

DEVELOPMENT AND CONTAINMENT OF INFLATION IN INDIA : 1971-1975

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Prices had been increasing in India throughout the 'sixties and they continued to do so as the 'sixties turned into the 'seventies. The index of wholesale prices (1961-62=100) climbed from an average of 188.4 in 1971-72 to an average of 254.4 in 1973-74. In March 1974 the index had shot up to 283.6. It increased rapidly in the subsequent months and reached the peak at 330.2 in September 1974. The same tale is told by the consumer price index numbers.

This rapid rise of prices since 1971 and its acceleration in the first half of 1974 created a great deal of alarm. The situation was widely debated. The diagnoses and prescriptions were multiple, strident and vociferous. The Government of India took certain steps in June-July 1974 to control the situation which were declared by almost all non-official commentators as not even touching the fringe of the problem and no hope of any redress of the situation was expected from them. However, as things turned out because of these measures or 'fortuitously', wholesale prices began to decline from the peak registered in September 1974 and the downward trend continued, with small fluctuations, in the following 18 months. The first declines were regarded as only temporary adjustments after which the earlier rising trend was confidently expected to assert itself.¹ But this did not come true. Prices did increase slightly but they again declined indicating that there was no great upward pressure behind them. Did the government measures, as the government spokesmen naturally claimed, really succeed in controlling inflation? If not, what did control it? Answers to these questions may be sought by an impartial examination of the available data and by paying little heed to the claims of government or its critics. This is what is attempted here.

For a proper appreciation of the developments during the last few years in general and those during the last 5 years in particular, it is necessary to begin by the wider time sequence of developments and events in the country. That an upward trend of prices has been an abiding feature of the 27 years of independence should be always borne in mind as a background.

¹ "Price Bubble", *Economic & Political Weekly*, March 22, 1975, p. 496.