

**Effect of Hike in Fertiliser
Prices and Railway Tariff on the
Economy - A Comment**
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An attempt is made to capture the direct and indirect effects of decreasing the fertiliser subsidies and increase in the railway freight charges on the general price level in an input-output framework. The results show that their effect is marginal on the food grain prices and also on the wholesale price index. In order to compensate the farmer for a 30 per cent decrease in fertiliser subsidy, the procurement prices of rice and wheat have to be raised by Rs.3.95 and 4.34 per quintal respectively. Similarly, for cash crops like groundnut and cotton (hybrid) the procurement price has to be increased by Rs.10.67 and Rs.13.80 per quintal respectively.

In the input-output framework an attempt is made to capture the effect of increase in the Fertiliser Prices (FP) or decrease in the fertiliser subsidies and increase in the Railway Freight Charge (RFC). Quite a number of studies have been done on the effect of administered prices on the inflation. 1/ The CSO (Central Statistical Organisation) published the input-output table recently for the year 1983-84. The assumption of constant returns to scale and fixed input proportions of the Leontief system make the prices of output independent of the level of output and any changes in the input prices cannot bring any input substitution. Thus, the model ignores output response to fertiliser prices on the supply side and also effect of procurement operations of food grain on the demand side.