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# Prices in India : An Analysis

## Globalisation & Free Trade Impact

### ABSTRACT

Globalization, it is often argued, would - by promoting free trade among nations and lifting all barriers to the entry of goods, services, technology and investing - create competitive conditions within an economy which on the one hand would force producers to strive for operational efficiency and, on the other hand would benefit the consumers through lower prices of product and improved quality. When India has completed sixteen years of its journey through the reform process, a question naturally arises; to what extent the above expectation of Indian consumers regarding prices has actually been fulfilled? To know this, the present paper proposes to examine the prices trends - both wholesale and consumers prices - in the post 1991 period and compares the same with the pre-reform trends. The analysis reveals that globalization polices by and large have failed to fulfil the expectation of the Indian consumers.

### 1. INTRODUCTION

Globalization, it is often argued, would - by promoting free trade among nations and lifting all barriers to the entry of goods, services, technology and investing - create competitive conditions within an economy which on the one hand would force producers to strive for operational efficiency and, on the other hand would benefit the consumers through lower prices of product and improved quality. The government itself has admitted, "Sustained increase in production in response to rising demand holds the key to price stability". The ongoing globalization process, which is a part of the economic reforms undertaken by the Government, naturally has given rise to widespread expectation among Indian consumers that globalization would lead to a noticeable fall in prices. Meanwhile, we are in the end of the second generation reforms of the Indian economy. Thus, we have come to a point of understanding the fact of 'feeling better'. Since 1992-93 there was a steep rise in foreign exchange reserves with the RBI which impacted on the composition of reserve money. This obviously had potential

consequences for domestic monetary expansion and inflationary price rise. The RBI thus chose to contain monetary expansion through sterilization of the accumulated reserves. According to Errol D' Souza, "The sterilization of these foreign exchange assets are accomplished by the RBI mainly through a process of open market operations where it sold government securities.

When India has completed sixteen years of its journey through the reform process, a question naturally arises; to what extent the above expectation of Indian consumers regarding prices has actually been fulfilled? To know this, the present paper proposes to examine the prices trends - both wholesale and consumers prices - in the post 1991 period and compares the same with the pre-reform trends. The analysis reveals that globalization polices by and large have failed to fulfil the expectation of the Indian consumers. When prices rose in the early years of planned development, not much attention was paid to it by the government. Only after 1962 when the price rise resulted in widespread discontent among the people, various measures to control inflation were

announced. But there remained a wide gap between the policies and the practice. For instance, under the Ninth Year Plan against the envisaged deficit financing kept at zero level, in the very first year of the plan, the actual budgetary deficit was as large as Rs. 62,678 crore. In the last year of the Ninth Plan i.e. 2001-02 the budgetary deficit was equally large (Rs. 65,550 crore). Section I, which follows, deals with the trends of wholesale prices. Section II focuses on the prices at the consumers end, Section III concludes the paper with a brief note.

## 2. SECTION I

Wholesale price indices are published by the Government, of India in the Annual Economic Survey Reports. The present index series uses 1993-94 as the base year. The index series that we have covered sixteen years back from the year of globalization and sixteen years after that. In the process the base year has changed twice after 1970-71. We have used the link to calculate the index taking the base as 1970-71. Commodities are grouped under three broad heads: (a) Primary articles, (b) Manufactured products and (c) Fuel, Power, Light & Lubricants. Primary articles are divided into three groups namely (i) food articles, (ii) non-food articles and (iii) minerals. Manufactured products similarly are divided into five sub-groups: (i) food products, (ii) textiles, (iii) chemical and

chemical products, (iv) basic metals, alloys etc, and (v) Machinery and machine tools. The index also shows price trend for all commodities taken together.

Using the Economic Survey data, we calculated the average annual prices increase for “all commodities” as well as for the different commodity group and sub-groups pertaining to the following two periods:

- (i) Pre- reform period covering the sixteen years from 1975-76 to 1990-91; and
- (ii) Reform period covering the sixteen years from 1991-92 to 2006-07.

The growth rate is calculated for every four years. This due to the fact that sixteen years are taken in the pre-reform era as well as in the post reform era. This sixteen years are again made a cluster of four years, evenly distributing the period. This again gives us an idea of the price rise for a particular period. It is seen that there hadbeen a rise in the wholesale prices in every four years period. In the post-globalization period the scenario was same. The fuel and the others showed the maximum increase. The period from 1979-80 to 1982-83 showed the maximum increase in the wholesale prices in India. This is due to the fact of the post-emergency period.

**Table 1**

**Average Annual Increase In Wholesale Prices 1975-76 To 2006-07 (Base 1970-71= 100)**

Year	All commodities	Primary articles	Fuel, power, light & lubricants	Manufactured products
Weight	100	32.30	10.66	57.04
1975-76 to 1978-79	2.7	1.0	11.6	2.7
1979-80 to 1982-83	25.1	22.4	47.3	23.65
1983-84 to 1986-87	13.9	15.2	16.1	12.9
1987-88 to 1990-91	12.5	12.0	9.3	13.5
1991-92 to 1994-95	19.4	20.5	23.8	18.2
1995-96 to 1998-99	14.1	20.2	19.8	10.7
1999-00 to 2002-03	13.1	8.9	22.6	7.3
2003-04 to 2006-07	9.9	8.7	21.1	7.7

Source: Calculated by using the wholesale price index data provided in Government of India, ECONOMIC SURVEY, various issues.

**Table II**  
**Average Annual Increase In Wholesale Prices 1975-76 To 2006-07 (Base 1970-71= 100)**

Year	All commodities	Primary articles	Fuel, power, light & lubricants	Manufactured products
Weight	100	32.30	10.66	57.04
1975-76 to 1990-91	13.6	12.6	21.1	13.1
1991-92 to 2006-07	14.1	14.6	21.9	11.1

Source: Calculated by using the wholesale price index data provided in Government of India, Economic Survey various issues.

**Table III**  
**Average Annual Increase In Consumer Prices 1975-76 To 2006-07 (Base 1960 = 100)**

Year	Industrial workers	Urban non-manual employees	Agricultural labourers
1975-76 to 1978-79	9.5	9.0	9.3
1979-80 to 1982-83	32.8	35.0	37.5
1983-84 to 1986-87	24.5	27.3	26.3
1987-88 to 1990-91	14.0	11.5	57.7
1991-92 to 1994-95	22.8	19.0	68.5
1995-96 to 1998-99	32.5	25.0	62.1
1999-2000 to 2002-03	17.0	17.0	55.7
2003-04 to 2006-07	24.3	20.3	48.3

Source: Calculated by using the wholesale price index data provided in Government of India, Economic Survey various issues.

**Table IV**  
**Average Annual Increase In Consumer Prices 1975-76 To 2006-07 (Base 1960 = 100)**

Year	Industrial workers	Urban non-manual employees	Agricultural labourers
1975-76 to 1990-91	20.2	20.7	28.1
1991-92 to 2006-07	24.1	20.3	58.6

Source: Calculated by using the wholesale price index data provided in Government of India, Economic Survey various issues.

It is observed that the average annual price rise during the reform period was higher than the pre-reform period. As may be seen from Table II, it is seen that for all the articles the average annual price rise was higher in the post-1991 period than the pre-1991 sixteen years. In other words, the trends of wholesale prices shows that inflation in Indian Economy has remain unarrested. Though, the good sign is that the period from 2003-04, there had been a fall in the annual average rise in prices.

### 3. SECTION II

The all India consumer prices index numbers are shown in Economic Survey Reports separately for three groups of consumers, viz., industrial workers, urban

non-manual employees and agricultural labourers. As the base year for all the three types of workers are different and the base year has changed in the subsequent years, we have taken the 1960 as the base year and used the link figure to calculate the rising trend. We again calculated the price trends for the reform period (1991-92 to 2006-07) as well as the pre-reform sixteen years (1975-76 to 1990-91). The calculation in Table III shows that for all the three groups of consumers, the average annual increase in consumer prices is higher in the reform period.

The annual average increase was pretty less in the beginning but showed a

rising trend in the later period of the four years average. This is same in case of all the three types of workers. It is also observed that the period 1979-80 to 1982-83 was the worst. That means, the burden of inflation on consumers in the reform period was heavier than that in the pre-reform period.

#### 4. SECTION III

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The Indian economy is moving forward, undoubtedly. The rate of development is very good for any economy. But the fact is that the condition of the people is not like that. Indians are actually, not 'feeling good'.

The paper has confined itself to the examination of aggregate wholesale and consumer price indices. It would have been more useful had we analysed the trends of

prices at the levels of individual product or product groups. Calculation of such a level of gigantic proportion was of course not possible at the moment. Nevertheless, the exercise undertaken through this paper points to the following two facts:

First, there is no sign of any positive beneficiary impact of globalization on aggregate wholesale and consumer prices.

Second, even if it is presumed that there might have been some positive impact on prices of at least a few products or product groups, the magnitude of any such price fall, if there be any, as well as the total weight carried by these products experiencing the price fall must have been too insignificant to exercise any soothing influences the general prices – both wholesale prices and prices at the consumers' end.

#### 5. CONCLUSION

To sum up, consumers' expectation regarding prices have by and large remained unfulfilled and on the other side the burden of inflation is falling heavily upon them.

#### REFERENCES

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