

PRICE POLICY IN A DEVELOPING ECONOMY

(WITH SPECIAL REFERENCE TO INDIA)

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P R E F A C E

Price policy seems to have been the cinderella in the development Plans of India. The relative neglect of this important aspect of the strategy of economic development has not, however, been on account of any lack of understanding of its importance. In fact, one of the principal recommendations of the First Five-Year Plan was for the maintenance of an integrated structure of prices necessary to bring about an allocation of resources and a distribution of sacrifices in accordance with the targets laid down under the Plan. In the Second and Third Plans also, this emphasis on the desired allocation and distribution aspects of the price policy was reiterated. The broad general aim that had been accepted and recommended was for the stabilisation of the level of prices in line with the allocation and distribution needs of a developing economy, and keeping to a minimum the use of direct regulation and controls. The Plan documents described the different programmes that could be followed in the field. Yet, in none of the Plans a way was found to spell out in concrete workable terms the policy and the programmes to be pursued. The same lacuna persists in the Draft outline of the Fourth Five-Year Plan also.

The price behaviour in the Indian economy has been characterised by an uninterrupted rise since the beginning of the Second Plan. Between 1956-1966, the general index recorded a rise of 78.5 per cent or about 8 per cent per annum. Granted

that some price rise is inevitable in a developing economy, this price rise is excessive. Besides, relative prices over the entire fifteen years of planning have registered wide and chaotic movements. This has adversely affected the physical content of the Plans and the living standards of a vast number of people. Obviously, the necessity of a sound price policy in the context of Indian planning can hardly be over-emphasised. This study is an attempt—probably the first attempt—at working out a comprehensive price policy for a developing economy, with special reference to India after taking all the crucial magnitudes into account.

The work is divided into fifteen chapters. The first chapter is introductory and serves as a background for further treatment of the subject. In the second chapter a general theory of price policy vis-a-vis economic development is elaborated. The third, fourth and fifth chapters deal with the analysis of the behaviour of prices relative to output in the Indian economy over the period 1950-1965 (for which complete data for prices and production are available), in order to verify our hypothesis developed in the second chapter. The agricultural and industrial prices are subjected to a detailed scrutiny in separate chapters just to put fingers on the sensitive spots in these two sectors of the economy. The factors governing the price level have been sorted out for special treatment in the sixth chapter. An attempt has been made here to find out mathematically the exact degree in which

various factors affect prices. To assess interdependence between prices and the factors affecting it and to determine the precise nature of their quantitative relationship simple coefficients of correlation and the related regression equations are calculated in respect of wages and prices and the Government expenditure and prices and coefficients of multiple correlation and multiple linear regression equations are obtained for investment, net national output and prices and money supply, net national output and prices, with prices as the dependent variable. With a view to testing the linearity of relationship amongst investment, net national output and prices and money supply, net national output and prices 'F' test is applied and conclusions are drawn at 5 per cent and 1 per cent levels of significance. The seventh chapter explains the *raison d'etre* of price policy in the Indian economy and provides the background for the examination of price policy in its macro and micro aspects pursued in this country in the era of planning. In eighth, ninth, tenth and eleventh chapters, the monetary, fiscal, incomes and commercial policies followed in India during the period of planning to achieve the objective of development with price stability are reviewed. Price policies for agricultural and industrial commodities are studied in twelfth and thirteenth chapters. Price policy for public enterprises in India forms the theme of the fourteenth chapter. The concluding chapter is devoted to the formulation of a realistic price policy for the Indian economy - a policy which

would foster rapid economic development with a reasonable degree of price stability.

The subject of price policy is complex and controversial. Even so, the author has been amply benefited in his task by a fairly large number of papers by eminent scholars and reports of the committees appointed by the Government from time to time. In writing this dissertation he has been profoundly influenced by the works of many distinguished economists. He would particularly mention in this connection the authors like O. Lange, F.M. Taylor, S. Weintraub, G. Maynard, E.H.P. Brown, H.J. Bruton, T. Balogh, Dr. A.K. Das Gupta, Dr. D.R. Gadgil, Prof. C.N. Vakil, Dr. V.K.R.V. Rao, Dr. Raj Krishna and Dr. B. Datta.

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