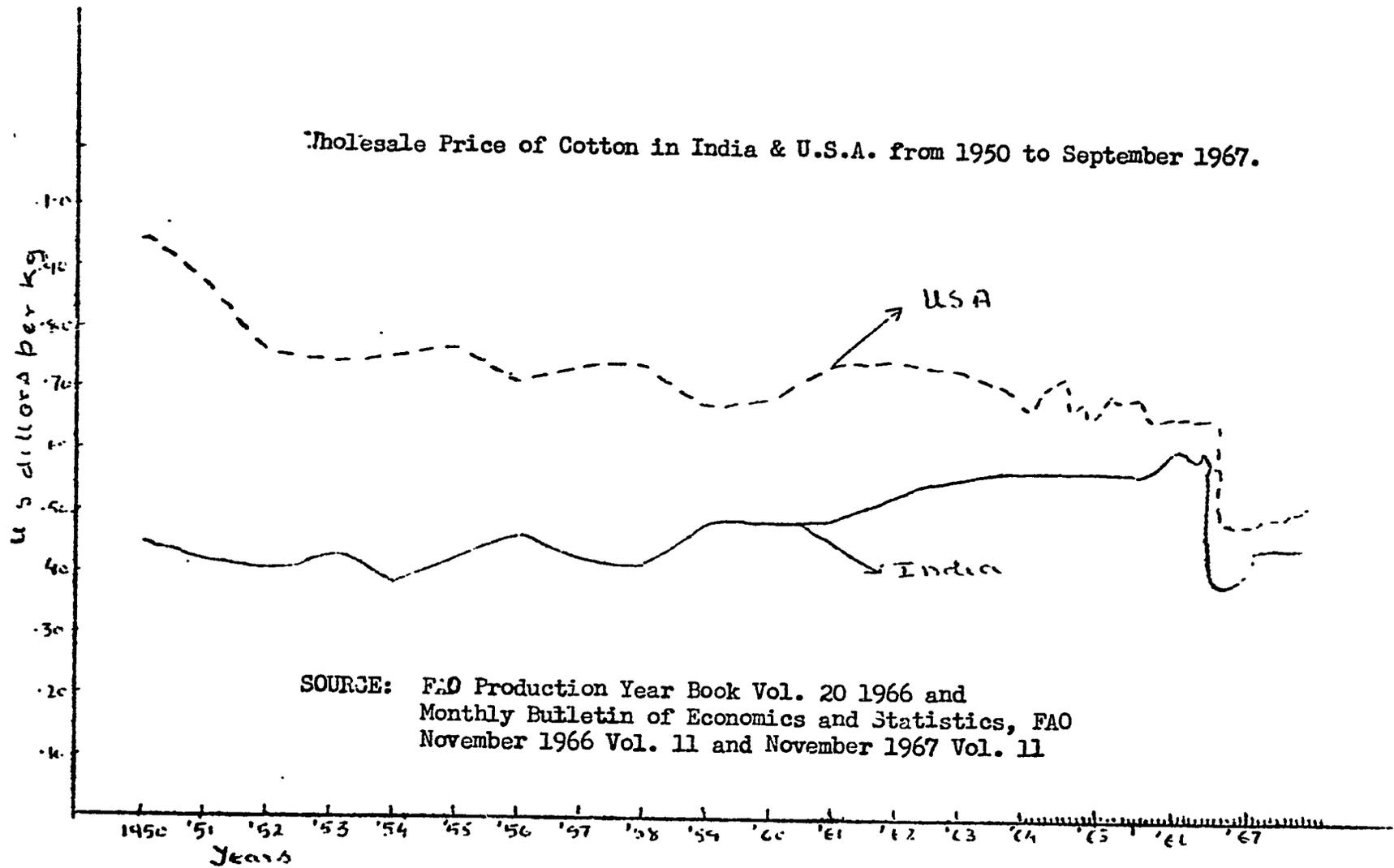
IV. Wholesale price of Groundnuts in India and Soyabeans in USA:

Right from 1950 to August 1967 the wholesale price of groundnuts in India is always higher than that of Soyabeans in USA.

From 1950 to 1955 the wholesale price of groundnuts in India declined from 18.4 U.S. cents/kg to 10.2 U.S. cents/kg. In the same period the wholesale price of Soyabeans in USA declined from 9.0 cents/kg to 8.8 cents/kg -- a decline of only 0.8 cents/kg. So the gap in Indian and American prices which in 1950 was as much as 8.8 cents/kg narrowed down to only 1.4 cents/kg in 1955.

The wholesale price of groundnuts in India then started rocketing up. In 1955 it was only 10.2 cents/kg but by May 1966 it touched an all time peak of 41.6 cents/kg. So in May 1966 the wholesale price of groundnuts in India was 4 times what it was in 1955. After May 1966 the price in India registered a sharp decline and by August 1967 it came down to 18.8 cents/kg, the level reached in 1963.

In USA from 1955 to 1965 the wholesale price of Soyabeans remained steady but in July 1966 it started declining. Along the movement of price of groundnuts in India, the wholesale price of Soyabeans in USA too started declining from mid

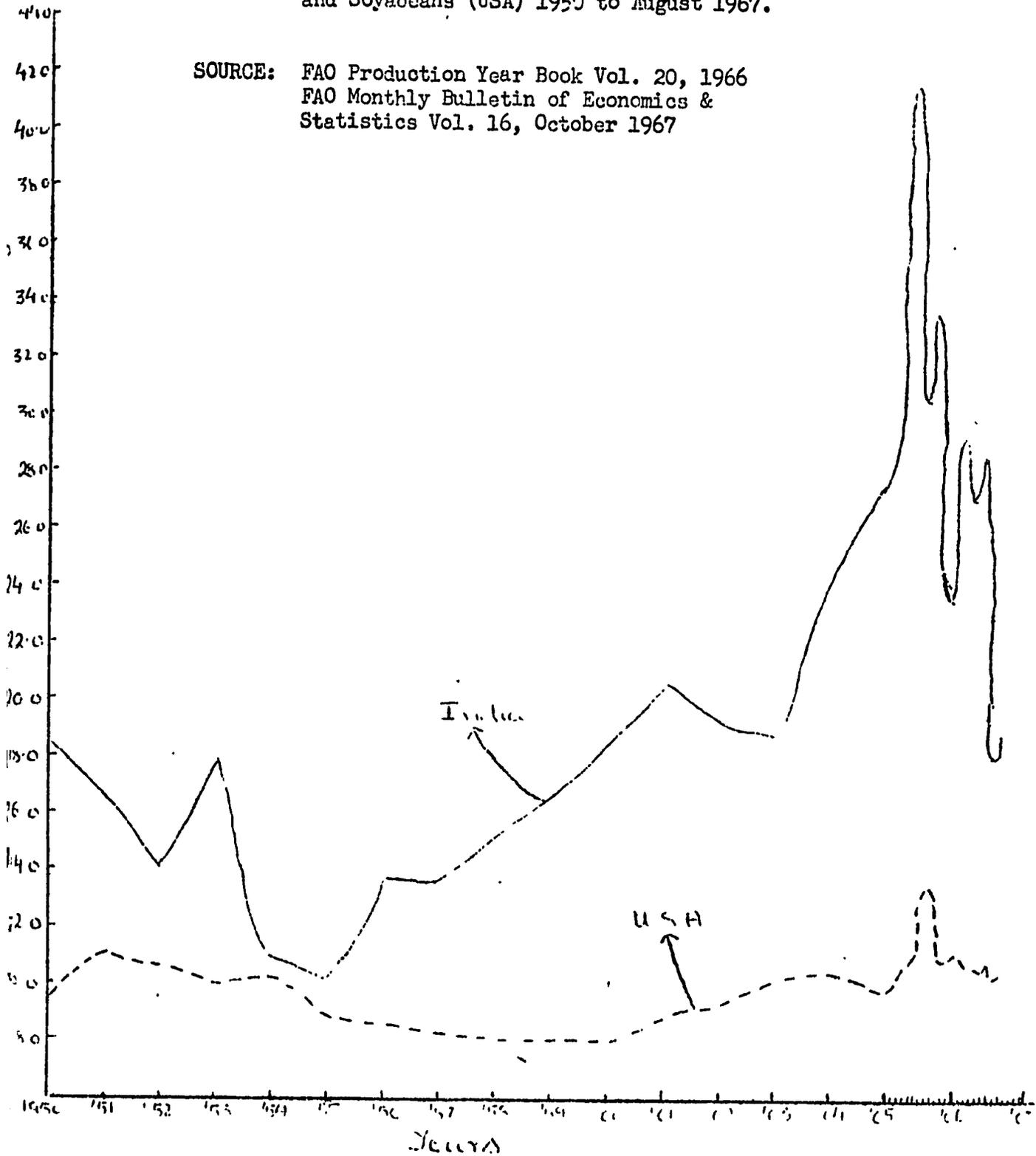


1966 and by August 1967 it came down to 10.3 cents/kg the level reached in 1963.

So from 1963 prices in India and USA went up to new heights and by August 1967 both came back to the level of 1963. Of course, the rate of rise in the wholesale price of groundnuts in India was much more steep as compared to the rate of rise in the price of Soyabeans in USA.

Wholesale Price of Groundnuts (India)
and Soyabeans (USA) 1950 to August 1967.

SOURCE: FAO Production Year Book Vol. 20, 1966
FAO Monthly Bulletin of Economics &
Statistics Vol. 16, October 1967



CHAPTER VI

IMPLICATIONS OF PRICE RISE

The price increase experienced during Second and Third Plans is primarily of the demand pull type. This is, the price rise has resulted primarily from excess demand in the economy arising from increased investment and the consequent money incomes generated over the plan periods the demand for foodgrains grew at a much higher rate than the increase in output. The resultant rise in foodgrains prices affected the cost of living particularly of wage earners whose propensity to consume is high. Therefore, once food prices tended to rise, it became difficult to restrain money wages and as a result industrial and other sectors experienced a wage price spiral.

The increase in prices arising from growth of agricultural sector relative to that of other, particularly the industrial sector while the indices of industrial production showed a rise of about 31 percent and 39 percent over the Second and Third Plans, respectively, those of agricultural productions showed a rise of about 22 percent over the Second Plan and a decline of about 6 percent over the Third. Lagging agricultural production, particularly in the context of increasing investment and rapid industrial growth, led to shortages of food and raw material, and created pressure on agricultural prices. Higher prices of raw material inputs and increased money wages affected the costs and prices of manufactured articles.

Inflation appears to have affected investment and saving particularly during the Third Plan. The available estimates of aggregate investment during the three Plans show that the real content of investment has been reduced in recent years as investment in financial terms could be realized only at higher prices. Also the cumulative rise in prices in recent years has affected the capacity of saving of the household sector, which accounts for the bulk of savings in the economy.

An aspect of the price that is important from the point of view of savings is the increase during the Second and Third Plans, in agricultural prices relative to that of industrial prices, that is, the shift in terms of exchange between agricultural and industrial in favor of the former. This shift in income appears to have affected aggregate savings in the economy in two types. First, per capita income in the agricultural sector being lower, a rise in agricultural income leads to increase in consumption in the agricultural sector; and secondly, prices of food and industrial raw materials rises faster than other prices, non-agricultural sector has to spend more and this reduces the margin for savings in the non-agricultural sector.

The persistent and substantial rise in prices over the last few years has steadily raised costs in the economy and has made it more and more difficult for Indian exports to compete in international markets.

The selective incentive measures viz; import entitlement schemes, tax credit certificates and straight subsidies in some cases meant to compensate the export industries for higher costs proved inadequate in the context of inflationary situation and called for periodic increases in their range and quantum. Moreover, these adhoc remedies did not have the potential for bringing about a lasting solution either in the form of increases in output or lowering of the costs of production of the export industries. The effects of inflation have been equally harmful in respect of imports. Imports when they could be obtained were considerably cheaper relative to domestic products. The relative cheapness of imports gave rise on the one hand to severe import restrictions which has affected the growth of industrial production and on the other, to leakage of foreign exchange through smuggling.

Thus the inflationary rise in prices appears to have adversely affected investment, saving and balance of payments. Inadequate growth of output, particularly of essential items, and substantial rise in spending, particularly by the public sector, being the basic causes of inflation in the country, efforts to avoid further inflation have to be concentrated on these two fronts.

CHAPTER VII

SUM ARY

1. Prices During the War:

It is important to study the behavior of prices during the war because in the period depression gave way to inflation and also it engendered the forces that caused the post war inflation which took the country nine years to overcome.

a. August 1939 To March 1941:

As a result of the increased demand from allied countries price level rose from 100 in August 1939 to 137 in December 1939. The prices having reached their peak in December 1939 began to sag month by month during 1940. By September 1940 they were down by 27.3 points. The situation remained the same till March 1941 when the prices were nearly the same as in December 1940 and were 15 percent higher than the price level at the outbreak of war.

A number of factors were responsible for fall in prices. It was a reaction against undue optimism generated by the outbreak of war - controls - restrictions on exports - people withdrew money and did not buy their usual stocks.

b. April 1941 To September 1945:

During this period prices in India showed an almost continuous increase and by September 1945 it reached the level of 242.2.

During 1941-42 prices rose by 22 points or 16 percent. But the year 1942-43 made a definite shift to a steady and steep rising prices. This may rightly be regarded as a period of inflation. The movement of prices during 1943-44 reveals the effects of controls in not only arresting the upward trend but in effecting some decline in prices. The rise in prices by about 16 points during the year 1944-45 indicates that the forces that were pushing prices upward were still active and but for the imposition of controls, prices would have ruled much higher.

During April 1945 to August 1945 the General Index declined from 247.8 to 244.1. The end of war, thus, saw the general price level at about $2\frac{1}{2}$ times of that prevalent in the beginning.

2. Post War Prices:

a. September 1945 to October 1947:

After the termination of war prices tended to move steadily upward.

By March 1946 it had gone up by 9 points or 4 percent. During the year 1946-47 prices rose much higher whereas the average rise in the General Index in 1946-47 over 1945-46 was only 1.3 points. In 1946-47 it shot up by 30.5 points or by 12 percent over 1945-46.

From March 1947 to November 1947 when the decontrol was decided upon the index rose by 9 points or 3 percent. After the war, the upward trend in prices was contrary to expectations. It was because of the latent purchasing power created during the war which impinged upon the available goods and services after the war.

b. November 1947 To March 1949: (The experiment of Decontrol)

The effects of partition and decontrol influenced prices in this period. Because of partition India lost irrigation facilities, deficiency of Jute & Cotton and increased India's defence expenditure.

The administration of controls in India was not free from defects. It led to black marketing and corruption. It was thought the controls are useful in the abnormal circumstances but not in peace. Also it was believed that controls hampered production and caused the prices to rise by creating artificial scarcity.

Towards the end of 1947 the government announced their policy of gradual decontrol. It caused the prices to soar so high that the controls were reimposed at about the end of July 1948. The index rose from 302 in November 1947 to 389.6 in July 1948 -- an increase of 29 percent. As a result of the measure of recontrol adopted at the end of July 1948 the index declined from 382.9 in July 1948 to 370.2 in March 1949 - a decline of over 5 percent.

Apart from decontrol many other factors like money supply, deficit budget and fall in production contributed to the rise in prices.

c. March 1949 To April 1951:

Devaluation of rupee in September 1949 and outbreak of Korean War in June 1950 influenced the prices in this period. From April 1949 prices began to rise and continued to rise till October 1949 when it recorded a rise of 6.2 percent. All the constituent group indices showed an increase. The jump in the price index in October 1949 may be attributed to a large extent to devaluation.

As a result of the measures adopted by the Government in November and December 1949 the index declined by 12 points or 3 percent. But soon the effects of devaluation began to assert themselves and the index moved up from 381.3 in December 1949 to 392.4 in March 1950 nullifying the earlier decline. With the outbreak of Korean War in June 1950 speculative and hoarding activities got a sudden spurt and generated fresh inflationary forces. From 395.6 in June 1950

the index rose to 412.5 in September 1945 and touched an all time peak of 462.0 on April 14, 1951. Thereafter prices began to decline.

Other contributory factors to the steep rise in prices in this year were the rising import prices, decline in production of foodgrains of 5.5 million tons in 1949-50. Also to balance the payment position exports of cotton etc. were increased causing a great scarcity in the country. Also money supply with the public showed a pronounced rise in 1950-51.

Following the Korean War prices increased not only in India but in all important countries.

3. Price Trends During the Three Plans:

The general index (1952-53=100) which stood at 111.8 in 1950-51 rose to 165.1 for the year ended in March 1966. So in 15 years covering the three plans, prices rose by 47.7 percent. In First Plan (1951-52 to 1955-56) prices declined by 17.3 percent. Prices rose by 35 percent during the period of Second Plan (1956-57 to 1960-61). In the first two years of the Third Plan index rose by only 2.4 percent but in the last three years it rose by 29 percent.

In contrast to the decline in prices in the First Plan, there was a large rise during the ten years covered by the Second Plan and Third Plan. The pace at which prices increased during the Third Plan was the same as that during the ten years 1955-56 to 1965-66. The annual rate of increase in prices during the last three years of the Third Plan far exceeded the rate of rise recorded either in the fifteen year period or in the ten years period as a whole.

An important feature of the price movement during Third Plan period is the narrowing down of the range of seasonality of price movements. It may be due to price regulations by the Government and trends in domestic production and market arrivals.

Another feature related to the narrowing seasonality in price movements is the stickiness of prices in the sense that once having risen, prices did not move down to the extent normally expected.

The combined effect of narrowing seasonality and stickiness of prices has been to bring about a cumulative rise in the price level.

The persistent rise in the general level indicates a basic imbalance between demand and supply and the monetary factors accelerated the rate of rise in prices.

In the First Plan, the growth in national expenditure was much smaller than in real output. So the increased monetary demand could not absorb the increased output with the result that prices declined by 17 percent. But in Second and Third Plan the growth in national expenditure was much larger than in real output. This led to a cumulative rise in the price level.

increase in net national output averaged 4.7 percent and 2.7 percent a year during the Second and Third Plans. Net national expenditure rose at the rate of 7.6 percent and 8.5 percent a year during the Second and Third Plans respectively. In the last three years of the Third Plan the rate of rise in net national expenditure averaged 11 percent a year compared with 3 percent in real national output.

On the supply side, the agricultural production in First and Second Plans rose by 20 percent, but in the Third Plan it showed a decline of 7.4 percent. The production of foodgrains showed a smaller rise in the Second Plan than in the First, and declined by nearly 12 percent in the Third Plan.

The gap in supplies could be filled only by imports. The share of imports in the total supply of foodgrains averaged 7.5 percent during the Third Plan compared with 4.9 percent and 2.6 percent in the Second and First Plans respectively.

Thus the supply has tended to be inelastic but the demand kept on rising as a result of growing population increasing incomes and growth of urbanization.

The price index of 'Food articles' declined by 23 percent in the First Plan, increased by 38.6 percent in the Second Plan and 40.7 percent in the Third Plan. A good part of the increase in Third Plan was concentrating in the last three years 1963-64 to 1965-66 when the annual rate of rise was 10.3 percent compared with 2.5 percent in the first two years.

Prices of cereals which declined by 20.3 percent in the First Plan increased by 38.3 percent in the Second and further by 41.2 percent in the Third Plan. Among cereals, wheat prices recorded a larger rise in the Third Plan than in the Second, while prices of other articles recorded a relatively smaller rise.

Though there were three good years and two bad years in each five year period of the Second and Third Plans, the extent of decline in output in bad years was much larger (about 13 percent a year) than in the Second (about 6 percent). The extent of increase in output in good years on the other hand, was much smaller in Third Plan (5.4 percent a year) than in the Second (10.5 percent).

The effects of drought on Prices in affected States:

India experienced a worst drought in recent history in 1965. Consequently 1965-66 crops were seriously damaged. The production of foodgrains in 1964-65 was 89 million tonnes and in 1965-66 and in 1966-67 it was only 72.3 million tonnes and 74 million tonnes respectively. So in those two years production of foodgrains declined by 31 million tonnes with disastrous effects on the supply position in many states.

In 1967-68 apart from favorable weather conditions, other measures taken to beat the drought, it seems, are now being rewarded. The production of foodgrains in 1967-68 is expected to be 96 million tonnes - 6 million tonnes more than that of bumper crop of 1964-65. So the supply position is now likely to ease considerably.

In 1965-66 because of the decline in production prices of cereals moved up by 6 percent but pulses declined by 2 percent. In 1966-67 prices of cereals and pulses moved up by 22 percent and 18 percent respectively. In cereals rice and wheat showed considerable increases.

In view of the difficult food situation from 1965, government introduced and continued the policy of controlled distribution to ensure regular supply of foodgrains at reasonable prices to as large a number of people as possible. In order to maintain the distribution of foodgrains at a mass scale the efforts to maximise procurement from internal production were intensified and imports increased. The procurement in 1966-67 as in 1965-66 exceeded 4 million tonnes whereas in 1964-65 out of the bumper crop only 3.8 million tonnes were procured. The import of foodgrains in 1967 was 8.7 million tonnes which in 1966 was 10.4 million tonnes and in 1965 7.46 million tonnes.

Because of the drought, scarcity conditions developed in 1965-66 in the states of Andhra Pradesh, Gujarat, Mysore, Maharashtra, Madhya Pradesh, Orissa and Rajasthan. In 1966-67 not only the same states were affected again but acute scarcity conditions developed in the states of Bihar, Eastern U. P. and some area of Madhya Pradesh.

Andhra Pradesh:

About 35 percent of the area of the state was affected by the drought. The monthend wholesale price of rice in the state remained fairly constant from 1960 to 1964 but in 1965 prices started rising but the introduction of controls controlled any sharp rise.

Gujarat:

30 percent of the villages with an estimated population of 47 lakhs were affected. In Ahmedabad the monthend wholesale price of wheat remained fairly constant from 1960 to 1963. However, from 1964 prices started rising and gained momentum in 1965 and 1967. Of course, in early 1968 prices showed some decline.

Mysore:

In Shimoga, Mysore the monthend wholesale price of rice showed a rising trend from 1960 to 1964. From December 1964 controls were introduced and maintained till mid 1965 and after the controls price spurted up immediately and rose tremendously in later half of 1965 and 1966. The last quarter of 1966 showed a steep decline which was only shortlived for in early 1967 price again started rising which decline again in the last quarter of 1967.

Madhya Pradesh:

27 out of 43 districts were affected here. The monthend wholesale price of rice in Raipur, Madhya Pradesh rose gradually from 1960 to 1964. The controls were introduced in 1965 and continued till the end of 1967. After the withdrawal of controls prices rose sharply.

The monthend wholesale price of wheat too in Sagar, Madhya Pradesh rose gradually from 1960 to 1964. The controls introduced in 1965 were continued till mid 1967 and after the controls price of wheat rose at a faster speed than the price of rice after decontrol.

Maharashtra:

Out of 27 districts, 19 with an estimated population of 15 thousand were affected in Maharashtra.

The monthend wholesale price of rice in Ratnagiri, Maharashtra declined from 1960 to mid 1963 and after that it started rising and touched new heights in August 1964. The controls were then introduced and are continued.

But the monthend wholesale price of wheat in Bombay, Maharashtra showed decline only in 1961 and rose gradually in 1962 and sharply in the last quarter of 1966 and early 1967. The controls were then introduced and maintained.

Orissa:

In Orissa all the 13 districts were affected. It is estimated that about 64 lakh people in the state were affected.

The monthend wholesale price of rice in Balasor, Orissa declined from 1960 to 1961 and from 1962 a steep rising trend is visible. The controls were introduced in 1965 and continued till early 1966. With decontrol price here too rose sharply in 1966 and 1967 and touched an all time peak of Rs. 128.00 per quintal in April 1968.

Rajasthan: (Graph No. 12)

23 out of the 26 districts were affected and in all 11,126 villages with a population of 55 lakh were affected.

The monthend wholesale price of wheat in Kotah, Rajasthan remained fairly constant from 1960 to 1962 but a rising emerging from mid 1963 was only subdued in 1965 because of controls and after decontrols its pace was accelerated in 1966 and 1967. From the last quarter of 1967, the price started declining.

Punjab:

Three districts of Hissar, Mohindergarh and Rohtak were affected. 22,744 villages with 6 lakh people were affected.

The monthand wholesale price of wheat in Ferozpur, Punjab shows no rising trend in 1962 and 1963. But in early 1964 the price rose sharply only to decline to the same extent by mid 1964. However, in the later half of 1964 it kept on rising continuously. In 1965 because of better supply position in the state price of wheat declined in 1965 but started rising sharply in 1966 and touched the peak--about Rs. 125 per quintal in February 1967. After touching the peak price declined sharply in later half of 1967 and early 1968.

So in the most of the states it was the speed of already rising trend in prices which was accelerated by the drought of 1965 and further given momentum by decontrol.

Comparison of the movement of prices of selected items of foodgrains and industrial raw materials in India and other important producing countries.

(i). Wheat:

The wholesale price of wheat (FAO) in USA and Australia showed a downward trend from 1950 to 1967 whereas in India it showed a fairly rising trend in the same period.

In 1950 the wholesale price of wheat in India was the lowest but by 1953 it was more than the Australian price but just about the same as the American price. Because of a decline in Indian price and rise in American price in 1954, the gap between the two prices widened. The Australian price still kept on declining. From 1956 the price of wheat in India ruled much above the price level in USA and Australia. Till early 1966 the price in India rose sharply and widened the gap in prices of India and USA. The gap in prices of India and Australia too widened.

Though the prices of wheat in both USA and Australia showed downward trend yet American price was higher till 1964. After 1964 Australian prices ruled higher.

In India the devaluation of rupee in mid 1966 brought down Indian wholesale price of wheat in terms of US dollars. So the gap in Indian and Australian prices narrowed. But this decline in Indian prices was shortlived and in early 1967 the price touched the record level. Of course, in the later half of 1967 the price of wheat in India declined almost to same level as at the end of 1966.

As from 1964 onwards the wholesale price of wheat in USA is the lowest, it was profitable and would be profitable for India to import wheat from USA.

(ii). Rice:

Wholesale price of rice (FAO) - both of coarse and fine quality exhibited a rising trend in India right from 1950, whereas in USA the

wholesale price of rice from 1950 showed a downward trend. In Thailand upto 1965 price of rice showed a declining tendency but in 1966 it touched an all time high level. It even exceeded Indian price.

(iii). COTTON:

Wholesale price of cotton (FAO) exhibited a gradually rising trend in India from 1950 to mid 1966. After the devaluation of Indian Rupee in June 1966, the wholesale price of cotton in India declined in terms of U.S. dollars but rose slightly in early 1967.

On the other hand wholesale price of cotton (FAO) in USA kept on declining sharply from 1950 to 1967. So in 1950 the American price was much above Indian price of cotton but by mid 1967 the gap narrowed down to only 0.5 dollars/kg.

(iv). Groundnuts (India) and Soyabeans (USA):

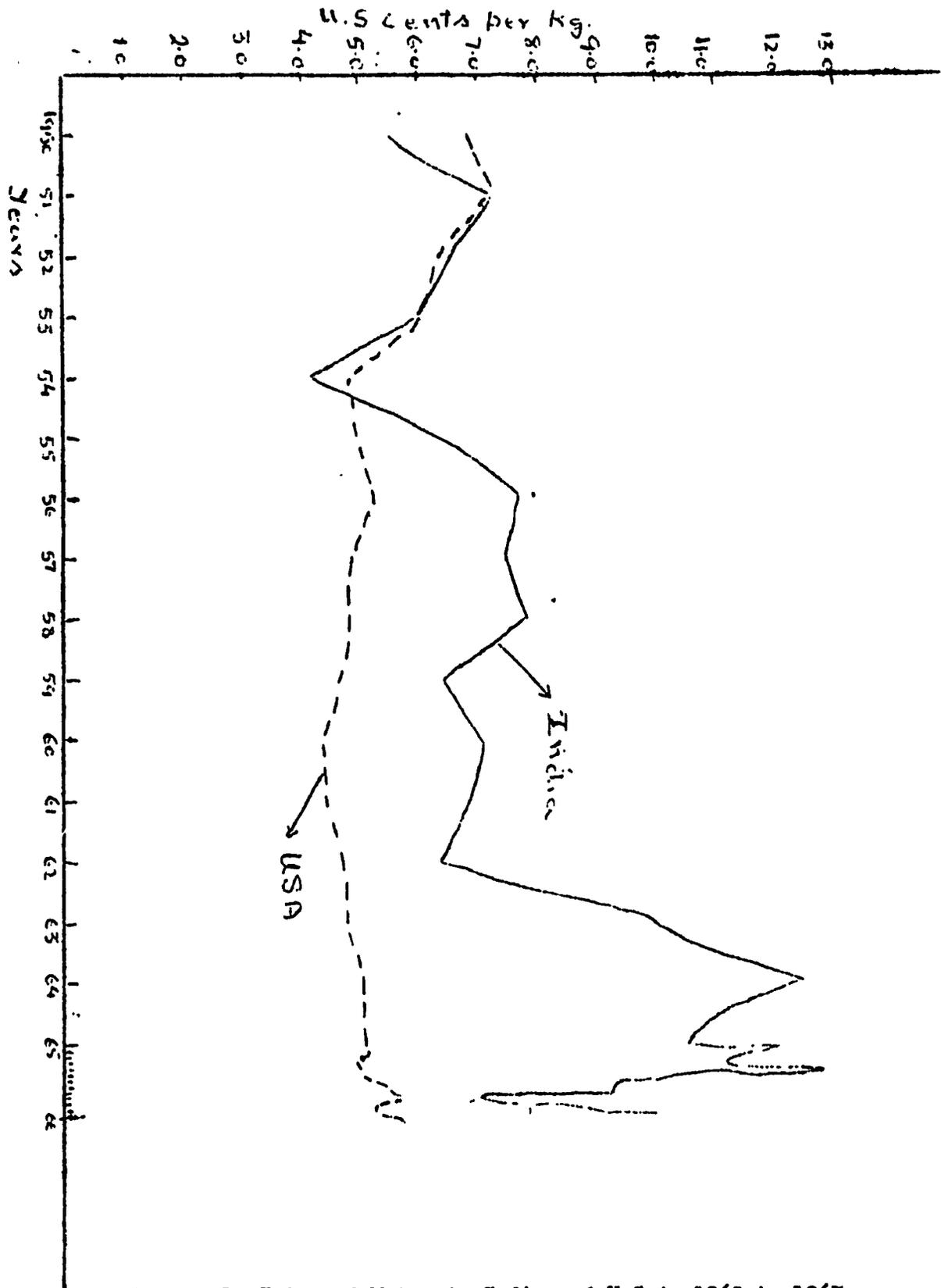
The wholesale price of groundnuts in India kept on declining sharply from 1950 to 1955 and after that it showed a sharply rising trend.

In USA the wholesale price of Soyabeans have been fairly constant. and the gap in the price of groundnuts in India and of Soyabean in USA which in 1950 was about 6.8 U.S. cents/kg narrowed to 1.4 U.S. cents/kg by 1955 primarily because of the decline in Indian price. From 1955 onwards the gap started widening again primarily because of the rise in Indian prices.

(v). MAIZE:

The wholesale price of maize in India declined from 1951 to 1954. From 1954 onwards it shows almost continuous steep rise in price of maize in India. In USA on the other hand, there is declining trend in wholesale price of maize. In 1950 the wholesale price of maize in USA was higher and from 1951 to 1953 they were at the same level in India and USA. From 1955 onwards Indian price of maize is always higher, compared to the wholesale price of maize in USA.

In India the wholesale price of all the commodities are increasing whereas in other countries specially USA and Australia the prices are declining. This indicates the basic imbalance in aggregate demand and supply in India only.



Wholesale Price of Maize in India and U.S.A. 1960 to 1967.

Implications Of Price Rise:

The price increase experienced during Second and Third Plans is primarily of the demand pull type. As a result of industrial and other sectors experienced a wage price spiral.

The industrial production rose by 31 percent and 39 percent over the Second and Third Plans respectively. But agricultural production showed a rise of about 22 percent over the Second Plan and a decline of 6 percent in the Third Plan. Comparative shortages of food and raw materials created pressure on agricultural prices.

Inflation appears to have affected investment and saving particularly during the Third Plan. The shift in terms of exchange between agriculture and industry in favor of the former has reduced the capacity to save.

Also inflation has affected adversely the balance of payments. Exports with increased prices find difficulty in international markets.

To control the inflation output is to be increased and public spending reduced.
