

(I) PRICES AND WAGES**I. Prices**

The Colombo Consumers' Price Index, is the only available index number for measuring changes in the price levels of the economy. The index is an inadequate measure of the inflationary pressures in the economy.¹ However, the changes in the level of the index during the year are significant enough to draw attention to the magnitude of inflationary pressures in 1974.

The Colombo Consumers' Price Index increased by 12.3 per cent in 1974 while the increase in 1973 was 9.7 per cent. (See table II (I) 1). The average annual rate of increase in the index number for the years 1960—70 was approximately 3.3 per cent. The comparatively higher rates of increase in the index since 1970 indicate that inflationary pressures have gathered momentum in recent times.

The commodity breakdown of the Colombo Consumers' Price Index helps to identify the areas where there were significant price increases. A striking feature of the commodity index numbers is the persistently high levels of the food index. Prices of food items included in the index have gone up by 15.1 per cent in 1974 compared to an increase of 11.7 per cent in 1973. The impact of the changes in the food index on the overall cost of living index is substantial because value wise the food group accounts for nearly 62 per cent of the items included in the whole index. Table II (I) 1 shows that price increases in clothing and fuel & light have been equally high. Thus the index for clothing indicates a 9.9 per cent rise in prices in 1974 as against a rise of 14.0 per cent in 1973. As far as fuel & light is concerned the situation has been still worse. The price of fuel increased by 12.7 per cent in 1973 while in 1974 the index showed a phenomenal increase of 34.4 per cent.

In 1974 marked changes took place in the prices of some of the major food commodities. In July 1974, along with the increase in the guaranteed producer price of paddy, the price of rationed rice was increased from Rs. 1.15 to Rs. 1.25 per lb. In August 1974, together with the introduction of a new regional rationing, scheme, the price of rationed rice was brought down to Rs. 1.10. In August 1974, the price of wheat flour increased from Rs. 0.70 per lb. to Rs. 1.10 per lb., an increase of approximately 57 per cent. In April 1974, the flour ration of 1 lb. per person (introduced in 1973) was reduced to $\frac{1}{2}$ lb. The developments in the flour market affected the supply of bread and its price rose by almost 35 per cent to 98 cts per lb. in August 1974. In March 1974, following the price increase in the world markets the price of sugar was raised by 150 per cent over the previous level to Rs. 5 per lb. In October 1974, the price was increased further by 50 per cent to Rs. 7.50 per lb.

The sector wise classification of the Colombo Consumers' Price Index shows another dimension of the changes in the price levels. Here the commodities are classified into domestic group, import group and export group and it pinpoints the relative impact of each of these three groups on the general level of prices in the country. The import group includes a large number of important items of food, clothing and fuel. As such, the weight attached to the import group in the overall

1. Please see p. 201 of Annual Report for 1973 which highlights deficiencies of the index.

TABLE II (I) I
Colombo Consumers' Price Index (1952=100)

Year	Commodity — Wise						Sector — wise		
	All Items	Food	Clothing	Fuel & Light	Rent	Miscellaneous	Domestic Group	Import Group	Export Group
Weights	100.0	61.9	9.4	4.3	5.7	18.7	60.0	35.0	5.0
1970 Average	138.2	136.6	137.3	136.1	109.8	153.2	142.9	129.3	157.3
1971 "	141.9	139.1	145.0	140.8	109.8	159.5	148.9	129.7	157.9
1972 "	150.8	147.5	163.4	145.9	109.8	169.4	161.6	136.1	140.6
1973 Average	165.4	164.8	186.1	164.4	109.8	170.0	167.8	162.5	171.9
1st Quarter	157.7	155.5	181.6	155.4	109.8	168.7	164.6	148.3	159.0
2nd Quarter	161.4	160.7	181.6	155.4	109.8	170.4	165.8	154.6	170.4
3rd Quarter	167.8	169.3	188.7	167.5	109.8	170.4	169.8	166.1	171.6
4th Quarter	174.8	179.3	192.3	179.2	109.8	169.8	171.2	181.2	186.6
1974 Average	185.8	189.7	204.6	221.0	109.8	178.3	176.1	195.7	251.4
1st Quarter	178.3	181.1	192.3	216.4	109.8	174.2	171.2	184.8	236.5
2nd Quarter	182.7	184.2	208.7	221.0	109.8	178.4	176.0	187.7	249.6
3rd Quarter	188.6	193.2	208.7	221.0	109.8	180.0	177.0	201.4	259.8
4th Quarter	193.4	200.4	208.7	225.4	109.8	180.5	180.4	208.8	259.8
Percentage Change 1973 over 1972	9.7	11.7	14.0	12.7	0.0	0.3	3.8	19.4	22.3
Percentage Change 1974 over 1973	12.3	15.1	9.9	34.4	0.0	4.9	4.9	20.4	46.2

Sources: Census & Statistics Dept. and
Central Bank of Ceylon.

index is quite substantial. On account of the latter international inflationary pressures can significantly affect the domestic price levels through the prices for imported goods. For instance, the rates of increase in prices of the import group have been 19.4 per cent in 1973 and 20.4 per cent in 1974 (see table II (I) 1). Although very significant price increases have taken place in the commodities that fall into the export group, the weight attached to this group in the overall index is relatively low.

The commodities for which price changes have been recorded throughout the year and are included in the Colombo Consumers' Price Index are given in table II (I) 2. The largest number of price changes during the year have occurred in the food group. Some items which have contributed to an increase in the food index in the different months are: spices, pepper, mustard, tamarind mathe seed, fresh fish, dried fish coconut, coconut oil, vegetables, eggs, limes, jams, meat, corrinander, fresh milk and condensed milk. Despite the fact that the prices of some of these items have been fluctuating at times, the food index as a whole has tended to move upwards rather steadily during the year because the price decreases for some items were not adequate to offset the rise in prices for others. The price hike on petroleum products also affected prices significantly. After the increase in oil prices the fuel & light index rose sharply in January and February 1974, thereafter stabilizing at a higher level. At first, train fares and bus fares were increased in February to keep pace with the increased cost of fuel. The "second round" impact of the rise in oil prices was felt later when the prices of most goods particularly clothing and food were raised to meet the increased fuel bill.

The sharp increase in the world market price of crude oils in the fourth quarter of 1973 and in early 1974 led to an unprecedented increases in the retail prices of oil products of the Ceylon Petroleum Corporation in January 1974. The changes in the prices of domestic petroleum products are given below in table II (I) 3.

In order to keep pace with the rising cost of fuel and also rising cost of spares and accessories, the Ceylon Transport Board raised its fares with effect from 4th February 1974. The minimum fare for the first stage of travel was raised from 10 cts. to 20 cts. The fares for the next two stages were raised by 5 cts. each while the fares for the subsequent stages were raised by 10 cts. per stage. The Railway increased its fares by way of a surcharge of about 50 per cent. The freight on parcels was raised by 25 per cent.

Prices not covered by the Colombo Consumers' Price Index

The Central Bank regularly collects prices of a limited number of commodities other than those which are included in the Colombo Consumers' Price Index. This information is obtained either directly from the retailers by inquiry or it is extracted from the published price lists of the establishments concerned. The changes in the prices of a selected number of such commodities in 1974 are given in table II (I) 4. The items are classified into consumer, intermediate and investment goods with a view to elucidating the price behaviour in each of these categories.

The changes in prices for the consumer goods group show that, in general, the rates of price increases in 1974 were substantially higher than in 1973. For example, the price increases in 1973 for jams, jellies, sauces and cordials ranged from 7 per

TABLE II (I) 2

**Monthly Changes in Prices of Items included in the Cost
of Living Index (Contd.)**

Month	Price Increases		Price Decreases	
	Group	Items	Group	Items
January, 1974	Fuel & Light Food	Kerosene Oil Pepper, Mustard, Spices, Tamarind, Mathe seed, Biscuits, Fresh fish, Coco- nuts, Pappadam and Leafy Vegetables	Food	Tea dust, Garlic, Limes Seasonal & Non Sea- sonal Vegetables
February, 1974	Food	Tea dust, Jam, Biscuits, Coconuts and Pappadam	Food	Pepper, Garlic, Spices, Mathe Seed, Tamarind, Limes, Seasonal, Non- seasonal and Leafy Vegetables
	Fuel & Light Misc.	Kerosene Oil Bus Fare, Train Fare, Tyres and Tubes	— —	— —
March, 1974	Food	Tea dust, Non-seasonal Vegetables, Biscuits, Fresh Fish and Eggs	Food	Spices, Mathe Seed, Tamarind, Leafy and Seasonal Vegetables.
	Misc.	Some Varieties of Soap and Newspapers	—	—
April, 1974	Food	Tea B.O.P., Spices, Mathe Seed Limes, Mustard, Non- seasonal Vegetables, Jam, Biscuits, and Pappadam	Food	Tamarind and Leafy Vegetables
	Clothing	Shirtings, Suitings, Sarongs, Vetties, Sarees, Printed Fabrics Long Cloth, Grey Cloth, Banians, Towels and Household Linen	Clothing	Silks

Cont.

TABLE II (I) 2

Month	Price Increases		Price Decreases	
	Group	Items	Group	Items
May, 1974	Food	Tea BOP, Vinegar, Tamarind, Leafy & Seasonal Vegetables, Coconut Oil, Jam, Meat	Food	Spices, Non-seasonal Vegetables and Pappadam
June, 1974	Food	Spices, Mathe Seed, Coconut Oil, Vegetables and Biscuits	Food	Limes and Pappadam
July, 1974	Food	Spices, Mathe Seed, Tamarind, Leafy Vegetables, Jam, Dried Fish, Pappadam, Eggs & Biscuits.	Food	Seasonal & Non Seasonal Vegetables
	Misc.	Liquor	—	—
August, 1974	Food	Wheat Flour, Bread, Mustard and Jam	Food	Tamarind, Limes, Red Onions, Vegetables, Yams, Pappadam
September, 1974	Food	Fresh Milk, Condensed Milk, Coriander, Mustard & Tamarind	Food	Pappadam & Eggs
October, 1974	Fuel & Light Food	Matches	—	—
		Fresh Milk, Condensed Milk, Biscuits, Pappadam, Eggs, Tamarind, & Leafy & Seasonal Vegetables	Food	Mustard
November, 1974	Food	Corriander, Mustard, Limes, Red Onions, Eggs, Potatoes, Leafy & Seasonal Vegetables	Food	Yams, Biscuits and Non-seasonal Vegetables
December, 1974	Food	Vinegar, Butter, Fresh Fish Leafy Vegetables & Seasonal Vegetables	Food	Mustard, Spices, Eggs and Non-seasonal Vegetables.
	Misc.	Liquor and Exercise Books		



TABLE II (i) 3
Changes in Prices of Petroleum Products

Product	Price end of 1972	Price increase on 24.8.73	Price Increase January 1974	
			9th Jan.	10th Jan.
1. Kerosene	1.32	1.92	—	3.60
2. Petrol—Super	5.75	6.55	12.50	—
3. Petrol—Regular	5.30	6.10	12.00	—
4. Heavy Diesel	1.53	2.13	—	4.60
5. Industrial Diesel	1.63	2.23	—	4.90
6. Automatic Diesel	2.14	2.74	—	4.80
7. Furnace Oil				
500 secs	1.28	1.88	—	4.00
800 secs	1.23	1.83	—	3.90
1000 secs	1.18	1.78	3.80	—

cent to 51 per cent while in 1974 the increases were in the range of 58 per cent to 134 per cent. In the case of the intermediate goods, the price increases in 1974 were much sharper than in the previous year. Thus the lowest price increase recorded for an item in this group was 4 per cent. (caustic soda) in 1973 while in the following year the lowest increase was 30 per cent. (paper). There were many instances when the 1974 price exceeded that of 1973 by over 100 per cent. The figures given in table 4 confirm the rising trend in prices experienced during 1974 for investment goods. Substantial rises in prices have been reported for items such as mild steel, door locks, auto cables, flat twin cables and rubber machinery.

Many of the industrial establishments have briefly indicated the reasons for the increases in prices for their products. Some of the often quoted reasons pertain to increases in the cost of raw materials, wages, fuel costs, import prices, business turnover tax and overhead charges. As industrial establishments do not provide data on their cost of production, it is virtually impossible to gauge the impact of price increases for raw materials on the cost of production of the various commodities on the one hand and their price, on the other.

Wholesale prices of locally manufactured commodities

The Central Bank annually collects on a systematic basis wholesale prices of locally produced goods. The wholesale prices are either collected from the manufacturers themselves or their agents. Table II (i) 5 shows some representative items for which the changes in the prices for the period 1973–1974 have been worked out.

Manufacturers or their agents have also provided information on the reasons, for the increased prices in 1974. Some of the often quoted reasons for price rises pertain to increases in the price of fuel (food, beverages, caustic soda), the price of sugar (food, beverages), raw material cost (food, beverage, caustic soda, steel, cables, sewing machines, cement), wage costs (caustic soda) and business turnover tax (machinery and equipment and furniture.)

TABLE II (I) 4.
Prices outside the Colombo Consumers' Price Index

Type of Article	Percentage Change 1974/73
Consumer Goods	
Par boiled Rice	n. a
Tinned Fish	+ 21
Jam, Jellies, Sauces and Cordials	+ 58 to 134
Toothpastes	+ 29 to 35
Talcum Powder	+ 7 to 11
Eau de Cologne	+ 14 to 32
Shirts	+ 29 to 1
Candles	+ 87
Leather products assorted	+ 6 to 24
Torch & transistor batteries	+ 38 to 42
Electric Fans	+ 56 to 80
Sewing Machines	+ 33 to 52
Electric Bulbs	+ 13 to 21
Electrical fittings (mainly wire cables)	+ 61 to 100
Motor spares	+ 1 to 42
Car Batteries	+ 5
Intermediate Goods	
Paper	+ 30 to 41
Petrol	+ 91 to 105
Copper wire	+ 38 to 105
Caustic Soda	+ 97
Fertilizers	+ 61 to 110
Investment Goods	
Building materials	
1. Wash basin with stand (22" x 15") Local	+ 26
—do— without stand	+ 25
2. Low level suite	+ 18
3. Earthenware pipes (2" x 4")	+ 32
Mammothies	+ 30 to 31
Lankaloha Axes	+ 18
Mild Steel	+ 68 to 83
Hinges	+ 27 to 50
Mortice door locks	+ 48
Auto Cables	+ 37 to 70
Flat Twin	+ 61 to 100
Rubber Machinery	+ 18 to 42

TABLE II (I) 3

Wholesale prices of Selected Locally Manufactured Commodities

	Unit	Factory Price 1973 Rs.	Factory Price 1974 Rs.	Percentage Change 1974/1975
1. Food, Beverages and Tobacco				
Biscuits (Cream Crackers)	.. per tin	7.67	9.18	+ 20
Powdered Milk (Lakspray)	.. 1 lb. tin	3.99	4.50	+ 13
Condensed Milk	.. 14 oz. tin	1.65	1.65	—
Butter	.. 1 lb.	5.40	5.40	—
Mineral Waters (Portello)	.. per bot.	0.42	0.88	+ 110
—do— (Soda)	.. " "	0.22	0.30	+ 36
Cordials (Passiona)	.. " "	5.60	11.95	+ 113
—do— (Orange)	.. " "	6.00	11.95	+ 99
Island Pride Tobacco	.. per lb.	56.45	56.45	—
Three Roses Cigarettes	.. 1000s	139.55	139.55	—
2. Textile and Apparel				
Cloth (L.D.M. White)	.. Yd.	2.85	3.15	+ 11
Cloth (L.D.M. Fancy)	.. " "	3.35	3.55	+ 6
Poplin—White	.. " "	3.65	3.85	+ 5
Voile—White	.. " "	2.90	3.10	+ 7
Yarn 30s uncorded	.. 1 lb.	7.20	8.70	+ 21
Saree Fabric (Printed Feather Georgette) 44"/45"	.. Yd.	9.33	11.55	+ 24
Shirting (Tetrolene Ployester) 35"/36"	.. " "	15.00	16.00	+ 7
Dress Fabric (Nylon Satin) 35"/36"	.. " "	9.00	10.15	+ 13
Saree (Ceysilk) 44"/45"	.. " "	10.46	10.46	—
Shirting (Ceysilk) Silverline 35"/36"	.. " "	11.50	11.50	—
Suiting (Ceysilk) 27"/28"	.. " "	22.33	23.50	+ 5
3. Drugs and Toilet Preparations				
Becadex Tablets (Multivitamin)	.. 1000s	47.05	47.05	—
CBs Tablets (Vitamin C&B Complex)	.. 1000s	62.70	62.70	—
Terramycin Capsules	.. 100 cap. bot.	69.50	85.16	+ 23
O'Bron Capsules	.. 30 " "	6.61	6.61	—
Durol	.. 1 bot. of 6 oz.	4.05	4.05	—
Waterburys Vitamin Tonic	.. —do—	3.47	4.24	+ 22
Penicillin 'V' Dumex	.. 500 tab. bot.	64.00	69.33	+ 8
Caustic Soda	.. per ton	2038.40	3567.00	+ 75
Cholorin Liquid	.. " "	2755.20	3384.00	+ 23
Calcium Chloride	.. " "	1500.00	1500.00	—
4. Furniture and Home Furnishings				
Office Cupboard (Steel)	.. 1	575.00	1090.00	+ 90
Filing Cabinet	.. 1	590.00	1135.00	+ 92
Rubberised Fibre Mattress (72"x36" Standard)	.. 1	140.25	205.00	+ 46
Rubberised Fibre Mattress (72"x48" De Luxe)	.. 1	182.75	290.00	+ 59
Rubberised Fibre Mattress (72"x60" Super De Luxe)	.. 1	289.00	390.00	+ 35
5. Hardware and Electrical Goods				
Steel M.S. rounds 1"	.. Metric ton	2470.00	4050.00	+ 64
Steel M.S. Equal angles 1x1x1/8"	.. " "	2535.00	4115.00	+ 62
Binding Wire Black (5.6 m.m)	.. " "	2790.00	5360.00	+ 92
Barbed Wire	.. 56 lbs.	80.50	132.00	+ 64
Lanka Loha Mammoties	.. 1	17.05	17.60	+ 3
Lanka Loha Pick Axes (Straight)	.. 1	21.69	30.55	+ 41
Nail Wire (5.6 m.m)	.. Metric ton	2695.00	4770.00	+ 77
P.V.C. Insulated & Sheathed Cables 1/044	.. 100 yds.	36.60	70.00	+ 91
Auto Cables 35/012	.. 100 ft.	26.85	42.00	+ 56
General Lighting Service Lamps (25w)	.. 1	2.39	2.87	+ 20
Special Lamps (15w)	.. 1	2.48	2.97	+ 20
Daylight Bulbs (60w)	.. 1	2.65	3.24	+ 22

TABLE II (I) 5

	Unit	Factory Price 1973 Rs.	Factory Price 1974 Rs.	Percentage Change 1974/1973
6. Industrial, Commercial and Agricultural Machinery & Equipment and Tyres & Tubes				
Lotus Bicycle Tyres 28 x 1½"	1	9.00	11.30	+ 26
Lotus Heavy Duty Tyres 28 x 1½"	1	10.75	13.55	+ 26
Lotus Seamless Tubes 26 x 1 3/8	1	3.95	5.30	+ 34
Sewing Machine 109 Style Singer	1	717.00	926.20	+ 29
—do— 149 Style Singer	1	1024.00	1289.17	+ 26
Centric Piston Pump ¾" (PB/1)	1	1211.00	2041.50	+ 69
Centric Industrial Pump 1½" (140/1)	1	1609.00	1845.00	+ 15
Centric Agricultural Pump 2" (EKJ)	1	1706.00	3386.50	+ 99
Table Fan—Popular 36" W/L	1	531.75	718.00	+ 35
Pedestal Fan 16"	1	604.00	832.75	+ 38
7. Agricultural Raw Materials				
Special Vegetable Fertilizer (No. 1)	per ton	524.16	900.92	+ 72
Special Paddy Mixture	" "	642.16	939.18	+ 46
Muriate of Potash 60%	" "	728.33	850.17	+ 17
Urea	" "	865.00	1540.00	+ 78
Sulphate of Amonia	" "	572.50	767.17	+ 34
Super Phosphate	" "	420.83	532.00	+ 26
Agro-Chemical (Malathion 50% EC)	16 oz. bot.	6.80	6.80	—
Trithion	—do—	11.50	11.50	—
8. Lumber and Construction Materials				
Corrugated Sheets	Sq. ft.	1.14	1.23	+ 8
Flat Sheets	" "	0.77	0.88	+ 14
Cement (Kankesan)	Cwt.	12.00	14.50	+ 21
Cement (Ruhunu)	" "	13.00	14.67	+ 13
Cement (Puttalam)	" "	12.50	14.58	+ 17
9. Miscellaneous				
Flashlight Batteries	1	0.83	1.21	+ 46
Transistor "	1	0.93	1.31	+ 41
Radio "	1	33.50	35.70	+ 7
Automotive " 6v 60 Amps.	1	150.00	150.00	—
Automotive " 12v 60 Amps.	1	245.00	245.00	—
Writing Paper in ream pkts. (Creamlaid)	500 sheets	43.20	52.50	+ 22
Typewriter Carbons 8" x 10"	1 box	16.00	17.90	+ 12
Floor Polish (Ronux)	1 lb. tin	5.65	6.95	+ 23
Car Wax	½ lb. tin	6.80	8.00	+ 18
Safety Matches	per case (50 gross)	349.08	454.50	+ 30
Paints (Snowcem)	112 lbs.	180.00	200.00	+ 11
Paints (Permacem)	112 lbs.	128.00	144.00	+ 13

TABLE II (I) 6

Revision of Controlled Prices

Item	Price	Old Price	New Price	% Change	Date	New Price	% Change
Mantles							
'Loxon' Brand	25.1.74	—	8.25	—			
'Litex' Brand	28.3.74	—	.50	—			
22" Standard Model Bicycles	23.12.74	500.00	595.00	+19.0			
Sustagen	29.4.74	—	19.45	—			
Exercise Books							
40 Pages	13.6.64	.25	.40	+66.0			
80 Pages	—do—	.45	.75	+66.7			
Monitors Exercise Books							
80 Pages	—do—	.75	.95	+26.7			
120 Pages	—do—	1.00	1.30	+30.0			
160 Pages	—do—	1.25	1.70	+36.0			
200 Pages	—do—	1.45	2.10	+44.8			
240 Pages	—do—	1.75	2.50	+42.9			
280 Pages	—do—	2.00	2.90	+45.0			
320 Pages	—do—	2.25	3.30	%46.7			
Sheet Glass							
2 m.m. sq. ft.	11.6.74	1.00	1.50	+50.0			
3 m. m. sq. ft.	—do—	2.00	2.98	+49.0			
4 m.m. sq. ft.	—do—	4.40	5.28	+20.0			
5 m.m. sq. ft.	—do—	4.90	5.65	+15.3			
6 m.m. sq. ft.	—do—	—	6.95	—			
Asbestos Sheets							
Elephant Brand 'Masconite' corrugated sheets	18.7.74	1.19	1.41	+18.5			
Elephant Brand 'Masconite' semi corrugated sheets	—do—	1.08	1.24	+14.8			
Elephant Brand 'Masconite' small section corrugated sheets	—do—	1.04	1.24	+16.3			
Elephant Brand 'Masconite' flat corrugated sheets	—do—	.06	1.01	+17.4			
Lionite Brand Standard weight corrugated sheets	—do—	1.19	1.33	+11.8			
Lionite Brand Light weight corrugated sheets	—do—	.99	1.11	+12.1			
Lionite Brand Flat weight corrugated sheets	—do—	.86	.96	+11.6			
Corriander	26.7.74	.89	.95	+ 6.7			
Formic Acid							
85 or 90 per oentum packet in 35kg. cans	12.9.74	253.70	356.10	+40.4			
—do— per centum per imperial gall.	—do—	36.00	54.80	+52.2			
—do— per centum pint	—do—	4.50	6.85	+52.2			
Milk Products							
Lakspray 1 lb. packet	16.9.74	4.35	7.50	—	Revised down wards		
—do— 1 lb. can	—do—	4.75	8.00	—	28.10.74	5.50	+26.4
—do— 2½ lb. can	—do—	11.50	18.00	—	—do—	6.00	+26.3
					—do—	14.00	+21.7
Condensed Milk 14 ozs. can	—do—	1.75	3.25	+85.7			
Vitamalt malted milk 1 lb. can	—do—	6.50	8.50	+30.8			
Vitamilk 1 lb. can	—do—	3.90	4.20	+ 7.7			
—do— 2½ lb. can	—do—	8.75	9.75	+11.4			
Mantles							
'Loxon' Brand	30.9.74	8.25	15.25	+84.29			
'Litex' Brand	—do—	.50	.70	+40.0			
'Royal' Brand	—do—	—	.65	—			
Tyres & tubes (Imported)	21.5.74	—	—	—			
Tyres & Tubes 'Kelani' (Local)	10.12.74	—	—	+25—35			
				(Tyres)			
				+20—3			
				(Tubes)			
Cement							
7 lb. bag	6.11.74	—	2.00	—			
110 lb. bag	13.12.74	—	24.50	—			

Price controls and rationing

Price controls and rationing have become an integral part of the government economic and fiscal policy package over the last few years. The effectiveness of these measures in combating inflation and ensuring a fair distribution of the essential commodities cannot be precisely ascertained. The intention on section is to the pinpoint new developments in price control and rationing as far as these affected the general level of prices in 1974.

Several commodities have been subjected to price controls over the years. In 1974 the following new items were added to this list: bicycles, milk feeding bottles, mantles, Kelani tyres and tubes, Vitamalt malted milk and 7 lb. bags of cement. At the same time several items were removed from the list of price controlled goods. These were mammoties, dhall and sustagen.

In 1974 controlled prices had to be revised on a substantial scale. In the majority of the cases the prices were revised upwards. In table II (I) 6 a sample of the items and the price revisions affected are shown. It is seen that the controlled price of various types of exercise books have been raised by at least 40 per cent. For sheet glass the upward revision of controlled prices has ranged from 15 per cent to 50 per cent. For different Lakspray products the controlled prices were at first substantially raised. However subsequently, the controlled prices were brought down to a moderate level. For Kelani tyres and tubes the controlled price was increased by about 20—30 per cent. For various grades of asbestos sheets the increase in the controlled price was over 11 per cent.

In 1974 there were several changes in the rationing scheme for essential commodities. At the beginning of the year (1.3.1974) the sugar ration was increased from $\frac{3}{4}$ lb. to 1 lb. per person, per month. Towards the latter part (1.10.1974) this was revised downwards to $\frac{3}{4}$ lb. The latter had become necessary because of the shortage of sugar in the world market and the consequent increase in its price to unprecedented levels. Towards the end of 1974, the flour ration was increased to 1 lb. per person, per week in Colombo and the suburbs. In estate areas the ration was increased to $1\frac{1}{2}$ lbs. As far as infant milk foods were concerned a rationing scheme was introduced for the Colombo city.

The maintenance of a price control and rationing mechanism is extremely, complicated. The benefits that the consumers can obtain from administratively imposed controls depend on a variety of factors. One set of factors is associated with the schemes themselves. On the one hand prices must be fixed at reasonable levels from the point of view of both the producer and the consumer. On the other hand, the administrative machinery should be adequate for the implementation of the controls. Another set of factors seem to be associated with the distributive network and the business practices of the country. In the year 1974 noteworthy changes do not seem to have occurred concerning price controls in general and business practices in particular so as to significantly affect the level of consumer prices.

2. Wages

The Central Bank's wage rate indices for technical and clerical employees, minor employees and school teachers in the government sector are based on the minimum salaries and wages and allowances payable in representative scales. Overtime and incremental payments are, therefore, not included. Wage rate indices for workers in agriculture, industry and commerce covered by wages boards in the private sector are computed and published by the Labour Department. These indices are based on minimum wage rates fixed by wages boards and from December 1967 include "devaluation allowances". The wage rate indices referred to do not take into account actual earnings which would include in the case of the public sector, overtime and in the case of the private sector, incentive or special payments such as bonuses in addition to overtime. Indices of real wage rates are calculated by deflating the nominal wage rate indices by the Colombo Consumer's Price Index.

TABLE II (I) 7
Wage Rate Index: Numbers of Government Employees
(1952—100)

	Technical & Clerical Employees		Minor Employees		Central Government Employees (a)		Government School Teachers	
	Wage Rate Index	Real Wage Rate Index	Wage Rate Index	Real Wage Rate Index	Wage Rate Index	Real Wage Rate Index	Wage Rate Index	Real Wage Rate Index
1973 Average ..	163.0	98.6	194.2	117.5	180.1	108.8	144.3	87.3
1st Quarter ..	160.2	101.6	189.9	120.4	176.5	111.9	142.4	90.3
2nd Quarter ..	160.2	99.3	189.9	117.7	176.5	108.7	108.4	88.3
3rd Quarter ..	160.2	95.5	189.9	113.2	176.5	105.2	142.4	84.9
4th Quarter ..	171.3	98.0	207.2	118.6	190.9	109.3	149.8	85.7
1974 Average ..	181.4	97.7	220.5	118.7	202.8	109.2	159.1	85.7
1st Quarter ..	171.3	96.1	207.2	116.2	190.9	107.1	149.8	84.0
2nd Quarter ..	184.8	101.1	224.9	123.1	206.8	113.2	162.2	88.8
3rd Quarter ..	184.8	98.0	224.9	119.3	206.8	109.7	162.2	86.0
4th Quarter ..	184.8	95.6	224.9	116.3	206.8	106.9	162.2	83.9
Percentage change 1974 over 1973 ..	+11.3	-0.9	+13.5	+1.0	+12.6	+0.4	+10.3	-1.8

Source: Central Bank of Ceylon.

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

Note: The index numbers are calculated on fixed weights, based on the numbers employed as 30th September, 1959. The wage rate used in the calculations of index numbers are the initial salaries and wages and allowances in each representative scale.

Table II (I) 7 shows the annual and quarterly wage rate indices of government employees for the year 1973 and 1974. On the average, the nominal wage rates of all categories of government employees were higher in 1974 than in 1973. The wage rates of central government employees increased by 12.6 per cent. over the 1973 level. While the increase in nominal wages for the minor employees amounted to 13.5 per cent for technical and clerical staff it amounted to nearly 11.3 per cent. Government school teachers also have increased their nominal wages by over 10 per cent.

Table II (I) 8 shows the wage rate indices for workers covered by wages boards. It is observed that nominal wage rates of employees covered by wages boards have increased quite substantially in 1974. For example, the index of the minimum wage rates of workers in agriculture have increased from an average level of 168.1 in 1973 to 210.0 in 1974, an increase of approximately 25 per cent. For workers in industry and Commerce the increases in wages in 1974 in comparison with the previous year have been roughly over 18 per cent.

TABLE II (I) 8
Minimum Wage Rate Index Numbers for Workers
in Wages Boards Trades (1952=100)

	Workers in Agriculture (a)		Workers in Industry & Commerce (b)		Workers in Wages Boards Trades (c)	
	Minimum Wage Rate Index	Real Wage Rate Index	Minimum Wage Rate Index	Real Wage Rate Index	Minimum Wage Rate Index	Real Wage Rate Index
1973 Average ..	168.1	101.5	199.7	120.7	169.9	102.7
1st Quarter ..	158.8	100.7	191.7	121.5	162.1	102.8
2nd Quarter ..	160.4	99.4	194.0	120.2	163.9	101.5
3rd Quarter ..	165.7	98.7	196.0	116.8	168.6	100.5
4th Quarter ..	187.4	107.3	217.4	124.4	184.6	105.7
1974 Average ..	210.0	113.0	235.8	126.9	212.5	114.3
1st Quarter ..	191.2	107.2	218.4	122.5	194.0	108.8
2nd Quarter ..	211.7	115.9	240.0	131.3	214.4	117.3
3rd Quarter ..	215.8	114.4	241.3	128.0	218.1	115.7
4th Quarter ..	221.4	114.5	210.3	126.0	223.5	115.6
Percentage Change 1974 over 1973 ..	+24.9	+11.3	+18.1	+ 5.1	+25.1	+11.3

Source: Department of Labour and Central Bank of Ceylon.

- (a) Covers tea growing and manufacturing, rubber growing and manufacturing and coconut growing trades only.
- (b) Covers coconut manufacturing, engineering, printing, match manufacturing, motor transport, dock, harbour, port transport, tea export, rubber export, cinema and building trades only.
- (c) Combined index for workers in agriculture and workers in industry and commerce.

The reason for the rise in the nominal wage rates has been the increase in wages granted by the government in early 1974. From 1st April, the government withdrew the 10 per cent wage increase granted to public and private sector employees drawing salaries or wages not exceeding Rs. 400/- per mensem and granted an enhanced wage increase of 20 per cent to those who were drawing Rs. 800/- per mensem or less. This wage increase in the public sector replaced the special allowance granted on 1st October 1973 by a higher allowance of 20 per cent, subject to a maximum of Rs. 50/- per mensem to all employees drawing Rs. 800/- per mensem or less. The increase was also to be effective for resident pensioners drawing Rs. 800/- or less per month. The special allowance of Rs. 7.50 granted in 1972 was, however, not discontinued.

The wage increase for the public sector in October 1973 was extended to the private sector as well. The government directed the private sector to increase by 10 per cent the wages of its monthly and daily paid workers whose earnings do not exceed Rs. 400/- per mensem. From 1st April 1974, in place of the October 1973 increase, the private sector was directed to increase the wages by 20 per cent (subject to a maximum of Rs. 50/- per month) of all workers whose monthly earnings do not exceed Rs. 800/-. However, it was envisaged that the additional wage increase sanctioned should be deductible from any payments of non-recurring cost of living gratuities under any collective agreements or cost of living allowances determined, according to the Colombo Consumers' Price Index.

The minimum real wage rates of government employees have declined marginally according to the estimates shown in Table II (I) 7. On the other hand the real wages of workers in wages boards have tended to increase appreciably in 1974 as against 1973. These disparities in the basic estimates cast considerable doubt on the validity of both the method of computation of the nominal wage rates and the cost of living index used to deflate the nominal wage rates to obtain the real wage rates. However, given the fact that the Colombo Consumers' price index which is used to deflate the nominal wage rates grossly under-estimates the increases in the cost of living, it can be observed that the declines in the real wages of government employees should be much greater than the estimate given in table II (I) 7. Similarly, it could be asserted that in agriculture, industry and commerce, real wages may have declined appreciably considering the sharp increase in the cost of living in 1974.