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Post - Liberalization Price Hike In India

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Abstract: The post-liberalization price-hike in India is caused by various factors. The Indian inflation rate was high in the first half of the nineties, due to imbalance of demand-supply, increased money supply, huge fiscal deficits, rise in prices of petroleum products, hike in indirect taxes, wage-rates, salaries, low domestic production, import of food-grains and other products. This inflation rate was low during the second half of the nineties due to reduction in public investment and demand. It was stable during the Tenth Plan period i.e. 2002-07. But there is again hike in the prices of primary commodities since 2007.

The recommendations for the control of post-liberalization price-hike in India are 1] The Reserve Bank of India should combine monetary, fiscal and demand supply management measures. 2] Government should cut down undue expenditure and subsidies. 3] Reserve Bank of India should focus on the control of CPI. 4] The PDS should be used for the essentials. 5] The food security should be ensured through agricultural growth.

Keyword: post-liberalization , various factors , recommendations , low domestic production.

INTRODUCTION:

Price hike is mainly caused when aggregate demand of goods and services for all purposes exceeds the supply of goods and services at their current prices. With increase in the cost of production, cost- push inflation is caused. It ultimately results in profit –push inflation due to the ever-increasing greed of the traders. During the post liberalization period there is sharp rise in money supply and overall demand. But the increase in agricultural and industrial production did not come up with the increased demand. This imbalance between supply of money and supply of goods and services is the pre-dominant cause of the post-liberalization price-hike in our country. The credit control measures like increase in repo-rate and cash reserve ratio are often used by the Reserve Bank of India.

RESEARCH PROBLEM AND OBJECTIVE:

The main objective of this research paper is to analyze the post-liberalization trend and causes of rising prices in India and to put forward the researcher's suggestions on the basis of the analysis and interpretation of the related data.

SIGNIFICANCE:

Price hike is one of the critical issues that affect consumers, business and government simultaneously. During the post liberalization period there is sharp rise in money supply but liberalization has not increased agricultural and industrial production to that extent. This imbalance between supply of money and supply of goods and services is the pre-dominant cause of the post-liberalization price-hike in our country. The traditional anti-inflationary measures are not so effective to control rising prices.

SCOPE AND LIMITATIONS:

This paper is mainly based on the secondary data collected from the various sources. Inflation is a comprehensive problem of global nature. But the present paper tries to analyze the post-liberalization trend and causes of price-hike in India. The recommendations are put forward on the basis of the study of the related data.

RESEARCH METHODOLOGY:

The researcher has used library method for this research work. She has tapped the printed and electronic sources of books, journals and reports for data collection. The researcher has also used the government publications and the electronic source of internet and World Wide Web.

ANALYSIS OF STATISTICS:

Post-Liberalization Price Hike in India

There was high rate of price hike in the first half of the nineties that is during 1991-1995 in India. During the second half of the nineties that is 1996-00, this inflation rate in India declined rapidly. The data given in the table no. 1 indicates that the inflation rate of all commodities in India was 10.6 during 1991-96. It came down to 5.1 during the second half of the nineties. 1995-96, growth in money supply was restricted and fiscal deficit was lowered. The trade liberalization led to competition with imported products and prevented much rise in prices.

The Inflation condition was largely stable during the Tenth Plan period i.e. 2002-2007. The data shown in the table indicates that the annual inflation rate of all commodities ranged from 3.4 to 8.4 during 2002-03 to 2008-09. There is rise in inflationary pressure of primary commodities since 2006-07. During 2007-08 to 2009-10, the annual inflation rate of all commodities increased from 4.7 to

14.4 whereas the annual inflation rate of primary commodities increased from 7.7 to 15.5.

Table No. 1: TREND OF POST-LIBERALIZATION PRICE HIKE IN INDIA [WPI]

Period	All commodities	Primary commodities
1991-96	**10.6**	**11.3**
1996-01	**5.1**	**5.4**
2002-03	**3.4**	**3.3**
2003-04	**5.4**	**4.2**
2004-05	**6.4**	**3.7**
2005-06	**4.4**	**2.9**
2006-07	**5.3**	**6.9**
2007-08	**4.7**	**7.7**
2008-09	**8.4**	**9.8**
2009-10	**14.4**	**15.5**

Source: Economic Survey

CAUSES OF POST-LIBERALIZATION PRICE HIKE IN INDIA:

The high rate of price hike in the first half of the nineties was mainly due to rapid expansion in money supply in the Indian economy and huge fiscal deficits of the centre and states combined giving rise to excess aggregate demand over aggregate output. The other factors contributing for the excessive price hike were cost-push factors including rise in prices of petroleum products, hike in indirect taxes on commodities and rise in procurement prices. The main causes of inflation since 1991 are shown in the following table.

Table No. 2: MONEY SUPPLY AND FISCAL DEFICIT SINCE1991

Year	Money Supply[M3]	Fiscal Deficit [% of GDP]
1991-92	19.3	7.0
1992-93	14.8	7.0
1993-94	18.4	8.3
1994-95	22.4	7.1
1995-96	13.6	6.5
1996-97	16.2	6.4
1997-98	18.0	7.3
1998-99	19.4	9.0
1999-00	13.9	9.5
2000-01	16.8	9.7
2001-02	14.1	9.9

Source: RBI Bulletins

The new economic reforms and trade liberalization led to large reduction in public investment, sluggish demand condition, and competition with cheap imported products and prevented much rise in prices during the period 1999-2007. But the Whole-sale Price Index [WPI] as well as the Consumer Price Index [CPI] indicates the rising trend of prices during 1991-1998 and 2008-2012. This can be more evident from the data shown in Table No. 3.

Table No. 3: POST-LIBERALIZATION CONSUMER PRICE INDEX IN INDIA [CPI]

Sr. No.	Year	CPI	Sr. No.	Year	CPI
1	1991	13.88	12	2002	4.31
2	1992	11.88	13	2003	3.81
3	1993	6.31	14	2004	3.77
4	1994	10.24	15	2005	4.25
5	1995	10.22	16	2006	5.79
6	1996	8.98	17	2007	6.39
7	1997	7.25	18	2008	8.32
8	1998	13.17	19	2009	10.83
9	1999	4.84	20	2010	12.11
10	2000	4.02	21	2011	8.87
11	2001	3.77	22	2012	9.03

Internet Source: http//www.inflation.edu

The predominant causes of the high price hike are:

1] Demand-Supply Imbalance: There is a large scale increase in consumer spending on goods and services due to increased disposable income. The demand for the industrial goods and services increased due to the increase in the net investment by entrepreneurs. The excess money supply and huge fiscal deficits of the centre and states combined gave rise to overall demand but the domestic production did not match it.

2] Production costs: Generally, the burden of increased production cost is passed on to consumers in the shape of rise in prices. The recent rapid rise in prices of petroleum products, hike in indirect taxes on commodities and rise in procurement prices contributed for inflationary pressure in India. The rise in prices of raw materials, the sharp hike in the prices of crude oil and electricity played the lead role.

3] Credit supply: The credit supply by banks, indigenous bankers and the village money-lenders are not entirely under the control of the Reserve Bank of India. Excessive credit and money supply, without proportionate increase in the production of goods and services of agricultural and industrial sectors, leads to inflation. The growth rate of money supply ranging 14%-22% during nineties and after is one of the main culprits of the high price hike in India.

4] Disrupted production: The high price hike is mainly caused by imbalance of demand and supply of goods and services. At times, there is fall in agricultural and industrial production due to natural calamities, technical constraints or industrial disputes. The restrictions on imports disrupted industrial production in the first half of the nineties.

5] Artificial Shortages: There is undue speculation as well as the tendency to hording and excessive profit-making on the part of retail traders, wholesalers and industrial manufacturers. The hoarding and black-marketing in food-grains and other essential goods is another cause of inflation in India. Speculators and hoarders are the main culprits of our recent price hike.

CONCLUSIONS:

1] The researcher concludes that various factors are responsible for the problem of inflation. The imbalance

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between supply of money and supply of essential goods and services is the main cause of the post-liberalization price-hike in our country.

2] In the first half of the nineties, the inflation rate in India was high. It was due to rapid expansion in money supply in the Indian economy and huge fiscal deficits leading to excess demand over domestic output. There was import of food-grains and other products due to low domestic production.

3] The other factors giving rise to the price hike in India were government expenditure and subsidies, rise in prices of petroleum products, hike in indirect taxes, increased wage-rates and salaries of corporate executives and others.

4] The inflation rate in India was low during the second half of nineties due to large reduction in public investment and lowered demand. It was largely stable during the Tenth Plan 2002-2007. 5] But there is rise in the prices of primary commodities since 2007. The increase in the annual inflation rate of primary commodities from 7.7 to 15.5 during 2007-08 to 2009-10 indicates inflationary pressure.

RECOMMENDATIONS:

The researcher puts forward the following recommendations on the basis of the study of the data related to the post-liberalization price-hike in India.

1] The Reserve Bank of India should combine Monetary and fiscal measures with demand-supply management measures.

2] Government should play a major role in control of demand pressure by minimizing undue expenditure and subsidies.

3] The focus should be on the control of Consumer Price Index to promote price stability.

4] The agricultural growth should be ensured through the extension of irrigation facilities

5] Public Distribution System should be used effectively for the price control of essential goods.

6] The domestic food-grain and oil-seed production should be ensured by upgrading minimum support prices.

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