

(H) PRICES AND WAGES**Prices**

The year 1968 witnessed sharp increases in the prices of many commodities. Consumer prices as measured by the Colombo Consumers' Price Index which had increased by 2.2 per cent in 1967 rose by 5.9 per cent in 1968. While the prices of certain consumer goods outside the Price Index also registered increases, prices of certain investment goods fell in 1968.

There were several factors responsible for the rise in prices in 1968. Whereas the rise in the prices of certain agricultural products such as potatoes appears to have been emanated by scarcity, the pressure on most other prices seem to have emanated principally from a rise in freight charges in 1967, higher turnover taxes on certain manufactured goods, the devaluation of the Ceylon Rupee in November 1967, an increase in wages in December 1967, and the introduction of the Foreign Exchange Entitlement Certificate Scheme in May 1968. In many instances, price increases have been the cumulative result of several of the factors mentioned above.

There were also certain forces tending to reduce prices. They were mainly the abolition of import licence fees, the lowering of import duties, and the easing of the scarcities brought about by increased production and the liberalization of imports under the FEEC Scheme. These forces, while bringing about a reduction in the prices of a number of items, such as building materials also appear to have prevented sharp increases in the prices of other items.

The Colombo Consumers' Price Index¹

The following Table shows annual average figures of the Colombo Consumers' Price Index classified according to commodity groups and sectors.

TABLE II (H) 1
Colombo Consumers' Price Index
(Base 1952 = 100)

Year	All Items	Commodity-wise					Sector-wise		
		Food	Clothing	Fuel and Light	Rent	Miscellaneous	Domestic Group	Import Group	Export Group
1958	105.0	105.8	87.5	101.0	101.5	113.1	109.2	97.0	135.0
1959	105.2	104.7	92.1	102.4	101.5	115.3	108.0	97.1	153.1
1960	103.5	100.8	95.1	102.7	101.5	117.5	108.9	93.7	138.4
1961	104.8	99.8	103.9	104.4	101.5	122.8	112.3	94.6	119.1
1962	106.3	100.9	108.2	105.6	101.5	124.9	113.9	96.7	113.8
1963	108.8	103.0	118.2	103.0	101.5	126.6	113.4	102.5	117.7
1964	112.2	106.4	127.2	103.2	101.5	129.3	116.7	106.6	115.3
1965	112.5	107.3	126.8	100.7	101.5	128.3	116.4	106.4	127.2
1966	112.3	109.1	117.0	95.9	101.5	127.3	116.8	105.4	127.6
1967	114.8	112.7	116.7	96.5	101.5	128.9	117.1	111.2	123.9
1968	121.5	121.2	120.1	103.2	101.5	133.6	123.2	117.3	142.4

Sources: Department of Census and Statistics;
Central Bank of Ceylon.

¹ The drawbacks in the use of this index to analyse the movement of the general level of prices have been discussed in previous Annual Reports. The main defects were the unrepresentative nature of the index to cover all classes of consumers and the adoption of an out-of-date weighting pattern of consumption expenditure which has not been revised since 1952.

The index for 'all items' which had risen from 112.3 in 1966 to 114.8 in 1967, registering an increase of 2.2 per cent, increased by 5.9 per cent to 121.5 in 1968. The increase in 1968 occurred, as in the previous year, almost entirely in the latter half of the year. The monthly index (see Appendix Table 44) which stood at 119.3 in December 1967, after some fluctuation, increased to 120.3 in June 1968. Thereafter it rose steadily to reach a record level of 127.4 in December, 1968.

In 1968, increases have been recorded in the sub-indices for all the commodity groups except the rent group which had remained un-changed since 1954 at 101.5. The largest increase had occurred in the food group which had risen from 112.7 in 1967 to 121.2 in 1968. In the first six months of the year, the food index according to monthly figures remained fairly stable increasing from 120.1 in December 1967 to only 120.6 in June 1968; it reached a record level of 127.4 in December 1968. Substantial increases were recorded in the prices of certain items of imported origin viz; milk powder, mathe seed, Bombay onions, wheat flour, fennel seed and fresh butter. The rise in these prices is attributable to the increase in the import costs of these commodities due to devaluation and in addition, in the case of butter to the introduction of the FEEC Scheme in May, 1968. Prices of locally produced foodstuffs also registered substantial increases in 1968; thus the prices of turmeric, coconuts and Coconut oil, eggs, chillies, pappadam and potatoes rose. The increase in the price of potatoes was due to the scarcity of this commodity brought about by the ban on imports in May 1967. The increase in the prices of coconut and coconut oil reflected the higher price of oil in world markets during 1968.

Moderate price increases from 5 to 10 percent were recorded against meals purchased, tea (B.O.P.), vinegar, red onions, groceries, meat, fish, vegetables, aerated water, beverages, white sugar and condensed milk. The price of white sugar was raised by the government by 5 cents in December 1967 following the devaluation of the Ceylon Rupee. The rise in the price of aerated waters and beverages was partly the result of the increase in the turnover tax from 5 per cent to 10 per cent, in July 1968. It is also reportedly due to the increase in wage costs following the payment of the "interim devaluation allowance" since December, 1967.

Price increases from (1-4) percent were noted against dry ginger, biscuits and dried fish. The prices of a few items, however, fell sharply. They were corriander and limes. Price reductions from (3-10) percent were noted against tea dust, coffee seed, pepper, Cummin seed, and local jam; very slight reductions were noted against condiments, spices and maldive fish.

Prices of textiles as reflected in the sub-index for the clothing group which had declined in the previous three years rose in 1968. The annual average index for this group which stood at 116.7 in 1967 increased to 120.1 in 1968. An analysis of the monthly movements of this sub-index shows that the rise in prices had taken place in the second half of the year. Within the clothing group, prices of suitings and verties showed increases from (2-4) percent while prices of shirtings, sarees and printed fabrics showed increases below 2 percent.

The sub-index for the fuel and light group which had shown a declining trend over a number of years rose sharply from 96.5 in 1967 to 103.2 in 1968. This group is made up of electricity, kerosene oil, firewood and matches. The rise in this index was due to the increase in the prices of kerosene oil and firewood. The price of kerosene oil was increased by 5 cents per gallon with effect from December 1967.

The sub-index for the miscellaneous group of commodities showed an increase of 3.6 per cent from 128.9 an index figure of in 1967 to 133.6 in 1968. According to monthly figures for this group the increase had occurred mainly in the period July to December, 1968. The index which stood at 129.2 in January rose to 131.6 in June; it increased rapidly thereafter to reach 139.0 in December. Upward movements in prices were recorded against tobacco, hair dressing and toilet requisites, liquor, newspapers, exercise books and laundry; a slight increase was also recorded against the transport items which was due to the rise in prices of cycle tyres and tubes; moderate reductions were recorded against prices of betel and arecanuts and house-hold goods. The increases in the price of tobacco and liquor reflect the higher excise duty imposed on tobacco and the rise in sale price of coconut arrack. Increased costs of imported raw materials due to the devaluation of the Rupee and the introduction of the FEEC Scheme are likely to have caused the rise in the prices of newspapers and toilet requisites.

Prices not covered by the Consumers' Price Index

Data on retail prices not covered by the Consumers' Price Index are available for a limited number of commodities. They have been obtained partly from price lists provided by the dealers and partly by direct inquiry from retailers.

Consumer Goods

Open market prices of raw and par boiled rice in Colombo registered increases of 7 to 8 per cent during 1968. Prices of two other items in the cereal group viz. sago and barley which were not readily available had been rising up to about June 1968. After June, however, they declined as a result of the liberalisation of the importation of these items under the FEEC Scheme in May 1968.

Prices of motor spares which had been increasing steadily prior to 1968 increased further, in the first half of the year. The increase in the prices of motor spares is attributed to the rise in the c.i.f. unit values of spares due to the devaluation of the Rupee. Since no significant price increases were observed in the second half of the year, it is likely that the easing of the scarcity of motor spares brought about by the liberalisation of imports under the FEEC Scheme might have acted as a brake on further price increases. Prices of petrol and lubricating oils increased in April 1968. These increases are attributed to the rise in the c.i.f. unit values due to devaluation.

Intermediate Goods

Retail prices of fertilizers sold by all distributors were increased in 1968 on account of the rise in the c.i.f. unit values due to the devaluation of the Ceylon Rupee.

Investment Goods

The prices of many items of building materials fell appreciably in the middle of 1968. The price of a bag of cement for instance, which was being sold at Rs 20 by retailers at end of 1967 and beginning of 1968 dropped to Rs 14 in the third quarter of 1968. An even more marked drop was seen in the case of sanitary ware. The price of a low level suite fell from Rs 900 in April 1968 to Rs 375 in late 1968. Mild steel and window glass also registered substantial price reductions. These items which were acutely scarce, were selling at unusually high prices prior to May 1968. The introduction of the FEEC Scheme under which the importation of these goods was liberalised was principally responsible for the sharp drop in their prices. An additional factor which had eased the scarcity in the case of cement was the rise in output. Production of cement by the Cement Corporation is reported to have increased by 16 per cent in 1968. The prices of oils and paints registered moderate increases in 1968 due mainly to the increase in the turnover tax in July 1968.

Price Control

In 1968, the Government brought under price control, pharmaceutical products barbed wire and point wire. Electric bulbs, flash light batteries, transistor radio batteries, incandescent mantles, dry-cell batteries-wireless, cotton sewing thread-white, bicycle tyres and tubes, exercise books and monitors exercise books, however, were removed from price control.

Wages

Wage rate indices are available for clerical and technical employees, minor employees and teachers in the Government sector and for workers in trades covered by Wages Boards in the private sector. Wage rate indices for Government employees are calculated by the Central Bank using 1952 as the base period. They are based on the minimum salaries and wages and allowances payable to workers in the representative scales. Overtime and incremental payments, however, are not included in this calculation. Wage rate indices for workers in the private sector are published by the Labour Department using 1952 as the base period. They are given under two categories, viz, workers in agriculture and workers in industry and commerce. These indices are based on the minimum wage rates fixed by the Wages Boards and from December 1967, the devaluation allowance payable to workers. They do not however, represent actual earnings of the workers which depend on the number of days worked, number of hours worked overtime and other payments such as bonuses.

Table II (H) 2 shows the annual average wage rate indices for Government employees.

On account of the payment of an "interim allowance" since October 1967 and an "interim devaluation allowance" since December 1967 to certain classes of employees, the average wage rate indices for Government workers in 1968 compared to 1967 were higher by 11.7 per cent for technical and clerical employees, by 19.6 per cent for minor employees and by 8.5 per cent for Government School teachers.

TABLE II (H) 2
Wage Rate Index Numbers for Government Employees
 (1952 = 100)

Year	Technical and Clerical Employees		Minor Employees		Central Government Employees (a)		Government School Teachers	
	Wage Rate Index	Real Wage Rates	Wage Rate Index	Real Wage Rates	Wage Rate Index	Real Wage Rates	Wage Rate Index	Real Wage Rates
1957	111.2	108.2	116.0	112.8	113.8	110.7	113.9	110.8
1958	122.3	116.5	130.4	124.3	126.7	120.7	117.4	111.8
1959	122.3	116.3	130.4	124.0	126.7	120.4	117.4	111.6
1960	122.3	118.2	130.4	126.0	126.7	122.4	117.4	113.4
1961	122.3	116.7	130.4	124.4	126.7	120.9	117.4	112.0
1962	122.3	115.0	130.4	122.6	126.7	119.2	117.4	110.4
1963	122.3	112.4	130.4	119.9	126.7	116.5	117.4	107.9
1964	122.3	109.0	130.4	116.2	126.7	112.9	117.4	104.6
1965	122.3	108.7	130.4	115.9	126.7	112.6	117.4	104.4
1966	122.3	108.9	130.4	116.1	126.7	112.8	117.4	104.6
1967	125.4	109.2	136.2	118.6	131.3	114.4	119.4	104.0
1968	140.1	115.4	163.0	134.3	152.6	125.7	129.6	106.7

Source: Central Bank of Ceylon.

(a) Combined index for clerical and technical employees and minor employees.

Real wage rate indices which are prepared by adjusting wage rate indices for changes in the cost of living index, were also higher in 1968 than in 1967. Real wages were higher by 5.6 per cent for technical and clerical employees, by 13.0 per cent for minor employees and by 2.6 per cent for Government School teachers. These increases are somewhat lower than the corresponding increases in money wage rate indices on account of the rise in the cost of living index between 1967 and 1968.

Table II H 3 shows the minimum wage rate indices for workers in the private sector covered by wages boards.

TABLE II (H) 3
Minimum Wage Rate Index Numbers for Workers in
Wages Boards Trades
 (1952=100)

Year	Workers in Agriculture		Workers in Industry and Commerce		Workers in all Wages Boards Trades (a)	
	Minimum Wage Rate Index	Index of Real Wages	Minimum Wage Rate Index	Index of Real Wages	Minimum Wage Rate Index	Index of Real Wages
1957	108.7	105.6	104.5	101.5	107.8	104.7
1958	110.2	105.2	116.1	110.9	110.8	105.6
1959	110.2	104.8	128.8	122.4	112.3	106.7
1960	110.2	106.5	128.1	123.8	111.8	108.0
1961	110.7	105.6	128.4	122.5	112.3	107.2
1962	111.9	105.2	129.5	121.8	113.7	106.9
1963	113.3	104.2	130.9	120.3	115.2	105.9
1964	116.0	103.5	132.8	118.4	117.8	105.0
1965	116.3	103.4	132.8	118.0	118.2	105.0
1966	116.2	103.5	133.2	118.6	118.1	105.1
1967	120.4	104.9	138.9	121.0	122.2	106.4
1968	138.8	114.3	161.6	133.1	141.2	116.3

Source: Department of Labour and Central Bank of Ceylon.

The movements of the wage rate indices for workers in the private sector were similar to those for workers in the Government sector. On account of the payment of the 'interim devaluation allowance' in December 1967 the annual average wage rate indices in 1968 were higher by 15.5% for workers in agriculture and by 16.4% for workers in industry and commerce. The increases in the real wage rates were 9.6% and 10.0% respectively.

In 1968, the Government enacted legislation entitled "Interim Devaluation Allowance of Employees' Act" to formalise the payment of the interim devaluation allowance to employees in the private sector, which had been enforced at the time of its introduction in 1967 under the Emergency Regulations. A bill to establish a National Wage Council was presented in Parliament in September 1968.

In November 1968, the Government appointed a Commission to inquire into and make recommendations on the changes that may be necessary in the existing salaries, wages, allowances, pension rights, leave, holiday warrants and terms and conditions of service of employees in the Public Service. The Commission will also inquire into the adequacy, superfluity, and suitability of staff employed in various Government departments.