

GOKHALE INSTITUTE OF POLITICS AND ECONOMICS

**Publication No. 20**

**REPORTS OF  
THE COMMODITY PRICES BOARD**

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**Price Rs. 10 or 15s.**

**1948**

**Printed at the Arya Bhushan Press, 915/1, Shivajinagar, Poona 4  
by Mr. V. H. Barve and Published by Mr. D. R. Gadgil at the  
Gokhale Institute of Politics and Economics, Poona 4.**

## FOREWORD

In bringing out this publication the Institute is following a somewhat unusual course of action. The publication does not embody work carried on at the Institute or under its direct auspices. It comprises a collection of all the reports submitted to the Government of India by a short-lived organisation, The Commodity Prices Board, set up by that Government. The Institute was connected with the Commodity Prices Board in so far as I had been deputed by the Institute to work as member of the Board while continuing to be a member of the staff of the Institute. Ordinarily this circumstance would not, by itself, have led the Institute to undertake publication of the Board's reports. As in the case of, say, the Tariff Board the reports would have become available to the public through publication by Government. Publication by Government is, however, apt to be a longdrawn process. Today, after more than a year after the end of the Board only three of the reports have been published by Government and only two of these are freely available. Also, even if all the reports are, in course of time, published by Government they would be available in the form of individual reports separately published. The Institute considered that an early publication of all the reports of the Board in one volume was highly desirable and decided to undertake the project. It was enabled to carry this out permission to publish the reports having been kindly granted by the Finance Ministry of the Government of India.

It has been thought desirable to bring out this publication on account of a variety of reasons. In the first instance, the reports of the Commodity Prices Board contain a wealth of factual data which is, for the larger part, not available to the public or even to students. The data relate to the financial structure, production programmes and working results of individual units in a large number of industries and to some industries as a whole; to the fluctuations in prices under control and outside it during the war period and to the operation of systems of price-fixation; to a variety of matters relating to internal and external trade in a number of important commodities. Secondly, in the general note on controls and in the reports on individual commodities or groups of commodities the reports present a full picture of Indian economy at the end of the war and of the problems of adjustment facing it in the post-war period. Above all the reports raise and discuss a variety of questions relating to the operation of a controlled

to refer to this Committee the question of the prices of kharif grains which was already under reference to the Commodity Prices Board.

The system of price controls in India never equalled in comprehensiveness or in detail the systems in other advanced countries. The principles and procedures for the fixation of controlled prices were also neither well developed nor uniform in India. It cannot be said that the work of the Commodity Prices Board contributed to any substantial extent towards removing these defects. All that the Board could do, within the period of its existence, was to pass under review the problems of principle or procedure raised by each reference and to attempt to build up cumulatively a consistent mass of doctrines. The decisions on principles and procedures arrived at by the Board had to be shaped with reference to the objectives that it set before itself. In the absence of directives from Government, the Board assumed the objectives indicated by it in its general note on controls.

Two reasons prevented the Board from elaborating a scheme of detailed provisions for the fixation of relative prices. In the first instance, the necessary material for the purpose was available neither with official agencies nor with the industrialists. Secondly, the references made to the Board showed that the fixation of the basic prices of important groups of commodities had itself yet to be put on a firm footing; a consideration of questions of detailed price gradations had, therefore, invariably to be postponed. The Board, again, was not an executive authority summarily arriving at decisions but a quasi-judicial body which had to argue out all important issues and support by elaborate calculations all quantitative recommendations. It had, therefore, to concentrate attention on broad questions and general levels, until at least the principles and procedures established by it had received general recognition at the hands of the Government and the public. On this account, the reports of the Board contain fuller discussion of the general economic problems raised by the working of controls than the reports of price-fixing authorities in other countries.

Only two of the reports of the Board deal with problems of prices of agricultural products. Little reference is made in these to costs of production or profits of business, because such data were almost, completely lacking. Even if the data had been available for selected regions or classes of farmers it would have been difficult to determine their significance for the general level of prices of



these commodity groups throughout the country. Attention was, therefore, paid chiefly to the relative prices of the main agricultural products, the relative internal and external price levels of particular commodities and to problems relating to the price level of the future and its stabilisation. The fundamental problem in relation to agricultural prices which, as in the case of food grains and cotton, were basic to the whole economic structure was the determination of the generalised frame-work of prices of the future and its stabilisation. But this could be tackled only on assumption of a well-defined official economic policy.

It was chiefly in connection with the prices of agricultural commodities that the relation of internal controlled prices and the external trade in the commodity came under consideration. The reference relating to the export duty on cotton raised the problem specifically. It was also raised in connection with the price of Vanaspati. Vanaspati is a manufactured product. The control of the price of Vanaspati was, however, desired by the Government of India as a means chiefly of controlling indirectly the price level of groundnuts. In consequence, a consideration of Vanaspati prices led to a consideration of the price level of groundnuts and of the factors—internal and external—affecting this price level. Successful control of a price level presupposes ability to insulate the price level from forces normally influencing it. A government which is not able or willing to undertake the supplementary controls required to enforce its price policy must inevitably find itself both unsuccessful and discredited.

In the sphere of industrial prices the Commodity Prices Board encountered the usual problems connected with the determination of costs of production. The technical and statistical problems involved in arriving at a fair cost price for industrial products were not explored in great detail by the Board. However, examination of the report of the *ad hoc* Committee in connection with the reference on cloth and yarn prices led to laying down certain minima of requirements for a satisfactory statistical sample and for adequate data for costings. That current procedures were far from satisfactory and existing data far from adequate will appear also from the reports on Vanaspati, coal and paper. The report on coal fully illustrates the extent of the lack of statistical information of even primary importance and the difficulties created by it. The reference on coal involved the determination of the burden on industry imposed as a result of certain wage and allowance increases. Calculations regarding these, of the degree of accuracy required for the

purpose, could be made with the help of broad data regarding the number of workers classified by the major categories, their average attendance and average rates of earnings at the time the increases took place. Data, free from ambiguity or difficulties of interpretation, could not be obtained even on these essential points and the Indian consumer of coal paid, in all probability, a heavy price for this lack.

Theoretical considerations regarding the determination of costs became more prominent in the references made to the Board than the technical or statistical questions. The concept of the costs of an industry inevitably raised the problem of finding the representative firm; and in all instances under consideration the representative firm remained elusive. Units in all industries examined by the Board exhibited wide variations in capital structure, accumulated resources, locational and other advantages, technical efficiency and business standards. In no particular could the calculations made for one type be made to apply to another. Moreover, in many industries there was no even gradation from the strong to the weak units. In industries like coal or paper the giants and the pygmies constituted two distinct blocks without any large middling strata. These conditions gave special importance to the problem of the average versus the marginal. To the industrialist the costs-plus basis in relation to the marginal producer appeared to be the obviously reasonable basis for price determination. From the point of view of the community no basis could be more wasteful. It can be easily demonstrated that the margin indicates the level of price determination in a fully free and competitive economy. However, even in a free economy with monopolistic or imperfect competition the average assumes special significance. And an economic policy which combined the abolition of competition with the adoption of the costs of the marginal unit as the basis of controlled prices could obviously serve little social purpose.

While the impropriety of the marginal approach in a regime of controls was clear its rejection created problems relating to production programmes and incentives, on the proper solution of which depended vitally the success of the regime. These problems had become specially acute by the time the Commodity Prices Board was created. In the early days of controls the rise in the general level of prices had so altered the costs-price relationship as to leave an ample margin of profit even to the marginal producer. Also, in these days the prices were negotiated prices. In the course of years, costs had risen, while the early control prices had been

either maintained or even brought down, in instances in which they had previously reached specially high levels. By the time, therefore, that the Commodity Prices Board was established, the less efficient or the less favourably placed producers in a number of industries found their margin of profits being reduced to an uncomfortably low level. In the circumstances, there was much talk of certain producers being forced to cut down or cease production and of national production effort suffering in consequence. In no case under reference to the Board could an exhaustive enquiry be made into the extent of the margin available at current prices and the possibility of cutting into wasteful portions of it, as in other countries. However, whatever the actual facts in particular cases, the problem thus raised of production programmes and incentives under controlled prices had to be squarely faced.

The operation of incentives in a regime where only prices were controlled and no direct control was exercised on production activity was fully exhibited in the reference on the prices of cloth and yarn. To a large number of producers in the cotton textile industry, the structure of controlled prices offered a way out of the problem of falling margins. They could keep up their margins by continually going fine. It was reported that they did this wherever possible and that the movement was responsible, in the main, for the fall in production. An alteration of the structure of controlled prices might no doubt have partially corrected the misdirection to production. But it was clear that such alteration could not proceed beyond a point and that when the difference in profit margins arose out of fluctuating phenomena, such as prices of raw cotton, controlled prices could not be altered soon enough or far enough to prevent the misdirection of production effort from the national point of view.

A regime of price controls might be adopted for a variety of reasons. It may be intended to bring about an equitable distribution of necessities or to meet a phase of the trade cycle or to direct productive activity into specific channels, etc. In most such cases it presumes the inability of uncontrolled prices to achieve the socially desirable ends in production and distribution. It is illogical, therefore, to expect that in a continuous regime of controlled prices the systems of production or distribution would operate satisfactorily with the same incentives as in a free economy, especially as it is clear that changes in controlled prices cannot be brought about either with the same rapidity or within the same range of permissible variations as in a free economy. That the

incentives appropriate to a free economy do not operate satisfactorily in a controlled economy is then not so much a charge against the controlled economy as a description of the conditions of its existence.

Direct controls on production arise out of the need to provide for a satisfactory working of controls on prices. Controlled prices may not afford, for all time, incentives, through the profit margin, required to call forth a given volume of production or a given composition of the total volume. Production ends may then be achieved through either directly laying down production targets and programmes, or by a system of pooling profits which divorces the connection between the specific price and the profit to be earned by producing the particular commodity, or by a combination of the two. Where pooling is impracticable the end may be achieved by subsidising particular production. The prescription of production targets and programmes was common in wartime in a number of countries, including India, especially in connection with the production of military requirements. The Bombay Growth of Food Crops Act may also be considered as laying down a broad production programme for agriculture in the Province. Reference is made in the report on cloth of the Commodity Prices Board to a scheme for the rationalisation and standardisation of production in each unit in the cotton textile industry. Such a programme, if enforced, would effectively divorce actual production from the profit margin. It is obvious that directed production is easier to achieve if the varying profits on particular production are not allowed to accrue to individual producers. Pools are meant, at least in part, to achieve this purpose. Instances of such pools are cited in the reports on iron and steel prices and on the prices of kerosene and petrol. The idea of the equalisation fund discussed in the cloth report was directed also towards the same end. Pools and profit equalisation are helpful in the enforcement of production programmes. In the absence of directed production, however, they have the demerit of taking away the spur of the possibility of loss which may ordinarily help to maintain a minimum standard of efficiency in productive activity.

Such are some of the simple economic relations which are concretely illustrated in the various reports of the Commodity Prices Board. If a controlled economy is to operate in India, with at least a minimum degree of efficiency and minimum amount of general satisfaction, there must come about a much wider understanding of these among the politicians, the officials and the public

than was found existing last year or appears to exist even today. The Board's general note on controls presents in the context of Indian conditions the case for the maintenance of a controlled economy. Its broad arguments are as valid today as they were when the note was first written and it is likely that, in the changed circumstances, the arguments may receive more favourable reception, even at the hands of Government. This publication is thus put forth in the hope that it may prove useful not only to students and academicians but may, perchance, also serve a more immediately practical end.

Gokhale Institute of Politics  
and Economics, Poona 4 ;  
22nd October, 1948

D. R. GADGIL.

## INTRODUCTORY NOTE

BY THE EDITOR

The appointment and the subsequent abolition, after the resignation of its two members, of the Commodity Prices Board had attracted countrywide attention. It was also widely commented upon in the Indian Press. The three reports of the Board published by the Government of India aroused considerable interest among the academic as well as business and other sections in the country. This suggested the idea of publishing all the reports of the Board by the Institute so as to make them quickly available to the public as their publication by Government was likely to be a very long drawn out process. The Finance Ministry of the Government of India kindly gave the necessary permission in this respect.

The Commodity Prices Board was appointed on 6th February 1947 by the Government of India when the following press *communique* was issued:

"Government have for some time been conscious of the paramount importance in view of the present economic situation in the country, of the particular price levels chosen for those commodities the prices of which are fixed under statutory powers.

"It is essential to maintain a reasonable relationship between the prices of cash crops and the prices of foodgrains, on the one hand, and between agricultural prices and industrial prices, on the other, if producers and consumers alike are not to be put under a constant sense of grievance and agrarian and industrial unrest is to be prevented.

"In this difficult task of fixing prices, Government feel they will be greatly assisted by the advice of a body of experts, charged with the special duty of maintaining a continuous review over the prices of all commodities and advising Government what prices, or price levels, to fix for controlled commodities so that the best interests of the community may be served. It is thought also that public confidence in the equity of Government's decisions will be reinforced if the public are aware that in reaching their conclusions Government have had the benefit of the advice of an authoritative body.

"It has been decided, therefore, to establish, for a period of three years, in the first instance, a Commodity Prices Board. The Board will consist of:

President: Mr. A. D. Gorwala, C.I.E., I.C.S.,

Members: 1 Professor D. R. Gadgil, 2. Name to be announced later.

Mr. S. I. Haque, I.C.S. will act as Secretary to the Board.

"The terms of reference of the Commodity Prices Board will be as follows:

- (i) At the request of the Central Government to advise, in the light of all relevant data and of such conditions as may be specified, what prices, or price limits, should be fixed for commodities, the price of which is controlled by the Central Government or by a Provincial Government.
- (ii) To keep under constant review the movements of commodity prices in India and, whether at the request of the Central Government or of their own volition, to advise the Central Government whether the price of any commodity not controlled should be controlled, and, if so, what price, or price limits should be fixed for that commodity.

"The Headquarters of the Board will be at New Delhi. Associations and persons wishing to represent their views on commodity prices generally or specifically should address their representations to the Secretary to the Board.

"The Central Government trust that Provincial Governments and Administrations will afford the Board all the assistance which it may require and will comply with any request for information which may be addressed to them." (*Indian Information*, 1st March, 1947.)

Mr. C. P. Lawson moved a cut motion in the Legislative Assembly on 10, March 1947 to discuss the functions of the Commodity Prices Board and matters connected with it. In replying to the debate arising out of this Mr. Liyaquat Ali Khan, the Finance Member, observed: "The real reason for the appointment of this Board is because we found that there was no co-relation between the prices of various commodities of various kinds and the Government felt that it was necessary to have a scientific method of stabilization of prices." (*Indian Information*, April, 1 1947 p. 321). The cut motion was withdrawn by the mover.

No third member was, until its abolition, appointed on the Board. The Board began its work in February 1947 and ceased to exist from October 1947 when both its members resigned. Some of the functions of the Board were then transferred to the newly re-constituted Tariff Board by the Government of India.

The C. P. Board submitted in all twelve reports. Out of these four arose out of informal references and the others out of formal references. The report on the "Prices of *Rabi* Grains" and the note on "Controls and Their Continuation" were published by the Government and the report on "Vanaspati Prices" was reported to be under print.

It would not be out of place here to indicate, in brief, the general economic conditions under which the Commodity Prices Board was brought into existence and functioned. The situation faced by the Board was, in the main, the legacy of the war and had arisen out of the exigencies of war finance. During the opening years of the war the strain on both finance and prices in India was not considerable. It was towards the beginning of 1942 that the movement towards an expansion of currency and an increase of the price level definitely gathered momentum; it went on, practically unchecked till the middle of 1943. The continuous and rapid increase of the price level was stayed after the middle of 1943. Expansion of currency, however, continued to take place for the whole of the war period and even for some months after the cessation of hostilities. After January 1946, however, no substantial additions were made to the currency in circulation. Prices which were brought under some measure of control by the end of 1943 did not exhibit any marked or permanent rise upwards in the following years. The average of index numbers of wholesale prices as well as the cost of living index at important centres maintained remarkably even levels during 1943-44, 1944-45 and 1945-46. From about the second quarter of 1946, however, certain prices especially the indices of cost of living at industrial centres began to register a decided upward movement. It was the situation revealed by this upward tendency that is discussed in the general note on *Controls and their continuation* presented by the Commodity Prices Board to Government in April 1947.

It will be found that the Commodity Prices Board touched only slightly upon the monetary and fiscal aspects of the situation. During the period of the operation of the Board the monetary and the fiscal situation did not *appear* disturbing. There had been no significant additions to currency since February 1946. The full



effects and implications of the capital outlay of Central and Provincial Governments, the deficits arising therefrom and the expansionary movements emanating from them, though now easily visible, were then scarcely so. It was mainly because of this that the Board was led to believe that the total governmental outlays during 1946-47 and 1947-48 had fallen significantly from the level of war years, (p. 69) though, counting in the capital outlays, they had actually increased. Added to this the budget for 1947-48 presented by Mr. Liyaquat Ali Khan within a short time of the setting up of the Commodity Prices Board, appeared to make unnecessary any apprehensions regarding Governments' fiscal policy having an inflationary effect.

The main aspect of the economic situation with which the Board had to deal almost in every one of its reports was the regime of war-time controls. It is, therefore, necessary to have some idea of the genesis, operation and reception of this regime. This may be best conveyed in the terms which Prof. Gadgil described it at the time i. e. in May 1947 in a different context.

"The major feature of the development of wartime controls in India was that both in origin and in growth they were the products of much less deliberation than controls in other countries. The war-time Government in this country was not a democratic Government and it found it necessary for some years of the war period to work against the opposition of important sections of the people. Also, during the early period of the war, Government believed that India was far away from the actual theatre of war. Therefore, whereas in the European countries and in the Dominions, war-time controls were developed in the light of the experience of the war of 1914-18 and preparations for them made before the beginning of the war or during its early years, India began, as the European countries had done during the war of 1914-18, with *ad hoc* controls adopted to meet only immediate needs and extended as new emergencies arose. And we never had any really concerted effort on the part of the Government to get the variety and complexity of these diverse control measures coordinated or integrated. This may be illustrated with reference to the problem of food. During early war years, it was thought that a deficiency in food supplies was, for India, a remote contingency. It was only with the imminent cutting off of rice supplies from Burma that the problem of food began to claim attention of the Indian Government. During this early phase—as witnessed in the history of early wheat and general price control—the problem was not thought to be serious and

before Government realised what they were up against, one of the major disasters in modern Indian history, the Bengal famine, overtook us. The history of the inception and development of other controls was also similar. The problem of financing the war effort was not serious till about 1942. The price levels remained in check without any special effort on the part of Government. When, however, in 1942, the problems presented by the Japanese war, both of making available vastly increased physical supplies for war purposes and of financing the war effort emerged, our administrators were found entirely unprepared to tackle them. No doubt, a number of extraneous factors made it difficult for them to take radical and drastic steps similar to those taken in European countries and in the Dominions. Making due allowance for these, it is still true that our administrators had neither a clear idea of the problem nor adequate knowledge of the procedures and methods evolved for meeting them in other countries. Indeed, in 1942 and 1943, most high officials were appalled at the thought of introducing a regime of detailed controls in a country of the area and population of India.

To the unpreparedness of Government for introducing controls and the haste with which they had to be actually introduced must be added the inability of Government to take a firm stand against important interests. This last affected vitally the levels of prices of both agricultural and industrial products. As regards agricultural prices, the Central Government encountered the difficulty of resisting Provincial opposition. The Governments of surplus agricultural provinces like that of the Punjab could not, on account of political considerations, be forced to moderate the demands of the producers of their provinces with the result that in the basic commodity, foodgrain, control of prices and procurement operations remained always unsatisfactory. In industrial prices, the Indian Government was equally unable to resist pressure from capitalist interests. Till 1942 and sometime after, Government did not at all contemplate controlling the prices of even the most important commodities for civilian supply. The prices, for example of cloth, or coal, were controlled for Government orders and fixed at what was considered by Government to be a reasonable level. Prices of all the commodities in the civilian market were, however, allowed to move up as they pleased. It was only when the inflationary movement in the country grew up to such proportions that it threatened to obstruct war effort itself, that Government stepped in to control civilian prices. The prices of cloth reached levels more than five times the pre-war level before Government interven-

ed and when the intervention came, it was on terms on which alone the co-operation of the industrialists could be obtained. Cloth prices were, for example, put under the control of a sub-committee of the Textile Control Board which had an overwhelming majority of manufacturers in its membership. The original prices, under control, of coal were similarly fixed in consultation with an advisory board whose membership consisted chiefly of producers themselves. There was no attempt to fix the levels of these prices in the light of any objective considerations such as those of costs or profits. All prices, were, in fact, negotiated prices, that is, prices which industrialists themselves were not reluctant to accept. The fixation of industrial or agricultural prices in India during wartime was thus in sharp contrast to the work of the Canadian Wartime Prices Board or the Ministry of Supply and other control agencies in the United Kingdom or the O. P. A. in the United States of America.

At the end of the war, we had in India almost the same apparatus of controls as in other countries. We had a detailed system of rationing of food and perhaps a larger drive towards procurement of surplus grain supplies than in most countries of the world. We had controls on capital issues, on imports and exports in a variety of ways and over prices of most agricultural and industrial products. Even though this was so, the price level in India stood much higher than in any other country with a similar system of controls; the standard of living of the people had also suffered to a larger extent, the profiteering gains of industrialists, traders and speculators made as a result of the war were enormously greater and the lack of a common policy or of co-ordination much more glaring. This was because of the peculiar history of our wartime controls whose main features have been indicated above. We have the same formal structure as in other important countries but it has developed and operated very differently and has yielded results not experienced elsewhere."

A perusal of the reports of the Board shows that it worked consistently on a set of principles. These were precisely set out by them in their note on "Controls and their Continuation." In their view decontrol was disastrous and efforts at the maintenance, extension and integration of the then existing controls were necessary. The ultimate aim of controls was to (1) secure wide distribution of minimum quantities of essentials at controlled prices, (ii) keep in check the level of prices and (iii) maintain levels of production. The Board had asked for a directive from Government on these points. The Government of India did not come to a

decision and no directions were ever given to the Board. The Board however kept before it steadily the principles and aims, stated above, which it deemed to be the best from the economic point of view. In all the reports there is a good deal of criticism of existing controls and a constant anxiety about the removal of defects in them and about making the controls more effective is evinced. The aim of holding the price-line and the cost-of-living-line is never lost sight of. The Board was reluctant to recommend a price-rise unless justified by legitimate increases in costs, etc. and that too, after a most thorough examination of the available data. The gusto with which the reports make mincemeat of lame, and often preposterous reasons urged by producer interests in the country for getting a price-rise, is delightful as well as instructive. The interests of the consumers are constantly kept to the foreground as also the interests of labour. Pleas for the maintenance of profits at abnormal levels are treated with scant sympathy." The theoretical implications of these reports are brought out separately by Prof. Gadgil in the Foreward.

The specific recommendations of the Board in respect of the prices of Vanaspati, Coal and Steel were not accepted by Government, as will be clear from the Notes at the end of this book. The reasons for rejecting the advice of the Board in these matters are not available except in the case of coal which are stated at the appropriate place in the Notes.

I planned originally to include in this publication an essay on "Indian Economy during 1945-48" that I had prepared to serve as background material to the Reports of the Commodity Prices Board. That essay, however, grew in size and it was decided to hold it over.

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# I

## PRICES OF RABI GRAINS AND PULSES FOR 1947-48.

1. *Reference.*—Under the Government of India, Finance Department letter No. F. 3 (1) F. G. I/47, dated March 6, 1947, the advice of this Board has been sought regarding

(a) the levels at which prices of wheat, gram, barley and rabi pulses should be fixed for the crop year 1947-48; and

(b) the advisability of guaranteeing, as in the past, a minimum price at which Government would undertake to purchase all wheat offered in the main assembling markets, and the level at which this guarantee should operate.

Under Finance Department letter No. F 3 (1) E. G. I/47, dated March 12, 1947, the Board has, in addition, been requested to advise on the level at which the price of rabi jowar should be fixed in the Province of Bombay.

2. *Enquiries and Consultation.*—The Board obtained from all Provincial Governments and Administrations the best possible estimates of acreage and yield of each rabi grain in their territory, and their views, supported by relevant data, regarding the price levels that should be fixed for the crop year 1947-48. The Government of India, Departments of Food, Agriculture, Finance and Commerce were consulted, as also the non-official members of the Central Price Advisory Committee, Sir William Roberts, Mr. M. A. Hashim Premji, Mr. Deep Chandra and Mr. Moson. In addition discussions were held with the representatives of the Provincial Governments of Bombay, Madras, United Provinces, Punjab and Sind and the Central Government Department of Food.

3. *Background.*—During the 18 months immediately preceding the commencement of hostilities in September 1939, prices of food-grains were, generally speaking, low. The average annual Indian production of wheat for the 3 years period 1936-37 to 1938-39 has been reckoned at 10.16 million tons. The 1938-39 crop was almost normal and the harvest price of wheat varied from Rs. 2-4-0 per maund in the Punjab to Rs. 2-11-0 in Sind, and Rs. 3-1-0 in the United Provinces. The 1939-40 crop was also good and the harvest

price varied from Rs. 2-10-0 in the Punjab and Sind to Rs. 3-12-0 in the United Provinces.

4. There was a country-wide rise in the prices of many commodities immediately after the outbreak of the War and the position in December, 1939, was as follows :—

Commodities,				Index,
				Base : August 1939 = 100.
Wheat	...	...	...	156
Rice	...	...	...	114
All manufactured articles	...	...	...	144.5
Cotton goods	...	...	...	126
Primary commodities	...	...	...	135.9

The working class cost of living indices for December, 1939, were 108 in Bombay, 110 in Madras, 112 in Cawnpore, 115 in Ahmedabad and 118 in Lahore. This rise led to agitation for Government action against 'profiteers,' and the Government of India, on September 8, 1939, delegated powers under the Defence of India Rules to Provincial Governments authorising them to control the prices of certain commodities 'more from the point of view of law and order, than because of the economic soundness of price control'. It was felt that prices would ultimately stabilise at a reasonable level as soon as supply and communications became normal, and the Government of India did not at that stage favour the imposition of statutory control on food-grain prices.

The first Price Control Conference of representatives of Provincial and State Governments met at Delhi on the 18th and 19th October, 1939. The general opinion at this conference was that there should be no interference with the course of food-grains prices. The rise in prices was welcomed as likely to lead, in some measure, to the economic rehabilitation of the agricultural classes. The President summed up the views of the Conference in the following words :—

"It was undesirable to check the rise in prices, at any rate, for the present as far as agricultural produce was concerned, but in course of time the problem might become serious, and there might have to be imposed two limitations :—

(a) with regard to necessaries of life, where the prices rose so sharply as to bring about serious social discontent; and

(b) with reference to Government supplies for War purposes when a steep rise would militate against adequate war effort."

5. The rapid rise in the price of wheat which was witnessed during the first three months of the war was, however, largely

checked by the time the Second Price Control Conference met on 24/25 January, 1940. It was preceded a week earlier by a Wheat Conference of representatives of the wheat producing provinces and the Central Government, in which the following general conclusions were reached:—

"(1) Having regard to the interests of the agricultural classes, no control of wheat price in the various wholesale markets was at present called for;

(2) (a) If at any time such control should become necessary, the appropriate agency for exercising such control would be the Central Government upon whom it would fall to decide, in consultation with other Governments concerned, what form the control should take;

(b) The majority opinion was that even when a steep rise of prices took place in the wholesale markets, which was regarded as likely to be temporary, it might be left to adjust itself;

(3) Retail price control, if undertaken at all, must be an issue for Provincial and State Governments and must only be administered on the basis of the prevailing wholesale prices."

The Second Price Control Conference reiterated the opinion expressed in the First Price Conference, though some concern was shown about the rate of increase in prices and the possibility of prices rising to an unduly high level. The Punjab representative made it clear that his Government would not consider price control till the price of wheat rose above Rs. 5 per maund at Lyallpur, other items of cost remaining the same.

6. The 1940-41 rabi crops were good and the harvest prices did not show any marked change except in Sind where wheat rose to Rs. 4-8-0 per maund. The trend of prices during 1940 was on the whole not disquieting and the general position at the end of the first year of war was as follows:—

Commodities.	Index Number.			
	Base: August 1939 = 100.			
Wheat	...	...	...	133
Rice	...	...	...	133
All manufactured goods	...	...	...	111.6
Cotton goods	...	...	...	110
All primary commodities	...	...	...	110.3

7. 1941-42 rabi crops were again good but the harvest prices shot up considerably, wheat being Rs. 5 per maund in the Punjab representing an increase of Rs. 2 per maund over the previous year and Rs. 5-6-0 in Sind. As the year advanced prices tended to stiffen still further and the index number of wheat prices rose by



hearly 50 points in September, 1941. This stiffening was not so much an indication of any existing shortages as an anticipation of coming events and a result of pressure of demand on available supplies. The position as in September 1941 is summed up below :—

Commodities.	Index Number.
Wheat ... ..	193
Rice ... ..	169
All manufactured articles ... ..	163.63
Cotton manufactures ... ..	190
All primary commodities ... ..	138.3

8. By the time the 3rd Price Control Conference met on October 16 and 17, 1941, complacency over the rise in price levels on the score of such rise being conducive to the economic betterment of the cultivating classes had given place to anxiety for consumers, and a good deal of concern was expressed at the trend of wheat prices. The Punjab representative, though still opposed to continuous control of price of wheat, admitted that some control would have to be enforced in case the price rose above Rs. 5 per maund. He also urged that the question of fixing a minimum price should be considered and he suggested that Rs. 3-12-0 per maund would be a suitable minimum price. He maintained that there should be no interference with harvest prices—i.e., no price control between 15th April and 15th July. The Conference, as a whole, felt that it might be necessary for the Central Government to intervene at any stage should the rise in the price of wheat continue unabated.

9. Such intervention became necessary towards the end of November, 1941, when wheat rose to more than twice the pre-war level. After a preliminary warning, therefore, the Government of India issued on December 5, 1941, an Order fixing the maximum wholesale price of wheat at Rs. 4-6-0 per maund in Lyallpur (Punjab) and Hapur (U.P.) and authorised Provincial Governments to fix maximum prices for other markets in the light of normal parities. The Punjab Legislative Assembly passed a Resolution on December 11, 1941, protesting against what it considered to be the low level of the maximum wheat prices fixed by the Central Government. By the middle of January, 1942, acute scarcity of wheat was experienced in big cities such as Bombay, Calcutta, Cawnpore and Amritsar. In order to conserve supplies, the Punjab Government banned the export of wheat from the province except on permits. This led to further deterioration in the food position, in consuming centres outside that province.

10. Accordingly in December 1941, the Government of India appointed a Wheat Commissioner for India to advise Provincial Price Control authorities, to regulate distribution of wheat, and to acquire wheat if necessary for sale through provincial agencies. In March 1942, the maximum wholesale price of wheat was raised to Rs. 5 per maund, and, towards the end of April a Wheat Control Order was issued regulating rail movement from producing to consuming areas on permits issued by the Wheat Commissioner.

These measures led to some improvement which, however, was short-lived.

11. The estimated production of the 1942-43 bumper crop of wheat was 11.0 million tons. Harvest prices, however, showed a phenomenal increase and were almost double those in the previous year. Wheat prices rose to Rs. 10 in the Punjab, Rs. 10-11-0 in the U. P. and Rs. 6-6-0 in Sind. The internal situation after August 1942 coupled with unfavourable war developments, led to a further deterioration in distribution of supplies, and, in December 1942, the Government of India took the important step of creating a Food Department. One of the first acts of this Department was to withdraw statutory control on the price of wheat. Attention was concentrated mainly on the problem of obtaining supplies rather than on controlling prices.

12. The 1943-44 rabi crops were slightly below normal and harvest prices of wheat varied from Rs. 8-15-0 in the Punjab to Rs. 8-8-0 in Sind and Rs. 12-11-0 in the United Provinces. In July 1943, the Food-Grains Policy Committee was set up and one of its recommendations was the general extension of statutory price control for all major foodgrains in all Provinces. It also suggested that the price should be fixed for a whole crop year and should not be revised during the course of the year. It made it clear that the Central Government should coordinate statutory prices throughout India as public opinion would not tolerate a 'hands off' attitude by the Centre.

13. In January 1944, a Price Advisory Committee was set up to provide the Government of India with expert non-official advice on prices. Apart from the Economic Adviser to the Government of India and representatives of the Food, Finance and Agriculture Departments, it contained representatives of (a) the Federation of Indian Chambers of Commerce, (b) Associated Chambers of Commerce, (c) Punjab and Bengal Producers and (d) a non-official

trade representative. The first meeting of this committee was held in March, 1944 to consider and recommend to Government the levels at which the prices of foodgrains should be fixed for the crop year 1944-45.

14. The Committee recommended

(i) Statutory maximum prices of wheat throughout India should be notified as soon as possible. As a uniform all-India price was not possible, differentials should be allowed between Province and Province and between markets and markets and deficit and surplus districts within each province, the latter being fixed by Provincial Governments with the approval of the Government of India. Statutory maxima should be fixed for 12 months and should apply to fair average quality wheat ;

(ii) Maximum price for the Punjab should be between Rs. 9-8-0 and Rs. 10 per maund and As. 2 higher in the U. P.

(2) *Barley and Gram.*—Statutory maximum price for barley and gram should be 7/10th and 8/10th of the maximum fixed for wheat.

The Government of India accepted these recommendations and asked the Provincial Governments to fix the following statutory wholesale prices :—

- |   |                 |     |        |
|---|-----------------|-----|--------|
| (1) for fair average quality wheat (unbagged) |                 |     |        |
| Punjab and North-West Frontier Province.      | ...             | Rs. | 9-8-0  |
| United Provinces                              | ... ..          | ..  | 10-4-0 |
| Central Provinces                             | ... ..          | ..  | 10-8-0 |
| Sind  | (Not exceeding) | ..  | 9-8-0  |
- (2) *Barley and Gram.*—7/10th and 8/10th respectively of the maximum wheat price.

Small differentials were permitted between various markets within a province subject to the approval of the Government of India.

15. In later years Rabi grains prices have been considered by the Prices Committee in March each year and the above statutory prices have been maintained during the years 1945-46 and 1946-47.

16. *Pulses.*—The extension of price control on an all-India basis to pulses was recommended by the Price Advisory Committee at its first meeting in March, 1944, but Provincial Governments considered this proposal inadvisable and impracticable in view of the

numerous varieties of pulses and the large number of producing areas involved. The Price Advisory Committee discussed this question again in its second meeting in August, 1944 and agreed that price fixation on an all-India basis, though desirable, was not practicable.

It suggested that those provinces which had not so far controlled pulse prices at reasonable levels should be asked to do so in consultation with the Government of India, keeping in view the statutory prices for food-grains. It further recommended that the Governments of areas where prices were then high, such as Bengal, Assam and Madras should be asked gradually to reduce them so as to bring them in reasonable parity with the prices prevailing in the producing areas from which they obtained their supplies. In April, 1945, therefore, the Governments of the main producing areas were asked to fix maximum price sellings for each kind of pulse F. O. R. station of despatch and to intimate these ceilings to the deficit Administrations concerned; the latter were also asked to prescribe maximum prices for each kind of pulse on the basis of prices in exporting areas plus cost of transport, incidental charges and reasonable remuneration to nominated importers. The response to the above request was not satisfactory as apart from some Indian States only the United Provinces and Central Provinces fixed ceiling prices. The Punjab refused to fix price ceilings for any of the pulses.

17. In pursuance of the announcement made in the Price Advisory Committee in March, 1946 and after considering the matter further in the Rabi Plan Conference in April, 1946 the Government of India issued circular telegrams to all Provincial Governments, Administrations and Residents suggesting that Provincial and State Governments should notify existing ceiling prices for pulses as statutory prices and that in areas where there were no such ceiling prices, prices prevailing in January, 1946, should be notified immediately as statutory maxima. After considering the reactions of the various Governments to this proposal, the Food Department in their letter No. PY. 615 (97), dated July 4, 1946, suggested the prices which in their opinion should be notified as statutory maximum prices for pulses in various provinces and States. Some Governments accepted these prices and notified them while others did not take any such action.

18. We now turn our attention to the determination of the level of prices of Rabi cereals and pulses. The price of wheat is the most important price in the rabi group and our general dis-

cussion is centred round the price of wheat. Before entering into considerations which lead us to make our specific proposals, we have to pass under review certain recommendations made regarding the fixation of agricultural prices by recent official enquiries.

19. *Famine Enquiry Commission on level of Prices.*—The Famine Enquiry Commission considered the question of the price of wheat in the course of their examination of food administration during the immediate post-war period. (Part I, Chapter VI). They expected the post-war transition period to last till about 1951-52. They divided this period into two stages and felt that at the end of the first period of transition, the fixation of a price as near as possible to 240 per cent. of the pre-war level would be appropriate in the major producing areas, that is, the Punjab and the United Provinces for wheat. They were of opinion that if prices were fixed in other provinces in normal parity with such prices they were unlikely to be very much in excess of or very much below 240 per cent. The average prices of wheat in the Punjab and United Provinces during the quinquennium ending 1938-39 were :

- |                                       |                                 |
|---------------------------------------|---------------------------------|
| (1) Punjab Rs. 2-5-6.                 | (2) United Provinces Rs. 3-0-6. |
| 240 per cent. of these prices will be |                                 |
| (1) Punjab Rs. 5-10-0.                | (2) United Provinces Rs. 7-4-5. |

It will be observed that these are substantially lower than the prices that were fixed as the statutory maximum prices in the Punjab and the United Provinces for the year 1946-47.

20. The Famine Enquiry Commission reported in the middle of 1945. It is too much to expect that the various turns in the history of production and trade since that period could have been accurately forecast by the Commission when it presented its report. The recommendation of the Commission cannot, therefore, be considered as more than an informed estimate. Moreover, many of the conditions that it prescribes for determining the end of the first period of transition have not been yet fulfilled. Apart from the definite index recommended by the Commission, it is interesting to note that in their opinion the aim in the first period of transition should be "to bring about a reduction of prices to the lowest level prevailing at present."

21. *Recommendations of the Prices Sub-Committee.*—The whole question of prices has been examined more recently by the Sub-Committee on Agricultural Prices whose report was published in March 1947. This Sub-Committee has recommended that fair prices

should be fixed on the basis of parity between prices and costs. It makes detailed recommendations regarding the manner in which agricultural costs should be determined and has recommended that the most suitable period to which the parity should be related would be the quinquennium 1924-25 to 1928-29. The Prices Sub-Committee has also considered the problem of the transition. Its specific recommendations in relation to the transition period, which it thinks would last for the two years, 1947-48 and 1948-49, are as follows:—

“Since during this period the present shortage of supplies and the prevailing high level of prices will continue and secondly many of the war time controls will be maintained, we are of opinion that the minimum price for this period should be fixed at a level equivalent to the fair parity price. It is important to so orient the policy of the State during this period of transition that the way must be paved for the early and smooth restoration of normal trade conditions.”

This suggests the level at which the minimum price for the period of transition should be fixed and indicates the objective of the policy to be pursued by the State during this period. There is no indication given by the Sub-Committee regarding the level at which maximum prices should be fixed for the period. The fair parity price is defined by the Sub-Committee in terms of a base period and involves calculation of changes in agricultural costs. The aim should be to link agricultural prices to variations in the prices of certain items in agricultural costs. The items on which attention, in the opinion of the Sub-Committee, should be concentrated are iron implements, bullocks, manures, cattle feed such as oil cakes and fodder, labour and such other items as enter into cultivation expenses and cloth, salt, *gul*, sweet oil, kerosene oil, etc.

22. The recommendations of this Sub-Committee have an obvious bearing on the reference under consideration by us. In arriving at a decision on the basis of the Sub-Committee's recommendations several difficulties are experienced. The difficulties are chiefly statistical. It is necessary to obtain statistical data of prices which are comparable and are fully representative of the commodities and services mentioned by the Sub-Committee for the base period and for the year under consideration. There are a series of returns from provinces regarding prices during the entire period. These do not usually cover in a satisfactory manner the field indicated by the Sub-Committee. It is also very difficult to judge to what extent these prices have been collected uniformly and relate to the same qualities of commodities for the whole period.

23. There is one index number of wholesale prices in India which covers the period 1924—29 and is maintained today. This is the Calcutta index number of wholesale prices and it contains, for some of the items mentioned by the Sub-Committee, a number of continuous series of prices. These series are for cloth which is represented by two quotations, for *gul*, for mustard oil which may be taken to represent sweet oil, for kerosene and salt. In the Calcutta Index there are no quotations which could represent bullocks, manures, oil cakes, fodder or iron implements. We may, however, take the general iron and steel series as representing iron implements. The Calcutta series do not thus supply us with the data necessary for calculating the variations in the cost of production on the basis recommended by the Prices Sub-Committee. It would still be instructive to ascertain the results of the formula while confining the calculations to the data available. If an index is prepared for the series mentioned above which is not weighted in any manner, the result of a calculation taking the average of the six calendar years 1924—29 as hundred is that the index number for 1946 will be 178. We have also made calculations giving certain weights to the series. The corresponding results of the weighted index is 181. The weighted index number does not differ materially from the unweighted so that the significance of the attachment of weights may be considered as negligible in this particular instance. The average wholesale prices of wheat in the Punjab and U. P. in the quinquennium ending 1928—29 were: Punjab Rs. 4-9-0 and U. P. Rs. 5-6-0. Applying the two index numbers to these, the parity prices for 1946 would be with the index at 176; Punjab Rs. 8-0-6. U. P. Rs. 9-7-3, and with the index at 178: Punjab Rs. 8-4-0, U. P. Rs. 9-11-8.

24. We had also access to certain detailed calculations made with the data available for the Province of the Punjab. The result of these calculations is a price of Rs. 8-8-0 at Lyallpur for January 1947. It is not necessary to go into the details of these calculations. It is, however, clear that at best a considerable number of assumptions will have to be made in working out the formula given by the Prices Sub-Committee and that a number of these assumptions and the data that will have to be used in calculating the parity prices will remain open to challenge. It is thus impossible, at least at this stage, to arrive on the basis of the recommendations of the Sub-Committee at results which are definite and which can command general confidence.

25. This was evidently also the opinion of a number of members of the Sub-Committee. The following occurs in a note written by Sir Pheroze Khareghat and supported by three other Members which is appended to the report of the Sub-Committee.

"That the recommendation of the Committee as it stands is ambiguous will be apparent from what has transpired. At one of the meetings of the Committee, the Chairman enquired what the formula would result in. From the reply given by one of the members, I had the impression that the formula recommended by the committee worked out in practice to a price of about Rs. 8 per maund for wheat at Lyallpur. As this figure was more or less what I had in mind, I did not pursue the matter further.

"This figure is however not being mentioned in the report. Moreover it appears that if certain mysterious 'adjustments' are made, the figure will drop to Rs. 6-8-0. Nor is it unlikely that, on the basis of some other assumptions as regards allowances to be made and weightages to be given, the figure may even be reduced to Rs. 4-8-0 or less."

26. In the circumstances, we do not think that it will be safe for us to rely on any statistical interpretation of the recommendations of the Prices Sub-Committee for our findings. Apart from the lack of statistical data and other theoretical and practical difficulties in using the parity formula, there are certain inherent objections to using such a formula for determining price in this period. The present is a time of transition from an economy which has borne the stresses of war and of inflationary finance and still retains many of the features of that period. We are presumably making orderly progress towards the attainment of more normal conditions and the policy of Government, including its policy in price fixation, should help in the process. Price fixation, viewed in this light, is something much more than the finding of some supposedly ideal relation which does or should obtain between the prices of various groups of commodities and services. The parity approach assumes the equity and the correctness of a relation between various prices during the base period and attempts a reproduction and continued maintenance of it. Every price represents, however, not only a relation but also an operative force. In a dynamic economic situation, prices are continuously in flux, being operated upon by a variety of economic forces. Each individual price is, however, in itself an economic force operating on other prices, as well as on all types of economic activities. In a period of transition, when the changing nature of economic circumstances is emphasised, the dynamic character of prices attains special importance. Price fixation then is no longer to be looked upon chiefly as the process of the restoration and maintenance of an assumed ideal relation but as an instrument of policy for initiating and bringing about changes at a given pace in



given directions. These considerations have special importance, when the price is so central to the economy of the country as the price of rabi grains in general and of wheat in particular. On all these grounds, we do not favour the approach to this question by way of determining prices through a formula. We would rather approach the question through a general examination of existing circumstances and of the needs of immediate policy. The results obtained by this approach are, of course, less definitive than the results of a pre-determined parity formula.

27. *Yield and Prices.*—Four aspects of the price of wheat deserve special attention: Firstly, the effect that any price level will have on the income of farmers. Farmers growing wheat and those who grow rabi grains in general, form an important part of the Indian agricultural community. The incomes that accrue to them influence the working of Indian rural economy and Indian economy as a whole. Any sudden fall in the income of these farmers may lead to a crisis in rural and general economy. A rise in their incomes has in recent years brought about noteworthy changes in a number of areas.

28. The price of wheat may be related either to the gross receipts or to the net income of the farmer. In a relation with gross receipts, the chief factor is that of the yield of the crop. Those who advocate the stabilisation of receipts of the farming community as an aim of price policy would have prices adjusted in an inverse relation to fluctuations in output. It is extremely doubtful whether under existing conditions, it would be possible in India to attain through price policy such stability of gross receipts. The output of cereal crops in India varies to a considerable extent from year to year. The variations are specially marked in regions where the crop is dependent chiefly on the vagaries of rainfall and other seasonal conditions. Further, the variations in the character of the season and in output are by no means uniform all over the country. Crops may fail completely in some regions while they are fair or average in others. The changes in prices that would have to be made year by year and the variations that would have to be maintained region by region for the attainment of the stability of gross receipts, even over wide areas, would indeed be very large. There are obvious disadvantages from points of view other than those of the farmer in allowing such large variations in prices. Also, the administration of an all-India statutory price control would be almost impossible with large disparities in the price levels in various regions. In the circumstances, it is impossible to attempt to stabilise

in this manner the gross receipts of a farmer or in any other manner, to link up variations of price with variations in output and yields of crops in different regions.

29. *Cost of Production and Prices.*—We may next turn our attention to the cost of production of agricultural products and the possibility of relating prices to it. It is understood that the determination of agricultural prices in the United Kingdom is influenced to a large extent by calculations relating to the variations in costs of production in agriculture. It may, however, be pointed out that in the United Kingdom these calculations are made the basis of the bargaining which leads to price determination and are not used by themselves to determine prices directly. No attempt can, however, be made to link prices to costs of production if the necessary cost data are not available. The Prices Sub-committee has commented on the paucity of the data relating to costs of production in India and the lack of any organised agency which collects comprehensive data relating to the costs of production. The Sub-Committee has recorded that it is not in a position to recommend the cost of production approach for the fixation of fair prices until necessary data have been collected on a scientific and proper basis. Thus, even though there are strong reasons why considerable attention should be paid to variations in costs of production in determining prices and recommending variations in them, we are unable in the reference under consideration to undertake any examination of this aspect because of the lack of relevant information.

30. We would, however, examine in this connection a plea that has been put forward in the last year or two on behalf of the farming community. It is that the costs of production in agriculture have increased during the last two years notably with increases in prices of draught cattle and agricultural labour and that an increase in agricultural prices commensurate with these increases is today justified. This argument is based on an implied parity formula and does not follow the cost of production approach. What is argued in effect is that the agriculturist should be guaranteed in prices the same margin over cost that existed during the period 1942-44. Use of the data regarding relative movements would link prices not to costs but to profit margins during the basic period. In order to relate prices to costs a sufficient wealth of cost of production data of a minimum degree of reliability must be available in absolute terms.

31. *Price and Cost of Living.*—Another aspect in relation to which the price of wheat has to be considered is the cost of living

of non-agriculturists and especially of industrial and agricultural labour. Articles of food form an overwhelming group in the cost of living of the bulk of the population in India and among articles of food, the price of place is easily taken by cereals. It is an indication of the low standard of living in the country that expenditure on cereals should form the most important single item in the consumption expenditure of our workers. The price of wheat and of foodgrains linked with the price of wheat thus influences to a substantial extent the movements of the cost of living index number. With an increase in the price of wheat, the index number of the cost of living is liable to move up. In some industries a part of the earnings of labour are at present linked to this index number. Even where they are not so linked, the cost of living exercises considerable influence over the movements of the wages of labour in urban and industrial centres and over salaries, especially of the lower paid employees. The increase in the cost of living and its maintenance at a continuously high level has resulted in a progressive increase in wage and salary payments. The cost of living also influences the wage level in agriculture, which by now has risen to a considerable extent. It may be that recent increases in the cost of living are the reflection of increases in prices other than those of cereals. It cannot, however, be gainsaid that the original upward movement in the index numbers of the cost of living index was more largely due to a rise in the price of cereals than to any other single factor and that the maintenance of a given level of cost of living depends on prices of foodgrains to a significant extent. The above considerations merely indicate that in the initiation of a reduction of the general cost of living a reduction of the price of cereals, including wheat, would be an important factor and that if it is thought necessary or desirable to start a movement towards decreasing the cost of living immediately, a reduction in the price of wheat would be one of the important steps in the process.

32. *Price and Distribution of Area Under Crops.*—A further aspect of the price of wheat is the influence that prices of agricultural products have on the distribution of acreage under crops. It is not the absolute price that is important in this context. It is rather the relation that the price of any crop bears to those of other crops that is relevant. Presumably, when any normal relation between prices of various crops is disturbed, the acreage under crops whose prices have increased more than the average should increase at the expense of the acreage under those whose prices have increased at less than the average. The rule is, of course not invariable and its operation may not be visible immediately

and may be modified by a variety of other factors. There are a large number of limitations on the extent to which any individual producer can change, within a short period, the area normally devoted by him to the production of individual crops. This is especially so when the crop is as important and as central to his economy as the main cereal crop. Variations of acreages under crops do, however, influence price policy and we note that some months ago an increase in the price of sugar and of sugarcane has been granted chiefly on the ground that the relatively lower increase in sugarcane prices had led to a diversion of the acreage under sugarcane to other crops which had proved more remunerative. At present, the price of wheat does not compare unfavourably with the prices of agricultural products which may potentially compete with it for land. There has also been no complaint that areas under wheat have increased disproportionately because of specially large increase in the price of wheat. In recent years apart from any inducement held out by an increase in prices, there has been carried on by Government a campaign in favour of increasing the area under food crops. The results of this campaign or of any inducement that might have been held out by wheat prices cannot clearly be traced in available statistics. The statistical data and the general evidence yield only a negative result. There is nothing to show that the areas under rabi grains are decreasing and need to be specially stimulated by an increase in the price of wheat and other rabi grains.

On the other hand, apart from the instance of sugarcane cited above, there has been no general complaint that the price of wheat has exerted a harmful competitive influence on acreage under other crops.

33. *Internal Prices and their Stabilisation.*—This discussion relating to aspects bearing immediately on the price of wheat does not yield results which are definite enough for our purpose. It is, therefore, necessary to go further afield and consider the price of wheat in relation to the general structure of prices, internal and external. The most important considerations relating to the internal price level are the degree of stabilisation of prices that has been achieved already and the level at which prices should ultimately be stabilised. The price level in India did not rise rapidly during the first years of war. The marked rise upwards began in the middle of 1942 and gathering momentum, rapidly became an inflationary movement. This reached a peak in about June 1943 and there was immediately afterwards a slight recession. For some

years after the attainment of the peak in 1943 the price level as a whole may be said not to have shown any large movement either way. The relative prices of a number of commodities were changed but this relative change did not show a marked effect on the price level as a whole. During the last few months, another general movement, though not as marked as the earlier one, has been in evidence. Prices of a large number of commodities not under control have risen and the prices of some commodities under control have been increased.

34. It is difficult to say whether costs and prices over the major field of economic activity reached any relation of stability during the period of about three years of comparatively small change as this was an abnormal period of largely controlled economy. The total movement, since the pre-war period, in a variety of groups of commodities has been disparate. Some products, like petrol, kerosene, iron and steel have not increased in price even up to double the level of their prices in 1939; whereas important cereals and most oilseeds are over three times the pre-war level of their prices. The information available relating to movements in wages and salaries is not full and the movements have possibly been very different from category to category and region to region. In the circumstances, it would be rash to presume that prices have stabilised today at any particular level. With such great disparity in price variations the general index number of wholesale prices or of cost of living represents a more average figure having no necessary relation to a level of stabilised prices.

35. The argument for not bringing about a change because of the fear of disturbing a settled and normal relation between different prices is not valid in these circumstances. It is also difficult to say whether costs and prices are today in any particular stable or desirable relation with each other. Costs have now caught up with prices much more than in the earlier period of inflation. It is, however, doubtful whether they have established a new normal relation and whether they have rigidified. In times of transition like the present, a particular relation of costs and prices, even if it bears close resemblance to a normal relation, has not the same significance. When costs as well as prices are fluid it is likely that if prices are moved, costs also could be moved or may move themselves. The above discussion is chiefly related to the plea that now that prices of foodgrains have been maintained at a particular level for 2 or 3 years, there is a presumption in favour of the continuance

of that level. There is no such presumption because the whole structure of prices and, indeed, the whole working of economic society, has not resumed its even level and its normal course.

36. After a period of considerable price disturbance the problem of the level at which stabilisation should take place anew always presents difficulties. If the period of disturbance has been short, there is a natural desire to revert to as near the level of prices before the disturbance as possible. During the last few years the increase in the level of prices has been very large in India. The increase has been widely spread and it has in due course led to a revision upwards of all categories of incomes. It is not possible to contemplate today a return to the pre-war level of prices with equanimity. It would involve too drastic a revision of the existing price structure and too great a disturbance in the process. At the same time maintenance of the existing price level is, for many reasons, also invisible. At what level prices should be stabilised in the normal post-war period is, however, a question to which no easy answer can be given. There are no landmark or fixed points by which the course, in this transitional period, can definitely be chartered.

37. *Present Level of Wheat Prices and Agricultural Costs.*—In relation to the price of wheat, in particular, the one noteworthy feature is that this price has risen much more than the average of other prices. As has been pointed out above, it would be possible to build a case for the reduction of wheat prices on this fact alone if one accepted the prices of 1939 as fair equilibrium prices. It has, however, been often said that prices of agricultural produce in 1939 were not fair to the farmer and that a rise in wheat prices greater than the average is justified to correct this inequality. To what extent this increase is justified and to what extent it can be maintained are questions to which it is not possible to give any quantitative answers.

38. One feature of agricultural costs is unmistakably important. From all accounts, the burden of debt on the farmer is today, at least in real terms, lighter on an average than before the war. The burden of taxation on him has also increased much less than the average increase in prices. An adjustment of agricultural costs and prices at a lower level all round may not be difficult as long as these conditions continue. The effect of a reduction of the price of wheat would, however, be much more felt by the farmer if during the next year or two the average burden of his debt repayment and service is increased to real levels proportionate to the pre-war level.

This would constitute an argument in favour of beginning the effort at any such reduction of cereal prices as is thought desirable at as early a stage as possible.

39. *Relation of Internal to external Price Levels.*—Internal prices have to maintain a relation with prices in other countries. India is now a member of the International Monetary Fund. One of the obligations of the membership of this Fund is the obligation to confine movements of rates of exchange within certain limits. The par value of the rupee can no longer be changed by unilateral action to any large extent by the Government of India. Any substantial change in this par value will be possible only with the consent of the Board of the International Monetary Fund. In the circumstances, the price level in India must remain in a relation with the price levels in other countries, which will enable the Government of India to maintain the par value of the rupee at the levels at which it has now been fixed. During the period of the war, the foreign trade of India as well as remittances to it and from it, were completely under control. Since the end of hostilities, trade has been freed to some extent. Even today, however, the importation and exportation of merchandise as well as the remittances of funds, operate under control. The effects of any disparity between internal and external prices are therefore not fully evident in the terms of trade or the balance of payments. Also, the general shortage of commodities throughout the world keeps in check the potential effects of any disparity that might exist between the internal and external value of the rupee. That such a disparity exists at present is undoubted. The extent of inflation in the major countries with which India carries on foreign trade has been, on an average, much smaller than that in India. In some of these countries prices are as much in a state of flux as they are in India and it is difficult to say at this juncture at which level and by what date a stabilisation in these prices and in world prices as a whole will take place. However, it might be presumed that in the United Kingdom and in the Dominions the present tendency of prices to rise is still well under control and will not be allowed to proceed far. In the U. S. A., where control over prices has been recently abolished, and an upsurge of prices in general has been in evidence, the movement seems to have greater force. However the increase in prices in U. S. A. during the war was significantly less than the increase in prices in the United Kingdom and even if the present movement is much stronger in the U. S. A. it is unlikely that it would carry the level of prices in U. S. A. much

beyond the level reached in the United Kingdom. Informed observers do not in any case expect that the price level in the important Western countries will be allowed to be stabilised at higher than double that of pre-war. That indeed is the maximum level at which any such stabilisation is predicted for these countries. If this expectation proves true, the internal price level in India may be found, when normal trade is resumed, to be considerably out of relation with the prices abroad. Though no quantitative forecasts can be made with any confidence, it is clear that a substantial reduction in the general level of prices should have been brought about in India if difficulties with exchange rates and with foreign trade are to be avoided. The length of the period of transition cannot be judged with any accuracy, It has often been put at about 3 years. If Indian prices have to be brought into relation with external prices within two or three years, it would appear to be wise to begin operating on the internal price level in a suitable manner as soon as this is practicable.

40. It has already been indicated that the prices of cereals and the price of wheat in particular hold an important position in the general structure of Indian prices and in relation to a reduction in the cost of living. An adjustment downwards of the whole structure of costs and prices would necessitate a bringing down of the cost of living and this depends on the possibility of bringing down the prices of cereals, cloth, etc. The likelihood of the resumption of normal trade with foreign countries within a few years' time and of the stabilisation of price levels in countries with which India conducts a major portion of its foreign trade at levels much below those obtaining at present in India, indicates the need of beginning to operate downwards on all important controlled prices, including the prices of cereals.

41. *Future International Wheat Prices.*—In addition to this general consideration, there is the specific consideration regarding the international price of wheat. The price of wheat in India would have to bear some relation to the price of wheat in other countries. It is difficult to forecast the exact level at which the international price of wheat will be two or three years hence. The data relating to international wheat contracts have some significance in this connection. The sphere of Government trading has been enlarged during times of war and it is likely that Government trading will continue to play a large part for some years to come in trade in cereals. The contracts entered into by the United Kingdom with the Governments of countries from which it buys its requirements



of wheat may be taken to reflect the expectations relating to the future prices of wheat of the exporting and importing countries. The average price at which wheat has been brought from Canada and Australia by United Kingdom in recent years has been round about 150 cents per bushel, and the agreement of the United Kingdom with Canada provides for a lowering of the minimum price. Again, the range of price stabilisation, which was discussed during the recent conference of the Preparatory Commission of the International Wheat Council was 125 to 155 cents per bushel. In the report of the Preparatory Commission of the Food and Agricultural Organization a special level of low prices at which wheat might be made available to poorer countries has been suggested. It is true that in the post-war period India will no longer be a wheat exporting country. Wheat prices in India could, therefore, be higher than wheat prices on the international wheat market. In a country which regularly exports wheat, the international prices have to be on an average lower than the price level on the international market. In a country which normally imports wheat, the relation is the reverse.

The change in the role of India from a country which exported a small part of its crop of wheat to a country which imports a small part of its requirements of wheat may have a corresponding influence on wheat prices in India. Even so, wheat prices of the future in India are not likely to rule much above the upper limit contemplated by the International Wheat Council Preparatory Commission.

42. Among all the factors that have been considered by us so far the only factors to give a positive and, in some measure, a quantitative indication regarding the level of prices of wheat are the par value of the rupee and the probable international price level of wheat two or three years hence. We would, in the light of these considerations, as also in view of the need to decrease the cost of living in India, be justified in recommending some decrease or reduction in the statutory maxima fixed for wheat prices in India.

43. *Present International Wheat Prices.*—There are, however, a number of other considerations to which attention must be drawn before any definite recommendation is formulated. While it is true that after two or three years, the prices of wheat on the international market are expected to reach levels comparatively lower than the existing Indian levels, the present conditions in the international wheat market are very different. That market is today

under considerable pressure and the price of wheat is substantially above the 155 cents level. There is reported a general scarcity of wheat and wheat products in the world as a whole.

44. *Present Oil Seeds Prices.*—Another feature of the existing situation is the possible effect of the recent decontrol of the prices of oil seeds. The prices of oil seeds had shown a tendency to move upwards from the beginning of this season which had only been partially kept in check by measures of control contemplated and devised. The price level, on decontrol in early March, shot up to a level very much higher than the level of prices during the previous year. The index number of oil seeds in the Economic Adviser's index stood on 9th March 1946 at 346.5 as against 424.2 on 8th March 1947. The general increase over the pre-war level is higher than the increase for wheat and rice. A high level of oil-seeds prices is likely to affect the price of wheat in two ways. It may lead to some diminution in the acreage under wheat owing to diversion of land to oil seeds. It is true that a diminution in wheat acreage will not necessarily affect the price of wheat in the current season or even in the succeeding season, if the price is successfully kept under control. However, no incentive should, if possible, be given to a diversion from wheat to oil seeds as might well happen if oil seed prices still remain uncontrolled at the beginning of the next season.

45. *Current Wheat Season.*—The agricultural season has not been unfavourable in the main wheat producing areas of the Punjab and the United Provinces. The wheat crops of the Central Provinces and Bombay have, however, failed to a large extent and there is, in the country as a whole, a marked shortage of wheat. Reports regarding the rising wheat markets in other countries, the phenomenal rise in the prices of oil seeds and the shortage of wheat supplies even in rationed and semi-rationed areas are all features which must influence the expectation of wheat farmers. In these circumstances, in the opinion of all Provincial Governments and also of the Food Department of the Government of India, no attempt should be made to reduce the level of prices of wheat.

46. *Conclusion regarding Level of Prices.*—To sum up, in view of the considerations set out in paras 31 and 37 to 41, we feel this would have been the appropriate time to begin a reduction by small degrees in the price of wheat. However, special features of the existing situation indicated in paras 43, 44 and 45 lead us to take a different view. Our main conclusion relating to the levels of statutory prices is that there should be no change for the

year 1947-48. During this year they should be retained at the same level as the prices of 1946-47.

47. *Enforcement of Statutory Prices.*—The enforcement of prices is an issue on which we feel it necessary to make some observations. Under present controls, the prices of cereals are settled within certain maximum and minimum levels by the Government of India. The Provincial Governments are authorised to fix differentials to suit local circumstances. The level of statutory maxima for their areas announced by Provincial Governments is the legal level within the boundaries of the Province. There are bans against the movement of cereals, except by special permits, from one Provincial or State unit to another. Provincial and State units are thus closed markets in themselves. The differences in prices between province and province are based usually on the observed differences in the normal pre-war period or the differences that existed immediately before the imposition of statutory control. The differences in prices between different localities when movement was free were differences brought about by reasons of conditions of supply and of transport costs between any two points. There was no abrupt change in price when an administrative boundary was crossed but there were gradual changes between nearby points whether in separate provinces or within the same province. The regime of provincial prices brings about a certain artificiality of conditions in areas where provincial boundaries touch. Special stresses are created because the difference in provincial rates makes for a significant difference in prices even within a few miles near the borders. The levels of prices in contiguous provinces are, therefore, of importance in the administration of price control in any province and the difficulties of administrations are increased considerably when there is either no effective enforcement of price control in a particular area or in one way or another, the price is, in fact, allowed to be increased. It has been brought to our notice that some Provincial Governments have in recent months increased the rates of payment for transport of grain or have in other manner effectively increased the price paid to the producer in their areas over the price paid formerly. This changes the normal differential fixed in relation to the prices in neighbouring administrations, which find that discontent is created in their areas and smuggling encouraged from them.

48. The same is the effect of a lax enforcement of statutory price control. In this connection, we must draw attention to the prices reported by trade representatives to be ruling at an important

wheat market in the United Provinces, Hapur. The price returns supplied to news agencies as also the price returns included in publications of the United Provinces Government Department of Economics and Statistics show almost throughout the year the actual price at Hapur as ruling very significantly above the statutory maximum for the United Provinces. The representative of the Provincial Government told us that the prices quoted in the newspapers or in Government bulletins were prices at which no significant transactions took place, that in effect they must be black market prices prevailing in surreptitious trade outside the boundaries of the city. It is difficult to believe that the regular returns of prices made by trade representatives and accepted by Government agencies could only refer to small negligible black market transactions. It is at least certain that representatives of neighbouring administrations, as that of the Punjab, are under the impression that the Hapur price quotations represent the effective price in the market at Hapur. Their complaint is that it creates difficulties in their administration and has a demoralising effect on the morale of their farmers to hear that substantially higher prices than the statutory maxima are being obtained by producers in neighbouring areas. We would, therefore, emphasise the need for Provincial Governments making every effort to see that the statutory maxima declared by them are enforced and observed for all transactions within the province.

49. The enforcement of statutory maxima, we may observe in passing, is closely linked to the systems of procurement of food-grains of Provincial Governments. As long as Provincial Governments are content to provide for the need of only a small percentage of the non-agricultural population within their charge and exercise market and movement control only to the extent necessary to procure quantities related to this aim, the statutory maximum is bound, during at least certain months, to be exceeded over large regions. This is not the place to go into the details of the merits or the working of any systems of procurement adopted by Provincial Governments. These systems have, however, a very important influence on prices and their enforcement and for our purpose it is necessary to urge that whatever the system adopted by any Provincial Government it should lead to an effective enforcement of the maximum over all regions and for all the months of the year.

50. *Pulse Distribution and Prices.*—The administrative difficulties relating to price enforcement assume overwhelming importance in the question of the price of pulses. We have in the first part of the report given a historical resume of pulse price control. It will

have been clear from it that pulse prices have only been partially controlled and that the enforcement of these controls has not been satisfactory in a large number of provinces. The Government of India in the Food Department recommended statutory price control of pulses to all Provinces and States during the last year. Actually price maxima were declared only in a few areas and the effective control of prices was not in most cases very successful. The position of pulse prices and supplies is still serious and gives room for anxiety. It would indeed be very desirable if a rational distribution among various regions of the supplies of pulses available in India could be brought about and if the prices of pulses could be kept in close control related to the prices of cereal foodgrains. The recent course of pulse prices may be indicated by the Economic Adviser's index of pulse prices, which was 244.1 for the week ending 17th March, 1945; 316.1 for the week ending 16th March 1946; and 386.2 for the week ending 15th March, 1947.

51. The Food Department of the Government of India attempted to work out a basic plan for pulses during the last year. One or two of the surplus provinces were able to maintain a fairly rigid control over the prices of pulses in their areas and to make available at statutory prices the quantities allotted in the basic plan to Governments of deficit provinces. In our opinion, a basic plan for pulses according to which the surplus provinces and states are able to make available pulses at statutory prices to deficit areas would go a long way towards relieving the likely distress of the coming year.

52. The number of rabi pulses is small. Gram is the most important of the rabi pulses and is the only one that is important all over India. Moong and Urd are grown in rabi in Orissa. The question of their prices is included in the reference made to us and we deal with it in paragraph 57. There is no difference of opinion regarding the continuance of control over gram prices.

53. *Minimum Prices and Guarantee.*—Our general conclusions relating to the level of wheat apply to the level of minimum as well as of maximum prices. There is very little likelihood of either the minimum price or the guarantee by Government that it would buy at that price, becoming effective during the next 12 months. There is, however, no reason why we should suggest any change either in the policy of Government to guarantee the minimum or in the level at which the minimum is fixed. If we had thought it necessary or desirable to recommend a reduction in the maximum prices, which are almost everywhere the effective prices, the problem of considering a change in the minimum might also have arisen.

54. *Statutory Maximum for Sind.*—A demand for increasing the statutory maximum has been made by one province. The Government of the Province of Sind claims that the statutory maximum for Sind should be placed on the same level as that for the Punjab. It sees no reason why Sind should get a lower price than the Punjab. It adds: "Sind would prefer to maintain the existing price of Rs. 8-10-0 per maund for station delivery provided the Sind Government is allowed to keep for itself any difference that may exist between this rate and the final rate in the Punjab". Neither in the note submitted by the Sind Government to the Board nor in the personal discussion with the representative of the Sind Government has any argument been adduced to show that the present price is either uneconomic or unsuitable in any other way. The argument of the Sind Government in favour of its claim is a purely financial one. The Sind Government desires that the difference between the price ruling in the Punjab and the price at which it has purchased grain within its own areas should accrue to the Provincial revenues. If the statutory maximum in Sind is not raised, the advantages of the lower price in Sind will be reflected in a lower price to the consumer in Sind itself and a lower burden on the consumers of Sind wheat in other Provinces. If the claim of the Sind Government is conceded, the cost of living in areas which consume Sind wheat will, however slightly, be affected. In view of the general review of the situation made by us above, we would avoid any recommendation that would increase the cost of food to the consumer unless it were justified on economic grounds. We are therefore unable to recommend that the statutory maximum price in Sind be raised.

55. *Gram and Barley Prices.*—The prices of gram and barley have been fixed since 1943-44 in relation to the price of wheat. For the last three years, the price of gram has been fixed at 8|10ths of the price of wheat and the price of barley at 7|10ths of that price. No complaints have been made regarding the continued maintenance of this relation, which was itself based on an average of the relations in the pre-war period. We recommend that the price of barley and gram be continued to be fixed at the old relations. In one province, Bombay, the statutory maximum of the price of gram rules at 9|10ths of the price of wheat. We understand that this particular relation was initially adopted because of certain circumstances relating to stocks held by the Provincial Government. The relation has continued to be maintained even though the circumstances no longer exist. We also understand that the actual purchase price paid by the Government in its purchases in surplus districts has never been up to 9|10ths of the whea.

price in the province. We see no reason for maintaining the statutory maximum in one province at a level different from that determined for the whole of India. We recommend that the statutory maximum price for gram in Bombay province should be fixed as in other Provinces at 8/10ths of the price of wheat.

56. *Orissa Pulse Prices.*—A special reference in pulse prices is that of the prices of Moong and Urd in Orissa. Orissa is surplus in these pulses and last year the Provincial Government agreed to fixing a statutory maximum of Rs. 8-8-0 for both these pulses. The Government of Orissa now represents that it suggested the maximum price last year under some misapprehension and that it is necessary this year to raise the price to a considerable extent. The Provincial Government suggests that in relation to prices in other areas especially the Eastern States, the prices for both these pulses should be increased to Rs. 11. The movements of pulse prices during the last year have been for the most part erratic and are, therefore, unreliable for the fixation of a proper level of prices during this season. The reason for the specially high price in the Eastern States, is, we understand, the special costs of transport that have to be borne in transporting pulses into the areas of the interior. Pulse prices during the last year have risen specially high in deficit provinces and in some surplus provinces they have also been allowed to move high in sympathy. However, in an important surplus province, the Central Provinces, where effective control over pulse prices has been exercised, it has been possible for Government to maintain them at reasonable level, even though before the adoption of special measures, they had, during the early months of 1946, soared high. During the latter part of 1946, the prices quoted at Raipur, an important market in the Central Provinces not far from the territory of Orissa, for both Moong and Urd were in the neighbourhood of Rs. 9-8-0. Similarly, the prices as reported for the markets in Orissa itself during the year 1946 were in the main between Rs. 9 and Rs. 10. An examination of the statutory maximum prices proposed by the Government of India for adoption by Provincial Governments and States in July, 1946, shows somewhat large and surprising variations. It also reveals that the prices fixed for Orissa were among the lowest of these prices. Taking into account the general position of pulse supply, and the pulse prices obtaining under reasonable control in the Central Provinces we feel that there is a case for some enhancement of the statutory maximum of prices of Moong and Urd in Orissa. We do not think that an enhancement of the price to the extent asked for by the Orissa Government is justified. In our opinion, it would meet the require-

ments of the case if the statutory maximum price was enhanced by one rupee and was fixed for both these pulses at Rs. 9-8-0

57. The price of rabi jowar in Bombay Province has been also referred to us for consideration. We find that its inclusion was due to a misunderstanding. The price for both kharif and rabi jowar is fixed at the beginning of the kharif season in the province of Bombay, being the same for both kharif and rabi harvests. No question, therefore, arises of revising at this stage the prices of jowar in Bombay. The position has been clarified in our talks with the representatives of Bombay province. It is not necessary for us to make any recommendations in this regard.

S. I. HAQUE,  
*Secretary.*

*Dated the 31st March, 1947.*

A. D. GORWALA,  
*President,*  
D. R. GADGIL  
*Member.*



## II

### CONTROLS AND THEIR CONTINUANCE

1. *General.*—Questions regarding the need for the continuance of economic controls and the duration and sphere of such controls have recently been prominently before the public. A general examination of these questions is attempted in this note.

2. We begin with an assessment of present economic conditions and go on to estimate likely trends in them in the immediate and the near future. The first step is to examine the volume of production and the volume of goods available for consumption. The volume of physical production is significant from two points of view. In the first instance, as shipping is yet scarce and the supply of most important commodities is comparatively short in the world as a whole, internal production in India determines to a very large extent the level of possible internal consumption. Secondly, the volume of production has considerable influence on the movement of individual prices and of the general level of prices.

3. *Agricultural Production.*—Tables 1 and 2 set out the data relating to area under crops in India and the per acre yields of certain important crops.

*Agricultural Production.*—It should be noted that the total acreage under crops in the country has increased very slowly and there is no reason to suppose that the increase will be more rapid in the future. For a short period like, say, three years, the effect of increase in production through increases in acreage may be considered negligible. The per acre yields of important crops for which statistics are available reveal no trend towards a general increase in per acre yields. Agricultural production in India fluctuates greatly from year to year. These fluctuations are due, in the main, to the nature of the agricultural season. During particular years in the period of war, the incentive to increase production by way of high prices was considerable. The incentive, perhaps, led in certain instances to diversion of acreage from one crop to another. But there is nothing in the statistical data to indicate any general increase of productive capacity or any special spurt in

TABLE 1—STATEMENT SHOWING AREA UNDER CULTIVATION  
IN REPORTING AREAS IN INDIA

Source :—The Triennial averages figures are taken from Table No. XIII of "Food Statistics" of India except those of non-edible oil seeds and cotton which have been taken from statement No. IX.

(Figures in 000 acres)

Crops	Average Trienni- um end- ing 1933-34	Average Trienni- um end- ing 1936-37	Average Trienni- um end- ing 1939-40	Average Trienni- um end- ing 1942-43	1943-44	1944-45	1945-46
1	2	3	4	5	6	7	8
Total acreage under all crops.	3,19,067	3,16,383	3,16,860	3,24,223	...	...	...
*Major Cereals	1,68,563	1,68,122	1,70,865	1,71,360	1,70,947†	1,90,472†	1,85,868†
Cereals & Pulses	2,37,811	2,34,884	2,34,627	2,40,296	2,51,613	...	...
<i>Oil Seeds—</i>							
Edible	17,344	15,302	18,663	18,093	18,164	19,923	19,166
Non-edible	6,432	6,803	7,391	6,879	5,076	4,933	4,613
Total ...	23,776	22,105	26,054	24,972	23,240	24,856	23,779
Cotton	20,447	21,706	21,285	20,281	21,086	14,843	14,480
Sugarcane	3,200	3,982	3,546	3,904	4,234	4,154	3,847

\* Rice, Wheat, Jowar, Bajri.

† Figures are taken from "Food Department" statements supplied to representatives of Provincial Governments at the Food Conferences.

production in particular years. It may be that lack of necessary aids to increased production such as increased irrigation facilities or supply of fertilisers was responsible for this comparatively stagnant position of agricultural yield, even in the presence of high prices. If this is true, it would mean that any increase in yield from agriculture in India would not follow upon any specific price policy. It could be brought about only by active measures such as making agriculture more secure through irrigation, improving technique, making fertilisers available, etc. The Central and Provincial Governments have prepared programmes which include a variety

TABLE 2—STATEMENT SHOWING TRIENNIAL AVERAGE OF YIELD FOR SELECTED CROPS IN REPORTING AREAS IN INDIA (IN LBS. PER ACRE)

Source:—Estimates of Area and Yield—Food Statistics of India—Agriculture Department.

	Triennium ending 1933-34	Triennium ending 1936-37	Triennium ending 1939-40	Triennium ending 1942-43	Triennium ending 1945-46
1	2	3	4	5	6
1. Rice ... ..	852	806	766	731	779
2. Wheat ... ..	607	639	671	674	624
3. Cotton ... ..	78	91	89	102	105
4. Groundnut... ..	939	868	857	870	799
5. Linseed ... ..	272	238	241	260	216
6. Sugar (raw) ... ..	2,985	2,442	2,832	2,915	3,061
7. Jute ... ..	1,263	1,309	1,094	992	1,139

of such measures. It would, however, be rash to count upon the fruits of any of these programmes being evidenced in production statistics during the course of the next three years. For this short period the physical volume of agricultural production in India cannot be estimated as likely to be higher than the average of the recent past. Of course, in particular years, a very much higher or lower figure of production may be reached because of the conditions during the year.

4. *Industrial Production.*—The position in relation to industry is different. Industrial production in India should, in the long run, be capable of considerable increase depending on increased capital equipment and an increased number of industrial workers. During the war, the special incentive of war-time profits led to some expansion of activity in most industries. This is reflected in the figures of production of these industries and in the increase in the labour employed by these industries. However, the trend has been recently reversed and there has been a fall in this country as in others, from the high rate of war-time production. Reference to Table No. 3 will show that peak production was reached in most industries during 1945 or the year or two before. Production during 1946 was not only lower than the peak but also than the average production of war years. Monthly figures of production of Table 5 bring out the recent downward trend. This has been due to a number of causes. The war-time relaxation of certain labour

TABLE 3—STATEMENT SHOWING INDUSTRIAL PRODUCTION IN INDIA FROM 1939 TO 1946.

Source.—Economic Adviser's Office (Survey of Business Conditions in India).

Year 1	Jute manu- factures	Cotten Manu- factures	Cotton Piece- Goods	Cement	Sulphu- ric acid	Sulphate of Ammo- nia	Wheat Flour	Sugar	Paper	Matches	Pig-iron	Steel ingots	Finished Steel*
	Tons (000) 2	Pounds Million 3	yards Million 4	Tons (000) 5	Cwt. (000) 6	Tons 7	Mds. (000) 8	Cwt. (000) 9	Cwt. (000) 10	Gross Million 11	Tons (000) 12	Tons (000) 13	Tons (000) 14
1939 . .	1179-02	900-47	4114-00	N. A.	579-28	19745	16417-20	13910	1311-83	21-58	1757-04	1015-46	1025-62
1940 . .	1233-85	921-98	4812-15	N. A.	409-19†	13847†	15998-50	23649	1677-16	22-93	1994-10	1246-96	1187-35
1941 . .	1193-98	1087-13	4530-50	N. A.	N. A.	N. A.	18801-10	24201	1854-04	18-97	2009-60	1369-20	1359-60
1942 . .	1081-59	951-58	4024-70	1608-4‡	581-719‡	19874‡	14434-15	17703	1809-48	14-85	1829-70	1293-90	1271-70
1943 . .	965-79	1176-09	4751-10	2118-2‡	864-700	21924	12870-78	21540	1791-37	17-04	1747-70	1352-20	1314-70
1944 . .	995-10	1201-63	4857-20	2048-8	552-723	23521	11651-42	21065	1524-06	17-69	1419-25	1310-79	1298-90
1945 . .	1079-50	1200-59	4685-3§	2209-80	443-95	21898	14575-96	17167-70	1618-14	22-68	1420-43	1265-48	1317-26
1946 . .	978-37	901-56	4021-5§	2019-40	602-10	20251	9232-23	13426-20	1464-35	11-61	1326-61	1229-08	1235-04

\* Including Semis but excluding bloom, billets and slabs.

N. A.—Not available.

† Relates to January–July 1940 only.

‡ Relates to April–December 1942 only.

§ Provisional.

The publication of production figures for Sulphuric Acid and Sulphate of Ammonia was discontinued for some time due to exigencies of the war.

TABLE 4—DAILY AVERAGE NUMBER OF WORKERS  
EMPLOYED IN INDUSTRIES

Source.—Indian Labour Gazette.

				Government and Local Fund Factories	All other Factories	Total
1939	Perennial	...	...	131,066	1,321,066	1,452,132
	„ Seasonal	...	...	1,380	295,049	296,429
	Total	...	...	132,446	1,616,115	1,748,561
	Percentage	...	...	...	...	100.0
1940	Perennial	...	...	168,125	1,379,896	1,548,021
	„ Seasonal	...	...	1,038	295,369	296,407
	Total	...	...	169,163	1,675,265	1,844,428
	Percentage	...	...	...	...	105.5
1941	Perennial	...	...	219,233	1,630,848	1,850,081
	„ Seasonal	...	...	853	305,443	306,296
	Total	...	...	220,086	1,936,291	2,156,377
	Percentage	...	...	...	...	123.3
1942	Perennial	...	...	299,184	1,681,812	1,980,996
	„ Seasonal	...	...	545	300,022	300,561
	Total	...	...	299,729	1,981,834	2,281,563
	Percentage	...	...	...	...	130.5
1943	Perennial	...	...	355,371	1,782,551	2,137,922
	„ Seasonal	...	...	507	297,883	298,390
	Total	...	...	355,878	2,080,434	2,436,312
	Percentage	...	...	...	...	139.3
1944	Perennial	...	...	419,951	1,804,820	2,224,771
	„ Seasonal	...	...	484	294,996	295,480
	Total	...	...	420,435	2,099,816	2,520,251
	Percentage	...	...	...	...	144.1
1945	Perennial	...	...	456,342	1,909,900	2,366,242
	„ Seasonal	...	...	671	276,064	276,735
	Total	...	...	457,013	2,185,964	2,642,977
	Percentage	...	...	...	...	151.1

TABLE 5—INDUSTRIAL PRODUCTION IN INDIA

Source.—Economic Advisor's Office

Year 1	Jute manu- facture	Cement	Sulphu- ric Acid	Sul- phate of Ammo- nia	Wheat flour	Sugar	Paper	Mat- ches	Pig Iron	Steel ingots	Finish- ed Steel *	Cotton Manufac- tures
	Tons (000) 2	Tons (000) 3	Cwts. (000) 4	Tons 5	Mds. (000) 6	Cwts. (000) 7	Cwts. (000) 8	Gross Million 9	Tons (000) 10	Tons (000) 11	Tons (000) 12	Pounds Million 13
1945—												
January . . . . .	90.0	179.3	41.75	1741	917.28	8	122.32	1.37	91.69	103.23	106.81	109.35
February . . . . .	78.0	173.8	33.0	1562	1066.40	47	106.74	1.36	180.67	91.94	95.88	81.45
March . . . . .	95.6	209.0	44.44	1658	1587.50	102	141.55	1.55	114.14	105.54	117.53	103.65
April . . . . .	83.6	179.2	31.51	1785	1307.97	400	130.70	1.53	106.28	97.97	107.80	96.56
May . . . . .	88.7	196.1	36.33	2035	1236.73	3098	145.80	1.63	117.57	110.03	118.17	100.31
June . . . . .	91.8	183.3	33.57	1866	1389.16	5308	141.11	1.64	115.06	97.81	99.67	100.54
July . . . . .	85.9	181.0	24.25	2255	1173.79	4566	150.68	1.24	121.70	98.97	107.92	96.66
August . . . . .	84.0	186.1	19.23	1551	1047.25	0.7	146.48	1.63	120.90	106.41	115.79	96.72
September . . . . .	90.4	189.8	25.18	1727	902.05	38.7	120.97	1.69	119.79	109.88	104.83	110.91
October . . . . .	93.5	154.8	47.98	1421	1324.92	102.2	139.12	1.54	126.79	116.86	124.05	115.78
November . . . . .	101.1	185.3	48.18	1901	1359.41	400.2	125.54	1.63	116.14	104.98	109.34	89.46
December . . . . .	96.9	192.1	58.53	2396	1263.50	3096.9	147.13	1.87	99.70	121.86	109.47	99.20
1946—												
January . . . . .	110.6	153.1	45.81	636	1242.99	5305.6	149.72	2.05	93.82	115.22	122.38	98.22
February . . . . .	97.9	164.8	57.75	1883	1203.99	4563.5	123.40	1.82	126.61	104.26	107.96	83.02
March . . . . .	86.4	180.5	52.17	1645	1205.00	2840.7	160.66	1.94	141.80	116.40	156.12	86.42
April . . . . .	89.29	153.0	39.72	1803	983.04	627.7	122.09	1.84	136.17	115.72	105.25	92.9
May . . . . .	104.86	166.2	42.86	1715	813.63	56.8	135.51	1.40	91.10	110.20	106.89	83.3
June . . . . .	93.16	159.6	46.53	1436	621.69	0.2	102.67	1.13	122.15	109.49	99.97	81.2
July . . . . .	99.62	166.9	43.30	2274	451.67	0.7	106.51	1.43	124.00	102.79	105.98	78.3
August . . . . .	76.63	171.1	41.00	1657	424.44	2.2	107.46	...	100.96	92.56	89.65	80.5
September . . . . .	84.18	179.5	55.72	1325	516.22	1.7	123.36	...	86.77	85.11	79.20	75.3
October . . . . .	84.74	191.9	58.71	2003	549.51	27.1	149.40	...	93.65	86.55	84.95	74.3
November . . . . .	83.69	166.9	59.03	1839	629.34	...	150.91	...	106.34	95.43	89.08	71.4
December . . . . .	61.32	165.9	59.50	2035	590.71	...	132.72	...	103.14	95.35	88.51	...

\* Including semis but excluding blooms, billets and slabs.

laws is no longer legal. The necessity of changing over in some instances, from war-time production to peace-time production has meant a loss of time and efficiency. There have also been a reduction in the hours of work of factory labour and general unsettled conditions in many centres of industry in the country.

5. *Importance of Coal Supplies.*—In connection with the general level of industrial production, considerable emphasis must be laid on the part played by the supply of power. Power for the major part of India means coal and the trend in coal raisings and despatches in recent months does not augur well for industrial production in the near future. Table No. 6 shows monthly raisings and despatches in 1945 and 1946. The figures of the last quarter of 1946 as compared with those for the last quarter 1945 show a great fall. The trend during the first quarter of 1947 is not reported to be reassuring. Already in some industries short time or partial suspension of productive equipment has been reported and if supplies do not improve, the efficiency of a large number of units may be affected. An adequate supply of coal affects, in the first instance, the capacity of the railways themselves to move goods, including coal. It affects, in a large number of instances, the capacity of power supply stations\* where electricity is generated by means of coal, and it directly affects the capacity to produce, of all the major industries, steel, cotton, jute, cement, etc. The shortage of coal supply is perhaps due both to shortage in raisings and difficulty in transport. The first is a problem of the coal industry and the second of railway administration. Whether the difficulty pertains to the one or the other or to both, unless coal raisings and coal supply to industries increase, any increase in industrial production is impossible to contemplate. On the other hand, if they decrease further, as they are reported to have decreased recently, it would not be possible to use to the full even the present capacity of industrial equipment and labour.

6. *Industrial Production and Labour.*—In considering the future of industrial production, something must also be said regarding the outlook relating to labour. The last year has been full of strikes and labour disputes. In general, disputes have arisen because of the increase in the cost of living and the demand on the part of labour for a commensurate increase in wages. As long as the cost of living continues to increase, incessant demands for increasing wages will be made by labour and it will not be possible to resist these

\* See Table No. 7.

TABLE 5—MONTHLY COAL RAISINGS AND DISPATCHES.

Source.—Economic Adviser's Office

Period				(000 tons)	
				Coal raising in British India	Coal and coke loaded on class I Railway wagons
<b>1945—</b>					
January	...	...	...	2157	91
February	...	...	...	2262	86
March	...	...	...	2529	97
April	...	...	...	2202	97
May	...	...	...	2253	99
June	...	...	...	2035	92
July	...	...	...	1860	92
August	...	...	...	1988	94
September	...	...	...	2267	94
October	...	...	...	2344	103
November	...	...	...	1966	95
December	...	...	...	2145	93
<b>1946—</b>					
January	...	...	...	2462	102
February	...	...	...	2532	97
March	...	...	...	2529	100
April	...	...	...	2175	104
May	...	...	...	2218	101
June	...	...	...	2015	99
July	...	...	...	1869	95
August	...	...	...	2244	91
September	...	...	...	2324	93
October	...	...	...	2040	96
November	...	...	...	1974	87
December	...	...	...	2084	104

demands. During times of war, when an expanding profit margin was not seriously cut into by increased dearness allowances or wages the manufacturers could meet the demands of labour without too much delay or reluctance. In present circumstances, costs are beginning to catch up with prices and the profit margin is no longer an expanding one. Therefore, management in industry would neither be equally willing nor able to meet the demands of labour. As long as the rise in the cost of living is not stayed, we may expect a worsening of the relations between management and labour and continuous interruptions in production.



TABLE 7—ELECTRICAL ENERGY GENERATED AND CONSUMED IN BRITISH INDIA (IN MILLION UNITS).

Source.—Economic Advisor's Office

Period	Generated (I)	Sold (II)
1945—		
January	295.4	248.0
February	266.8	231.1
March	304.6	251.2
April	292.9	249.1
May	309.0	256.1
June	307.9	258.5
July	312.0	259.8
August	302.3	253.2
September	299.7	255.7
October	303.0	256.4
November	283.9	241.8
December	295.9	248.1
1946—		
January	302.1	251.5
February	275.3	235.3
March	292.0	242.6
April	300.7	247.4
May	306.6	251.3
June	294.1	250.0
July	299.6	247.8
August	288.7	238.4
September	279.8	239.4
October	280.3	233.3
November	280.4	236.0
December	284.9	238.7

7. *Increase in Industrial Capacity.*—It is difficult to speak with confidence regarding future levels of production. Industrial production during the next twelve months is not likely to exceed the average level of the last two years. It would, indeed, be fortunate if it is possible to attain that average level. Subsequently, productive capacity may be increased by imports of capital goods. The extent of this is highly uncertain. But the prospects of obtaining considerable supplies of capital goods in the immediate future are not as bright today as they were thought to be some months ago. Moreover, production does not ordinarily start immediately on the import of capital goods. Some time is required for setting up the plant, recruiting and training labour etc. This time-lag differs from industry to industry. Moreover, in most of the major industries no significant addition to the total annual production is expected because of the establishment of new units or the expansion of older ones during the next two or three years. In this connection, it needs to be emphasized that during the war years, there has been a considerable amount of wear and tear of capital equipment which it was not possible immediately to repair. Some of the imports of new capital goods will be required to fill this gap. They will go towards maintaining or bringing up to the pre-war level capital equipment of major industries and the net addition can be presumed to begin only after this leeway has been made up.

8. *Supplies of Consumer Goods.*—We may next turn our attention to the availability in the near future of certain essential consumers' and producers' goods within the country. Table No. 8 gives estimates that have been made by Government departments regarding quantities of certain goods available for consumption in India. They give the general background for the detailed discussion below. They show that by 1945-46 the quantities available for civil consumption had, in most cases, reached a level much below the 1938-39 level. The position for the year 1947 and the succeeding years is estimated in detail below for the most important commodities. The estimates are based on the most recent advices from the departments concerned:

The harvests during 1946-47 were better than those during 1945-46 and were upto the average of the five previous years. Even so, the total supply of food-grains was short and the ration in India has had to be maintained at the 12 oz. level.

*Food-grains.*—Estimates of total production of food-grains in the country and of total supplies available show very large variations

TABLE 8—QUANTITY AVAILABLE FOR CIVIL CONSUMPTION IN INDIA

Commodity	Unit	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45	1945-46	1946-47
Rice . . . . .	000 tons	24,332	26,422	22,422	25,132	23,662	29,559	27,018	25,321	...
Wheat . . . . .	..	9,250	8,786	9,337	8,393	8,514	9,547	9,004	9,969	...
Other cereals* . . . . .	..	11,361	11,957	13,165	12,095	13,799	13,434	12,202	N. A.	...
Sugar . . . . .	..	905†	1,466	1,100	778	960	1,111	859	875	...
Tea‡ . . . . .	million lbs.	104	127	120	97	235	180	32	N. A.	...
Cotton piece-goods‡ . . . . .	million yards	6,223	5,997	5,493	5,205	3,722	5,115	5,069	5,222	5,136
Iron and Steel‡ . . . . .	000 tons	...	1,062	...	866	423	672	666	851	836
Cement . . . . .	..	1,405	873	693	668	219	808	778	1,975	...
Paper and Pasteboard . . . . .	000 cwts.	4,011	3,796	3,230	2,387	1,345	1,199	1,572	2,341	...
Kerosene . . . . .	million gals.	223.0	228.8	215.9	192.3	119.5	94.0	104.5	137.2	...
Woollen manufactures (mill). . . . .	million lbs.	...	18.0†	4.6	5.6	2.3	0.8	3.3	6.6	...

\* Jowar, Bajri, Maize and Barley.

† Pre-war consumption.

‡ Refers to calendar year—1938-39 means 1938 and so on.

N. A.—Not available.

from year to year. However there is no evidence that the estimated surpluses of specially good production are fully carried over so as to increase the supplies of the later deficit years. It would be deceptive to base expectations relating to the future on estimates of overall supplies or surpluses. The surpluses that are to be depended on are the surpluses that reach Government. From these it has to meet the requirements of deficit areas and other central responsibilities. The total needs of defence services and of all areas, including deficit provinces and states for which the Central Government has to assume responsibility are estimated during the year 1947-48 at 4748 thousand tons. These have to be met by surpluses within the country and imports from outside. Surpluses within the country have shown a steady downward trend during the last three years. This may be due either to difficulties of procurement or to exhaustion of stocks held by producers and traders throughout the surplus areas. The internal surplus during 1947 is not expected to be more than a total of 700 thousand tons. Imports must, therefore, amount to nearly 4000 thousand tons to close the gap. The total imports during the year 1946-47 were only 2634 thousand tons. The total rice availability during the next six months is not expected to be more than 200 thousand tons and for the year 1947-48 the total is calculated at about 700 thousand tons. The wheat figure is still undecided. Including the import of coarse grains, it is not expected that during 1947-48 the total imports will be above 2000 thousand tons, which is considerably short of requirements.

The above requirements have been calculated on the basis of a 12 oz. ration. If the ration is restored to the 16 oz. level, an additional supply of between 1500 and 2000 thousand tons will be required. The requirements for 1947 (4748 thousand tons) have been calculated on the basis of opening stocks and estimated local procurements in deficit areas for the year. It is unlikely that the stock position will improve during this year. It might, in the light of the expected large gap in imports, deteriorate to some extent. Thus, with an average season not better than that of 1946-47 the total requirements in 1948-49, to be met by imports and surpluses, may be placed round about 4500 thousand tons, at a ration of 16 oz. This could be attained only by an internal surplus of between 1500 and 2000 thousand tons and imports above the 4500 thousand tons level. Both these targets will be very difficult to attain in the near future. Internal surpluses do not show any tendency to increase and large surpluses of food supplies in other countries are also not expected to develop before 1950. Therefore, all that Government can expect

to do is, for the next 12 months, to carry on without being forced to reduce the ration to less than 12 oz. and for the two years subsequently, to try and build up stocks so that the extremely difficult position experienced during the last two or three years does not again emerge and, if the seasons are propitious, also to make some progress towards the 16 oz. ration level.

9. *Cloth.*—The quantities of cloth produced in India during 1945 were (in millions of yards) 4688 mill-made and 1535 handloom and during 1946, 4003 mill-made and 1291 handloom. It has been officially estimated that during 1947, if there is no considerable dislocation of production because of strikes, riots, etc., and the three shift scheme works well, a total production of 4100 mill-made and 1300 handloom may be reached. The quantities of imported cloth were negligible in 1945 and 1946 and are not expected to be more than 20 million yards in 1947. Defence requirements have decreased from 575 in 1945 to only 20 in 1947. Exports were 600 million yards in 1945 and are estimated to decrease to 300 million yards for 1947. The estimates of quantities available for consumption were 12½ yards per head in 1945 and 11½ yards per head in 1946. The best estimate for 1947 is that a total availability of 12 yards per head may be reached. Regarding the year 1948, an optimistic estimate is that productive capacity of the industry will be increased by about 2 per cent. because of the importation of new machinery. No very large increase in imports may be expected and the level of exports can hardly be lower than that estimated for 1947. An informed estimate puts both mill and handloom production in 1948 at about a maximum of 5600 million yards. This is only a little above the 1947 level and a considerable way behind that necessary to attain the per head average consumption of pre-war years which was 15½ yards. It is not likely that the pre-war per head figure will be reached even in 1949.

10. *Sugar.*—The average sugar production in India on the eve of the war was about 11 lakh tons per year. As both imports and exports were negligible, this may also be taken to be the figure of the total amount then available for consumption. Production rose during the early years of war and reached the peak level of 12½ lakh tons in 1943-44. In 1944-45 it, however, fell considerably below the pre-war average. In 1946-47 it reached an even lower point and now stands at about 20 per cent. below the pre-war average. Defence requirements which at one time were high have now fallen to 20,000 tons and exports remain at 20,000 tons. The minimum internal demand is calculated at 9.63 lakh tons. This year it will

not be possible to meet this demand fully even with imports of about 30,000 tons from abroad. Production during the year 1947-48 cannot be estimated with any confidence because of the uncertainty regarding the reaction to the 40 per cent. increase made last year in sugarcane prices. If that increase leads to a rapid re-diversion of land to sugarcane, the pre-war average of 11 lakh tons may be reached within a year or two. Plans have been made for expanding the production of sugar within the country but it is not expected that new machinery will arrive before 1948. The total availability of sugar for consumption may be expected definitely to remain below the pre-war figure of 11 lakh tons for the year 1947-48. Making an allowance for the increase in population within the decade, this will mean much less than the average per head pre-war consumption in India, at least till the end of 1948.

11. *Gur*.—The supply of sugar must be considered together with that of gur. During the current year gur production is also estimated to have been 20 per cent. below the pre-war average. It is not certain whether the rise in the prices of sugarcane will lead to the same increase in the production of gur as is expected to come about in that of sugar. It has been alleged that one of the reasons for the fall in the production of sugar during the last two or three years has been the diversion of sugarcane from sugar mills to gur making. This has been due to control over prices of gur not being as effective and as stringent as over prices of sugar. The recent increase in the prices paid for sugarcane by sugar mills may lead to more sugarcane being sold to mills. It is not, therefore, certain that the overall production of gur during the coming years will increase as much as the production of sugar. It may so increase only if prices of gur are left completely uncontrolled and further large diversion from food and other crops to sugarcane is permitted. On the whole, a continued short supply of gur over large areas may be expected during 1947-48.

12. *Vegetable Oil and Oilseeds*.—Vegetable oil is also an important item of common consumption in India. It is, however, not possible to make with ease a quantitative estimate of supplies of oilseeds and oil in the country in the same way as those presented for other important consumption goods. The production of oilseeds has suffered some decline during the period of the war. The decline in area under cotton must also be considered as diminishing oilseed supplies because of the diminished production of cotton seeds. On the other hand, the proportion of oilseeds exported out of India in the pre-war period was large. Exports

have declined sharply during the war and are even today kept at a comparatively low figure. The net quantity retained in India for consumption may thus not be short of the pre-war average figure. However, for ascertaining the amount of vegetable oil available for consumption, certain other allowances have to be made. There is a large internal demand, which has grown during war years, for oilseeds from industries of various kinds. In recent years, the expansion in the production of Vanaspati in the country, has also been phenomenal and Vanaspati factories have taken up a considerable portion of the total oilseeds crop retained within the country. Vanaspati must be considered as a substitute not for vegetable oil but chiefly for ghee. Large classes of consumers whose consumption of ghee has always been negligible and whose consumption of fat was chiefly in the form of vegetable oil would not today consume any Vanaspati. This is specially true of the rural areas. In assessing the availability of vegetable oil for rural areas, the demand from the manufacturers of Vanaspati must be considered as a deduction from available supply. It is difficult to express all these factors in quantitative terms and prepare comparable estimates. However, the various statements made above indicate that there is likely to be a continuing scarcity of the supply of vegetable oil available to the poor Indian consumer.

13. *Oil-cake position.*—The supply of oil-seeds also affects the supply of oil-cake. This is used by the Indian agriculturist both as manure and as cattle feed. The expansion of Vanaspati manufacture in the country has resulted in an increase in the internal supply of oil-cake. However, the supply of cattle feed has been curtailed in some other directions in recent years. The diminution in the production of cotton seed has affected adversely the cattle feed position in particular. The importance of oil-cake to the agriculturist has also increased on account of the scarcity of imported artificial fertilisers during these years and oil-cake is now being used to a much larger extent than before the war for fertilising crops such as sugarcane. Even the increased supply of oil-cake is, therefore, inadequate to meet the present Indian demand. The inadequacy of fodder and feed are additional reasons for preventing diversion of land from crops like cereals, pulses and oil-seeds to cotton, tobacco and sugarcane. The bulk of the fodder is provided as a by-product of the cultivation of cereal grains, and supplementary cattle feed is to a large extent supplied by pulses and oil-cake. Any diminution in the output of these would affect Indian agricultural economy vitally.

14. *Fuel and Lighting.*—Kerosene, firewood and charcoal are other essential consumers' goods of universal importance. The

imports of kerosene could, perhaps, be increased substantially within a short period. The effective increase of kerosene supplies within the country would, however, depend on the efficiency of transport agencies. Lack of adequate transport facilities is expected to limit effective supplies for a year or two. Little quantitative information is available regarding the supplies of firewood and charcoal. Conditions of short supply have been reported from a number of provinces and it has also been said that reserves of forests etc. have been heavily drawn upon recently and continue to be used recklessly. If this is true, the problem of supplies of firewood and charcoal may become specially urgent during the next three years. Nothing definite can, however, be said for want of data.

15. *Supplies of Producer Goods.*—A number of important producer's goods seem to be in as short supply as the essential goods required by consumers. Reference may be made in this connection to the Resources Budget contained in an appendix to the report of the Advisory Planning Board. The supply position in relation to coal, steel, timber, cement and bricks is examined in this budget. It is pointed out that the gap between the demand for coal and pithead production would in any event be significant in the near future and that the gap between demand and the amount which is actually being moved from the collieries would be decidedly larger. This gap has serious repercussions on the iron and steel industry and to a lesser extent on the cement industry, neither of which can work to full capacity through lack of the right quantity and quality of coal. This, in turn, must necessarily have a retarding effect on the whole development programme. The position in relation to the steel industry is described as follows in the appendix. "In the most favourable circumstances which are not likely to materialise the supply might approximate to the demand but the actual probability is that there will be an annual deficit ranging from half a million tons upwards during the next three years. The only possible way to meet this gap is by imports. But here too, the immediate prospects are not very bright." The conclusion reached as a result of the examination of these and other shortages is, "in view of probable shortages controlled allocations of coal to steel and possibly cement will be required for the next few years. To do this piecemeal is unsatisfactory. A Priority Board appears to be required to make allocations, at any rate of coal and steel, in accordance with an integrated plan. Allocations of all basic commodities required for constructional work must be linked up with one another and be made in the light of the whole development of the economic life of



the country." It is reported that the position has changed a little for the worse since the Planning Committee prepared its budget.

16. This brief examination of the availability of supplies of important consumers' and producers' goods shows that in most cases the per head supplies available this year are distinctly below the pre-war average and are likely to remain below this level for some time in a large number of instances.

17. *Recent Price Increase and the Supply of Money.*—After a consideration of the production and supply of goods, it is natural to turn to their prices. It is necessary to consider prices today because during the last few months a fresh upward spurt of prices has attracted attention. This spurt upwards is obviously not due to any further injection of notes into circulation. The main reason of the inflationary movement during the war, the continuous issue of additional currency, has now ceased to operate. However, the cessation of additions to currency is not enough to put a stop to a rise of prices in India, because the total expansion of note issue is already proportionately very high. The total notes in circulation in February 1947 were Rs. 1234.53 crores as against the circulation of notes in August 1939 of Rs. 170.29 crores. The demand liabilities of scheduled bank increased correspondingly from Rs. 135.50 crores to Rs. 712.37 crores. The total increase in the amount of money available is, therefore, sufficient not only to keep up the present level of prices but also to support and bring about further inflationary movements if these are set in motion and continued by other forces.

N. B.—It should be noticed that the upward movement in prices is not yet clearly visible in the statistical data. The index number of wholesale prices prepared by the Economic Adviser shows no general movement during 1946. There is, however, a marked movement in one of the groups of commodities in the series *vis.* Agricultural Commodities. The index no. for this group stood at 278.5—Dec. 1945; 294.3—April 1946; 303.5—August 1946 and 326.0—Dec. 1946. Many series of cost of living index also registered an increase during 1946. Neither the pace nor the timing of those increases are uniform. The following table is representative of the available information:—

	Dec. 1945	April 1946	August 1946	Dec. 1946
Bombay . . . . .	242	248	267	279
Ahmedabad . . . . .	205	199	217	216
Nagpur . . . . .	272	279	291	292
Patna . . . . .	305	333	363	397
Jamshedpur . . . . .	373	328	389	372
Madras . . . . .	224	228	237	249
Cawnpore . . . . .	313	308	346	348

18. *Factors Influencing recent Price Increase.*—It is clear that the upward movement that has been noticed recently is not a result of monetary forces and has not been initiated by them. It is, of course, difficult to judge how it may have originated. It seems in the main to be due to two factors. In the first instance during the last 12 months large classes of people in official, semi-official and non-official employment have clamoured for and obtained substantial increases in their money incomes. Similarly many groups of wage earners in industrial cities have been able to obtain increased wages. It has also been reported that increases in the wages of agricultural labour have been specially large during the last 12 to 18 months. All this has led to an increase in the total money incomes available in the hands of consumers in the country. The effort of these potential consumers to obtain consumers' goods may have contributed to an upward movement.

There is no doubt, however, that another factor has been materially responsible for this movement. This has been the failure of Central and Provincial Governments to define a price policy and to keep to it. There have been breaks in the system of controls or exceptions have been made. Jute was one of the first to be released from control. Sugarcane prices were allowed to be increased in Bihar and United Provinces and there was a temporary suspension of *gur* control in Bombay. Oil-seed prices had through most years of war been kept in check because of the difficulty of exports and because the buying for export had been concentrated in a few hands. During recent months, a hesitant policy on the part of Central and Provincial Governments has led to the giving up of all direct attempt to control oil-seeds' prices and to an increase in them. It has also been claimed by some industrialists that interruptions in coal supply have increased their overhead and general costs and justify a consequential increase in their prices. It is thus a conjunction of circumstances, partly physical shortages and the difficulties of the transport system, partly the increase in money incomes of certain section of salary earners and wage earners and partly the relation in specific directions by Governments of controls and the talk of relaxation of other controls by particular members of Governments—all these seem to have led to and to be maintaining a definite upward movement of prices.

19. *Likelihood of Continuance of Price Increases.*—It is perhaps too early to say how strong the present inflationary movement is and whether it will, in a short time, have spent its force without any deliberate external check. Many factors would suggest that it

is too optimistic to hope for the upward movement reaching an end of its own accord. The demand for salary and wage increases has not died down and within the next few months a new movement for general increase in wages of employees of Government may be expected following the publication of the Central Pay Commission's Report. The recommendations of this Commission will affect not only all employees of the Central Government but must in turn influence the payment of salaries to employees of all official and semi-official agencies in Provincial Governments, local bodies and elsewhere. We may, thus, witness a considerable increase in the money incomes of a large number of people and naturally in money outlays made by them.

We have already noted the fact that the position relating to the supply of consumers' essential requirements is not satisfactory and that an increased demand for them at this time must lead to a tendency to increased prices. The general situation regarding producers' goods has also been observed to be strained so that considerable resources in the hands of capitalists will be left unoccupied instead of being used up in investment outlay as they would have been if new projects could have been set up quickly.

The total volume of production has also an important direct relation with the general level of prices. According to the elementary formulation of the quantity theory of money the factors that determine the price level are the quantity of money, the velocity of circulation of money and the total amount of trading that is done. Apart from speculative trading, the volume of transactions in a country is related closely to the volume of production within it. It is in connection with this relation or with some vague idea in the background of these relations that a number of people have often advocated that the real remedy against inflation or an inflationary situation is to increase production. Increased production may no doubt check prices, if it is significant in relation to the increase in the money in circulation or its velocity. We have seen that in the immediate future in India no considerable increase in either agricultural or industrial production may be expected. It is necessary on every account to keep up and increase present levels of production but it is futile to expect that any effort in this direction will be able to check an inflationary movement.

Moreover, a movement towards inflation is itself recognised to have a deterrent effect on production activity. A rapid increase in production, if this is possible, may no doubt check a small and weak inflationary movement. But the existence of an inflationary

movement itself discourages expansion of productive activity. Progressive inflation puts a premium on hoarding and the same tendency is fortified if traders and producers expect that commodities now under control would soon be decontrolled. The immediate effect of decontrol has generally been the attainment of a higher level of prices than before. Therefore, if decontrol is expected, producers will not market all their supplies but wait, as far as possible, for the removal of control. It is likely that the present tendency towards a rise of prices coupled with the general talk and expectation of decontrol will lead to effective supply of commodities to consumers being even less than the total physical supplies. It is, of course, difficult to say whether the existing inflationary trend will continue or not. The presumption is that it will continue for some time and that if early and adequate steps to check it are not undertaken, it may even reach alarming dimensions.

20. Another factor of some importance in the near future is the likelihood of occasional breakdowns in administrative and transport machinery in various areas in the country. Wherever such a break-down occurs, it has the effect of, at least temporarily, suspending productive activity in the area, of destroying, in most instances, on a small or a large scale, stocks of supplies of all kinds and of dislocating the normal plan of movements of supplies. Thus these break-downs intensify the situation of short supply and tend to push up, at least temporarily, the prices of necessities very high in the affected regions.

21. *Influence of the Future Level of External Prices*:—We may now pass to a consideration of the international situation in so far as it affects the level of prices in India. At present there is a general scarcity of commodities in the world. The pressure on supplies in all countries has led to a general upward movement of prices, especially where controls have been relaxed; the movement has been specially marked in the U. S. A. As long as present scarcities last, there is little likelihood of international competition exercising a downward pressure on Indian prices. As production is resumed and brought to normality all over the world and as the pressure on supplies for relief and rehabilitation of countries devastated during the war lessens, the world commodity supply position will be very much easier. When this happens, the price level in the international markets will begin to influence the internal price level in India. India has now become a member of the International Monetary Fund. It is also expected shortly to subscribe to some sort of agreement relating to an international trade

organisation. Both these will reduce India's power to maintain artificially a difference between internal and external prices. As a member of the International Monetary Fund, India will not be able to depreciate its exchange rate by more than 10 per cent. without obtaining permission from the Fund. When India subscribes to the International Trade Organisation, it will probably undertake to keep down the level of protection and not introduce any sudden or substantial measures of protective or prohibitive character without informing the International Trade Organisation. As a result, the Indian economy of the future must learn to adjust itself to the general equilibrium level in the world and the internal price level in India must then be brought into ultimate adjustment with the international price level.

22. It is at present difficult to say at what level international prices will be ultimately stabilised as compared with prices during the pre-war period. Estimates in this connection are bound to be hazardous at this juncture. The general movement of prices during the post-war period has been more strongly upwards than had been judged likely at the end of the war and the upward thrust does not seem to have spent its force as yet. Even so, it is not likely that the general level would be stabilised at more than double the pre-war level and it also appears unlikely that it will be stabilised at less than 50 per cent. above that level. Ultimately, that is, say within three years' time, or by about 1950, the Indian price level may have to align itself with the international price level so that this does not exert too great a deflationary force on Indian economy. If, even by 1950 the Indian price level is seriously out of step with the price level in the world, Indian international trade is bound to suffer severely.

23. *Plans for Development and Controls* :—Attention has so far been concentrated on the economic situation during the next twelve months and during the transition period of two or three years. The general plan of economic development and the methods adopted for its achievement also necessitate controls. The intentions of Government, Provincial and Central, as evidenced by their post-war plans and policies, suggest a continuance and strengthening of control regimes. To point only to a few salient features, the announcement by the Government of India relating to Industrial Policy refers to a control of the location of industry and the licensing of individual ventures. It also talks in terms of qualitative control of standards of production and promises help and subsidy to industry. Most of these measures would not be possible except in a regime of

controls; and if the establishment and the exploitation of industry is to be strictly controlled, the next step of controlling the prices and distribution of the products of industry follows logically. Otherwise, Government would be doing no more than granting individual capitalists the licence to exploit the internal market and protecting them in their exploitation thereof. The plans of the Industrial Panels are also based upon strict control over the import of capital goods and quantitative annual allocations to specific individuals and areas of imports of specific types. The detailed control of the establishment of industry, of its exploitation and of the pricing and distribution of its products that are involved in these programmes would go much farther than any controls that are now in existence or were in operation during the time of war.

24. Similarly, the long term policy in relation to agriculture presupposes a regime of controls. The report of the Prices Subcommittee, whose recommendations have special relevance to the work of the Commodities Prices Board, puts forward proposals for stabilisation of the prices of all main agricultural products. It recommends the setting up of Price Committees and a Commodity Corporation which would operate so as to maintain a scheme of parity prices. The Committee unfolds an ambitious programme of storage and purchase of agricultural commodities on Government account. Moreover, it points out that for working such a programme of price stabilisation, Government control would have to enter a wide field and determine and fix the acreages under different crops, supervise and maintain minimum standards of husbandry and take a host of other measures.

25. It is obvious that in case the present regime of controls is scrapped, the very elaborate controls that are necessary for implementing the declared long term policies of Government in relation either to agriculture or industry could not be easily built up. If the comparatively simple and generalised controls in operation today could not be managed by Government agencies in India, it should be clear that a more ambitious regime of detailed and particular controls is entirely out of question. Government will then have to plead complete inability to carry out, because of lack of public response and weakness of administrative machinery, any of the plans that had been thought of before.

26. In fact, the one general aim, which everybody agrees should be the dominant aim of Indian political and economic activity, the raising of the standard of living of the masses in India, is impossible to achieve in the absence of a regime of controls. In

countries which are specially fortunately placed, endowed with immense natural resources, rapid increases in the standard of living of the generality of the people may take place, even under a system of *laissez faire*. The national income is so rapidly increasing in such a society that the inequalities in distribution do not prevent everybody from sharing in the general rise. Conditions in India are, however, radically different. Our natural resources are distinctly limited in relation to our numbers. The possibility of a rapid increase in our national income is not very considerable. Therefore, any improvement of the standard of living of the masses that an Indian Government desires to bring about, must be brought about by giving an appropriate turn to production and by a controlled distribution of most essential commodities.

27. *Decontrol and its Effects.*—Government decisions regarding the abolition or continuance of controls today have relation to the next twelve months, to the period of transition and to its own long term plans. The desirability of decontrol must be examined with reference to each of these stages.

*Effects on Supply.*—The immediate effects of decontrol may be considered in relation to the supply and distribution of commodities and the levels and the structure of their prices. Removal of control is not likely to do anything towards increasing the overall supply of commodities. The short review of the supply position of both consumers' and producers' goods shows that the supply is limited by physical factors and by considerations that cannot be affected merely by the price. Even if a considerable increase takes place in the average price level of goods, the total physical supply will not, in the majority of instances, increase; and if an increase is brought about in any particular direction it will be at the cost of a decrease in supply in other directions, as for example, by the diversion of acreage from one crop to another. The phenomenon sometimes witnessed of supplies being a little more plentiful immediately after the lifting of control is very short-lived. It is due not to an increase in the volume of supplies but, to larger supplies being available on the market because of dishoarding. Hoarding under controlled conditions takes place especially when there is uncertainty regarding the continuance of controls. The greater the degree of this uncertainty and the greater the expectation of an early lifting of controls, the larger will be the amount of hoarding and withholding of supplies by producers and traders from the market. If, however, there is little chance of their being lifted in the immediate future, hoarding is discouraged, and the physica.

supplies available on the market are not widely different from the physical supplies actually produced. Therefore, the lifting of controls may be disregarded as a factor in the increase of available supplies.

28. *Effects on Price Levels.*—The removal of control cannot ordinarily be expected to decrease the level of prices. The justification of control lies in the existence of scarcity which makes it possible for producers or traders to exploit the supply position at the cost of the consumer. The State desires to protect the consumer from the possibility of the exploitation. It, therefore, maintains prices at a fair level at which, however, the demand will be considerably larger than the supply. In the circumstances, demand can be limited only by controlled distribution. In this manner price control is linked, on the one hand, with control over supplies and, on the other hand, with a system of controlled distribution. The effect of the removal of controls must in the first instance be to raise the level of prices of commodities to the consumer. The extent of this increase will depend entirely on the intensity of the demand, the possibility of the demand being satisfied by substitute products at higher prices and fear of reactions on the part of consumers. In almost all important consumers' goods, the possibility of substitute supplies or of a strong reaction to high prices on the part of the consumer is not considerable. The average consumption of cereals, of sugar and *gur*, of oil and cloth is at such low levels in India that it is not possible to think, in this country, in terms of a consumers' strike. Moreover, purchase of all these goods, barring that of cloth, cannot be postponed, but must be made week by week or day by day. The vast majority of consumers of these commodities have not the purchasing power to lay by any stocks. Therefore, whatever reduction is brought about in the consumption of any classes or numbers in the population will be because high prices make it impossible for these persons to buy even the quantities that they buy today. There is also no reason to suppose that at higher prices the commodities will be in redundant supply on the market. The consumption of the middle classes and the richer classes has been to some extent kept in check by control measures. The increased purchasing power in the hands of agriculturists and industrial labour in some regions has been similarly immobilised. A good deal of supply could, therefore, be taken up by consumers whose consumption is restricted by control today at prices considerably higher than those obtaining at present. There is thus nothing in the situation that will lead to keeping the price levels at moderate heights in the absence of controls.



29. *Effects on Regional Prices.*—Added to this must be considered the effect of decontrol on price structures and on distribution patterns. At present, in most Provinces, controlled prices to the consumer are kept uniform all over a district or only the bare transport charges are added for distribution in the more sparsely populated, outlying or inaccessible parts. There is also an attempt to see that almost all areas obtain something like their proportionate share of supplies. The removal of controls will lead to ordinary market forces operating on the structure of prices and on the processes of distribution. For example, all commodities which are not locally produced will rapidly mount in price in the countryside and in all places that are out of the way. The demand for commodities is highly concentrated in urban centres because of their larger populations and the larger purchasing power per head of the population. The costs of transport and most other expenses in sales are also smaller in urban centres. Therefore, there is a natural tendency for supplies to be first moved to urban centres and to be distributed from there to the countryside. The prices of non-local goods in the countryside are high because the difficulties of transport are greater and the population is more sparse. Also, the distributors in the countryside have little competition to face. Most essential commodities may therefore be expected to rise much more steeply in price under conditions of scarce supply in the countryside than in the towns. As a result of decontrol, the poorer and more backward areas may thus be the areas of the highest prices.

30. *Effects on Distribution of Supplies.*—The influence of economic factors, in conditions of scarce supply, will operate against the poorer rural areas in another manner. Because large quantities of commodities can be marketed with ease at low costs in centres of large demand, supplies will tend to be concentrated in them. The poorer countryside will thus not only have to pay very much higher than under control for goods but will also find that goods which are scarce are practically unobtainable.

31. *Availability of Substitutes.*—The process of substitution will also act much more efficaciously in urban areas than in rural areas. The possibility of substitution by imports is confined to a large extent to superior qualities in cloth or foodstuffs, including oils and fats and sugars. Imported supplies are much the costlier and are those which only the well-to-do classes can afford. These supplies again move with ease to cities and are marketed in them without much additional cost. To some extent, the possibility of competition of imports may keep prices of superior indigenous products in check in large centres of imports. This factor will be

completely inoperative in the countryside in relation to consumption essentials of the poorer rural masses. In these areas, neither in quality nor in price would there be any alternative to the low standard indigenous product for the consumption of the bulk of the population. Coarse cloth, coarse grains, the vegetable oil traditionally used in the region and inferior gur are the staple consumption of our masses. For these, there are no substitutes either indigenous or imported and when these are high priced or in absolute want, there is nothing for the rural masses but to go without them.

32. *Effect of Seasonal Supply on Prices.*—There is another aspect of the non-availability of substitutes for indigenous supplies which is of great importance. The production of most essential agricultural commodities is seasonal. The supplies of these commodities cannot be added to during the off season. The supply of foodgrains in most regions as well as the supply of gur and vegetable oil-seeds is brought into the market by producers during only certain months of the year. For the other months, the consumer depends upon the stocks held by the trader and marketed by him. Even in normal pre-war times, this phenomenon had given rise to a notable difference between prices for essential agricultural produce ruling at harvest and those ruling during the period when the harvest was long past and the out-turn of the new season yet uncertain. This considerable difference in prices during different periods in the year was evidenced even in food-grains like rice and wheat where it was possible to draw upon international supplies. At present, supplies from outside India are not available; and it may be taken for granted that even internal supplies will not be mobile in considerable quantities over large regions. Therefore, outside the normal producing season, the dependence of the consumer on traders' stocks within the region itself will be complete. This will obviously afford great opportunities for speculative traders to corner markets and push up prices to great heights. There might be some holding back of produce even by large agriculturists but the really large scale opportunities will be available to speculative traders after the bulk of supplies have left the hands of the smaller agriculturists. Such action on the part of traders could hold to ransom the whole community and there will be almost no limit to which, as a result of such activities, prices may not be pushed. That these fears are not academic, may be proved by reference to a number of recent events. That prices of food-grains can soar to heights where deaths from starvation result on a large scale has been recent Indian experience and may be repeated at any time in any Province if there is a break-down of controls. In this connection it is instructive to

note that in all Provinces where the area of control in food-grain trade or in food-grain distribution is limited, the effectiveness of the control of prices of food-grains is also the least. Thus in Bengal, even with a phenomenally good crop this year, rice prices are already reported to be above Rs. 25 per maund and if no early and effective steps are taken to deal with it, the situation may be expected to become much worse within three or four months. Conditions in some districts of Bihar are reported to be even worse. It is only because of the strictest of controls covering almost the whole area of administration that the Provinces of Bombay and Madras were able to pull through the disastrous year 1945-46.

Another instance which proves what has been said above was the experiment with the decontrol of gur tried by the Government of Bombay. Gur was decontrolled some two months before the beginning of the new production season. It was confidently said at the time that the amount of gur hoarded by traders was so considerable that prices would fall immediately control was lifted. It is not possible to say to what extent new supplies did appear on de-control. The fact remains that prices, instead of coming down, ruled from 50 to 100 per cent. higher than controlled prices not only upto the beginning of the production season but even afterwards.

#### Wholesale Prices of Gur (per Bengal md.)

Week ending	Bombay	Ahmedabad
31-8-46*	Rs. 17-12-6	Rs. 18-9-6
28-9-46	21-0-0 to Rs. 28-0-0	18-0-0 to Rs. 20-0-0
2-11-46	36-6-0	26-0-0 to 30-0-0
7-12-46	46-3-0 to 47-9-0	40-0-0 to 52-0-0
4-1-47*	19-3-6	19-14-0

\* Controlled Prices.

When the Government of Bombay reimposed control a month after the beginning of the production season, it had to bring down the price level which had become abnormally high on account of the previous decontrol. It had, therefore, to incur considerable opposition and odium which would have been unnecessary if there had been no decontrol. This experience suggests that the expectation that extra supplies will be forthcoming and that prices will, by reaction, rule low are both ill-placed in conditions of general scarcity as at present.

33. *Interaction of Price Rises.*—It is important to emphasise the cumulative effect of the rise in the price of one commodity on that of another. Once prices are allowed to go high, there is nothing in

the monetary or the supply situation to bring them down automatically. Any price going up on decontrol will tend to remain up and as the sphere of decontrol increases, the movement upwards of various prices will help each other and will aggravate the general trend. Even under a regime of controls, it has been noticed how a comparatively high increase in an individual commodity has always been cited as a reason for increases in all others. The increases in consumers' goods' prices will also act upon wages and salaries and will induce an increase in them. The prospect of the effect of decontrol on the cost of living index through a general increase in the prices of consumers' goods is alarming because of the cumulative movement which it will set up. The movement in agricultural products will impinge on the cost of manufactured goods through wage and salary payments, apart from raw material costs, and will make for a continuous increase in them. This is a movement which once begun cannot be checked in closed markets and today all markets are nationally closed markets. The volume of currency issued in India is large enough to permit of a considerable increase in prices. Further, its velocity may increase over wartime velocity making for even more rapid and higher inflationary possibilities. If prices are not controlled, wages cannot be held in check because the cost of living will, under decontrol, be continuously and rapidly moving upwards; and as wages cannot be checked, the prices of manufactured goods will tend to move upwards in sympathy, thus further intensifying the movement of the cost of living. Without some sort of external intervention, monetary or administrative, some sort of check on distribution and prices, there is no prospect of an inflationary movement having once got under way coming to a halt until the supply of commodities in the world as a whole is sufficient to meet effective demand.

34. *Decontrol and Relation with External Prices.*—The discussion has so far been confined to immediate decontrols and their effect on prices of consumers' goods and the supply of goods to the consumer. In view of the international scarcity of commodities, the results of any immediate decontrol of goods like cloth and sugar will necessarily be to send up prices. According to estimates made above, it would be wrong to expect any substantial change in supply trends, till, at least, the end of 1948. Therefore, prices will continue to rise and may by then reach a height very much above the present level. This could be stopped only by a radical change in the supply position through, chiefly, the international market. It is only when large supplies from other countries are forthcoming at much lower prices than the prices ruling in India, or when there is a sudden fall

in the demand for Indian products from abroad that the inflationary spiral may stop. When it stops, the exchange position would have become significantly worse than it is today. If in other countries such as the United Kingdom and the Dominions, the control regime is logically, strictly preserved, the price levels in them will not have risen very much above their present level. In the United States of America no doubt the prices may move upwards considerably but in the economy of the United States of America it is neither unusual nor unexpected for prices to move rapidly both upwards and downwards. The effect on India when the position of scarcity comes to an end will be disastrous, because then Indian prices will have to come down from a very much higher level than at present to a level which is very much below even the present one.

35. *Decontrol and Government's ability to deal with Depression.*— It has been already indicated that the par value of the rupee can be maintained under conditions of freer international trade only if the present internal price level in India is somewhat reduced. If a regime of decontrol intervenes between the present and the days of plentiful supply of commodities, the degrees of maladjustment between the internal and external values of the rupee will have been immensely increased. A decline of prices when it comes will come with a force which may be even greater than that of the depression of the early thirties, because it is likely, as happened in the immediate post-war years after the 1914-18 war that the change in the supply position and in the psychology of the market will be sudden. With a sudden turning point, the prices will come down head-long and involve the whole of Indian rural economy in disaster. When this happens, Government will be powerless to do anything to steady the downward course of prices. In the first instance prices would have been so inflated that they could not be maintained at their specially high level by any means. Secondly, Government would not have at the time any instruments in their hands with which to counteract deflationary tendencies. It is even more difficult to check the onset of a depression than to control inflation. An inflation can be controlled by controlling the pace of production and by controlling distribution. The urge upward can be checked. But nothing can be done in a psychologically depressed market to keep prices up. There would be no agencies which would be in a position to support prices because all commodities would then be decontrolled. There would be no agencies of distribution which would enable Government to buy up large quantities of commodities with the expectation of being able to market them. As has been pointed out above, all the apparatus recommended by the

Prices Sub-Committee for the support of agricultural prices presupposes a net-work of controls. As this apparatus would not be in existence, Government would be powerless to do anything in face of the economic forces let loose. There would even be no justification for doing anything for the producers, the speculators and the traders who would be experiencing nothing but a natural reaction of the full and free play of economic forces which they had themselves sought.

36. *Possibility of Retaining only Food-grain Controls.*—It has sometimes been maintained that Government cannot, in any circumstances, allow food-grain prices to rise high and cannot risk a dislocation of food distribution. Therefore, controls may be maintained only over food-grains but could be abolished in respect of all other commodities. It is wrong to believe that this can be done effectively. There are at least two directions in which the maintenance of control over the prices and distribution of food alone would prove impossible. In the first instance, a decontrol of other commodities would mean, as has been pointed out, an increase in the prices of oil-seeds, sugarcane, cotton, jute, etc. This means an increase, possibly a very large increase, in the prices of all commodities which can be sown in at least partial substitution of food-grains. It follows that a diversion from food-grains to these other crops will take place. It is difficult to say how large a diversion it would be. It is obvious that acreage under food-grains will be maintained to a large extent because of other considerations than price; however, it is equally clear that there would be a diversion to other crops large enough to have a significant effect on the already unsatisfactory situation regarding food supplies in India. In Bombay Province, for example, in certain districts like Broach and East Khandesh, the food deficit has been considerably reduced by the joint operation of low cotton prices and Government control over acreages. The difficulty of the food administration of the Government of Bombay has consequently to some extent been eased. If there is a reversal of the operation of both these factors, the previous position relating to cotton and food-grain proportions may be immediately re-established in these and other districts. If this happens in a large number of districts, as it is bound to all over the country, the production of food will fall and the administration of food supplies is likely to break down.

Moreover, it is too much to expect that the producer of food-grains will quietly submit to a wholly partial operation of the regime of controls. Already the farmer who grows cereals complains that consumers' goods are not made available to him in sufficient quanti-

ties and at really controlled prices. He makes a similar complaint relating to goods like iron implements, fertilisers and feeds. The level of wages of agricultural labour is also set by the more paying commercial crops. In the area of the Deccan Canals, sugar companies have complained of the high level set up because of the competition of the producers of uncontrolled *gur* and the cereal farmers of neighbouring areas find the wages more difficult to pay than even the sugar factories. If, now, all consumers' and producers' goods are decontrolled, the prices to be paid by the food-grain producers will be uncontrolled and very much higher than before. If the prices of food-grains are controlled so that the food-grain farmer receives fixed and limited income while his outlays are not similarly kept in check, he will have a very legitimate and powerful grievance. The general difficulties of procurement of food-grains are reported to have increased during the last year. If the sphere of decontrol is much enlarged and, as is then inevitable, consumers' and producers' goods increase in price and supplies to the remote country side become more difficult to obtain, it is impossible to contemplate the grower of food submitting to a restriction on the prices or the marketing of his produce. Thus, Government is bound to meet with determined opposition to the functioning of food controls alone and the policy of the partial maintenance of controls is bound to collapse.

37. *Difficulties of Partial Controls—Oil-seeds.*—The difficulties in administering a partial system of controls may be further illustrated by reference to oil-seeds, cloth and sugar. On the decontrol of oil-seeds, the Government of India thought that the prices of oil-seeds and of oil might yet be kept from rising too high because of (1) the limited export market and (2) price control of the manufacture of Vanaspati. It was expected that in this indirect manner, oil-seeds prices would be kept from soaring. The position regarding Vanaspati manufacture was peculiar. The products of the manufacturers of Vanaspati are controlled in price. The prices of their raw materials are not so controlled. It was expected that they would not pay a price for oil-seeds beyond the figure dictated by the price of their finished product. As these manufacturers are large consumers of oil-seeds, their behaviour is expected to keep in check the whole oil-seeds market. It is interesting to note that the control of the price of Vanaspati is control which is not enforced by an elaborate system of distribution as in the case of cloth, kerosene or sugar. For Vanaspati, there is no system either of a set of defined distributors or of rationing and of allocation of definite quantities. The controls over cloth, sugar, etc., which have a much more

logical system and which are more integrated, are alleged to be ineffective and yet Government depends on the proper functioning of the price control of Vanaspati, for which no similar system is built up. Unless the manufacturers of Vanaspati, and the traders dealing in it are presumed to belong to a category different from those who handle cloth, sugar, etc., there is no reason to believe that the control over prices of Vanaspati will in reality be even as effective as the control over cloth and sugar prices. Moreover, the supplies of oil-seeds are so scarce, that the demand for exports, the internal demand from industries which use vegetable oils as base products and the large demand for vegetable oil within the country may all together well keep prices at very high levels in spite of the Vanaspati manufacturer not making any large purchases in the market. The whole position relating to the supply of and demand for vegetable oil-seeds is so complex that, in the existing situation, it would be rash to suppose that holding off Vanaspati manufacturers from the market would necessarily affect oil-seed prices.

The present oil-seeds situation also raises a number of other questions relating to Government policy. The decontrol of oil-seeds was interpreted as a measure in the direction of general decontrol everywhere. It would, however, appear that Government is now anxious to keep oil-seed prices from rising too high and to control the prices of Vanaspati. Its ability to do so after having given up the necessary basic system of controls is highly doubtful, but the attempt to control the price of Vanaspati leaves the position regarding policy obscure. Whether oil-seeds control has been lifted as a part of a general policy of decontrol or only because the particular system of controls had proved un-workable during a certain period is not clear. If the latter interpretation is the correct one, it would leave open the possibility of a reimposition of the price control of oil-seeds for the next year.

38. *Cotton and Cloth.*—The cloth and cotton position and the sugar-cane and the sugar position are similarly linked together. The Indian cotton grower complains insistently that controls on export and prices of cotton merely benefit the Indian manufacturer and that these controls have given a special profit margin to the manufacturer of cloth which he has exploited to the full while the Indian agriculturist is getting for his cotton a much lower price than is justified by general conditions or by international movements. If, now, cloth is decontrolled, cotton controls cannot be maintained. For, in that case, while the cloth manufacturer would have the fullest opportunity to charge anything to the consumer, he would be guaranteed his raw material at a definite price. That would be



flagrantly unjust to large groups of agriculturists. Presumably, therefore, if cloth controls go, control over the export and over the prices of cotton must also go and similarly if sugar is decontrolled, the prices of sugarcane must also be fully decontrolled.

39. *Import and Export Controls.*—While there is considerable feeling against control of prices and of distribution of consumers' goods, the need for retaining export and import controls and certain allocation controls of producers' goods is not widely questioned. The Central Legislature has recently vested the Government of India with powers to continue for a limited period the prohibition and control of imports and exports. This power has been justified because of the shortage of dollars and other "hard" currency, the shortage of shipping space, the shortage of essential goods like cloth, oil-seeds, sugar within the country and the need for conserving the foreign exchange resources of India and not frittering them away in the import of useless consumers' goods. The contention of Government spokesmen was that the present transition period would last for more than a year and that these shortages in supply could not be expected to cease within a short time. The implications of the policy of import and export controls must, however, be fully understood. During the course of the debate in the Assembly, it was pointed out how import controls created positions of monopoly and how, as a result, certain licencees were able to exploit consumers without check. Definite instances such as that of imports of brass were cited in support. It is obvious that import and export controls create positions of vantage for certain classes of traders and producers. The control of imports limits the extent of competition with goods produced by internal producers which are of the same class as imports. It also gives a specially favourable position to persons who are able to obtain import licences, and there is nothing in the present system of controls to guarantee that the consumer is not penalised or exploited because of the limitations of supply imposed by import controls.

The internal producer may complain that his price is unduly depressed because of limitations on his ability to export, while the Indian manufacturer who buys from him at the unduly depressed price is in no way checked in exploitation. The aim of all productive activity is ultimately to produce consumers' goods. Any set of specially low or controlled prices at intermediate levels which are not reflected in equal proportions in the prices of consumers' goods merely creates opportunities for some intermediaries to get extra gains. Therefore, unless Government is sure that there are

special circumstances which prevent licensed importers or exporters from exploiting their position in a special way, the imposition of export and import controls should logically lead to the imposition of controls for the protection of the consumer. Bulk purchase on Government account of imports and the sale of exports through Government agency have both been widely resorted to in other countries because of the problems to which export and import controls give rise. The policy of H. M. G. in the former is instructive; the policy of countries like Argentina in the latter has at least the merit of profiting the general tax-payer and not any special class of trader or producer.

40. *Government's Responsibility in operating Indirect Controls.*—The position of other controls such as the controls of transport priorities or of raw material distribution is also the same. When an industry commands a special priority in the obtaining of, say, coal or is given a special position in the movement of its raw materials or finished products, it is placed in this favourable position, presumably because of considerations of public necessity or social good. The special treatment must obviously be reflected in special obligations undertaken by the favourably treated class of producers. If cotton mills or cement factories obtain special coal allocations, the obligations to produce given quantities, and market them in a given manner must also be imposed on them. Otherwise, the ultimate aim of social policy which can only be to make consumers' goods available in sufficient quantities over all the area would be frustrated and the only result of special allocations would be, again, to benefit specially the favoured classes. Thus, the other controls against which there is not the same clamour today and whose retention is sometimes advocated even by the business community seem to be controls which can benefit the consumer only if they are supplemented by controls over the distribution and prices of the products of these industries. The interest of the trader or of the manufacturer in having only import, export, or allocation controls, is obvious. He would not desire the addition of controls over the pricing and distribution of his products; but in agreeing to such a policy, Government would be laying itself open to the charge of administering a controlled regime for the benefit of only a certain class. If it is to be absolved of this charge, it will have to satisfy itself that the real advantages in productive effort or in low costs flowing from these controls are passed on to the ultimate consumer.

It is significant in this connection to observe how various provinces also advocate other types of partial controls. A number of

surplus provinces desire no control over the prices of produce in which they are surplus; but, they desire for themselves the power to restrain the removal of surpluses out of their borders. On the other hand, provinces in whom industrial production is concentrated consider that they are treated unfairly in the distribution of agricultural products. They are anxious to have control over industrial production abolished so that they may be enabled, through some check on movements, to bargain with producers of surpluses in agriculture. It is obvious that traders and industrialists and Provincial Governments are all anxious to improve their bargaining position vis-a-vis others. The only remedy to this state of things is on the one hand a completely integrated set of controls administered from the Centre, working with reasonable efficiency or, on the other hand, complete decontrol including decontrol not only over the prices and distribution of consumers' goods but over prices and movements of all goods and, over even, possibly imports and exports. The dangers of the latter in the position of scarce supply in which the country finds itself are obvious and are large. To adopt this course is in effect to plead that in spite of the obvious conditions of emergency, Government is unable to devise and administer curative measures.

41. *Integration of Controls.*—It has been contended above that controls over food-grains are not by themselves likely to be practicable or successful and that many other types of controls are linked with one another. A control regime with some definite overall objective such as that of checking an inflationary trend or distributing in a rational manner scarce supplies must consist of a number of controls, supplementing and reinforcing each other. In relation even to the short term aims indicated above, a control regime, in a situation like the present, would have to be fairly comprehensive. The immediate sphere of such a regime may be indicated with reference to certain crucial aspects of economic activity. These are: (1) the cost of living, (2) the cost of production and (3) the allocation of resources. In respect of the first the main objective must be to control the cost of living of the poorer sections of the community so that there is not, during the next two or three years, a continuous pressure from them for increases in wages and salaries. It is obviously impossible to control all prices that influence the cost of living. It is, however, not outside practical politics to control the more important among them. The chief classes of expenditure in the cost of living are food, clothing, fuel and lighting and in the larger cities and industrial concentrations, rent. Among items of food, the most important are cereals, pulses, gur and sugar, vegetable oil,

vegetables, milk and milk products, meat and fish, etc. Of these, the last items represent perishables whose consumption is of considerable importance from the nutritional point of view. In most Western countries, the controlled supply of, for example, milk, has been an important feature of rationing systems. However, these items have never been of considerable actual importance in the standard of living of the poor in India; and their total production in India in relation to numbers is extremely low. If we omit these from immediate consideration, the other items can all be controlled and have, except for vegetable oil, been actually controlled to a large extent during war years. Amongst items other than food, cloth takes the most important position and machine-made cloth is today controlled both in distribution and in price. Rent is controlled by Provincial legislation in a large number of places. The main components of the class, fuel and lighting, are kerosene, charcoal and firewood. Kerosene is in controlled distribution even in rural areas for the major part of India. The distribution and prices of charcoal and firewood require control chiefly in the larger towns and cities, and are so controlled in many provinces. Thus, a variety of controls are in actual existence today which can, if properly operated, materially influence the cost of living. Unless the wave of sentiment in favour of decontrol rapidly undermines the present system in the provinces, it should not be too difficult on the basis of controls that already exist to check further increases in the cost of living. It would appear that if control over vegetable oil were added to the controls that already exist, items accounting for well over half of the total cost of living of the poorer classes should be amenable to control in the manner indicated above.

In relation to costs, one major item, wages, could be kept in check only if the cost of living index is under control. It is true that the mere fact of the cost of living being under control may not suffice to keep off demands for increases in wages on the part of labour. However, the ability of Government to persuade labour successfully to refrain from making demands for wage increase would depend greatly on its initial success in checking the increase in the cost of living. Another general industrial cost is in respect of fuel and power. Existing Government controls on the prices and distribution of coal, crude oil and electricity, etc., could be made to go a long way towards stabilising fuel and power costs. For the rest, industrial costs would depend on the variety of raw materials and accessories, etc., used in production. To the extent that they are, in the main, the produce of Indian agriculture or Indian mineral industry, they might be amenable to controls. The prices of imports

could not, of course, be similarly controlled but they would play a large part only in certain exceptional industries.

The important agricultural costs, other than wages are seed, feeds and fertilisers, implements, etc. Control over oil-seeds and over oil-cake would make a large portion of the supply of feed and fertilisers amenable to control. If areas under cereals and pulses are kept at a high level for purposes of grain production, that should help also in meeting the demand for fodder and keeping in check fodder prices. With control over the prices of iron and steel, agricultural implements are not likely to become dear. An important item like the cost of bullocks could, however, not be easily brought under the regime of control.

The allocation of the scarce industrial materials like iron and steel, cement, coal, etc., will presumably continue. Imports and distribution of most materials such as metals may also continue to be controlled. Agricultural produce, being largely home-grown would not be directly allocated except as a part of the distribution of consumers' goods, e.g., food-grains or oil-seeds.

The main problem in agriculture is that of distribution of land under the major crops. Unless the prices of all the major crops are controlled relatively to each other, serious disturbances likely to upset Government plans and aggravate existing scarcities may take place in this respect. Allocation of land in the absence of a control of prices of produce may no doubt be brought about by direct restriction of acreage or acreage proportions; the latter measure is to be regarded as supplementing allocation through price control rather than as an efficacious instrument of allocation in itself. The enforcement of absolute or proportionate acreage legislation all over the countryside is a very much more difficult and delicate business than the control of prices of major agricultural produce.

To sum up, control will have to be exercised over the major items of the food of the poor, over cloth, over kerosene and firewood and charcoal, over rent in urban areas, over the major products of agriculture, viz., cotton, jute, oilseeds, and sugarcane, and over important industries like sugar and textiles. This must be linked with control over prices and allocations of the major industrial products. It has been pointed out that almost in none of the respects mentioned above is control completely lacking today. The only two major items which are not at present under control are oilseeds and jute which have been released from control during the last few months. If these are again brought in and the whole system is integrated and each individual control made to supplement the work

of other controls, there is no reason why a workable system of controls sufficient to meet the needs, at least of the transition period, should not function in this country.

42. *Defects of Existing Controls.*—It has been often said that while the case for the continuance of controls may be convincing in the abstract, the actual working of controls leads most people today to prefer a regime of decontrol. It is said that administrative efficiency has sunk very low and corruption is rife. Therefore, controls cannot be continued. The matter must be examined from two different points of view. In the first instance, apart from the existence of any inefficiency or corruption, the decision regarding the immediate continuance of controls would depend on the actual performance of the system of controls. The ultimate aim of controls is to secure a minimum distribution at controlled prices of essentials to consumers; to keep in check the cost of living and to maintain production at least at present levels. If controls do not achieve these aims or actually hamper them and if an abolition of controls is likely to achieve better results in all the above respects, no doubt there will be no case for keeping up controls. What results decontrol will yield is somewhat uncertain today; but the presumption is that, at least immediately, the situation on decontrol would resemble the situation existing after the inflationary trend in 1942 began and before the systems of controls were slowly brought into existence. Therefore, whatever the difficulties in working, control would be preferable, provided existing controls contributed somewhat towards either the systematisation of distribution or the keeping of prices in check. If, on the other hand, the conditions of a decontrolled regime of high prices, of maladministration and of exploitation by trader and speculator are really preferable to the actual working of Government control, no question of an alternative exists, for it would merely mean that administration in India is unable to cope with the most fundamental of the problems presented today.

Secondly, the decision regarding continuance of controls would rest largely on the extent to which administration is expected to control economic activity in the future. If economic administrative machinery is never likely to be required on a considerable scale, present defects may be a sufficient excuse for diminishing its use to a minimum. If, on the contrary, it is likely to be a continuing feature of administration, its present defects must be taken as a challenge to the politician and the administrator. If the execution of Government policy is to depend more and more on Government servants any immediate defects, however grave, constitute a reason

not so much for scrapping the agency as for making every effort to improve its performance as early as possible.

43. *Systems of Control: Temporary and Permanent.*—The present regime of controls may be looked at from different points of view. The view may be taken that controls as such are always undesirable. It may, at the same time, be recognised that severe scarcities of supply of essential commodities make it impossible to dispense immediately with controls. Controls would then last only as long as the scarcities continue. Controls may, in addition, be considered necessary for bringing about a smooth transition to a post-war normal economy. In this event, controls would be used not only to distribute evenly supplies of producers' and consumers' goods at fair prices but would be also made to affect the working of economic society so that the changes necessary for making the transition easier are gradually brought about. In this event, the duration of the controls would be determined by the period of transition and their administration influenced by the additional objective. Finally, controls may be adopted as an enduring part of our economic structure as being necessary for giving effect to long term economic and social plans. If this point of view is adopted, the structure and the administration of controls would be shaped for permanence.

44. *Measure of Supply in relation to Decontrol.*—We are not immediately concerned with the second or third alternatives set out above. Under either of these, a prospect of immediate decontrol or even early decontrol does not arise. However, if the first point of view is adopted, it is necessary to inquire in what conditions it would be possible to decontrol particular commodities or to abolish controls altogether. If controls are related to the continuing scarcity of essentials, the primary condition precedent to their abolition is that the scarcity should be at an end. There should be an ample supply in relation to demand. The important question is how ample is it necessary that the supply should be before controls can be safely abolished. In this respect, the only figures that we can use are figures of *per capita* consumption during the pre-war period. In using these figures, it should however be remembered that there has been, during the war, perhaps some adjustment of the distribution of income in favour of the poor as compared with the middle class. Consequently, the supply needed today should be at somewhat higher per head rates in the main essential consumers' goods than before the war.

Some features of present conditions which make possible manipulations by speculators have already been pointed out above.

In addition, it may be noticed that a supply has to be distributed in space and in time, and the total supply required would be larger when such distribution is not efficient than when it is efficient. In pre-war days, complete mobility in transport, the availability of external supplies, etc., made for free movements both in space and time. The margin in the "pipe-line" supplies could, in the circumstances, be low. On the other hand, when distribution is carefully controlled by Government, "pipe-line" supplies may be safely cut down in some cases to a point below the normal of even a free economy. Considerable congestion in all systems of transport and a likelihood of a break-down in them because of weakness in the systems or disorders in the country, etc. affect seriously the extent of the necessary "pipe-line" supplies. Such supplies would have to be specially large if decontrol is to be attempted while transport is uncertain. Only an overall authority which has full knowledge of the location of all kinds of supplies and the requirements of all regions can adequately meet such a situation.

Finally, the state of confidence of the public is also a considerable factor in making given supplies go a long way. The quantities in the hands of people, that is the normal carry-overs of individuals and of traders would be large or small in relation to this confidence. It has been a usual experience in war time that the situation in a commodity the supplies of which were supposed to run short and for obtaining which long queues had to be formed was eased the moment a regulated system of distribution became effective and people became assured of obtaining supplies of even small quantities under rationed distribution. All this points to the conclusion that unless supplies are sufficient to give an average per head consumption which is equal at least to the pre-war average consumption, distribution, under decontrol, of essential goods is bound to break down.

45. *The Advisability and Utility of Deflationary Measures.*—It has been suggested that as an alternative to keeping up the regime of controls, a movement of monetary deflation might be initiated. The proposal admits impliedly that present prices in India are out of parity with prices in most parts of the world; and that when existing conditions of short supply pass, difficulties will be experienced in maintaining the Indian level of prices at current rates of exchange. The proper course of action in order to fight this contingency might be to bring about a reduction of prices under control over the period of transition. It is, however, argued that controls do not work satisfactorily and that it might be better to meet the contingent situation by setting in a deflationary trend now



than by continuing controls. Monetary deflation today, it is said, would exert a downward pressure on all prices and place them in a few years' time in an appropriate relation with external prices. It is conceded that controlled reduction of prices may be more rational but this is conceived to be impossible.

A suggestion for monetary deflation must be examined with reference to the actual measures that could be adopted in this behalf. No additions to currency have taken place during many months past. A comparatively stable level of the volume of currency in circulation has not prevented a new movement towards an increase of prices from being initiated. Monetary deflation, in the circumstances, must work through more positive means than checking expansion of currency. The classical way of bringing about deflation was for the Central Bank to raise its rate of interest. When this had not a sufficiently deterrent effect on business, the next step was for Government to borrow money from the market. The aim of both the steps was to discourage the expansion of credit and to lead to a contraction of total money and credit available to the business community. The last time such a measure was adopted in India was, when in 1930-31, the rate of interest on treasury bills reached a high point. It is difficult to say to what extent in existing circumstances, such steps would be successful, and to what heights the rate of interest would have to rise for the purpose. Apart from the practicability of such steps, they are open to the gravest objections because of their universal incidence. While it is true that everything should be done to prevent the present scarcity of goods from pushing up the Indian price level unduly high, it is, at the same time, equally desirable to avoid taking any action which might bring about a depression. Governments have during the last war been extremely careful not to allow an increase in the rate of interest. All Governmental finance during the war period as well as programmes of finance for the post-war period depend on the possibility of the maintenance of a comparatively low rate of interest. Deflationary borrowing by Government is not likely to be successful unless Government departs from this policy of low rates of interest. It is obvious that the departure will have far-reaching consequences. A deflationary movement, which must envelop all activity, will discourage enterprise and increased production, and these are of the utmost importance today. A monetary deflation, once set in motion, cannot be controlled in its action and cannot be checked at will. Once there is an onset of depressed conditions, these conditions may lead to small or large falls of prices and the

extent of this fall would vary from sector to sector. The variations would, however, not be under the control of the agency initiating the deflationary movement. It is obviously undesirable that Government should take steps which may bring about depressed conditions in large sections of agriculture and industry.

One of the gravest fears expressed by most economists towards the end of the war was that a depression might be experienced on account of the cessation of Government expenditure. It happens that this fear did not prove well founded. Government expenditure has contracted in a considerable measure without leading to a depression. The total amount of expenditure incurred on Government account, both Provincial and Central, together with the special expenditure on account of His Majesty's Government and other Allies during time of war has been as follows :

Government Outlay	( Lakhs of Rupees )			
	1944-45	1945-46	1946-47 (Revised Estimates)	1947-48 (Budget)
Provinces . . . . .	118,49	218,27	256,42	270,55
Centre . . . . .	496,26	484,57	281,47	327,88
H. M. G. and Allied Govts. . . . .	410,84	375,78	48,32	
	1025,59	1078,62	686,21	598,43

This shows that the fall in 1946-47 in overall Government expenditure from the peak levels attained during war has been large and yet this does not seem to have affected levels of prices. Whatever the reasons for this, it is obvious that monetary measures will not meet the situation.

46. *Necessity for Formulating Policy and for Educating the Public in it.*—It is extremely urgent that Government should formulate a definite policy towards controls and should announce it with the greatest possible speed. The present situation is unfortunate from all points of view. A regime of controls exists. Yet persons in authority and responsible leaders of public opinion talk as if it was nothing but an evil which should be abolished immediately. In such a climate of opinion, no control regime can survive, for everybody thinks that it is proper to violate it, every trader contemplates hoarding and getting the most out of the process of abolition and very few non-officials have their hearts in working or enforcing

controls. There is little doubt that if Government really thinks that controls are undesirable, it would be best to abolish them completely as speedily as possible. On the other hand, if Government decides that it cannot afford to abolish controls and that the conditions following decontrol will be akin to chaos, Government must not only keep up controls, but integrate them, explain them and enforce them. It must, in this effort begin with Provincial Governments so that the work of the integration of controls is carried out with their co-operation and they are convinced of the necessity of maintaining them. Otherwise there is the danger, as at present happens, of the Central Government maintaining a structure of controls which in effect is being undermined by action on the part of Provincial Governments. It is not enough to have a policy in which the members of the Central and the Provincial Governments both believe. It would be necessary to explain to the general public the objectives of that policy and the circumstances which necessitate it. In order that the policy of economic controls should work effectively, it is imperative that Government should explain clearly to the public the general features of the economic position. There is at least as much need in India today to realise the gravity of the economic position and to set it out, in its broad quantitative aspects, fully before the public as there is in England. The British Economic Survey for 1947 presented estimates and targets and was meant to prepare the public for certain contingencies and certain eventualities. Something of the same sort needs to be done in India. The stark economic realities of insufficient production and supplies must be brought home to the people. The target and the aims of Government action must be clearly set forth and the part expected to be played by various sections of economic society and the general body of consumers should be made clear.

The Commodities Prices Board is vitally interested in early formulation of definite Government policy. The Commodities Prices Board was presumably set up to integrate price controls. If price controls are due to disappear one by one at an early date, the work of integration can hardly be undertaken by the Board. In all the circumstances, a clear indication of Government's economic policy in this behalf is obviously desirable.

A. D. GORWALA,—19-4-47.  
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## SUMMARY

This note attempts to examine data relating to production and supply of commodities in relation to the need for the maintenance of controls. It refers to trends and expectations regarding price levels and examines the possible results of decontrol. It sets out the main considerations bearing on building up a proper system of integrated controls and urges the need for an early definition of Government policy in regard to all controls.

1. There is little prospect of the acreage or the average per acre output in agriculture in India increasing during the next three years.

2. Industrial production has fallen below war-time average during 1946. There are difficulties in its immediate expansion. Chief among these is the supply of coal. Expansion in future years depends, in the main, on the pace of imports of capital goods.

3. Internal surpluses of food-grains have recently declined. Large surpluses of cereals in other countries are not expected to develop before 1950. All that Government can expect to do during the next 12 months is to carry on without being forced to reduce the ration to less than 12 oz. and during the subsequent two years to build up reserves and to make some progress towards the 16 oz. ration level.

4. The *per capita* supply of cloth during 1947 and 1948 is likely to remain substantially below the pre-war average, which is not likely to be attained even in 1949.

5. The supplies of sugar and gur are not likely to attain pre-war levels, at least before the end of the year 1948. There is likely to be a continuing scarcity of supply of vegetable oil available to the poor Indian consumer. Scarcity is likely to continue in the supply of oil-cake and firewood and charcoal.

6. Production and supplies of coal, iron and steel and cement are likely to be much below requirements during the next few years. Controlled allocations of most of these materials will be necessary.

7. There has been recently a trend towards increase in the wholesale prices of agricultural commodities and in the cost of living. This increase is not due to monetary factors. It appears to

be due to recent increases in the levels of wages and salaries and to Government policy relating to controls. This increase is not likely to be checked, in the near future, by increased production. It is likely to continue as long as consumer and producer goods are in short supply and may be aggravated by break-downs in administration and in transport in particular regions.

8. Price levels in most countries have risen less than in India, and are not likely to be stabilised at more than double the pre-war level. Price levels in India will have to be brought in relation with external price levels by the end of the period of transition. It will, therefore, be necessary to bring down Indian prices in a controlled manner during this period.

9. Government announcements relating to post-war industrial and agricultural policy presuppose a regime of controls for the carrying out of development plans, and an early increase in the Indian standard of living will be impossible in the absence of such a regime.

10. Decontrol is not likely to increase supplies of consumer goods. Levels of prices of important consumer goods are likely to rise on decontrol. The increase in prices on decontrol may be specially marked in the poor and out of the way regions. These regions are also likely to be starved of supplies. Substitute supplies in the shape of imported consumer goods would be available chiefly to the middle and rich classes living in towns.

✓ 11. Seasonal production of agricultural goods make their price and supply specially liable to manipulation by speculators during the off season of agriculture in the absence of a free and rapid movement of supplies, external and internal.

12. Increase in the prices of commodities react on each other. Prices of consumer goods influence wages and salaries and through them the cost of manufacture. A movement upwards in the more important consumer goods brings about a general cumulative increase in the price level which could not be checked except by some sort of external intervention, so long as supply of commodities in the world as a whole is insufficient to meet effective demand.

13. If the general level of prices in India increases upon decontrol, this will make still more difficult the problem of adjusting internal prices to external prices. It is likely that an immediate

further increase in prices in India will involve a sudden fall in Indian prices at the end of the period of transition. This may result in a severe depression, especially in Indian agriculture.

14. It is not possible to retain controls over food-grains alone because:

(1) an increase in prices of other agricultural products may reduce substantially existing area under food-crops and may lead to break down of food administration; and

(2) cultivators of cereals are not likely to submit peacefully to a control over prices of food-grains if the prices of other agricultural products, and the goods that they buy are not similarly controlled.

15. Partial control such as that over the price of Vanaspati alone without controlling oil-seeds would be found difficult to enforce. Cloth and cotton controls and sugar, gur and sugarcane controls are similarly inter-linked.

16. Controls over exports of raw materials are likely to be beneficial only if they are accompanied by control over prices and distribution of the goods manufactured out of them. In the absence of similar measures, a control over imports is likely merely to create special positions of privilege for licencees. All indirect controls may benefit only special groups of traders or producers unless appropriate supplementary measures are taken.

17. An integrated system of controls must have relation to:

( i ) the cost of living,

( ii ) the cost of production, and

( iii ) the allocation of resources of industry and the allocation of land between different agricultural products.

18. The minimum sphere of an integrated system of controls would be:

cereals and pulses;

sugar, sugarcane and gur;

oil-seeds, oil and oil-cake;

jute, cotton and cloth;

kerosene, firewood and charcoal;

coal, iron and steel and cement.

19. The ultimate aim of controls is to secure:

- ( i ) wide distribution of minimum quantities of essentials at controlled prices,
- ( ii ) keep in check the level of prices, and
- ( iii ) maintain levels of production.

If because of inefficiency, controls do not achieve any of these aims and decontrols are likely to lead to better results in all these respects there would be no justification for continuance of controls. If however, controlled regimes show results which are to be preferred to chaotic conditions likely to follow on decontrol, controls should not be abolished merely because of certain defects in their working. Not abolition but the improvement of the system of controls will have to be undertaken especially if long term plans involve regulation and direction of economic activity by the State.

20. Difficulties of transport and lack of public confidence will necessitate larger than normal " pipe line " supplies on decontrol. Decontrol cannot be safely recommended until supplies of essential consumer goods reached at least the pre-war per head level.

21. Monetary deflation for bringing down the levels of prices has been urged as an alternative to controls. It is not certain if deflationary measures will be effective; even if effective, their incidence will be universal and indiscriminate and they will have an adverse effect on productive activity which will be highly undesirable.

22. It is extremely urgent that Government should formulate a definite policy towards controls and should announce it early. If the regime of controls is to be continued, it should be integrated. Provincial Governments convinced of its merits and the public educated in its objectives and in the proper response expected to it.

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### III

## COTTON—TIME OF ANNOUNCEMENT AND CLARIFICATION

We have been asked to advise early regarding the time of announcement of prices of cotton for the season 1947-48. Our attention has been specially drawn to one problem of classification, that of the position of cottons named C.P. 1 and C.P. 2.

2. *Time of Announcement of Prices.*—In respect of the time of announcement, we confine our attention and observations only to the specific problem of the announcement of prices of cotton this year. We do not desire to enter into the general problem of policy regarding the time at which announcement of prices of agricultural produce, either floor or ceiling should normally be made by Government. The policy for normal times will be determined by considerations such as those set out in the report of the prices Sub-Committee. We do not propose, in this particular context to dilate on this because our recommendation is influenced by the particular circumstances of the year.

3. An early announcement is considered desirable because it gives the cultivator a sense of security in planning production and entering upon sowing operations. It has, further, been urged that at least the minimum prices guaranteed by Government, if not the maximum or standard prices, should be announced before sowing operations for the bulk of the crop are due to begin. In relation to cotton, there is another argument that has been advanced in favour of an early announcement of prices. It is said that cotton is sold as a standing crop in many regions of the country and that for such producers as sell their standing crops, an early announcement of Government intentions is of great value. Also, trading in some cottons begins at a comparatively early date in the season and such trading is secure in its basis if a Government announcement has been made early.

4. Lack of relevant data is, on the other hand, a great handicap in making an announcement at an early date. Prices in any cotton season depend to a large extent on the total yield of the crop in the season in the particular country and in the world as a whole. An



announcement made before sowing, will be made at a time when the preliminary data regarding even the area under cotton sown for the season cannot be available. An announcement decided upon after informed estimates of total areas sown and after climatic conditions for at least a part of the growing season are known is much more likely to prove workable and to serve the ends of Government policy than one made in the absence of these statistical data. The case for a later announcement as against an earlier one is strengthened when it becomes, for any reason, undesirable to change prices announced by Government during the currency of the season. Because of the varied regions and the varied types of cottons grown, the cotton season in India extends over a somewhat long period. As in most commercial crops, cotton leaves the hands of the producer, in a large majority of cases, fairly soon after it is picked. A rise in prices granted half-way through the season is liable to be interpreted as due to pressure from traders and as favouring traders' interests as distinguished from those of the producer.

5. During this particular year, the arguments set out above are re-inforced by the present carry-over of Indian cotton. Stocks of Indian cotton accumulated to a large extent in the war years. The liquidation of these stocks is expected to go on in the current year. Prices during the ensuing season may be influenced to a large extent by the degree to which this process is continued. The consumption of Indian cotton by Indian mills has fallen during recent months and the pace of exports is not as quick as had been expected. Immediately, therefore, the position regarding the carry-over from the past into the cotton season of 1947-48 has become somewhat uncertain. The next two months will indicate the extent to which it is possible to export Indian cotton and will enable a fairly accurate estimate of the carry-over to be made. Certain other factors such as the policy of the United States of America towards exports might also become better defined during this period. Thus in many ways, Government should be in a better position to decide upon the level of prices if it makes the announcement, as during the past few years, in the month of August.

6. It has been argued before us that an immediate announcement of at least minimum prices may give an incentive to increase, or may at least stabilise the acreage under cotton sown during the season 1947-48. We are not sure that an increase in cotton acreage is immediately desirable either from the point of view of the cultivator of cotton or from the point of view of the general planning of agricultural production within the country. We are at the

same time anxious that the cotton cultivator should not remain in a state of anxiety regarding Government control of the prices of raw cotton. Our attention has been drawn to the fact that recently cotton prices showed sudden weakness on rumours of decontrol by Government. It is clear from these movements that traders attach considerable importance to the intention of Government regarding the continuance of the support to floor prices. If the continuation of the policy of maintaining floors is in doubt, this might have an adverse effect on cotton prices and might place the cultivator, at the beginning of this season, in a state of great uncertainty. Government has referred to us the question of the levels at which prices during 1947-48 should be fixed. This by itself is an indication that Government desires to continue its present policy in relation to cotton prices and asks for specific recommendations in that behalf. While, therefore, we would defer making recommendations regarding the specific levels to a somewhat later date, we are of opinion that Government should remove any uncertainty that might exist in the minds of the trader or the cultivator regarding its general policy towards cotton for the next year. An immediate announcement by Government that the prices of cotton for the year 1947-48 are under reference to the Commodities Prices Board and that announcements of specific price levels by Government for the ensuing year will be made after receipt of the recommendations of the Board should be sufficient to counteract this uncertainty. We, therefore, recommend that such an announcement should be made immediately.

7. *Reclassification of C.P. 1 and C.P. 2.*—The reference regarding the classification of C. P. 1 and C. P. 2 has been made because of representations of the Government of the Central Provinces that the existing classification, which included these cottons in Omra Deshi, was unfair to their cultivators. It is contended that these cottons are distinct from and superior to the bulk of the crop of Omra Deshi, that they are distinguished as separate cottons by the trade and that they have always commanded a premium above Omra Deshi. The existing classification, it is added, depresses unduly prices of these varieties and should, therefore, be changed. The original representation was made by the Government of the Central Provinces in December 1946. The question was referred to us towards the end of March 1947. When we interviewed the representative of the Central Provinces Government on this question during the first week of April 1947, he agreed that by far the larger portion of the crop had been sold by producers

to traders and that any favourable effect that reclassification might have on the prices of the varieties in question would accrue not to producers in the Province but to traders or other intermediaries. He was, therefore, of opinion that the Government of the Central Provinces would not press for immediate announcement regarding the reclassification but would be content if their matter was given due consideration in making the announcement for the next year.

8. The reclassification of Central Provinces 1 and 2 as distinguished from a consequential raising of the ceilings for these cottons for the year 1946-47 has no immediate significance. The problem of classification itself can well be tackled with the general problem of classification for the price announcements of next year. We do not recommend any revision of ceilings at this time for the current year's prices and we agree with the representative of the Central Provinces Government that such action would not benefit producers. We do not, therefore, make any recommendation regarding the reclassification of C. P. cottons but shall deal with the question together with the general recommendations for prices next year.

9. *Question of Increase in Price of Deshi Cotton during Current Season.*—In this connection, a plea has been made to us in favour of not only a reclassification of C. P. 1 and C. P. 2 and the consequent raising of ceilings for these cottons but for an immediate raising of ceilings for all varieties of Deshi cotton. The main ground on which this has been urged is that the prices of Deshi cotton have actually been above the ceilings throughout the current cotton season. Consequently, Indian mills which consume Deshi varieties have had to pay more than the ceiling prices for cotton bought by them. Prices of cloth, specially coarse cloth, are influenced a great deal by the level of prices of cotton and it would create an awkward dilemma when determining the prices of cloth if it was necessary either to take the price of Deshi cottons as being not above the ceiling and base cloth prices on this assumption, or, on the other hand, to admit in calculations made by Government that they had actually ruled above the ceiling. We are not impressed by this argument. If in effect, Government has not enforced ceilings, it seems to us to matter little whether the fact is admitted directly while making calculations regarding prices of cloth or indirectly by raising ceilings half-way during the year as a retrospective corrective measure. The information received by us regarding the actual prices paid by Indian mills for short staple varieties is not conclusive; but even if it is admitted that these mills have paid higher

prices than the ceiling, the acknowledgement and the consequences of the failure of Government action are not going to be avoided by changing the ceilings. On the other hand, there is every objection to changing ceilings in the manner suggested after a great part of the season has passed. In respect of traders who today hold cotton bought at rates above the ceiling, it is in effect, a legitimising of illegal activities. This is a course which we cannot, in any circumstances, recommend.

Technically, only the prices for the year, 1947-48 have been referred to us. We could, therefore, have refrained from making any comments on a plea for the raising of the ceilings of Deshi cottons immediately in respect of the year 1946-47. However, the plea arose partly out of the representation regarding the reclassification of C. P. cottons. It also raised a question of fundamental importance on which we feel it necessary to define our views.

S. I. HAQUE  
*Secretary.*

*Dated the 30th April, 1947*

A. D. GORWALA  
*President.*

D. R. GADGIL  
*Member.*

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## IV

### COTTON—EXPORT DUTY

*Reference.*—While the Commodities Prices Board was in Bombay in connection with the reference regarding cotton prices, the President, Commodities Prices Board, received the following telegram :

"For Gorwala, President, Commodity Prices Board from Chettur. As numerous representations have been received from Chambers of Commerce and the Trade asking for complete abolition or reduction of cotton Export Duty grateful if you would, in examination of problem regarding adequacy of level of cotton prices fixed by Government also consider desirability or otherwise of the total abolition or reduction of this duty. Ends."

The Board has been asked to examine the desirability or otherwise of the total abolition or reduction of the Export Duty in the course of its examination of problems of the level of cotton prices. The reference of cotton prices to the Board made by letter No. 1428-EG/47 of the Finance Department asked the Board to examine the level of cotton prices for the year 1947-48. On a strict interpretation of the telegram, the question of reduction or abolition of the Export Duty would refer, therefore, to the year 1947-48. It is obvious, however, that the numerous representations asked apparently for an immediate abolition or reduction of the duty and that the matter has been urgently referred to the Board. It will examine, together with the general reference, the question of the retention or abolition of the Export Duty for the year 1947-48. It sets out below its opinion relating to the continuance of the Export Duty during the current cotton year i. e. 1946-47.

2. *Imposition of Export Duty.*—Towards the beginning of the cotton year 1946-47, various cotton interests demanded that the prices, both floors and ceilings, of all varieties of cotton should be raised. On a consideration of this demand, Government decided to leave the ceilings unaltered and to raise the floors of all varieties in certain proportions. Even with the raising of floors, it was felt that the price level of Indian cottons would rule substantially below the level of prices of cotton abroad i. e. there would be a material difference between the price that the exporter of Indian cotton would be able to obtain in foreign markets and the price that he would have to pay in India. In view of this disparity between world prices and prices in

India it was decided to impose an export duty on all cottons exported out of India. The duty was imposed by an Ordinance dated 26th October, 1946, taking powers to impose an export duty at such rate, not exceeding Rs. 75 per bale, as the Central Government might fix by notification from time to time. The rate originally fixed was Rs. 20 per bale and has not been altered since. The ordinance was to remain in force till 25th April 1947. As the reasons which led to its promulgation appeared to continue, Government decided to incorporate the duty in the Finance Bill.

3. *Fixation of Export Quotas.*—The announcement regarding the imposition of the duty included Government's decision to allow export only of short staple varieties. The position of cotton supply in India as then estimated did not seem to leave any surplus of medium and long staple Indian varieties. For the period ending December 31st, 1946, the export allowed was a total of two lakh bales, over and above the three lakhs of exports on Government to Government basis, to Japan and was confined to cotton of 11/16'' staple and below. The two lakh bales were divided into destination quotas. The quota was fixed at 5 lakh bales for the period January to April 1947 and it was expected that another allotment of 5 lakh bales could be made for the period May to August 1947.

4. The policy relating to cotton exports was revised in one important particular in January 1947. It was then pointed out that while prices of Egyptian and American cottons had improved during the last quarter of 1946, those of Indian cottons of medium and long staple quality had failed to rise correspondingly. This was attributed to the complete embargo on exports of these qualities. Government, therefore, decided to allow export of specified medium staple and long staple Indian cottons and allotted half of the export quota fixed for the period January–April 1947 to these qualities. It was felt that the statistical position of these cottons justified this liberalisation and also that the reduction in the exports allowed for short staple would act as a damper on their prices which were ruling at the ceiling or above it. The comparatively high level of cotton prices in foreign countries was an important reason for allowing exports of medium and long staples and no question regarding the abolition of export duty was therefore raised in January 1947. The system of destination quotas was not found to be satisfactory in its working and was later abolished. A quota of 8 lakh bales of exports was allotted for the period May–August, 1947, by an announcement made towards the end of March 1947. three lakh bales of this quota were allotted to short staple varieties

and the remaining five lakh bales were divided equally between medium and long staple varieties.

5. *Grounds urged for Abolition of Export Duty.*—At present, there is an overall export quota which is divided into the three categories of long staple, medium staple and short staple. Licences are issued to traders against this overall quota for exporting cotton to particular countries. There is no further division of the quota of each staple group by countries to which exports are allowed. The present demand from cotton interests for the abolition of the export duty arises out of two features of the existing situation. In the first instance, prices for medium staple have been sagging and the I. C. C. Jarilla contract for May remained near the floor for a long time. Buying on Government account in order to support floor prices has been going on for some time past. It is suggested that the export duty acts as a depressing influence on prices and that they would rise if the duty was removed. Moreover, even though the total overall quota allowed for exports appears liberal and even though destination quotas have been abolished, total exports have kept much below expected quantities. It is this "slow" progress of exports that is put forward as the main ground for the abolition of the export duty. It is claimed that the abolition of the export duty will give a fillip to exports and that unless exports reach the allowed quotas by the end of the cotton year, there will be a large carry-over of this year's crop into the next year, which will have a depressing effect on next year's prices.

6. *Disparity between Foreign and Indian Cotton Prices.*—We do not consider that the terms of reference require us to examine the justification for the original imposition of the export duty. We shall, therefore, confine our discussion to the changed situation since the imposition of the export duty and shall consider whether it justifies abolition or reduction in the middle of the season. The original ground for the imposition of the export duty was the disparity between world prices of raw cotton and the prices of raw cotton in India. The disparity was again one of the main reasons for allowing export of medium and long staple cottons. The disparity continues to this day. We set out below a statement comparing the prices for American cotton at New York (F. O. B. export prices) as against export prices of comparative qualities of Indian cotton. The American prices are based on New York current quotations and take into account the export subsidy on American cotton. Indian export prices are exclusive of the export duty of Rs. 40 per candy.

American Cotton			Indian Cotton	
FOB Gulf Port per candy of 784 lbs.			Export price	
Mid	15/16"	Rs. 930	S'Fine 289 F. Sg. 7/8"	Rs. 710*
Mid	7/8"	Rs. 892	S'Fine Punjab 289 F. Rg. 7/8"	Rs. 660*
S. L. M.	7/8"	Rs. 870	S'Fine Punjab LSS. Sg. 13/16"	Rs. 550*
S. L. M.	13/16"	Rs. 843	Fine Punjab 4 F. Sg. 25/32"	Rs. 525*
L. M.	13/16"	Rs. 759	S'Fine Berar Jarilla 13/16"	Rs. 525**
L. M.	13/16"	Rs. 759	Fine Khandesh Jarilla 13/16"	Rs. 515**

\* Karachi basis.

\*\* Bombay basis.

From the foregoing comparative table, it is clear that Indian cottons are still cheaper than comparable types of U. S. A. cotton.

7. Not only is there still a disparity between Indian and world prices of cotton but also the disparity does not seem to have narrowed significantly since either the announcement of the export duty in the last week of October 1946 or the liberalisation of export policy since the end of January 1947. The following statement sets out the prices (spot) of raw cotton during the last fortnight of October 1946 in New York and on 25th April 1947 and compares them with prices (spot) of Jarilla in Bombay.

#### PRICES (SPOT) OF RAW COTTON AT BOMBAY AND NEW YORK

(Rs. 332 = \$100.)

17th Oct. 1946	37.21 cents per lb.
18th Oct. 1946	35.28 cents per lb.
22nd Oct. 1946	33.45 cents per lb.
23rd Oct. 1946	34.63 cents per lb.
24th Oct. 1946	36.08 cents per lb.
25th Oct. 1946	35.45 cents per lb.
25th Apr. 1947	36.05 cents per lb.

#### BOMBAY

(M. G. Jarilla—Fine)

October 1946	Rs. 487 per candy of 784 lbs.
25th April 1947	Rs. 430 per candy of 784 lbs.



This table again shows that the relative position of American and Indian prices in the last week of April 1947 was very similar to that during the second fortnight of October 1946. Another statement below sets out a comparison between the movements of future quotations in New York and Bombay from November 1946 to April 1947.

#### JANUARY CONTRACT

	New York cents	Bombay Rs.
2-11-46	31.75	459- 8
16-11-46	31.00	458-12
30-11-46	30.70	466-12
14-12-46	32.45	470- 8
28-12-46	32.82	458- 4

#### MARCH CONTRACT

18-1-47	30.42	456- 6
1-2-47	32.04	446- 8
15-2-47	33.65	436-10

#### MAY CONTRACT

1-3-47	33.32	444
14-3-47	34.44	434- 8
3-4-47	35.33	438-10

8. It is clear to us from these and other data that we have studied, that there has been no significant narrowing of the gap between the prices of Indian and foreign cottons since the decision of the Government of India to levy the export duty on cotton. The difference between the two has, of course, not remained constant all the time. But it does not appear to have altered materially between the time of the levy of the duty and April 1947. If the main justification for the imposition of the duty was a difference in prices, the justification exists in as great degree today as at the time of the imposition.

9. *Export Duty and the Prices of Short Staple Cotton.*—The movements in the levels of prices for different types of Indian cottons may next be examined. The short staple Indian cotton has since the beginning of this season commanded comparatively high prices. The market quotations for short staples have consistently been at the ceilings. It is further reported that prices have often topped the ceiling during the season and continue to be above it even today. These prices rule in spite of the existence of the export duty. As long as ceilings are imposed, any step which would en-

OFFICIAL SPOT QUOTATIONS OF RAW COTTON AT BOMBAY (IN RUPEES PER CANDY OF 784 LBS.)

Source : East India Cotton Association-Weekly Statistics.

Description	18-9-46	9-10-46	16-10-46	2-1-47	15-1-47	21-1-47	29-1-47	12-2-47	20-2-47	5-3-47	19-3-47	2-4-47	14-4-47
Jarilla Fine	423	427	427	458	449	446	440	440	435	437	432	432	430
Broach (Vijay BD8, B9 1027 and Farm Broach) (Fine)	520	524	524	...	...	...	...	...	...	505	500	499	494
R. Gd. 4F. P/ American Fine	473	477	477	516	509	506	508	492	487	490	485	484	479
R. Gd. 289F American Fine	608	612	612	646	639	636	638	622	617	625	620	619	514
R. Gd. 4F. S/ American Fine	473	477	477	506	499	496	498	482	477	480	475	474	469

courage prices to rise above them is not to be recommended. The abolition of the export duty in respect of short staple cotton would obviously lead to even higher prices being offered for short staple cotton than today.

The bulk of production of this quality is exported, particular varieties being wholly exported. It may, therefore, be presumed that the demand for exports and the prices obtainable in foreign markets exert a powerful influence on the prices in India of these cottons. If this is correct, the export duty should be reflected very clearly in the prices of these cottons. If present prices are at or above ceiling, the abolition of the duty would mean, on the one hand, loss of revenue to Government and, on the other, greater difficulty in the maintenance of legal ceiling prices. There seems to be no reason why a step which is undesirable in both these ways should be recommended.

10. *Export Duty and the Price of Medium and Long Staple Cottons.*—The export duty affects prices of medium and long staple Indian cottons in perhaps a less direct manner than the prices of Indian short staple cottons. The demand for exports for Indian medium staple cottons is not large. The consumption by Indian mills of these cottons constitutes a high proportion of the total production of these cottons. The demand for exports or the prices that would be obtained in foreign markets do not thus constitute the most important of the factors influencing the prices of these cottons. As a matter of fact, the price history of these cottons in recent months seems to suggest that factors, other than prices obtained by exports, influence, in the main, the prices of these cottons. The main reason put forward for allocating a quota in total exports for medium and long staple Indian cottons was that this step would have a beneficial effect on their prices. A study of the prices of these cottons since January 1947, however, shows that they have moved steadily downwards until they reached the floor. The liberalisation of export quotas does not seem to have brought about an increase in the prices of these cottons. (See Table on page 85.)

This is not the place to enter into any speculation regarding the factors that might have been responsible for movements in the prices of Indian cottons during the last six months. It is, however, necessary to point out that the recent movement does not bear out the contention that the abolition of the export duty would, by itself, support the market or lead to a rallying of the prices of these cottons. The difference between the prices obtainable abroad for cottons comparable to Indian cottons and the prices of Indian

cottons in India is still large. And, in view of this, there is no obvious justification for the belief that the removal of the export duty would automatically lead to an expansion of exports and an increase in Indian cotton prices.

11. *Conclusion regarding Grounds for Abolition of Export Duty.*—We would again emphasise that we are here concerned only with an examination of the case for an immediate removal or reduction of the export duty. We do not deal in this reference with the official price levels of particular cottons, whether floors or ceilings. In our opinion, the continuation of the difference between Indian and foreign prices justifies the presumption that the original justification for the imposition of the duty still stands. Also there is nothing to show that the existence of the export duty has been a factor in causing a sag in Indian prices.

12. *Progress of Cotton Exports.*—We should like to add some general observations on the grounds put forward for the removal of the export duty. We agree that the slow progress of exports is a matter for consideration by Government. The exports allowed have not been actually carried out as will be clear from the statement below.

**EXPORTS OF RAW COTTON FROM BOMBAY AND KARACHI  
1ST SEPTEMBER 1946 TO 24TH APRIL 1947.  
Number of Bales.**

	Bombay	Karachi
U. K.	9,106	82,345
Continent	34,700	89,115
China	84,704	18,938
U. S. A.	3,214	63,672
Australia	...	16,508
Others	7,816	3,782
Total...	139,540	274,360
	Grand Total: 413,909	

Note: There may be some exports from Madras and Calcutta but at the most that figure will come upto about 5000 bales.

The total arrears of allowable exports at the end of April 1947 are likely to be large. The determination by Government of a quota for exports is presumably made on evidence of availability of a clear

surplus. If there is a clear surplus in the country of produce of agriculture, the carrying costs of which are high or which are not expected to appreciate in value, it is highly desirable that the total of this surplus should be exported as soon as possible. As pointed out above, the facts, to our knowledge, do not prove that the export duty is acting as a hindrance to exports. There may, however, be other reasons which keep down the pace of exports. It may be that the operation of administrative machinery for sanctioning exports, etc. has an obstructive effect or that there are difficulties regarding shipping, etc. which need to be removed; or that certain potential customers require credit or other facilities. It has not been possible for us—neither was it relevant for our purpose—to go into the details of factors responsible for the slow flow of exports. We would, however, record our view that it is necessary for Government immediately to look closely into the matter to do all it can to remove any obstacles that may exist in the way of exports and to take any positive steps that are possible to expedite them.

13. *Measures for Expediting Exports.*—The abolition of the export duty means a definite loss to Government revenues; moreover, its effect on exports is uncertain. If, as appears, the state of parities between Indian and foreign prices is not the main factor in preventing exports, the abolition of the export duty which can affect only the parity of prices cannot be considered a certain means of accelerating export. In the circumstances, it would be better for Government to retain the duty and to explore positive steps necessary for making exports larger and quicker. If, for example, any expenditure on Government account, such as guarantee of finance, etc., would definitely stimulate exports, it would be advisable for Government to spend a part of its income from export duty on this account. Such direct expenditure which is likely to lead to definite results is more to be recommended than a negative step like the abolition of the duty, the extent of whose beneficial effects are extremely uncertain.

14. *Government Support of Floor Prices.*—In the same way, the sagging of prices of medium staple cottons is no doubt a phenomenon to which Government should pay attention. If Government takes positive steps to see that exports of the allotted quantities are properly and rapidly made, this may, by itself, have some effect on the prices of medium and long staple cottons. But the main desirable step in this connection is for Government to take vigorous action for supporting the floor. It is generally agreed that if Government strongly supports its floor prices, this should have a desirable reaction on the market.

In this connection, we may draw the attention of Government to a complaint and a suggestion which was made during the course of our enquiries, even though it does not, perhaps, directly pertain to the reference. It was that the moment prices touch the floor, Government should pursue a policy of vigorous buying not only in a centre like Bombay but actually in areas where cotton is coming into the market. It has been stated that Government is not only unduly strict in its standards but that its action in buying in Bombay protects effectively only the trader and not the farmer. It is when Government buys extensively in producing areas that the floor affords real protection to the producer. It is further said that once Government is known to follow such a policy even traders will be more liberal in the terms that they offer to the agriculturists and that actual buying on Government account may not have to be as large as when it is confined to centres like Bombay and is deferred to a late date.

15. While we agree that the sagging prices of medium staples and the unprogressive nature of exports are both serious features which deserve the early and earnest attention of Government, we do not feel that the removal of the export duty is the appropriate remedy for either of these two evils. An export duty levied at the beginning of a cotton season should be removed during its course only if there is definite and strong justification. Our examination of the question does not convince us that such justification exists in the circumstances of today.

A. D. GORWALA  
*President*

D. R. GADGIL  
*Member*

*Dated the 3rd May 1947*

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## **VANASPATI CONTROL AND PRICES**

1. On 12th May 1947, we received a reference from the Finance Department No. JSG—1026/47, dated 10-5-47, asking for the Board's advice on Vanaspati control and prices. As the matter was urgent, we were asked to reply by the 19th. We have been furnished with a number of Government files dealing with the subject though we could not get any file containing a statement of the reasons for the decontrol of the prices of edible oil-seeds and oils. We have had the benefit of discussions with the Vegetable Oil Products Controller, Mr. Mone and the Joint Financial Adviser, Food, Mr. Saksena. Two representatives of the industry, Mr. Modi of the Modi Sugar Mills and Mr. Kirpanarain of the Ganesh Flour Mills came to Simla and explained to us the Industry's case.

2. It is necessary at the outset to consider the main grounds on which the continuance of control over Vanaspati may be held to be justified. It may, in the first instance, be argued that Vanaspati has become an important article of consumption of the middle classes in the country and even of the poor classes in some regions and that Government control over its price and distribution is highly desirable. It would, however, appear that this case for the control of Vanaspati is not the strongest. Vanaspati is not as essential an article of consumption for the masses of the people as a number of other products whose prices and distribution are not today controlled. It is obvious that vegetable oil from which it is prepared is more essential and more wide-spread in its use than Vanaspati. Therefore, it may well be argued that, if prices of vegetable oil are not attempted to be controlled by Government, there is much less justification for maintaining control over Vanaspati.

3. Vanaspati control when first imposed was the result of peculiar war conditions. It was imposed for itself and because of considerations that had nothing to do with the indirect results of such control. During war, the large needs of the Indian Army for a substitute for ghee could be satisfied only by the production of Vanaspati. For this reason, Government specially encouraged and brought about the expansion of the Vanaspati industry helping

a number of units in a variety of ways. Price determination was also, in the first instance, undertaken by Government for contracts for supply of Vanaspati to the Defence Department. Later on, with extension in the sphere of controls, price control on lines in force for Defence supplies was adopted for civil requirements also and distribution of the limited supplies through various areas was attempted. The requirements of Defence forces have been diminishing progressively and most of the production of Vanaspati factories is now available for consumption by the civil population. In the circumstances, control over Vanaspati has now to be judged in relation to the control of the prices and distribution of this product to civilian consumers.

4. If control over Vanaspati is not in itself considered a matter of great importance, its continuance today could be justified only because of certain indirect results that flow from it. It is clear that the decision to continue the control over Vanaspati after the attempt to control oil-seeds' prices and movements had been given up in March 1947 was reached mainly with its indirect consequences in view. It was made clear in the first announcement of the continuance of control over Vanaspati prices that the price of Vanaspati being linked to groundnut prices and the purchases of Vanaspati manufacturers being a dominant factor in the oil-seeds' market the maintenance of control on Vanaspati prices was expected to influence the price of oil-seeds. Vanaspati control was thus not continued for itself, but chiefly as an instrument through which an aim of Government policy could be indirectly achieved, an aim which Government had found it impossible to achieve by direct measures. From this point of view, the continuance of Vanaspati control is vitally linked with the future of Government policy regarding control of prices of oil-seeds and other agricultural products.

5. The present situation in this regard is obscure. There have been some conflicting announcements made as to the continuance of controls over essential commodities. The control over Vanaspati as an indirect instrument of influencing prices of one important oil-seed, namely, groundnut, could be justified only if Government had the intention of continuing to influence the price of groundnut in particular and of oil-seeds in general for a fairly long period in the future. It might be argued in that event, that though Government had to abandon direct plans of control this year, it continued to be vitally interested in checking a rise in the price of oil-seeds and vegetable oils. Government desired definitely to control the prices



of oil-seeds and oils whether as part of its policy of checking the prices of essential consumers' goods, or of maintaining a parity relation between the prices of various products of agriculture or as part of its policy of keeping in check inflationary forces. The maintenance of Vanaspati control would then be only part of a long term plan for the general control of oil-seed prices. Government would, under this supposition, explore means and elaborate plans later, presumably before the beginning of the next season, for other oil-seeds' controls. The retention of Vanaspati control today would mean no more than the retention of a part of a plan of general oil-seeds' controls, which it had not become necessary to give up on the giving up of the earlier plans which had gone astray and which, in future, would be strengthened by better co-ordinated and better implemented plans of control.

6. It is, however, not possible at this stage to proceed entirely on this assumption. It is no doubt true that Government gave up its plans for the controls of oil-seeds prices and movements in March of this year, largely because it found them unworkable. However there has been no announcement relating to Government intentions regarding oil-seeds prices for the next year and at least in some quarters, the giving up of oil-seeds control has even been represented as part of a general policy of decontrol. Already the aftermath of the giving up of controls on oil-seeds has been talked about as providing a lesson in the effects of decontrol. It is obvious that in relation to prices of groundnut, the giving up of direct oil-seeds control has not created a situation which is that of decontrol. As long as control over prices of Vanaspati is retained, an important indirect influence is being exercised by Government policy over the prices of groundnut. However, the continuance of Vanaspati control for a long period cannot be linked at this stage with an assumed or declared policy by Government regarding oil-seeds. The particular form which the problem of Vanaspati control has now taken and the immediate acute difficulties arising in respect of it are no doubt the result of the attempt on the part of Government to use Vanaspati control as a measure of and a substitute for direct oil-seeds control. The general continuance of Vanaspati control, however, cannot be tied up with this particular aspect of the question. If Government decides to continue both direct and indirect controls over oil-seeds prices, the continuance of Vanaspati control is obviously desirable.

7. The continuance of the control may at the same time be necessary from an entirely different point of view. Perhaps the

strongest case for the continuance of Vanaspati controls is based on the long term aims of such controls. The long term aims of Vanaspati control are connected with the operation and the expansion of the Vanaspati industry. The Vanaspati industry is an industry whose activities have considerable influence on the health of the Indian people and on the development of Indian agriculture. Vanaspati competes with ghee indirectly and the repercussions of this competition on the development of agriculture and dairying need to be watched and controlled. But even more important than this is the influence on Indian economy of the expansion of this industry through its demand for oil-seeds, especially groundnut. The industry already consumes from between a fifth and a quarter of the total production of groundnut in India. Any rapid expansion of the industry would increase its consumption of groundnut to a proportion which might seriously curtail the supplies available to other consumers especially in areas where groundnut oil is used as the normal edible vegetable oil by the bulk of the people. A considerable pressure of this type on groundnut supplies might force the internal price of groundnut out of parity with prices of other oil-seeds and agricultural products. This contingency raises important questions of policy relating to the industry in the immediate future and Government cannot, unless it gives up all ideas of industrial and agricultural planning, give up control over the expansion of the industry.

8. Control over the expansion of the industry, however, necessarily involves control over prices. The majority of factories in existence today have come into being during war years and were specially helped during those years by Government to become established and to function by being enabled to obtain essential supplies. These factories might, therefore, be called privileged entities which will continue to enjoy a privileged position so long as a free and full expansion of the industry is not allowed in the country. Curtailment or control of expansion gives to existing established producers a quasi-monopolistic position and it is obviously the duty of Government to see that they do not exploit it at the cost of the consumer. In spite of the exercise by Government of a regime of price control during the last three or four years, the profits of the industry are stated to have been large and there is an incessant demand on the part of capitalists to be allowed to establish new Vanaspati factories all over the country. In the circumstances, a rigid price control which duly protects the consumer and which prevents the abuse by existing producers of their sheltered position

is a logical corollary to the control of the expansion of the industry by Government.

9. Control over Vanaspati has, thus, to be looked at from a variety of points of view. It can be considered as being necessary for a proper distribution and pricing of an important consumer goods. It can be looked upon as an instrument and as part of the whole plan of the control of prices of oil-seeds and vegetable oil. Finally, it may become essential as part of long-term plans for controlled development of agriculture and of industrial resources. If on any of these grounds control over the free operation and expansion of Vanaspati factories is urgent, control over the prices of Vanaspati must also be exercised; if this is so exercised, the price at which Vanaspati is allowed to be marketed must have some reasonable relation to the objectives of control and must take into account the repercussions of the level of prices of Vanaspati on the working of agricultural economy through its effects on the level of prices of groundnut.

10. Before we proceed to discuss the determination of a reasonable price for Vanaspati, it is necessary to say something about existing controls over Vanaspati and their relation to our terms of reference. The existing controls over Vanaspati may be divided into three categories. Firstly, there are the controls over quality. Secondly, there are the controls over prices and distribution. Thirdly, there are the controls over expansion of industrial units and industrial production. Controls over quality are required for the maintenance of the quality of the product so that it is not harmful from the health or the nutrition point of view. Control over certain aspects of quality production are also useful for enabling detection of the adulteration of ghee with Vanaspati. Both these types of quality controls have little to do directly with control over pricing and distribution. Some quality controls no doubt affect the average cost of production of the product. However, the effectiveness of quality control is unrelated to price control and depends entirely on the proper prescription of standards and tests of quality and on the efficiency of the inspectorate. At the same time any type of Vanaspati price control, to be really effective, must be linked with quality control. There might be considerable variations in the quality of products like Vanaspati and the attempt to fix a set of uniform prices over wide regions must necessarily involve an attempt at the maintenance of minimum standards of quality production.

11. For purposes of control on Vanaspati prices, the country has been divided into four zones and a uniform price has been prescribed for sales by manufacturers within each zone for Vanaspati sold in large packs. There is also another set of zonal prices for sales in large packs and in loose small quantities by others than manufacturers. The controlled price for small packs is an All-India price which does not vary from zone to zone. This, in effect, means that manufacturers of small packs in zones with a lower than average cost of production get an extra margin of profit. The bulk of the production of small packs is in fact concentrated in zones with the lower costs of production. Price control has invariably to be supplemented by control over distribution. As yet no system of distribution to consumers on a rationing or quasi-rationing basis is anywhere enforced in relation to Vanaspati. The manufacturers distribute their production within certain areas through a chain of agents or wholesalers who, in turn, distribute to retailers. The main problems of enforcement of price and distribution control are the maintenance of the legal price at each stage and the maintenance of a proper system of distribution.

12. There is also another problem in connection with the distribution of Vanaspati which may be counted in as a problem of distribution and price control. This is the problem of getting Vanaspati distributed to consumers who want Vanaspati as such, and preventing it from getting into the hands of dealers whose demand for Vanaspati arises from operations of adulterating ghee with Vanaspati. It has been admitted that so far no proper solution of this problem has been found and it is generally estimated that at least half of the total production of Vanaspati is used not in direct consumption as Vanaspati but for purposes of adulterating ghee. Government has recently adopted a new device, the mixing of a certain minimum proportion of sesame oil in the production of Vanaspati, which, it is expected, will enable prompt detection of the adulteration of ghee with Vanaspati. The enforcement of quality as well as price and distribution controls is closely linked with adequacy of staff. The strength of the staff at the disposal of the Vegetable Oil Products Controller is said by him to be inadequate today. The fact that half the production of Vanaspati is in fact used in a direction in which it ought not to be used is sufficient commentary on the adequacy of present controls. The chief pressure on Vanaspati supplies is caused by the demand for adulterating ghee as the very large gap between the price of ghee and Vanaspati makes for high prices being paid for Vanaspati used as an adulterant. The Vegetable Oil Products Controller was not

in a position to say that the present controlled prices are the prices that are necessarily obtained by the manufacturer for his product or are the prices at which the consumer ordinarily obtains the product. This, in effect, means that in his opinion controlled prices are today not necessarily the actual prices at either end of the distribution process.

Another problem of distribution to which some attention has been paid is the margin obtainable and ensured at each distribution stage. Here, again, the price obtained by the manufacturer and his profits of business may be enhanced by the manufacturer dispensing with any of the stages of distribution provided for in the structure of prices.

13. The main problems of control over prices and distribution are thus of the prevention of the diversion of Vanaspati to what may be called an illegitimate purpose and a proper enforcement of prices at each stage of distribution. None of these problems have any direct connection with the price level, or depend for their solution on any particular relation to that level. The gap between ghee prices and Vanaspati prices in India would, presumably, always remain very large. The prevention of the use of Vanaspati for adulterating ghee must, therefore, depend on direct action and will not be achieved or even facilitated through any type of price policy. In relation to other problems of price and distribution control the existing defects could be surmounted by more adequate and efficient staff and are not linked to any particular price policy. Almost all essentials are in short supply today. Because of this there are temptations to blackmarket in all directions. Apart from this feature, which is not peculiar to Vanaspati, there are no problems of price level determination arising out of price or distribution control.

The third set of controls over Vanaspati relate to the establishment and expansion of Vanaspati factories. These controls may work directly through licensing of the establishment and location of new factories or may work indirectly through the operation of controls over capital issues, or the licensing of imports. The operation of these controls is, however, not directly affected by the level of prices. If a price is otherwise reasonable, no special problems of enforcement arise in relation to the marketing of Vanaspati. The manufacture of Vanaspati is carried on in a very small number of units and its distribution takes place largely in cities and towns. Therefore, given energy and determination, the enforcement of necessary controls in relation to it should not present any

special difficulties. In any case, no particular attention to problems of administration of controls has to be paid in considering the determination of the price of Vanaspati.

14. The price of Vanaspati has for some years past been controlled. The control of prices of Vanaspati is in the present system directly related to the price of groundnut oil which is by far the most important raw material used in its production. Even if the determination of Vanaspati prices were not directly linked to the prices of groundnut oil, Vanaspati prices would always depend vitally on movements of the price of that oil. In commenting on the present system of the control of Vanaspati or in recommending a reasonable level of prices for it, it is necessary to look at two aspects of the question; firstly, the basic price of groundnut oil that may be considered as reasonable and secondly, the relation of the controlled price of Vanaspati to the price of groundnut oil.

15. The prices of oilseeds in general, and of groundnut in particular, have had a varied fortune since 1930. The cessation of the demand for exports immediately after the outbreak of the War depressed the prices of oil-seeds for a short period below even the 1939 level. However, the demand for oils and fat for a variety of purposes and in a variety of industries increased rapidly within the country and outside and oil-seeds prices rose sharply in consequence. The course that prices took, especially during the earlier period of the war, is well summarised in the following quotations from the *Review of the Trade of India* for the year 1943-44 (pp. 16-17):—

" It was mentioned in earlier issues of the Review that with the progress of the war the available supplies of oils and fats dwindled in several ways. The Japanese occupation of the Dutch East Indies, the Phillipines and Malaya had cut off for the United Nations their most important sources of cocoa-nut oils, copra and palm oil. In India, palm oil was used in the manufacture of Vanaspati products and with its imports cut off its place was taken by vegetable oils. The occupation of Burma had cut off the mineral oil supplies of this country and vegetable oils had again to be used as a substitute. The expansion of industrial activity had also increased the demand for vegetable oils. Vegetable oils were used as fuel for diesel motors and also as lubricants for internal combustion engines. During the preceding year, the U. K. Ministry of Food had assumed complete control of Ceylon's entire exportable surplus of copra and cocoa-nut oil and rationed it among the consuming countries, India being allotted only 60,000 tons per annum as compared with her imports of 44,000 tons of copra and 1,70,000 gallons of cocoa-nut oil from Ceylon. India's dependence on domestic supplies of vegetable oil-seeds and oil had thus further increased. The greatly increased demand for oil-seeds in India as well as in other countries was thus responsible for the marked rise in the prices of oil-seeds which took place during 1941-42 and 1942-43. Prices were pushed up further by other factors such as speculation, hoarding and internal

transport difficulties. During the closing months of the preceding year and the first two months of the year under review, speculative activity in the oil-seeds markets reached its climax. The Government of India therefore issued on the 29th May 1943 the Oil-seeds (Forward Contracts Prohibition) Order prohibiting forward trading in groundnut, linseed, mustard seed and rape seed or toria seed with effect from the 31st May 1943. All contracts outstanding at the close of the business on the 31st May 1943 were closed out at rates fixed by Government. Prices of groundnuts and linseed thereafter tended to decline during the rest of the year under review."

"During the preceding year the greatly increased demand for groundnut had led to a marked rise in the prices of this commodity. During the first two months of the year under review prices of groundnuts continued their upward trend, the relative index number (19th August 1939 = 100) which stood at 278 in March 1943 rising to 303 in April and 336 in May. In these two months there were heavy purchases by the British Ministry of Food; besides, there was a good internal demand from the mills. Prices thus tended to rise and the speculators took advantage of the rise in prices to push them up still further. Speculative activity in the oil-seeds markets reached its climax in the first half of May when prices registered a sharp rise. Prices of all oil-seeds, however, tended to decline in the latter half of the month in sympathy with other commodity markets which had weakened as a result of the Government of India's ban on forward trading in cotton. In common with other oil-seeds, prices of groundnut also tended to decline. The groundnut market sagged further when towards the close of the month, the Bombay Government issued an order freezing stocks of groundnut seeds in Bombay City and the Bombay suburban districts. As already referred to in the last section, the Government of India with a view to curbing speculative activity in the oil-seeds markets issued on the 29th of May the Oil-seeds (Forward Contracts Prohibition) Order, prohibiting forward trading after 31st May 1943 in groundnut, linseed, mustard seed and rape seed or toria seed. The ban on forward trading in the groundnut as well as the other oil-seeds markets had the desired effect and from June onwards till the close of the year under review prices of groundnut declined, the index falling from 314 in June 1943 to 243 in March 1944. It may be mentioned that between March 1943 and March 1944 the index had declined by 13 per cent. During this period the quotation for Bombay Bold had declined from Rs. 18-2 per cwt. to Rs. 15-6 and that for Madras (Machine Decorticated) from Rs. 73-7 per candy of 500 lbs. to Rs. 69-12."

The downward trend of groundnut prices commented upon in the above quotations was continued in the latter half of 1944. Groundnut prices showed no recovery from the level reached in 1944 during the first half of 1945. From July 1945, however, another movement upwards of these prices began. Within less than a year groundnut prices rose by more than 50% and by the second quarter of 1946 the level of prices stood higher than the war-time maximum of May-June, 1943. The movement upward was stayed during the latter half of 1946 but prices again broke through after January 1947. The broad features of movement can be seen from the table below

and the details of recent movements are given in another table. (See page 100).

ECONOMIC ADVISER'S INDEX FOR GROUNDNUT PRICES

(Base : week ending 19-8-39 = 100)

Period	Index No.
May 1940	118
May 1941	85
May 1942	127
May 1943	336
May 1944	239
May 1945	207
May 1946	337
April 1947	461

16. For the larger part of the war, no controls over prices of oil-seeds had been exercised by the Central or Provincial Governments. The main factors influencing these prices as indicated in the quotations from the *Review of Trade* were the internal demand from consumers of vegetable oil and factories, such as Vanaspati and soap factories and the buying operations of H. M. G's Ministry of Food. It was, however, realised that oil-seeds prices, apart from their intrinsic importance, had relation to prices of food-grains and closely influenced the operation of plans regarding crop acreages. Control over edible oil-seeds and oils, and the formation of a basic plan for the distribution of the same, were among the recommendations of the Fifth All-India Food Conference held in 1945. Two Oil-Seeds Conferences were held in February 1946 and June 1946 at which decisions were taken for implementing the suggested policy of control. Though these decisions were not completely adopted and given effect to by all Provinces and States, a number of them had controlled prices and a basic plan of distribution was already working for the year 1945-46. The decision of the Fifth All-India Food Conference relating to oil-seeds controls was taken when the war was still on. The food situation in the country continued to be difficult after the end of the war and the Government of India felt it advisable to continue controls over oil-seeds in order to facilitate control over food-grains. It, therefore, called a conference in September 1946 of representatives of Provincial and State Governments to consider the question of the continuance of price control over oil-seeds and oils and the formulation of a basic plan of distribution for 1946-47. At this Conference the following resolution was passed: "Subject to a satisfactory solution to the



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TABLE A.—MOVEMENT OF GROUNDNUT SEED AND OIL PRICES.

	Economic Adviser's Index Base 1938-39	Groundnut sold at Bombay		Groundnut oil price paid by Vanas- pati manufactur- ers at Bom- bay per ton.
		Per maund	per ton (app.)	
1944 October	206	Rs. as p. 9-11-9	Rs. as p. 264-15-7	Rs. as p. ...
November	213	9-15-3	270-14-9	...
December	217	10-3-7	278-4-9	...
1945 January	223	10-10-1	289-5-4	...
February	224	10-9-9	288-12-7	770-0-0
March	217	10-8-3	286-3-9	770-0-0
April	210	10-7-9	285-6-2	770-0-0
May	207	10-5-0	280-11-4	748-0-0
June	212	10-8-1	285-15-3	748-0-0
July	248	11-11-4	318-11-2	748-0-0
August	257	11-9-2	315-0-3	748-0-0
September	251	11-5-1	308-1-1	748-0-0
October	253	11-9-2	315-0-3	748-0-0
November	253	11-13-10	322-15-3	748-0-0
December	264	12-11-4	347-14-2	748-0-0
1946 January	295	13-8-11	369-0-5	748-0-0
February	313	15-6-1	418-10-5	748-0-0
March	316	15-13-6	431-4-3	818-0-0
April	315	15-15-3	434-3-11	888-0-0
May	337	17-10-10	481-2-9	888-0-0
June	371	18-14-8	514-14-9	999-0-0
July	358	18-0-0	489-15-5	1060-0-0
August	344	16-14-3	459-12-2	1101-0-0
September	340	17-1-11	466-0-0	1269-0-0
October	344	16-3-3	441-0-9	1148-0-0
November	338	16-10-9	453-15-7	1148-0-0
December	324	15-12-5	429-6-9	1148-0-0
1947 January	317	15-2-7	412-11-2	1148-0-0
February	350	22-9-4	614-11-6	1148-0-0
March	443	21-11-8	591-7-6	1148-0-0

question of exports ex-India and the prices to be charged for such exports, this Conference considers (a) that control over oil-seeds, oils and oil-cakes is still necessary, and (b) that regulation of inter-provincial movement and allocation of quotas by the Centre and the regulation of prices in exporting as well as importing areas are essential features of such control. (In its view, control over prices implies co-ordinated price levels in surplus producing areas and parity prices in deficit important areas.)" As a result of this Conference, the Government of India issued a circular letter in November 1946, advising all Provinces and States to impose controls on prices and movements of oil-seeds and oils and indicated the price

levels at which the control prices might be fixed. Accordingly, a certain number of Provinces and States declared controlled prices and attempted a control of movements. For a variety of reasons, however, the system did not work satisfactorily and, after a number of further conferences and exchange of ideas between the Central, Provincial and State Governments, control over oil-seeds and oils was ultimately given up in March 1947. The control over oil-seeds attempted in 1946-47 was, therefore, only partially imposed and, in no case, was it successful.

17. In considering the reasonableness or otherwise of any set of prices, the objectives of price determination must first be defined. The objectives may be defined in relation to the interests of the producer of the commodity or in relation to those of the consumer thereof or they may be defined in relation to the repercussions of the price determination on the prices and production of other commodities. From the point of view of the producer, it is usual to relate the price to either ascertained costs of production or to concepts like that of parity. In the present context, neither cost of production nor parity considerations would seem to have special relevance. A reference to Table B (p. 102) will show that the prices of groundnut and oil-seeds now stand well above the levels of most general indices and the prices of the majority of staple products of Indian agriculture. It may, therefore, be said that groundnut prices throughout the season 1946-47 ruled generally above levels that would be reached through calculations of parity. The point of view of the consumer does not give an equally definite quantitative criterion relating to reasonableness. The consumer is today, in the main, interested in increase in the cost of living being prevented. Any further increase in an essential consumption goods affects his standard of living and, therefore, is unwelcome to him and appears to him unfair. A fixation of groundnut prices at the levels attained even during the early part of 1945-47 is, therefore, distinctly unreasonable from the point of view of the consumer. The third aspect might prove to be the most important in the determination of groundnut prices. One of the main grounds on which control over prices of oil-seeds has been advocated by the Government of India and by Food Administrations everywhere, has been the possible effect of a high level of prices of oil-seeds on areas under food-grains in the country. Among material circulated to Members of the Oil-seeds Conference in September 1946, was included a table showing comparative movements of prices of cereals and of oil-seeds in particular Provinces. From this table we extracted some data which have special con-

TABLE B—(Contd). ECONOMIC ADVISER'S INDEX NOS. OF WHOLESALE PRICES, ETC.

	Rice	Wheat	Sugar	Cotton raw	Ground- nut	Linseed Boid Bombay	Agricultu- ral com- modities	Raw materials	General Index	Cost of living index at Bombay for work- ing Class
	1	2	3	4	5	6	7	8	9	10
January 1946	321	373	167	192	295	292	285	211	249	242
February	321	373	167	201	313	300	291	210	253	243
March	321	373	169	207	316	322	296	206	253	247
April	322	373	169	204	315	342	294	206	253	248
May	322	373	171	203	337	358	299	207	255	249
June	322	373	171	198	371	362	303	226	263	259
July	322	373	171	209	358	359	304	237	270	268
August	322	373	169	196	344	374	303	241	271	267
September	322	373	169	192	340	342	302	243	271	270
October	322	373	179	196	344	333	322	240	281	264
November	322	373	212	204	338	344	336	241	291	272
December	322	373	212	206	324	353	326	239	287	279
January 1947	319	373	212	201	317	372	315	244	284	267
February	333	373	212	196	350	397	325	249	289	263
March										269

(a) Market closed.

nection with the prices of groundnuts. These data, together with statistics relating to recent times, show the movements of the prices of main cereals as compared to the movements in the prices of groundnut in the two Provinces, Bombay and Madras, in which groundnut is most extensively grown. These data bring out clearly the extent to which groundnut prices had moved out of parity with the movements in the prices of the main cereals grown in those Provinces (see Table C).

TABLE C—COMPARISON BETWEEN PRICES OF CEREALS & OIL-SEEDS

Province	Commodity	Aug. 1939		*Average annual prices during 1945-46	Index No. of 1945-46 price with 1938-39 as base.
		Rs	as. p.	Rs. as. p.	
Bombay	Jowar	3-1-1		6-4-9	204
	Bajri	3-6-6		7-3-6	213
	Groundnut	3-9-6		12-3-9	342
Madras				15-10-0	345
				21-13-0*	600
	Rice	3-9-8		8-2-3	228
	Bajri	2-1-9		6-11-3	240
	Groundnut	3-15-6		11-7-5	290
				14-0-6†	353
				20-4-10*	512

† Controlled price on 3-3-47.

\* Price on 30-3-47.

Note 1.—Statutory prices of Rice, Jowar and Bajri during 1945-46 have been continued without any material change during 1946-47.

Note 2.—Prices of oilseeds in col. 3 are annual averages for 1938-39.

Note 3.—Price for the week ending 18-1-47 (Economic Adviser's quotation converted).

18. It is no doubt impossible to forecast with any certainty the exact effect in terms of diversion of acreage of a lack of parity between prices of oil-seeds and food-grains. However, it may be safely asserted that there is greater fear of diversion of substantial acreages, the greater the disparity between the relative movements of prices of food-grains and oil-seeds. The extent of disparity reached by prices in 1945-46 has been considerably aggravated since September 1946. The recommendations made by the Sub-Committee of the Oil-seeds Conference held in September 1946 attempted in some measure to maintain in the controlled prices of oil-seeds a parity with prices of cereals. The controlled prices were said to be not effective. The actual prices ruling throughout the season in most

areas were out of parity with the controlled prices declared for certain surplus areas. The Government of India has so far resisted the demand for an increase in the price level of cereals. It presumably still attaches importance to the aim of holding in the price level of food-grains and of maintaining in parity the levels of prices of other agricultural commodities. The Vegetable Oil Products Controller in a letter dated 26th April 1947 addressed to the Chairman, Vanaspati Manufacturers' Association of India thus defines the aim of Government in freezing Vanaspati price :

"With regard to the first request you are already aware that the present move of Government to peg the prices of Vanaspati is purely a temporary measure calculated to speed up *stabilisation of the prices of groundnut oil in parity with the prices of other agricultural commodities consequent upon decontrol of edible oil-seeds and oils.*" (Italics ours).

On this basis, any levels of prices substantially higher than the levels recommended as the levels of controlled prices following the Oil-Seeds Conference of September 1946, cannot be considered reasonable. In our opinion, it would constitute a very considerable, an almost fatal break, in an integrated price level policy for Government to fix a set of controlled prices which are based on prices of oil-seeds or oils very much above the level recommended for control during the year 1946-47. Temporary decontrol on the plea of failure of administrative machinery is bad enough. It, however, makes no definite break in principle or policy. But the announcement of a controlled price of which the base is formed by a price, whose level is completely inconsistent with Government policy, is a step which can in no circumstances be recommended to Government.

19. It is necessary in this connection to discuss the main factors governing the determination of the level of groundnut and groundnut oil prices at present. Today the main buyers in bulk are Vanaspati factories, soap factories, exporters and oil mills. The oil mills produce oil both for sale to consumers who use oil as a base for their industries, such as Vanaspati and soap factories and to the public for purposes of domestic consumption. It has been calculated that at present roughly 50% of total production is taken up by Vanaspati factories, soap factories and export allocations while the remaining half may be presumed to be the supply retained for domestic consumption. It is generally recognised that holding of stocks by the producer himself is of even less significance in oil-seeds than in cereals and that a good proportion of the marketable surplus finds its way early into the hands of traders and of mills. The price fluctuations during the course of the year, after the months of the harvest, are thus due mainly to the operations of oil mills, of

traders and speculators in kernel and oil and of bulk consumers such as Vanaspati and soap factories and exporters. The Report on the Marketing of Groundnut remarked upon the phenomenon of a deep trough in prices between the months September and December. The explanation of the phenomenal increase in prices of groundnut must, therefore, be found apart from the demand or activities of the producer in either a special relation of supply to requirements or in the activities of traders and speculators.

20. The existing supply of groundnut kernel and oil for domestic consumption does not seem to be so short as the supply of a number of other commodities. Calculations made in the table given below indicate that groundnut oil available for domestic consumption should ordinarily be of, at least, the same volume during the current year as during the average of the triennium ending 1939-40.

TABLE D—ESTIMATED QUANTITIES OF GROUNDNUT KERNEL AND VEGETABLE OIL AVAILABLE FOR DOMESTIC CONSUMPTION (IN TERMS OF KERNEL)

(In thousand tons).

	Average for three years ending 1939-40.	1946-47
Estimated production of kernel	2,306	2,200
Seed requirements at 10 %	231	220
Net available	2,075	1,980
Net exports	964	300
Net retained in India	1,111	1,680
Demand from Vanaspati factories	120	500
Demand from soap industry	75	200
Net vegetable oil and kernel available for domestic consumption.	916	980

It is true that groundnut oil may be in demand as a substitute for other oils, such as sesame, whose production has fallen or cocoanut oil, whose imports have diminished to a large extent or for adulteration with oils like mustard oil. Even so the demand for domestic consumption would not, on the statistical data, suffice to explain the very large spurt in prices that has taken place recently. It is sometimes alleged that the activities of manufacturers



of Vanaspati are responsible for increasing the prices of groundnut and groundnut oil, and also that the cost-plus basis followed by the Food Department in determining the prices of Vanaspati has a special responsibility in this regard. It is not possible for us to make any generalisation in this matter. However, on the data available to us, the activities of Vanaspati manufacturers do not seem to bear any special responsibility for the movements of prices during 1946-47. Table A will show that the prices of groundnut oil forming the basis of the prices of Vanaspati did not increase seriously during the period of September 1946 and February 1947. In zone A which is considered crucial the basis was maintained uniform after September 1946. This means that the variations in the prices paid during these months did not result in the weighted average going up by the minimum necessary for making a change. Whatever the influence of the prices offered by Vanaspati manufacturers upto September 1946, no added incentive to price increase seems to have been afforded by them later. After the freezing of Vanaspati prices in the first week of March 1947, a large number of manufacturers of Vanaspati are reported to have ceased production and, we are informed, have also caused buying fresh supplies of groundnut oil. It seems, therefore, hardly likely that the activities of Vanaspati manufacturers have been directly responsible for the considerable increase in prices that has taken place in recent months. The other large demand which may exercise a considerable influence on the market is that for export. The Government of India have promised the International Emergency Food Council to export out of India, during the year 1946-47, 1,20,000 tons of groundnut oil. No large part of this quota seems to have been actually exported so far nor are any important allotments of export quota reported to have been actually made. It cannot, therefore, be said that there has been a direct export demand in the sense of persons who have obtained licences for export buying for export purposes in the market. It is, however, likely that potential exporters and traders who hoped to sell to exporters have been active throughout the past few months on the market and that this together with general speculative activities are responsible for raising the prices very high. It is pertinent to observe in this connection that while speculation may serve a useful economic purpose in a completely free economy, its performance is highly doubtful when the economy is partially closed and controlled. The activities of even influential and powerful speculators can be curbed in a free market by large movements of produce and the possibility of the physical movement of produce keeps in check both

the activities of speculators and their capacity to corner markets. In a closed and partially controlled economy, these checks on speculative action are absent and in such circumstances, continued feverish speculation can push up prices to any heights, without a corrective force automatically coming into operation. There is little doubt that the present state of groundnut prices is an example of the result of unchecked speculative activity.

21. This result, it seems to us, has been possible chiefly because of the uncertainty regarding the intentions of Government about exports. The total export quota promised by the Government of India has been known. The system by which the actual exports would take place has not yet been completely determined or rather the determination of the system seems to be in a continuous state of flux. Sometime ago, it was announced that a system of tenders for giving export licences had been adopted. The system has, however, been recently given up and general export licences are, it seems, to be reallocated. In announcing the system of tenders, Government had described it as a half-way house between export on private account and Government trading. It had declared that Government had decided to give half-way measure a trial. It is not yet known whether the giving up of the tender system has resulted in Government accepting a position either of complete private trading or of complete Government trading.

22. It is necessary before we proceed further to point out the possible results of the adoption of a system of private trading on groundnut prices and through them on the economy of the country. The letter from the Finance Department referring the matter under consideration to the Board contains the following regarding exports:

"If they recommend continuance of control, the Board will doubtless consider the effect on the economy of the country, of control over Vanaspati prices combined with export during the next six months of 40% of 120,000 tons of groundnut oil at uncontrolled prices."

The implications of this sentence are not completely clear to us. Regarding the quantity of export at uncontrolled prices being expressed at 40% of 120,000 tons, the explanation that we were able to obtain from the Commerce Department was that 40% was the share of the total exports which it was intended to export through private channels. It seems that 40% of 120,000 tons does not represent the total of exports during the year 1946-47. It is evidently still intended to export a total of 120,000 tons. 40% of this would, however, be exported through private channels and, presumably, the rest might be exported on account of Government. The

expression "export of 40% of 120,000 tons at uncontrolled prices" thus most probably means that Government would not be able to or would not care to exercise any control over the prices at which exporters who had been licensed to export on private trading account would make their purchases in the market. If Government has no intention of controlling in any manner whatever the activities of exporters of 40% of 120,000 tons to whom it issues licences, the position of the groundnut market must continue to remain uncertain.

23. In relation to groundnut prices, as with many other commodities, we are facing a situation where the internal price level and the external price level are at considerable variance. As with other essential raw materials in short supply, the prices in the producing countries have not yet risen as high as the prices which the countries who desire to import these essential commodities are temporarily willing to pay. In times of depression and in this opposite situation there are two ways in which the Government of a country can act. It can, on the one hand, leave trading entirely free and leave the forces of the international markets fully to affect the internal economy of the country. When prices for particular products are very high in the international market, the internal price level of such products must mount in sympathy if there are no controls exercised over exports and prices paid for exports. If export is completely free, then the internal price level must come into close correspondence with the export price level. If export is quantitatively restricted but no efforts are made to control the prices paid by exporters, the export price will affect perhaps in a smaller, but yet a very substantial measure, the prices paid for the commodity internally. If export prices are freely allowed to influence internal price levels of essential commodities, the economy of a country is laid open to all the changing factors in the international situation. A price that suddenly shoots up on the international market may suddenly fall and an export price that led to a sudden boom in particular prices in one year may lead equally to a sudden slump in a year or two. The internal price levels of essential commodities are usually in some relation with each other; so that the influence exercised through the temporary increase in the international price of one commodity on the internal price of that commodity cannot be confined to the price of that commodity alone. If oil-seeds prices rise high because, temporarily, the demand for oil-seeds and oil is intense, the internal prices of other commodities such as cereals may move in sympathy. These two important considerations, firstly, that it is not desirable to allow internal prices to move up and down entirely at the mercy of international forces, especially in times of

transition like the present, and secondly, that individual important internal prices affect the whole system of internal prices, have led a number of important producing countries to try and insulate their internal price systems from the impact of international price movements. As a matter of fact, this may be considered a particular case of the general trend in policy since the depression of the thirties, for Governments to try and stabilise the internal price level, protecting it from any violent fluctuations in the international market. No doubt, the temptation in the producing countries is immediately to think in terms of the benefit of the high export price to the producer. The benefit to the producer is, however, always a doubtful quantity. In the first instance, a large part of the benefit is apt to be cornered by intermediaries. Further the benefit to the producer of any temporarily high price is offset by the dislocation in his economy that such a price will bring about and by laying him open, as a corollary, at a later time to as large or a larger downward movement of prices. The examples of Canada and Argentina may be cited. In these countries, through activities of separate Boards of Departments of Central Banks, the prices obtained by the domestic producer and the prices that are to be paid by the domestic consumer are kept largely out of the influence of temporary fluctuations of the international market. No doubt even with these control devices, a strong and continuous upward urge on the international market is duly reflected by some movement upwards in the internal price but both the rapidity and the extent of the adjustment are moderated so that the total impact on the internal economy is not violent.

24. In our opinion, the India Government should immediately make up its mind as to the policy that it desires to follow in these circumstances. If it desires to protect particular internal prices from the effects of external price fluctuations, it must immediately take effective appropriate action. It must, if it decides to do this, either assume all trading on export account in commodities affected in this manner in its own hands or set up a Government corporation for this purpose. The aims of such a policy would, in the first instance, be to assure a steady and fair price to the domestic producer, to keep in check the rise of prices to the domestic consumer and to obtain for the community, as a whole any special margin of profit that may remain between the internal and external price. That the community as a whole needs such resources in India is obvious. The total deficits to be incurred on account of the mounting costs and volumes of essential imports are very large. The finance of these essential imports must be at least partly met out

of the profits that may be made from the exports at favourable prices of essential commodities.

25. Having expressed our views on groundnut prices, we next turn our attention to the structure of the prices of Vanaspati. The price for Vanaspati was first determined for purposes of defence contracts during 1943. The original basis of determination was information available with the Supply Department relating to the cost of production of stearine, a product somewhat inferior to Vanaspati. Later on, on the basis of information given by producers of Vanaspati, an overall charge of Rs. 355 per ton was added to the cost of groundnut oil as covering all processing and other charges. This was felt to be excessive and was reduced in negotiations with Vanaspati producers to Rs. 335 per ton in December 1943 and was further reduced to Rs. 262 towards the end of 1944. This price formula continued to be the basis of Defence contracts. The price for civil supplies was entirely uncontrolled until many months after the promulgation of the Prevention of Hoarding and Profiteering Ordinance. When the price for civil supplies was uncontrolled it was often found that the Defence Department was not able to obtain its supplies in full as the civil market offered opportunities for much greater profit to the manufacturers of Vanaspati. After the promulgation of the Hoarding and Profiteering Ordinance, the Controiler General notified in August 1944 certain prices for various brands of Vanaspati. On this notification, manufacturers of Vanaspati represented to the Controller General that the margin of 20% for the total cost of distribution of Vanaspati all over India was too small for the industry and that this should be raised to at least 25%. The problem was considered in detail at a Conference held in October 1944 at which a general price structure for civil supplies was arrived at. The price structure for bulk packs was modelled on the price structure for defence contracts as determined by the Food Department. For three of the four zones into which the country was divided for price announcements, there was added a charge on account of average zonal freight. The Rs. 262, in the Defence Department price was split into the following:

Rs. 130	Processing charge
Rs. 62	Cost of tins.
Rs. 70	Profit.

The main difference between the Defence Department charge and the civil supply price was an additional charge of Rs. 35 on account of processing and an extra margin of Rs. 15 in the rate of profits. The price of small packs was, however, not calculated on

the same basis as that of Vanaspati packed in bulk and certain *ad hoc* calculations were made in October 1944 in arriving at the announced price at wholesale and retail for small packs, that is packs under ten lbs. Suggestions made later for determining the price of small packs on the same basis as for bulk packs were not accepted by industry and were evidently not pressed hard by Government. It is alleged that the small pack price gives an even larger margin than bulk packs to manufacturers.

26. This system of pricing of Vanaspati provisionally adopted for purposes of announcement under the Hoarding and Profiteering Ordinance was continued by the Food Department when it took over from the Controller General of Civil Supplies the function of the determination and fixation of the prices of Vanaspati for civil supplies. This happened in February 1945 from which month to March 1947, the fixation of prices of Vanaspati has continued on the same basis. It will be observed that the method of price determination is to ascertain the cost of raw materials and add to it certain fixed processing and other charges. This method was perhaps appropriate for Defence contracts in uncertain times as in 1942-43 and was perhaps inevitable when the industry was new and was being encouraged to grow. The cost-plus basis was, however, carried on and applied to controlled prices in connection with civil supplies and figures of cost of processing, etc. assumed were fixed on a higher level than those sanctioned for Defence purchases in 1945 on the basis of costings for 1944. During the period of two years (1945-47), in which the Food Department has administered control over prices of Vanaspati, no effort seems to have been made to change this cost-plus method of price determination. We have also not found that any attempt has been made since 1945 to examine actual costs of manufacture of various producers and to ascertain how far the charges allowed in the prevailing price structure are justified or not. The results of one set of calculations relating to the year 1943 that we have seen indicated for the leading producers of Vanaspati for that year a profit of over 50% on the total capital at charge. No results of examinations of cost figures are available for any period later than the latter half of the year 1944. Obviously, no detailed enquiry into actual costs was undertaken after price administration was taken over by the Food Department and there certainly seems to have been no enquiry into the relation of actual costs to any definitive standards of economy and efficiency.

Criticism has frequently been made that a cost-plus basis of price fixation gives no incentive to the manufacturer to buy his raw

materials economically. In this particular instance, the price fixed was on the basis of certificates of purchase prices vouched for by auditors of individual companies acting on behalf of Government. In only exceptional cases of flagrant differences in purchase prices paid for in the same zone have these returns, made by auditors of companies, been subjected to any further scrutiny or correction. Another element which has worked in favour of the manufacturers has been that the price fixed has always been rounded up to a figure of the nearest multiple of Rs. 35. This has given an average increment in price over and above the calculated price to the manufacturers. We further notice that whereas initially, the price was determined on the basis of purchase prices of groundnut oil for a period of two months at a time and the price was changed when a difference of Rs. 70 per ton was reached, this was, at the representation of manufacturers, altered to the purchase prices of one month forming the basis of assessment and a change being made for every difference of Rs. 35. Both these alterations make for more frequent changes in prices and give advantage to manufacturers of a rising market to a larger extent than would have been possible under the original basis. It is true that the new basis would work against manufacturers' interests in a period of falling prices of raw materials as much as it works to their advantage during a period of rising prices. However, the fact remains that the original basis was changed on the proposal of the manufacturers and has operated almost continuously in a time of rising prices of groundnut and groundnut oil.

27. From this brief survey, the following would appear to be clear :

(1) A basis that may have been appropriate during time of war for Defence requirements in a new industry has not been changed even though today the prices fixed are, in the main, for civil supplies and the industry is well-established ;

(2) The total of charges allowed are related to certain calculations made many years ago, which, at least then, were known to leave a generous margin over actual costs to certain important producers in the industry. No attempt has recently been made to assess results in actual practice. The treatment of the industry at the hands of Government as exemplified by assessments making for more frequent adjustments and the pricing of small packs may be said to have been consistently generous ;

(3) There is nothing to show that the allowed profit of Rs. 85 per ton is reasonable for a sheltered industry with an assured market like the Vanaspati industry.

We note that neither the Finance nor the Food Department have in their possession information, published or otherwise, relating to the results of the working of Vanaspati factories in any recent years. The short time at our disposal did not permit us to examine in greater detail, the structure of Vanaspati prices and the reasonableness of the various charges included in it. Such an examination must obviously be conducted by Government and controlled prices for the future recast in its light.

28. Before the present reference was made to us, a meeting of representatives of the Government of India and representatives of the manufacturers of Vanaspati was held. The minutes of this meeting have been sent to us with the papers included in the reference. At this meeting, the manufacturers of Vanaspati suggested that the price of Vanaspati might be fixed on the basis of the price of groundnut oil at Bombay of Rs. 1400 per ton, the price actually ruling at the time of the meeting early in May, and that the price of Vanaspati fixed on the basis of this price might be maintained for a period of three months leaving the industry to bear the loss or gain which might accrue. The implications of this proposal are not clear to us. The reference to loss or gain may mean that the industry would be prepared to continue full production for the three months, even though prices rise substantially above the estimated level of Rs. 1400 per ton or it may merely mean that the industrialists confidently expect prices not to rise above Rs. 1400 at Bombay and, therefore, expect to be able to keep on producing for three months. The material question is whether the proposal involves any definitive commitment on the part of industry. The two representatives of the industry who saw us in Simla were definite that there was no such commitment. They pointed out that if groundnut oil prices ruled substantially above Rs. 1400, their factories would not bear continuous losses over production of Vanaspati for the larger part of a quarter. They stated that even though Government agreed to fixing the prices of Vanaspati on the Rs. 1400 basis, Vanaspati factories would have to close down production during the quarter if prices of groundnut oil continued to move upwards. On this interpretation, the proposal of the industry does not really amount to any more than inviting Government to fix Vanaspati price on the basis of existing prices of groundnut oil and expressing the hope that, as has often happened in the past, a change in the basis would not be required for three months.

The Vanaspati manufacturers have a legitimate grievance arising out of the freezing of Vanaspati prices by Government. As



a result of this freezing, most Vanaspati factories have had to be closed for varying periods. The freezing of Vanaspati prices as an indirect means of influencing groundnut prices has not brought about the stabilisation of groundnut prices in parity with prices of other agricultural products which it was expected to achieve. The measure has, at the same time, inflicted hardship on Vanaspati manufacturers. While conscious of this position, we are unable to accept the proposal made by Vanaspati manufacturers. We feel that Vanaspati prices must be tackled in relation to prices of groundnut oil and oil-seeds. Any partial measure at this stage is not likely to help the solution of even this particular problem. Our recommendations are, therefore, directed towards an immediate and stable solution of the problem of the prices of both groundnut and Vanaspati.

29. The Board has been requested to advise (1) whether control over the prices of Vanaspati should be abandoned, and (2) if not, at what level should Vanaspati prices be controlled. We proceed to state our opinion on these points.

(1) We have pointed out initially three reasons why Vanaspati may be controlled. Firstly, Vanaspati is an important consumer goods; secondly, its control forms part of oil-seeds and oil control and thirdly, control is necessary in order to influence the expansion of the industry. In our opinion, the control of Vanaspati as part of a control of oil-seeds and oils is of very considerable importance. In a general note on controls that we submitted to Government on 19th April, we have pointed out how a certain minimum number of co-ordinated controls must be maintained and how an effective planning of agricultural production and the price control of cereals would be impossible, if all attempt to control the prices of oil-seeds and oil was given up. We are, therefore, definitely of the opinion that Government should resume at the earliest opportunity its efforts to influence and limit the prices of edible oil-seeds and oils.

Moreover, the case for the control of Vanaspati based on the need for restricting the expansion of the industry is by itself strong. Certain calculations made by us above show how, at the present time, the total supply of groundnut kernel and oil for domestic consumption is not considerably above the supply available in pre-war years. The calculations were not made on a per capita basis and ignored the effect of the rise in population during the last decade. On a per capita basis the present effective supply for domestic consumption might just about equal pre-war levels. It is learned that following a report of a Sub-Committee, Government

TABLE E.—PRICES OF VANASPATI

Period		Per ton in zone				Per lb. for large pack in zone				Retail price per lb. pack.
		A	B	C	D	A	B	C	D	10
1		2	3	4	5	6	7	8	9	
		Rs.	Rs.	Rs.	Rs.	Rs. as. p.	Rs. as. p.	Rs. as. p.	Rs. as. p.	Rs. as. p.
1944	October	...	...	...	...	0-9-9	0-10-8	0-11-9	0-11-9	0-14-3
	November	...	...	...	...	0-9-9	0-10-8	0-10-8	0-11-9	0-14-3
	December	...	...	...	...	0-9-9	0-10-8	0-10-8	0-11-9	0-14-3
1945	January	...	...	...	...	0-9-9	0-10-8	0-10-8	0-11-9	0-14-3
	February	1186	...	...	...	0-9-9	0-10-6	0-11-9	0-11-9	0-14-3
	March	1186	...	...	...	0-9-9	0-10-6	0-11-9	0-11-9	0-14-3
	April	1186	...	...	...	0-9-9	0-10-6	0-11-9	0-11-9	0-14-3
	May	1164	1254	1376	1433	0-9-3	0-9-9	0-10-9	0-11	0-13-9
	June	1164	1254	1376	1433	0-9-3	0-9-9	0-10-9	0-11	0-13-9
	July	1164	1254	1376	1336	0-9-3	0-9-9	0-10-9	0-10-6	0-13-9
	August	1164	1254	1376	1336	0-9-3	0-9-9	0-10-9	0-10-6	0-13-9
	September	1164	1254	1376	1336	0-9-3	0-9-9	0-10-9	0-10-6	0-13-9
	October	1164	1254	1299	1336	0-9-3	0-9-9	0-10-3	0-10-6	0-13-9
	November	1164	1254	1299	1336	0-9-3	0-9-9	0-10-3	0-10-6	0-13-9
	December	1164	1254	1299	1410	0-9-3	0-9-9	0-10-3	0-11	0-13-9
1946	January	1164	1254	1299	1410	0-9-3	0-9-9	0-10-3	0-11	0-13-9
	February	1164	1254	1299	1410	0-9-3	0-9-9	0-10-3	0-11	0-13-9
	March	1230	1280	1439	1445	0-9-9	0-10-3	0-11-3	0-11-3	0-14-3
	April	1300	1315	1509	1445	0-10-3	0-10-6	0-11-9	0-11-3	0-14-3
	May	1300	1315	1601	1570	0-10-3	0-10-6	0-12-3	0-12	0-15-3
	June	1411	1452	1601	1570	0-10-9	0-11-3	0-12-3	0-12	0-15-3
	July	1472	1509	1635	1570	0-11-6	0-11-9	0-12-6	0-12	1-0-0
	August	1513	1561	1684	1654	0-11-9	0-12	0-13	0-12-9	1-0-6
	September	1681	1697	1738	1654	0-13	0-13	0-13-3	0-12-9	1-1-3
	October	1560	1609	1738	1695	0-12	0-12-3	0-13-3	0-13	1-1-3
	November	1560	1609	1738	1695	0-12	0-12-3	0-13-3	0-13	1-1-3
	December	1560	1609	1738	1757	0-12	0-12-3	0-13-3	0-13-6	1-1-3
1947	January	1560	1609	1738	1757	0-12	0-12-3	0-13-3	0-13-6	1-1-3
	February	1560	1609	1738	1757	0-12	0-12-3	0-13-3	0-13-6	1-1-3
	March	1560	1609	1738	1695	0-12	0-12-3	0-13-3	0-13	1-1-3

has placed before itself a target of expansion of the industry to a capacity more than double its present capacity, at which stage its consumption of groundnut may be roughly about three times its actual consumption today. If acreage and production under groundnut remain more or less at present figures (and in a short period like five years, no large increases in them can be expected) then the contemplated expansion of the industry will have serious consequences on domestic consumption of groundnut kernel and oil. For, if the industry only doubles its present consumption, this will cut down by half the present domestic supply which will vanish entirely if the consumption of the industry is trebled. It is obvious that this eventuality cannot be faced lightly.

The conversion of groundnut oil to Vanaspati cannot take the place of the previous consumption of groundnut oil. The main areas of the consumption of Vanaspati and groundnut oil and the main classes who consume them are, entirely distinct. Whereas the main consumption of groundnut oil is among the poorer classes and the lower middle class and is largely concentrated in Peninsular India, the main consumption of Vanaspati is reported amongst the middle and richer classes throughout the country and among a rather larger section of the poorer classes in the United Provinces, Sind and the Punjab. Thus, a diversion of groundnut oil to Vanaspati manufacture, means a serious diminution in quantities of an essential commodity available to the poorest classes in certain regions of the country. If the expansion of the industry is to be controlled, a continuous control on the prices at which Vanaspati is marketed must be retained by Government. Otherwise, it will be legitimately open to the charge that it has secured for a privileged section amongst the capitalists a position of completely exploiting a monopolistic market. Immediate decontrol of Vanaspati prices is likely to have only one effect, that of raising its prices in a large measure, adding to the cost of living of large numbers and augmenting considerably the profits of Vanaspati manufacturers. No large immediate increase in Vanaspati production is likely to take place nor are there any competitive substitutes, internal or external, available. In view of these circumstances, we are unable to recommend decontrol of the prices of Vanaspati.

(2) We are, at the same time, unable to accept the plea that Vanaspati prices be raised on the basis of a price of Rs. 1400 for groundnut oil at Bombay. We cannot consider any prices other than prices round about the level indicated by the Government of India circular letter of November 1946 as reasonable internal

prices for groundnut: We are unable to recommend that Government should commit itself to any price announcement in which a price seriously out of parity with the general indices and with the prices of cereals and cotton should be accepted as the basis. We, therefore, recommend that Vanaspati prices should be maintained at the level at which they have at present been frozen. Government in the Food Department should also immediately undertake an enquiry which would enable it to arrive at a more satisfactory basis than the present one of the determination and fixation of Vanaspati prices.

In order to make this policy effective, Government should eliminate the factor of the export of 40% of the 120,000 tons at uncontrolled prices operating on the market for groundnuts. It should immediately announce the taking over of the complete export of groundnuts on its own account. It should also announce its determination to control groundnut prices for the next season at a reasonable relation with the prices of cereals and other agricultural products.

30. We are aware that these are somewhat drastic recommendations. We have been greatly impressed by the seriousness of the situation created by uncertainty and drift. In our opinion, Government should now decide immediately whether it wishes to follow a regime of planned and controlled economic activity or whether it desires to revert to laissez-faire. We do not see any merit in a situation where control is haphazard and results chiefly in benefit to speculative traders and to privileged classes of merchants and industrialists.

*Dated the 19th May 1947.*

A. D. GORWALA

*President*

D. R. Gadgil

*Member*

## VI

### PULSES

In this reference received under Finance Dept. No. 3 (24)-E. G. I/47, dated the 22nd May 1947, the Board's advice has been asked on Food Department's proposal to remove control over the prices and movements of pulses. At present control over pulse prices is not centrally administered. The Central Government advises Provincial and State Governments on the level of controlled prices, but only a few Governments have statutory control over prices. Movement beyond Province and State boundaries is, however, controlled. The Food Department have formed pulse basic plans both for kharif and rabi so that pulses can move only against allocations made under these plans.

The Food Department urge that statistics regarding pulses are very unreliable. In pre-war years, they say, India used to export 22,000 tons of pulses annually, from which they presume that if crops are normal, pulses should not be in short supply. Many Provinces and States have refused to move pulses on a Government to Government basis and movements have come to a standstill. They, therefore, desire that movement control should be removed throughout the country, together with price control wherever it exists, their hope being that by these measures, pulses which, they have a feeling, might be with traders, will become available. Accordingly, it is necessary to examine whether there is any good reason for this hope. The inability of Governments to export their declared kharif surpluses seems from the papers to arise from three causes: (i) failure of the kharif pulse crop; (ii) failure of the kharif cereal crop; and (iii) failure of the rabi cereal and pulse crops. The surplus declaring areas have from time to time, alleged their anxiety to have supplies against deficits caused by these reasons, more especially in view of the Central Government's inability to give adequate cereal supplies for proved cereal deficits. The question is: are any Provincial Governments or States holding on to large pulse supplies which are in reality not required to meet local pulse or cereal deficits? We have examined the Deputy and Assistant Secretaries of the Food Department and have thereafter received

a note and certain files. We find no answer to this question. The Food Department lack factual data. They have not examined the production figures of this or previous years. The argument about pre-war exports seems to us completely irrelevant. The Central Government's own behaviour towards, for example, the C. P., Gwalior and Hyderabad shows acquiescence in the pleas of failure of harvests and damage to crops put forward by these areas for not exporting their declared surpluses. In fact, from the information available, it is difficult to hold that there is a surplus of pulses in the country or even a sufficiency of them. On the whole, it would not be wrong to conclude that, in regard to pulses, this is, by no manner of means, a good year.

As regards decontrol, two questions arise: (1) Can such action bring out more supplies? (2) Will it lead to a more equitable distribution of short supplies? On the first point there is no information. The discussion above would seem to indicate a difficult supply position. The plea of pulse deterioration, which is put forward as an argument for decontrol, is based on a collection of merchants' letters. These have not been examined by the Central Department of Food or by any other authority. There is no evidence in substantiation of them. That interested parties who are anxious to have high prices make such statements is known to anyone who has had even the least experience of food administration. That such statements are generally incorrect is also common experience. In any case, if there are these stocks of pulses, surely there should be no difficulty in the Provincial and State Governments obtaining them and using them, either for their own needs or for that of their neighbours. The Food Department's argument is that if there is Government control, merchants will hold back pulses in the hope of lucrative markets and allow them to get spoiled. This, it seems to us, will certainly not happen if it is stated quite unequivocally that there is no hope of movement being allowed to areas where lucrative prices can be obtained and that both price control and movement control will definitely be maintained.

The answer to the second question is 'certainly not.' Distribution and movement of short supplies is bound to be haphazard and inequitable under the influence of the price motive. Equitable distribution can most rationally be done only under control by a Central authority which fully employs its powers and good offices. In fact, in the absence of a proper plan of distribution by a Central authority, decontrol must mean a further incentive to price increase.

and the distribution of the pulse supplies to richer areas. Thus, for instance, let us consider the plight of the C. P. or of Orissa under free trade in pulses. The C. P. has, from the beginning, established a Government monopoly of purchase of pulses. It has exported on a Government basis and at reasonable prices. It has had bad crops this year and needs its pulses to meet to some extent the deficit in its cereal crops. Decontrol will mean for this Province sale of pulses to the highest bidder and free movement to areas which can afford to pay the highest prices, leaving the Province itself denuded of its much needed pulse supplies. Surely, it is not considered desirable to mete out such treatment to a Province which has in the past done its best both for its neighbours and itself. Take again the case of Orissa or any other poor Province in which pulse forms an important part of diet. Free trade here will mean the taking away of a very substantial element of the food of the people for the benefit of richer areas. Pulse price movements in surplus areas reveal rises which are comparable to those in deficit areas. This, in itself, is presumptive evidence of real short supplies even in the surplus areas and the policy proposed by the Food Department would render the position very difficult for such surplus areas, while, at the same time, not making it easy for any sections of the population in other areas except the well-to-do and the very well-to-do.

There are certain facts which need to be considered and digested. Control over movements, unaccompanied by control over prices yet keeps in bound price rises, at least in the producing area. In other words, if a commodity can be limited to a certain zone, its price in that zone, although it may rise, will not rise as much as when it can be moved freely over wide areas. If movement control is entirely lifted and movements take place over large distances, e.g. C. P. to Bombay, Orissa to Bengal, etc., there is bound to be a rapid increase in prices to the detriment of those parts of the country which are comparatively poor. That this is so, is clear from the fact that even in some deficit areas, zones which produce pulses are clearly delimited and kept free from the influence of the higher prices in the richer portions of those areas. For instance, in the four pulse producing districts of the Bombay Province, a movement ban has been imposed, the object being to prevent pulse prices there rising and the pulses being dragged away to the rich cities of Bombay and Ahmedabad. Monopoly procurement enables the surplus of these districts to be bought by Government at reasonable prices for use in other needy parts of the Province.

Decontrol would mean the abolition of these barriers imposed for the benefit of both the producing and deficit areas, and more especially, for that of the poorer sections of the people.

Pulse prices are, in all conscience, high enough. The index number of wholesale prices for May 1947 is 474 against 242 for cereals. Pulses form, next to cereals, the most important element in the food of the ordinary person in this country. This Board cannot recommend acceptance of a measure which would start another price spurt in this essential commodity. It is true that the present situation is unsatisfactory in the sense that basic plan movements are not taking place, but, in administration and politics, often the choice has to be not between the bad and the good but only between the bad and the worse. Whatever the difficulties of the present times, decontrol would lead to worse results. We, therefore, strongly advise that all thoughts of adopting it be abandoned.

We note with surprise the inability of the Food Department to furnish any real statistical data regarding pulses, although it has now been dealing with the subject for over three years. We suggest that immediate steps be taken to ascertain the exact statistical position of pulses, at any rate in the alleged surplus areas, if necessary, by placing a senior competent officer on special duty. The next step, after getting the information, would be to insist on the Governments of those areas making available a portion of their supplies to other areas which are in greater need. It may be that the answer from the Governments will be that they themselves have not sufficient supplies of pulses for their own people. Even if that is really so, if their supply is proportionately higher than that of other areas, it should be possible to get them to agree to spare certain quantities which could then be directed to the areas where they were most needed.

The present time is crowded with the rush of fateful events, especially for those on whom the responsibility rests for taking decisions on matters of grave import. Yet time taken to glance at the past is by no means time unprofitably employed. The Food Department has changed considerably since this month four years ago and there is, perhaps, hardly anyone in it who today recollects the very similar proposals for decontrol of cereals urged by the then Food Secretary, Major-General Wood, and the very similar grounds on which he put them forward. By the unanimous voice of the Governments of the South, Bombay, Madras, the C. P., Cochin, and Travancore, the proposals were opposed as detrimental to the real



welfare of the country in a time of scarcity and stress. Their opposition was upheld at the All-India Food Conference that followed. Since then, notable development has taken place in the technique of food control and administration though not, alas, equally in all parts of the country. Scarcity and stress, however, still remain. In fact, conditions are definitely worse today than they have ever been if the cut in the ration to 10 oz. which is being announced in various Provinces, is any indication. This Board would be failing in its duty if, at this juncture, it did not solemnly warn Government that the present is not a time for relaxation in any direction.

Nothing is easier than abandoning control, but the easy course is not necessarily the best from the public point of view. The real solution lies in intensified effort, actuated by the will to strive, to seek, to find and not to yield.

*Dated the 21st June, 1947*

A. D. GORWALLA  
*President*  
D. R. GADGIL  
*Member*

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## VII

### COTTON

The Board has been asked to advise Government on the minimum and maximum prices to be fixed for the 1947-48 season crop of the various descriptions of Indian cotton and also whether any modification is necessary in the classification of Indian cotton so far adopted. Government control over the prices of cotton began in 1943 when Government found it necessary to check the strong upward movement in the price of Indian cotton which became apparent during the first half of that year. The first measure of control merely consisted in a press note issued by Government indicating their idea of a fair price of cotton and listing prices beyond which mills were advised not to buy. For the trading season, 1943-44, Government stepped in with a notification of both floors and ceilings for cotton prices. Whereas towards the end of the cotton season, 1942-43, the cotton market was felt to be unduly buoyant, during the latter part of the 1943-44 season, it became unduly depressed. Government had, therefore, to support the market with buying on its own account at the floor under the price stabilization plan. During the 1944-45 season, the system of floor and ceiling prices was retained but the quantities bought by Government were very much lower than during 1943-44. In 1945-46, no purchases had to be made by Government, but in 1946-47 considerable quantities had to be bought at the increased floor prices during part of the season.

2. *Classification.*—The announcement made by Government in May 1943, indicated fair cotton prices for 14 varieties of Indian cotton. The notification for 1944-45 indicated floors and ceilings for 27 classes. The notifications of floors and ceilings for the 1945-46 and 1946-47 seasons included 25 classes. We have been asked to recommend whether we consider it necessary to modify in any way the classification of cotton at present adopted in the Government announcement of legal floors and ceilings. We obtained through a questionnaire opinions regarding the present classification from a large number of representatives of growers, traders and consumers of cotton. The replies indicate that the present classification is in the main considered satisfactory. At the same

time, we have received a number of suggestions for modifications of the present classification. Most of these suggestions are for adding new classes to the existing classification. It is obvious that the present classification is not exhaustive. The number of classes of Indian cottons included, for example, in the report of the Indian Central Cotton Committee, classifying the cotton crop of the year 1944-45 is 45. A full classification which treats every important class separately will have to approximate to this number. It must, however, be remembered that the Government announcement of floors and ceilings have no need to be and do not purport to be an exhaustive scientific classification of various standard and trade varieties of Indian cottons. Its purpose is the practical one of indicating the floors and ceilings which are appropriate for all varieties that are traded in. The present classification must be judged in relation to this need and purpose. Modification in it would be necessary to the extent that there is any variety of cotton which is either not covered by the classification or is inappropriately placed. A large number of suggestions for adding new classes have been made on the ground that the existing classes are mixed and lump together in one class either different varieties of cotton or cottons of different staple lengths. There can be no objection to putting together in one class distinct varieties of cotton so long as these distinct varieties are in actual fact of approximately the same valuation and can be properly covered by the same limits of floors and ceilings. Again so long as variations in staple lengths are adequately covered by the "off" and "on" allowances, there would be no objection to including varieties with somewhat different staple length in the same class. Some classes may also include varieties of cotton whose average staple length is higher than the basic staple of the class. This would harm the interests of the superior varieties only if they failed to obtain the proper premia over the basic price at the hands of trade or Government because of the classification in the Government notification. The representatives of the Indian Central Cotton Committee and the Technical Adviser of the Textile Commissioner assured us that there was no danger of this happening. All the superior varieties which are well established have their own particular markets and the price levels and trade practices in relation to them are not, we are told, affected by the classification in the Government announcement. A classification that is reasonably detailed, that covers adequately the entire field and that, with its scheme of premia and allowances, fully allows for differences in staple length and quality need not, in our opinion, be further elaborated.

3. There is one important particular in which, however, there is general agreement that the existing classification fails. This is in relation to the superior varieties of Deshi cottons, especially the varieties known as C. P. 1 and C. P. 2. The present Government classification for floors and ceilings relates to all cottons except the Deshi classes to a given basic staple. For the Deshi classes, therefore, there exist no "off" and "on" allowances as for cottons below and above basic staples. For these variations in price ceilings are those given by the choice classes termed "good, F good, fine, S. fine, extra S fine". It has been pointed out that certain varieties of Deshi cotton have a basic staple of  $5/8$ th inches and may reach a staple length of as much as  $3/4$ th inches while the bulk of the Deshi crop is of a staple length much below this level. It is alleged that putting the Deshi varieties which have superior spinning possibilities into the ordinary Deshi classes not only does them an injustice and puts a low ceiling on them, but also encourages their mixture with varieties of staple growths in the same tract. The allowances for choice qualities cannot, it is said, adequately cover the needs of the case. As the effort in the improvement of Indian cottons has consistently been directed towards growing varieties of cotton of a progressively longer average staple, any measure of Government which does not take adequate account of higher staple length is inconsistent with its general policy. The main claim put forward has been that on behalf of the cotton grown in the Central Provinces and Berar, viz. C.P. 1 and C.P. 2. Their case for separate classification is supported by all. We, however, feel that if a new class is to be added to the present classification, it should not be confined only to C.P. 1 and C.P. 2. It should rather be a class which covers the gap in the present classification of a class of Deshi cotton related to a basic staple length. The present classification does not contain any class with a basic staple lower than  $3/4$ th inches. We recommend that a new class be introduced with a basic staple of  $5/8$ th inches which would provide for all varieties of Deshi cotton. To the C.P. 1 and C.P. 2 class of cotton, we would add Central India and Malwi cotton where it comes up to these staple lengths and any other Deshi cottons, which it is felt may have such superior spinning capacity.

In the present classification, certain classes of Broach, e.g. Vijaya, etc. are allowed a premium of Rs. 50 over the ordinary Broach class. As Vijaya has assumed considerable importance by now, we suggest that instead of indicating the difference by a

premium, a separate class for 'Vijaya and relative' cottons be introduced in the classification.

It has been pointed out that the present classification does not really provide for classes of higher staple length than one inch. We do not, however, feel it necessary to recommend separate classification for the specially superior varieties of Cambodia cotton. It does not seem necessary to provide either a floor or a ceiling for these very superior cottons. The total volume of the crop of these cottons in India is extremely small and there must remain for them, for many years to come, a very keen demand in the country.

4. *Prices.*—In the announcement made by Government in May 1943, a price of Rs. 550/- for the standard Indian Cotton Contract was indicated as being fair. For the season 1943-44, the floor and ceiling for Jarilla were fixed respectively at Rs. 400/- and Rs. 550/-. For the next year, (1944-45), ceilings except for minor adjustments were maintained as in the previous notification but various floor prices were reduced by not less than Rs. 50/-, the floor price for Jarilla being fixed at Rs. 350/- instead of at Rs. 400/-. No variations in ceilings were made during the season 1946-47. In October 1946, however, the floors of all varieties were raised by Rs. 80/- to Rs. 100/-, the floor of the Jarilla contract being moved up from Rs. 350/- to Rs. 430/-. On the eve of this increase in floor prices, the prices of Jarilla cotton had reached a level just below Rs. 430/-. The prices of cotton in the spot market continued above the floor for some months after October 1946, but by March 1947 they sagged back to the floor and remained there. It was only after the removal of all restrictions on export by the Government of India in June that prices again showed some recovery, and reached a level well above the floor. Whereas with the floor for Jarilla at Rs. 353/-, very little cotton had to be bought by Government during the 1944-45 season and almost none during 1945-46, the purchases at the higher floor of Rs. 430/- were very substantial during 1946-47. This is of course not conclusive for determining the appropriateness of the present level of floor prices. There is little doubt that the confusion into which the export market was thrown by fluctuations in Government policy had considerable effect on prices of cotton. It may, in fact, be contended that the history of cotton prices after free exports had been allowed proves that the floor of Rs. 430/- was not unduly high.

5. Except for Deshi cotton, ceilings have not been unduly strained during the last two years. The ceilings for the Deshi varieties have, it is reported, been definitely exceeded during the

season 1946-47. During 1940-41 to 1944-45, the prices of Deshi cotton did not rise to the same extent as those of the staple varieties. It was chiefly after the cessation of hostilities and the resumption of the exports of Indian cotton on a fair scale that the prices of Deshi cotton showed a sharp movement upwards. This is apparent during the whole of the year 1946. Deshi cotton is reported to have attained and even exceeded ceilings from about the first quarter of 1946. During the whole of the current season, it is reported consistently to have maintained at levels substantially above the ceilings.

6 Before going on to formulate our recommendations, regarding the floors and ceilings for the next year, we might make a few observations on our approach to this question. The control over the prices of cotton is imposed not through laying down a standard or a maximum price, but rather through indicating broad limits within which private dealings in cotton will be allowed to influence prices. In a number of commodities under control, Government lays down the prices at which all transactions must take place. No variations in the price either below or above this price is then legal. In other commodities, the control exercised by the Government of India is confined to maximum prices. But Provincial Governments are allowed to fix standard prices not exceeding the maximum. The system of price controls in food-grains operates in this manner. When a standard price is fixed by Government price fixation involves a fairly accurate calculation of the level at which it is thought desirable to fix prices. In these circumstances, control authorities have to anticipate fully the operations of forces of both demand and supply for determining the proper price to be fixed. Where, however, a standard price is not fixed and also where there is no monopoly of trading by Government or Governmental agency, the ordinary forces of the market are allowed to operate to a defined extent. The area within which they are allowed to operate indicates the field within which Government does not feel called upon to interfere. The price fixed through the operation of market forces within this field is then presumably considered by Government to be a price not necessarily unfair to any party and a price not affecting adversely any important national interest or aspect of national policy.

7. The fixation of the floors and ceilings for cotton must be considered in two stages, (i) the levels of prices as a whole and (ii) the relative levels of prices of the different classes. The important changes in floors and ceilings made since 1943 have been

indicated above. The price level fixed by Government in 1943 was then considered to be high and an effort was subsequently made by Government to reduce floors and ceilings. This trend was reversed by the important decision taken last year to increase ceilings by from Rs. 80 to Rs. 100. As has been pointed out above, a floor of Rs. 430 was declared for Jarilla in October 1946 even though the spot quotations at the time ruled a few rupees below Rs. 430. Presumably, Government thought that the level of cotton prices then ruling was, in view of the circumstances, too low and that this level had to be brought up. In justification of this policy of Government, it has been urged that at a level less than Rs. 430, standard staple cotton was too cheap and did not adequately remunerate the grower thereof. Also that the trading position of cotton had materially changed on account of two circumstances. Firstly, the demand for Indian cotton abroad had revived. Secondly, the production of Indian cotton had fallen so much in war years that the technical position of cotton in the market had become very strong. In view of these changed conditions market prices of Indian cotton should have ruled high and Government action in the way of raising floors should have been unnecessary but for Government control over exports. As Government was, for a variety of reasons, not allowing the forces of the international market to impinge freely on the domestic market in cotton, it had to take some step to bring about an improvement in the prices obtained by the Indian agriculturist for his cotton. The raising of the floor last year might thus be considered an action by which Government made up to the Indian agriculturists something of the gain which he would presumably have obtained in the absence of export controls.

8. The need for maintaining these controls and the need for maintaining the ceilings is based on the requirements of food production within the country and the requirements of cloth control. It is feared that in case cotton prices are allowed to be affected fully by world forces, they may immediately rise to very attractive heights and this may result in an increase in the acreage under cotton in areas where in recent years a substitution in favour of food-grains had taken place. This would be highly undesirable. Also, as long as cloth prices are controlled, prices of cotton which influence it materially, have to be kept from rising above certain limits. If they rise above these limits, cloth prices would have to follow suit and this would have undesirable effects on the cost of living and would affect adversely Government's economic policy. On these suppositions, the floor for cotton prices should not be lower

than the level indicated as not being unfair to the cultivator, in view of his costs and the movement of world forces, and the ceiling should not be higher than the level beyond which Government's general economic policy would be put under strain.

9. The general level of prices ruling just before restrictions on exports were lifted, are indicated in the following table.

TABLE NO. 1.—COMPARATIVE PRICES OF COTTON  
Source :—Indian Market Review, June 28, 1947 ( Commerce Dept. )

Variety	Market	Unit	Price level pre-war	Price level May 1947	Index No. of May 1947 (Base : pre-war level 100)
(1) Karungani	Tiruppur	784 lb.	Rs. a. p. 200-5-0	Rs. a. p. 463-0-0	231
(2) Punjab American 289 F. R. G.	Karachi	Imp. md.	18-0-2	58-0-0	322
(3) Punjab Deshi	Karachi	Imp. md.	12-10-4	31-6-0	248
(4) Rosiam C. P. No. 8 Jin Oomra	Amraoti	392 lbs.	58-14-4	160-0-0	272
(5) M. G. F. G. Broach	Bombay	784 lbs.	158-0-0	430-0-0	272
(6) No. 3 Oomra Fine	Bombay	784 lbs.	144-0-0	430-0-0	299
(7) Fine M. G. Punjab- American	Karachi	Imp. md.	17-7-9	45-10-0	261

Prices of most staple cottons were at this date near the floors and those of Deshi cottons above their ceilings. A number of difficulties arise in defining accurately levels of the existing floors and ceilings in terms of the pre-war prices of the various varieties. However, in the light of the data presented above, it may be stated that the floors of most staple varieties are approximately two and half times the pre-war level and that the ceilings are at about three times that level. We see no justification for reducing the floor prices of cotton. Even though in relation to food-grains, Government may want to discourage cotton cultivation, there is a limit below which the price of cotton cannot be allowed to go. A minimum acreage under cotton not far below the acreage attained during recent years would, in any circumstances, have to be maintained, to meet the needs of domestic consumption and export. The grower of this cotton must be guaranteed a price, in any scheme of price stabilisation, which is not too low.



10. There is, at the same time, no case for an increase in the present level of ceiling or floor prices. The extent to which cotton prices are remunerative today is not to be judged merely from an examination of variations in index numbers. It has been reported from many regions that even at present levels of prices, the farmer finds it more profitable to grow cotton than to grow cereals. The evidence of the steady maintenance of cotton acreages in the Punjab and Sind in spite of the large increase in the price of wheat shows that the profits of cotton cultivation are not too low even at existing price levels. Similarly, the pressure on Government to allow an increase in the maximum limit on cotton cultivation in the schedules to the Growth of Food Crops Act in Bombay Province shows that in this province also, the reduction in cotton acreage has reached a point where cotton is considered to be a profitable crop even at present prices. This might be explained on a variety of suppositions. It has been said that the price of cotton-seed adds in a considerable degree to the profits of cotton cultivation and that the pre-war difference in the profit of cereals and cotton was very large and that it has not been completely bridged by desperate movements in their prices. Table No. 2 below sets out the index numbers in May 1947 of certain commodities and groups of commodities. An examination of these and other data reveal that the index numbers of most groups, barring the exceptional groups like vegetable oil-seeds and pulses, do not stand much above 300. Moreover, the experience of prices during the season, 1946-47, does not indicate that the technical position of Indian cotton is so strong as to justify or necessitate a higher ceiling. Even after making an allowance for the depressing effect of the restrictions on exports, it is clear that prices of the Indian cotton have not tended to mount high during this season.

TABLE NO. 2.—COMMODITY PRICES IN MAY 1947

Source—Economic Adviser's Index for May 1947  
(Base : Last week of August 1939=100).

Group of Commodities	Index
I Food articles	264.6
Cereals	284.7
II Industrial raw materials	352.6
Fibres	327.1
III Semi-manufactured articles	249.0
Cotton yarn	294.6
IV Manufactured articles	271.6
Textile products	307.0
Cotton manufactures	262.0

11. We have received no suggestions regarding adjustments in the relative floors and ceilings for any particular variety other than Deshis. Suggestions regarding other varieties took the form generally of a demand for an increase or decrease of the whole scheme of floors and ceilings. The need for adjustment in Deshi ceilings arises mainly out of the difficulty of enforcing the ceilings as prescribed during the current season. The case for raising Deshi ceilings is based on the original ceilings having been determined at a time when prices of Deshi were particularly depressed. It is maintained that in 1943 and till 1946, Deshi cotton had become a glut on the market because of the almost complete cessation of exports. The general demand for Deshi cotton from Indian mills is less than half of its average production even today. In war years when the production had not gone down to the same extent as it has today, the surplus of Deshi cotton was even larger. The existing ceilings were thus determined in times when Deshi cotton was particularly depressed. It has been pointed out that in pre-war years, the difference between the prices of medium and short staple cotton was not so large as maintained in the existing ceilings. The condition of the normal market does not justify the relation maintained in these ceilings and there is no reason why now that there is a good demand for Deshi cottons, their prices should be kept unduly depressed. There is considerable substance in these contentions. In relation to Deshi cotton prices, however, there is a special consideration governing the policy of Government. The production of Deshi cotton in India was in pre-war years very considerably in excess of the demand of Indian mills for it. The market for Deshi cotton was all outside the country and Deshi cotton depended for its fortunes on external demand especially that from Japan. It has always been felt undesirable that the country should depend to a very large extent on an external source of demand. The policy of the Indian Government has been always directed towards reducing the acreage under short staple and increasing that under medium and long staple as far as possible. The peculiar circumstances of war years have given a great fillip to movement in the desired direction. The factor of depressed prices has been added to the efforts of Government in the direction of establishing better and better varieties of cotton and as a result, the acreage under short staple has very considerably gone down. See Table No. 3 (I). This has happened not only in tracts such as the Bombay province where there has been a decrease in the overall acreage and production of all varieties of cotton has gone down but also in areas like that of the Punjab where there has been no general movement

for the area under cotton to decrease. See Table No. 3 (II). It is on this count considered undesirable to unduly reflate the prices of Deshi cotton.

TABLE No. 3 (I)—INDIAN COTTON CROP CLASSIFIED  
ACCORDING TO STAPLE LENGTH

Source:—The Indian Cotton Growing Review (Journal of the I. C. C. C.)  
Vol. I No. 1 of January 1947.

(in thousand bales of 400 lbs. each).

Description of Cotton	Average 1922-27	1938-39	1944-45
Total all Staples Quantity ...	5449	5051	3580
Short Staple below 7/8" ...	3827	3189	1220
(Per cent of total Quantity) ...	70	63	34
Medium and long staple 7/8" and above. ...	1622	1862	2360
(Per cent of total Quantity) ...	30	37	66

TABLE NO. 3 (II)—AREA UNDER DESHI AND AMERICAN  
COTTONS IN PUNJAB.

Source:—The Indian Cotton Growing Review (Journal of the I. C. C. C.)  
Vol. I No. 2 of April 1947.

Year	Deshi	American	(In 1000 Acres) Total
1925-29	1394	966	2360
1930-34	1394	805	2199
1935-39	1459	1418	2877
1940-44	942	1627	2569

12. It must in this connection be pointed out that the device of offering an uneconomic price for bringing about a particular change in crop production is not to be commended. An uneconomic price has the result of depressing the economic circumstances of specific classes of producers. The aim of controlled economy is ordinarily to obviate the periodic distresses which are the forces through which a laissez-faire economy brings about changes in production patterns. In a controlled economy, the producer, as long as he is allowed to carry on a type of economic activity, should get a minimum living from it. An undue depression of a particular price is always a less desirable method of operating controls than direct prohibitions or other regulatory means.

13. It is likely that as a result of raising ceilings to some extent acreage under Deshi cotton may expand over the figures attained in war years. This would especially be the case where appropriate

staple varieties have not yet been found for replacing the short staple cottons. In such regions, however, the case not for not denying to the Deshi cotton grower a higher market price is specially strong. Moreover, if it is accepted that Deshi ceilings have, in fact, not been effective during the current season, the raising of legal ceilings will not be an additional factor in causing the expansion of acreage under short staples. It would not be necessary to raise the new ceilings to the extent of the maximum prices reached during the current season. It is hoped that when the level of ceilings is such as can reasonably be enforced in practice, the restraining influence over prices exercised by them would be greater than when they fall very short of what is indicated by market conditions. In the light of these considerations, we recommend that the ceilings set out in Table No. 4 be adopted for Deshi cottons. The revised ceilings recommended by us are between two and half and three times the pre-war prices of these varieties. They thus do justice to the growers of these varieties without affording any special encouragement to them.

14. We have not included Sind Deshi in our recommendations. This variety is not consumed by Indian mills at all and the whole of the crop is exported out of the country. There seems, therefore, to be no reason why it should be kept under control. Decontrol of Sind Deshi is not likely to affect the markets or prices for other cottons. The variety is grown only in well-defined areas and provided its sowing is prohibited outside the region where it is grown today, no adverse effects on the acreage under other cottons are likely to arise out of releasing it from control.

15. It has been suggested that floors be introduced for those classes of cottons for which they are not provided today. These cottons are short staple varieties with basic staple length lower than  $\frac{3}{4}$ th inches. The original reason for not providing these varieties with floors was, perhaps, to avoid the possibility of Government being left with large carry-overs of cottons which were unsalable. Deshi cotton was at the time a glut on the market and large carry-overs of it accumulated during war years. The absence of any floor for Deshi cotton must have been a factor in diverting acreage from under Deshi to staple varieties. It is true that in a completely logical system of price control all varieties would equally be provided with floor prices. This would happen in any plan for the stabilisation of agricultural prices. The requirement pertains, however, to a long-term plan in which all factors, such as cotton supplies and crop acreages, are duly integrated. The present system

TABLE NO. 4.—CEILINGS RECOMMENDED

Description of Cotton	Basic ceiling price	"Off" and "on" allowances for class other than basic class						"Off" allowances for staple below basic staple	Basic staple	"On" allowances for staple above the basic staple		
		Good	F. Good	Fine	S. Fine	Extra S. Fine	Choice	1/32"		1/32"	2/32"	3/32"
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Bengal Deshi	375	20	Basis	20	40	60						
Oomra Deshi	425	...	...	Basis	20	40	60					
C. P. 1; C. P. 2; Central India etc.	425	...	5	Basis	5	15	25	20	5/8"	25	45	65

of the control of cotton prices is essentially tentative and provisional. Within a year or two, the basis of a long-term plan will no doubt be worked out. In the meanwhile, it appears advisable that the substitution of staple cotton for Deshi should proceed or, at least, that there should be as little re-diversion as possible of acreages from under growths to Deshi cottons. The absence of floors for Deshi should help this process. The non-provision of floors may act as a factor balancing the raising of Deshi ceilings. If floors are provided to Deshi cottons at the same time that the ceilings are raised, this may give an undesirable impetus to the growth of Deshi cotton. We do not, therefore, recommend the provision of any floors during 1947-48 for those classes of cotton for which they had not been provided during 1946-47.

16. *Export Policy.*—The price level of cotton maintained within the country and the practically enforceable floors and ceilings depend on the export policy of Government. The export policy followed by Government during the last two years has been criticised as being harmful to the interests of the cotton grower and as allowing mills to make undue profits at the expense of the agriculturists. The imposition by Government of an export duty during the current season has also come in for considerable criticism. Among the suggestions we received about the export policy to be followed next year was the extreme step advocated by many individuals and associations of removing all control on exports. The representatives of the East India Cotton Association who forcefully urged the removal of all export controls were not unaware of the results which might follow on a very large volume of exports taking place after the removal of control. They urged their case on the ground that the fears of a very large volume of exports actually taking place were not well founded and that any type of export control created unnecessary difficulties in trading. They put forward as an estimate of total exports of Indian cotton during 1947-48 if all restrictions on exports were removed, a figure of a million and quarter bales. In view of the shipping situation and the demand for Indian cotton in the world market, they felt that there was little likelihood of this figure being exceeded. They urged that no untoward effects were likely to be felt either in respect of the supply of Indian cotton to mills in India or the price levels of Indian cottons if export of the volume indicated took place. On the other hand, the representatives of the Bombay Millowners' Association were definite that the maintenance of control over cloth prices by Government and the imposition of a special import duty on foreign

cottons involved action on the part of Government to assure an adequate supply of Indian cotton to Indian mills. We are not in a position to say whether the calculations made by representatives of the East India Cotton Association about the volume of exports, provided exports are free, during the next year are correct or not. We feel that if there is any reason to believe that a removal of all restrictions might lead during the course of the year to Government and the industry being placed in difficult situations, the export controls had better not be removed. It is not advisable for Government to abandon measures which allow it to keep in check undesirable tendencies, especially during this period of transition, before it is fairly certain that such tendencies are not likely to develop.

17. At the same time, we are impressed by the inconvenience caused to the trade and the adverse effect on the price obtained by the grower of too detailed control of export of cotton. We refer to such features as destination quotas. There is no need for these to be re-imposed. We also feel that it is desirable to fix an export quota for a whole year and declare it before the beginning of the season. The splitting of this quota in quarters and the declaration of only quarterly quotas creates considerable difficulties without any compensating advantage. We are also doubtful of the necessity for dividing the total export quota into groups of staple lengths and confining exports only to certain varieties. The need for making special efforts to retain adequate quantities of Indian cottons within the country is felt only in respect of the long staple and the better varieties of medium staple cotton. The imposition of an import duty on foreign cotton gives, we believe, sufficient advantage to Indian cottons of these types in the Indian markets without it being necessary specifically to prohibit or restrict their exports. The administration of these detailed export regulations may be unduly inconvenient and no special benefit is likely to accrue from imposing them. We are of opinion that it would afford sufficient protection to the Indian mill industry if Government declared an overall quota before September 1947 of the total exports that would be allowed during 1947-48. We agree that Government should reserve to itself the right to impose more detailed restrictions if at any time during the currency of the year it finds developments which necessitate such a step. It may, for example, resume quarterly quotas if it feels that the progress of exports during the first quarter or two is far too rapid or it may impose restrictions on particular groups of staples or varieties if the step is called for. We would, however, definitely urge on Government the adoption of a liberal policy in this regard

initially and resort to detailed controls only if, during the course of the cotton year, circumstances make this necessary. The reserve power of adding to controls is always with Government. The use of the full armoury of controls seems to us to be unnecessary in the present position of cotton supply and cotton trade. A special consideration we would urge in favour of the policy suggested above is that it is the only one likely to profit the growers as a class. If Government adopts an unduly cautious policy at the beginning of the year, it helps to depress prices at the time when they are most significant from the point of view of the grower. A liberalisation of policy at the end of the year is likely to profit only traders and speculators. The proper procedure is, therefore, to adopt a fairly liberal attitude at the beginning of the year and to introduce supplementary controls only in directions in which these are obviously called for during its course.

18. The recommendations that an export quota be announced at the beginning of the year and that there should be no further detailed restrictions on exports make it necessary to discuss the overall position of cotton supply during this and the next year and to indicate what, in our opinion, may be fair export quota. Before going on to form an estimate of the likely exportable surplus for 1947-48, we may note one point put before us emphatically by representatives of the Bombay Millowners' Association. These representatives stated that the present position of statistical information relating to cotton supplies was very unsatisfactory. They were specially critical of the estimates of stocks of cotton held by traders. They felt that the present methods of obtaining this information and the returns at present submitted were unsatisfactory and advocated steps being taken, including legislation if necessary, so that Government could obtain more reliable information than at present. We have not been able to examine the grounds for the complaint made by the millowners. We, however, feel that as this matter is vital to the working of any export controls, the attention of Government should be drawn to it.

19. Proceeding on the basis of the data actually available, we set out in Table No. 5 the lower and the upper limits of the available supplies during 1947-48, on the basis of the data put before us by various interests and authorities. We start with the stocks with trade and mills as reported on 31-3-46. The stocks with mills have not been challenged and the figure of the stocks with trade must be taken as reported, in the absence of any alternative estimate. There is a difference between the estimates of the crop for 1946-47 and



TABLE NO. 5—THE UPPER AND LOWER LIMITS OF EXPORTS  
TABLE SURPLUS OF COTTON 1947-48. 1

(In 000's Bales)

		Calculation of upper limit	Calculation of lower limit
Stocks with Trade	31-8-46	2493	2493
Stocks with Mills	31-8-46	1824	1824
Estimated Crop	1946-47	4168	3800
<b>Total Supply</b>	1946-47	8485	8117
Estimated Mill Consumption	1946-47	3200	3200
Estimated Export	1946-47	1000	1100
<b>Total Consumption</b>	1946-47	4200	4300
Estimated Total Carry-over	31-8-47	4285	3817
Estimated Crop	1947-48	4200	3800
<b>Total Supply</b>	1947-48	8485	7617
Estimated Mill Consumption	1947-48	3400	3800
Total Available for Exports (1947-48) and Carryover on Assumed Export Quota	31-8-48	5085	3817
	1947-48	1500	1500
<b>Total carry-over on 31-8-1948</b>		3585	2317

this difference is reflected in the estimates of total supply available for 1946-47. There was very general agreement on the figure of 32 lakhs bales, based on the actual consumption of nine months, as the approximate figure of the consumption of Indian cotton by Indian mills during 1946-47. The difference between the estimates of total exports attained during 1946-47 was not large. Deducting the total of exports and mill consumption from the total supply in 1946-47 gives an estimated carry-over which does not show any large variation between the maximum and minimum estimates. As is natural, the estimates regarding both the crop and mill consumption of the next year vary to a considerable extent. The crop for the next year may at a minimum be put at the low estimate of the crop for this year. This year's crop was itself on the low side and as in some regions of the country the pressure on the sowing of food-grains is being relaxed, it is not expected that acreage under cotton and its production during 1947-48 will be lower than in 1946-47. At the same time, no large and sudden increases in either acreage or

production is expected so that the maximum for the next year need not be put at a figure higher than the maximum estimated for this year. Consumption by the Indian mills during 1947-48 depends on a number of considerations. It is agreed that the rate of consumption this year was particularly low. There is general expectation that with somewhat more settled conditions next year, consumption will look up to a considerable extent. There are certain additional factors which are put forward as leading to a high consumption of Indian cotton by Indian mills. It is pointed out that the Government of India is attempting to bring about the adoption of three-shift working by Indian mills and that the three-shift working may be adopted fairly widely during the next year. Also, the general emphasis on producing cloth of a count which is on an average coarser than present production would increase substantially the consumption of Indian mills. This would further go up if any difficulties were experienced in importing quantities of foreign cotton on a level similar to that of the last few years. It was emphasised in this connection, that the average quality of foreign cotton imported into India is so superior to that of Indian cotton that a reduction in imports of even one lakh bales in a year may necessitate a consumption of two lakhs or more bales of Indian cotton. Though there is general agreement that some increase in the consumption of Indian cotton by mills will take place, the extent of the improvement has been estimated variously at from 5 to 20 per cent. This gives us the difference between the maximum and the minimum estimates of consumption by Indian mills. The total available for the carry-over at the beginning of the year 1948-49 and the allowable exports for 1947-48 may thus be estimated at from between 38 lakhs bales to 50 lakhs bales. On these estimates, we feel it safe for Government to announce a limit for exports of 15 lakhs bales for the year 1947-48. Even at the minimum estimates, this would leave a carry-over of more than 23 lakhs bales on 31-8-48, which we think to be fairly adequate. We have already mentioned the estimate made by the representatives of the East Indian Cotton Association of 1,250,000 bales as the likely volume of exports through unhindered trade for 1947-48. If to this is added the outstanding exports which have not still been put through, estimated at three lakhs bales, by the Government of India to Japan, this gives a figure which is approximately the same as the 15 lakhs bales calculated by us above. The announcement of this figure before September 1947 and the removal of all the other restrictions would, we believe, create as favourable a situation for export traders and for prices to be obtained by growers as is, in the circumstances, permissible.

20. Before we leave this subject, we would draw attention to an important aspect of the problem of exports of Indian cotton which will have to be faced within a few years' time. It will appear from the table that the estimates for the next year of minimum production of Indian cotton and maximum consumption by Indian mills leave no margin for exports at all and that the difference between the maximum estimate of production and the minimum estimate of mill consumption is also not more than 8 lakhs bales. It is thus clear that for exports during 1947-48, we shall be drawing to a major extent upon the accumulated carry-over of previous years. Within a year or two, the effect of this accumulated carry-over may vanish and Government will have then before them the question of allowable exports on an entirely different basis from the one on which it is possible to consider it today. As it is thus likely that the quantitative restriction of exports of Indian cotton may have to be more rigorous in the future than immediately, this is an important supplementary reason for not recommending the entire lifting of all controls on the exports of cotton.

21. *Export Duty.*—In an earlier report, the Board recommended that the export duty on cotton should not be lifted during the middle of the season 1946-47. It was urged then that the reasons for which the export duty had been levied initially, i.e. the disparity in the price of Indian and foreign cottons still subsisted and that there was, therefore, no justification for doing away with the duty in the middle of the season. We are in general strongly against making any material changes in price and trading conditions during the currency of the agricultural year. The policy adopted by Government in this regard should be decided upon and announced at the beginning of the agricultural year and should normally be adhered to, during the whole of it. In considering the question of export duty for the year, 1947-48, these factors are not important. We consider in this connection the general desirability of the export duty rather than whether it should be abolished during the course of the year. The export duty has been justified on the ground of the disparity between the price levels of Indian and foreign cotton that obtained at the beginning of 1946-47 and that has persisted throughout the year. The problem for the next year may be looked at from two different points of view. Firstly, whether similar conditions will continue during 1947-48 and secondly, whether an export duty is justified even in those conditions. At present, the gap between internal and external prices is still considerable and a number of informed persons expect the difference to continue during the next year. On the other hand, there are some who feel that

the difference might narrow especially if Government either lifts all export restrictions or liberalises its export policy. We have recommended that Government's export policy be liberalised very greatly. In these circumstances, market forces should tend to narrow the distance between the two prices. It is at least uncertain that after the liberalisation we have recommended, the disparity will remain large, or will persist throughout the next year. We are aware that the export duty on cotton brings in substantial revenue but we feel that it would be impolitic to continue it if it is at all likely that circumstances will force Government to abolish or reduce it during the course of the year.

22. Apart from this uncertainty, we have doubts about the propriety of export duties in general. Putting it broadly, the possibility of an export duty arises out of a difference in external and internal price levels. The difference in external and internal price levels comes about because of a variety of controls maintained in this and other countries and differing conditions regarding their terms and maintenance. The Government of India is definitely committed to a certain price policy in relation to cotton. It is committed, that is, to maintaining a specific level of cotton prices and allowing only a given range of fluctuations in them. In relation to this fixed level external prices may stand far above or below. When external prices stand far above, Government may take the view that the traders in the commodity and the foreign consumers thereof should not be allowed to reap the benefit of the measures of internal control imposed by them. The imposition of an export duty is, however, not a very suitable instrument for dealing with the situation. The margin between the two levels of prices is apt to vary largely from time to time and with varying regimes in various countries, it may vary even between country and country. The only real way in which Government could take advantage of the situation would be to operate the export trade itself or to participate in its operation. We have in a previous report referred to examples such as that of Argentina and Canada in this regard. When Government is not participating in the export trade itself or through an agency under its control, it has not immediate or complete knowledge regarding margins and trends in them. Also, a varying export duty creates difficulties both for trade and administration and gives plausible grounds for innumerable complaints and agitations. It is best for Government to avoid such haphazard methods of dubious advantage. If it desires really to profit from the operation of control measures, it should move further in the direction of participa-

tion in export trade. Otherwise it should leave events to take their ordinary course.

23. In framing our recommendations we have proceeded on the assumption of a unified policy regarding cotton prices and exports for the whole of India. The division of the country into two independent states from August 15, 1947, poses the problem of cotton trade and cotton prices in an entirely different context from the one in which it had been considered during previous years. The new state of Pakistan will be an important grower of cotton but will consume only a very small proportion of its total outturn. The mills of the Indian Union, on the other hand, will require the import of most of the surplus cotton grown by Pakistan in addition to the import of other foreign cottons. The two new states are bound today by close economic ties and existing trade relations bring about the desired adjustment between the surpluses and the deficits of the different regions. There is no reason why a political division of the country should disturb the established pattern of trade. In normal circumstances, the mills of the Indian Union are the nearest and the best customers for the cotton surplus of Pakistan and the cloth production of these mills finds a natural outlet in the latter area. It would have been impossible for us to frame recommendations on a basis other than the maintenance of the *status quo* in economic relations. For, once established relations are disturbed, a variety of considerations, political and economic, will begin to shape trade policies and the changing circumstances of each season may also affect them. In the absence of any fore-knowledge of the shape of policies of the new Governments, it would be very difficult to recommend a basis of adjustment for prices under control for either or both of them. We have, therefore, not made any allowance for this important new factor and believe that at least for the coming year, it would, on the whole, be equally advantageous for the growers and consumers of cotton and cloth in both the states to maintain existing trade relations unchanged.

A. D. GORWALA  
*President.*

D. R. GADGIL  
*Member*

*Dated the 21st July, 1947*

## VIII

### CLOTH AND YARN PRICES

Before going on to deal with the reference under consideration, we would offer some comments on the procedure followed in making it. The question of cloth prices has now been under Government's consideration for many months. It was referred to a departmental *ad hoc* Committee set up in March 1947. The *ad hoc* Committee reported on the 14th June. Its report was evidently examined in the Industries and Supplies Department. Officials of that Department also held discussions with the Chairman of the Textile Control board about the prices recommended by the *ad hoc* Committee and in the course of the discussions, the Industries and Supplies Department agreed on details of price increases which it was prepared to accept. It was after this agreement had been reached that Government asked for the views of the Commodities Prices Board. A D. O. to the President of the Commodities Prices Board from the Secretary, Industries and Supplies Department dated the 10th July, handed over to the President by Mr. Shiveshwarkar, Acting Textile Commissioner on 11th July, contained the following:

" The Committee's report has been received, a copy of which I enclose. This report was discussed with the Chairman of the Textile Control Board who is the *ex-officio* Chairman of its Industry's Committee. He has suggested slight modifications in the prices of cloth and yarn recommended by the *ad hoc* Committee. The existing prices, the prices recommended by the *ad hoc* Committee and the prices proposed to be agreed by this Department in discussion with the Chairman are shown in the appended statements. I shall be glad if you will kindly obtain the opinion of your Board on the reasonableness of these prices. As any delay in the introduction of revised prices will further aggravate the present unsatisfactory position, which is sufficiently serious,\*\* the Government desire to have your views as early as possible and in any case not later than the 20th of this month. "

( \*\* This had been reported by the industry to have been serious since July 1946. )

The Board was at this time engaged in dealing with the reference on cotton prices. It felt that the announcement regarding cotton prices for the season 1947-48 should be made by Government not later than the 15th August. It had, therefore, arranged its programme so as to send its report on cotton prices to Government by the 21st July. On the 11th when the

preliminary informal intimation regarding the cloth reference was received, the Board was engaged in interviewing representatives of the cotton trade, etc. As the week after the 11th had definitely to be devoted to the question of cotton prices, it was impossible for the Board to comply with the requirement indicated in I. and S. Secretary's D. O. The Board did not also consider the requirement regarding the time as in any way reasonable or fair. This was conveyed to the Finance Department by a telegram from the President. Subsequently another D. O. was received by the President from the Secretary, Industries and Supplies Department in which while expressing regret at the short time given to the Board to consider the matter, the Board's opinion was urgently asked for as being necessary at least before the meeting of Provincial Ministers due to take place on the 29th July. In view of the presumed urgency of the matter, the Board cancelled the interview with the representatives of the Tata Iron and Steel Company which had been fixed for the 23rd July in Poona and, after completing its report on cotton, devoted all its time to a consideration of cloth prices. The Board desires to make it clear that the time allowed to it for examination of this question has been very inadequate and that it has, therefore, not been able to enter into detailed consideration of each point under reference. It also feels that a reference made in this manner can hardly be more than *pro forma*. When the highest officials of the Department concerned have committed themselves in discussions with representatives of the industry, the Board's opinions can hardly be expected to be received with that degree of openness of mind which an independent expert body has a right to expect in the consideration of its views by Government.

2. Letter No. F. 3 (30) E. G. I/47 from the Finance Department dated 12th July containing the formal reference to the Board desires that the recommendations of the Board may be forwarded in two stages: (a) an interim report regarding the increase in price which the Industries and Supplies Department desire to give effect to from the 1st August 1947 and (b) the final report containing the advice of the Board regarding the rationalisation of the entire price structure of cloth and yarn under the Textile Control Order. It is not possible to divorce consideration of the rationalisation of the price structure of cloth and yarn from consideration of the proposed increases in prices desired to be given effect to from the 1st August 1947. The latter can only be considered as against the background of the former. However, in view of the letter of Government, the Board has devoted its attention chiefly to an examination of the concrete proposals of price increase rather than

to considerations relating to the rationalisation of the entire price structure.

3. The principal material supplied to the Board was the report of the *ad hoc* Committee. This *ad hoc* Committee was appointed to advise Government on measures for increasing the production of yarn and cloth. It was also asked to enquire into the prices of various types of yarn and cloth and to recommend a basis for fixing reasonable price levels for them. The report of the Committee has been submitted in two parts. The first part which was submitted on 30th April contains the scheme for rationalisation of production put forward by the *ad hoc* Committee. The second part contains its examination of and proposals for cloth and yarn prices.

We have not felt it necessary to examine in any detail the recommendations contained in the first part of the *ad hoc* Committee's report. We would, however, like to record our opinion that the principles on which those recommendations are based seem to us to be proper and, indeed, essential for adoption by Government if control over production and prices of cloth and yarn is to be continued. That production should be standardised, that each mill should be made to confine production to a small number of varieties and to varieties which it is specially fitted to produce and that, in view of the requirements of the major part of the population in the country, a large volume of production of superior varieties should be discouraged and the emphasis shifted from "going fine" to "going a little more coarse" — these measures are obviously imperative. We are also emphatically of the opinion that it is necessary to give immediate effect to the recommendations of the *ad hoc* Committee about the strengthening of the technical and inspecting staff of the Textile Commissioner. We consider it to have been one of the major weaknesses in cloth control so far, that the Textile Commissioner has never been assisted by adequate staff for purposes of inspection and implementation of cloth control orders.

4. We now go on to a consideration of the proposals contained in part II of the *ad hoc* Committee's report. The basis of these proposals is the investigation conducted by the Textile Commissioner and his technical staff in the costings of seven mills in Bombay for the months of January and February, 1947. The *ad hoc* Committee emphasises in its report the fact that the fixation of prices under cloth control has so far been done in a haphazard manner. It claims that it has adopted a scientific approach



in arriving at its recommendations and that, its proposals have, therefore, special validity. We have been supplied with details regarding the work of costing conducted under the direction of the *ad hoc* Committee and proceed to examine how far the conclusions of the *ad hoc* committee should be accepted. The *ad hoc* Committee admits in its report that it was unable to examine the costs of mills outside Bombay. In Bombay, it examined the costs of only seven mills. These seven mills were chosen, we were told, so as to be representatives of mills producing all types of cloth—coarse, medium and fine. We were told that the seven mills chosen were neither too large nor too small and were also from among such mills as were expected to have sufficient and fairly reliable records necessary for costing purposes. It was emphasised that previous to choosing the sample of seven mills, the *ad hoc* Committee had no idea regarding the relative efficiency of the mills and did not, indeed, intend to choose either the more efficient or the less efficient mills. The costing data were collected from the records of the mills for the two months indicated above and the calculations of costs were made by a number of alternative methods suitable to the type of data available. The costing officer, who conducted the enquiry, pointed out that the degree to which accuracy was attained depended on the amount of detail available in the records of the company. It might, therefore, happen that whereas for some of the costings conducted, the calculations of the officer were subject only to a slight margin of error, in others where equally refined methods were impossible, they would be subject to a much larger error. The spinning costs were calculated for a large number of standard counts. As the seven mills were chosen so as to represent a variety of types of production, the actual costing data for each count related to a number of units smaller than seven. In a small number of instances such as for counts 20, and 16, data relating to five or six units might be available, whereas for counts below sixteen and above twenties, the data related in most cases only to one or two units. The actual figures adopted by the *ad hoc* Committee of costs for any particular category were also not the actual cost figures obtained on investigation by them or any average of these cost figures prepared in any well-defined manner. The *ad hoc* Committee used the cost data for enabling them to make an informed estimate of reasonable cost. They could not evidently treat the costs data as by themselves finally decisive. We were told, for example, that some costs data were not given full importance because they related to units which were obviously much more efficient than the average and that, on the other hand, some

particular costs for some units were not considered reliable as it was found during the course of the investigation that either the complement of workers employed by a unit or its practices relating to purchase of stores, etc. were such as to unduly inflate the costs of the unit. It is necessary to draw attention to these details of the manner in which the figures contained in the report of the *ad hoc* Committee were arrived at because the exact calculation of the percentage of increase or decrease in particular prices depends materially on them.

5. We have referred specially to spinning costs because it is only this item of cost which has been determined with direct reference to costing data. The *ad hoc* Committee remark:

"Of the seven mills costed, cloth prices were ascertained only from five mills. The varieties of cloth manufactured by these five mills vary considerably and it was considered that it would not be possible to rely on one mill's figures for a given key type of cloth. We have, therefore, adopted the weaving cost as given to us by the Honorary Technical Adviser based on the actual working of certain mills".

The *ad hoc* Committee was not also able to review in its rapid survey the cost of processing such as bleaching, printing, dyeing, etc. nor was it able to scrutinise whether the allowances made in the schedule for these processes and for any peculiar weaves were reasonable or not.

6. We now go on to consider the details of the composition of the price recommendations of the Committee. The first, and in some ways the most important, item in costs is the price of cotton. In the investigation conducted by the Committee, the cost of clean cotton actually incurred by the particular mills for the varieties of yarn and cloth costed was ascertained and has been put down in the costing sheets. The Committee has, however, for some reason, not paid due attention to them. It proceeds instead on calculations of certain cotton mixings based on prices of cotton for the week ending 20th May, 1947. In relation to its own estimates of cotton prices, the Committee observe

"The cotton prices on which our revised prices are fixed give a small margin of Rs. 25 to Rs. 30 per candy to the mills."

This is apart from any discount on the prices of cotton which the mills are able to obtain by purchasing crops of the previous season, which is put at from Rs. 10 to Rs. 15 per candy by the Committee. We have not thought it necessary to examine the quotations on the basis of which the Committee has put forward its estimate of

cotton prices. We have, however, been told that the mixings assumed by the Committee as proper for certain count spinnings are far from being the mixings used actually by mills today. The *ad hoc* Committee has presumably used the price data for the particular mixings in the light of the requirements of its scheme of rationalisation and has deliberately allowed for the prices of superior cotton in order to cover the higher strengths, etc. required for the adoption of the rationalisation scheme. If this assumption is correct, the cotton prices adopted by the Committee are higher than those warranted by existing conditions in two separate ways :

- (1) the extra margin which may be put at from Rs. 25 to Rs. 45 on account of the considerations mentioned by the Committee itself; and
- (2) another margin for the Committee's estimates of the superior varieties of cotton mixings being used.

We are told by members of the Committee that the extra high cost of cotton assumed by them provided a sort of cushion to prices; by this it was presumably meant that it provided an allowance for prices of cotton rising even above the level at which they stood for, the week ending 20th May 1947. We are, however, unable to appreciate why an allowance should be made for a contingency only in one direction. There is nothing in present circumstances which warrants the assumption that prices of cotton will necessarily rise continuously and not register a fall in some months. The proper scientific procedure, therefore, for pricing is to proceed on the basis of actual cost, to take any basic actual point as the starting point and to make a provision for given margins of difference in either direction. We estimate that the cost of cotton worked out by the Committee may mean for the coarse and medium counts an over-estimation of the price of cotton of approximately from 10 to 15 per cent which would roughly represent an over-estimation of from 7 to 10 per cent. in the total price of yarn.

We may note two other points regarding the estimates of the price of cotton. In relation to imported cotton, the Committee has added 2 per cent. to actual prices in Bombay as representing transport charges for mills outside Bombay. It estimates 2 per cent. as the proper charge for Ahmedabad and puts the estimate for mills in South India at as much as 4 per cent. It places the average cost for all foreign cotton consumed by Indian mills at Bombay prices plus 2 per cent. It may be noted that the consumption of foreign cotton by mills other than in Bombay and Ahmedabad is small. The bulk of the imports are consumed in

Bombay where no transport costs are incurred and at Ahmedabad where they do not amount to more than 2 per cent. The figure assumed by the Committee gives Bombay mills the advantage of transport costs which they never incur. On the other hand, the *ad hoc* Committee makes no allowance when calculating prices of Indian cotton for the comparative cheapness of the local varieties of cotton consumed by mills outside Bombay. The cost of Indian cotton is based by the Committee on prices obtaining in the spot market in Bombay. These prices include transport and other charges for all Indian varieties from their place of growth to Bombay. It is obvious that this allowance on account of transport and the other charges for Indian cotton is much higher than the average cost that has to be incurred for that cotton in any centre other than Bombay.

7. We have examined so far the cost of cotton incorporated by the *ad hoc* Committee in its price recommendations on the assumption that the basis adopted by the Committee for calculating them was correct. We, however, object seriously to the basis itself. If the aim of the scientific approach is to arrive at a price based on actually ascertained costs at a particular point of time, this price must be made up of homogeneous elements and must, therefore, represent for every item the results of actual costing. We cannot understand how one part based on actual costings relating to one period can be combined with estimates based on entirely different type of data relating to some other period and the resulting price claimed to have "scientific" validity. If actual costs in January and February 1947 are to provide the basis of price fixation in any period, then the actual cost of the cotton used by the mills during those months must be incorporated in these prices and not some other estimated costs. We have noted from the sheets prepared by the costings officer that the actual costings of clean cotton in the mills were in many cases substantially lower than the estimates included in the price recommendations of the *ad hoc* Committee. We have no knowledge of the types or the period to which the prices of cotton consumed by the mills costed for January-February 1947 refer. These are, however, the actual cost. Moreover, the upward movement in the prices of short staple cotton had taken place in the first quarter of 1946 and with an average carry-over in mills of about six months' supply of cotton, the 1947 costings cannot represent prices earlier than for the first quarter of 1946. However that may be, our main emphasis is on a proper approach and we think that the procedure adopted by the *ad hoc* Committee is not justified.

8. The *ad hoc* Committee point out that the main factors in the price of cloth and yarn are wages, stores, fuel, overhead and establishment charges. For the first of these items, i. e. cotton, it has prepared independent estimates on which we have commented above. All the other items have been calculated by it for the two main sections of a mill, spinning and weaving. The costing officer took data relating to all the expenditure on the various items and allocated it between the different processes in the spinning and weaving departments or between the departments as a whole. The total spinning costs so arrived at have been increased by 10 per cent. to allow for the higher wage level ruling in Ahmedabad. The Committee give certain data relating to the comparative wage levels in Bombay and other centres of textile industry for the months of May and August 1946. From these data the Committee find that the level in Baroda and Ahmedabad is higher than in Bombay. The Committee considers that "an addition of about 16 per cent. on the wages element of production of cloth and yarn in Bombay should fairly cover the working costs of mills in all areas. The increase of 16 per cent. in the wage element is equivalent to about 10 per cent. increase in the total manufacturing charges in spinning and weaving exclusive of the cost of cotton". It is obvious that this addition of 16 per cent. does much more than fairly cover the working costs of the mills in all areas. At the time that the Committee reported the estimate of wage costs of the Committee exceeded by 16 per cent. the actual costs as ascertained by the Committee itself in Bombay. Whether these estimates properly represent working costs in other areas or not is dependent on a number of factors other than the average money earnings of labour in the various centres. It has, for example, been often claimed on behalf of Ahmedabad labour that the high wage level that it commands is fully justified by the higher efficiency of labour in that centre. If there is anything in this claim, then the wage cost in that centre should *not* be higher in proportion to the higher money earnings as compared with other centres. The procedure of the *ad hoc* Committee assumes that the efficiency of labour at centres with higher money earnings than Bombay is in no case higher and that, to meet its requirements, the spinning costs need to be increased in proportion to the higher money earnings. Here again, the procedure of the *ad hoc* Committee gives not the actual cost in a particular centre, nor the average cost for all centres but the maximum cost for the particular item under consideration incurred in the whole country. This is entirely apart from the possible criticism that the higher average of money earnings in centres like

Ahmedabad is, at least partly, the result of the greater concentration of fine production in that centre. It is well known that with similar rates, the earnings of labour on superior production can be and are higher. The *ad hoc* Committee makes no allowance for this factor. The large margin which is necessarily left in the calculations on the basis adopted by the *ad hoc* Committee is strikingly brought out by remarks contained in para. 13 of its report. It refers in this paragraph to the award of the Industrial Court in Bombay which was given when the revised prices of the Committee for cloth and yarn were almost complete. The Committee calculates that the award would result in a maximum increase of 9 per cent. in spinning cost and 10 per cent. in weaving cost exclusive of the cost of cotton. It does not yet consider it necessary to modify its recommendations because already "the increase is covered by the addition of 10 per cent. made to cover the higher level of wages in Ahmedabad."

9. After cotton and wages, the most important item in costs is overheads and establishment. In relation to this item, the Committee remarks: "It may be assumed that the overhead costs and establishment charges for the mills outside Bombay are lower". The actual costs allowed for in the price recommendations of the Committee are the costs incurred in Bombay. It is thus clear that for every important item of cost, the Committee assumes the basis not of maximum cost in any particular centre but the basis of the cost at a centre in which the particular item is at a maximum. The result must thus represent not the maximisation of cost as for any particular unit or centre but must exceed the costs of even those centres where they are, as a whole, at a maximum.

10. The *ad hoc* Committee's recommendations of yarn prices are based on its estimates of cotton prices and the estimates of spinning costs based on the costings of Bombay mills to which has been added the allowances for wages indicated above. In working out the prices of cloth, the yarn costs have been based on the method used for yarn prices. To these yarn costs have been added weaving costs as given by the Honorary Textile Adviser on the basis of the actual working of certain mills. We have no information regarding the detailed structure of the weaving cost as given by the Honorary Textile Adviser. They are evidently based on the working of a rationalised mill and the *ad hoc* Committee has added 5 per cent. to these weaving charges to arrive at the cost of production in a non-rationalised mill. A further 10 per cent. has been added to allow for the higher cost of labour in Ahmedabad and

this " incidentally covers the recent increase in basic wages awarded by the Industrial Court in Bombay." The costings carried out by the *ad hoc* Committee in the weaving departments of mills were not directly used for fixing reasonable cloth prices. The Committee, however, notes that the charges arrived at by adding 5 per cent. to the Honorary Textile Adviser's figures were found to be approximately equivalent to the actual weaving cost ascertained by it from the costing of some mills for some groups. It is not possible for us to comment on the reasonableness or otherwise of the estimates of cloth prices. To the extent that they contain over-estimations which are common to yarn and cloth prices, the comments made above apply to these prices. The criticism of the 10 per cent. allowance for the Ahmedabad wage is relevant also in relation to the calculations of weaving costs.

11. This examination of the prices recommended by the *ad hoc* Committee shows that they are closely related to the operation of the scheme of standardisation and rationalisation and that their level is such as to cover the working costs of the least efficient unit. A scheme of prices which is related to a scheme of rationalisation and standardisation should not, in our opinion, be brought into operation before the inception of the standardisation and rationalisation scheme. We shall point out later that the attainment of the main objective of the recommendations of the *ad hoc* Committee, that of bringing about increased production in terms of yardage, depends essentially on the adoption of a scheme of rationalisation and standardisation. The price recommendations are subsidiary for this purpose. Therefore, price recommendations which depend on the operation of the scheme and which allow, as pointed out above, margins required only by that scheme should follow, not precede, the adoption of the rationalisation and standardisation scheme. It has been seen in the past that increase in prices or other advantages to industrial producers connected with schemes of improvement of efficiency, have been allowed without the results aimed at being necessarily achieved. We are, therefore, anxious that an increase which is felt as being necessary to induce the industry to adopt certain schemes of production should be given effect to not in advance of the actual bringing into operation of such schemes but should strictly be contingent on putting them into immediate effect. Apart, however, from the time of giving effect to the price recommendations of the *ad hoc* Committee, we proceed to examine below the very basis of its recommendations regarding prices.

12. In fairness to the Committee, it is necessary to point out that the Committee deliberately set out to cover the costs of the most inefficient units in the industry. In paragraph 16, it states:

"In the present state of production, it is essential that all units of the industry should continue to give the maximum possible production. In recommending revised prices, we have therefore had to keep in view differing problems of production in different areas. Moreover, these prices have to cover normal working charges of even the lowest efficient mill."

In making the point of view of the *ad hoc* Committee clear to us, the Textile Commissioner explained that its price proposals were framed in order to afford fair inducement to maximum production even by inefficient units. The process of cumulative maximisation can be justified if the aim is to put up prices to a height where the marginal or the least efficient units throughout all centres in the country will have fair inducement to increase production to the greatest possible extent. It might be said that the *ad hoc* Committee's recommendations regarding prices have to be judged not in relation to price fixation in normal circumstances. The present circumstances are abnormal. The main problem facing Government is that of shortage of production. In this crisis of production normal calculations of costs or price margins are out of place. As during war Government was said to have found it necessary or desirable to afford very liberal margins to various industries, today Government must do the same to overcome immediate shortages. It is necessary to examine this point of view. The examination may proceed in two stages. Firstly, the reasons for decrease in production and the possible ways of increasing production and secondly, the price policy appropriate to the circumstances.

13. The reasons for decrease in production during the current year below that of, say, 1945 have been in the main put as

- (1) reduction in working hours,
- (2) strikes and other interruptions to work, and
- (3) a general shift that has been evident during the last year for production to change from coarse to less coarse or fine yarn and cloth.

It has been estimated by mill-owners that the reduction in hours of work has not brought about any compensating increase in the per hour production of labour; so that the fall in production due to reduction of hours has been equal almost to the full proportion of hours of work reduced. This is an estimate with which the members of the *ad hoc* Committee seem to agree. A reduction in production of about 12½ per cent. below that of 1945 would be explained by this factor. The actual reduction has been in the neighbourhood



20 per cent. This leaves unexplained roughly about 8 per cent. which we were told, may be allotted half and half between strikes, interruptions, etc., on the one hand and the tendency to spin and weave less coarse on the other. This would indicate that the difference made by the shift over in yardage is responsible for bringing about a reduction in production of between 3 and 5 per cent. It is pointed out that the stage reached at present has been due to a process which has been continuing over many months. When in August last, the industry found that it had to maintain the *status quo* relating to cloth and yarn prices, it began, it is said, to adjust itself as best it could to the situation. The existing structure of prices of cloth and yarn allowed initially and allows today even to a large extent a special margin of profit in favour of finer production. When the cost of short staple cotton increased the differential in favour of finer production became specially large; so that every mill found it advantageous to shift as far as it could, by a small or a large degree, to production of finer yarn and cloth than that of the normal production for which it had been laid out and equipped. This continuous tendency of the mills has brought about a reduction in production in terms of yardage which, as pointed out above, may be out at between 3 and 5 per cent. of the production of 1945. In the opinion of the *ad hoc* Committee, the only way in which any large increase in cloth supplies can be brought about is to induce mill-owners to adopt an average count for production which is much coarser than the one prevalent today. In the opinion of the Committee, it is necessary not only to regain the ground in this behalf lost since 1945 but to go further in the other direction so as to increase yarn and cloth production all round to a point from 10 to 12 per cent. higher than that attained in 1945. The Committee's scheme of standardisation and rationalisation is worked out so as to attain this end. Without a scheme of standardisation and rationalisation, the Committee fully realises that no progress in the desired direction can be ensured. It is only when production in mills is confined to a few varieties and to counts which they are properly fitted to produce, and it is only when the actual counts and the varieties that they are to produce are settled for them according to a fixed programme that increased production of the type required by the country immediately will really take place. We endorse these general principles on which the *ad hoc* Committee proceeds. In the opinion of the *ad hoc* Committee, however, the price aspect of this programme requires that even inefficient units should get a sufficient margin in respect of their coarse production. The Committee seems to feel that unless fair margins

are given to even inefficient units in respect of coarse production, the general spontaneous effort required for implementing the programme of rationalisation and standardisation will be wanting.

14. In the short time at our disposal, it was not possible for us to examine in detail the analysis presented by the Committee of the present malaise of the industry. Why production has fallen and to what degree different factors are responsible for that fall are problems into which we could not enter. Assuming, however, that the *ad hoc* Committee has properly appreciated the present position and that the need for increasing production at present in terms of yardage of cloth is urgent, we turn our attention to the conclusion relating to prices on which the *ad hoc* Committee bases its recommendations. The efficacy of a high price in maximising production depends on the factors which prevent such maximisation. For example, if fall in production is due to the fact of the machinery being old, to certain essential stores being in short supply or to other effects of ill-equipment, a mere increase in the price of cloth would not bring about an increase of production unless specific means were found to remove the particular deficiencies. Again, production due to labour shortages, labour inefficiency or labour strikes, etc., would not be affected by higher prices. A higher price would affect production only to the extent that either any units or parts of them were being kept idle because of a lack of incentive in price or as between two types of production, any particular type or types were favoured so as to lead to a decrease in production. If relatively high prices are fixed for coarse yarn and cloth this might shift the emphasis from fine to coarse temporarily. But even so, the operation of the factor would be limited by the possibility of going coarse and of the relative difference being continuously maintained. It has been pointed out that the profit margin in coarse spinning is greatly influenced by the cost of raw cotton. Any variation in the cost of raw cotton may decrease the difference in favour of coarse spinning or weaving or may increase it. A price differential would thus be operative only to a given extent and for a given period unless Government were prepared to make continuous adjustments. A price differentiation by itself would not be certain to bring about the desired changes in production pattern. The production pattern can be changed and can be maintained in the desired way only by imposing on the industry a rationalised scheme of standardisation and by taking all steps to see that industrial units observe the scheme in its entirety. We have no hesitation in saying that in the absence of provisions for getting

the scheme properly implemented, no system of price adjustments can be depended upon to give any particular results in volume or quality of production.

15. It may, however, be urged that the price incentive, though unable to take the place of a scheme of rationalisation and standardisation is required for the proper working of that scheme; if, in fact, such special differentiation in favour of coarse cloth is not made a number of units may either curtail production or may not properly co-operate in the working of the scheme. In considering this question we may begin by stating that the willing co-operation of mill-owners in any scheme of production could not be expected if they kept on making losses under that scheme. The main question to which we address ourselves is whether it is necessary to provide for this by raising the whole price level to the level of costs of the least efficient mill or whether there are any alternative approaches to this problem.

16. What is the appropriate level at which price under control should be fixed? In free competition, the price is said to be governed by the cost of marginal supply; but in free competition a margin is a shifting one and is fixed under the stress of continuous competition. The cost of all supply is even theoretically taken to be covered only in conditions of stable equilibrium. Under the ordinary conditions of changing circumstances, some units in industry are actually making losses and their number may be large or small according to the particular phase of the economic cycle. The prices in the textile industry in pre-war days were determined not only by internal competition but also by the fact and possibility of imports from abroad. That there were many centres as a whole which under these conditions made at times no profits is well-known. The concept of the margin of the free market cannot thus be applied to conditions of what might be termed a "closed economy." The inefficient unit in a "closed economy" and under control would have no incentive to improve if its costs were always completely covered by the control price. Indeed, as was found out, in the costings of seven mills in Bombay by the *ad hoc* Committee, features denoting inefficiency or undesirable practices may be discovered in even unexpected quarters on any detailed examination. If prices under control always covered the working costs of even the most inefficient units there would be not only no hope of bringing about any change for the better in a large number of units but also the level of prices would always keep on increasing by natural increase in the level of inefficiency.

17. Moreover, the obvious corollary of the basis adopted by the *ad hoc* Committee may be pointed out in the words of the Committee. The Committee says :—

“ When prices are fixed so as to cover the working charges of even the inefficient mills, such prices must inevitably give a relatively higher return of profit to those mills whose costs of production, because of their efficiency, are lower. ”

and in another place,

“ A perusal of the balance sheets of only such mills is likely to give a misleading picture to the public that the prices recommended by us concede an unduly generous margin of profit to the mills. It is not possible to avoid this criticism when in the interests of production, prices have to be fixed which would keep in production all units of the industry, efficient or inefficient. ”

We are not sure that the Committee is justified in using the term “ misleading ” in this context. The profits of important mills, whose balance sheets are widely known, are a generally accepted index for judging whether the industry is doing well or ill and if the public finds that the prices under control allow well-known units in the industry to do specially well, the public is fully justified in assuming that the level of prices under control has been put unduly high.

18. We would, in this connection, bring out the potential dangers of the acceptance of the principle put forward by the *ad hoc* Committee by reference to its application to other industries. The Board had occasion recently to examine the question of coal prices and it is expected soon to make recommendations regarding the price of Kharif grains. Even the Industries and Supplies Department Officers who conducted cost investigations into the coal industry admitted that it would not be possible to proceed on the basis of covering by controlled prices the costs of the least efficient unit. The price of coal that would be arrived at on the principle of covering the cost of the unit with the highest cost would indeed be so high as to make impossible the normal functioning of the economic life of the country. Similarly agricultural prices based on the costs of the least efficient farmer of kharif grains would yield a level of prices that would stagger imagination. The Prices Sub-Committee recommended a parity basis for prices under control. A parity basis relates prices under a stabilisation plan to an average level of costs, profits and losses, sustained in a particular period in the past. The parity basis makes no claim that the agriculturist producer (whose small and ill-equipped unit has more claims for

sympathy than that of any other type of producer) should yet be so treated that the working costs of the least efficient producer are always and completely covered. It cannot be said that the urgent need for production either in the matter of food or coal is any the less than in the matter of cloth. It is necessary only to examine the principle laid down by the *ad hoc* Committee in relation to these other cases of prices fixation to see how impossible of general application that principle is and, therefore, what the consequences of its acceptance in Government policy are likely to be.

19. To adopt the attitude of the *ad hoc* Committee is to admit defeat at the hands of the industrialists. No control measures are possible with the acceptance of this position of helplessness. If the activities of industrial producers are such as to defeat the ends of Government policy, such activities must be stopped or given proper direction by Government action. To talk of there being no alternative to giving price incentives even if such incentives result in putting large extra amounts in the pockets of industrialists in general, is to combine the worst aspects both of a controlled and a free market economy. It is undoubtedly true that even the least efficient unit must be kept going. But for keeping it going, it is not necessary also to increase the profits of everybody else. Wherever such problems have been experienced, the steps taken have been (i) to examine whether the conditions of production in the inefficient units cannot be improved; and (ii) to give subsidies to the extent that the handicaps of the inefficient units cannot be removed. Care has been taken in all controlled regimes both to take all steps to increase the efficiency of inefficiency units and to keep the subsidies at the minimum. As we have pointed out in the coal report, the price under control cannot be fixed at the level which covers the cost of the most inefficient units. The proper course is to fix prices at the level of average costs and for Government to find other means by which to deal with the problem of the specially handicapped and the specially inefficient units. The specially handicapped units must be helped to have their handicaps removed and the specially inefficient units must be cajoled or forced to become more efficient. A regime of industrial control cannot succeed until Government elaborates its policy and its instruments in this direction. While this is being done, there is the immediate alternative of the Equalization Fund which was definitely contemplated by Government a year ago but which Government suffered to drop evidently because the Industry did not like the idea.

20. We cannot accept the proposition that the general level of prices of cloth or of any other article under control must be placed where it covers the working costs of the least efficient unit. We are of opinion that the general public is entitled to be sure that prices under control do not give an unduly large share of the national income to any particular classes of producers. Where any price increase is likely to increase unjustifiably and unnecessarily the incomes of any classes of producers, such a price increase must be avoided in the interests of public policy. The recommendations of the *ad hoc* Committee are based mainly on conditions in Bombay. There has been a recent examination of the profit-earning capacity of the Bombay mill industry. The Industrial Court of Bombay went into this question, in the arbitration between the Millowners' Association in Bombay and the employees in the textile mills regarding the standardisation of wages, etc. In the course of their award, the Industrial Court comment on the capacity of the industry to bear the increases in basic wages recommended by them. (These increases, it may be pointed out, are the increases on the basis of which the *ad hoc* Committee justify a 10 per cent. increase in both spinning and weaving costs over the actual result of their costs made in January—February 1947). The Industrial Court estimate that after allowing fully for full depreciation, the increased wages for holidays with pay and for a contingent burden of sickness insurance, the industry would be able, after paying taxes, not only to declare a dividend at 6 per cent. but to carry a balance of Rs. 1½ crores to reserves. In the opinion of the Industrial Court, the increased wages and other charges were such that the industry in view of its present financial position and what it had been able to achieve in the recent past could easily bear them. On considering the position of the textile industry as a whole, there is little justification for diverting an additional proportion of the national income into the hands of the owners of industry. Any increase in prices, such as that recommended by the *ad hoc* Committee, must necessarily have the effect of increasing the incomes of the owners of industry. Obviously, such a step is not only not called for, but is against all principles of distributive justice. If it can be avoided, clearly it should not be taken.

21. It is curious that nothing has been said either in the terms of reference to the *ad hoc* Committee or in recent discussions between Government and industry of the way of dealing with this problem which was mentioned by Government in discussion with industry last year. This was the scheme of an Equalisation Fund through which the losses on the production of coarse yarn and

cloth could be met out of profits made on the production of finer counts.

22. It is a valid criticism of the scheme of prices as put forward by the *ad hoc* Committee that it unduly narrows the margin between the prices of coarse and fine cloth. The demand for fine cloth has been progressively increasing in this country and the margin on finer production, because of the intensity of demand for that class of product, has always been high. The effect of an increase in prices of finer production is also much less felt than that of an increase in prices of coarser cloth production. The secondary effects of an increase in the prices of coarse cloth might be considerable through effects on the cost of living and through the increased demands from peasants and labourers that this might cause no such secondary effects may be expected from any small increase in the price of finer production. The recommendations of the *ad hoc* Committee follow a course which is exactly contrary to that indicated by these considerations. It recommends a very substantial increase in the prices of coarse yarn and cloth and a slight reduction in the finer varieties.

23. The Equalization Fund was meant to balance the basis of coarse cloth and yarn from the extra margins enjoyed by fine producers. The fine producers enjoy an unnecessarily large margin today and this is said to have led to a considerable shift in production towards finer varieties of yarn and cloth. In order to take away the incentive towards this shift, it is not necessary to reduce the prices of finer production. The incentive could be reduced equally well by seeing that the full difference in costs and prices is not retained by the millowners. A levy on prices of fine production which would reduce the profits to millowners could be made available to compensate for any loss that might have been made by particular units on the production of coarse cloth and yarn. An Equalisation Fund could thus be used as the instrument for adjusting the conflicting indications given by supply and by demand considerations.

The idea of the Equalisation Fund was unanimously rejected by the Industry. The unanimous rejection by industry of any scheme does not seem to be a sufficient and valid reason for its not being taken into consideration by Government. So far as we have been able to consider the matter, the scheme seems to us to be neither unfair nor unworkable. It might perhaps be unworkable in the present conditions of cloth control where representatives of industry control themselves and where there are hardly

any checks on returns made by industry. If, however, a scheme of standardisation and rationalisation is adopted by the industry as recommended by the *ad hoc* Committee and adequate staff is given to the Textile Commissioner to implement and supervise its working, the data and the means for working out an Equalisation Fund Scheme would at the same time be made available to Government. In the minutes of various conferences between the industry and Government which took place in 1946 that we have seen, we found no cogent and adequate reasons showing that a scheme of Equalisation Fund was unworkable. The Chairman of the Textile Control Board told us that the industry was opposed to it both in principle and in practice. We were, however, not able to find out from him any concrete objections which made the scheme unworkable. His main objections appeared to be the lack of data of production from month to month. But as such data would necessarily have to be collected as part of any scheme of rationalisation and standardisation, we do not feel that this lack can any longer be urged against such a scheme.

24. A scheme of cloth prices must be examined in relation to (i) its general level and (ii) its internal relative structure. As to the general level of present cloth prices, we have heard nothing from any representative of the industry to suggest that the general level, as such, is too low today. We need not refer here to the criticisms of many responsible persons that the general level of cloth prices has for many years past been unconscionably high. As the *ad hoc* Committee point out, the approach towards price fixation has so far been neither well defined nor scientific. Control was imposed by Government at a point where prices of cloth had soared to extraordinary heights when Government intervention became imperative. From that height they have been brought down by degrees. Even at the level at which they have been placed after the last reduction made towards the beginning of 1946, they give fairly substantial profits to the textile industry as a whole. That with lower costs and higher prices the profits were large in years before 1946 goes without saying. It is not necessary for us to examine how large they were. The justification for any price increase must be based primarily on the need to increase the price level as a whole. The specialisation in production in the industry today is not considerable and the margin for shifting production, as recent trends prove, is fairly large. It is, therefore, not possible to treat coarse and fine production as separate industries or even well-demarcated sections of one industry.



25. As we can find no justification for a general increase in the level of prices of the products of industry, we cannot recommend the adoption of the scheme of prices of the *ad hoc* Committee which brings about a general increase. This is not to deny that for particular types of production, certain adjustments may be necessary. These adjustments can be brought about and have under control been brought about in most other countries by methods other than those which result in an increase in prices paid by the consumer. The need at the present time for doing all that can be done to keep down the prices of coarse yarn and cloth is very urgent. The possibility of adjustment of the relative prices within the total production of yarn and cloth must then be examined in relation to schemes like that of an Equalisation Fund. It is only when details of such a scheme are worked out, that it will be possible to say what measures, if any, of relative adjustments may and need bring about any changes in the prices charged to the consumers. Until this is done, there can be no valid grounds for changing any of the existing prices in an upward direction.

26. The total price charged to the consumer, especially for coarse cloth, is of the greatest importance in Government's economic policy. It is not only desirable that this price is not increased but that steps are taken to decrease it as far as possible in the near future. In this connection, we would heartily endorse the plea made by the *ad hoc* Committee in favour of a close supervision of present costs of distribution. We should specially press examination by Government of the possibility of abolition of the class of quota-holders who seem to serve no useful purpose today. It is, in our opinion, essential to assure the public that all steps towards possible decrease in prices and economy in management have been taken before any consideration is given to charging the consumers higher prices for any product, the price of which is under the control of Government.

27. We have not been able to go into each aspect of the question in as great detail as we would have liked. We are, however, convinced that (1) the present level of cloth and yarn prices does not need to be increased, (2) it is unnecessary and unjust to the public to fix prices under control at levels which will cover the working cost of the least efficient unit, (3) the production requirements of the country can be met only by a proper planning and direction of production of individual mills and (4) if any adjustments in the relative profits of different types of cloth and yarn are

needed, they could be brought about through schemes such as that of an Equalisation Fund.

28. We had the benefit of discussions with Mr. Dharam Vira, Textile Commissioner, Mr. Shivasankar, Officer on Special Duty, Mr. Soneji, Technical Officer, Mr. Aravanmudhu, Costing Officer, Sir Shri Ram, Mr. Krishnaraj Thackersey and Mr. Neville Wadia. We appreciate the alacrity with which these gentlemen set aside their other engagements and at very short notice appeared before us. We are grateful to the Textile Commissioner and his officers who spared no pains to answer the many calls for information we made upon them.

*Dated the 26th July, 1947.*

A. D. GORWALA  
*President*  
D. R. Gadgil  
*Member*

## IX

### IRON AND STEEL PRICES

Under Finance Department letter No. F. 3 (23)-E. G. 1/47 of the 20th of May 1947 the Board was asked to advise on steel prices. The Board heard representatives of the Iron and Steel and Finance Departments, Messers. Whittle and Bhattacharya, on the 31st May. Representatives of the Tata Iron and Steel Company were asked if they could appear before the Board by the 7th June. They desired that the matter should be postponed till July. Further hearing was accordingly put off till the 21st of July for the Tata Iron and Steel Company and the 22nd for the Steel Corporation of Bengal. Information on certain points was called for from both the firms. Advantage was also taken of the time available to have examined further the costs and financial position stated in the note furnished by the Tata Iron and Steel Company to the Iron and Steel Department at its meeting with the departmental representatives on the 18th April. A few days before the 21st July, Government desired that the Board should postpone all pending work and take up immediately the examination of cloth prices. At the same time, the Steel Corporation of Bengal requested postponement of the hearing fixed on the ground of the illness of one of its representatives and suggested that a date after the 10th August would suit it best. Accordingly, a further postponement followed. The report of the Cost Accounts Officer had, in the meanwhile, been received through the Iron and Steel Department and representatives of the Tata Iron and Steel Company, Sir Jehangir Ghandy, Sir Gurunath Bewoor and Mr. Rajagopalan were heard on the 21st August. This Company had furnished the information requested together with a statement of its case. The Steel Corporation of Bengal which had been asked to appear before the Board on the 22nd August sent no representatives. Nor did it furnish the information it had been asked to send as long ago as the 8th July. The Cost Accounts Officer was heard in person on the 22nd July.

2. The history of Steel prices during the war period, in so far as it is relevant to the case under examination, begins with the negotiation of a rate contract for the supply of steel for war purposes between the Government of India, Department of Supply and the

Tata Iron and Steel Company. Government agreed to pay the price then current for six months from the 1st October 1939 on an F. O. R. works basis. It was decided that prices should be negotiated afresh every six months thereafter, increase and reductions being related to increases and reductions in the costs of the Company. The Steel Corporation of Bengal which came into production shortly afterwards also accepted the same terms. The base war contract prices were increased by Rs. 10/- from 1-10-42, by Rs. 4/- from 1-4-43, by a further Rs. 6-8-0 from 1-10-43 and another Rs. 10/- from 1-4-44.

Statutory control on steel prices for commercial purposes was brought in from 1-7-44. Before this date the main producers had been free to alter commercial prices from time to time. Thus, the price of small tested bars rose from Rs. 166-14 on 1-2-39 to Rs. 245/- F. O. R. Calcutta on 1-10-43. The price of untested bars rose from Rs. 130/- on 1-9-39 to Rs. 235/- on 1-10-43 F. O. R. Calcutta. Commercial prices remained unaltered from 1-10-43. On the imposition of statutory price control, Government endeavoured to get the producers to agree to the same prices for steel sold for commercial purposes as for war supplies. This, however, was not agreed to and eventually commercial prices under control were based on the commercial prices of 3-10-39 and actual cost increases over the costs of the first price period beginning 1st October 1939. The prices fixed on this basis remained substantially unaltered upto 1-4-46 when a reduction of Rs. 12-8-0 was accepted by the producers.

3. On the expiry of the price period ending 31-3-47 a meeting was held between representatives of the Iron and Steel Department and the main producers, the Tata Iron and Steel Company and the Steel Corporation of Bengal, to consider future prices. On the 4th January 1947, the Deputy Agent of the Tata Iron & Steel Company had written to the Additional Financial Adviser, Iron and Steel Department, a D. O. in which he stated that the Company contemplated a substantial reduction of prices from 1st April 1947. At the March meeting, however, far from suggesting a reduction, the representatives of the Company asked for an increase of Rs. 30 on the basis of increased costs. The Steel Corporation of Bengal also seems to have desired higher prices though no figure was mentioned on its behalf. Since then the Tata Iron and Steel Company has further elaborated its case both in writing and orally. The main point for consideration by the Board now is the validity of the claim put forward by the Tata Iron and Steel Company that the level of steel prices should be increased all round by Rs 30 per ton.

4. The case of the Tata Iron and Steel Company may be summarized as follows:—

The works cost per ton of saleable steel has gone up considerably in 1947-48 on account of increases in the cost of coal, labour, spelter, iron ore and other materials. The Company had hoped that with the removal of the Excess Profits Tax, it would be able to save on taxation but the place of the Excess Profits Tax has been taken by the Business Profits Tax so that under the head of taxation, too, there has been an increase. In the circumstances, if the present prices continue, profits will be greatly reduced. Apart from a lowering of the amounts paid as dividend on ordinary and deferred shares, this will mean a substantial reduction in the amounts paid as profit-sharing bonus to labour. Labour will be greatly dissatisfied and labour trouble might affect the industry very adversely. The Company, therefore, ask for an increase of Rs. 30 per ton in the present prices, which, it urges, is by no means large, considering that its estimate of increase in works costs is Rs. 44-99. The Company's representatives further stated that production had fallen by 5,000 tons a month in the first four months of 1947-48 because of absence of proper cooperation by labour and they feared that it might continue at the reduced level for the rest of the year. Profits would then be even further reduced and accordingly, in their view, the case for the increase, the figure of which was still maintained at Rs. 30, was greatly strengthened.

5. We proceed to examine this case, below, in three parts, referring successively to (1) increases in costs, (2) fall in production and (3) fall in the profit-sharing bonus.

The calculations of the industry regarding the increase in costs of production are based on a comparison of the actual cost incurred during the half year October 1945 to March 1946 with the estimates of cost for the half year April 1947 to September 1947. The cost for October 1945 to March 1946 was Rs. 113-35 per ton and the cost of April to September 1947 was calculated in the original memorandum of the Company at Rs. 156-40. This figure was subsequently revised and put at Rs. 156-05. When the Tata Iron and Steel Company prepared its original memorandum the figure for the cost of production during 1946-47 was not perhaps available, and the Company based its claims on the increase in cost between the last half year period for which the cost had been worked out and the estimated cost for the current half year. For our purpose, however, the relevant figure of increase is not

that between 1945-46 and 1947-48 but that between 1946-47 and 1947-48. The full results of the financial working for 1946-47 are now available and these results reveal the margin between the prices of 1946-47 and the costs of 1946-47. The steel prices for 1946-47 are the prices which rule today and over which an average all round increase of Rs. 30 per ton is claimed by the Company. The prices in 1945-46 were higher than present prices. The relation between the costs and the prices for 1945-46 is therefore less significant and less likely to give results valid for our purpose than that between the prices and costs of 1946-47. Also, when Mr. Rajagopalan wrote his letter in January 1947 to the Government of India intimating the possibility of a substantial reduction in steel prices in the near future, he must have had in mind the costs position in 1946-47 and the immediate likely trend in it. For all these reasons, it is unnecessary and useless to go back to the figures of 1945-46.

6. For the year 1946-47, the Company made a gross profit of Rs. 796 lakhs. Its production of steel was 7,44,000 tons and its works cost of steel for the year was Rs. 122.39 per ton. On the basis of the Company's estimate of works cost for the current year, that is Rs. 156.05 per ton, the increase in works cost would be Rs. 33.66 per ton so that the gross profit on the same outturn as in 1946-47 will decrease below the gross profit of 1946-47 by Rs. 250.43 lakhs. This will still leave the Company with a gross profit of Rs. 545.57 lakhs at the end of the year 1947-48.

We have noted above that the Costs Accounts Officer of the Government of India has examined the estimates made by the Company of its costs during the current year. For some items, the Costs Accounts Officer is not prepared to accept even on the assumptions made by the Company the figures of cost as worked out by the Company. The differences in figures submitted by the Company and those accepted by the Costs Accounts Officer were known to the representatives of the Company and we have heard their comments on the figures put forward by the Costs Accounts Officer. We have also had an opportunity of discussing in full the Company's estimate of costs during the current year with the Costs Accounts Officer after our interview with the representatives of the Company. One of the items included by the Company as contributing to the increase in costs in 1946-48 is the Bihar Sales Tax on account of which the Company estimates an increase in costs by Rs. 3.75 per ton. The sales tax is not part of works cost. Normally, it should, like other charges of a similar nature, be recoverable from the consumer.

Apart from the Bihar Sales Tax, there is a difference in the figures of the Company and the Costs Accounts Officer on items such as coal, materials and labour. After giving full consideration to the details in dispute under each head, we have come to the conclusion that the estimates of increased costs as put forward by the Company need to be reduced by at least Rs. 3.75 per ton. This reduction together with that of the figure on account of the Bihar Sales Tax would bring down the difference between the costs incurred during 1946-47 and those estimated for the current year to Rs. 26.16. From this must be further deducted the Rs. 2.11 per ton decrease in overheads which the Company estimates for 1947-48, its figure for 1947-48 being Rs. 33.33 as against Rs. 35.44 for 1946-47. On this basis the gross profits will be Rs. 617 lakhs, an amount only Rs. 179 lakhs below the figure for 1946-47.

7. We turn next to the question of the fall in production. The 1946-47 production of 7,44,000 tons is, we find, lower than the actual production in any year since 1938-39 except 1942-43. Even in that exceptional year the production was 7,28,000 tons. The company's anticipation of lower production was based entirely on its appreciation of the labour situation. Its representatives felt that a spirit of discontent dominated large sections of labour, and it would be very difficult to get it to work sufficiently to enable production to reach even the 1946-47 level. The attitude of Governments, Central and Provincial, had, they felt, a great deal to do with the view labour took of its responsibility in the matter of work and production and their experience in this respect had not been particularly encouraging. Accordingly as sound businessmen concerned with the welfare of their constituents they estimated as certain what was still problematical and strengthened their plea for an increase by recourse to this argument. They stated that they were not being pessimistic. Experience showed, they said, that labour in its present temper was not likely to increase production. We are compelled to record our astonishment both at this state of affairs and at the attitude implicit in these arguments. That a firm of the reputation and position of this Company should urge its inability to obtain even the production of the last year at a time when the country is so greatly in need of extra production seems to us regrettable. That this attitude of hesitation and doubt should have its origin not in lack of raw materials or of machinery but in the lack of proper co-operation by labour is specially deplorable. We would be failing in our duty if we accepted this argument as a ground for increase of prices. It is the clear duty of the Company to make up its mind to maximise production and to see that at least

the production of 1946-47 is reached. It is also the clear duty of Government and of all authorities who have any connection with labour to make labour understand its responsibility in this matter.

8. It is necessary also to point to another aspect of the claim on account of the fall in production. The increase in costs of labour between 1945-46 and 1947-48 as calculated by the Company represents the largest increase in any single-item of costs. The estimated costs for 1947-48 on account of labour have increased by more than 30 per cent. over the level of labour costs in 1945-46. The Company claims that during the intervening period it has made a complete reorganisation of the wage structure and has placed it on a more scientific basis. The new structure of wages and bonuses consists of three main elements:

- (1) a basic wage,
- (2) good attendance bonus, and
- (3) performance bonus.

According to the summary of agreed decisions reached in September 1946 between the representatives of the Tata Iron and Steel Company and the Tata Workers' Union, "the good attendance bonus is 20 per cent. of the basic wages for weekly paid employees and for daily rated employees outside the works. The performance bonus, which is uniformly applicable to semi-skilled and skilled workers within the plant is 40 per cent. of the basic wages at average performance for service and maintenance personnel, plus an additional 10 per cent. for good attendance in both cases." It will thus be seen that good attendance bonus and performance bonus, which are both significantly linked to production, form together a very substantial proportion of the total earnings of labour. We understand that the new structure of wages and the higher level of payments provided for under them to workers were both adopted to bring about progressively increased production. The increased costs of production of steel calculated by the industry are in large measure made up of the increased payments to labour because of the requirements of the new wage structure. In case the incentives offered in the new wage structure to labourers are found to be ineffective and production does not go up, the operation of the new structure should bring about an offsetting effect by a fall in the total of payments made to labour. If workers are irregular in attendance and production does not reach even average levels, bonuses would not be earned in which case the effects on costs of the fall in production will be at least partially offset by the decrease in payments to labour. If, however, it happens that bonuses are paid ignoring the fall in production,



this can only mean that there is breakdown of the new "scientific" system. It is, perhaps, too early to pass a definitive opinion on the operations of a system introduced only a few months ago. The fears of the representatives of the Company may, after all, prove groundless and production may go up to at least 1946-47 levels in the remaining months of the year. In any event, we do not feel that we would be justified in allowing in price calculations for the effects of both the increase in labour costs because of the new wage structure and the fall in production in spite of it. To adopt this course and to pass the burden on to the consumer would be to accept defeat at the very start and to admit on behalf of both the Company and its workers a claim of money earnings unrelated to productive effort.

9. The representatives of the Company further urged strongly that whatever the production and the profits, it would be extremely difficult to reduce the profit-sharing bonus to less than three months' salary which meant a figure, broadly speaking, of Rs. 76 lakhs. They agreed that a profit-sharing bonus obviously depended on the profits and that if the profits were low it should naturally be low, but they thought labour would refuse to understand this very obvious proposition and the Company would be compelled, if it did not desire really serious labour trouble and closure of work, to keep the bonus at the level of three months' wages, whatever the profits earned. It would, in our opinion, be extremely dangerous to allow a claim on the part of workers for any level of profit-sharing bonus as a minimum due to themselves. If workers desire to share in the profits of the Company, they must expect this part of their earnings to fluctuate with the profits of the Company. In a regime of controlled prices no claim can be allowed which results in maintaining the profits of a Company at a minimum level. Decision on other principles would mean no more than mulcting the consumer for the combined benefit of employer and employee.

10. According to the statement of different figures of estimated profits and allocations therefrom supplied to us by the Tata Iron and Steel Company, it would appear that a reduction in gross profits of approximately the measures we have calculated above would not affect either the allocations to depreciation or to reserve funds made by the Company. The reduction would mainly bring about a decrease in the amount of taxes paid, in the dividends distributed on ordinary and deferred shares, in the managing agency commission and in the profit-sharing bonus paid to workers. On the Company's calculations, the bonus payable to workers would roughly equal two months' wages if gross profits were Rs. 592 lakhs.

11. A firm with a gross profit of Rs. 617 or even Rs. 545 lakhs, has little claim to an increase of price, when the price of its product is controlled by Government. It has been urged that the price of steel has not risen comparably with other prices, that, in fact, the steel companies have exercised an unusual, perhaps even an undue, moderation in keeping their prices low, and that accordingly this industry deserves better perhaps of Government and the public than any other, so that its profits and dividends should be kept up to at least last year's levels. We are prepared to agree that the prices of the products of the steel industry have maintained reasonable levels, considered in the general context of price rises. But we do not see any reason to permit an increase in price when there is no likelihood of the Company making a loss and every likelihood of its making a fairly substantial profit. The shareholders of the Company have, in the past, fared not at all badly. The Company itself has built up substantial reserves. Some reduction in various appropriations compared with the past year may, perhaps, become necessary but it is better that they should be borne rather than that the price of an important essential commodity like steel should be raised to the consumer at a time when the inflationary trend is as strong as at present.

12. Further, it is urged that, Indian steel today is cheaper than steel in most other parts of the world, and that, therefore, a rise in price is perfectly legitimate. This view seems to ignore utterly the fact that if Indian steel is comparatively cheap today, it is, in some part at least, because the Indian producer has received from the Indian Government effective protection and encouragement over a long period. The timely and wise action of past Governments is, in large measure, responsible for this desirable result and, in our view, it would be fully to dissipate the gains thus secured by increasing the prices on the ground that prices outside the country are higher.

13. Another argument advanced is about the price level of the shares of this Company and the effect on markets of a fall in them on account of low profits and dividends. The present position in the share market of The Tata ordinary and deferred shares—especially the latter—is the result chiefly of the peculiar financial structure of the Tata Iron and Steel Company. It is well known that the Company desires to modify this structure; but its attempts in this direction have been defeated by forces arising out of the present structure itself. We are, therefore, not at all impressed by the argument that if the price of Tata deferred falls, "sources of investment will tend to dry up and capital will not be easily forthcoming for industrialisation."

14. On a consideration of all the relevant factors, we come definitely to the conclusion that there is no reason to increase steel prices. In view of the uncertainties of the future and the trend of prices generally, we refrain from suggesting a reduction. In the result we recommend the maintenance of prices at their present level.

15. The Steel Corporation of Bengal, though intimation of the date of hearing was sent to it on the same day and in the same manner as to the Tata Iron and Steel Company, has not sent its representatives to explain its case to the Board. As already mentioned, it has not even furnished the information asked for as early as the 8th July. We have been informed that it is the custom of this Company to accept without objection prices accepted by the Tata Iron and Steel Company. It is clear that it either has no special case to present or does not wish to present it. In all the circumstances, we consider it unnecessary to delay our recommendations further on account of this Company. We suggest that the same rates apply to it as to the Tata Iron & Steel Company.

16. The Board has been asked to advise on:

- (1) What should be the fair retention price for billets, and
- (2) What should be the adjustment in the existing base retention prices for all other categories to give a fair return to the two Companies.

The Industries and Supplies Department feels that the present retention prices for billets are too high and should be lowered to bear a more suitable relation to the bar retention prices. There are also some adjustments in the relative prices of other products of the Iron and Steel Companies desired by the Department. Before dealing with the question of the relative price levels of various steel products, it was necessary for us to consider the general claim of the industry for an all-round increase in prices. A final decision by Government on the claim to increased prices is immediately necessary from the point of view of the Companies, the workers and the investing public. We have, therefore, submitted, as early as we could, our advice on the question of an increase in the level of steel prices. The problem of relative adjustments can be tackled only after the level of steel prices has been determined. Its consideration will involve further detailed hearing and for a decision on that part of the reference, it would be necessary that not only one but both of the Companies present their case.

A. D. GORWALA, *President*

D. R. GADGIL, *Member*

Poona, 28th August 1947

## THE PRICES OF KEROSENE AND MOTOR SPIRIT

This reference deals with motor spirit and kerosene. The oil companies propose that the price of motor spirit should be increased by one anna per gallon and of kerosene, superior and inferior, by five annas per unit of 8 gallons. We have gone through the previous files on the subject and have had the benefit of discussions with Mr. Symons of the Finance Department and Mr. Mahindra, Petroleum Officer of the Works, Mines and Power, Department.

2. Present prices are the result of the operation over a series of years of arrangements made at the time of the formation of the pools. These arrangements were based on certain definitions of the price levels and their adjustments and were operated from given starting points. The arrangements arose out of considerations of convenience, expediency and policy. There was no initial examination of the economic basis of the definitions of the price levels; and so long as the pools operate under the initial arrangements, it is not profitable to go into the merits of the basis of the arrangements. In the circumstances, the proposal to increase the price of petrol or of kerosene cannot be judged by us in terms of independent economic criteria but only in terms of giving effect to the provisions of the pool arrangements. We may add that even if it had been possible to examine the suggested prices in the light of independent economic considerations the data necessary for such examination would not have been available.

3. According to pool arrangements, prices are revised once in six months. The price fixed for any six-monthly period is based on certain estimates of costs, of prices of imports and of proportions between imports and indigenous production. The actuals may differ from these estimates to some extent and the result may be a slight loss or gain over the working of the six-monthly period. Also in the fixation of the price, it may be necessary to budget for a slight gain or loss because of considerations of convenience in money terms for the price of the standard unit. It has happened that because of the operation of both these factors, considerable sums to the credit of each of the three pools, the aviation spirit pool, the petroleum pool and the kerosene pool have accumulated. These represent, in effect, the overall excess of the prices paid by

the consumers over the exact calculations of the prices according to the terms of the arrangements.

4. The specific matter under reference is whether an immediate increase in the price of petrol and kerosene as demanded by the companies should be given or whether the pool should be debited with the cost of maintaining prices of both kerosene and petrol or either of them at the existing level during the current six-monthly period. The arguments put forward in the reference in favour of giving the increase immediately are :—

- (1) the prices of kerosene and petrol have not risen high in comparison with the prices of other commodities;
- (2) the suggested increase will not affect the consumer to any considerable extent; and
- (3) if the increase asked for is not allowed now, prices may go up with a sudden jump when the price pools are terminated.

5. According to the Economic Adviser's index, the price of kerosene stood at 151 for the week ending 8th March 1947 as compared with 100 for the week ending 19th August 1939. This is not an insignificant rise in an important consumer goods. Any general movement of prices upwards discloses desparate movements of particular prices. The attempt to control inflation as a whole involves the holding of all the prices. If the price rise in any particular commodity has been less than the average and can well be maintained at that comparatively lower level, there is no justification for allowing a rise merely because of larger increases elsewhere.

6. The effect of any increase in the wholesale price of kerosene is reflected in the price per bottle at retail charged to the ultimate consumer. The increase of even a pice per bottle, which is the least possible increase, would still raise the cost of kerosene to the consumer by about 6 per cent. No doubt, the effect of this on the cost of living index, as a whole, would not, by itself, be considerable. However, the effect of an announcement of an increase in the price of kerosene, together with other increases that are taking place contemporaneously, may have considerable psychological repercussions. These repercussions, especially in view of the fact that kerosene enters into the consumption expenditure of almost every family in the country, should certainly not be disregarded. There is, at this particular moment, every justification for preventing an

increase in the price of any essential consumer goods, if that can by any means be effected. The pools, as pointed out above, have accumulated surpluses because of a slightly higher charge to the consumer during some periods in the past. It would be legitimate to draw upon them in order to keep the charge at a slightly lower level, that is, to continue the price at the existing level during this critical period. The relief to each individual consumer may no doubt be almost negligible. That, however, is true of most other types of consumer subsidies in India. Moreover, this proposal to debit the cost to the pool during a six-monthly period to avoid an increase in price, though working like a consumer subsidy during the particular period, is in effect a refund to the consumer of a surcharge made in the past. In the peculiar circumstances, such a procedure would, in our opinion, be justified.

7. From the files it would appear unlikely that the pools would be wound up before the end of the year 1947. The oil companies themselves do not seem to suggest an immediate termination. It would also be for Government to consider whether an arrangement which has given a measure of stability to prices and which would enable Government to check and even out prices and price increases should be terminated immediately the results of the exigencies of war time which originated it are over. We understand that certain questions have been raised by Government relating to the calculations of the prices and the credits to the pools. It may be that the balances in the pools may as a result increase still further. The price of imported oil is also liable to fluctuations and if it decreases during the next few months, the need for a consideration of the increase may be avoided even for the period July to December 1947.

8. The proposal to increase the price of petrol stands on a different footing from the proposal to increase the price of kerosene. The consumers of petrol form two broad categories: Firstly, those who consume it in private vehicles, and secondly, those who consume it in commercial transport of passengers and goods, public or private. Consumers in the first category would not be seriously affected by the suggested increase in the price of petrol. The effect of the increase on consumers of the second category would be to increase the cost of transport. At the present levels of prices, the suggested increase would not amount to more than 3 per cent. of the retail price of petrol. The increase in cost resultant on the suggested increase would therefore be about 3 per cent. of that proportion of the total cost of transport which is represented by the price of petrol. We do not think that the total burden on commercial road transport will,

in effect, be significant. We would, therefore, recommend an increase, to the extent necessitated by the increase in cost, in the price of petrol.

9. We attach considerable importance to the price of kerosene because, in our opinion, the effort to restrain the cost of living from rising should be made as firmly and in as many directions as possible at this stage. So long as the policy of Government in relation to general controls is not clear, and so long as it has not been definitely decided that the price to the consumer shall, in each case and immediately, be the economic price or the price determined by market forces, the significance of holding the line with the price of a universally consumed commodity like kerosene cannot be underrated.

A. D. GORWALA  
*President.*

D. R. GADGIL  
*Member.*

*Dated, 24th March 1947.*

## PRICES OF COAL IN BENGAL AND BIHAR

1. The question of the prices of coal has been referred to us under Finance Department letter No. F. 3 (26)EGI/47, dated the 26th May, 1947. This reference was received by us on 27th May. The date is important because it appears from para. 2 of a copy of the decision of the Cabinet on case No. 130/28/47—Coal Conciliation Board's Report and action to be taken thereon—dated 6th May 1947, which we saw among the papers, that the Cabinet had been informed "that the question of modifying the price of coal consequent upon the acceptance of the recommendations of the Conciliation Board had been remitted to the Commodities Prices Board and that it was asked to report within the next few weeks."

Together with the reference was forwarded a memorandum prepared by Messrs. Nayak and Bhattacharyya of the Industries and Supplies and Finance Departments respectively. We examined these officers for about five hours on 30th May. In response to our invitation, four representatives of the coal industry—Messers. Latimer, Carpenter, Mukerjee and Ohja—discussed the case with us on the 5th and 6th June for nearly seven hours. We also had an informal discussion with Mr. Narayanan, Joint Secretary of the Labour Department. Needed information was obtained from the Labour Department and the Chief Inspector of Mines. In regard to labour conditions in the coalfields, we have had considerable assistance from Mr. Deshpande, Director of the Labour Bureau, who has spared no pains to give us all the help he and his office could.

### Wages

2. This reference is related in particular to the wage increases given by the industry voluntarily in October 1946 and those given as a result of the recommendations of the Conciliation Board in May 1947. We shall, therefore, begin by presenting a picture of the present wage position in the coal industry and its historical development. Table I sets out figures of the earnings of important categories of workers in coal mines in December of each year from 1939 to 1944 as reported by the Chief Inspector of Mines. A full account of the conditions of labour in the coal industry in India in 1945, including wages and earnings, is available in a report written by Mr. S. R. Deshpande, Director of the Labour Bureau. It would



appear from Table I and the data contained in Mr. Deshpande's report that the wages of workers in the coal industry did not rise rapidly in the early years of war. A notable advance in the earnings of most important categories of workers in coal mines took place first in 1943. In this year, the rate of dearness allowance granted to workers was made more or less uniform at a figure of 50% of the basic wage; this amounted for large categories of workers to about four annas per diem. In the same year, on account of the persistent fall in the output of coal, need began to be felt for the liberalisation of the existing allowances in kind which had been granted previously by coal owners. Certain uniform plans regarding the scope and measure of these allowances were introduced in the provinces of Bengal and Bihar in 1944. The result of all this is reflected in the difference between the daily earning of the underground miners and other categories in December 1944 as compared to those in December 1942. No generalised and uniform increase in either wage rates or concessions in kind seem to have been made until September 1946 after the adoption of uniform plans of concessions in kind in 1944. Then, the dearness allowance was increased from the uniform rate of 50 per cent. of the basic wage at which it had been put in 1943 to a hundred per cent. of the basic wage. The demands of labour persisted even after this increase and a Conciliation Board was appointed in February 1947 which reported to Government in April 1947 and to whose recommendations effect was given as from 12th May 1947 in accordance with the Government Resolution of the same date. Our attention has been drawn specially to the effect of the increases granted in September 1946 and in May 1947. The effects of the recommendations of the Conciliation Board are by far the more complex and more substantial. We shall therefore begin with an attempt at assessing the results of these recommendations in respect of the costs of labour in the coal industry.

3. The recommendations of the Conciliation Board resulting in substantial increase in costs to the industry are included under headings: (1) increased wage rates, (2) four months' bonus, (3) Provident Fund.\* The recommendations of the Conciliation Board regarding increased wage rates take two forms. There are, in the first instance, recommendations for increasing the basic rates of payments to certain categories of workers who ordinarily work on

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\* The expressions used and the details given in the report of the Conciliation Board have sometimes not proved sufficient to understand the detailed effects of the recommendations. We have in all such instances taken the help of the explanations and additions given in the Government Resolution of 12th May.

a piece rate. Secondly, there is the recommendation for increasing the dearness allowance to all categories of workers, including the piece-rate workers affected by the first recommendations. The recommendations of the Board regarding piece rates are put in terms of the basic rate for 36 c. ft. capacity tub. The Board recommends that the basic rate for a 36 c. ft. capacity tub be increased by 50 per cent. of the 1939 basic wage for certain selected categories of workers, who, in its opinion, call for preferential treatment. These categories are the miner, the trolley-man and the wagon loader. The increase of 50 per cent. is to be calculated taking the 1939 basic as being 8 annas per tub.

4. To assess the effect in terms of increased wage payments by industry of this recommendation, it is necessary to assume a certain average performance per worker per day. The Board has itself assumed that, at present, the earnings of the coal cutter may be assessed in terms of one 36 c. ft. tub per day. This is generally accepted to be a fair day's work in existing conditions by other writers such as for example, Mr. Deshpande. The present strength of workers employed in the coal field may be presumed to be related to this output of one 36 c. ft. tub per day. As a matter of fact, in recent years, the increase in the number of workers in coal fields has not resulted in a corresponding increase in output. Therefore, there has been, if anything, a slight diminution of the average output per piece worker than in former years. We may, however, neglect this and may work out the effects of the recommendations of the Board on the assumption that the one 36 c. ft. tub per day is the average output for the class of miners. The results obtained on this assumption should accurately reflect present-day conditions. There would be no increase in the burden on industry if any increase should take place in the output per piece worker employed by the industry in the near future; for, in that event, either the number of piece workers to be employed by the industry will go down or the output of the industry as a whole will increase. The per ton burden of the recommendations of the Board will, in any event, remain the same.

The Board has calculated the total payment recommended for miners, trolley-men and wagon loaders as follows:—

Present basic per tub ... ..	Re.	0-8-0
50 per cent. increase of basic...	Re.	0-4-0
		<hr/>
New basic	Re.	0-12-0
150 per cent. dearness allowance	Rs.	1-2-0
		<hr/>
Total per tub ... ..	Rs.	1-14-0

TABLE 1.—AVERAGE DAILY EARNINGS AND THEIR INDEX NUMBERS OF COALFIELD WORKERS  
AT JHARIA, RANIGANJ AND GIRIDIH,

Source :—Annual reports of the Chief Inspector of Mines in India.

	Jharia Coalfield			Raniganj Coalfield			Giridih Coalfield		
	Under-ground Miners	Surface		Under-ground Miners	Surface'		Under-ground Miners	Surface	
		Un-skilled Labour	Females		Un-skilled Labour	Females		Un-skilled Labour	Females
1939 Actual earnings. Rs.	0-9-9	0-5-0	0-4-6	0-9-0	0-6-3	0-4-0	0-10-0	0-8-0	0-4-0
Index Number	100	100	100	100	100	100	100	100	100
1940 Actual earnings. Rs.	0-9-6	0-7-3	0-4-3	0-8-9	0-6-3	0-4-0	0-9-3	0-8-0	0-4-0
Index Number	97.4	145.0	94.4	97.2	100.0	100.0	92.5	100.0	100.0
1941 Actual earnings. Rs.	0-10-0	0-7-6	0-5-0	0-9-3	0-6-6	0-4-3	0-9-3	0-8-3	0-4-0
Index Number	102.6	150.0	111.1	101.9	104.0	106.3	92.5	103.1	100.0
1942 Actual earnings. Rs.	0-11-0	0-8-3	0-5-3	0-10-9	0-7-3	0-4-9	0-13-0	0-10-9	0-6-3
Index Number	112.8	165.0	116.7	119.4	116.0	118.8	130.0	134.3	156.2
1943 Actual earnings. Rs.	0-13-9	0-9-9	0-6-9	0-14-3	0-9-3	0-6-0	0-14-6	0-11-3	0-7-6
Index Number	141.0	195.0	150.0	158.3	153.3	150.0	145.0	140.6	187.5
1944 Actual earnings. Rs.	1-1-6	0-13-6	0-10-6	1-2-9	0-12-9	0-9-6	0-14-6	0-11-3	0-5-6
Index Number	179.5	270.0	233.3	208.3	204.0	237.5	145.0	140.6	137.5

On the basis of the facts as stated by the Board, the total obtained per tub before September 1946 was: basic Re. 0-8-0, plus 50 per cent. dearness allowance i. e. Re. 0-4-0, total Rs. 0-12-0. By the increase given in September 1946, the dearness allowance was increased by annas 4 to annas 8, thus making a total payment of Re. 1. The total payment of Rs. 1-14-0 recommended by the Board thus involves an increase of payment over that made before the enforcement of the wage award by Re. 0-14-0 per tub. The Board recommends, in addition, that the present system of cash concessions and free rice on attendance should continue. This system of concessions has been maintained more or less uniform since 1944 and no increase in any concession was brought about in either September 1946 or by the recommendations of the Conciliation Board. It is, therefore, not necessary to take the concessions into account in calculating the next increase in the burden recently imposed on the industry. Each worker belonging to the named categories will obtain an increase of Re. 0-14-0 in his earnings for each day that he works on the basis of output indicated above. The 14 annas include the effect of the recommendations of the Board in respect of both the basic wage and the dearness allowance for these categories of workers.

5. The problem of assuming the performance of a particular task per day does not arise in the case of time workers. The rate of payment for time workers is at present defined in terms of a day's work and the increase recommended is also in terms of the daily payment. Therefore, the total increased cost in relation to all these categories of workers can easily be calculated on ascertaining the number of such workers and the average number of days worked by them. For the time workers, the Board assumes a basic wage of Re. 0-8-0 per day. Over this basic wage, the workers are to get a dearness allowance of 150 per cent. which will be equal to 12 annas per day bringing up the total earnings per day to Rs. 1-4-0. Before September, 1946, these earnings may be presumed to have been eight annas plus 50 per cent. dearness allowance i.e. equal to 12 annas. In September 1946, the dearness allowance was increased by 50 per cent. The earnings were thus increased by four annas to a rupee from which they have been further increased to Rs. 1-4-0 by the recommendations of the Conciliation Board. As in the case of piece workers, the existing concessions of cash free rice, etc. are to be continued without any change.

6. The basic wage of 8 annas applies to male workers. The wages of females have been assumed at a basic rate of 5 annas per day on which they used to get before the report a hundred per cent. dearness allowance, making a total of 10 annas per day. The report

of the Conciliation Board increases the dearness allowance by a further 50 per cent., that is by  $2\frac{1}{2}$  annas per day, making their total earnings equal to  $12\frac{1}{4}$  annas per day.

7. As a general rule miners, trolley-men and wagon loaders are employed on piece rates and most other occupational categories are time-rated. There are, however, small numbers of workmen among the ordinary piece-rated categories, who are employed on time rates, and there are some outside these categories who are employed on piece rates. For purposes of our calculations, it is, however, not necessary to enter into these distinctions as we have been assured that in practice the time-rate payments to workers in the normal piece-rate categories are always assimilated to the earnings of the main body of piece-rated workers and that piece rates of workers in normal time rate categories are adjusted correspondingly.

8. In proceeding to make detailed calculations, the first step is to ascertain the actual numbers of workers employed in coal mines by the various categories according to the classification made in the recommendations of the Conciliation Board. Latest information regarding the total number of workers employed in coal mines in Bihar and Bengal was called for telegraphically from the Chief Inspector of Mines. The information given by him is set out in Table II below. It was learnt from a later communication from the Chief Inspector of Mines that these figures related to the average number of persons employed in coal mines in Bengal and Bihar during 1946. The data supplied by the Chief Inspector of Mines give separately the numbers of coal cutters and loaders and put together all other classes distinguishing only between males and females. The categories indicated by the terms "coal cutters" and "loaders" may be presumed to be identical with the term "miner" used in the report of the Conciliation Board. The total number of miners working underground in the various fields and in quarries may be arrived at from the figures given by the Chief Inspector.

TABLE II.—WORKERS IN COAL MINES IN BENGAL AND BIHAR.

Source :—Chief Inspector of Mines.

		Males	Females
Underground	Miners	64,765	.....
	Others	48,171	.....
	Total	112,936	.....
Open workings	Miners	19,909	.....
	Others	19,107	23,417
	Total	39,016	23,417
Surface		75,700	39,687
Total (all workers) :—		227,652	63,104

Information relating to numbers of wagon loaders and trolley-men is not available either in the telegraphic communication from the Chief Inspector of Mines or in any of his published reports. No census of the labour employed in coal mines has evidently been ever taken showing the strength of the various occupational categories in coalmines. The number of wagon loaders and trolley-men that will profit from the report of the Conciliation Board has, therefore, to be estimated. The representatives of the coal industry who came to state the case of the industry before us were able to help in estimating the number of wagon loaders. According to them, the total number of wagon loaders in Bengal and Bihar may be put at between 12,000 and 15,000. For lack of other accurate data on which to base our estimates, we have decided to accept the estimate of the representatives of the industry and have based our calculations on the figure of 15,000. Trolley-men, who presumably belong to the category which is referred to as trammers in Mr. Deshpande's report, work underground as well as in quarries and on the surface. The total number of trolley-men in the industry is not directly known. In order to arrive at a fair estimate of their numbers, we had resort to the Director of the Labour Bureau, Government of India, Mr. Deshpande. In the sample enquiry that he conducted in 1945, he had occasion to collect data relating to the total number of workers employed in a sample of mines. For most of these, he had got compiled a detailed occupational classification. We requested Mr. Deshpande to find out for us from the data with him the proportion of trolley-men (trammers) to the total labour force employed underground, in quarries and on the surface from the particular sample that he had taken. We have assumed the percentage as reported, by Mr. Deshpande as existing in his sample among the underground, the surface and the quarry workmen as being the percentage subsisting today among these different classes. Applying these percentages to the total labour force underground, surface and in quarries as reported by the Chief Inspector of Mines, we have arrived at an estimate of the total number of trammers that might obtain advantage on account of the recommendations made by the Conciliation Board. In this way, we have arrived at the total number of workers in the three categories picked out by the Conciliation Board for preferential treatment, those of miners, wagon loaders and trolley-men.

9. It is necessary to estimate the number of days worked in one year by each type of worker for assessing the total effects of the recommendations of the Conciliation Board. The number of days worked in a year by different categories of workers such as

underground workers, surface workers, etc., are ordinarily different. The data supplied by the Chief Inspector of Mines does not, however, relate to the total number of workers employed but to the average employed daily. In the circumstances it is not necessary for us to make elaborate calculations regarding the average days of attendance of each type of worker. That may be presumed to have been done by the Chief Inspector in arriving at the average of the numbers of various classes of workers. The Chief Inspector has reported that the average days worked by collieries in Bengal and Bihar was 310. The average attendance of the average number employed in each category of workers may also be taken to be uniformly 310 days in the year.

10. The total effect of the recommendations of the Conciliation Board about increases in wages and dearness allowance for miners, wagon loaders and trolley-men may be arrived at on the basis of the estimates made above. The total number of workers belonging to these categories are classified into underground and surface workers and the increment due to each is worked out on the increased amount of 14 annas (including increases both in the basic rate and in the rate of dearness allowance) calculated for the average number of days, indicated above, of the attendance of underground and surface workers.

11. The calculation for other workers who are entitled only to the increase in the rate of dearness allowance does not involve any ascertainment of the numbers in various occupational categories. The total number of workers has been reported by the Chief Inspector of Mines. On deducting from this total number the number included in the categories who have been preferentially treated, the number of workers entitled only to the benefit of the increased dearness allowance is obtained. This total number has to be classified into underground and surface workers and the class of surface workers has to be reclassified into the categories of males and females.

12. The basic rate for all the time-rated workers has been assumed by the Conciliation Board at eight annas per day. No doubt there is some variation in the actual daily earnings of the various categories of time-rated workers and some amongst them may earn more than eight annas per day. However, the data contained in Mr. Deshpande's report show that earnings above the basic minimum are negligible and are not to be found in any numerous category of time workers. The assumption is specially justified because of the separate calculation made below for the supervisory

and clerical staff. We, therefore, feel that it is not necessary to make any special allowance for basic wages higher than eight annas that might be earned by exceptional categories and we have made our calculations on the basis of the eight annas wage. The increase resulting from the recommendations of the Conciliation Board for the time-rated categories is four annas due to the increased dearness allowance for males and 2½ annas due to the increased dearness allowance for females. The complete calculation regarding the result of the increased wage rates recommended by the Conciliation Board for each separate category of workers is set out in detail in the Table III below.

TABLE III.—INCREASE IN WAGES AND DEARNESS ALLOWANCE  
DUE TO RECOMMENDATIONS OF CONCILIATION BOARD.

Category of worker	No. of workers in (000)	Increase per day	No. of days in the year worked	Increase in Rs. (000)
		Rs. as. p.		
( I ) Underground miners and trammers.	77.5	0-14-0	310	2,10,22
( II ) Open working miners <i>plus</i> trammers other than underground <i>plus</i> wagon loaders.	56.0	0-14-0	310	1,51,90
( III ) Males not included in I & II.	94.0	0-4-0	310	72,85
( IV ) Females.	63.0	0-2-6	310	30,52
Total	290.5			4,65,49

13. Before we leave the subject of the effect of increased wage rates, it is necessary to refer to the recommendations of the Conciliation Board regarding 'lift and lead'. The Conciliation Board record the opinion that the workers' claim for uniformity in the rates for 'lift and lead' are sound and, therefore, recommend a basic scale for 'lift and lead'. It would appear from the wording of the report of the Conciliation Board that the 'lift and lead' basic rates were intended to bring about uniformity in practice in coalfields and were not intended to increase 'lift and lead' rates ordinarily paid. The representatives of the industry, who met us, agreed that that appeared



to be the intention of the Conciliation Board but urged that, in particular instances, the result of the recommendations would be actually to increase the wages paid on account of lift and lead by the industry today. It was pointed out that, in the case of the bigger mines, lift and lead rates might be compounded in the basic rates, in some circumstances and that after the recommendations of the Conciliation Board the uniform lift and lead rates would be demanded as full additions to the originally increased basic rates. In our opinion; difficulties of this kind are matters of interpretation. If there is a strong case to prove that any existing rate contains a lift and lead element and that the report of the Conciliation Board should properly result in a new basic rate plus the recommended uniform lift and lead rate, we feel sure that the proper authority, namely, the Labour Department of the Government of India, would deal with it appropriately. It was suggested that a large number of smaller mines where there had been no mechanisation and which had not even sufficient equipment of a system of haulage etc., for the carriage of coal, would also be affected by the lift and lead rates. The new uniform 'lift and lead' rates would, it was stated, bear heavily on such concerns. It has not been suggested that the 'lift and lead' rates recommended by the Conciliation Board are, in themselves, unfair. If some collieries have so far profited from paying less than what were considered proper rates in the trade, we see no reason for making any special allowance in their case. In short, though we recognise that lift and lead rates may increase, in particular instances, labour costs, there is nothing to show that the recommendations of the Conciliation Board in this particular respect affect the average cost to a significant extent which can be calculated.

We may note that we have, on the suggestion of the representatives of the industry, already given special consideration to lift and lead rates in one category of workers. The representatives of the industry told us that the lift and lead rates constitute an important part of the earnings of workers in quarries and that the basic rate per 36 c. ft. tub in quarries is ordinarily 6 annas as against the 8 annas in the mines. The recommendations of the Board of Conciliation do not, it seems, bring about a change in the quarry basic rate. The lower rate obtained in quarries is, however, compensated for by the extra lead and lift payments that have to be made to workers in quarries. The representatives of Coal-owners suggested to us that this should be allowed for by calculating the earnings of quarry workers at the basic rate of 8 annas. We have followed this suggestion though we have no data for judging the extent to which this is

justified. We have thus made full allowance for the lift and lead rates in a section of the industry where their effect is general and calculable.

14. We now go on to consider the increased cost to industry on account of other recommendations made by the Conciliation Board. The Conciliation Board have recommended that bonus equal to four months' basic pay should be paid to workers in the industry. This recommendation regarding a bonus payment has been put under two heads; (1) Attendance Bonus; (2) Production Bonus. The Attendance Bonus is to be paid to any miner or other underground piece worker who shall qualify by completing not less than 190 days' attendance per annum. "Weekly or monthly paid employees or surface piece workers" will qualify by completing 265 days' attendance per annum. Though the wording of the recommendations of the Conciliation Board does not cover daily rated underground workers, we presume that the recommendation regarding the period of qualification for underground piece workers is also applicable to the underground time-rated workers.

15. In calculating the cost of the Attendance Bonus, it is necessary to estimate the number of persons who are likely to qualify for the payment of Attendance Bonus. There are comparatively little data on which such an estimate could be based. Profit Bonus based on somewhat similar qualifications is paid in the collieries of the Tata Iron & Steel Company, and statistics relating to the proportion of workers employed by those collieries, who earned the Bonus during recent years, are available. These statistics refer to from about 11,000 to 30,000 workers and are available for the years 1943-44, 1944-45, and 1945-46. The results for all the Tata Collieries put together are set out in Table. IV. The table indicates a marked difference between the proportion of miners and loaders, who qualify and those of all other categories, even though the qualification for underground workers is markedly lower than that for surface workers. The attendance record of the underground workers has, on the other hand, shown continuous improvement over the three year period while no such progressive improvement is observable in the case of other categories.

It is not possible to say with confidence to what extent the attendance of workers in the industry as a whole will approximate to the attendance of workers in the Tatas. It was argued on behalf of the industry that the proportions of attendance for the industry as a whole might actually be larger than in the Tata collieries.

TABLE IV. PERCENTAGE OF EMPLOYEES QUALIFIED FOR PROFIT SHARING BONUS (TATA COLLIERIES).  
1943-44, 1944-45, AND 1945-46.

Source :—Labour Department, Government of India

Colliery and category	1943-44			1944-45			1945-46		
	Total No. of employees	No. of employees qualified	Percentage	Total No. of employees	No. of employees qualified	Percentage	Total No. of employees	No. of employees qualified	Percentage.
<i>All Collieries</i>									
All categories except miners and loaders.	6,924	3,986	57.6	8,700	4,700	54.0	9,760	5,310	54.4
Miners and loaders including Sirdars.	4,461	1,273	28.5	4,124	1,351	32.8	3,272	1,183	36.2
	11,385	5,259	46.2	12,824	6,051	47.2	13,032	6,493	49.8

It was urged that the institution of the Provident Fund should encourage better attendance. This argument would be valid only if the attendance requirements for qualifying for the Provident Fund were to be, at least, as stringent as those laid down for qualifying for the Attendance Bonus. In a note written for us by the Labour Department, it is, however, indicated that the attendance qualification for the Provident Fund is likely to be lower than that for the Attendance Bonus. It may also be pointed out that the total benefit of a Provident Fund is much less, in terms of money, than that of the Attendance Bonus and very much less than the total benefit offered by the Tata collieries. It seems highly unlikely that over the industry as a whole, where the mine-owners themselves claim that absenteeism and labour turnover are amongst the most acute of problems, the performance of workers is likely to be better than in the Tata collieries. There is every likelihood that the attendance will, in actual fact, be much poorer. The figures supplied by the Chief Inspector of Mines are not those of total workers but of average daily attendance. It is not, therefore, possible for us to base our calculations on proportions of total workers who will qualify for the bonus. We, however, feel that in view of the conditions obtaining in industry, we will be justified in applying the percentage of attendance at the Tata collieries to the numbers of average daily employed reported by the Chief Inspector. We proceed in our calculations by assuming that the total number of underground workers who will qualify for the Attendance Bonus will be 35 per cent. of the number of the average daily employed and that the number of surface workers qualifying for the Attendance Bonus would be 55 per cent. of the corresponding number.

The attendance bonus is to be made equivalent to 2 months' basic earnings. The basic earnings for the defined categories, i. e. miners, trolley-men and wagon-loaders, are fixed at annas twelve per day by the report of the Conciliation Board. The minimum basic earnings for all other male workers are to be annas eight per day and for female workers annas five per day. The days of attendance, during two months, of each worker who earns a bonus have been taken to be equal to 1/6th of 310, that is 52 days. Table V sets out the results of the total cost to industry of the attendance bonus calculated on the lines indicated above. Out of the total four months' bonus recommended by the Conciliation Board, the other two months' bonus is represented by a production bonus.

TABLE V—ATTENDANCE BONUS DUE TO RECOMMENDATIONS OF THE CONCILIATION BOARD.

Category of Worker	No. of workers in (000)	Percentage qualifying	Average days for which earned.	Rate at which earned.	Bonus earned R.s. (000)
I Underground miners and trammers.	77.5	35	52	Rs. as. p. 0-12-0	10,58
II Openworking miners and trammers other than underground <i>plus</i> wagon-loaders.	56.0	55	52	0-12-0	12,01
III Males not included in I & II	94.0	55	52	0-8-0	13,44
IV Females.	63.0	55	52	0-5-0	5,63
Total ...	2,90.5				41,66

16. It is not necessary for us to go into any details as regards the manner of payment, etc. of this bonus. The Government Resolution dated 12th May lays down definitely the manner of arriving at the total payment to be made by each colliery and by the industry as a whole of the amount of this bonus. The production Bonus is to be calculated at the rate of Re. 0-5-6 per ton. The total burden on the industry of the bonus will, therefore, amount to the total production in any year multiplied by Re. 0-5-6. The total production during 1945 was 2.3 crore tons and, in 1946, somewhat lower i. e. about 2.25 crore tons. If we assume the higher figure as the production for the current year, we may put the total burden of the Production Bonus at 2.3 crores  $\times$  Re. 0-5-6 = Rs.79 lakhs approximately.

17. The Conciliation Board has also recommended the institution of a Provident Fund, which should be compulsory, and Government, in its resolution dated 12th May, have recommended that it should be given effect to from the date from which increases in wages of dearness allowance are made effective. The Government Resolution goes on to say that the rate of contribution should be fixed at one anna in the rupee of the basic wages by employees and it is expected that employers will make a similar contribution. The detailed rules for the working of the Provident Fund have yet to be framed, but, pending the framing of these rules, it has been directed that deductions should be made from all employees at the rate mentioned above. The burden on employers of the Provident Fund is measured by the total of the contributions they are required to

make to the Fund. These will depend on the number of workers who are able to obtain advantage of the Provident Fund.

The Labour Department in a note to us state the following in this connection :—

"The proportion of the total labour force that may become eligible to the membership of the fund would depend on the minimum attendance qualification to be prescribed under the rules. If the qualification is less stringent than the one prescribed for bonus, as it is likely to be the case, the proportion will naturally be high. No definite information can be given at this stage as to the exact proportion of the labour force that would be eligible to the membership of the Provident Fund."

It is necessary, however, for us to make some assumption in order to arrive at an estimate of the total burden in this regard on the industry. We feel it fair to assume that the total number of workers that become entitled to membership of the Provident Fund will be 50 per cent. greater than the numbers who qualify for earning an Attendance Bonus. The Attendance Bonus is equal to two month's basic wages of workers who qualify for the Bonus. Two month's basic wages are equal to a sixth of the total annual basic wages. The employers' contribution to the Provident Fund is fixed at the rate of one anna in the rupee of the basic annual wages of members of the Fund. It will, therefore, be equal to 1/16th of the total of the annual wages of members. If the number of workers who become members of the Provident Fund are the same as those who qualify for the Attendance Bonus, the employers' contribution to the Provident Fund would represent 6/16th of the Attendance Bonus paid to these workers. As we have assumed that the number of workers who will become members of the Provident Fund will be 50 per cent. more than those who qualify for the Attendance Bonus, we put the cost of employers' contribution to the Provident Fund at 6/16 of  $1\frac{1}{2}$  times the Attendance Bonus calculated by us above, i. e. Rs. 23,43,000

18. Calculation must also be made regarding the cost of the increase in dearness allowance to the supervisory and clerical labour including workers earning a basic wage of Rs. 30 per mensem and above upto a basic wage of Rs. 300 per mensem. The effect of the recommendations of the Board will be to increase the percentage of dearness allowance to the category of basic wages between.

Rs. 31 and Rs. 50 by 25 per cent.

Rs. 51 and Rs. 100 by  $16\frac{2}{3}$  per cent.

Rs. 101 and Rs. 300 by 5 per cent.

On reference to the Chief Inspector of Mines regarding the average number of supervisory and clerical staff and their basic daily earnings, we received the information that the number of such staff was in Bengal 3,229 and in Bihar 6,961, the average daily earnings in Bengal were reported to be Re. 0-14-3 and in Bihar annas 14. As it was not clear whether the numbers of supervisory and clerical staff had been included in the overall numbers reported these have been taken as additional to the overall numbers. These statistics relating to numbers and earnings presumably include workers whose basic wage is higher than Rs. 30/- per mensem. It is not possible to estimate how many such workers have been included in the statistics and what their monthly earnings are. To avoid under-estimating cost to industry we have calculated the extra dearness allowance to these numbers of supervisory and clerical staff at 50 per cent, of their annual basic wages for 310 days which is the number of days for which the collieries are reported to have worked. This comes to Rs. 1,390 thousands. We have also included an additional figure of Rs. 10 lakhs, which is, in our opinion, extremely liberal on account of any additional dearness allowance earned by employees of coal mines in the higher salary groups whose numbers for one reason or another may not have been reported.

19. No other recommendations of the Board of Conciliation are likely to cast any significant extra burden on the industry. It was urged by some representatives of the industry that the Board's recommendation regarding compensation for enforced idleness would involve an extra burden on the industry. The Indian Mining Association in its memorandum submitted to the Conciliation Board stated that a worker who presents himself for work and is rendered idle through no fault of his own should be paid a compensatory payment and that he was in effect paid attendance allowance. The payment of compensation for idleness is, therefore, no new charge laid on the industry. The representatives of industry stressed before us that outputs in recent years had been lower owing to shortage of labour which was likely to continue for sometime. It is inconceivable that any unit in an industry which is said to suffer from a chronic shortage of labour will be called upon to make any significant payment towards compensation for forced idleness unless it is unable to manage its affairs rationally. A special point was made regarding the compensation to wagon-loaders in whose case enforced idleness could not be prevented by any action on the part of collieries but would largely depend on the regularity of wagon supply. This point has, however, been met by us by calculating the

total number of wagon-loaders paid on piece rate at the higher figure put forward by the representatives of industry. As the attendance allowance for enforced idleness would not be greater than the extra earnings of a day's work by a piece-rate worker, we do not think it is necessary to make any further allowance in this regard.

20. Certain other recommendations of the Conciliation Board, especially those relating to leave, also have a bearing on the total of wages paid by the industry. However, the Conciliation Board has, in this matter, not done much more than standardise or make uniform practices already followed by a large number of units in the industry and we consider that the recommendations of the Conciliation Board in these respects will not add any significant amount to the total burden of wages on the industry. With this opinion, the representatives of industry who met us agreed. The total burden which would fall on the industry as a result of giving effect to the recommendation of the Conciliation Board is then to be estimated as in this table which summarises the detailed calculations that have been made by us above.

		Rs. (000)
1. Increase in wage and dearness allowance	...	4,65,49
2. Attendance Bonus	...	41,66
3. Production Bonus	...	79,06
4. Provident Fund	...	23,43
5. Increase in D. A. to clerical and supervisory staff	...	13,90
6. Estimate of increased D. A. to staff with basic salary between Rs. 30 p. m. to Rs. 300 p. m.		10,00
		<hr/>
Total	...	6,33,54
		<hr/>

We consider that for a variety of reasons, the calculation made by us about the increased costs of the recommendations of the Conciliation Board are likely to prove an overestimate. The Chief Inspector of Mines in his report for 1944 notes that the number of workers employed by coal mines include a large number of miscellaneous workers. We do not know whether all these will be entitled to the benefit of the recommendations of the Conciliation Board. To the extent that any of them are denied the advantages



of the recommendations of the Conciliation Board, the costs calculated by us will prove to be an overestimate. We have assumed that the enforcement of the recommendations of the Conciliation Board will be immediate and will be applied to all categories of workers including those employed on contract. We understand that the Payments of Wages Act is not enforced in coal mines and the machinery for supervising the enforcement of the wage may not be adequate at least in the early stages. To the extent that giving effect to the recommendations is either delayed or is incomplete, our calculations will prove to be an overestimate.

21. Before we close consideration of this subject, it is necessary to refer to certain figures put forward by representatives of the industry regarding the per ton cost of the recommendations of the Conciliation Board. None of these estimates approach the question directly through the number of workers employed in the different occupations in the industry and the average increase in earnings per worker in each category as a result of the award.

The estimates presented to us by representatives of industry or officers of the Industries and Supplies and Finance Departments begin with calculations of present labour costs prepared from the accounts of particular coal companies. All these estimates attempt to define the result of the recommendations of the Conciliation Board in terms of a percentage of the total labour costs of particular companies or as percentages of parts of these labour costs. The calculations made by us above will have made clear how the effect of the recommendations of the Conciliation Board differs in detail in respect of different types of wage payments and different classes of workers employed. There is no easy way of averaging these various effects or presenting them in general overall percentages. From the data submitted to us, it does not appear that the accounts of any company distinguish between all the types and categories of workers and payments treated separately in the recommendations of the Conciliation Board. The most detailed calculations that we have seen do not go beyond differentiating between costs on account of (1) miners and loaders, (2) other underground labour and (3) surface labour, each category including presumably costs on account of supervisory staff. It is difficult to see how overall percentage increases calculated in respect of such generalised groups of labour-costs can lead to determining satisfactorily the total increase in costs brought about by the recommendations of the Conciliation Board.

22. In the circumstances, we think that no useful purpose would be served by attempting to calculate the effect of the increase recommended by the Conciliation Board from the per ton labour cost figures as available in certain coal company accounts. This is entirely apart from the fact that for the industry as a whole, it would be necessary to arrive at an accurate figure of average labour cost before attempting this particular approach. We shall examine the question of the cost of production statistics and their validity to our decisions at a later stage. It is quite clear, however, that even the overall cost of labour varies widely from colliery to colliery. To point only to one factor, the degree of mechanisation in a mine will determine to a large extent the number of workers underground or on surface employed by it; so that unless there was some means of knowing very definitely the extent of the variations from colliery to colliery in these respects and some means of averaging their incidence, it would be impossible to proceed on the basis of the labour costs of certain collieries. As a matter of fact, we cannot imagine why this particular approach should ever have been adopted and do not believe that it can give an estimate which is in any circumstances more accurate than the estimate as a result of the direct approach made by us. We may add that we explained our approach in detail to the representatives of industry who met us and they had no objections to offer.

23. We may also refer in passing to a figure of the total cost of the recommendation mentioned in the Government Resolution dated 12th May. Paragraph 10 of this Resolution states that the cost of these benefits would amount to over seven crores of rupees per annum in respect of the Bengal and Bihar coalfields alone. It will be observed that this estimate is different from the estimate arrived at by us as a result of our calculations. We have been unable to find how the figure of Rs. 7 crores was reached by the Labour Department. On enquiry, we were told that no detailed calculations were made by the Department in arriving at this figure and that it was not worked out on any specific basis. In the circumstance, we can attach no importance to this figure and we are constrained to record our surprise at a definite figure having found its way into an authoritative Government Resolution in a matter of this type, especially when it was known that a price reference in this connection was to be made to the Commodity Prices Board.

24. As will appear later, in proceeding to assess the increase in prices that should be granted to industry, we have attempted to set

off the total increased wage cost against the extra profit margin left to the industry as a result of price increases granted during the war period. For estimating this extra margin it is necessary to examine the financial results of the working of industry during previous years. 1945 is the last year for which we have detailed information relating to financial results for the coal industry. Before we are able to use the 1945 statistics of financial results as the basis of our calculations, we would have to allow for all the increases in labour costs that might have taken place subsequent to the close of the year 1945. It is, therefore, not sufficient to calculate the increased cost resulting from the report of the Conciliation Board during 1947. We have noted above that the industry had voluntarily granted an increase in dearness allowance to all workers in September 1946. This increase of dearness allowance represents an element of additional cost over the labour costs incurred by the industry during 1945. An estimate of the increased burden on industry as a result of the September 1946 concession must therefore be made. This concession was a uniform increase of 50 per cent. in dearness allowance granted to all classes of workers. In estimating the result of this increase, we assume that the basic rate per 36 c. ft. tub was eight annas and that the basic daily wages of timeworkers were also eight annas. The extra dearness allowance of 50 per cent. may, therefore, be taken to have amounted to four annas per day for all categories of workers employed by the industry. We set out below a calculation showing the extra burden on the industry of this four annas per day calculated separately for underground and surface workers for the numbers reported by the Chief Inspector of Mines.

TABLE VI—INCREASE IN LABOUR COSTS GIVEN IN SEPTEMBER 1946

Category of worker	Approximate No. in (000)	Increase in daily earnings due to increased dearness allowance	Average No. of days worked	Cost in Rs. (000)
(1) All underground workers	1,13	Rs. a. p. 0—4—0	310	87.58
(2) Male workers at surface and open-workings	1,15	0—4—0	310	89.13
(3) All females	63	0—2—6	310	30.52
Total	2,91			2,07.23

25. Finally, we have to examine the demand by industry that some allowance should be made in the price of coal for the obligation recently laid on industry for the construction and maintenance of pithead baths and creches. An Ordinance issued by the Central Government in 1945 conferred on it the power to make rules compelling mine owners to maintain creches and an amendment to the Indian Mines Act in 1946, conferred similar powers regarding the maintenance of pithead baths. Rules under these powers were prepared and published by Government in July 1946. The rules regarding creches were to be enforced as from nine months of their publication and those regarding pithead baths were to come into force from 1st July 1947. Enquiries made by us regarding the creches and pithead baths maintained at present by mines elicited the reply that the number of both in the coalfields of Bengal and Bihar would be less than 10. In discussions we had with representatives of the industry, we were informed that lack of construction materials was a major obstacle in the way of industry complying with the obligation to maintain creches and pithead baths. We were told that it would take at least six months more for the bulk of the collieries to construct the pithead baths and creches required by law. A representative of industry further agreed that this period of six months might well prove to be an underestimate. So far as we are aware, no demand has been made for an increase in the price of coal on account of the capital costs that might have to be incurred by the industry for the construction and equipment of pithead baths and creches. Obviously, no such demand could have been entertained even if it had been made. No data are evidently available regarding the annual costs of maintenance and operation of creches and pithead baths. Neither the Welfare Commissioner nor the Labour Department nor the Industries and Supplies Department nor the representatives of industry who appeared before us were able to produce any estimates in this respect. We do not consider that the costs of the operation and maintenance of the creches and pithead baths would amount to a figure substantial enough to be considered in assuming the per ton cost of coal. However, as it is unlikely that any cost on this account will be incurred by the bulk of the collieries for the major part of the year, it is unnecessary to say anything more on the subject. We should not be taken to express in this respect any opinion as to whether the costs of welfare activities ordinarily borne everywhere by all industry could be legitimately made the basis of any claim for an increase in price by the industry.

## Prices

26. The price of coal showed no increase over levels ruling in the immediate pre-war period for the first two years of war. Towards the end of 1941, however, it recorded a significant increase

TABLE VII—PRICE OF COAL AT CALCUTTA AND ITS INDEX NUMBER

Period	Selected Jharia		Deshargarh	
	Price per ton into wagon	Index No. (week ending 19-8-39 = 100)	Price per ton into wagon	Index No. (week ending 19-8-39 = 100).
August 1939	Rs. a. p. 4-6-0	100	Rs. a. p. 4-8-0	100
Quarter ending March 1940	4-8-0	103	4-14-4	109
June 1940	4-6-4	100	4-8-4	100
September 1940	4-5-0	99	4-8-0	100
December 1940	4-4-0	97	4-8-0	100
March 1941	4-5-30	100	4-8-0	100
June 1941	4-6-0	100	4-9-4	102
September 1941	4-7-8	103	4-12-0	106
December 1941	4-14-0	111	4-13-8	108
March 1942	5-4-0	120	5-7-4	121
June 1942	5-4-0	120	5-10-4	126
September 1942	5-8-4	126	5-14-4	131
December 1942	6-1-6	140	6-7-4	144
March 1943	6-12-0	154	7-0-0	156
June 1943	7-13-0	179	8-5-8	185
September 1943	10-2-0	231	10-0-0	222
December 1943	10-2-0	231	10-0-0	222
March 1944	12-2-0	277	12-0-0	267
June 1944	12-8-0	286	12-4-0	273
September 1944	12-8-0	286	13-0-0	289
December 1944	13-12-0	314	14-4-0	317

Note:—The weekly quotations and the Index Numbers of the Economic Adviser have been averaged.

and mounted up rapidly from the third quarter of 1942. The price of coal for civilian supply was not controlled by the Government of India till the middle of 1944. In 1941, a number of coalmine owners are reported to have formed an Association called the 'Calcutta Selected Coal Association' for fixing the prices of coal produced by members of the Association. This Association may be likened to a cartel and from 1942 the prices of higher grade coals were largely controlled by this Association. When in early 1944, Government thought of bringing under control the prices of coal, the prices fixed by the Association for Selected Grades and Grade I coals ranged

between Rs. 10-8-0 and Rs. 12-8-0 per ton. In determining the levels at which prices should be fixed under control, Government sought the advice of the Coal Control Board which had a majority membership of representative of producers. It was the original intention of Government to bring coal prices under control at the end of the first quarter of 1944. It was, however, not possible to do this because of a difference of opinion in the Coal Control Board between representatives of the larger and the smaller mines. The majority of the Coal Control Board including the representatives of the larger coal companies and the Coal Commissioner agreed to the following schedules of the prices of coal as reasonable:—

PRICES FOR RUN-OF-MINE COAL

Selected grade 'A'	Rs. 12—8—0
Selected grade 'B'	Rs. 11—12—0
Selected grade 'C'	Rs. 11—0—0
Grade I	Rs. 10—4—0
Grade II	Rs. 9—11—0
Grade III-A	Rs. 9—2—0
Grade III-B	Rs. 8—9—0
Grade III-C	Rs. 8—0—0

The representatives of small collieries, however, thought that the prices fixed for Grades II and under were too low and held out for an increase in them. The general policy of Government at this time was obviously ruled by the urgency of inducing producers and manufacturers to increase the production of coal to the maximum. Therefore, the prices in the schedule given above were further increased; and the prices finally fixed were as follows:—

Grade	Run-of-mine Rs. a. p.	Large and Screened Rs. a. p.	Rubble and Smithy Nuts Rs. a. p.
Selected A	12—8—0	13—0—0	13—4—0
Selected B	11—8—0	12—0—0	12—4—0
Grade I	10—10—0	11—2—0	11—6—0
Grade II	10—4—0	10—12—0	11—0—0
Grade III A	9—14—0	10—6—0	10—10—0
Grade III B	9—8—0	10—0—0	10—4—0

It will be observed that some of the grades included in the earlier schedule were abolished in this notification and that there was a general levelling up of prices for all grades other than Selected Grade 'A'. The Selected 'B' which now presumably contained the Selected Grade B and C of the earlier proposals, was increased from an average price of Rs. 11-6-0 to Rs. 11-8-0; an increase of annas six per ton was given in Grade I; the increase in Grade II amounted

to nine annas per ton; that in Grade IIIA to 12 annas and in Grade IIIB, which presumably now covered the original Grades IIIB and IIIC, the increase was much more than a rupee. The prices fixed at this time were for three sizes of coal but it was soon discovered that on account of the comparatively small difference in price between the different size types, there was an increasing tendency on the part of collieries to despatch run-off-mine coal. In view of the requirements of large size coal for certain important classes of consumers, it became essential to check this tendency and a corrective was eventually applied by fixing prices for two sizes of coal only as below:—

Grade	Price per ton	
	Run-of-mine dust coal and slack.	Steam coal, rubble and smithy nuts.
	Rs. a. p.	Rs. a. p.
Selected Grade A	12-5-0	13-5-0
Selected Grade B	11-5-0	12-5-0
Grade I	10-7-0	11-7-0
Grade II	10-1-0	11-1-0
Grade III A	9-11-0	10-11-0
Grade III B	9-5 0	10-5-0

This is the position of prices which still prevails. In changing the basis of prices from that of three classes to that of two, the proportions of various size classes in the total production were assumed at certain figures. In actual fact, it happened that the proportion in production of what could be classed as steam coal, rubble and smithy nuts proved larger than had been expected. This resulted in a further small increase in average prices being obtained by industry on all classes of coal. The level of the prices of coal of higher grades ultimately fixed by Government were higher than the level thought reasonable by producers themselves and the treatment accorded to inferior grades was considered by Government experts to have been even more generous than that accorded to selected grades of coal. Officers of the Industries and Supplies and Finance Department, who wrote a memorandum for us are of opinion that in according this treatment to industry, Government were influenced by the consideration that nothing should be done that might hamper the much desired increase in production. It was felt too that the increased profits accruing from the higher prices would be liable to excess profits tax and would be returned in this fashion to Government. They add that in actual practice, E. P. T. payments were largely avoided and declared profits during 1944-1945

and early 1946 were large. Inevitably also, there was a scramble for earning by new mines to make easy money. Not only is this the opinion of officers of Government Departments which participated in price making but it was also the recorded opinion of some important producers who had practical experience of the industry over a very long period. It is so unusual to obtain direct testimony of this kind on the nature of price fixing by producers that we produce an extract of the opinion given by a very reputable firm (Messrs. Shaw Wallace and Co.) which was included in the note of the officers of the Industries and Supplies and Finance Departments :—

“ We maintain, however, as we have done throughout, that the controlled prices for Bengal/Jharia coals were fixed at much too high a level and out of proportion to costs of production. We would remark here that we have collieries under our management in the Bengal coal-fields as well as in the Central Provinces and we are, therefore, speaking from personal experience.”

The prices fixed in 1944 have continued to remain in force and it is an increase in the level of these prices that is being claimed by the industry today.

27. The prices of coal fixed in 1944 were undoubtedly unduly high. The margin of profit left to the industry then could easily allow a higher wage rate being paid. This was not so paid. The claim by the industry for a higher price consequent upon increases in wages in 1946 and 1947 must, therefore, be judged not only in relation to the cost of these wage increases but also in relation to the profit margin left to the industry by the prices ruling in 1944 and 1945. In our view, the reference under consideration makes it necessary for us to determine the extent to which the profit margin enjoyed by the coal industry was unduly high in 1944 and 1945 and the extent to which it would bear any part of the wage increases that have been granted subsequently.

28. Before we go on to consider the question of the profit margin left to the industry in 1944-45, it is necessary to dispose of one issue raised in the memorandum submitted to us by the officers of the Industries and Supplies and Finance Departments. We have been asked to advise whether “the approach to the question of price fixation via production cost and a profit margin” is a sound one for the coal industry. The answer to this question has to be given in two stages. Firstly, it must be considered whether in a regime of controlled prices, Government should fix prices on the basis of ascertained costs plus a profit margin and, secondly, whether this particular basis is appropriate for the coal industry. It is obvious that, in attempting to adopt a basis of cost of produc-



tion plus profits for a controlled price, many dangers are involved. The determination of a cost plus basis for a controlled price for any industry is likely to lead to a neglect of considerations of economy and efficiency. If it were generally known in industry that costs as incurred by the industry would be taken as the basis of controlled prices, there would be little incentive for the average producer to economise payments in any direction. Unless, therefore, Government was prepared to go much farther in its regime of control of industry than merely the fixation of prices, it would, in the long run, be dangerous to adopt the cost plus basis. The adoption of the actual costs of production as the basis for the fixation of prices would have, in due course, to lead to the adoption of plans of nationalisation and controlled development of industry itself. This has been the experience in other countries. As a matter of fact, the guarantee of a price which adequately covers costs has usually been given in other countries as a consideration for inducing industry to adopt long-term plans of rationalisation and increase in efficiency. The recent effort to guarantee the English farmer a price fully covering his costs of production is linked up with the laying down of minimum standards of efficiency in husbandry. So far as we are aware, no action is yet being taken by Government for rationalising the methods in industry, or for insisting upon the maintenance of a minimum of efficiency in it or for doing any of the numerous things that various Committees have recommended for bringing the Indian Coal industry to a proper pitch of economy and efficiency. In the circumstances, we would not on general grounds advise the adoption of a cost plus basis for the determination of the prices of coal.

29. Moreover, in the particular circumstances of the coal industry, the difficulties in approaching price fixation through determination of the cost of production seems to us to be specially formidable. The units of production in the coal industry differ very greatly in size. Separate statistics of the classification of collieries according to size type are not available for the Provinces of Bengal and Bihar; but the data given by the Indian Coalfields Committee, 1946, in Appendix VII may be safely used for illustrating our point. The major number of collieries in India is concentrated in the group producing less than 25,000 tons per annum but this group produces only a little over 10 per cent. of the total production in the country. Almost 40 per cent. of the total output in the country is, on the other hand, produced by about 30 collieries each of which has an actual production of over 2,00,000 tons per

annum. This large dispersion in size of collieries is an obvious difficulty in the way of obtaining representative costs of production for the industry.

A special feature to which attention might be drawn in this connection is the following as noted by the Indian Coalfields Committee, 1946:—

“The opening up of small collieries during period of prosperity and their closure during bad times both have a most deleterious effect on the proper exploitation of the country's resources. These collieries are generally ill-equipped and their object is to secure the easiest coal. The result, not infrequently, is that the coal-bearing areas become pock-marked with small shallow workings which may lead to unsound development in the neighbourhood and may, as has happened in the Jharia field, be the cause of disastrous fires.”

The recent period has been one of the most remarkable periods of prosperity in the history of the coal industry. It has been equally remarkable for rapid and presumably unsound development in the coalfields.

The determination of average costs of production, especially at the end of a period of boom, for an industry with such divergent units of production must at any time be a difficult task. In the case of the coal industry, this is rendered all the more difficult because of the dominant influence over costs of physical conditions of production. It is not possible in this industry, as it is possible in a large number of manufacturing industries, to presume that lower costs are as a rule necessary evidence of efficiency. The nature of coal deposits and workings so dominate costs that they may differ remarkably between two neighbouring collieries managed with the same average efficiency. The approach to price determination by way of determining average costs of production is, therefore, one which we would not recommend for adoption for price fixation in the coal industry.

30. We may further illustrate the difficulties indicated above by a reference to the actual material placed before us by officers of the Industries and Supplies and Finance Departments. The officers of the Industries and Supplies and Finance Departments state that they were able to conduct reliable enquiries into costs of collieries run only by old established and large joint stock companies. As regards the costs of small collieries producing inferior grade coal, they were able to collect almost no information and such information as they did gather relating to the small concerns producing superior grades of coal was in their opinion, unreliable. In relation to the collieries

owned by old established joint stock companies, the enquiry conducted by the Industries and Supplies and Finance Departments' officers did not go beyond an examination of the books of the Companies at Calcutta. In selecting, for example, the collieries whose cost of production data would be studied, no attention was paid directly to variations in physical conditions of production or to standards of efficiency or economy in management. All these considerations were evidently judged from figures of various types of costs available in the records of the Companies at their head offices in Calcutta. The Departmental officers made the selection of the sample of the collieries for the cost of production study on recorded information regarding costs. They chose the sample so as to avoid a concentration of what appeared to them specially high or specially low cases of costs. The selection of a sample for purposes of a cost of production enquiry on the basis of the cost figures themselves is a procedure which cannot be justified and it cannot be considered to lead to reliable results. The material collected by the officers of the Department has been very helpful to us in obtaining a general view of conditions in the industry but we can hardly utilise it as a basis for the determination of price. We do

TABLE VIII—PROFITS OF COAL COMPANIES

Source:—Indian Coal Statistics, Data for 1943-1944 and 1945 obtained from the Economic Adviser's Office.

Year	No. of Companies	Profits Rs. (000's)	Profits of same companies in preceding year Rs. (000's)	Chain Index (Base, 1928=100)
1928	58	80,47	...	100.0
1929	58	79,16	80,47	98.4
1930	58	98,24	79,16	122.1
1931	62	77,16	103,33	91.2
1932	63	63,59	77,25	75.0
1933	64	50,98	63,45	60.3
1934	64	50,48	50,98	59.7
1935	62	54,29	50,79	63.8
1936	61	53,05	54,16	62.5
1937	56	60,71	52,88	71.8
1938	54	1,22,77	61,86	142.4
1939	55	1,19,00	1,21,77	139.1
1940	55	1,19,93	1,19,00	140.2
1941	55	98,29	119,93	114.9
1942	53	96,05	97,95	112.7
1943	53	113,93	96,05	133.7
1944	52	270,16	113,54	318.1
1945	49	297,78	269,40	351.6

not recommend the adoption of the cost of production plus profit margin basis as the basis of determination of prices of coal.

### Profits

31. It has been pointed out above that the prices obtained for coal by the coal industry in 1944 were very remunerative. The evidence of this is found in the financial results of the working of coal mines in India. We set out in the Table VIII the information relating to the movement of profits in the coal industry for the last 20 years for certain selected coal companies as published by the Department of Commercial Intelligence and Statistics. The table brings out the remarkably high level of the profits made by coal companies during 1944 and 1945. The period 1932-37 is usually considered as a period of very depressed conditions for the coal industry. The immediate pre-war years were, however, comparatively prosperous and the profits made by the industry till 1943 may be said to have been not unduly high. It is clear from the table that the profit margin in 1944 and 1945 became specially wide and that an industry with such a liberal profit margin could easily bear an extra burden owing to wage increases.

32. The statistics of profits included in the table do not, however, enable us to calculate with sufficient accuracy the extent to which the coal industry in Bengal and Bihar could bear the cost of wage, etc. increases. Fortunately, we have been supplied by the officers of the Industries and Supplies and Finance Depart-

TABLE IX—FINANCIAL RESULTS OF THE WORKING  
OF 12 COAL COMPANIES

(000 omitted).

	1940	1945
Coal raisings (Tons)	62,23	65,60
Profits** (Rs.)	51,62	2,29,89
M/A and Directors' commission. (Rs.)	10,83	25,78
Net profits i. e. profits minus M/A and Directors' commission. (Rs)	40,79	2,04,11
Profits per ton	Rs. as. p. 0-10-6	Rs. as. p. 3-1-9

\*\* Not including income from royalties, investments etc.

ments with detailed financial results of a set of coal companies in Bengal and Bihar during 1940 and 1945. These coal companies were the coal companies selected by the Industries and Supplies officers, for their study as being specially representative of conditions in the coal industry. We set out in Table IX a summary of the financial results of these selected companies for the years 1940 and 1945. Among the data supplied by the Industries and Supplies Department for these companies were also contained the raisings of coal in the particular years by these Companies. It is, therefore, possible to express the financial results in terms of the output of coal of these companies. The bettering of the financial condition of the companies as between 1940 and 1945 can be gauged by the fact that whereas the margin in profit for these companies was Rs. 10-6 per ton in 1940, this had widened to a margin of Rs. 3-1-9 in 1945.

33. The production of coal for which the companies whose financial results are represented above were responsible was more than 25 per cent. of the total production of coal in Bengal and Bihar for the year 1945. It would, therefore, not be unfair to assume that a profit margin of Rs. 3 per ton was general for the working of joint-stock companies in Bengal and Bihar for this year. The margin left for inferior coal in the 1944 price fixation was notoriously large and, in the opinion of the officers of the Departments of Industries and Labour and Finance, must have been at least Rs. 3 per ton if not larger. Regarding the smaller collieries producing superior coal, little definite information is available but the view of the officers of the Industries and Supplies and Finance Departments is that their costs are on a lower level than those of the joint stock companies. We are, therefore, justified in assuming a general profit margin of Rs. 3 per ton on an average for all coal produced in Bengal and Bihar in 1945.

34. Before proceeding further, we must pay some attention to possible increases in the costs of coal production other than labour costs. The main items other than labour costs in coal production would be stores and materials, machinery, managing agents and directors' remuneration, royalty and rent, depreciation, electricity and other power and charges of the head offices at Calcutta. The payment of royalties and rents are in most cases fixed for long terms and we were told that they are liable to increase only in case of those agreements where the payments are related to price. As the price has been controlled at a steady level since 1945, no increase in these charges may be presumed to have taken place. The managing agency charges are linked to profits and should also not

have increased since 1945. Depreciation was allowed for ordinarily at full rates under Income Tax rules in 1945; this charge is also unlikely to have increased since. The Calcutta charges are diversified in their composition. It is difficult to make any statement regarding movements in them. However, one set of summaries of costs relating to a number of collieries which were shown to us by a representative of industry did not reveal any general increase in Calcutta charges for the first quarter of 1947 as compared with the first quarter of 1945. The rates for electric power charged by public utility companies in the coalfields are not reported to have increased by more than 50 per cent. over the whole period of the war. Great emphasis was laid by representatives of industry on the high costs of coal to collieries which generate steam power by consuming their own coal. As the price of coal has not increased since 1945, no increase in this item of cost can also have taken place. The one remaining important item of current cost is that represented by stores and materials. The important stores items whose prices have gone up since 1939 mentioned by the representatives of industry were wire ropes, rails, tubs and other steel material in general, galvanised pipes, oil and grease, explosives and miners' lamps. It has not been possible for us to ascertain whether any increase in the prices of these materials has taken place since 1945. In support of this presumption may be cited the evidence of movements of prices of certain industrial materials included by the Economic Adviser in his Index. The Index includes price quotations for galvanised sheets, petrol, kerosene and cement. In all these materials, the index in the first quarter of 1947 stood at a level lower than that for the year 1945. We also understand that increase in the prices of steel materials of no category, Indian or imported, has taken place since 1945 and that Indian steel prices were lowered slightly during 1946. We do not, therefore, feel that the costs of the industry on item other than labour are today significantly higher than in the year 1945. Owing to the very short time at our disposal it was not possible for us to obtain full data relating to all the movements of prices and costs since 1945. The set of summary cost figures referred to in another connection above support in a general manner the conclusion reached. However, in order to allow a margin of safety in our calculations, we assume an increase of four annas per ton in the other costs.

35. Some other points mentioned by representatives of industry may also be noticed before proceeding with our final calculations. The representatives urged that the concessions in kind actually cost

many units a good deal more than their cost as estimated by the Conciliation Board. It may be pointed out that the figure at which the cost of these concessions has been placed by the Conciliation Board—six annas—is the same as that mentioned by the India Mining Association in its statement of the case for the coal industry submitted to the Conciliation Board. Therefore, while individual units might occasionally incur a cost higher than the annas six estimated by the Conciliation Board, we cannot with reason put the average cost to industry at a figure higher than that estimated by a representative association of coal-owners. The representatives of industry also laid great stress on costs due to the present instability and scarcity of labour. It was pointed out that because of these factors each colliery had to incur special costs for recruitment of labour and that the average turnover of collieries had fallen making the average cost per ton of producing coal higher than before. The calculations of costs of recruiting labour which we have seen put forward by coal companies vary from anna one per ton to annas eight per ton. It is very difficult to know the real measure of these costs and ascertain the extent to which they are general. The extent to which there is a lower turnover in fact and the effect of it on costs cannot also be readily measured. It would appear from the increase, in recent times, in the number of labourers employed by coal mines that the real trouble is not so much the actual scarcity of labour as its irregularity or instability. This would appear to be the case from official statistics and from the following extract from the Annual Report of the Chief Inspector of Mines in India for 1944:—

“ There has been a considerable increase in surface workers. This increase is primarily due to building programmes which were held in abeyance during a large part of the war period now being undertaken. ”

The Chief Inspector remarks that this labour has been employed on much extraneous work which has really no direct connection with coal production. The total number of persons employed today seem to be even larger than those in 1945. The difficulties relating to recruitment and turnover must, therefore, be related to other factors than actual scarcity of labour. We consider that the main justification for the effort at standardisation and levelling up of wage rates made by Government through implementing the recommendations of the Conciliation Board is that it will bring about a stabilisation of the labour force in industry. If wages are everywhere standardised and they are high enough to give a reasonable standard of living to the miner and the surface worker

it may be presumed that both the turnover and absenteeism in industry would be less. If this happens, the special problems referred to by the representatives of industry will be solved. It may in this connection, be made clear that costs such as those on account of the Attendance Bonus and Provident Fund calculated by us above assume greatly increased stability of labour. If labour conditions do not improve those costs will not have to be incurred and to the extent that the costs are actually incurred by the industry, the features of the present situation complained of, such as expenditure on recruitment or lower levels of output will vanish.

36. We have calculated a total profit for the industry of about seven crores of rupees in 1945. Before we go on to calculate extent to which this seven crores can be drawn upon for bearing the extra labour costs incurred since 1945, it would be necessary to make an allowance for the profits to be retained by the industry. The industrialists are reported to claim a profit of not less than 15 per cent. on the sale price of their coal. If the total sales revenue is placed at about 26 crores, the demand of the industry would be for a profit margin of about four crores. We cannot see how the industry can justify its claim for such a high margin of profit. Table VIII will show how much lower than in 1945 were average profits earned by industry during periods which were not considered as depressed. We see no reason for holding that the average profits to which the industry is entitled should be higher now than in pre-war years other than the years of depression. The main purpose of profit is to provide a return at certain rates to capital invested in industry. The movement of rates of interest has been downward throughout the war and post-war period and it has been remarked by intelligent observers that if private capital continues to demand a high rate of return on its investments in industry, the case for nationalisation will grow all the stronger.

37. It is not necessary for us in arriving at a decision over this reference to lay down any standard rate of reasonable profit for this or any other industry. We would put the figure of the profit margin to be left to the coal industry for existing level of outputs at about Rs. 2 crores per annum. This would give a rate of profit of Rs. 14 per ton which is about a third higher than the rate estimated to have been earned by the industry in 1940. A profit of Rs. 2 crores would still leave, on the basis of the price-cost relationship of 1945, a margin of about Rs. 5 crores which could be made available for meeting the burden of increased wage costs. From this



Rs. 5 crores, must be deducted the amount of Rs. 0.6 crores towards increase of costs other than labour. This leaves a sum of Rs. 4.4 crores which the industry could contribute at the 1945 price and wage relationship towards the extra cost of labour. The increased costs of labour brought about in 1946-47 are calculated by us to cost the industry an additional sum of about Rs. 8.4 crores. This leaves a sum of about Rs. 4 crores of additional labour costs to be covered by a price increase. An increase in the price of coal of Rs. 1-12-0 per ton at the present level of output would fully cover this additional cost and we recommend that Government should grant this increase in the price of coal of all categories uniformly.

38. We are aware that the averaging of additional costs for industry and meeting them to the extent that they have increased in the average may create some problems which are specially difficult at the margin. The representatives of the coal industry stated that certain sections in small collieries had been specially hit by the increase in costs of labour. It was also said that some coal companies continue to exploit high grade but high cost coal mines only because they obtain a specially large margin of profit in other collieries worked by them. It was said that in case our price recommendations met no more than average increases in costs a small number of both low grade and high grade collieries may have to go out of work. We have no data before us with the help of which we can examine these statements. It is, however, not inconceivable that in the existing situation an increase in price that covers the average increase in costs may leave certain classes of producers making a loss. We feel, however, that in the large majority of cases, the collieries making a loss will be those who have gone after quick raising of easy coal or those whose costs have, on account of one reason or another, become unduly inflated during war years.

In a free economy, the price paid in the market is supposed to cover the cost of the output at the margin; but in a free economy, the working of all the units of production is continuously under stress of competition and the margin itself is, at least, theoretically, continuously shifting. The conditions in an economy in which price is controlled and sales are secure are very different. In this economy, no safeguards against continuous wasteful production or expansion in unremunerative directions or extra charges by privileged producers or classes of workers are available. It is a common place of the history of industrial fluctuations that during periods of boom when sales competition is not keen, the average efficiency of industrial concerns is apt to be low. It is the test of a

severe depression that is supposed to bring back tone to industrial economy. Under control the extremes of fluctunations are sought to be avoided; as a corollary, a controlled price cannot also afford to cover the reported costs of the least efficient producers. A controlled price will have to be fixed taking into consideration average conditions of efficiency and working. Otherwise, it will tend to be placed at a wastefully high figure from which no forces can help to lower it. The history of price fixation during wartime illustrates what has been said above. The extreme anxiety of Government to get the fullest production of coal led to the fixation of prices at unduly high levels. It has been reported that the result has been an attempt at quick exploitation of easily got coal which it is undesirable to allow in the interests of conservation of resources and in the interests of economic activity in general. We have been told that a high price is necessary to obtain the maximum of production; but a high price has the result not only of increasing production but also of increasing it in undesirable directions and through perhaps uneconomic methods. Therefore, in our opinion, a regime of controlled prices must seek other means than that of the price incentive for maximising production and for meeting the problems of special producers such as high quality producers with high costs.

39. We have no doubt that in the wake of the decision of Government to nationalise mineral wealth in the country will follow efforts at the formation of longterm plans for a rationalised exploitation of mineral wealth. These plans, we feel sure, will include measures to deal with the problem of the smaller units so as to make them more economic and efficient and also provide for the continued exploitation of special quality resources whose working cannot be provided for in the ordinary way at the average price. Such plans even with full safeguards to see that they serve only the public interest will still cost the Government something. The cost could be met either by charging a specially high price to special classes of consumers or for special types of coal or by a general cess on the industry to meet the general cost of a rationlisation plan. Even if such a general cess increases ultimately the average price of coals this average increase will, in our opinion, be always less than the increase that would be necessary to cover all the marginal producers. Above all directed planning of production which is financed in such manner will prove beneficial because it will canalise effort at conservation and exploitation in direction dictated by national interests; whereas an extra price increase is more likely to have effects which would prove wasteful in the long run.

40. We have avoided in all our calculations any possible underestimation of the cost of wage increases to industry. We have also given a price increase which covers adequately the increase in costs. We have, in doing this, put the profit margin allowable to industry at what we consider to be a fair average level. The representatives of industry felt that the profit margin in the coal industry has to be particularly wide in order to attract new capital required for replacements and expansion in competition with the demand from other industries. We feel it necessary to emphasise that the present is not the time at which any wide margins of profits can be allowed especially for a basic industry like that of coal. We have pointed out in previous reports the condition of strain under which our economy at present works. Price relations in it are, in a large measure, out of adjustment. Any increase in prices of essential materials like coal which leads to sympathetic and perhaps cumulative movements in the prices of manufactured articles must at all costs be avoided at this juncture. It is fortunate that the burden of the increase in the price of coal by Rs. 1-12-0 per ton, recommended by us will be offset to a substantial extent by the recent withdrawal of the excise duty of Rs. 1-4-0 per ton of coal.

41. The representatives of industry have urged on Government their claim for an increase in price which covers retrospectively the reduction in profits to industry as between 12th May when the wage increases were given and the date on which effect will be given to increased prices. This claim could have been justified only if there had been all the time an accurate calculation of the margin of profit to be allowed to industry and that margin had never been allowed to widen. In fact, conditions relating to profits in the coal industry during war and industrial profits in general in India have been extremely favourable to industrialists. Profits instead of having been restricted all the time to a narrow and fixed margin have been allowed to range out of all known proportions. Industrialists who have enjoyed such margins for years are, in our opinion, hardly justified in claiming retrospective reliefs the moment these margins are cut into. The industry has had a fairly wide margin even after the September 1946 concessions as will be seen from our calculations above. It could, therefore, easily bear the extra cost for the period between 12th May and the date from which the increase in price is brought about.

42. Because of the extreme importance to industry and to the ultimate consumer of the price of coal, we wish to draw the attention of Government to one aspect of present arrangements of distribution emphasised by representatives of industry in their

discussions with us. The representatives of industry complained that under Government control, a new intermediary has been introduced in the distribution of coal who obtains an extravagant commission of Rs. 1-8-0 for purely nominal services. We were told that coalowners have in the past frequently protested against this entirely unnecessary charge imposed on the consumers of coal because of Government control of distribution. It has not been possible for us to examine this question but we certainly think the matter to be of importance enough and the sum of Rs. 1-8-0 per ton of coal of consequence enough to draw pointed attention of Government to the allegation made by the industrialists. We would urge on Government a very early consideration of this question so that, if possible, the extra cost of coal to the consumer not covered by the abolition of the excise duty may be neutralised through either an abolition or substantial lowering of this charge for distribution.

43. In the short time at our disposal we have not been able to examine the question relating to hard and soft coke and coke grease. We propose to deal with these at a later date.

*Poona, 11th June, 1948.*

A. D. GORWALA

*President*

D. R. GADGIL

*Member*

## XII

### REVISION OF CONTROLLED PRICES OF DIFFERENT VARIETIES OF INDIGENOUS PAPER

1. The background of the present reference may best be stated in terms of the memorandum prepared by the Department of Industries and Supplies dated the 9th May 1947 sent with Finance Department letter No. F-3-(17)—E. G. 1/47 dated the 13th May 1947.

"At present, control exists on the prices, production, distribution, movement and consumption of all paper. The prices of Indian mill-made paper for sale to the public were first fixed under the Commerce Department Notification No. Econ. Ad. (P. C.) / 16/41, dated the 16th January 1942. These were later revised in consultation with the industry and were incorporated, in due course, in the Schedule appended to the Paper Price Control Order 1944, which was issued on the 28th August 1944.

Prices for Government purchases of paper during the war period were first negotiated by the Controller of Printing and Stationery and later i. e. with effect from 1-4-44 by the late Department of Supply. These prices were fixed for a period of six months at a time and had to come up for revision after that period. Even though prices for sales to public came to be controlled from January 1942, there was for a long time no definite correlation between the two sets of prices viz., those for sales to Government and those for sales to the public.

In October 1945 it was decided that negotiations for fixation of civil prices as well as that for Government purchases of paper should be conducted simultaneously and that the two prices should be definitely correlated. Pursuant to this decision, a meeting was held with the Industry on the 23rd October 1945 and it was agreed that civil ceiling prices for any variety of paper would be obtained by adding to agreed Government prices the following elements:—

- (i) 7½ per cent. to allow for the preference to be given to Government who is a bulk purchaser;
- (ii) 6 pies per lb. to cover the average freight from mills to consuming centres as Government rates were ex-factory while civil prices were on F. O. R. destination basis;
- (iii) 10 per cent. (reduced to 8½ per cent. with effect from 1-6-46) to cover distributors' discount.

"As pointed out by the Industry in its Memorandum, prices of paper—even those for Government purchases—have never been correlated to costs of production in any scientific manner. The reason for this is historical. When the late Department of Supply took over the responsibility for price fixation of Government purchases, Industry was already getting from Government

prices which were considered unduly high and these had to be brought down. There was opposition by the Industry to cost investigation. As the Industry was prepared to offer a substantial reduction from the previous level of prices, it was considered prudent not to alienate the sympathy of the industry by forcing a cost investigation on them, specially as it was known that there were certain units in the Industry whose cost of production was inordinately high. If prices were related to costs of production, allowing a certain percentage by way of profits, the question of fixation of one price acceptable to all would have proved difficult. This applied equally to the fixation of civilian ceiling prices."

2. Government sought and obtained some reduction in the prices of paper for the period April—June 1944. The price was increased during the next two half years, bleached white printing paper standing at the high figure of Re. 0-6-7 per pound for the period July 44—March 45. From this level it was reduced during the next three half years and now stands at the price of Re. 0-5-10½ which was the figure determined for the half yearly period, March 1946—October 1946 and continued after that. (see Table No. 1).

3. In the fixation of the prices of paper, the price of bleached white printing paper holds the central place. Once the price of white bleached printing paper is fixed, there should normally be no difficulty in arriving at the prices of other varieties. The price relations between the prices of bleached white printing paper and other sorts were not all well adjusted during war years and allowed an unjustifiably higher price level for some, especially, inferior sorts. Government has, therefore, been pressing industry for a rationalisation, that is, a proper adjustment of prices of various sorts *inter se*, since 1946. As a result of negotiations with industry, an agreement has now been reached between industry and Government experts regarding the relation of prices of most sorts to the price of bleached white printing paper. It is not necessary for us, therefore, to go into the question of differentials of the prices of the various sorts of paper. There is, however, yet no agreement between industry and Government regarding the relation of prices of three types of boards.

4. It should be made clear that though there is agreement regarding the proposals for the rationalisation of paper prices, the rationalised prices have not yet been brought into force. Government, in suggesting rationalisation, had maintained that during war years small and inefficient mills which were the principal producers of low grade papers had been supported by increased prices for these qualities but that the position should now be rectified. This

TABLE No. 1—STATEMENT SHOWING PRICES PAID FOR BULK  
PURCHASE OF PAPER BY GOVERNMENT SINCE APRIL 1944

Quality	PRICES PER LB.						
	Pre-war 1938- 1939	April to June 1944	July 1944 to March 1945 (A)	July 1944 to March 1945 (B)	April to Sept. 1945	October 1945 to March 1946	April 1946 to March 1947
	as. p.	as. p.	as. p.	as. p.	as. p.	as. p.	as. p.
Bleached Printing	3-4	6-0	6-4	6-7	6-3	6-1.5	5-10½
Unbleached	...	5-9.5	6-1.5	6-4.5	6-0.5	5-11	5-8
S/S Unbleached Printing	...	...	...	...	6-2	6-0.5	5- 9½
Bleached Cream Wove/Laid	3-9	6-2½	6-6½	...	6-5½	6- 4	6- 1
Badami	2-8	5-9	6-1	6-4	6-0	5-10.5	5- 7½
White Cartridge	3-5	6-1	6-5	6-8	6-4	6-2.5	5-11½
Unbleached Cartridge	...	6-1	6-5	...	6-1.5	5-10.5	5- 9
White Imita- tion Art	...	6-2	6-6	...	6-8	6-6.5	6- 3½
White S/C Printing	3-7	6-2	6-6	6-9	6-6	6-4.5	6- 1½
Typewriting	4-6	7-4	7-8	7-11	7-7	7-5.5	7- 2
Duplicator	3-8	6-6	6-10	7-1	6-9	6-7.5	6- 4½
Brown Wrapp- ing	2-4	5-9	6-1	6-4	6-0	5-9	5- 7½
White Blotting	4-4	9-10	10-2	10-5	10-1	9-11.5	9- 5½
Pulp Boards	3-2	6-0	6-4	...	6-3	6-1.5	5-10½
Imitation Craft	...	6-6	6-10	...	6-3	6-0	5- 9
Grey Board	...	6-9	6-9	...	6-0	5-3	5-0.5
Duples and Triplex Board	April to Sept. '44	Oct. to Dec. 1944	Jan. to March 1945	April to June '45	July to Sept. 1945	Oct. '45 to March 1946	April '46 to March 1947
Tricket Board	13-0	10-6	10-0	9-6	9-0	7-0	6- 8½
	10-0	9-0	9-0	8-6	8-3	6-9	6- 5½

(A) Prices given to efficient mills.

(B) Prices given to less efficient mills.

it was suggested, would act as encouragement to smaller mills to manufacture better grades of paper which were in extreme short supply. In discussions held in March 1946, representatives of

industry suggested deferring consideration of Government's proposals regarding rationalisation to enable the two Associations representing the whole paper industry to submit to Government their own proposals. This was agreed to by Government and the prices for the half-year—March to October 1946—were not rationalised. The Associations submitted their proposals for rationalised prices in September 1946 but coupled the offer to rationalise prices with a claim for an all round increase of 3 ps. per pound in Government rates and a proportionate increase in the civil ceilings on the ground of the rise in the cost of raw materials and in the wages of labour. At this time, Government took the view that on account of the larger sales of paper to the civil consumer and the considerable profits made by different units of industry in the past, a reduction of 2 ps. per pound would be justified. No agreement could be arrived at in the meeting held in October 1946 and it was ultimately decided that the *status quo* should be maintained till the end of March 1947 before which time, the industry would submit a memorandum giving facts and figures in support of their case for an increase in prices. The memorandum that the industry had agreed to send was not in fact sent till the end of March 1947. A copy of the memorandum submitted by the industry has been supplied to the Board.

5. The memorandum of the industry initially poses two questions to Government: (1) whether Government wishes to encourage the development of the paper industry to the extent of producing the whole of the country's requirements, and (2) what do Government regard as an economic unit. The memorandum then proceeds on the assumption that a fine mill of six thousand tons of production per annum may be regarded as an economic unit and gives an estimate of current costs and fair ceiling prices based on that unit. In arriving at the fair ceiling prices, it divides the total costs by total production and fixes on this basis the ex-mill price for white printing paper for Government. It finds the civil ceiling price for by making additions according to the contract formerly agreed upon between Government and the industry to the Government price. The memorandum submitted by industry also contains brief notes indicating under various items special increases in costs that had to be borne by industry during recent times. In our interview with representatives of industry on 2nd June, we made it clear that it was not possible for us to proceed on the basis of the hypothetical costs of an assumed unit. We had to recommend the fixation of prices immediately and for existing producers. It was, therefore, necessary for us to know the results of the financial working of



existing units at the present level of prices and to obtain information regarding the increase in their costs in recent times which were held to justify an increase in prices. The representatives of Industry agreed to supply information on these lines for representative units in the Industry at an early date. This information was received by us during the first week of August.

6. We had asked the representatives of industry to supply us with information regarding variations in per unit costs for various sized mills. These figures have been supplied to us and on their basis, the industry claims an immediate increase of at least as. 2 per pound in the price of paper. The industry calculates the average cost per pound of paper to have been as. 6 ps. 9 in 1946 and estimates this to have increased to as. 8 ps. 5 in the second quarter of 1947. The industry calculates a further increase from the second quarter of this year of Rs. 60 per ton which would work out at ps. 5 per pound. The net increase over the costs in 1946 is placed at as. 1 ps. 6 up to the second quarter of 1947 and another ps. 5 after that period. This makes the total claim of the industry as. 2 per pound.

7. The industry makes an additional claim for special depreciation. It states that the depreciation provided for at present is according to the pre-war value of the plants which have been in operation for a number of years. But replacement costs and value of new plants and machinery have gone up. The existing units have to effect replacements and renewals due to the serious wear and tear on account of high pressure of working during war years. The additional depreciation charge necessary to meet these high replacement costs are placed by the industry at about 6 ps. per pound. The industry realises that the question of providing for special depreciation may not be immediately considered and urges the Board to recommend to Government an immediate enhancement of the price by as. 2 which is the minimum necessary to keep the mills working.

8. The data for enabling the Board to arrive at a decision regarding paper prices are definitely scanty. Normally, the Board would have undertaken further investigations and enquiries before making a recommendation. However, the industry has been pressing for an immediate increase in prices and the Industries and Supplies Department is also evidently anxious to reach an early decision on the matter. In view of these considerations, the Board makes this report on the basis of such data as are available. The data are specially meagre in relation to the costs of production of paper. It appears that the Cost Accounts Officers of the Industries and Supplies Department have examined during recent years the costs of only two paper mills in India. The costs of these paper

mills were evidently examined because they showed specially high costs. For none of the important units in the industry are the results of an examination of costs by the Cost Accounts Officers of Government available for any period, recent or remote.

9. Information regarding the financial working of individual mills is full by comparison and it is this information which we summarise in the first instance. Table No. 2 shows the chain index of the profits earned by the paper industry for some pre-war years and for years during the war till 1943. This shows

TABLE NO. 2—FINANCIAL WORKING OF PAPER MILLS  
DURING 1938-1943

Year	No. of companies	Profits Rs. (000's)	Profits (same companies) Preceding Year Rs. (000's)	Chain Index (Base: 1928, = 100)
1928	3	1,609		100
1933	3	1,783	1,487	110.8
1938	4	3,445	3,660	172.1
1939	4	3,039	3,445	151.8
1940	8	7,172	3,039	358.7
1941	8	8,641	7,172	432.2
1942	8	9,764	8,641	488.4
1943	8	11,928	9,764	596.6

how the absolute profits as well as the chain index of profits rose rapidly from the beginning of the war through war years till 1943. Figures for continuing this index for years after 1943 are not available. However, in the papers supplied to us by the Industries and Supplies Department we find estimates for profits and production by individual mills, based on balance sheets for the years 1944-45 and 1945-46, prepared by the Cost Accounts Officers of the Government of India. The results of these are summarised in Tables 3 and 4. It would appear from them that 1944-45 was a peak year for the profits of the industry. Though the profits declined somewhat from the height reached in 1944-45 in later years, they still continued to be very high. We have had an examination made of the balance sheets covering half years in 1946 or full years, the larger parts of which fall in 1946. These reveal a rate of profits which seems to be definitely higher than that earned by the industry in 1943. The relation of costs and prices for 1946 would seem to leave for the paper mills, excluding those producing boards and initiation kraft, profit in the neighbourhood of Rs. 1.5 crores. The relation between costs and prices in 1946 was, therefore, such as to leave a large margin of profits to the average unit in the industry.

TABLE NO. 3—FINANCIAL WORKING OF PAPER MILLS IN 1944-45

Mill	Annual Production	Capital employed	Estimated annual profits	Percentage on capital
	Tons	Rs. (000's)	Rs. (000's)	
Titaghur	33,000	1,29,00	1,16,40	90
Bengal	10,700	41,00	19,04	46
I. P. P.	8,200	36,00	14,74	41
Shree Gopal	8,500	71,00	25,94	36
Sirpur	5,000	91,00	26,39	29
Orient	122,00	39,00	10,90	28
Rohtas	10,105	1,75,00+	22,98 +	13
Star	3,800	54,00	4,00	7
Deccan	2,000	29,00	1,52	5
Gujerat	1,350	16,00	2,03	12
Andhra	2,150	28,00	-2,06	-7φ
Pudumjee	700	Y	-	-
W. I. C.	3,000	26,50	8,02	22
Mysore	3,350	36,00	2,85	8
Punalur	3,400	14,00	3,73	27

- φ - This mill always makes a loss.  
 + - Rohtas Industries Group collectively.  
 Y - This mill is a private limited company.

TABLE NO. 4—FINANCIAL WORKING OF PAPER MILLS IN 1945-46

Name of the Company	Effective Capital (Lakhs)	Profit (reduced to annual figure)	Percentage of Profit on capital
	Rs.	Rs.	per cent
1. Titaghur Paper Mills, Calcutta	133	103,34,820	77.70
2. Bengal Paper Mills, Calcutta	36	15,65,680	43.10
3. India Paper Pulp Company, Calcutta	41	22,55,700	55.00
4. Star Paper Mills, Calcutta	53	4,66,340	8.80
5. Upper India Couper Paper Mills, Lucknow	37	1,50,700	4.10
6. Rohtas Industries Ltd., Dalmianagar	(No figures available separately for Paper)		
7. Shree Gopal Paper Mills Ltd., Calcutta	62	16,26,840	26.06

10. The claim of the industry for enhanced prices is based on the increase in costs that have taken place since 1946. The information supplied by the industry is for six mills which represent various sizes of units. The industry calculates a measure of price increase as being necessary on the average of the reported costs of these units. (See Table No. 5). It has been noted by us above that the costs as reported by the industry have not been subjected to any examination by the Cost Accounts Officers of Government. The lack of this examination is of special significance

because the accounts of the majority of units have never before been examined by the Costs Accounts Officers. We cannot take it for granted, therefore, that the figures submitted are in accordance with, what is considered by Government, the usual and the proper practice regarding the determination of cost of production figures for price fixation purposes. Again, as reference to the tables will show the units with specially high costs supply only a very small portion of the total production of paper. A simple arithmetical average of the figures of these costs would, therefore, give an entirely wrong picture of the average manufacturing costs in industry. There is also great disparity between the reported variations in the increase in costs since 1946 for the different units and before accepting the evidence of these figures as giving an accurate measure of the increase in costs, it would be necessary to arrive at some explanation of the reasons for these different movements.

11. We cannot, for all these reasons, treat these figures of costs as enabling us to determine the average absolute costs of production, on the basis of which the increases in costs of production in recent months can be quantitatively determined. At the same time, the unexamined returns made by the mills are the only data on which our immediate recommendations have to be based. We feel that it would be safer for us to use these data not for giving us absolute cost figures but for giving a measure of the comparative increase in costs between the years 1946 and 1947. We give in Table No. 6 the percentages of the increase in costs during the first and second quarters of 1947 over the costs of 1946, as reported by the various mills. No percentages have been indicated for quarters during which the figures for individual mills are affected by an extraordinary stoppage or strike. The table shows that barring the surprisingly high figure for the Titaghur Paper Mills, the reported increase in costs between 1946 and the first quarter of 1947 was about 10 per cent. The figures for the second quarter apparently contain in the returns for some mills an element of estimation. They may, therefore, be taken as less definitive than those for the first. For both the first and the second quarters it is important to note that it is chiefly the larger units that report the higher percentage increase in costs.

12. It is difficult to arrive at any reliable figure of an average increase in costs on the somewhat conflicting evidence of the table. But we feel that an estimate of an overall increase of 16 per cent. in costs between 1946 and the second quarter of 1947 would not be unfair. The industry anticipates a further increase in manufactur-

ing costs after the second quarter of the year. Of this increase, the only definite and calculable increase is that resulting from the recent enhancement in the price of coal. The net increase in the price of coal on account of this enhancement may be put at Rs. 2-7-0 per ton of coal. The Industrial Panel dealing with the Paper Industry has estimated a requirement of 3.5 tons of coal per ton of paper. The increase on this account would, therefore, not exceed a figure of about Rs. 10 per ton of paper, which works at less than one pie per lb. of paper. We, therefore, think it proper to assume an overall increase in the cost of production of a pound of paper of

TABLE NO. 5—STATEMENT OF MANUFACTURING COSTS  
PER TON OF PAPER

Table as supplied by the Indian Paper Makers Association and the  
Indian Paper Mills Association.

Name of Mill	1939	1946	1st Qr. 1947	2nd Qr. 1947
	Rs.	Rs.	Rs.	Rs.
Titaghur Paper Mills Co. Ltd.	338.24	723.432	893.886	1257.437*
India Paper and Pulp	401.39	789.32	+	917.34
Shree Gopal Paper Mills	414.17	851.47	1138.43*	1058.00
Star Paper Mills Ltd.	439.8	900.00	993.00	1151.00
Mysore Paper Mills Ltd.	634.0	1130.00	1263.00	1311.00
Gujerat Paper Mills Ltd.	467.0	1268.00	1371.00	1411.00
Average mg. cost per Ton	449.0	943.7	1130.863	1184.3
“ “ “ “ lb.	0-3-2	0-6-9	0-8-0	0-8-5

\* This was strike period in the Mills.

+ The figures are not available because the mill was under strike during this quarter.

TABLE NO. 6—PERCENTAGE INCREASE IN COSTS DURING THE  
FIRST AND THE SECOND QUARTER OF 1947 OVER  
THE COSTS OF 1946.

Mill	Percentage increase in costs in the 1st quarter of 1947 over 1946	Percentage increase in costs in the 2nd quarter of 1947 over 1946
Titaghur	23.6	
India Paper		16.2
Gopal		24.3
Star	10.3	27.9
Mysore	11.8	16.0
Gujerat	8.1	11.3

about an anna per pound between 1946 and the present day. We have indicated above that the margin of profit enjoyed by the industry in 1946 was very high. We do not, therefore, think that it will be unfair to ask the industry to bear a part of the increased costs. In the absence of detailed information, it is impossible to arrive at the figure that the industry can be asked to bear with any definiteness or accuracy. On a general review of the position, we feel that it would not be proper to ask the consumer to bear more than half of the calculated increase in overall costs. We, therefore, recommend for Government purchase the price of bleached printing white paper be increased from the present price of As. 5 ps. 5½ to As. 6. ps. 4. This increase may be allowed from the 1st April for Government purchases. The prices for civil supplies should be determined in the manner agreed upon between Government and industry since October 1945.

13. We recommend that the opportunity should be taken of bringing about the rationalisation of paper prices which has been postponed so long and that the grant of the increment in prices according to the scheme which has been agreed upon by representatives of Industry and officers of Government. For duplex, triplex and ticket board, we do not recommend any immediate increase in prices. It is clear from previous correspondence and noting in this matter that Government officials and experts have not been satisfied with either the quality of production or the price levels that have obtained for these types. In the figures supplied by representatives of industry are not contained any data justifying the special position asked for board production. We are of opinion that no increase need be given in the prices of these boards.

14. We do not consider the claim of the industry for special depreciation as admissible. The special depreciation asked for is obviously to offset the decrease in the value of the depreciation and reserve funds set aside by paper mills in the past on account of the general increase in prices. The reserves held in money terms by everybody have been similarly affected by the general movement towards increased prices during recent times. Claims on the part of holders of such monetary reserves to be reimbursed for the loss by charging it to current consumers of their products cannot be accepted.

Poona, 26th August 1947.

A. D. GORWALA,

*President*

D. R. GADGIL,

*Member.*

## NOTES ON C. P. B. REPORTS

BY THE EDITOR

The following notes in the appropriate order deal with the action taken by Government on the Reports of the Commodity Prices Board.

### **Note 1:—Cotton-Time of Announcement and Clarification (30-4-47)**

Press Note by the Textile Commissioner to the Government of India, Bombay dated 13, June 1947.

"Numerous inquiries are being received by Government regarding their cotton policy for the season 1947-48. Government have referred the question of floor and ceiling prices for new cotton for the season 1947-48 to the Commodity Prices Board. As soon as the Board's recommendations are received Government will announce their decision regarding cotton prices and the opening of new crop trading." (*Indian Trade Journal*, 19 June 1947, P. 547).

### **Note 2:—Cotton Export Duty: (3-5-47)**

No specific decision on the recommendations of the Commodity Prices Board was made but the export duty on cotton was not abolished. By a notification of 23 January 1948 the rate of duty on cotton exported from the provinces of India to a place outside India was increased to Rs. 40 per bale of 400 lbs. (*Indian Trade Journal*, 5 February 1948, p. 273.)

### **Note 3:—Vanaspati and Groundnut Prices: (19-5-47)**

The recommendations of the Commodity Prices Board regarding Vanaspati Prices were not accepted by the Government of India and a substantial increase in prices was approved in the new schedule of fixed prices announced by the following notification of the Government of India in the Food Department on 23 June 1947. (*Indian Trade Journal*, 17 July 1947, p. 125.)

"In exercise of the powers conferred upon me by sub-clause (1) of Clause 6 of the Vegetable Oil Products Control Order, 1946, and in supersession of the Notification of the Government of India in the Department of Food No. 6. VP (2) 47, dated the 28th

February 1947, I hereby fix as follows the maximum prices at which vegetable oil products may be sold with immediate effect\* :—

Locality of Sale.	Maximum price per lb. net of Vegetable Oil Product.		
	When sold by producers or producer's distributing agent in large packs	When sold by any other person.	
		In large packs	Loose in small quantities
1	2	3	4
	Rs. as. ps.	Rs. as. ps.	Rs. as. ps.
<b>Zone " A "</b>			
1. Bombay town and suburbs.	0-13-6	0-14-3	0-15-0
<b>Zone " B "</b>			
2. Bombay Province (excluding Bombay town and suburbs), but including Administered Areas and Rly. Lands in the former W. I. States agency, Madras, the Central Provinces and Berar, Coorg and Panth-Piploda.	0-13-9	0-14-6	0-15-3
<b>Zone " C "</b>			
3. The Punjab, the United Provinces, the North-West Frontier Provinces, Sind, Baluchistan, Delhi and Ajmer.	0-14-9	0-15-6	1-0-3
<b>Zone " D "</b>			
4. Bengal, Assam, Orissa and Bihar.	0-14-6	0-15-3	1-0-0

*Note*

1. "Large packs" are packs (in producer's original sealed container) containing not less than 35 lbs. net of the products.
2. "The maximum prices specified above under I and II are inclusive of freight but exclusive of octroi, terminal tax and similar other local taxes and also of sales tax."

When any such tax is paid, whether by the manufacturer, his distributing agent, a wholesaler or a retailer the maximum price as fixed above in respect of any transaction may be increased by an amount equal to the total of the taxes so paid at or before that transaction and may, after the increase, be rounded off to the nearest pice.

Sd/- N. T. MONE,  
Vegetable Oil Products Controller for India

\* Retail prices schedule not reproduced.



**Note 4 :— Pulses ( 21-6-47 )**

There was no specific decision on this report. The following Notification was issued by the Government of India in the Ministry of Food on 15 November 1947.

“In exercise of the powers conferred by sub-section (1) of section 3 of the Essential Supplies (Temporary Powers) Act, 1946 (XXIV of 1946), the Central Government is pleased to direct that no order made or deemed to be made under the said Act by a Provincial Government shall have effect from the 15th November 1947 so as to prohibit or restrict the movement of pulses other than gram from any place in a province to any other place within or outside the Province, or so as to regulate or control the price, production or distribution thereof in any way”. (*Indian Trade Journal*, 4 December 1947, p. 438.)

**Note 5:— Cotton (21-7-47).**

The recommendations of the Commodity Prices Board were accepted by the Government and the schedule of cotton prices, recommended by the Board, was announced by the Textile Commissioner in a Notification dated 31 August 1947. (*Indian Trade Journal*, 11 September 1947, p. 483.)

Floor and ceiling prices for raw cotton were abolished with effect from 22 January 1948. (*Indian Trade Journal*, May 1947, p. 269).

**Note 6 :—Cloth: (26-7-47):**

The following Resolution of the Government of India in the Ministry of Industry and Supply was released on 17 November 1947 :—

“In February 1947 the Government of India appointed an *ad hoc* departmental Committee to investigate facts bearing on the prices of cotton textiles, and to recommend measures necessary for increasing the production of yarn and cloth. This Committee prepared a scheme for the standardization of production devised to increase output, reducing types and varieties of cloth and yarn produced by the Mills, and lowering the average counts produced. This scheme has found general support and has been endorsed by the Commodity Prices Board. The Committee also recommended a revision of the existing price structure which is stated to have rendered the production of coarse yarn and cloth unremunerative on account of increases in prices of Indian raw cotton and in wages.

The Commodity Prices Board were, however, of the view that an adequate case had not been made out for an increase in prices of coarse cloth and yarn, and also that if any adjustment was necessary it should be brought about through a scheme like the constitution of an Equalisation Fund whereby a levy on fine varieties might be utilised to subsidise coarse and medium varieties.

"2. Government have given careful consideration to the recommendations of the *ad hoc* Committee, which were admittedly based on a rapid investigation and subject to review, and the views of the Commodity Prices Board, and have also taken note of the weight of public opinion against any increase in prices of coarse and medium cloth until it is established that such an increase is absolutely necessary and will not result in excessive profits to sections of the Industry.

- (i) The Government of India have, therefore, decided that the standardization scheme as finally devised on the recommendations of the *ad hoc* Committee should be put into force on the 1st December 1947, and its introduction completed before the 31st December 1947;
- (ii) the question of prices should be referred to the Tariff Board; and
- (iii) an Equalisation Fund should be started with effect from 1st December 1947, to which will be credited,
  - (a) the difference between existing ex-mill prices of fine and superfine cloth and the lower prices which the *ad hoc* Committee believe to be fair,
  - (b) half of the amount now being paid as quota-holders' commission, which Government have decided to reduce from 3 to 1½ per cent from 1st January 1948, and
  - (c) a surcharge on a sliding scale on "free" yarn sold by Mills.

"It has been estimated that the Standardization Scheme will roughly increase production by about eight hundred million yards of both mill-made and handloom cloth.

"If, on a consideration of the Report of the Tariff Board, Government decide that the prices of any types or varieties of cloth and yarn require to be increased, the mills will be paid such prices with retrospective effect for all cloth and yarn delivered under the Standardization Scheme after 1st December 1947. Such payments will, however, be on condition that certain targets set for production are achieved. If in any particular case production falls short of the

target due to circumstances which Government are satisfied were beyond the control of the mill concerned, such a case will receive special consideration. Government will also consider the question of making some payments "on account" wherever they are satisfied that this is necessary in the interest of maintenance of production.

"3. The Government of India have also decided to set up Regional and Unit Production Committees consisting of representatives of labour and industry, to ensure that there is no wastage or leakage of cloth and yarn at the mill-end and that labour fully co-operates in the production programme of the mills.

"4. A further increase of about eight hundred million yards could be secured if labour will agree to work one hour longer each shift where only two shifts are worked. For this purpose Government will endeavour to secure the co-operation of leaders of labour. Government are conscious that the recent reduction of working hours from 9 to 8 was a progressive measure, but trust that in view of the present national emergency and the great shortage of cloth in the country, labour will take a patriotic and national view of the proposal that the working day should be slightly lengthened as a temporary measure. Such overtime will, of course, be remunerated on the accepted scale. Government also propose to promote labour welfare measures through Provincial or State Governments or other suitable authorities, with contributions from the Equalisation Fund referred to earlier, at all mills which work two shifts of 9 hours each, or three shifts.

"5. The terms of reference to the Tariff Board will be as follows:—

"(i) To enquire into the cost of production of the various types of cloth and yarn produced, and to recommend fair ex-mill prices to be paid for cloth and yarn, with special reference to the changes created by the introduction of the Standardization Scheme.

"In making their recommendations, the Board will keep in mind the desirability of maintaining the production of all mills at the maximum level, while at the same time ensuring that the profits of the more efficient units will not thereby become excessive. If the Board consider that it would be impracticable to settle a level of prices which would balance these two requirements, they may consider whether prices cannot be kept down to reasonable levels with a subsidy or similar relief to sections or units of the Industry whose production cannot otherwise be maintained. If special circumstances apply to mills engaged in the production of yarn alone, the

Board will take those circumstances into consideration when making their recommendations.

"(ii) To advise on the adjustments to be made from time to time in the ex-mill prices recommended by them for cloth and yarn, so as to allow for fluctuations in the prices of raw cotton and in other elements of the cost of production.

"(iii) In the event of subsidy or other relief being recommended for certain sections or units of the Industry under (i) above, to suggest ways and means of finding the necessary funds.

"(iv) To recommend in what forms the co-operation of labour should be secured in order to increase production and distribution of cloth and yarn, and on its continuance.

"The Board are requested to submit their report in two parts:— the first relating to the terms of reference numbered (i) to (iii) above and the second to the remaining terms of reference. The first of these reports should be submitted within a period of about three months subject of course to the Board being satisfied that reasonably accurate findings can be arrived at within this period.

"6. The Government of India wish to take this opportunity to appeal to both the textile industrialists and labour employed in the industry for full co-operation for the successful implementation of the decisions herein published." (*Indian Trade Journal*, December 1947, pp. 338-39.)

The Textile Industry (Control of Production) Order was issued on 1 December 1947 and was made effective from that date. (*Indian Trade Journal*, 15 January 1948, p. 85). The Cotton Textile Equalization Fund Ordinance, 1947, was issued at the same time (*Indian Trade Journal*, 8 January 1948, p. 39). The fixation of surcharge on prices of cloth and yarn produced after 30 November 1947 was effected by a Notification under the Ordinance dated 13 December 1947 (*Indian Trade Journal*, 15 January, 1948, p. 81) and the rules under it were issued on 27 December 1947. (*Indian Trade Journal*, 29 January 1948, p. 201)

A Press Note on 20 December 1947 removed rents upto 1 yard in length from distribution control (*Indian Trade Journal*, 15 January 1947, p. 85). By a resolution, dated 22 January 1948 of the Government of India, Textile Control was very considerably relaxed. It amounted to virtual decontrol. According to this resolution the textile mills were permitted to work out their own

production programmes. The then existing production targets and measures against hoarding, etc. were continued and the setting up of Production Committees at all mills was to be promoted. The fixation of prices was left to the industry. The Equalization Fund was closed and the surcharge on cloth and yarn abolished. No subsidies were to be any longer paid and the system of quota holders was abolished. Every mill was required to keep 25 per cent. of its production at the disposal of the Textile Commissioner. The movement of textiles within a province was to be free but movement between provinces was to be sanctioned by the Textile Commissioner. A special excise duty on the existing stocks of cloth was to be levied. The system of yarn distribution was to continue. The control over export of cloth and over the distribution of machinery, imported mill stores, dyes, chemicals, and sizing materials was to continue but control over the prices and distribution of imported cloth and yarn was to be abolished. The existing control machinery was to be retained for again imposing controls if they became necessary. (*Indian Trade Journal*, 5 February 1948, p. 272).

By a resolution of 4 May, 1948 the Government of India abolished with immediate effect the stamping of ex-mill and retail prices on cloth. The marking of the month and year of production was, however, to continue. The Textile Commissioner was to arrange for the supply of cloth to co-operative societies nominated by State and Provincial Governments, out of the portion of production held by each mill at his disposal. Control over dyes and hydro-sulphide of soda was removed. (*Indian Trade Journal*, 20 May 1948, p. 391). The Textile Control Board was abolished from 15 May 1948 and the Textile Advisory Committee was created. (*Indian Trade Journal*, 3 June 1948, p. 542). The functions of the latter were: (i) To advise Government on cotton textile policy and particularly on the fairness of prices of cloth and yarn fixed by the industry; and (ii) To advise Government on matters pertaining to the development of textile industry, allocation of spindlage, loomage for expansion, assistance as regards raw materials, mill stores, coal, transport, etc. On 5 June 1948, three committees to advise the Textile Commissioner were appointed: (1) For working out prices of cotton textiles and to assist in the allocation of contracts for cotton textile materials. (2) To advise on questions relating to raw cotton. (3) To advise regarding the import and distribution of mill stores. (*Indian Trade Journal*, 17 June 1948, p. 655).

The policy was revised in July 1948 and the Ministry of Industry and Supply issued the following Communique defining the new policy:

"The situation arising out of the gradual relaxation of control over the price and distribution of cloth since January 19, 1948, has been engaging the serious consideration of Government. Shortly after this date the prices of cloth began to rise, and since April 24, 1948, when price-stamping was removed, the prices have, in some cases, risen to fantastic heights. Although since about the middle of June there has been some fall in wholesale prices from the heights reached before, there is no indication yet that the retail prices will come down in the near future.

"The policy since April 24, 1948 has been to have only a general control over movement. Production has increased since the beginning of this year by about 12 per cent, over the average of last year. Cloth has also moved in large quantities from the main producing centres during the last three months. Indeed, the movement has generally been 20 per cent. to 40 per cent. more than at the time control was in existence. Nevertheless the fact remains that cloth has not yet become available to the consumer in adequate quantities or at reasonable prices. To a large extent this has been due to practices which reflect grave discredit on many sections of the industry and the trade.

"There has been growing dissatisfaction among the public on account of the existing situation which shows no signs of improvement. Government realise that the rise in prices of cloth is only one of the many factors in the present economic situation of the country. The broad measures necessary to meet this general situation are under consideration of Government. Meanwhile, the consideration that cloth being one of the essential necessities of life some measures are immediately necessary to make it available to the public at reasonable prices.

"With this end in view, Government have recently had consultations with the Textile Advisory Committee, which, as recently constituted, represents all interests. The matter has also been discussed with provincial Premiers and the Prime Ministers of States. While there are differences of opinion as to the scope and extent of the measures necessary to meet the present situation, it is the unanimous view of the Textile Advisory Committee as well as Provincial Ministers and Prime Ministers of States that the present situation cannot be allowed to continue unchecked and that some steps should be taken immediately to make cloth available to the public at reasonable prices. Governments have now carefully considered the situation in the light of all the views expressed, and

have come to the conclusion that a measure of control over both distribution and prices must immediately be reimposed.

"They have accordingly decided to take the following steps—

"(i) To ensure that the productive capacity of the mills is fully utilised, Government will set up machinery to prevent a fall in production and the manufacture of unsuitable or non-durable cloth.

"(ii) Government will fix fair prices of cloth and yarn ex-mill. The Tariff Board which had been asked to report on the fair prices of cloth has recently submitted its report, and this is at present under consideration of Government. Pending a decision on the recommendations of the Tariff Board Government will fix prices *ad hoc*.

"(iii) Such prices will be stamped on all cloth and yarn ex-mill. Such stamping will be done on the existing stocks with the mills and orders have already been issued freezing stocks with the mills for this purpose.

"(iv) Distribution to provinces and States according to quotas will be only through wholesalers, approved or nominated by provincial Governments or States. They have already been requested to forward the lists of such wholesalers to the Textile Commissioner, and it is hoped that distribution of stamped cloth through these channels will begin very soon.

"(v) Of the cloth so distributed to provincial Governments and States, a certain amount will be distributed through shops controlled by them. The exact method of distribution must naturally be decided by them; but it has been suggested to them that in the initial stages such controlled shops should cater to the needs of lower income groups.

"(vi) The balance of the cloth allotted to provinces and States will be distributed through consumers' co-operative societies and through normal trade channels. Provincial Governments and States will exercise a general supervision over such trade channels, and they have already been requested to introduce a system of licencing retail shops. It is not the intention to restrict, or to interfere with the working of these channels so long as the distribution is within the province or State concerned and the prices charged are correct.

"(vii) Retail shops in provinces and States, both controlled and uncontrolled, will be allowed to charge an extra margin over

the ex-mill prices stamped on the cloth according to the rate fixed by the provincial Governments or States, for which the Central Government will prescribe a maximum.

"(viii) Powers will be assumed by the Central, Provincial and State Governments by which they can requisite cloth from wholesalers and dealers at prices considered fair by them. This power is intended to be used for checking hoarding, profiteering and other malpractices, and will be freely used.

"(ix) Although the primary responsibility of implementing the textile control will rest with provinces and States, an enforcement branch is also being immediately set up by the Central Government. Government will also assume adequate powers to deal drastically with the infringements of textile control in all its aspects.

"(x) The movement of stamped cloth from the mills to retail shops will naturally take some time. Meanwhile there is a considerable quantity of cloth which is unstamped and which is at present with wholesalers and retailers. The sale of such cloth will be permitted up to October 31, 1948. The stocks of unstamped cloth are so large that, unless wholesalers and dealers engage in malpractices, there should be no shortage of cloth in the country during this period. Powers of requisitioning will be freely used if malpractices occur.

"Government will also, in consultation with the provinces and the interests concerned, take up immediately the question of controlling prices of Indian raw cotton.

"Adequate steps are being taken to prevent smuggling of cloth from border provinces and States to adjacent countries.

"Government appeal for the fullest co-operation of the industry, the trade and the public in the implementation of the measures now taken. They hope that with such co-operation it will soon be possible to achieve the objective of the supply of adequate quantities of cloth to the public at reasonable prices." (*Times of India*, 31 July 1948.)

**Note 7: Steel (28-8-47)—**

No decision appears to have been taken by Government on the report of the Commodity Prices Board. However, the prices of steel were increased substantially in January 1948. The following press note was published by Government in this connection.



The Press Note, dated the 26th January 1948, was as follows :—

“The Government of India have decided, it is learnt, to raise the price of steel purchased from Registered Stockists by Rs. 80 per ton, the increase coming into effect from January 27, 1948.

“The increase, though substantial, being nearly 30 per cent over the existing price level, is on a par, it is felt, with recent increases in the prices of other commodities and not higher. Further, even with this increase, steel prices in India will continue to be the lowest in the world. Particularly as indigenous supply is to be supplemented by imports the step-up is inescapable.

“It will be recalled that, consequent on the acceptance by the Tata Iron and Steel Company Limited and the Steel Corporation of Bengal Limited of a reduction of Rs. 12-8-5 per ton in the price of steel on account of the removal of the Excess Profits Tax, it was possible for Government to effect a substantial reduction in the selling price of steel to consumers from April 1, 1946. Since then the liabilities of the Companies have increased because of the enactment of the Business Profits Tax Act and an increase in the Corporation Tax; the works cost has also risen on account of increases in the cost of labour and raw materials. After considering the matter very carefully the Government of India are convinced that if production is not to be adversely affected, some immediate relief to the Companies is called for. They have accordingly decided that pending examination by the Tariff Board of the question of the fixation of steel prices on a long term basis, the cut of Rs. 12-8-0 referred to above should, as an interim measure, be restored to the Companies. Due to the recent increase in railway freight charges, both on raw materials and finished goods, there will be addition of Rs. 11-0-0 payable to the Main Producers; in other words the Main Producers will get Rs. 23-8-0 per ton in all.

“Government expect to import from the U. K. and the U. S. A. substantial quantities of certain categories of steel in 1948, but the price of this steel will be about Rs. 200 per ton higher than Indian price. It is impossible to sell imported steel at a higher price than the indigenous price. Any attempt to do so would not only involve invidious discrimination among consumers, but would also in effect raise the price of all steel to the higher level. It has, therefore, been decided that the increased prices of imported steel should be spread over all categories of steel except billets, which are only used by re-rollers.

"To equalise the high prices of imported steel with those of indigenous steel and to meet the additional payment of Rs. 23-8-0 to the Main Producers, the prices at which the consumers will purchase from the Registered Producers have been increased by Rs. 75 per ton.

"The prices at which the Controlled and Registered Stockholders will sell have been increased by Rs. 80 per ton, the extra Rs. 5 to cover the Bihar Sales Tax." (*Indian Trade Journal*, 5 February 1948, p. 269).

#### **Prices for Billets.—**

The following Resolution of the Government of India in the Ministry of Commerce was released on 7 February 1947 :—

"Consequent on the representations made by the main producers of steel—(The Tata Iron and Steel Co., and the Steel Corporation of Bengal)—that the base retention prices payable to them for the period 1st April 1947 to 31st March 1948 should be increased on the grounds that their works cost had risen considerably on account of increases in the cost of labour and raw materials, and that their expectation that the abolition of the Excess Profits Tax would reduce their liability did not materialise because of the enactment of the Business Profits Tax Act and an increase in the Corporation Tax, the matter was referred to the Commodity Prices Board in May 1947 for advice on the following points :—

- (i) What should be the fair retention price for billets ; and
- (ii) What should be the adjustment in the existing base retention prices for all other categories to give a fair return to the two Companies ?

The Board was also asked to advise on the relation the retention prices for billets should bear to the bar retention prices.

"2. The Board after hearing the representatives of the Government of India and of the Tata Iron and Steel Company, and after taking into consideration all the relevant factors, came to the conclusion that there was no reason to increase steel prices. In view of the uncertainties of the future and the trend of prices generally, they refrained from suggesting a reduction and accordingly recommended the maintenance of prices at their present level.

"3. Before Government could come to a decision on the recommendations of the Board, both the Companies have brought to the notice of Government certain new factors which have arisen since

the Board made its Report in August last. In particular, the following points have been urged :—

(i) that owing to labour unrest the output of steel for the year 1947-48 would be much lower than that taken account of by the Board ;

(ii) that the reduced output would increase their works cost ;

(iii) that there would be a reduction in gross profits resulting in a substantial decrease in the bonus payable to labour ;

(iv) that the result of (iii) above would be serious labour strikes, and

(v) that there has been an increase in railway freight both on raw materials and finished products.

"4. Government consider that the new facts which have now been brought to their notice have altered the position since the Commodity Prices Board examined the case and, therefore, deserve to be gone into carefully before Government come to a decision. They also consider that the Steel Corporation of Bengal, which was unable to present its case before the Board in person, should be afforded another opportunity to urge its view point. Government have accordingly decided that the whole matter should be examined afresh by the Tariff Board. Pending such examination, Government have agreed to restore the cut of Rs. 12-8-0 per ton accepted by the Companies in April 1946 on account of the removal of Excess Profits Tax and to compensate for the increase in railway freight charges the extent of freight increase to be allowed being dependent on the actual increases.

"5. The Tariff Board is accordingly requested to conduct necessary enquiries in this behalf and submit a report to Government as early as possible." (*Indian Trade Journal*, 26 February 1948.)

**Note 8 :—Coal (11-6-47).**

The recommendation of the C. P. Board regarding the measure of price increase was not accepted by Government.

It is understood that the method adopted by the Board for arriving at the result of the increased burden imposed by the Award on the industry was not considered completely satisfactory. Certain modifications were introduced in this method and the increase in prices actually sanctioned by Government are based on the modified calculations.

"To equalise the high prices of imported steel with those of indigenous steel and to meet the additional payment of Rs. 23-8-0 to the Main Producers, the prices at which the consumers will purchase from the Registered Producers have been increased by Rs. 75 per ton.

"The prices at which the Controlled and Registered Stockholders will sell have been increased by Rs. 80 per ton, the extra Rs. 5 to cover the Bihar Sales Tax." (*Indian Trade Journal*, 5 February 1948, p. 269).

#### Prices for Billets.—

The following Resolution of the Government of India in the Ministry of Commerce was released on 7 February 1947 :—

"Consequent on the representations made by the main producers of steel—(The Tata Iron and Steel Co., and the Steel Corporation of Bengal)—that the base retention prices payable to them for the period 1st April 1947 to 31st March 1948 should be increased on the grounds that their works cost had risen considerably on account of increases in the cost of labour and raw materials, and that their expectation that the abolition of the Excess Profits Tax would reduce their liability did not materialise because of the enactment of the Business Profits Tax Act and an increase in the Corporation Tax, the matter was referred to the Commodity Prices Board in May 1947 for advice on the following points:—

- (i) What should be the fair retention price for billets ; and
- (ii) What should be the adjustment in the existing base retention prices for all other categories to give a fair return to the two Companies ?

The Board was also asked to advice on the relation the retention prices for billets should bear to the bar retention prices.

"2. The Board after hearing the representatives of the Government of India and of the Tata Iron and Steel Company, and after taking into consideration all the relevant factors, came to the conclusion that there was no reason to increase steel prices. In view of the uncertainties of the future and the trend of prices generally, they refrained from suggesting a reduction and accordingly recommended the maintenance of prices at their present level.

"3. Before Government could come to a decision on the recommendations of the Board, both the Companies have brought to the notice of Government certain new factors which have arisen since

the Board made its Report in August last. In particular, the following points have been urged :—

(i) that owing to labour unrest the output of steel for the year 1947-48 would be much lower than that taken account of by the Board ;

(ii) that the reduced output would increase their works cost ;

(iii) that there would be a reduction in gross profits resulting in a substantial decrease in the bonus payable to labour ;

(iv) that the result of (iii) above would be serious labour strikes, and

(v) that there has been an increase in railway freight both on raw materials and finished products.

"4. Government consider that the new facts which have now been brought to their notice have altered the position since the Commodity Prices Board examined the case and, therefore, deserve to be gone into carefully before Government come to a decision. They also consider that the Steel Corporation of Bengal, which was unable to present its case before the Board in person, should be afforded another opportunity to urge its view point. Government have accordingly decided that the whole matter should be examined afresh by the Tariff Board. Pending such examination, Government have agreed to restore the cut of Rs. 12-8-0 per ton accepted by the Companies in April 1946 on account of the removal of Excess Profits Tax and to compensate for the increase in railway freight charges the extent of freight increase to be allowed being dependent on the actual increases.

"5. The Tariff Board is accordingly requested to conduct necessary enquiries in this behalf and submit a report to Government as early as possible." (*Indian Trade Journal*, 26 February 1948.)

**Note 8 :—Coal (11-6-47).**

The recommendation of the C. P. Board regarding the measure of price increase was not accepted by Government.

It is understood that the method adopted by the Board for arriving at the result of the increased burden imposed by the Award on the industry was not considered completely satisfactory. Certain modifications were introduced in this method and the increase in prices actually sanctioned by Government are based on the modified calculations.

The following Press Note, dated 9th July 1947, was issued by the Government of India in the Department of Industries and Supplies:—

"In asking the coal industry to implement the main recommendations of the Conciliation Board regarding wage increases and other concessions for colliery labour in Bengal and Bihar, the Government of India had announced that the consequent increase in the cost of production would be taken into account in re-fixing coal prices.

"The matter has now been considered by Government in consultation with the Commodity Prices Board, and it has been decided to sanction an increase of Rs. 3-8-0 per ton over existing prices for all grades of coal.

"It will be recalled that the Coal Production Cess of Re. 1-4-0 per ton, payable by the consumers, was withdrawn by Government with effect from the 1st May 1947, and that, after allowing for a total increase of 3 annas per ton on the Labour Welfare Cess and the Stowing Cess, a relief of Re. 1-1-0 per ton, has been afforded recently to the consumers of coal. As compared to April 1947, the revised prices, therefore, involve a net increase of Rs. 2-7-0 per ton.

"The Notification re-fixing prices has been published in a Gazette Extraordinary, dated 9th July 1947, from which date the revised prices will take effect." (*Indian Trade Journal*, 24 July 1947).

**Note 9:—Paper (26-8-47).**

The following Press Note, dated the 29th November 1947, was issued by the Government of India in the Ministry of Industry and Supply:—

"The Government of India in consultation with the Commodity Prices Board have considered the request of the Paper Industry for an increase in price. The Paper Industry has claimed the increase mainly on the ground of increased cost of production and labour.

"After a full consideration of the whole case the Government have decided to increase the price of paper by about 6 pies per lb. on the average. The Order giving the new prices, which is being issued, will come into force from December 1, 1947.

"The increase will not apply to such varieties of paper as Duplex, Triplex, and Ticker Boards. In fixing the new prices of the scheme of rationalisation of prices accepted by the Industry has also been incorporated." (*Indian Trade Journal*, 18 December 1947, p. 560).

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