

CONTROLS

A STUDY

FEDERATION OF INDIAN CHAMBERS OF COMMERCE AND INDUSTRY

FOREWORD

As the apex body representing Indian Industrial and Commercial interests, the Federation has been concerning itself, for a decade now, with the impact of control measures on the Indian economy. As early as in 1940, the Federation adopted a Resolution on price control emphasizing that Indian cultivators be not deprived of the benefit accruing to them from the changed conditions of demand and supply in the world markets. Since 1940 in almost every Annual Session of the Federation the concern of the industrial and business community with the artificial difficulties in the conduct of trade and industry caused by controls has been voiced. At the 1951 Annual Session of the Federation was adopted unanimously a Resolution on Controls which stated *inter alia* that "Controls have led to a good deal of administrative abuse and corruption : have displaced the normal and traditional channels handling the distribution and thus thrown out of useful employment a large number of middle class people have caused dissatisfaction all round and created a situation in which normal functioning of trade and industry has become impossible." The Resolution called upon Government to re-examine their attitude towards controls and urged that "such controls as have demonstrably outlived their utility should be removed forthwith and others relaxed and amended suitably."

In pursuance of this Resolution, the Federation Secretariat undertook an objective study of the growth of the various control measures. The accompanying Note is the result of such a study and deals mainly with controls on Production, Prices and Distribution and with such other controls and legislation on Investment, Import, Export and Foreign Exchange which have a direct bearing on the running of industry and trade. Only an incidental reference has been made to other regulatory measures pertaining to Labour Relations, Forward Trading, Banking Insurance etc. The Note is primarily a study of the Federation Secretariat and such views and opinions as are expressed therein do not necessarily represent the views of the Committee of Federation.

The Note is being published in the hope that it would enable the public to get to know the ramifications of controls and the manner in which they operate. The necessity of reviewing controls at the highest level will

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be admitted by all, so also the need to modify and simplify those controls whose continuance, after impartial and expert study, is deemed essential.

This is the second of a series of monographs which is being brought out to commemorate the Silver Jubilee of the Federation, which completes 25 years of its existence this year.

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NEW DELHI-1.

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President.

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INTRODUCTION

NO single economic problem has been agitating the mind of the public more than controls, the way in which they have been operated, their continuance and coverage. These issues relating to controls have been prominently before the public for sometime now and the General Election has provided a further opportunity to focus public attention on them. Divergent opinions are expressed in the election manifestoes of various parties. The Congress manifesto has appealed for co-operation to make the controls function more effectively and expresses the opinion that "hesitancy and opposition to controls themselves produce weakness in their working". While it recognises "that controls have led to corruption," it feels that "the way to deal with this is to make the controls effective and to improve their administration." The manifesto, however, recognises that we "must endeavour to create conditions of relative abundance of articles", and "as this happens these controls can be progressively dispensed with." The Kisan Mazdoor Praja Party while admitting the theoretical virtue of controls rejects them in practice, as their working has brought about black-marketing and corruption which are greater evils. The Party has laid stress on the possibility of reducing the scope of controls and of administrative interference in the citizens' life and work. The Bharatiya Jan Sangh believes in a policy of "progressive decontrol" and regards controls as "the root cause of much of the corruption, black-marketing and general moral degradation in the country". The Akhil Bharat Hindu Mahasabha also stands for a policy of progressive decontrol as it is convinced that "controls without guaranteeing adequate supply of controlled commodities to the public have only a nuisance value and also often actually lead to black-marketing and corruption." On the other hand, the Socialists would have "well-integrated" controls at all levels and they regard present controls as "partial and therefore ineffective." The Communists advocate "effective control of prices of goods of mass consumption." For the Scheduled Castes Federation, the "problem of Control and Black-marketeers" is the result of "close association between the Congress and Big Business".

The public, however, are not fully conversant with the complexity and magnitude of the problem and on this vital matter there are many predilections and prejudices. The confusion is heightened with persons in position opposing controls at one time and supporting them on other occasions. This Note, therefore, attempts to trace briefly the origin and growth of controls in India after the outbreak of the second World War in 1939 and how they have come to cover the entire facet of our

economic life. It is hoped that this objective study will assist a better understanding of the bewildering multiple control measures and also help an impartial assessment of the gains and losses to the economy, as the first step to a reorientation of Government's control policy. There is no gainsaying the fact that informed public opinion wants Government to retain only such minimum number of controls as are absolutely necessary and which could be administered efficiently with the administrative machinery at present available. Even the Planning Commission which is for a co-ordinated system of controls has realised that "the working of individual controls and the lines along which they need to be improved upon is a matter for continuous review and adjustment in the light of changing conditions". It is, therefore, vitally necessary to subject the system of controlled economy in our country to a close scrutiny and to see whether controls have helped the consumer in securing goods at controlled prices and whether they have allowed production to be augmented, if not at least permitted it to be maintained at a satisfactory level.

An appraisal of the effects of controls on our economy, with a view to examining what controls must be retained and how they should be modified and what can be safely dispensed with, is now more necessary than ever. This should be one of the first tasks of the new Parliament and Legislative Assemblies in the States which would be meeting shortly.

ORIGIN AND GROWTH OF CONTROLS

In this Section is briefly traced the origin of various controls from 1939 onwards and how they were intensified during the war period. During this period controls were evolved to suit the exigencies of the situation. This Section also traces the reorientation of Government's policy in regard to controls and Government's experiment of decontrol initiated towards the end of 1947 and which was followed by the reintroduction of controls. A reference has also been made to Government's industrial policy and other measures introduced by Government ostensibly to fight inflation.

A number of economic controls were imposed in India during the last World War mainly with a view to mobilising the available resources of the country to meet the growing demands of the allied war effort. The Government of the day were also anxious to see that the reduced quantum of goods after meeting the war needs was distributed to the civil population in as equitable a manner as possible. This was intended as a safeguard against possible civilian discontentment and the consequent impairment of war effort. The evolution of controls in India, however, did not follow any set plan, as most of the controls were designed to meet the exigencies of the situation from day to day. *Ad hoc* measures were devised and the Executive was given full power to interfere with the normal working of the economy. The powers were derived by the Executive from the Defence of India Ordinance issued on 3rd September 1939. (This was subsequently made into an Act known as the Defence of India Act, 1939). In respect of certain controls on industry and trade and various other matters powers were delegated to Provincial Governments on 8th September 1939. Under Section 2 of this Act, the Central Government was given emergency powers "to make such rules as appear to it to be necessary or expedient for securing the defence of British India, the public safety, the maintenance of public order or the efficient prosecution of war, or for maintaining supplies and services essential to the life of the community". Part XII of the Defence of India Rules relates to the control of essential supplies and work. Besides this, there were controls on trading with the enemy, control on enemy firms, control on transport, shipping and aircraft, as also a number of financial controls laying down restrictions on the purchase of foreign exchange, restrictions on payments, etc., etc. Rule 81 relating to general control of industry provided "for regulating or prohibiting the production, treatment, keeping, storage, movement, transport, distribution, disposal, acquisition, use or consumption of articles or things of any description whatsoever". The Government could also exercise

control over the whole or any part of an industrial undertaking or authorise any person to exercise such functions of control as may be provided by the Order. Under rule 84, Government assumed power "to prohibit or restrict the import or export of all goods or goods of any specified description from or to any specified person or class of persons". By rule 92A, Government assumed powers of exchange control. By rule 94A, which was issued only in May 1943, capital issues were brought under control.

All these powers were, however, sparingly used till the declaration of war with Japan in December 1941. Till then the only important controls which were brought into force related to the export and import of goods. In fact, export control may be regarded as the first major control issued after the outbreak of the War. A notification was issued under rule 84(3) and a deliberate system of export restrictions was devised with a view to preventing supplies of certain exports reaching the enemy by indirect channels and conserving supplies of a number of essential articles either for internal consumption or for the use of allied countries. Exports of certain items were completely prohibited and those of certain others permitted only under licence. Export control was followed in March 1940 by the control of foreign exchange with a view to conserving dollar resources and regulating foreign trade. A scheme was formulated for the control of foreign exchange proceeds of certain exports to the hard currency countries in accordance with the Empire Scheme formulated by the British Government. To begin with, only the exports of jute manufactures and rubber were covered by the Scheme. But by June 1940 all commodities exported from India to hard currency countries were under its purview. Exports were permitted only when a certificate was furnished by an authorised dealer in foreign exchange in India that the proceeds of goods had been disposed of in a manner approved by the Reserve Bank of India. This was to ensure that the full proceeds of the exports were received at the rates of exchange fixed by the London Exchange Control.

Import control in India was instituted several months after the outbreak of the War. At the beginning of the War no restrictions were placed on imports into India, except of course in respect of goods from enemy countries. In May 1940, Government introduced a system of licensing imports of certain commodities for the purpose of conserving foreign exchange, particularly dollar exchange, as well as for the proper utilisation of limited shipping tonnage. At first the import of only 68 items—mainly consumer goods—was brought under control. As the War progressed and exchange and shipping tended to become more scarce, the scope of import trade control was gradually extended.

Imports of unmanufactured and semi-manufactured steel were brought under control at the end of December 1940. Imports of machine tools were brought under control in February 1941. Later in August 1941, practically all descriptions of imported articles were controlled. The few articles of import that still remained outside the control system were brought within it in January 1942. As there were a number of licensing authorities in respect of different commodities, in July 1943, import licensing was concentrated in the Chief Controller of Imports at New Delhi and a limited number of other authorities. The subsequent developments in import control are detailed later in the course of this note.

To the general consumer commodity controls are far more important than controls on foreign trade. The first important commodity control was launched by the Government of India in December 1941 by **Extension of Controls.** prohibiting wholesale transactions in wheat above Rs. 4/6/- per maund at Lyallpur and Hapur. Subsequently in April 1942, the Wheat Control Order was notified regulating movements by rail from exporting Provinces to consuming centres by permits to be issued by the Wheat Commissioner. In May 1942, the Order empowered the Provincial Governments to licence wholesale dealers in foodgrains and shortly thereafter "futures" and "options" in foodgrains were prohibited. An attempt was made to control supplies also in addition to prices. In December 1942, a Food Department was set up for the purpose of integrating all the activities in regard to the purchase, movement and distribution of foodgrains on an all-India basis. Owing to difficulties of securing supplies at controlled prices, however, the prices of wheat in primary wholesale markets were decontrolled about the end of January 1943. There was some rise in prices after the extension of the war to the eastern frontiers of India. The price rise was intensified by India Government's policy in making heavy purchases in the market on military account itself as well as on behalf of His Majesty's Government. These purchases were financed by continuous additions to paper currency and notes against sterling receipts. To these basic economic and monetary facts were super-added the psychological factors which contributed to the rise in prices. Government tried to meet the situation by an intensification of the existing physical and financial controls from the middle of 1943. Provinces were given powers to fix maximum retail prices of certain selected commodities and with a view to enforcing those prices powers were given to compel merchants to declare their stocks, to introduce a system of licensed dealers wherever necessary, to undertake a drive against hoarding and to make arrangements for the sale of certain commodities through the agency of Government shops. In the meantime, to minimise the pressure on rail transport, the country was divided into a few major regions. Government thus tried to control the channels of distribution with a view to enforcing price control. It was, however, noticed very soon that there was a wide disparity

in the maximum prices fixed in different districts in the same Province, leading sometimes to ridiculous situations. This arbitrary fixation of prices could not be enforced as it went against all economic laws.

The surplus Provinces in foodgrains were reluctant to part with their stocks and made it impossible for the deficit areas to offer sufficiently large quantities for sale at controlled rates. Thus famine conditions were created in some parts of the country, and people had to undergo severe privation particularly in Bengal, and some parts of Madras and Bombay Provinces. The Bengal famine was aggravated by the inefficiency of the transport system and the incompetence of the administrative personnel in charge of securing and distributing supplies.

Meanwhile, in April 1943, a new Department of Industries and Civil Supplies was constituted by the Centre. In June 1943, as a result of consultations with the cotton industry, a Textile Control Board was set up to advise Government in the working of a comprehensive scheme of control on production, trade and prices of cotton yarn and cloth. Earlier in May 1943, as a part of this scheme, it was sought to stabilise the prices of raw cotton by banning hedge contracts in respect of both the new and current crops. Later on dealings in forward contracts (excluding delivery contracts) in cotton cloth and yarn were prohibited. Speculation in the bullion market was sought to be restrained by Government's ban announced towards the end of May on forward dealings in gold and silver. In June 1943, the Bombay Government asked the authorities of the Bombay Stock Exchange to take effective steps to curb speculation in stocks and shares. The Excess Profits Tax Ordinance issued by the Central Government in May sought to speed up the process of collection of the excess profits tax in order to draw off a part of the surplus purchasing power seeking avenues of short-term investment. As has already been noted, the Capital Issues Control Order was issued at about the same time. This sought to prevent the growth of mushroom companies and to prevent divergence of available capital resources to speculative and undesirable ventures. The period, therefore, marks the beginning of intensified physical and financial controls in our economy and the subsequent developments in the field of controls may merely be regarded as an extension of the field covered during this period. As a result of these controls prices showed a tendency towards stabilisation at a lower level. Government also came to fix ceiling prices—both wholesale and retail—in regard to an increasing number of consumer goods. Simultaneously with these steps, on the other hand, Government took certain measures to prevent a decline in the prices of raw cotton and raw jute to levels unremunerative for the cultivators, by reduction in acreage, fixation of minimum prices and an undertaking by Government to purchase these commodities if prices dropped below certain levels. In October 1943, Government issued an

all-embracing enactment, *viz.*, the Hoarding and Profiteering Prevention Ordinance, in order to supplement the various *ad hoc* control measures already issued. By this Government assumed wider powers of control. This Ordinance authorised Government to fix maximum prices of any article and, where no maximum was fixed by Order of Government, the price charged was not to exceed the amount represented by an addition of 20% or the addition allowed by normal trade practice, whichever was less, to—

- “(a) the landed cost of the article in case of an imported article ;
- (b) the cost of production of the article in the case of an article which is not imported.”

For the enforcement of these provisions the Controller of Civil Supplies was empowered to fix maximum quantities of any article which might be held by dealers or sold by them to one customer and to require dealers to declare possession of excess stocks, to mark prices on the articles, to exhibit price lists, to give a cash memo for each sale and to keep record for all sales. In pursuance of the powers conferred by this Ordinance, maximum prices of several articles, *e.g.*, medicines and drugs, razor blades, fountain pens, mill-stores, footwear etc., were fixed, though it was not possible to ensure the regular supplies of all these articles in the open market. In June 1944, a representative Central Consumers Council was constituted to advise Government, among other things, on the working of price control and distribution and more economical use of commodities in short supply. In July 1944, the Consumer Goods (Control of Distribution) Order was issued and reduction in ceiling prices for certain goods, including cotton cloth, was effected. Ceiling prices for new classes of goods such as vegetable oil products were fixed. In fact the field of control was extended so considerably that hardly any field of trade and business was left untouched. Rationing was introduced particularly in respect of foodgrains. Under the Sugar and Sugar Products Control Order of July 1943, the Sugar Controller could give directions regarding the production of sugar and other cognate matters. *Gur* was also brought under control. Stocks of commodities could be frozen and movements of a number of commodities were under control. Besides this, there were a number of controls on the sale of chemicals and drugs, erection of buildings, etc., etc.

In order to conserve supplies for the home market, reduction was affected in exports as also in defence requirements under the arrangements made by the Hydari Mission. In June 1945, the Textile Industry (Control of Production) Order was issued to bring about standardisation of mill output, and a beginning made in the direction of rationing of cloth in Bombay and Delhi. The statement of Government policy

in regard to the industrial development of the country issued in April 1945, sought to transfer certain industries from the purview of the Provinces to the Centre for the purposes of co-ordinated regulation. After the cessation of hostilities measures were taken to relax partially war-time controls over production and distribution although price control continued. In November 1945, a number of articles were removed from export control and in December a number of articles were removed from the Schedule to the Consumer Goods (Control of Distribution) Order. In the field of import, decontrol was extended to a number of articles in January 1946, by issuing new Open General Licences. In January 1946, two Ordinances were issued demonetising notes of the denominational value of Rs. 500 and above with a view to checking 'black market' operations and tax evasions. For some time in May 1946, export of cloth was banned to help in checking the rise in prices in the country.

The various emergency measures made during the war period were due to expire on 1st October 1946, either because they had only been made for the duration of the war and six months thereafter or because they encroached upon the legislative or executive authority of Provinces. As these measures had to end six months after the revocation of the Proclamation of Emergency it would have meant the end of a large number of control orders made under the Defence of India Rules. In March 1946, the Legislature had passed the India (Central Government and Legislature) Act, 1946 which extended temporarily the powers of the Indian Legislature to make laws in respect of certain matters falling within the Provincial field. As it was not possible for the Interim Government to convene a session of the Indian Legislature, Government decided to continue the emergency powers exercised during the war period, such as the control of foreign exchange and securities, control on capital issues, import and export of goods into or from India, railway priorities, control of shipping, avoidance of strikes and lock-outs, and amicable settlement of trade disputes, regulating the supply of electrical energy by electric supply undertakings and house-rent control in Chief Commissioner's Provinces. Under the Emergency Provisions (Continuance) Ordinance issued on 25th September 1946, these powers were continued. By the Essential Supplies (Temporary Powers) Ordinance issued on the same date, continued operation of central control over trade and commerce in and the production, supply and distribution of foodstuffs, including edible oils, cotton and woollen textiles, paper including newsprint, petroleum and petroleum products, spare parts of mechanically propelled vehicles, coal, iron and steel and mica was provided. By another Ordinance the continuance of all requisitions of 'land' in force immediately before the expiry of the Defence of India Act and of the power to acquire any such land in certain specified circumstances

was provided. It was only after promulgating these measures that the Defence of India Rules were allowed to expire. With the expiry of these Rules the Hoarding and Profiteering (Prevention) Ordinance of 1943 and the Consumer Goods (Control and Distribution) Order of 1944 were allowed to lapse. Some of the powers assumed under the Ordinance were delegated to Provincial Governments.

An important step towards the formulation of Government's policy of controls was taken by Government in February 1947 by appointing a Commodity Prices Board to advise Government in the formulation and administration of an appropriate and consistent price policy. The question of price-fixation in respect of various commodities was referred to the Board from time to time. The Board, however, ceased to exist from September 1947.

There was a growing recognition that controls could not be a permanent or satisfactory substitute for the price mechanism for working out an adjustment between the community's resources and wants. It was also felt that they tended to perpetuate conditions of relative scarcity causing in turn the prices of controlled commodities to rise. Government announced towards the close of 1947 their policy of gradual decontrol. Pulses and sugar were freed from production and distribution control. Subsequently in December 1947, the policy of gradual decontrol was extended to foodgrains. Later on, in January 1948, Government decontrolled cotton, cotton cloth and yarn and revised the controlled prices of steel, cement and coal in an upward direction consequent upon increased costs. Decontrol was presumably decided upon because of the desire to bring the economy back to normal and to allow free play to the forces of supply and demand, controls were reintroduced from July 1948.

During the decontrol period from November 1947, to July 1948, the general index of wholesale prices advanced continuously till it touched a new peak level of 389.6 in July 1948, as compared to 302.0 in November 1947, thus showing a rise of 29%.

Decontrol and Prices. There was an increase of 33.9% in semi-manufactured articles, 32.5% in food articles, 30.7% in manufactured articles, 19.1% in industrial raw materials, and 16.6% in the miscellaneous group. It is also true that the rise was most marked in the case of decontrolled items. Cereals in the food group showed an increase of 49.4%. Textiles in the manufactured articles group rose by 42.5%. At one time the rise in the prices of coarser varieties of cloth was as much as 100% and in fine varieties upto 250%. What is, however, forgotten is that after an initial spurt in prices which was inevitable due to an "activation of latent inflation" prices had begun to stabilise themselves after the middle of May. This is particularly true of cotton textile prices which after an initial spurt in response to the long pent-up demand, began to

steady themselves at a reasonable level. In fact, the manufactured group showed hardly any rise between June and July as the index rose from 370.0 to 370.1 only. Another factor which must be taken note of is that decontrol was not tried in the most favourable circumstances. The interim index of industrial production in the calendar year 1947 stood at an all time low figure of 98.8 with 1946, as the base, mainly because of the growing industrial unrest and dislocation arising from widespread communal disturbances. Transport difficulties were also quite acute and Government had adopted a more restrictive import policy for the purpose of conserving foreign exchange, after the initial attempt for multilateral convertibility of sterling had failed in August 1947. Moreover, there was a large pent-up demand in the country and due to the prevalence of a sellers' market abroad goods were not easily available in foreign countries. Besides, the continued deficit of the Central and Provincial Governments contributed their fair share to the intensification of inflation. During the period November 1947 to July 1948, the Central Government's balances with the Reserve Bank of India declined from Rs. 369.69 crores to Rs. 210.4 crores. The Central Government had to meet a large expenditure on refugee rehabilitation work and on a number of development schemes that were being framed at that time. Another factor to be noted is that decontrol was not complete in the sense that restrictions on the movement of commodities like cotton textiles and foodgrains had not been removed which resulted in a large price rise in deficit areas. Inter-provincial movement of cloth continued to be regulated. In respect of foodgrains the only step taken by the State Governments was to reduce their rationing commitments. It was only in May 1948, that some of the State Governments cancelled their rationing orders and price control orders under which statutory prices of foodgrains were fixed and which provided for a system of licensing for foodgrains dealers. Inter-provincial restrictions on the movement of foodgrains were, however, continued even in this period. Such restrictions were responsible for the price rise.

While it is not possible to apportion the price rise during the period under review to the various factors listed above, it is apparent that it would be taking a wholly partial view of things to hold the policy of decontrol responsible for the full rise of 29%. It is also necessary to recognise that immediately after decontrol the inflation latent in a controlled economy must manifest itself. Controls merely delay the emergence of the normal price level by fixing it at an artificially low level. In fact, by impeding production during the control period they helped in the creation of condition under which the price rise after decontrol is inevitable. It would also be pertinent to note that even after the reintroduction of controls it has not been possible for Government to hold the price line.

The results of decontrol would not appear to be as negative, as is often claimed, if one were to take into account the substantial increase in production, particularly in textiles and sugar, increase in employment in factories and the increasing pace of investment during the decontrol period. Moreover, controls were re-clamped on the economy at a time when the price spurt due to decontrol had almost exhausted itself.

There was a reversal in Government's policy and controls were reimposed. A beginning in this direction was made towards the end of July 1948, when recontrol was applied to cloth and Government announced their decision to fix fair ex-mill prices for cloth and yarn, the stamping of such prices on all cloth and yarn and the allocation of cloth on a quota basis subject to a ceiling on the margin to be charged by retailers, which was fixed at 20% on 1st December 1948. Floor and ceiling prices for raw cotton were fixed on 21st August. As regards food, the new policy was announced on 24th September which aimed at gradual reintroduction of controls over prices, procurement and distribution in respect of major foodgrains. In December 1948, the sugar prices were stabilised at Rs. 28/8/- per md. ex-factory as against Rs. 35/7/- per md. in December 1947. Earlier in July 1948, Government also took some steps to augment supplies of some essential goods by liberalisation of imports. In October 1948, an anti-inflationary programme was announced, which included a cutting down of capital expenditure on schemes not expected to result in an immediate addition to the supply of essential goods, postponement of repayment of E.P.T. and other deposits and limitation of dividends payable by public companies and tax on luxuries. Moreover, with a view to stimulating production, concessions including liberalisation of depreciation allowances, exemption from taxation of new industrial undertakings of specified categories for a specific period, reduction in import duties on plant and machinery, as well as on essential industrial raw materials and top priority for transport facilities to essential key industries, namely, steel, cement and textiles were announced.

Before proceeding further with the description of controls on commodities it would be worthwhile to take note of Government's Resolution on Industrial Policy which was announced on 6th April 1948. This Resolution laid down broadly the objectives of Government policy in the industrial field, demarcated the respective sphere of State enterprise and also indicated Government's policy in regard to foreign capital. In concrete terms the industrial policy statement divides industries into four categories. The first of these includes those industries which are exclusively owned by the Central Government, these being the manufacture of arms and ammunition, production and control on atomic

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energy, ownership and management of railway transport, (and, in emergencies, any industry vital for national defence). In the second category are placed industries of a key or basic character—coal, iron and steel, aircraft manufacture, ship-building, manufacture of telephone, telegraph and wireless apparatus excluding radio receiving sets, and mineral oils. The existing undertakings in this field were to be given all facilities for efficient working and reasonable expansion for a period of 10 years at the end of which the State will decide, in the light of circumstances obtaining at the time, whether these undertakings should be nationalised. The third category which will be subject to Central control and regulation in consultation with the Provincial and State Governments concerned comprises some 18 industries of importance. The rest of the industrial field will normally be open to private enterprise.

It was in pursuance of this Resolution that Government introduced the Industries (Development and Control) Bill in Parliament on 23rd March 1949. The planning of future development was sought to be secured by the licensing of all new undertakings by the Central Government. The Bill also sought to confer on Government power to make rules for the registration of existing undertakings for regulating production and development of the industries listed in the Schedule. Provision was also made for the revocation of a licence or taking over the control and management of any industrial concern by the Central Government.

The Bill was amended by the Select Committee whose report was presented to the House on 10th February 1950. In the amended Bill the industries to be brought under regulation were divided into two parts, both the parts comprising of 27 industries. It was laid down that in regard to industries specified in Part I of the Schedule the Central Government may, in such cases as substantial fall of production, marked deterioration in quality of products, unjustifiable rise in the price of products, necessity for conservation of resources of national importance, and where the Central Government is of opinion that the industrial undertaking is being mis-managed, refer the matter to the Central Industries Board, provided under the amended Bill, for investigation. After the receipt of the report, Government may issue necessary directions to the industrial undertaking. These special provisions were not to apply to the industries specified in Part II of the Schedule. The Government could, however, transfer the industry from one part to the other after seeking Parliament's approval. The amended Bill, like its predecessor provided for the registration of existing undertakings as also for the licensing of new industrial undertakings by private persons subject to conditions as to the location of the undertaking and the minimum standards in respect of size etc. Even a substantial expansion of any industrial undertaking was to be subject to licence.

A reference to the control on industries is made later in this note.

After the reintroduction of controls beginning from July 1948, the general index of wholesale prices showed a downward tendency.

It came down to 370.2 in March 1949, as compared to 389.6 in July 1948, but it is interesting to note that even during this period the prices of industrial raw materials rose from 449.9 in July 1948, to 462.8 in March 1949.

Thereafter, the general index also showed an upward trend. In June 1949 the Essential Supplies (Temporary Powers) Act was amended to bring within its purview raw cotton (ginned and unginning), cotton seeds, coke and other derivatives of coal. Until the middle of 1949 the prices of sugar had remained more or less stable, around Rs. 28/8/-per md., but in July 1949, the prices shot up to Rs. 35/-per md. and persisted at about that level. Early in September, Government issued an Order freezing sugar stocks with the factories. Dealings in 'futures' and 'options' in sugar were prohibited and State Governments were advised to take action to secure stocks lying with dealers and to arrange for their distribution at prices based upon ex-factory prices. As the price rise, however, persisted and as there was a further fear of rise after devaluation in September 1949, Government announced an Eight Point Programme on 5th October 1949, which aimed at holding the price line. This programme included *inter alia* prevention of speculative price increase by legislative and administrative measures. A reduction of 10% in the retail prices of essential commodities, manufactured goods as well as foodgrains was sought by bringing down the ex-farm and ex-factory prices or by reducing distribution costs and incidental charges or by both. By an Ordinance issued on 10th October, the ceiling prices of jute goods for exports were fixed at Rs. 55 per 100 yds. of hessian (of 40" size and 10 oz. in weight) and Rs. 1,550 per ton of sacking. Forward trading in cotton seeds was banned with effect from 5th November 1949. The export duty on raw cotton was increased and an export duty of 30% *ad valorem* on black pepper was announced. The prices of foodgrains were to be reduced by 3% to 15%, partly through a cut in the cost of transport and incidental charges and partly through a reduction in procurement prices. Various State Governments reduced the procurement prices. The controlled prices of other essential commodities *viz.*, cloth and yarn, sugar, steel and pig iron were also revised downward during the period. These attempts at forcing down the price level met with some initial success and in December 1949 the index of wholesale prices stood at 381.3 as compared to 393.3 in October 1949. The index, however, continued to rise again from February 1950.

Other measures to bring down prices.

After the outbreak of the Korean War in the end of June 1950, prices showed a tendency to rise further and the index crossed the 400 mark in July 1950. An amendment to the Essential Supplies (Temporary Powers) Act was passed in August 1950, providing for more drastic punishment in the case of persons guilty of excessive hoarding of foodgrains. On 12th August 1950, Government approached Parliament for fresh powers to enable the Centre to legislate on matters relating to trade and commerce, production, supply and distribution of goods which are in the State list. On 2nd September 1950, Government issued the Supply and Prices of Goods Ordinance empowering it to fix maximum prices and quantities at which certain goods may be sold or possessed. The goods to which the Ordinance (which was subsequently replaced by an Act in December 1950) applied were non-ferrous metals, including brass (unwrought and semi-manufactured), bicycles, cycle tyres and tubes, electric bulbs, razor blades, caustic soda, soda ash, tanning materials, (wattle bark, wattle extract, quebracho) raw rubber, casein, infants' foods (Glaxo, Horlicks and Cow and Gate milk). Subsequently, a few other commodities *e.g.* bicycle parts and accessories, tannery wool, Oster milk, sulphur, chromeore, certain textile accessories and mill-stores were added to the Schedule of the Act, while razor blades were excluded from the scope of the control from 16 November 1950.

In spite of all these measures the price level continued to rise and an all-time peak of 457.5 was reached in April 1951, as compared to 395.6 in June 1950, *i.e.*, a rise of nearly 13%. In this connection, it may be noted that the sharpest rise was in respect of the industrial raw materials group, which rose from 490.7 in June 1950, to 683.1 in April 1951, *i.e.*, a rise of nearly 40%. This was because of the sharp rise in the prices of raw cotton in the world markets, following a steep fall in the U. S. A. cotton production last year. The rise in the industrial raw material group was also due to the steep upward trend in the price of raw jute after March 1951. It may be noted further that the food situation in the country deteriorated considerably after the middle of 1950, following serious damage to crops by drought and floods in parts of the country and an earthquake in Assam. The cereal ration had to be reduced from 12 ounces to 9 ounces in January 1951, which was restored in most of the States only in and after August 1951.

The above review shows that controls in our country were to be enforced, not as part of a planned economy but under the stress of war conditions. Whenever the price level has shown a tendency to rise, recourse has been taken to impose more controls without fully going into the fundamental causes responsible for the rise in prices. While it is fully realised by all concerned that the Indian economy has been subject to

Outbreak of the Korean War ; new measures to meet the situation — Supply and Prices of Goods Ordinance.

Objective of Controls.

a great deal of strain after the war and conditions do not warrant a return to an unregulated economy, there is no denying the fact that ever increasing attempts to impose controls and their extension are hardly likely to achieve the results expected of them in bringing down the price level. Controls by throttling production reduce the overall supply of goods in the market which in its turn leads to more controls and thus a vicious circle is created and it becomes very difficult to do away with controls.

LEGAL BASIS OF CONTROLS

In this Section are enumerated the various laws from which flow the control orders relating to production, prices, distribution, import, export, foreign exchange, etc. The most important law bearing on controls is the Essential Supplies (Temporary Powers) Act, 1946. The powers for controlling production, supply and distribution of commodities and trade and commerce in foodstuffs (including edible oilseeds and oils), cotton and woollen textiles, raw cotton, paper (including newsprint), petroleum and petroleum products, spare parts of mechanically propelled vehicles, coal, iron, steel and mica are derived from this enactment. A brief description has also been given of other important Central Government Acts bearing on controls such as (1) The Supply and Prices of Goods Act, 1950, (2) The Foreign Exchange Regulation Act, 1947, (3) The Import and Export (Control) Act, 1947, (4) The Capital Issues (Continuance of Control) Act, 1947, (5) The Industries (Development and Regulation) Act, 1951 etc. A passing reference has also been made to certain other Central Government enactments. It may however, be noted that the list of enactments mentioned in this Section does not exhaust all the legislation on the subject.

Parliament has exclusive power to make laws with respect to any or the matters enumerated in List 1 in the Seventh Schedule to the Constitution. Among matters listed in this Schedule are trade and commerce with foreign countries, inter-State trade and commerce, futures market, industries the control on which by the Union is declared by Parliament by law to be expedient in the public interest, regulation and development of oilfields and mineral oil resources. However, trade and commerce in, and the production, supply and distribution of the products of industries where the control on such industries by the Union is declared by Parliament by law to be expedient in the public interest and the subject of price control are in the concurrent list.

Essential Supplies (Temporary Powers) Act : (Act XXIV of 1946) : The most important Act having a bearing on controls is the Essential Supplies (Temporary Powers) Act, 1946. This Act provides for the continuance of powers to control the production, supply and distribution of and trade and commerce in foodstuffs (including edible oilseeds and oils) cotton and woollen textiles, paper (including newsprint), petroleum and petroleum products, spare parts of mechanically propelled vehicles, coal, iron, steel and mica. The Central Government have powers to make orders providing for regulating by licenses, permits or otherwise, the production or the manufacture of any of the commodities listed above. They can also control the prices of these commodities and regulate by licence, permit or otherwise, the storage, transport, distribution, disposal, acquisition, use or consumption of any of these commodities. It can prohibit the withholding from sale of any of these commodities and require persons holding stock of these to sell the stocks at such prices and to such persons as may be specified by Government's Order. Further, it can regulate or

prohibit any class of commercial or financial transactions relating to foodstuffs or cotton textiles. It can also require persons engaged in the production, supply and distribution of these commodities to maintain and produce for inspection books, accounts and records relating to their business and can also provide for any incidental and supplementary matters including the entering and search of premises, vehicles, vessels and aircraft, as also the seizure by an authorised person of any articles. The Government also have powers to charge fees for granting or issuing licences, permits or other documents. Under the Act, the Government can also delegate powers to their officers or to Provincial Governments and their officers and these powers have been delegated in respect of a number of these commodities particularly as regards their distribution. As regards penalties, it is provided that persons contravening any Order made under the Act shall be punishable with imprisonment for a term which may extend to 3 years or with fine or with both and the Court can also direct (if the Order so provides) that any property in respect of which the Order has been contravened shall be forfeited to Government. As regards offences by Corporations it is provided that if the contravention is made by a company or other body corporate, every Director, Manager, Secretary or other Officer or Agent shall be deemed to be guilty of such contravention, unless he proves that the contravention took place without his knowledge or that he exercised all due diligence to prevent such contravention.

By an amending Act in September 1948 (Act No. LXIV of 1948) the section relating to penalties was made more specific inasmuch as it was laid down that in any contravention of Orders relating to cotton textiles, the Court could direct that any property, in respect of which the Order has been contravened or such part of it as the Court may deem fit, shall be forfeited to Government. The main Act made an express proviso in respect of foodstuffs only.

By an amendment of the Act in April 1949 (Act No. XIX of 1949), the section relating to penalties in respect of foodstuffs was made more strict and by the addition of a new section it was provided that in offences relating to cotton textiles or foodstuffs, Government could forfeit certain property used in the commission of the offence.

By another amending Act (Act No. XLIX of 1949), the list of essential commodities was extended further by the addition of raw cotton and cotton seed. It was also made clear that coal shall include coke and other derivatives of coal and that raw cotton shall include ginned cotton and unginned cotton or *kapas*.

By an amending Act in August 1950 (Act No. LII of 1950) it was extended to the whole of India except to the State of Jammu and

Kashmir and the duration regarding the application of the Act was extended from 1st April 1951, to 31st December 1952. Cattle fodder was also included in the scope of the Act and this term includes oil cakes and other concentrates. The section relating to penalties was redrafted and this provided for increased penalties where the contravention related to an Order prescribing the maximum quantity of any foodgrain that may lawfully be possessed by any person. If a person is found to be in possession of foodgrains exceeding twice the maximum quantity the Court shall sentence him to imprisonment for a term which may extend to 7 years and to a fine not less than 20 times the value of the foodgrains found in his possession and that the whole of such foodgrains in excess of the prescribed maximum quantity shall be forfeited to Government. The provision regarding bail was also stiffened if the accused person was convicted of a contravention of any order relating to foodgrains.

By another amendment in December 1950 (Act No. LXXII of 1950, which replaced an Ordinance on the same subject) it was stipulated that for regulating or prohibiting the production, supply, and distribution of commodities it was not necessary to notify the order in the Gazette and by the addition of a new sub-section it was provided that such an Order could just be delivered or tendered to a person concerned or if it could not be so delivered or tendered it could be affixed on the outer door or some other conspicuous part of the premises in which that person lived. This was intended to help Government in its procurement drive for foodgrains.

It will thus be seen that the scope of the Essential Supplies (Temporary Powers) Act has been extended considerably. Under the Act Government regulate the production, supply and distribution of many essential commodities, in respect of which specific orders have been made by Government such as the Colliery Control Order, Iron and Steel (Control of Production and Distribution) Order, Iron and Steel (Scrap Control) Order, Cotton Textiles (Control) Order, Cotton Textiles (Control on Movement) Order, etc., etc. Orders relating to foodstuffs have been made by State Governments. In respect of paper most of the orders have been withdrawn but the Newsprint Control Order has again been revived.

Supply and Prices of Goods Act : (Act LXX of 1950) : Another important Act bearing on the control of prices of certain goods and the supply and distribution thereof is the Supply and Prices of Goods Act, 1950 which replaced an Ordinance on the same subject promulgated early in September 1950. In August 1950, Parliament passed a resolution under Article 249 of the Constitution, taking the power to legislate in respect of matters in the State list. These matters relate to trade and commerce, and production, supply and distribution of goods

given in the State List. The Act applies to non-ferrous metals including brass (un-wrought and semi-manufactured); bicycles; bicycle parts and accessories; cycle tyres and tubes; electric bulbs; caustic soda; soda ash; tanning materials (wattle bark and wattle extract, quebracho); raw rubber; casein; infants foods (Glaxo, Horlicks, Cow and Gate Milk and Oster Milk). Subsequently, a few commodities have also been added to the List, such as sulphur, chrome ore. On 28th August 1951, a few more commodities were added such as cotton card clothing and card clothing sundries for flat cards, shuttles for use in textile looms other than jute and hemp; dyes derived from coaltar; hydrosulphite of soda; starch; ring spinning frames and mules for manufacture of cotton yarn. In respect of these goods the Central Government may fix maximum prices and maximum quantities which may be held or sold. Restrictions can also be placed on possession and sale by dealers and producers where the maximum quantity has been fixed. Dealers holding stocks cannot refuse to sell goods and have to give a cash memo, if the amount of the purchase is Rs. 10 or more in all cases. If the amount is less and the purchaser requires a memo, it has to be given. The dealers are also required to mark prices and exhibit price lists and stock. Government have also the power to regulate production and distribution of these goods by making specific orders. Powers can also be delegated to State Governments and other authorities. The power of Central Government to legislate in respect of all these matters were extended by another year by a resolution passed by Parliament in this behalf in June 1951. With effect from 5th January 1952, jute and jute manufactures have been brought within the purview of the Act. This has been done with a view to providing adequate machinery to meet Government's requirements of jute and jute manufactures.

The Foreign Exchange Regulation Act : (Act No. VII of 1947) : This Act regulates certain payments, dealings in foreign exchange and securities and the import and export of currency and bullion. The Act is to remain in force for 5 years only, *i.e.*, to March 1952, but the Central Government may direct, by notification in the Official Gazette, that it shall remain in force for a further period not exceeding 3 years. By an amendment in December 1947 (Act XL of 1947), restrictions on import and export of currency and bullion were tightened. The Act was again amended in 1950 (Act No. XXXIV of 1950). By an amending Ordinance (Ordinance No. X of 1951) issued on 27th December 1951, the Reserve Bank of India has been vested with powers of greater control over the financial activities of the foreign subsidiaries of Indian companies.

The Imports and Exports (Control) Act, 1947 : (Act No. XVIII of 1947). This provided for the continuance of powers to prohibit or control imports and exports for a period of 3 years from 25th March 1947.

The Act was amended in December 1949, and by the addition of a new Section the Government acquired the powers to levy fee in respect of any application for and the issue or renewal of any licence, made under the Act. Licensing fees were prescribed on 31st December 1949.

The Act was again amended in March 1950 (Act No. VI of 1950). By this its duration has been extended until the 31st March 1955.

The Capital Issues (Continuance of Control) Act : (Act No. XXIX of 1947) : This Act provided for the continuance of control over issues of capital upto 1st April 1950. An amending Act was brought into force in March 1950, by which the duration has been extended upto April 1952.

The Railways (Transport of Goods) Act, 1947 : (No. XII of 1947) : This Act which came into force in March 1947, conferred on Government special powers for regulating the transport of goods on railways in respect of a large variety of goods listed in the Schedule to the Act. The Central Government could give directions in regard to the transport of goods to railways, through the Railway Administrations, and they had to comply with the same. The Act was to expire on 26th March 1949, but the period of its operation was extended to 31st March 1950, by an amending Act (Act No. XI of 1949). After this period, although the Act as such expired on that date, Government amended the Indian Railways Act by Act No. XI of 1950 in March 1950. A new Section 27A was added which gave the Central Government powers to give direction in regard to transport of goods by railway administrations.

The Control of Shipping Act : (Act No. XXVI of 1947) : The Act provides for the grant of a valid licence by the Shipping Authority before a ship registered in India can be taken to sea from Port. Licensing has also been provided for the coasting trade in India and the Shipping Authority can give directions and fix shipping rates. The Act was amended in April 1948 (Act No. XXVII of 1948), making more specific provisions for licensing for the coasting trade of India. Again in March 1950, the Act was amended, (Act No. VIII of 1950) by which the duration of the Act was extended to March 1952.

The Rubber (Production and Marketing) Act : (Act No. XXIV of 1947) : This Act provides for the development, under the Central control of the Rubber Industry so far as the production and marketing of rubber is concerned and for regulating the exports from and imports into the country of rubber. The Indian Rubber Board has been constituted under the Act. The Act was amended twice in 1949 (Acts No. XXII and L of 1949). By the latter amending Act licensing

of transactions in rubber was also extended in respect of sales by any person, of rubber produced in his estate.

The Indian Tea Control Act : (Act No. VIII of 1938) : This Act provides for the control of exports of tea from, and for the control of extension of cultivation of tea in the Provinces of India. A Tea Licensing Committee was constituted under the Act. No tea could be exported unless covered by a licence issued by the Committee. By an amending Act in 1948 (Act No. XIX of 1948), the period for which the Act was to remain in force was extended to 31st March 1950. Another amending Act was passed in April 1949 (Act No. XVI of 1949). Another amendment was made in 1950 (Act No. IX of 1950) in respect of control over the extension of tea cultivation. By this the duration has also been extended to 1955.

The Central Tea Board Act : (Act No. XIII of 1949) : This Act, providing for the development of the tea industry under Central control, was enacted in March 1949. For the purpose the Central Tea Board has been established and provision made for the levy of a cess not exceeding two rupees per hundred pounds on tea exported from India.

The Drugs Act : (Act No. XXIII of 1940) : This Act regulates the imports, manufacture, distribution and sale of drugs. The operative section was brought into force only on 1st April 1947, by which no person can import any drug which is not of a standard quality or is misbranded. The Act also gives power to Provincial Governments to prohibit the manufacture and sale of certain drugs. The Provincial Government can appoint Government analysts and inspectors to inspect premises, take specimens and seize stocks under specified conditions.

The Drugs (Control) Act : (Act No. XVI of 1950) : The Central Government enacted in April 1950 the Drugs (Control) Act, 1950. This provides for the control of sale, supply and distribution of drugs and extends to all Part 'C' States. The Central Government can declare any drug to be a drug to which this Act applies by official notification and the Chief Commissioners may fix maximum prices and maximum quantities which may be held or sold.

The Indian Power Alcohol Act : (Act No. XXII of 1948) : This Act provides for the development of the Power Alcohol Industry under the control of the Central Government. Under this no person can manufacture power alcohol from any substance other than molasses. Government have power to regulate production and disposal of power alcohol as also the use of the same as motive power. It can also make rules providing, among other things, for the licence of manufacturing of power alcohol and fixing the prices at which it may be sold for the purpose of admixture with petrol.

Electricity (Supply) Act : (Act No. LIV of 1948) : This Act provides for the rationalisation of the production and supply of electricity and generally for measures conducive to the electrical development of the Provinces of India. It provides for the creation of the Central Electricity Authority and the Provincial Electricity Boards. The Provincial Electricity Boards can close down generating stations and can place restrictions on the establishment of new generating stations or major additions or replacement of plants in generating stations. The licensees have to comply with the Board's directions. The Act was amended once in December 1949 (Act No. LVII of 1949). It may be mentioned here that controls on electricity supply have in no small measure been responsible for the recent power cut in Bombay as such controls impede the normal expansion programme of electricity undertakings in the hands of private enterprise.

The Mines and Minerals (Regulation and Development) Act : (Act No. LIII of 1948) : This Act provides for the regulation of mines and oilfields and for the development of minerals. The Central Government have been given power of controlling the regulation of mines and oilfields. The Government can make rules for regulating the grant of mining leases or for prohibiting the grant of such leases in respect of any mineral in any area. They can also make rules for the conservation and development of minerals and thus lay down royalties, fees or taxes in respect of minerals mined, quarried, excavated or collected.

Delhi and Ajmer-Merwara Rent Control Act : (Act No. XIX of 1947) : This Act of the Central Government provides for the control of rent and for eviction and the lease to Government of premises upon their becoming vacant in certain areas in the Province of Delhi and Ajmer-Merwara. The Act was to remain in force for a period of two years. Government could also by notification direct that it shall remain in force for a further period not exceeding two years. The Act was amended once in April 1948 (Act No. XXVIII of 1948). The Act was subsequently amended in March 1951 (Act No. X of 1951) by which the duration of the Act has been made to last for a period of six years from the day on which the Act came into force.

Various State Governments have their own rent control Acts.

The Industries (Development and Regulation) Act : (Act No. LXV of 1951) : This Act which received the assent of the President on 31st October 1951 shall come into force shortly. Under the enactment it has been declared expedient in the public interest that the Union should take under its control the industries specified in the First Schedule of the Act. The Act provides for the registration of existing undertakings and the licensing of new industrial undertakings as also substantial expansion

of the same. Power has also been given to Government to cause an investigation to be made in scheduled industries or industrial undertakings and to issue directions to the undertaking or undertakings regarding the production, control of prices or the regulation of distribution etc. In some cases Government can also assume direct control of any undertaking.

The above list of Central Government enactments bearing on controls can hardly be regarded as complete. There are besides laws relating to customs duties and the levy of protective duties, which exercise an indirect control on the development of industries and on the demand of the consumers to have goods of their own choice. The taxation and budgetary policy of Government greatly influences and controls economic activity. These are not being discussed in this Note. Nor such legislation as the Central Excises and Salt Act (Act No. I of 1944) which subjects certain operations to licencing *e.g.*, the production or manufacture of specified excisable goods as also the wholesale purchase or sale or the storage of any excisable goods. The Acts controlling insurance and banking and therefore investment and finances for private companies are also not discussed.

No direct reference is being made here to Company Law, although this will be mentioned in connection with controls over investment activities in a later Section.

Reference is not being made to industrial disputes legislation which provides for the investigation and settlement of industrial disputes and for notice of strikes and lock-outs in public utility services *vide* Industrial Disputes Act (Act No. XIV of 1947). Nor is a reference being made to schemes of social insurance contemplated under the Employees' State Insurance Act (Act No. XXXIV of 1948). Nor is any direct reference being made to the Factories Act (Act No. LXIII of 1948), which is a comprehensive law regulating labour in factories. Under this the Provincial Governments can provide for licensing and registration of factories and for the appointment of the inspecting staff, who can enter and cause examination of the premises, plant and machinery. Controls relating to forward trading are also not being reviewed in this Note. It may, however, be stated that as some of the Acts such as the Public Companies (Limitation of Dividends) Act (Act No. XXX of 1949) which sought to limit the dividends that may be paid by public companies upto 31st March 1950, will come up for review in a subsequent section of this paper.

Before passing on to the review of control measures a mention may be made in passing of the measures devised by Government for prosecuting persons contravening control orders and for preventing bribery

and corruption in public servants. The procedure for penalties to those contravening the provisions of the Act is laid down in each Act. Of late, the Preventive Detention Act (Act No. IV of 1950) is also being utilised for detaining businessmen with a view to preventing persons from acting in any manner prejudicial to the maintenance of supply and services essential to the community. As regards the prevention of bribery and corruption in public servants, under the Prevention of Corruption Act (Act No. II of 1947) it is sought to prevent public servants from obtaining any gratification or any valuable thing from any person. There is also a section, relating to criminal misconduct in discharge of official duty, which was to remain in force for a period of 3 years from the commencement of the Act, but by an amending Act (Act No. XVI of 1950) the duration has been extended to 5 years. Under the Delhi Special Police Establishment Act (Act No. XXV of 1946) provision has been made for the constitution of a special police force for the investigation of certain offences in connection with the matters concerning departments of the Central Government.

CONTROL OVER INVESTMENT.

In this section a review is made of the control on capital issues. It is examined as to how far this control has been able to direct national investments. Other forms of control on industrial organisation and management and control on dividends have also been reviewed. Reference has been made to the powers of control assumed by Government under the Industries (Development and Regulation) Act.

This is the most effective control bearing on investments. It was imposed in May 1943, by Rule 94A of the Defence of India Rules, with the object of preventing the establishment of those industries which did not assist in the production of essential war or consumption goods and to check the growth of mushroom companies with little chances of survival after the war. In the first phase of the control lasting from May 1943, to May 1944, long-range schemes were discouraged, exception being made in some cases for issues of capital required to purchase plant and machinery for which orders had already been placed for delivery after the war, subject to the condition that the money would be invested in defence loans or other new Government securities and kept so invested until it could be spent for the intended purpose. In December 1943, the procedure was revised and the condition that an actual order for machinery etc. should have been placed was removed. The raising of capital was, however, allowed only if the promoters had prepared final schemes revealing the nature of the plant required and if the promoters had conducted negotiations with suppliers of machinery upto a certain degree of definiteness. After persistent efforts made by some industrialists, a further relaxation was made in April 1944, when Government decided to allow issues of capital for long-range schemes even if the schemes were still in an indefinite form. This was done out of the consideration that industrial development in the immediate post-war years would be facilitated if companies with adequate amounts of capital at their disposal are already in existence. In August 1945, Government granted an exemption in favour of any issue by a company to a total not exceeding Rs. 1 lakh. In December, 1945, the exemption figure was raised to Rs. 5 lakhs in the case of all, except Banking and Insurance Companies.

Although the Capital Issues Control was originally issued as an anti-inflationary measure it was felt by Government that its continuance was still necessary "to secure a balanced investment of the country's resources in industry, agriculture and the social services". Under the Capital Issues (Continuance of Control) Act, 1947 a company, whether incorporated in India or outside, must obtain the consent of the Central Government before it can make an issue of capital in India or make

a public offer of securities for sale or renew or postpone the date of maturity or repayment of any security maturing for payment in India. The word 'securities' has been defined to cover shares, stocks and bonds ; debentures ; other instruments creating a charge or lien on the assets of the company ; and instruments acknowledging loans to or indebtedness of the company and guaranteed by a third party. Under the Act it is open to the Central Government to qualify the consent or recognition accorded by it with such conditions for immediate or future fulfilment as it may think fit to impose. The applicant whose application for consent or recognition is refused can request Government to communicate to him in writing the reasons for such refusal. An Advisory Committee on Capital Issues was constituted in October 1948, to advise Government on general matters arising out of the administration of the Act.

A striking feature of the working of the controls in the immediate post-war period is the tremendous increase in the amount of capital—both applied for and sanctioned—as compared with the war period. The total amount of capital applied for and sanctioned, however, went down from 1947-48 due to various factors. In October 1948, Government felt that the issue of bonus shares should be discouraged and they decided to use their powers, under the Control of Capital Issues Act instead of assuming fresh powers, and thus the sphere of the control on capital issues was extended considerably. This decision was taken by Government as they felt that bonus shares were being issued in a number of cases by revaluing assets and that the issue of bonus shares would have had psychological effects on labour. By assuming these new powers Government came to interfere with the discretion of the Directors of a company and there are cases when even old companies which had built up reserve funds were not permitted to capitalise these reserves and issue bonus shares. Government, however, did not place any restrictions on the issue of bonus shares by private limited companies. As for public companies it was felt that the issue of bonus shares be allowed if the reserve fund after capitalisation was 20% or more of the increased paid-up capital.

We many now examine as to how far the main object of the control, *i.e.*, to secure balanced investment of the country's resources has been achieved. It is known that the permission to issue capital cannot be regarded as a guarantee that the capital would be raised and hence this control can be regarded as having "played a negative role so far," as has been acknowledged in the draft outline of the First Five-Year Plan. There are a number of companies which were floated during the boom period but for some reason or the other, the business operations could not be started, for which sanction was accorded. In such cases the capital is immobilised and the object of control is defeated. In

some cases, the control has been found to interfere with the expeditious setting up of new concerns as there has been delay in the disposal of applications for the issue of capital in a number of cases. There have also been cases in which the Capital Issues Department failed to keep secret the application of some particular persons who had taken all the trouble to get contacts and thereby promote an industry. Other people who come to know about it contacted the same foreign firms and thereby ruined the chances of the industry being set up in the country economically.

It is also apparent that it is outside the object of the Control of Capital Issues Act to control the issue of bonus shares. Even if Government desired to control the issue of bonus shares they should have brought forward a new measure and some definite principles should have been followed in putting restrictions on the issue of bonus shares. The present restrictions on the issue of preference shares as bonus shares are quite cumbersome particularly for those companies which are under-capitalised, and restrictions placed in this regard have not been helpful to the expansion or development of those companies. The control of capital issues, as it is exercised at present, has failed to give clear direction to our national investment policy. This is mainly because, in taking decisions on applications, Government lay too much emphasis on the composition of capital rather than on its size and necessity. The Fiscal Commission even recommended the abolition of capital control in its present form, although it stated that a fresh machinery may have to be devised for diverting capital into approved channels. As a first step for liberalising the Act, the exemption limit of Rs. 5 lakhs ought to be raised so as to exclude from the purview of the Act such investments. As a result of the rise in Bank Rate from the middle of November 1951 and the tightening up of conditions in the money market, the whole situation regarding the necessity for the continuance of this control should be judged afresh.

The statutory provisions relating to the incorporation, constitution, and management of companies have been laid down in the Indian Companies Act of 1913. A majority of the industries in India are operated and managed through the managing agency system, under which a firm of managing agents operates a number of industrial concerns of different types on the basis of long-term contracts. The managing agents get in return a commission which is related to production, sales or profits. The managing agency system has played an important role in the development of industries, but with a view to remedying the drawbacks that have been noticed, the Government of India set about bringing a revision of the Company Law. After the circulation of a memorandum containing certain proposals in October 1949, an Expert

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Committee was set up with wide terms of reference in October 1950. An Ordinance was promulgated on 21st July 1951, to bring about some vital changes in the Company Law. This measure sought to prevent trafficking in managing agency rights and cornering of shares in the open market with a view to acquiring control over the management of certain companies. The Ordinance was replaced by an Act early in September 1951, and it is now necessary to obtain the prior approval of the Central Government for any change in the controlling interest of an existing company and/or in the terms of appointment of new managing agents. Howsoever necessary the provision may be to check certain abuses, it must be noted that they alter the basic concept of Company Law inasmuch as the rights of shareholders in the case of existing companies have been taken away and given to Government in respect of certain vital matters. There is also no safeguard provided against delay in the grant of approval by Government on applications by companies in respect of matters where prior approval has been made obligatory. Although Government have appointed a Commission to whom Government may refer for opinion applications for approval of changes, it has to be seen as to whether the applications are disposed of expeditiously or not.

As a part of Government's anti-inflationary drive initiated early in October 1948, an Ordinance was promulgated towards the end of October 1948, for limiting dividends and thus checking the flow of purchasing power in the hands of the people. This Ordinance was subsequently replaced by an Act (Act No. XXX of 1948). Under the measure dividends were not to exceed 6% of the paid-up capital of the company or the average dividend distributed by a particular concern during the two years ending March 1948, whichever happened to be higher. If bonus shares had been distributed by any concerns during the year ending March 1948, the amount so distributed was not to be taken into account in calculating the average dividend, because bonus shares were regarded as being in the nature of capital distributed rather than dividend. A maximum of 6% dividend was also to be paid for preference shares. It was proposed to extend the Public Companies (Limitation of Dividends) Act up to March 1951, but after an examination of the position, Government came to the conclusion that it was not necessary to extend the Act. By dividend limitation the return of the middle class investor on shares is fixed at a certain level. While, as an anti-inflationary measure the effect of dividend limitation was negligible it had a "disproportionately depressing effect on the investment market." Although there is no control on dividends at present, it may be pointed out the last of dividend slash has not yet been heard for the Planning Commission has viewed with favour proposals for "restrictions on the remuneration of management, the distribution of profits and the issue of bonus shares".

Control on
Dividends.

Fresh powers were assumed by Government for the development and regulation of industries under the Industries (Development and Regulation) Act. Under the regulatory provisions of the Act, powers have been given to Government to investigate into the affairs of scheduled industries or undertakings, to issue directions to them and even to assume direct control where the Central Government is of opinion that an industrial undertaking is being managed in a manner highly detrimental to the scheduled industry concerned or to the public interest. The Act also provides for the registration of existing industrial undertakings, licensing of new industrial undertakings as also of licensing of substantial expansions of such undertakings. The Act is regarded as possessing "great potentialities for assisting in the development and regeneration of industrialisation in the country". It has yet to be seen how governmental interference by which private industry has been strangled all along can help in the process of rapid industrialisation. Inasmuch as the powers under the Act are to be exercised after consultation with the Central Advisory Council of Industries and the Development Council of the Industry concerned, the rigours of governmental interference may be softened to some extent.

CONTROL ON PRODUCTION

In this Section controls bearing on production have been reviewed, such as production control on cotton textiles, steel, coal etc. Their effects in increasing or decreasing production have also been traced.

Under the Essential Supplies (Temporary Powers) Act, 1946, power has been conferred on Government under Section 3 (2) (a) for regulating the production or manufacture of any such essential commodity mentioned in the Act, by licences, permits or otherwise. By way of illustration, we may take note of the controls on production of cotton textiles, iron and steel and coal.

The first attempt at production control on Cotton Textiles was made under the Standard Cloth Scheme in war-time under which standard cloth was produced in 66 types of shirtings, dhoties and sarees and was sold at a uniform price all over India. **Cotton textiles.** The Scheme, however, failed to fulfil the hopes which were originally placed on it, because the design, width and other features, calculated to affect economies in manufacture, made the cloth dull and unattractive even to the ordinary consumer. The next attempt to control production was made in May 1945, under the Textile Industry (Control of Production) Order, 1945. By this Order the number of sorts that could be manufactured and the counts of yarn that could be spun were restricted. Manufacturers had also to restrict 90% of their "free-loom" (i.e., looms not engaged on Supply Department cloth), to "utility cloth", and 50% of their looms of the width of 48" to 56" for the production of dhoties and sarees. This Scheme resulted in the turning out of such cloth which was unsuitable for marketing, while there developed in acute shortage of cloth of wanted varieties. In November 1945, the quantity of utility cloth was reduced to 60% of free looms and towards the end of 1945 the utility cloth scheme was abandoned. In June 1947, the *ad hoc* Committee, appointed by Government in February 1947, to investigate facts bearing on the price of cotton textiles and to recommend measures necessary for increasing the production of yarn and cloth, reported to Government. It envisaged a Scheme for the standardisation of production, reducing types and varieties of cloth and yarn produced by the mills and lowering the average counts produced. The object of the Scheme, which found general support of the Commodities Prices Board, was to increase the output per spindle and loom and to get the maximum yardage of serviceable cloth out of the available supplies of yarn. It was estimated that the implementation of the Scheme would increase production by about 800 million yards. On 1st December 1947, Government issued the Textile Industry (Control of Production) Order, 1947. But,

in accordance with the Government's policy of progressive de-control, restrictions on the production of cloth and yarn were removed on 20th January 1948. The Cloth Standardisation Scheme was abandoned due to difficulties in securing supplies of long staple cotton from Pakistan and also for permitting mills greater flexibility in their manufacturing programme.

Before passing on to an analysis of the measures of production control initiated after re-control of cloth, it may be noted that during the six months of de-control, *i. e.*, February-July 1948, the average monthly production of cotton textiles in the country was 375 million yards. The total production of cloth in these six months amounted to 2248 million yards as compared to 1869 million yards in the corresponding period of the previous year for undivided India and 1969 million yards in the corresponding period of the succeeding year.

Control on cotton textiles and yarn was reimposed on 2nd August, 1948. As regards production, the Order regulates the acquisition and number of looms which may be worked by a person, the use of wheat flour or glucose or other sizing and filling material in the manufacture of cloth, the spinning of fine counts and the number of counts of yarn or varieties of cloth which a manufacturer may produce. In addition, the Textile Commissioner has power to issue directions to producers regarding the classes and specifications of cloth and yarn which they may or may not produce. The cloth and yarn produced by the manufacturers is required to be packed in bales of specified sizes only. On 30th November 1948, the Textile Commissioner issued directions to the mills to produce varieties of cloth which were specified in the Order. These directions came into force from 1st January 1949. Under these directions the minimum lea count strength of yarn was prescribed. The maximum permissible difference between reed and pick was laid down as also the maximum difference between the warp counts and weft counts. Restrictions were also placed on the use of coloured yarns and piece-dyeing. A minimum percentage of looms of appropriate sizes had to be employed for the production of dhoties and sarees. In the meantime, the Textile Production Control Committee, which had been appointed in October 1948, submitted its report in March 1949, and its recommendations were to be implemented from October 1949. But Government realised that rapid changes in the production programme interfere with increased production and, therefore, the Production Control Scheme was abandoned in September 1949, as the limited measure of production control had already adversely affected the production of those qualities of cloth which were in popular demand.

A revised Scheme was announced on 22nd September 1949, under which some of the restrictions on production of cloth were withdrawn.

However, the restrictions regarding the permissible count variations for purposes of linking with group multipliers, the maximum differences between the reed and the pick, the restrictions on the production of cloth of the same design and colour set-up, or colour combination in different cloth-groups and certain restrictions regarding sorts permitted to be dyed and the types of dyeing and printing were retained. A few other restrictions on production of cloth by mills were announced on 31st January 1950, with a view to assisting the hand-loom industry by reserving certain fields of production for it. Under this Scheme which came into effect from June 1950, the textile mills and power-loom factories are not allowed to manufacture certain varieties of cloth and yarn, such as dhoties and sarees with wide borders, or of borders with artificial silk yarn, colour striped and checked sarees, checked lungies and sarongs, bed-sheets, chaddars with coloured borders, certain varieties of furnishing fabrics, dusters, honey comb towels and coarse cloth of a plain weave. Production control was further tightened on 8th February 1951 when it was laid down that of all looms between 48" and 58" installed in an undertaking, an employer shall employ a minimum of 50% for the production of dhoties and sarees and of all looms so employed, at least 60% shall be used for the production of dhoties only. This was done with the ostensible purpose of over-coming the shortage of dhoties and sarees which had been created largely because of the unremunerative price policy of Government in regard to these items. Certain other restrictions had also been placed earlier on the output of printed and dyed varieties which had to be restricted to 10% of the cloth earmarked for internal production in the country. Restrictions on packing were placed on 10th February 1951. On 24th March, other restrictions were placed under which only 10% could be packed for export purposes. These restrictions remained in force in April, May, June and July 1951. In August, September and October, 1951 producers were allowed to pack upto 25% for export purposes.

It will thus be seen that production control on cotton textiles has been relaxed or intensified according to the exigencies of the situation, *i.e.*, as a sort of corrective to the ill-conceived schemes of price fixation and distribution. Control on production has, therefore, never helped in increasing the over-all production of cloth in the country, nor has it ensured the production of wearable varieties of cloth in suitable quantities.

Control on the production and distribution of steel is exercised under the Iron and Steel (Control of Production and Distribution) *Order 1941 issued in July 1941. Similarly, in respect of scrap the power to control production, prices and distribution is exercised under the Iron and Steel (Scrap Control) Order, 1943 issued in

*The Order continues to be in force even after the expiry of the Defence of India Rules by virtue of Sec. 17 of the Essential Supplies (Temporary powers) Act, which states that any Order made before the commencement of this Act shall continue in force and be deemed to be an Order made under this Act.

February 1943. Under the first Order, by clause 11 (a), the Controller appointed by the Government of India, has the power to prohibit the manufacture by any producer of iron or steel of any of the categories specified in a Schedule to the Order.

The Controller can also require any producer to obtain approval of his programme of manufacture of any of the categories and can ask any producer to manufacture iron or steel of particular categories. Thus, he can prescribe priorities of production. Government has also the power to control the creation of new productive capacity. The production of the main producers and registered re-rollers is controlled by the Government of India inasmuch as their production programme is determined as a result of the distribution system evolved by the Government, *i.e.*, after making an assessment of the demands of various classes of users, directions are given to the producers to produce particular varieties of steel.

Besides the powers of control over production exercised by the Central Government, some State Governments have also issued orders, laying down that fabricators of steel shall acquire iron or steel or scrap from scrap merchants or stock-holders for fabrication only in accordance with the terms and conditions of a licence issued in that behalf by the licensing authorities appointed by the State Governments. As a result of control on production, it has been noticed that on some occasions the capacity of each unit of the plant has not been utilised to the optimum level, because directions are given by officials and the producers do not have full liberty to adjust their production programme according to their own choice. Changes in the building programme of different authorities, urgency of certain orders, alterations in technical specifications and such other factors make it necessary for the producers to modify their programme of production from time to time according to the instructions received from Government.

In July 1941, Government had constituted an Iron and Steel Control Board to assist the Iron and Steel Controller in the exercise of his executive functions. This was substituted in September 1948, by the Iron and Steel Advisory Committee which was to advise Government on matters relating to the control over production and distribution of iron and steel. This Committee was, however, dissolved in July 1950.

Control on the production and distribution and prices of coal was first imposed in 1944. The Order of 1944 was subsequently revised and the revised Colliery Control Order issued in December 1945, continues to be in force. As regards production, the Order empowers Government to issue such directions as they think fit to any colliery owner prohibiting or limiting the mining or production of any

grade of coal and the colliery-owner has to comply with the directions. The Government can also prohibit the sub-division of any colliery, *i.e.*, no colliery or group of collieries can be worked in separate parts, except with the previous permission of the Central Government and in accordance with the directions that may be issued by the Central Government. Officers authorised by Government can also enter and inspect any colliery and no colliery can be opened or reopened except with the previous permission of the Central Government. The powers for regulating production have been exercised by Government through the Deputy Coal Commissioner (Production).

Besides these direct powers of control over production on coal, the main factor which interferes with the production programme of collieries is the allocation of wagons to different collieries. Insufficient supply of wagons has been found to affect production adversely.

Government have been exercising powers of control on production of other commodities. Moreover, under various other control Orders also Government has the power to issue directions to producers.

ALLOCATION OF RAW MATERIALS

The distribution of important industrial raw materials such as coal, steel and cement is controlled by the Government of India under control orders or under other administrative arrangements. This section states the factual position in this regard and analyses the allocation schemes devised by Government in respect of these items. A reference to the allocation of raw materials under the import policy has been made in a separate Section.

Power for allocating steel to various classes of users is exercised under the two Orders mentioned while dealing with production control on steel. The distribution control on iron and steel was withdrawn in April 1946, but it was again re-imposed after four months. In November 1946, a new scheme of iron and steel distribution was evolved. This scheme continues to be in force although some modifications were made in it in January 1948, so as to associate the Provincial Governments in a larger measure than before. In 1950, some important changes regarding distribution were also made.

In advance of a production period—a quarter of a year is taken as a production and licensing period—an estimate is made of the total quantity of steel that is expected to be available from production and at the same time an assessment is made of the demands of various classes of users.

Here we will concern ourselves with the problem of steel allocation to the steel processing industries only. In respect of these, classifications have been laid down for getting an allotment of steel from the quota, *i.e.* a firm must be registered under the Indian Factories Act and must have been in existence before the 1st January 1946, and be engaged in the processing of steel before that date. As newly established concerns experienced difficulties in getting their proper quota, in 1950 an important change was introduced under which steel processing factories established upto March 1950, could get an allotment of steel. At the same time smaller factories employing less than 100 men were transferred to the charge of State Governments, who could issue permits for their requirements and after getting the permits steel could be obtained from the registered stock-holders named in the permit. For sometime past, the steel processing and fabricating industry has been receiving an inadequate quota of steel. On the other hand the quota allotted to States and to Agriculture has been increased. The obvious result of this anomalous position is that the steel processing industry is working much below its capacity.

The Deputy Coal Commissioner (Distribution) obtains each month an estimate from collieries of what they can produce for despatch and prepares a statement of the coal requirements of the consumers as also the number of wagons likely to be available. The consumers have been divided into various classes, *viz.*, (1) Bunkers and Exports, (2) Railways and Ports, (3) Public Utilities, (4) Primary Producers, (5) Ordnance Factories and Defence, (6) Cement Factories, (7) Woollen, Cotton and Jute Mills, (8) Miscellaneous industries of importance, such as Paper Mills, Enamel Works, Food Products, Chemical Works, Sugar Mills etc., (9) State Quotas (from these are met the requirements of less important industries and domestic consumers listed and controlled by State Coal Controllers), (10) Coke Ovens (I. and S. Controller), (11) Brick-burning (State). After formulating the allocation proposals, they are discussed by a Committee appointed by the Central Government and then the final views are communicated to the Deputy Coal Commissioner (Distribution), who then allocates coal according to these decisions. Instructions are issued to collieries informing them where they have to despatch their coal.

Under the scheme buyers and sellers have hardly any choice to procure or sell the commodity. This has resulted in disrupting the old trade relations which existed between collieries and consumers before control started.

From August 1942, to September 1946, the distribution of cement was rigidly controlled by the Central Government under the Defence of India Rules. After the expiry of these rules legislative powers passed to the Provinces who have enacted necessary legislation in this behalf. The control over cement was progressively decentralized and the Central Government confined themselves mainly to the allotment of cement for Central purposes, namely, the requirements of the departments of the Central Government like the Railways, C. P. W. D., etc., and big organised industries like coal, textiles, chemicals, sugar, etc. After the Central Government quota is disbursed for these purposes, the balance is allotted to the State Governments. Since October 1949, the Central quota has been enlarged to include requirements of cement for Grow More Food schemes, schemes for rehabilitation of displaced persons and educational institutions of an All-India nature. This was, however, done without affecting the over-all quota of the State Governments because of the progressive improvement in production. Roughly speaking about 55% of the total production is allotted directly to the States, about 26% for the Central Government demands, *e.g.*, for Finance, Railways and organised industries, 13% to agriculture, 4% to refugee housing schemes and the balance to educational projects and reserves, including exports. In respect of distribution of cement to organised industries, cement is allotted for industrial purposes only after steel has been

released for the same purpose. All applications for allocation of steel to organised industries have, however, to be routed through the State Governments who thereby exercise an indirect control over distribution of cement to these industries.

It may be mentioned here that proposals for de-controlling cement were under active consideration of Government in 1949 and in 1950. Some relaxation was permitted by allowing sales without permit upto 10 bags per head per mensem and at the same time imports were also liberalised in 1949 to narrow the gap between supply and demand. Proposals for handing over distribution control to a common marketing organisation of producers have also been under consideration. Nothing, however, has come out of these proposals and in spite of steady improvement in the production of cement in the country, control over distribution and prices has been continued.

Besides the control over allocation of these materials, a very effective control over production and other spheres of activities is exercised by the control over imports of all commodities, including various essential raw materials for industries. We may now, therefore, pass on to a discussion of controls over foreign exchange, imports and exports.

CONTROL ON FOREIGN EXCHANGE, IMPORTS AND EXPORTS

In this section is given a factual review of the development of control over foreign exchange, imports and exports. An analysis of the manner in which these controls have been operated is also attempted in this section.

Exchange Control

Exchange control was introduced in India soon after the outbreak of the war in 1939 and the authority to administer the regulations relating to the control of dealings in coin, bullion, securities and foreign exchange was delegated to the Reserve Bank of India by the Central Government. An important development in the field of exchange control regulations was the institution in March 1940, of a scheme for the control of foreign exchange proceeds of exports to hard currency countries in accordance with the Empire Scheme formulated by the British Government. The object was to obtain control of the foreign currency proceeds of exports and also to see that the full proceeds were received at controlled rates. Control was also established over the purchase of securities from foreigners and the export of securities could not be effected without the previous permission of the Reserve Bank of India. These measures were intended to prevent export of capital from India and to check speculation in exchange. Soon after, a system of licensing imports was devised to secure economy in the expenditure of foreign exchange. The whole object of the system of exchange control was thus to conserve and direct to the best uses the limited supplies of foreign exchange available. The control was made effective through a series of rules under the Defence of India Act, 1939. These rules expired on the 30th September 1946, but they were retained in force for another six months under the Emergency Provisions (Continuance) Ordinance, 1946. As, however, the shortage of foreign exchange was likely to continue, particularly in view of the disruption of the internal economy of many nations and the interruption of established channels of trade, it was considered necessary that the system of exchange control be continued. Also, the adherence of India to the International Monetary Fund required her to take certain measures to regulate transactions in foreign exchange in order to fulfil the obligations of membership. An Act was, therefore, passed which received the assent of the Governor-General on 11th March 1947. This gave the Central Government necessary powers to continue to control transactions in foreign exchange, securities and gold for a period of 5 years from the time of its coming into force and to provide for its continuance for a further period of three years by a notification in the official gazette. In the main, the Act retains the powers granted under the Financial

Provisions of the Defence of India Rules. Under the Act transactions in foreign exchange are confined to Banks authorised to deal in foreign currencies by the Reserve Bank of India which acts as the exchange control authority. Section 5 of the Act lays down restrictions on payments. It provides that no person in or resident in India shall make any payment to or for the credit of any person resident outside India and draw, issue or negotiate any Bill of Exchange or Promisory Note or acknowledge any debt so that a right to receive a payment is created or transferred in favour of any person resident outside India. While Section 4 regulates dealings in foreign exchange, this Section imposes control over rupee transactions. This Section is similar to the provisions of Rule 92A of the Defence of India Rules except that it prohibits transactions with any person resident outside India, while the Defence of India rule only prohibited transactions with persons resident outside the sterling area. The Reserve Bank was, however, given power to grant exemptions so that the freedom of transactions within the sterling area may be continued unaltered and the Reserve Bank of India issued notifications on the day the Act came into force, *i.e.* the 25th March 1947, by which general permission was given for payments to or for the credit of or on behalf of persons resident in countries comprising the then existing sterling area. The Act also gave Government the power to impose restrictions on import and export of currency and bullion and to regulate the use etc., of imported gold and silver. The manner and degree of control in this, as well as other matters provided for in the Act, was to be determined by the policy of Government and the provisions of the Act were so drafted that the degree of restrictions on foreign exchange transactions could be relaxed or increased by executive orders in accordance with the needs of trade and finance. The Government allowed payments for current transactions freely, specially in respect of the sterling area, but restricted transfers of capital. The scope of the control was gradually extended and pending the completion of the Financial Agreement with the U. K. of August 1947, regarding release of sterling balances, restrictions were imposed on transfers of capital from India to the U. K. and other sterling area countries also, so as to prevent flight of capital from India. This was done by cancelling the general permission given for transactions in sterling area currencies. The export control procedure prescribing realisation of the full proceeds of all exports through the medium of an authorised dealer in foreign exchange was extended to all countries outside India with the exception of Afghanistan, Nepal, Tibet and French and Portuguese India. The restrictions on the exports to hard currency countries of jewellery, precious stones, currency notes and foreign exchange were also extended to such exports to sterling area countries. The general permission for the export of securities to sterling area countries and for their transfer to residents of the sterling area was also withdrawn from 4th August 1947. Certain other restrictions were also placed on authorised dealers regarding their holdings of sterling. Fresh

investments by them in sterling or sterling area currency securities were made subject to the prior approval by the Reserve Bank of India. In December 1947, the Foreign Exchange Regulation Act was amended and an explanation added to the Section dealing with restrictions on import and export of currency and bullion. By this amendment, import of gold or silver without the permission of the Reserve Bank of India could be declared illegal even though the gold or silver so imported was in transit to a place outside this country. The regulations governing capital transfers have also been changed from time to time. A note may, however, be taken of an important decision announced by Government early in June 1950, laying down principles which govern repatriation of foreign capital invested in India by outsiders. Under this the repatriation of capital owned by residents of the sterling area and Norway, Sweden and Denmark is freely allowed. In respect of capital owed by residents of countries other than those mentioned above, certain relaxations were granted by which it was provided that capital invested after 1st January 1950, in projects approved by the Government may be repatriated at any time thereafter to the extent of the original investment, as also the proceeds of that investment. As regards profits derived from investments and ploughed back into projects with the approval of Government, it may be treated as an investment for the purpose of permitting repatriation.

In December 1949, an important decision was taken by the Indian Exchange Control Department which relaxed the restrictions on security transactions, by Indian nationals. In terms of this decision, general permission was granted to Indian nationals resident in India to deal in the shares of sterling companies operating in India with two Registers, provided payments were made in rupees and the shares were on the Indian Register. Indian nationals were also permitted to acquire sterling shares of such companies in the London market subject to the condition that the shares had been transferred to the Indian Register before they were sent out to India. By an amending Act in 1950, the preferential treatment granted to U. K. companies and individuals was withdrawn. By an Ordinance promulgated on the 27th December 1951, further powers were given to the Reserve Bank to enable it to exercise greater control over the financial activities of the foreign subsidiaries of Indian companies, as it was felt that these companies floated in foreign countries could be used to pursue activities in defiance of the Foreign Exchange Regulation Act. By this Ordinance, Section 18 of the Act has been substituted by a new Section. The Government is empowered to call upon the companies to furnish information about their assets and business and they may be asked to declare dividends where profits are high enough to justify such a course. The Collector of Customs has also been vested with direct powers of dealing with offenders. These newly acquired powers, if exercised arbitrarily, are bound to interfere with the process of investment of Indian

capital in foreign countries and check the efforts of the Indian companies to open subsidiary companies abroad.

On the partition of India, the Reserve Bank of India in its capacity as banker to the Government of Pakistan also became the authority responsible for the Administration of exchange control in Pakistan.

Exchange Control between India & Pakistan.

As it was intended to set up an independent exchange control for Pakistan, it was decided by agreement between the two Governments that from January 1948, they would separately retain their own foreign exchange earnings and meet their respective foreign exchange expenditure out of such earnings. The proceeds and payments for all exports and imports from the ports in India and Pakistan went to their respective Governments. On 30th June 1948, India and Pakistan signed a Payments Agreement which precluded exchange control as between the two countries, as also any restrictions on the transfer of current or capital account of funds or securities from one country to the other. Exchange control in Pakistan was taken over by the State Bank of Pakistan as from 1st July 1948. In March 1949, the Government of India decided to prohibit the bringing or sending into the provinces of India any Government of India one rupee notes from any place in Pakistan except with the general or special permission of the Reserve Bank of India. The Reserve Bank also cancelled its general permission for the taking or sending out of Indian currency notes to Pakistan except by *bona fide* travellers who were allowed to carry with them currency notes of the Government of India not exceeding Rs. 50 in all. The Payments Agreement with Pakistan which was to expire on 30th June 1949, was extended for one more year and thus unrestricted transfers of funds on both current and capital account were provided, as also the maintenance of parity between the two rupees. The Payments Agreement was renewed on 10th September 1949, *i. e.*, about a week before the devaluation of the Indian rupee and the non-devaluation of the Pakistan rupee. The non-devaluation decision of the Pakistan Government introduced a complicated factor in the economic relations between the two countries and trade came to a gradual standstill. Although trade was resumed on a barter basis in April 1950, the important decision to recognise Pakistan's exchange rate was taken only in February 1951. On 27th February 1951, the Reserve Bank of India announced the extension of exchange control to Pakistan and Afghanistan.

There are exchange control regulations covering sales of foreign currencies for travel abroad. On the introduction of exchange control restrictions on remittances to sterling area countries in August 1947, scales of allowances for travel for personal reasons were fixed as from 1st September 1947. A fixed quota of £400 per adult and £200 per minor which was subsequently raised to £600 and £300 respectively in March 1948, was made available over a period of 3 years to be computed from 1st

Restrictions on foreign travel.

September 1947. In view of the dollar stringency, applications for travel to the U.S. and other hard currency countries came to be subjected to closer scrutiny. In June 1948, however, in view of the favourable sterling position, Government decided to give greater facilities to Indian nationals to travel to countries in the sterling and other soft currency areas. The scales of allowances for personal travel abroad were revised in November 1948, when the distinction till then drawn between Indian and foreign nationals was abolished. In April 1949, it was decided to permit travel to all the zones of Germany with the prior approval of Government. The basic allowance of foreign exchange admissible to residents in India for transfer of soft currency countries for pleasure or personal convenience was reduced from £800 per adult and £400 per minor per year to £450 and £225 respectively, to be available once in three years commencing from 1st November 1949. The allowance was, however, increased in May 1951, from £450 in three years to £600 in two years per head.

The need for continuance of exchange control has seldom been questioned in the existing circumstances of the uncertain balance of payments position of the country. It is, however, known that considerable amounts of dollar exchange were lost to the country in the Government's attempt to control the export price of jute manufactures and exchange control was hardly effective in checking this loss.

Import Control

Import control was first introduced in May 1940, as a wartime measure under the Defence of India Rules, with the object of conserving India's foreign exchange resources as well as the limited shipping tonnage. At first the import of only a limited number of commodities, mainly consumer goods, was subject to import control. Except for items covered by an O.G.L. issued by the Central Government or items specifically exempted from the necessity of import licence, licences were issued by the Import Trade Controllers to importers previously established in any particular trade on the basis of their past imports. As the war progressed and exchange and shipping tended to become more scarce, the scope of control had to be extended. Imports of unmanufactured and semi-manufactured steel were brought under control on 31st December 1940, and imports of machine tools in February 1941. In August 1941, practically all descriptions of imported articles came under control and the list was further extended in January 1942. As, however, the imports of certain capital and other goods could not be licensed on a quota basis, it was found necessary to have a Chief Controller of Imports at the Centre. In August 1941 an organisation was, therefore, set up in New Delhi and a number of other licensing authorities were also appointed to license particular articles. On 1st July 1943, a comprehensive notification was issued whereby import licensing was concentrated in the Chief Controller of

Imports and a limited number of other authorities. This notification remained operative throughout the period of the war and still continues in force with some modifications. With the termination of the Defence of India Rules import control was continued by the Emergency Provisions (Continuance) Ordinance of 1946. Subsequently, the Imports and Exports (Control) Act was passed and received the assent of the Governor-General on 24th March 1947. This Act was to remain in force for a period of 3 years only, but the period has been extended to 31st March 1955 by an amending Act in 1950 (Act VI of 1950). Under the notification of 1st July 1943, all commercial imports from any foreign country are banned except when covered by either (a) a general permission granted under the Act by a notification, or (b) specific licence issued by officers authorised to issue import licences. Goods imported in contravention of the provisions of this Act are liable to be penalised or confiscated by the Customs Authorities in the same way as under a breach of customs regulations. Under the notification the Import Trade Control Schedule has been divided into six parts, each part comprising the list of commodities for which licences are issued by the respective import control authorities. Part I of the Schedule consists of iron and steel, and non-ferrous metals. The controlled items of steel are imported either by Government on Government account or through the trade. Other importers are divided into two main categories, namely, (i) importers who have been declared Additional Controlled Stock-holders by Government and (ii) importers who are genuine consumers. Part II of the Schedule consists mainly of metals and manufactures other than those covered by Parts I, IV, V and VI; machinery, spares and mill-stores required for the jute, hemp, tea, iron and steel, electric supply undertakings, mines and quarries, road-making and haulage; engineering stores, such as ball-bearings, small hand-tools, precision and major tools, abrasives and beltings; electrical goods such as certain types of electrical instruments, apparatus and appliances, electrical control and transmission gear, electric fans and electric earthen-ware and porcelain; and transport materials. Part III consists of certain auxiliaries used in the textile industries other than jute and hemp; coal tar dyes and derivatives, raw cotton; textile machinery and parts; and millstores for the textile industry other than jute and hemp. Licensing is done by the Deputy Chief Controller of Imports, Bombay. Items covered by Part IV are mostly consumer goods and these are licensed by the Import Trade Controllers mainly on quota basis, excepting certain items in respect of which the licensing authority is the Chief Controller of Imports, New Delhi. As regards Part V, the Chief Controller of Imports is concerned mainly with the licensing of these goods. These items comprise mainly industrial requirements, such as certain classes of machinery, textile printing dyes, paints and colours and painters' materials, printing and lithographic materials, agricultural implements and instruments, apparatus and appliances. Part VI consists of machine-tool items. It may be noted that the Chief Controller of

Imports exercises overall supervision in respect of all the parts and is also the licensing authority in respect of certain items in Part IV and items to be imported by the New Comers and the imports of Capital goods and Heavy Electric Plant.

As regards capital goods, a scheme for the registration of post-war requirements of industrialists was announced by Government in December 1944, with object of assisting them in obtaining their requirements of capital goods in the post-war period. Import licences under the scheme were granted only when orders had been duly registered and accepted by the suppliers. This scheme was abolished in December 1946, and a Capital Goods Licensing Scheme was adopted in its place, under which importers could straightway apply for import licences without the necessity of prior registration of their requirements. Some modifications were made in this scheme and this was notified on 10th April 1948, to which some alterations have been made from time to time. Under the revised scheme, which is in operation even now, licensing of imports is subject to monetary ceilings and the requirements of plant and machinery in planned industries are considered on the merits of each case, in consultation, wherever necessary, with an Inter-Ministerial Capital Goods Import Committee. In considering applications for licences for capital goods for planned industries, due regard is paid to the fact that the proposed undertaking fits into the approved plan of industrial expansion and stabilisation. As regards applications for import of capital goods for unplanned industries, the general essentiality of such goods and the usefulness of the undertaking to the economy are taken into consideration. The licences for capital goods are issued with an initial validity period of six months* from the date of their issue, but with an endorsement that the licence will be extended to cover the probable period of shipment of goods up to a maximum of three years from the date of issue of the licence. Similar regulations apply to the import of heavy electric plant, applications for which have to be sent to the Chief Controller of Imports through the Central Electricity Commission.

For meeting the long pent-up demand to arrest the inflationary situation in the country, Government instituted an O.G.L. No. VII in March 1945, which was extended in October 1945, to cover additional products. A more liberal policy was followed in 1946 and licences were granted also in respect of goods which were not in essential categories. The scope of the O.G.L. was extended and even in respect of goods for which licences were issued, imports were allowed liberally. Till then, licences for Dollar areas were granted only if the importer could establish that the

*The initial validity period has been raised now to one year *vide* Public Notice No. 144-JTC (P.N.)/51, dated 12th September 1951.

goods were essential and unobtainable from the sterling area. But with the issue of Universal O.G.L. No. VIII in September 1946, free import of certain classes of consumer goods from all sources was allowed. Goods of luxury and unessential variety were imported in the country. Early in 1947 it was realised that such generous imports could no longer be allowed and the liberal policy had to be abandoned. In March 1947, the Universal O.G.L. was cancelled and licences for non-essential commodities were severely curtailed. In May, O.G.L. No. VII which covered 90 items of goods, was replaced by O.G.L. No. IX which consisted of a limited number of goods. In July 1947, imports were classified in three categories, namely, free, restricted and prohibited. Luxury items, numbering over 200 were placed on the prohibited list. In July 1947, import trade control entered on a new phase as it came to be linked closely with foreign exchange control and with the balance of payments position and since then the main objective of import control has been the conservation of foreign exchange resources. For the second half of 1947 our foreign exchange was multi-laterally convertible, but towards the end of 1947 the Government had to abandon the policy of non-discrimination between the sources of imports. In the period January-June 1948 a distinction was drawn between Dollar and non-Dollar sources of supply and a broad classification of imports was made into (a) those licensed freely from Dollar and other hard currency areas, (b) those licensed freely from soft currency areas, (c) those licensed in certain quantities from other hard currency or soft currency countries, and (d) those which were prohibited from all sources. While this restricted policy helped in the conservation of valuable foreign exchange, it also resulted in a surplus balance with soft currency countries. During the period of twelve months ending June 1948, no more than £3 million was drawn from our Sterling Balances, although under the Agreement with the U.K. Government we were entitled to draw as much as £83 million. Thus there were large unspent balances and the Government further thought that more consumer goods should be imported to fight inflation. Government liberalised imports. This process was started in the middle of May 1948. Subsequently on 3rd July 1948, O.G.L. No. XI was issued for the free import of specific items of machinery and other consumer goods, which was followed by other O.G.L.'s. Similar facilities from Sweden and Switzerland, Japan and Ceylon, Iraq, Portuguese India etc. were also provided. In November 1948, the O.G.L. was extended so as to include a number of non-essential goods like toilet requisites, silk piecegoods, motor cars, tobacco, etc. This large measure of liberalisation, besides frittering away our exchange resources on less essential goods, also caused a setback to our industrial development inasmuch as many of the goods produced by Indian industries could not stand in competition with goods which were allowed to be imported freely. The policy was then reversed by Government and O.G.L. XI was cancelled on 5th May 1949, and replaced by a fresh O.G.L. XV on 19th May

1949. In view of the continued deterioration in the foreign exchange position, it was considered necessary to further restrict the import of articles and O. G. L. XV was replaced by a fresh O. G. L. XVI issued on 5th August 1949. This O.G.L. includes very few items besides essential machinery not manufactured in India in sufficient quantity. The policy for the second half of 1949 was very restrictive and the attempt at integrating the commercial policy into the disinflationary one, had to be given up, particularly with a view to see that goods of doubtful value were not imported as in the past. For the first half of 1950 also, the same policy was continued, although there was a slight increase in monetary allocations for some items. One important change that was brought about in this period was that it was followed by the publication of quota percentages and other details, giving importers the requisite information on which to frame their applications. In the period July-December 1950, there was a slight liberalisation and attempts were made to strengthen the organisation, as also to decentralise the licensing work. A distinguishing feature of the policy for July-December 1950, was that it contained a statement on licensing policy for a wide range of items for January-June 1951. On 5th August 1950, an O.G.L. XX was also issued, containing two Schedules, one in respect of goods which could be imported from all sources, excepting South Africa, and the other in respect of items to be imported only from soft currency countries. For the period January-June 1951, the policy was announced on 15th December 1950, and no substantial changes were made in the quota percentages fixed for various items in the previous half-year, although the situation demanded an increase in the quota percentages because of the rise in prices abroad. Later, however, on 13th March 1951, Government announced increased quota percentages, and other forms of liberalisation were also brought about. The import policy for July-December 1951 supplements the policy announced on 13th March and provides for further increased quota percentages in a number of articles. The policy for the first half of 1952 was announced on 28th December 1951. Before passing on to the analysis of import control, it is necessary to take note of the consultative machinery devised by Government.

In September 1948, Government decided to constitute an Import Advisory Council to advise them on matters of general policy relating to import control and the interests of manufacturers, the import trade and distributional trade were adequately represented on the Council. The Council has held seven meetings so far. It may also be pointed out that the first few meetings of the Import Advisory Council were held only after the Government announced their import policy for the half year. Since October 1950, however, the advice of members is being sought before the formulation of the licensing policy for the succeeding half year and not after the announcement of the same.

In July 1950, Government appointed the Import Control Enquiry Committee to enquire into the working of import control with reference to the procedure followed in the fixation of import quotas for individual commodities and for dealing with applications for import licences. This Committee was appointed mainly with a view to improving the efficiency of the import control organisation. This Committee submitted its report in October 1950, and some of its recommendations have been accepted by Government. As a result of this, the working of the import control organisation has improved.

The review of import policy given above clearly shows that our import policy has been apt to go to extremes of extension or relaxation of control. While few will question the necessity of import control, so long as our balance of payments position is precarious, it must be stated that the import policy has not been able to keep any adequate check on the movement of our trade balance or to distribute the available foreign exchange resources in the most equitable manner which is one of its main objects. To cite an instance, the liberalisation of import policy from July 1948, was mainly responsible for the large adverse balance of trade of Rs. 290 crores in the exchange year 1948-49. Moreover, it had serious repercussions on the development of indigenous industries. Import control has also resulted in great uncertainty which has been responsible for losses to importers and manufacturers. On occasions, ill-framed policy has further resulted in interfering with the exercise of judicious decisions by a large number of importers. For a long time, Government continued to follow a restricted import policy (in July-December 1950, as also in January-June 1951) although the situation warranted a greater measure of liberalisation. Soon after the outbreak of the Korean War in June 1950, prices began to rise in foreign markets and importers experienced difficulties in procuring supplies. The rigid import policy failed to moderate fluctuations in the prices of particular commodities. If there were a greater flexibility in import control and if licences had been issued promptly, importers would have been able to procure goods at reasonable rates and thus the country could have saved a good deal of foreign exchange. But as it was, Government did not change its policy for a long period and it was only in March 1951, that imports were liberalised. By this time, the supply situation had become very critical and the policy did not yield the desired results.

The licensing and the administrative procedure for handling and disposal of applications has also been a constant source of friction between the importers and the authority, and the need for bringing about reforms and radical changes in the organisation was adequately emphasised by the Import Control Enquiry Committee so as to facilitate speedy disposal of

applications. Even after the levy of fees for applications with effect from 31st December 1949, it cannot be said that the applications are always properly attended to. Although some new restrictions have been imposed, such as the production of income-tax verification certificates from January 1949, it cannot be said that all deserving firms get licences or that those not deserving do not get them. Moreover, at times conditions have been imposed in granting licences which transcend the object of import control very considerably, *e. g.* on 6th March 1948, a notification was issued which empowered Government to lay down stringent conditions on import licences, *i.e.*, it could be provided that goods covered by the licence shall not be disposed of or otherwise dealt with without the written permission of the Licensing Authority or that goods imported shall not be sold or distributed at a price more than that which may be specified, or that the Licensing Authority may impose other conditions which may be expedient from the administrative point of view. Similarly, on 1st May 1948, Government assumed power by which the Licensing Authorities could cancel a licence where the same had been issued inadvertently or where it was found that the licensee had not complied with any one of the conditions, subject to which a licence may have been issued.

On the whole, however, the necessity of continuing import control cannot be questioned at present and it has to be admitted that under the import policy an attempt has been made to meet the conflicting claims of the three categories of importers, namely Actual Users, Established Importers and New-Comers, although the implementation of that policy has left much to be desired.

Control over exports was introduced in the early stages of World War II with a view mainly to preventing essential commodities reaching the enemy and ensuring supplies for the successful prosecution of the War. It was also designed to conserve essential supplies for civilian consumption in the country as also to make fair distribution of the available exportable surplus among India's consumers at controlled prices. In the beginning powers were assumed by Government under the Sea Customs Act, 1878 but as the list of items under control gradually expanded, Government assumed special powers under the Defence of India Rules and the first Notification under the rules was issued in May 1940. A comprehensive notification was issued in November 1945, detailing the list of items to be controlled. As in the case of imports, the powers were continued first under the Emergency Provisions (Continuance) Ordinance of 1946 and subsequently under the Imports and Exports (Control) Act. The controlled items were divided into four schedules. Part A of the Schedule consisted of items for which no licences were to be issued; Part B consisting of items controlled by the Ministry of Food, Part C consisted of items, licences for which were issued by the late Ministry of Industry

and Supply and Part D items were controlled by the late Ministry of Commerce. Gradually, however, attempts were made to unify control under the Commerce Ministry with the result that all the export controls are now operated by the amalgamated Ministry of Commerce and Industry.

After the cessation of hostilities, the objectives of export control, of preventing essential commodities reaching the enemy and ensuring supplies for the successful prosecution of the war, became inoperative. The continued scarcity of essential commodities, however, made it necessary to continue control for conserving supplies for civilian consumption and ensuring a fair distribution of the available exportable surplus. To facilitate expansion of exports, a progressive policy of decontrol was adopted and important commodities were released from control, *e.g.* mica, lac, tea (the element of control is restricted to the fixing of an annual quota), carpets and rugs, coir and coir products, cashew nuts, tobacco, leather manufactures etc. Some commodities which were once decontrolled, such as black pepper, sandalwood oil, etc. had to be brought under control subsequently, as it was found that countries buying these commodities from India were reselling them to dollar areas. In any case, there was a definite shift of emphasis from export control to export promotion in the years 1948 to 1949. An impetus towards liberalisation of export control was provided by the recommendations of the Export Promotion Committee, which reported to Government in September 1949. The move towards decontrol could not be pursued further because the devaluation of the pound and the rupee in September 1949, necessitated the imposition of control on one of our staple items of export, *viz.*, jute manufactures. Also, as a result of the tremendous increase in demand for Indian cotton piecegoods, controls on exports had to be tightened early in January 1951. The Korean War also made it difficult to obtain certain essential raw materials and this necessitated further review of export controls with the object of ensuring that essential raw materials were not allowed to be exported from the country. As a result of this review, the exports of raw hides, non-ferrous metals and asphalt were prohibited. The exports of some commodities like oils and oilseeds were placed on a rigid quota system while the export of raw cotton had to be curtailed. Quotas also had to be fixed for raw wool and all imported goods as a class were brought under control.

Before passing on to an analysis of export control, we may take note of the consultative machinery which Government have set up for obtaining advice from the business community.

Government set up an Export Advisory Council in May 1940, to act as a channel of communication between the exporting interests of the country and Government and to make recommendations regarding the best means of expanding the aggregate exports of staple commodities as also the methods of expanding the exports of products of the Indian manufacturing industry. The Council has been reconstituted thrice and in all sixteen meetings have been held so far. The Council goes into the export policy and procedure of different commodities and provides a suitable forum for discussion on the difficulties of Indian exporters.

**Export
Advisory
Council.**

In the early stages of export control all considerations were subservient to the requirements of economic warfare. The war gave rise to shipping difficulties which exporters had to contend with. Subsequently the main objective of export control has become the encouragement of exports consistent with internal requirements, in such a manner as to further the economic development of the country. Special attention is paid to canalise exports to dollar and other hard-currency areas and to encourage the export of processed goods. Attempts are also made to conserve supplies for internal consumption of those commodities which are in short supply. Some O.G.Ls have been issued, the most important of which is O.G.L. IV. Regarding other commodities, there is a total prohibition of exports of some, whereas in respect of others, the applicants are allowed export quotas in relation to their previous exports during the prescribed basic year or years. Some commodities are allowed to be exported within the quotas fixed for each destination and there are certain other commodities, the export of which is licensed without any quantitative restrictions.

**Analysis of
Export Control.**

In the case of quota items—jute manufactures, cotton piece-goods, oils and oilseeds are some of the main items of our export trade under the quota system—the general policy is to allow exports through established shippers after earmarking a small percentage of quota for exports by new-comers. Applications are considered only from those firms which have been regularly paying income-tax and produce a certificate to that effect.

By and large, export control has been administered with care and there is a basic justification for controlling exports in the abnormal circumstances prevailing today. It cannot, however, be said that the policies and procedure followed from time to time have always been correct. This can be illustrated by referring to export control on jute manufactures,

Before passing on to a review of export control on this commodity it may be mentioned that about one-third of India's foreign exchange earnings and two-thirds of our hard currency earnings are accounted for by this commodity. During the war period the price of jute in India was deliberately kept at a low level by Government with a view to making cheap supplies available to the Allied Powers. After the termination of the war, the Jute Export Control Order was allowed to lapse although the system of destinational quotas evolved during the war was continued. The quota system was introduced to secure equitable distribution of jute goods throughout the world. After the termination of the war circumstances changed but Government maintained destinational quotas from July 1946 to July 1947 on a *pro rata* system, *i.e.*, applications accompanied by evidence of contracts with overseas buyers were invited by a fixed date and export licences were granted after taking into account the total quotas fixed for a destination and its relationship to the total quantity applied for. This system did not allow shippers to take the opportunity created by the heavy backlog of demand for jute goods from all destinations. From July 1947, to December 1947, the Established Shippers System was introduced. This system continued to be in force with the exception of the period from January to June 1948. Under this system quotas came to be distributed between the established shippers and the newcomers on the basis of 90% and 10% respectively. Recently, however, it has been decided that the quota will be allotted on the basis of 75% to established shippers and the remaining 25% would be given to new-comers who are already in the trade of jute goods. Where, however, the overall quota is less than 200 tons for any destination, the entire quantity will be licensed to established shippers only.

Prices of jute goods for export were subjected to statutory control of the Central Government by their Jute Goods (Export Control) Order, 1949 issued on 10th October 1949. Under this Order ceiling prices for manufactured goods to be sold for export were fixed at Rs. 55 per 100 yards of hessian cloth of 10 oz. x 40" and the price of sacking 'B' Twills at Rs. 155-12-0 per 100 bags. Under Clause 7(1) (ii) it was further laid down that the price of the manufactured jute goods exported under the licence "shall not exceed the ceiling price, and that any additional sum, if any, received or receivable by the licensee on account of brokerage or commission paid or to be paid to the shipping agent or to the selling agent abroad or otherwise, is not more than 5 per cent of the selling price". Thus, the exporters were permitted to charge upto a maximum of 5 per cent over the selling price in order to cover their commission, shipping charges, profits etc. Early in November 1949, the West Bengal Jute Goods (Control) Ordinance was issued by which the Jute

Export Control
on Jute Manu-
factures.

Controller could ask any person holding stocks of jute goods to sell the whole or a specified part thereof at any price and to any person in order to regulate, maintain or increase the production or supply of jute goods or for regulating the distribution of jute goods. These stringent measures of control had to be taken after the devaluation of the rupee. Export duties were also increased at the same time but even then it was found that buyers in foreign markets were prepared to pay higher prices than those provided under the Order. Exporters were also expected to supply goods at the controlled rates so as to enable buyers abroad to procure the same at fair prices. This was, however, against the natural tendency that had developed in the market and the rush for buying jute goods increased considerably after the outbreak of the Korean War in June 1950. As a result, mills themselves began to undertake export of jute goods or began charging heavy premiums from shippers and thus black-marketing developed on a large scale. Government, however, did not deflect from its policy of price control and it was stated that the prices would continue to be fixed at the then existing level, because of the following considerations :—

- (i) to prevent purchase of raw jute from Pakistan at prices which were considered uneconomic by the jute mills industry ;
- (ii) to prevent a rise in the price of Indian raw jute ; and
- (iii) to ensure reasonable prices for consumers.

The malpractice that foreign buyers paid extra money in India or allowed the Indian exporters to accumulate dollars in foreign countries developed. There was also an inducement for mills to make purchases of raw jute directly at prices above the ceiling. Thus there was no effective price control either over jute manufactures or over the price of raw jute particularly after June 1950. The jute dealers engaged in the work of procuring jute and supplying the mills lost their business almost completely and the established shippers also suffered because of the tendency among mills to undertake direct exports. This resulted in the diversion of business from Indian shippers to non-Indian exporting houses. The shareholders were also deprived of their legitimate shares in the increased earnings of the mills as all the money which changed hand in the black-market was not shown in the accounts anywhere. Without going into all the details, it may be pointed out that Government were bent on sustaining, by their regulations, the wholly untenable position of maintaining the prices of jute manufactures at a lower level than warranted by the circumstances. Government's attention was drawn by various interests to the substantial loss in foreign exchange, but Government continued to deny the

same as late as the end of September 1950. Even after the raising of the export duty on hessian from Rs. 350 to Rs. 750 per ton in October 1950, the margin between our export price and the prevailing price in America was substantial and black-market continued. Desperate remedies were thought of, including state trading, to buttress an untenable position. But the obvious remedy of decontrolling the prices of jute goods was not considered by Government. Subsequently, on 20th November the duty on hessian was increased to Rs. 1500 per ton to mop up the difference between the Indian controlled price and the free market price abroad. Even then the quota system was not abolished as suggested by the industry nor was price control removed. The Jute Controller also undertook to direct the sales of hessian. The matter came up before Parliament in December 1950, and some Members placed the estimate of loss of foreign exchange at about Rs. 50 crores and challenged the Commerce Minister's estimate of the total loss of Rs. 12 crores. Government failed to understand that the danger of further displacement of jute goods by substitutes arose from the scarcity of supply of jute goods than its high price, and in their desire not to allow the price of raw jute in the internal market to rise, the expedient of decontrolling the price of jute manufactures was not resorted to. It may also be pointed out that control over the price of raw jute was equally ineffective, if not more, and was observed more in its breach than in its fulfilment. It is only after the conclusion of the Indo-Pakistan Trade Agreement in February 1951, that Government decontrolled raw jute and also withdrew the Jute Goods Export Control Order on 10th March 1951. The above account would serve to show that the policy of export control over jute manufactures has not been in the best interests of the country.

During the prewar period the average exports of cotton piecegoods were of the order of 200 million yards. Exports in 1942-43 amounted to 819 million yards. Exports in subsequent periods declined and after the decontrol of cloth in January 1948, it became profitable for mills and dealers to sell cotton piecegoods internally than to export. Licences were granted to established shippers upto 75% of the destinational quotas on the basis of exports effected by them during the basic period. The balance of 25% was earmarked for allotment to new-comers. As the selection of the basic year 1941-42 was not fair to those engaged in the production of textile against Government orders during that period, there was some legitimate criticism against this procedure. Even otherwise the year 1948 and the period upto September 1949 was a lean period for the export of cotton textiles. In June 1949, Government abolished the export duty and quota and licensing restrictions were also reduced. Under the Cotton Textiles (Export Control) Order issued in March 1949, the margins for export were fixed at

**Export Control
on Cotton
Piecegoods.**

10% in the case of those who were themselves producing the cloth and 20% in other cases. An extra margin of $2\frac{1}{2}$ % was allowed to be given as commission to a selling agent outside India. The price control in the beginning was applicable only to three destinations, but was subsequently made applicable to all destinations. It was only quite late that Government removed this control on profit margin, and all forms of price control were removed only in February 1950. Exports were at a record level in the year 1950 but Government had to restrict them as the internal supply situation became critical and from the beginning of 1951 exports were allowed on a restricted scale.

It may be noted that when Government imposed restrictions on the exports of cloth and yarn in early 1951 many exporters could not honour their contractual agreements with the foreign buyers. The non-fulfilment of contracts entered in good faith before the announcement of restrictions on export, continues to give cause for concern to the exporters even now. The sanctity of contracts has also not been maintained in the case of exports of oils and oilseeds, on which fresh restrictions were imposed early in 1951 and in the subsequent period.

Apart from the difficulties caused as a result of non-fulfilment of contracts and the restrictive effects of the quota system, the other legitimate criticism of Government's export policy is that sudden changes have been made in the policy causing hardship to trade.

POLICY OF PRICE FIXATION

After a brief introductory survey of the known methods of price fixation, this Section subjects the policy of price control on cotton textiles, sugar and gur, raw rubber, raw cotton, raw jute, steel, cement, coal, vanaspati, gram etc. to a scrutiny. Reference has also been made to the recent attempt of price fixation under the Supply and Prices of Goods Act.

The success or failure of price controls depends almost wholly on the Government's ability to fix a reasonable price taking the various factors into consideration and enforcing the same. The known methods of fixing prices are : (i) 'cost-plus' system under which specific prices are fixed for the products of individual manufacturers' and (ii) fixation of industry-wise maximum prices. Under the first formula prices have to be revised constantly and an extensive machinery is required to fix them on a scientific basis. Under the second system the prices may first be frozen at a particular level and then subsequently fixed for the entire industry after making due enquiry. Under both these systems the need for constant review of the prices once fixed remains.

In our country we do not possess any adequate machinery to determine a reasonable price for the products, with the result that no set principles have been followed in fixing the prices of controlled commodities. The arbitrary fixation of prices has on almost every occasion tended to drive the commodity in question underground, and thus lead to a complete loss of control on the overall supply of the commodity. This in its turn gives rise to black market which is prevalent in almost every controlled commodity. The prices fixed ought always to cover costs and normal profits of the producer and distributor which can be determined only after a careful scrutiny of all the factors. The non-existence of a proper machinery and the arbitrary reductions in prices have militated against the maximum utilisation of the production potential and has proved completely ineffective in fighting inflation, which has been the Government's main concern for some years past. It may be noted in passing that after devaluation the Eight-Point programme announced on 5th October 1949, also aimed at reducing by 10% the retail prices of essential commodities, manufactured goods as well as foodgrains. This was done by a reduction of ex-farm and ex-factory prices as also by reduction of distribution costs and incidental charges. Foodgrain prices were sought to be reduced by 3% to 15% and official cuts were also applied in the case of other commodities. The maximum ex-mill price of cloth and yarn was reduced by 4% and the ex-factory price of certain grades of sugar by 3%. The retention prices of pig iron were reduced by 7% and subsequently the statutory ceiling prices of all categories of iron and steel were reduced by Rs. 30 per ton. From 23rd November 1949, the prices of certain types

of coal and coke were reduced, the reduction ranging from Re. -/9/- to Re. -/15/- per ton. The problem of inflation was never attacked by increasing the supply of goods mainly because of the short-sighted policy in fixing the prices of commodities at a level which hardly left any incentive for the producer to step up production. This in its turn failed to relieve the economy of shortages which are the arch-creators of control. This policy is also largely responsible for the predicament in which the industry finds itself today as it has been left with no adequate reserves or profits which could be ploughed back. Further this policy is the cause of what may be regarded as a most disquieting feature of our economy, *viz.*, the tendency for people to invest money in trade rather than in industry, because the prices of manufactured goods have been pegged at an unremunerative level. On the other hand, although the margins of the distributors are also controlled, the scope of evasion there is larger. As will be shown, the policy has also failed to take note of the price relationship between various commodities and there are instances where the controlled prices of cotton were not higher than the prices of *kapas* or unginnged cotton or the controlled price of sugar was lower than the price of *gur*. This anomalous situation which was allowed to continue for quite sometime is an ample testimony to the irrational policy of price fixation and it has become impossible for men not to feel sceptical about Government's policy of price control. In short, Government's policy is short-sighted inasmuch as, on the one hand, it curbs the incentive of the manufacturers, and on the other, the prices fixed being against the natural level help to create conditions for the growth and continuance of black market.

The only machinery which has been utilised by Government in fixing the prices of commodities—leaving aside the Price Control Conferences in the early phase of World War II and the appointment of the Commodities Prices Board early in 1947—is the Tariff Board which has submitted a few price reports, *e.g.*, on cotton yarn and cloth prices, paper, fair ex-works prices of super-phosphate, fair retention prices of steel and the fair ex-works retention prices of pig iron etc.

We may now turn our attention to a review and examination of price control over some of the commodities.

The first attempt at price fixation was made after the promulgation of the Cotton Cloth and Yarn Control Order in June 1943. Initially the ceiling prices of twelve varieties of cloth were fixed and in December 1943, controlled prices were fixed for all varieties of cloth and yarn. The prices were successively brought down in the years 1944 and 1945. A new schedule of realisation multipliers for fixing grey cloth price was introduced from 1st January, 1946. The ex-mill prices of yarn were revised on 6th April

Price control
on (Cotton)
Textiles.

1946. The prices thus revised remained in force till 1st December 1947. Meanwhile, it was represented to Government that the prices particularly of coarse varieties of cloth were fixed at a very low level much to the detriment of mills producing those varieties. The *ad hoc* Committee set up in February 1947 recommended a revision of the then existing price structure. But the Commodity Prices Board to whom the matter was subsequently referred found no case for increase. In November 1947, the question of prices was referred to the Tariff Board, which was asked to recommend fair ex-mill prices to be paid for cloth and yarn. The terms of reference of the Tariff Board had to be amended in March 1948, because of the relaxation of controls brought about in January and April 1948. In the meanwhile, control was reimposed in August 1948. Under the Cotton Textiles Control Order, 1948, ex-mill prices of all varieties of cloth and yarn are fixed by the Textile Commissioner, and ex-mill and retail prices are stamped on all cloth and yarn. In addition, cloth has also to be taxmarked with the date of production. The wholesale and retail prices of cloth are fixed by each State. The Tariff Board which reported to Government in June 1948, made certain recommendations for fixing the prices of yarn and cloth at fair figures arrived at by it with suitable periodical adjustments for fluctuations in the main elements of cost, namely, raw cotton, manufacturing charges, power and fuel and stores. Government accepted the Board's recommendations and revised prices of different varieties of cloth were announced in January 1949. This then may be taken as the first important attempt in fixing prices after due enquiry.

Before proceeding further it may be pointed out that in arriving at fair costs of production for yarn and cloth, the Board has allowed for depreciation at 4% on the block, interest on working capital at 3% on the cost of 4 months' production, managing agents' commission at 7½% on gross profits less depreciation and a margin of profit sufficient to provide for a return of 6% on the gross block. Most of these estimates take a conservative view of things and do not allow for sufficient incentives to the producers. It may particularly be mentioned that the decision to allow only 3% on working capital is unfortunate, since it seeks to penalise those companies which have resisted the temptation to fritter away their profits and have been prudent enough to plough a portion of their money back into business for future expansion etc. If they had distributed the amounts as and when they earned it, they would have been entitled to invest it elsewhere on a more profitable basis. This return of 3% has become more ridiculous after the rise in Bank Rate from 3 to 3½% with effect from 15 November 1951. It may be noted by way of contrast that the rates of interest taken into account by the Tariff Board in calculating prices for steel and paper are 4% per annum on working capital and 8% on gross block. Similarly, the return at 6% on gross block allowed by the Tariff Board on cotton cloth and yarn prices hardly leaves anything for

reserves or dividends. The Managing Agents' Commission again is governed by agreements between mills companies and their respective managing agents and therefore the basis on which it has been fixed in the Tariff Board report is open to question. The Tariff Board further stated that a dividend of 4 to 5% subject to tax should be adequate. This again was unjust particularly in view of the fact that at the same time a law was operating in the country which limited dividends to 6% of paid-up capital or to the average of the amounts of dividends paid in the years 1946-47 and 1947-48. Moreover, the mills selected by the Tariff Board for detailed cost accounting could hardly be called as representing a cross-section of the industry. All these considerations clearly point out that the Tariff Board report was far from being fair to the industry in the matter of price fixation. Moreover, due attention was not paid by Government to some of the Tariff Board's recommendations which emphasised the necessity of taking adequate measures to rationalise and re-equip the cotton textile industry. It may also be pointed out that large increases have taken place in working costs since the Tariff Board examined the position. Cotton amounts to more than 50% of the cost of production. Although the prices of cotton were controlled, in the season 1949-50 it was well known that mills were unable to obtain any cotton at those prices and were forced to go into up-country markets to obtain their requirements in the shape of *kapas*, whose prices converted into baled cotton were far in excess of the actual prices fixed by Government. The Government, however, took account of the controlled prices only. The next most important item in the cost of production is salaries and wages. Since the Tariff Board's report fresh Industrial Awards have been made which include schemes for gratuity and more liberal periods of leave etc., which all add to the costs. Other social measures like Health Insurance and Compulsory Provident Fund are also being introduced. The prices of stores and chemicals have also risen manifold since April 1948. It is estimated that leaving aside the cost of cotton, in the case of cloth the cost of manufacture may have risen by 25 to 30% as compared to 1948. It is, therefore, necessary that the question of price fixation of cotton textiles should be referred to the Tariff Board again, so that a fair price to the industry may be fixed. The textile industry has been sustaining itself mostly on the heavy exports in 1950 but the position in this regard has also changed and would change for the worse in 1952 as far as the mills are concerned. Even exports would now not provide a cushion to the industry against the irrational policy of price fixation for local sales.

It is well known that the maximum margin allowed to distributors over the ex-mill rates was fixed at 20% in the case of cloth and 15% in the case of yarn. After devaluation Government concerned themselves with fighting inflation and the maximum margin allowed to the distributors was reduced from 20 to 14% in the case of cloth and 15 to 12½% in the case of yarn. A so-called voluntary cut was also imposed on the mills to reduce the

exmill price by 4%. The 4% cut imposed in November 1949, was restored in the case of yarn made available by the mills for distribution to various States, *i.e.*, "free yarn" and in respect of grey coarse and medium cloth with effect from 1st April 1951, only after the industry fought hard for it.

Apart from the general question of unremunerative prices fixed by Government from time to time, the very basis of price fixation by Government at an almost uniform rate for various mills producing particular types of cloth fails to take into account the basic factors relating to the production of particular commodities. The fixation of uniform rates for a particular variety of cloth produced by mills amounts to putting a premium on inefficiency. To divide the entire production of the various mills into four categories—coarse, medium, fine and superfine—is to grossly ignore the differences in quality in the same variety of goods produced by different mills. Instances have not been wanting that prices of a superior grade of cloth were fixed at a lower level than the prices fixed for an inferior type of cloth. Moreover, under the formula for the calculation of prices, price schedules are fixed by Government for working out ceiling rates for different varieties of clothes. However careful the authority for devising a suitable formula may be, it is well nigh impossible to draw up a schedule which may give equal margins of profit for different varieties. In fact, in some cases, the prices fixed have been so low as to entail losses to manufacturers of those varieties. Under the circumstances, the manufacturers were forced to produce only those varieties which allowed for some margin of profit irrespective of the market requirements of that variety of cloth. The shortage of dhoties and sarees which was felt acutely in the market towards the end of 1950 to the middle of 1951 was directly attributable to this factor. Therefore on the recommendations of the Textile Control Committee appointed in December 1950, the Government decided to refer the matter to the Tariff Board asking it to make a quick investigation of the comparative cost of production of plain fabrics and dhoties and sarees and the element of profit which accrue to the mills in manufacturing each of these sorts. The enquiry was, however, subsequently dropped as Government took certain other measures to meet the shortage of these varieties of cloth. Thus, it may be pointed out that the policy of price fixation contributes in a large measure both to the overall shortage of production as also to the acute shortage of particular varieties of cloth even when there is an over-abundant supply of other varieties of cloth. Under the system of price fixation of cotton textiles on the basis of cotton used, the mills have no incentive to buy the cheaper Sudan cotton and thereby reduce the costs of production. This is because the mills are allowed a certain price if they use the Egyptian cotton in the production of a certain variety of cloth as a certain multiplier is used for arriving at the price of the cloth. If the same specification of cloth is produced from Sudan cotton the price allowed is lower and this method of working out the price of cloth, therefore, prevents mills from using the cheapest variety of cotton to the best advantage.

The criticism of the price policy of Government can be further corroborated if we analyse the policy of fixing prices for sugar.

Until April 1942, the prices of different qualities of sugar were fixed by the Indian Sugar Syndicate in the context of ruling market conditions including the price of Java sugar and the position of demand and supply in the country. On the basis of this price of sugar, a minimum price for sugarcane was fixed by the U. P. and Bihar Governments. In order to work out a fair price of sugar a schedule was built up in 1937 by the then Director of the Indian Institute of Sugar Technology, Kanpur, which came to be known as the Srivastava Schedule*. After the imposition of Central control on sugar in April 1942, the procedure for fixing the price of sugar was changed. Under this system the U. P. and Bihar Governments fixed at first the minimum price for sugarcane, to which were added the basic manufacturing charges as given in the Srivastava Schedule and also certain additional manufacturing charges based on increases in the cost of materials and wages of labour as also the excise duty. The Governments of U. P. and Bihar introduced a system of elaborate control under the U. P. and Bihar Sugar Factories Control Acts and the recommendations made by their Sugar Control Board were taken into account in fixing the prices of sugarcane. During the war-period ex-factory prices were fixed by the Central Government and the wholesale and retail prices of sugar were fixed by Provincial Controllers. Movement of sugar was also subject to permits issued by the Sugar Controller and there was either wholesale or partial ration in various parts of the country. Gur was also brought under control in July 1943, and it was in the season 1943-44 that production of sugar exceeded 12 lakh tons.

Control over prices and distribution of sugar and gur was, however, lifted on 8th December 1947, and the ex-factory price of sugar was fixed voluntarily at Rs. 35/7/- per md. to provide for the increase in cane price from Rs. 1/4/- to Rs. 2/- per md., as also increase in labour charges etc. It was also designed to give a fair margin to the industry. It was only after decontrol of sugar that gur prices were restored to the normal parity level that subsisted between sugar and gur. As a result of decontrol, production in the season 1947-48 also went up to 10.75 lakh tons as compared to the rock-bottom level of 9.01 lakh tons in the previous season. Consumption of sugar in the country also came down mainly because of the restoration of normal parity levels between sugar and gur. During the subsequent season 1948-49, the prices which were voluntarily fixed at Rs. 35/7/- per md. were brought down to Rs. 28/8/- per md. for D24 quality, although no formal control was instituted. The reduced price was unreasonable and no scientific enquiry had preceded the price-fixation.

*A Committee is considering the question of revising the Srivastava Schedule and is currently examining the basis on which calculation of sugar prices should be made.

The Indian Tariff Board of 1950 on the continuance of protection to the sugar industry has remarked that the procedure for fixing the prices of sugarcane and sugar is defective in several respects. In following the practice of fixing prices on the basis of negotiations between the different parties due allowance has to be made for the short-comings of the high cost cane areas and the inefficient sugar mills. In the second place the Srivastava Schedule which is used for working out variations in different items of manufacturing cost has now become out of date. Thirdly the present procedure takes account of cost data for sugar mills located only in U.P. and Bihar. In fact, the conditions of the sugar industry in various parts of the country differ so violently that a uniform price for all mills would be absolutely unsuitable for the entire industry, and this fact is being gradually realised now.

The reduction in price brought about in the season 1948-49 amounted to a *de facto* control of prices. This led to increased consumption of sugar owing to an unnatural disparity in sugar and *gur* prices. The prices could not be maintained at the level of Rs. 28/8/- and there developed what has come to be known as the sugar crisis of July-August 1949, which was later on examined by the Sugar Enquiry Committee appointed by Government. We need not go into the details of the crisis and it would suffice our purpose to state that statutory maximum prices were fixed for all grades of sugar on 2nd September under the Central Government's Sugar Stocks (Sale to Central Government) Order, 1947. Sugar stocks were also frozen in the country and forward sales of sugar were banned. It will be noted with interest that the total quantity of sugar frozen by Government amounted to only 1.23 lakh tons and the Government controlled prices could not be maintained as there did not exist any proper distributive arrangement in different States for the supply of sugar to consumers. On 3rd November 1949, the Sugar Stocks (Control) Order, 1949, was issued and subsequently on 29th November, the ex-factory prices were fixed at an unremunerative level of Rs. 28/8/- per md. for E27 grade, which was lower by annas thirteen per maund as compared to the previous year's price for the same grade. The fixation of this price was mainly responsible for the low production of sugar in the season 1949-50 which stood only at 9.8 lakh tons. Another serious defect in the policy of price fixation was that there was only sectional control inasmuch as there was no price control over the other complementary products, namely, *khandsari* and *gur*. An anomalous situation developed in that particular season as *gur* prices as were at times found to be higher than the price of controlled sugar. Even the Government's measure in allowing revenue concession in the shape of a total exemption of excise duty for any extra output during 1949-50 over the production of 1948-49 was of no avail. The short fall in production made it difficult to have an adequate control over supplies, with the result that the distribution of sugar to consumers by State Govern-

ments was made difficult and genuine consumers failed to receive adequate quantities. Black market was quite rampant and it has been estimated that the consumer must have paid higher prices amounting to anything from Rs. 60 to Rs. 70 crores than the normal price which would have subsisted in a free economy in the case of sugar, *khandsari* and *gur*. It was only late in the season that Government realised the necessity of having control on *gur* also if they wanted to make control on sugar effective. Movement control on *gur* from U.P. remained in operation from 15th February to 6th April 1950. Futures options in *gur* were also prohibited but these measures hardly touched the fringe of the problem.

We have thus seen that the fixation of low prices for sugar and the prevalence of free market for *gur* and *khandsari* were the chief causes for a short fall in production in the season 1949-50. The prices that were fixed for sugar were based on the working of efficient units and the assumption of a larger number of working days for the season than the normal season. In fixing the prices Government took no cognizance of transport of cane from long distances and increased costs of sulphur, gunny bags etc. On the other hand, the non-existence of any control on *gur* and *khandsari* helped to divert cane supplies from the vacuum pan factories to the production of *gur* or open pan factories producing *khandsari*. It will be noted that *khandsari* was being sold at twice or thrice the rate of controlled price of sugar.

For the season 1950-51, Government issued on 7th October, 1950 the Sugar and Gur Control Order which superseded the Sugar Stocks (Control) Order, 1949. The Central Government sought to bring about a unified policy and assumed all powers to fix the prices of sugarcane, sugar and *gur*. The price of sugar was, however, fixed at Rs. 28/8/- per md. for E27 grade, although it was announced that some higher prices would be paid to factories in Western U. P. and East Punjab to enable them to start crushing early. Some steps were also taken to regulate the manufacture of *gur* and *khandsari* in factory areas and originally the ceiling prices for *gur* were fixed at Rs. 18/- per md. for U. P., Bihar and Madras. Prices for other States ranging for Rs. 20/- to Rs. 22/- were announced subsequently. The task of controlling the price of *gur* was, however, beset with great difficulties and the fixation of a uniform price for the entire State completely ignored the differences between the f. o. r. despatch price and the wholesale price in consuming centres. It was not realised that the maintenance of a uniform ceiling price without proper provision of differences in surplus and deficit areas in the same State and incidental charges was unworkable. Taking these and other factors into account, the Government had to change its policy and a new policy was announced in December 1950, which was a compromise between control and unconditional decontrol. According to this policy, the minimum price of sugarcane was raised to Rs. 1/12/- per md., the ex-factory

price of sugar was Rs. 29/12/- and higher prices were fixed for certain other areas such as, West U. P., East U. P., North Bihar, and South Bihar. The ceiling price of *gur* was fixed at Rs. 19/- per md. for the best quality in surplus States and the ceiling price in deficit States varied from Rs. 20/- to Rs. 23/- per md. It was further announced that control on sugar would operate only in respect of 10 lakh tons of sugar during the year and any quantity produced by a factory in excess of 107% of its production in the year 1948-49 or the year 1949-50, as may be fixed by Government, would be allowed to be sold by the factory concerned in the free market. The Central Government fixed the ceiling price for *khandsari* at Rs. 29/- per md. for 30 surplus districts in U. P. Price controls on *khandsari* and sugar, although they are very necessary for an effective administration of control on sugar, have caused a lot of difficulty in their trail, and traders engaged in the distribution of these commodities have been experiencing a great deal of difficulty in carrying on their normal avocations. The maximum price fixed for *gur* took no account of the cost of likely loss in storage during off-season and it was only late in the season that *gur* prices in the same States were fixed at different levels after taking note of the regional differences in consuming areas to cover transport and other charges.

On the whole, however, the scheme of partial decontrol of sugar yielded results as the production in the season 1950-51 exceeded 11 lakh tons. The policy of selective control on sugar is being continued in the season 1951-52 with certain modifications. The ex-factory prices of E27 crystal sugar been fixed at Rs. 29/12/- per md. in the States of Bombay, Hyderabad and Mysore, Rs. 30/8/- per md. in Punjab, U. P. (West), and West Bengal, Rs. 31/- per md. in Bihar (North); Rs. 31/8/- per md. in U. P. (East), Rs. 32/12/- per md. in Bhopal and Rs. 33/- per md. in Bihar (South), Orissa and Travancore-Cochin. The ceiling prices for *gur* and *khandsari* have been fixed at the level of 1950-51 *i.e.*, Rs. 19/- per md. for *gur* and Rs. 29/- per md. for *khandsari* in the surplus areas.

The Government of India after consultation with interested Provincial and State Governments passed in 1942 the Indian Rubber Control and Production Order, under which all available supplies had to be sold exclusively to the Central Government or to parties nominated by them at prices fixed by Government from time to time. The system of monopoly purchase by Government terminated on 30th August 1946, and thereafter manufacturers were allowed to purchase rubber direct from producers and dealers in accordance with the terms of permits issued by Government. The price control was extended until 30th September 1946, when the Rubber Control and Production Order, 1942 lapsed. Government, however, later on passed the Rubber (Production and Marketing) Act, 1947, to promote the development of the rubber industry so far as regards the production and

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marketing of rubber. Since August 1947, Government have been fixing the prices of rubber in consultation with the Indian Rubber Board constituted under the Act. The prices fixed from time to time since August 1947 were higher than the fluctuating world prices, as they were fixed on a cost plus profit basis. Before proceeding further it may be pointed out that the average annual production of rubber in the country is 16,000 tons as against the requirements of the manufacturing industry of about 20,000 tons. Heavy imports of rubber in 1948-49 amounting to 7,000 tons depressed the market price and the growers were compelled to sell their produce at a price lower than the controlled rates. The situation changed in course of time. The maximum price of rubber of RMA I Grade was fixed at Rs. 90/8/- f. o. b. Cochin for 100 lbs. and the minimum price at Rs. 89/8/- per 100 lbs. with effect from 26th July 1950. At the same time Government permitted some rise in the price of low grades of rubber. These prices, however, were found to be completely out of parity with world prices which had begun to register sharp increases after the outbreak of the Korean War. The world price in September 1950 was at Rs. 249/- per 100 lbs. and thus the Indian controlled prices were about 40% of the world price at that time. The control on the price of rubber which was designed to help the development of the industry now began working in the opposite direction inasmuch as the prices fixed by Government ceased to be remunerative enough to encourage the industry's development. In fact, the prices fixed since August 1947 were also not remunerative enough as compared to the price the growers could get by planting other cash crops like pepper, cashewnuts etc. The rubber growers were thus given a very step-motherly treatment and the price control hardly benefited them. At the same time, raw rubber was brought under control under the Supply and Prices of Goods Ordinance issued in September 1950, in order to acquire powers for distribution.

At the tenth meeting of the Indian Rubber Board held in Bangalore on the 7th December 1950, the Chairman of the Board drew attention to the difficulties of the growers and pointed out that the world price was more than thrice the Indian controlled price. Government, however, continued to deny a fair price to the grower and on the other hand, orders were issued, freezing all stocks of rubber with estates and dealers, by the Travancore-Cochin Government under the directions of the Central Government. The normal trade channels were upset. It was after a good deal of agitation that Government decided to request, towards the end of November 1950, the Tariff Board to conduct enquiries in regard to the cost of production of rubber, and to advise Government as to the prices which should be fixed for the various grades of rubber. The scope of the enquiry was extended in February 1950, by including in it the question of protection to rubber for the speedy development of the industry. In the meantime, a Government spokesman made a definite

announcement in December 1950, that an interim increase would be granted in the prices of rubber. This increase was announced, however, only on 7th March 1951, and the price of Group I rubber was fixed at Rs. 122/8/- per 100 lbs. f. o. b. Cochin as against the previous price of Rs. 90/8/-. The prices were again revised and the maximum price was fixed at Rs. 128/- on May 21, 1951. This price also included a sum to cover the rehabilitation measures on estates. The Government finally announced their decision on the Tariff Board's report on 5th August 1951. The Board had recommended that the rubber producers be allowed to retain the element (Rs. 6.82 per 100 lbs.) provided for rehabilitation in the present price of rubber, and be given an opportunity to undertake rehabilitation work in their estates and holding. It further stated that if the rubber growers did not utilise the amount for rehabilitation, the question of reducing the fair selling price by the amount of the rehabilitation fund element provided in the estimate of the fair selling price be considered by Government.

Even today the world prices of rubber are higher than the controlled price for indigenous rubber and it is probable that they would continue to be so for some time to come. The rubber growers are, however, being denied the fair price which would have accrued to them if there were no price control on raw rubber. It is difficult, therefore, in the circumstances, with the meagre rehabilitation allowance, that there would be any large replanting of rubber in the estates. In any case, the above review clearly shows that Government's price policy has not been conducive to the development of the growth of rubber plantations in the country. The main argument of Government in not increasing the price of rubber sufficiently is that it would add to the inflation in the country. But it is doubtful if the grant of a fair price to the rubber growers would add much to the inflationary pressure in the country, because the total market price of rubber crop at the controlled rate is only about Rs. 2.5 crores. Moreover, if a reasonable price is given, it would add appreciably to the improvement in new plantings and replantings. In fact, the policy of price fixation of rubber has in a sense been the negation of protection for which the policy was originally devised.

The prices of other raw materials in the country were also pegged at an artificially low level and were certainly not in the long-term interests of the country. A review of the price control on cotton would bear ample testimony to the short-sighted policy followed by Government.

During the war period the prices of cotton were raised in the wake of increase in the prices of cloth. Government issued the Cotton (Forward Contracts and Options Prohibition) Order, 1943, in May 1943. Later on Government permitted re-opening of the cotton futures market, provided the price payable was not more than Rs. 550/- and not less than Rs. 400/- per candy Bombay delivery. Thus the prices of cotton were controlled and

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in December 1945 the Indian Cotton (Control) Order was issued. As the various orders relating to cotton were to expire with the lapse of the Defence of India Rules on 30th September 1946, the Central Government asked all Provincial Governments to issue Ordinances extending the life of those orders. Cotton was included in the Schedule of the Bombay Essential Commodities and Cattle (Control) Act, 1946. In August 1947, the Government of India gave consent for trading in hedge and delivery contracts of the 1947-48 season crop of cotton in the Bombay market subject to certain conditions. Statutory control over floor and ceiling prices ceased from 19th January, 1948, subsequent to the decontrol of cotton textiles. On 21st August 1948, control was however, reimposed and in September 1948, trading commenced subject to the floor and ceiling prices which were fixed by Government. The fixation of lower ceiling prices, however, resulted in deals at prices higher than the prescribed maximum. As there was no control on *kapas*, price control on cotton was avoided by the device of direct purchase of *kapas*, at higher prices. The whole scheme of price control became ineffective and great damage was caused both to the mills and the cotton trade by various malpractices such as the mixing of inferior qualities of cotton with the superior ones. The basic factor responsible for this state of affairs was that the prices had been fixed at a level which had no parity with the prices of competing crops as also with prices of cotton prevailing in foreign markets. With effect from the season 1949-50, the Central Government assumed powers of control by including cotton as an essential commodity under the Essential Supplies (Temporary Powers) Act, 1946. Powers were also assumed to control unginced cotton as also cotton seed. For this season too, the prices of cotton were fixed at the same level without regard to the various factors necessitating a rise in the price of cotton. As, however, control was not extended to *kapas*; there was naturally a scramble by mills for purchase of *kapas* up-country at whatever prices it was available. In the season 1950-51, Government announced early in May 1950, that control would be maintained during the year September 1950 to August 1951. After protracted negotiations the basic ceiling price of cotton for the year 1950-51 was raised by Rs. 150/- per candy. On 13th September 1950, a new Cotton Control Order, 1950, was promulgated which contained the provisions of the previous Order with some additions. Mills were prohibited in this season from purchasing or otherwise acquiring *kapas* except in some special cases. In spite of the enlargement of powers under the new Order, control was not fully effective inasmuch as there was no control on *kapas* at the production stage. Moreover, the prices of raw cotton in foreign markets rose considerably after the outbreak of the Korean War and thus the increase of Rs. 150/- granted for the season 1950-51 proved inadequate,

In analysing the price policy of raw cotton, it would be worthwhile to take note of the floor and ceiling prices of basic Jarilla cotton fixed by

Government from the year 1943-44 onwards. These prices are reproduced below :

Prices of Jarilla Cotton per Candy :

	<i>Floor Prices</i>	<i>Ceiling Prices</i>	
	Rs.	Rs.	
1943-44	400	550	} 24/32" staple.
1944-45	350	550	
1945-46	350	530	
1946-47	350	530	
1947-48	430	530	
1948-49	495	620	} 25/32" staple.
1949-50	495	620	
1950-51	495	770	
1951-52	—	820	

It will be noted with interest that for the season 1943-44 when cotton was first controlled the ceiling was fixed at Rs. 550/- per candy. At that time, the American cotton price was ruling at about 20 cents per lb. The American prices have since risen more than double the prices prevailing then. But the rise in the ceiling price allowed in our country has been less in proportion to the rise in the prices abroad. The prices are thus out of parity with the foreign prices. If any further evidence of this were needed, it is provided by the fact that exports of cotton waste have been made from India at prices which are ridiculously high as compared to the actual controlled price of related raw cotton. This can be further corroborated by the fact that the export price of Bengal Deshi was much higher than the ceiling price fixed for that variety. The prices of Indian raw cotton have also been low as compared to the prices of other competing crops. Coming to the season 1950-51, it may be noted that the rise of Rs. 150/- per candy announced on 16th June 1950, may have been sufficient at that time, but the trend of world markets was upward after June 1950, and therefore the continuance of price control at the same level as fixed on 16th June 1950, was hardly warranted. It is really difficult to insulate our economy from the price trend prevailing abroad, particularly when we depend considerably on the imported product for meeting the full requirements of the country. The efforts made by Government in keeping the prices at the controlled rates were either ineffectual or wherever stringent and punitive measures were taken a large number of traders were displaced from their normal avocations. Cotton control was, therefore, circumvented by making unauthorised purchases of cotton at higher than the ceiling fixed. The ceiling prices were pierced.

It may be noted here that even the increase of Rs. 50 per candy granted in the current season is regarded as insufficient as it is still not in keeping with the foreign price, in spite of the fall in prices of foreign cotton this year largely as a result of the big crop in U. S. A. The prices are also lower than the prices of other competing crops. The price policy has, therefore, been militating against an increase in the production of cotton to the extent desired.

At the same time, the efforts made in improving the output of superior varieties of cotton have been nullified and the good work done by the Indian Central Cotton Committee in this regard is being thwarted by Government's price policy. This was particularly true for the season 1950-51. The flat rate of increase of Rs. 150 per candy without any increase in the special allowances for superior varieties did not give any inducement to the growers to grow better varieties. This policy also resulted in abuse in the form of admixture of cotton of inferior varieties with superior varieties. In the new policy for the season 1951-52 Government have given some consideration to the price differentiation for each variety of cotton in relation to Jarilla and some adjustments have been made. A new Schedule of prices has been drawn up including the scale of premia and discounts.

In the previous season 1950-51, cotton was purchased irrespective of its quality at the top ceiling price, *i.e.*, the ceiling price for the highest grade and the longest staple length of a variety cotton, which, as already stated, led to an enormous amount of mixing of cotton and the deterioration of the quality of cotton as a whole. The new season's scheme of the payment for cotton on the basis of its quality, which is to be judged by sworn surveyors of the East India Cotton Association subject to an appeal to the Textile Commissioner's Committee, is intended to prevent this evil. While the new scheme is desirable, one effect of this has been that the actual price realised by the cotton cultivator this year on the basis of the actual quality of cotton would be lower than the price he got last year. It is feared that the actual reduction in the return to the grower may handicap further production of cotton and not give him an incentive to increase production. Even today in spite of the falling world market we have to import foreign cotton at prices ranging from twice to thrice the prices of Indian cotton. Even after making an allowance for the difference in quality, it must be admitted that the Indian cultivator is being denied a fair price whereas the foreign producer is being subsidised at the expense of the Indian cultivator. The efforts to control cotton with a view to preventing inflation in the country is showing its worst effects now inasmuch as by denying a fair price to the Indian cultivator Government are coming in the way of increasing the production of cotton in the country and are thus following a short-sighted policy in this fight against inflation. If the problem were viewed from a long term point of view it

would be found that instead of fighting inflation an impetus is being given to inflation by curtailing the production of cotton in the country and forcing the country to import costly foreign cotton.

A similar story is presented by the Government's price policy in regard to raw jute. Before the war and in the early phase of the war, the prices of raw jute had depressed to a very low level and minimum prices were fixed by Government to protect the cultivator. During the period of the war, under the Jute Regulation Act of the West Bengal Government, acreage under raw jute was regulated so that excess production may not cause any hardship to the cultivator. Prices, however, soon began to rise. The controlled price of raw jute at the time of the expiry of the Defence of India Rules was Rs. 17 per md. When control was removed the price of raw jute nearly doubled and this clearly indicates that the price was fixed at an artificially low level. The position in regard to the supply of raw jute became particularly acute after the partition of the country as areas comprising Pakistan produced about 80% of the raw jute while all the units of the industry remained in the Indian Union. The Trade Agreements concluded by Pakistan in May 1948, as in June 1949, did not, however, work very well. The latter agreement could not be allowed to function after the devaluation of the Indian rupee in September 1949. Prices of raw jute were again controlled on 30th September 1949, by the promulgation of the West Bengal Jute (Control of Prices) Ordinance, 1949. Under this Ordinance different maximum prices were fixed for packed bales or surplus raw jute according to the quality, variety or trade description of the quality. The prices of raw jute for tops were fixed at Rs. 40, for niddles at Rs. 38 and for bottoms at Rs. 35 per md. While the market conditions changed completely after the sharp rise in the price of jute manufactures in foreign countries, Government were bent on preventing a rise in the price of raw jute and in spite of completely altered circumstances no change was made in its price. Control on raw jute was, therefore, completely ineffective as the prices fixed were not revised. In fact, it has been alleged that not a single mill was able to make purchases of raw jute at the controlled rates. The jute dealers were also badly affected as mills themselves were buying jute at up-country mofussil centres at higher than the legally fixed prices. The conclusion of a short-term trade agreement with Pakistan on 21st April 1950, for the supply of 8 lakh bales of raw jute did not materially alter the price situation. Instead of removing controls on raw jute and jute manufacturers, other remedies were thought of and the West Bengal Government issued on 14th December 1950, the Raw Jute (Central Jute Board and Miscellaneous Provisions) Ordinance. It was designed to enable the mills to secure supplies of raw jute at the maximum prices fixed under the West Bengal Jute (Control on Prices) Act, 1950. A Central Jute Board was constituted to ensure equitable supply of raw jute to the owners of different jute mills and it was laid down that no person shall

sell or agree to sell raw jute to the owner of a jute mill and no owner of a jute mill shall buy or agree to buy raw jute except in pursuance of a contract for the sale or supply of raw jute entered into in the manner provided for in the Ordinance. At long last, after the conclusion of the trade agreement with Pakistan in February 1951, Government took a realistic view of the situation by lifting price control on jute and allowed the trade to function. After the decontrol of prices in March 1951, the market prices were almost double the controlled price which goes to show the unreal nature of price control imposed by Government. It is really impossible to maintain price control at artificially low levels.

As has been shown above, Government have been trying to insulate the Indian prices and deliberately keeping them down as compared to the prices prevailing in foreign markets. In the case of iron and steel even the retention prices fixed by Government are lower than the statutory selling prices in the country and thus the Indian producers are being deprived of the prices which they would have otherwise obtained in a free market. While up to a point it may be desirable to see that the internal prices of iron and steel may no longer be related to foreign prices and be based on the local cost of production, it is necessary that the industry should be kept in a healthy condition so as to attract adequate fresh capital, which its expansion would require. The provision of granting liberal allowance for depreciation and return on investment in the case of this industry is only gradually being realised now, as evidenced by the latest Tariff Board Report on the fair retention prices of steel.

Control over prices of steel has passed through various stages. During the period 1st October 1939, to 30th June 1944, control existed over the prices for supplies meant for war requirements but there was no statutory control over commercial prices. The prices of steel were, however, increased from time to time according to the rise in the works cost and the total increase from 1st October 1939, to 1st April 1944, amounted to Rs. 30, 8/- per ton. From 1st July 1944, the commercial prices were also brought under statutory control but the retention prices fixed for the main producers were different for war supplies and for commercial requirements. During the period from 1st July 1944, to 1st April 1946, two retention prices obtained, one for war supplies and the other for commercial requirements. From 1st April 1946, only one retention price was adopted. It may be pointed out that the retention price is the price payable to the main producer and is different from the selling price of steel. Generally speaking, the statutory selling prices were fixed on the basis of the retention prices plus a surcharge of about Rs. 50 per ton. The surcharge has been levied in order to subsidise imported steel, whose prices are higher than those of Indian steel. To adjust the selling prices and subsidise the imported steel an Equalisation Fund has been set up to

which all receipts are credited and from which all payments to the main producers and re-rollers are made and the difference between the cost of imports and their selling prices is met. Besides statutory control over the prices of steel, which came into effect from July 1944, there is control over wire and wire products, from April 1945. The prices of pipes and fittings which are all imported have been controlled from July 1945. The prices of scrap had been controlled from February 1943, and pig iron prices have been brought under statutory control since November 1, 1949.

The steel industry is one of those few industries whose prices have been fixed after due enquiry made by the Tarriff Board. The Commodity Prices Board to whom the question regarding the increase in the retention price was first referred in 1947 found that there was no justification for an increase in the prices. Subsequently, the matter was referred to the Tariff Board and pending enquiry, Government agreed to increase the retention price by Rs. 28/8/- per ton from January 1, 1948. These prices were subsequently raised from May 1949, by a further amount of Rs. 18/- per ton, and they remained in force upto the end of June 1951. During this period, the works cost had risen considerably and after further enquiry a revision of the ex-works retention prices of steel was brought about from July 1, 1951. The retention prices at this time were increased by Rs. 33/- per ton, although no increase was made in the statutory selling prices except for galvanised sheets, galvanised wires and tinplates.

The fixation of a uniform retention prices for the main producers is bound to be unfair inasmuch as the works costs of the producers vary for different items, but Government have been fixing a uniform retention price. It is also stated that the works costs have been equalised for the two main producers by a liberal use of arithmetic and that the enquiry made by the Tarrif Board is inequitous. The production of steel in the country has not increased substantially in the last few years. There is no doubt that Government's price policy coupled with certain other factors, is largely responsible for the inability of the steel producers to expend their output. It may also be pointed out that of all the important commodities the price of steel has shown the least increase in the last 12 years. The index number of wholesale prices for iron and steel manufactures stood at 210 in April 1951 as against the general index of wholesale prices of 455 for all commodities in the same period. Another point which may be noted is that the consumer has not always been able to get his requirements of steel at the statutorily fixed selling prices.

Similarly, in the case of cement the consumer has had to pay much more at times than the controlled price, depending on the general position of supply in the country. Cement consumption increased tremendously during the war period so much so that nearly 90% of the total production was being taken up by Government during the last war. Control over this commodity was introduced in August 1942. Price control over Portland cement (ordinary grey variety) was introduced for the first time in March 1944. Cement prices are fixed by Government from time to time, mainly on the basis of the average cost of production of the producers. There are two sets of prices, one for the general public and another for supplies against the Government Rate Contract. The Government Rate Contract price is the ex-works price, whereas the price for the public is f. o. r. destination price. In the Government Rate Contract price there is also a special rebate. Till June 30 1949, there was only one wholesale price for supplies to public throughout India. With effect from July 1, 1949, three new factories, one in Saurashtra and two in South India, were allowed a price of Rs. 90/-/- per ton as compared to the price of Rs. 82/8/- per ton f. o. r. destination in respect of the old units.

Production of cement has been rising steadily in the country in the last few years. Production rose from about 15.5 lakh tons in 1948 to 26 lakh tons in 1950 and is further expected to exceed 30 lakh tons in 1951. Consequent on the slowing down of the Government's development programmes in the year 1950, it was expected that the available supplies would not fall short of demand. The possibilities of removing control over price and distribution were seriously considered by Government and in fact, the public were anticipating decontrol and an indication of the same was given by the Minister for Commerce and Industry early in January 1951, while addressing a meeting in Madras. Controls were, however, not removed.

From 1st June 1951, in view of the rising cost of packing material, prices were fixed for loose cement and an additional packing charge was permitted subject to a fixed ceiling. The f. o. r. destination price for the loose form of cement in full wagon loads has been fixed at Rs. 71/- per ton for all producers excepting the three newly established factories in whose case the price is Rs. 78/8/-. In addition, the actual cost of packing is allowed subject to a maximum of Rs. 26/-.

Coal is another important raw material whose prices are under statutory control. This control was first introduced in June 1944, and a major revision of coal prices was undertaken in 1947 when the prices were re-fixed on the cost plus profit basis. These prices fixed then still continue undisturbed in the case of collieries in Madhya Pradesh and Orissa, whereas the prices in Bengal-Bihar coalfields have been revised twice. In April

**Price
Control
on Cement.**

**Price
Control on
Coal.**

1949, the prices of Grade III-A and III-B coal were reduced by Rs. 1/7/- and Rs. 2/4/- per ton respectively as it was considered that the margin of profit for these grades of coal was rather excessive. In November 1949 in pursuance of Govt.'s general policy of reduction of prices the prices of steam coal were reduced by Re. -/9/- and of slack coal by Re. -/10/- per ton. The price of coke was reduced by Re. -/15/- per ton. It may be noted that coal prices are fixed prices and not ceiling prices. Coal production has been increasing steadily in the country and in the year 1951 an all time record production of 34 million tons is likely to be reached.

That the policy of price control has not always been effective and that the controlled price and the market price have differed widely is further corroborated by a study of price control on Vanaspati. It is well-known that in this commodity transactions have been made above or below the controlled price according to the trend in the market and the controlled price has merely been the expression of a will.

The prices for vanaspati were first determined for the purpose of defence contracts during 1943 and the price for civil supplies was uncontrolled for a long time. In August 1944, under the Hoarding and Profiteering Ordinance, certain prices for various brands of vanaspati were notified. In October 1944, a general price structure for civil supplies was arrived at. The country was divided into four zones for price announcement. The function regarding the determination and fixation of the prices of vanaspati for civil supplies was taken over by the Food Department in February 1945, from which period upto March 1947, the prices were fixed on a 'cost plus' basis. In March 1947, the Central Government removed the control on the prices and movements of groundnuts and groundnut oil but the prices of vanaspati were pegged at the highly uneconomic levels announced on 28th February 1947. After March 1947, prices came to be fixed on an *ad hoc* basis. They were first revised on 23rd June 1947, and were more in line with the then ruling cost of groundnut oil as compared to the position which subsisted in March 1947. The raw material costs, however, rose sharply, but Government took no account of the same. Under the new Vegetable Oil Products Control Order, issued in August 1947, Government assumed all powers for controlling the manufacture, stock or sale etc. of vanaspati. Under this Order, the Vegetable Oil Products Controller also issued notifications fixing the maximum prices at which vegetable oil products may be sold. Under this policy of *ad hoc* price fixation which remained in force from March 1947, to February 1950, prices were fixed by Government on the actual average of groundnut oil prices plus processing charges, excise duty, cost of tinplate and a reasonable margin of profits. There was, however, a time-lag between the rising price of groundnut oil and the adjustments of vanaspati price to the new level. The prices announced

in June 1947, continued to operate for a long period of time even though the costs had increased. Adjustments were, however, made from time to time later on. The industry desired that the 'cost plus' formula be re-established under which the prices of vanaspati were altered whenever there was a minimum variation of Rs. 70/- per ton in the cost of oil. After protracted negotiation the formula was accepted only in February 1950, and the policy of fixing prices on an arbitrary *ad hoc* basis was given up. According to the new procedure prices are adjusted on the basis of cost of oil in the previous two months subject to certain reservations. These reservations had to be accepted by the industry and from 31st October 1950, prices are being regulated in accordance with the formula. There have been occasions, however, when Government refused to sanction due price increases. The prices of vegetable oil products were reduced by $-1/3$ per pound in Bombay city and by $-1/-$ per pound in the case of the rest of India, with effect from 1st November 1951. Prices have since been revised downwards on 1st December 1951 and 1st January 1952.

The policy of price control on gram further provides an illustration to the anomalies of controls and the vagaries in their administration which have caused undue hardship to the trade. Government decided to allow free movement of gram with effect from 17th August 1950, and notifications were issued withdrawing the powers from all State Governments to control gram under the Essential Supplies (Temporary Powers) Act, 1946. After the issue of the notification, traders were free to purchase, sell or move gram from one place in the country to another, although Government retained the power to fix the maximum prices at which gram could be sold. Powers of freezing and requisitioning stocks were also retained. Initially the price of Rs. 13/- per md. was fixed for the States of Punjab, Pepsu, Himachal Pradesh, Bilaspur, Uttar Pradesh, Rajasthan, Bihar, Delhi, Ajmer, Madhya Pradesh, Vindhya Pradesh, Madhya Bharat, Bhopal and Hyderabad. The price of Rs. 16/- per md. was fixed for Assam, Tripura, Manipur, West Bengal, Saurashtra, Cutch, Bombay, Travancore-Cochin, Mysore, Coorg and Madras. The prices were not fixed on a very rational basis inasmuch as prevailing market prices were somewhat lower in the surplus areas, whereas in the deficit areas the prices were higher than the controlled rates. This position did not alter substantially after the new price Schedule was announced by Government. As there was no control on the prices of gram *dal* or *besan* large quantities of gram were converted into those products and sold at higher rates, and thus the price control measure became completely ineffective.

Although free movement of gram commenced on 17th August 1950, the Rajasthan Government on 20th August froze all gram stocks on the plea that the Government was planning to buy 80% of the stocks at Rs. 9/-

per md. under their District Rabi Procurement Order. Traders who had made heavy purchases after the Central Government announcement fixing the ceiling price at Rs. 13/- per md. were subjected to heavy loss when they were asked to part with their supplies at a lower rate. The Government of India issued on 29 August 1950, the Gram Stock (Sales to Central Government), Order 1950, under which dealers were obliged to deliver their stock in the Ganganagar district of Bikaner Division in the Rajasthan to the Gram Controller at Rs. 11/- f. o. r. A similar Order. *viz.*, the Punjab Gram Stocks (Sales to Government) Order, 1950, was issued on 6th September, under which prices were fixed from Rs. 10/1/- to Rs. 12/- in some of the districts of Punjab. Traders in these districts were also subjected to loss.

As regards the position in the deficit areas such as Madras, traders suffered loss as they had imported large quantities of Bengal gram from Pakistan under O. G. L. on the States Government's assurance that no price control would be introduced. The traders had, however, to dispose of the stocks at Rs. 16/- per md.

That the prices fixed were not rational is proved by the fact that later on Government revised the maximum price of gram in Bihar and Hyderabad from Rs. 13/- to Rs. 16/- per md. Subsequently, on 30th March 1951, prices were revised and fixed at Rs. 12/- per md. in surplus areas and Rs. 15/- in deficit areas.

When it was brought to Government's notice that the policy was not conceived properly and that the non-existence of control on the prices of gram *dal* and *besan* was defeating the objects of control, Government decided to impose control on these commodities with effect from 8th May 1951. The prices of gram *dal* were fixed at Rs. 14/- per md. in the surplus areas and Rs. 17/- per md. in the deficit areas, whereas the prices of *besan* were fixed at Rs. 15/- and Rs. 18/- in the surplus and deficit areas respectively. In the meantime, Government also delegated some of their powers to the Governments of U. P. and Rajasthan, where control on the movement of gram was re-introduced. The control prices of gram *dal* and *besan* were also fixed without taking due consideration of the cost of converting gram into these products. The margin between the price of gram and gram *dal* of Rs. 2/- per md. and Re. 1/- between gram *dal* and *besan* hardly meets the cost of conversion with the result that merchants and manufacturers are suffering losses on account of unremunerative prices fixed by Government. It may be pointed out that when the Bombay Government fixed the price of gram and gram *dal* in 1946, the price of gram was fixed at Rs. 11/8/- per md., that of gram *dal* at Rs. 15/8/- per md. and that of *besan* at Rs. 16/10/9 per md. The cost of conversion has gone up considerably during the last few years and it is not understandable as to how Government came to allow this meagre margin. Another

fact which may be noted is that the costs of conversion also differ from place to place, but Government have not fixed different margins for different States, simply because it was thought thereby that it would be difficult to work the control.

Recent attempts at price fixing have also not been above reproach. On 2nd September 1950, Government issued the Supply and Prices of Goods Ordinance and simultaneously with the issue of the Ordinance, notifications were issued fixing the prices of bicycles, cycle tyres and tubes, electric bulbs, razor blades, caustic soda, soda ash, tanning materials and infants' foods. It was generally prescribed that the maximum prices in respect of these goods shall be the prices prevalent on the 15th June 1950. As regards tanning materials, the basis of price fixation was landed cost plus 10%. It is clear that it is well-nigh impossible to determine the prices prevailing in the market on the 15th June 1950, in different regions in the country, and this method of price fixation could not be called rational. Prices of commodities always change from time to time depending on various considerations including the cost of production in the country (which is flexible) as also on the landed cost of goods which varies according to the circumstances and market conditions prevailing in foreign countries. Although under the Ordinance Government did not fix the prices of non-ferrous metals, it is well-known that the very inclusion of this item in the Schedule of the Ordinance had an unsettling effect on the market and in the then rising market the importers could not make purchases in foreign countries for fear of prices being pegged at a level which might even be below their landed cost. This factor resulted in depriving the country of some foreign exchange inasmuch as the market prices in foreign countries went up during the period of uncertainty regarding Government's policy of price fixation. It was only after a good deal of lapse of time that Government came to fix prices after consulting the trade and industry and gradually specific maximum prices were fixed for bicycles, cycle tyres and tubes, electric bulbs, infants' foods, casein, etc. In some cases, *e.g.*, tanning materials, caustic soda and soda ash, the prices were related to the price of the imported product, although even in these cases Government experimented for some time to fix the prices of caustic soda and soda ash at different levels for the indigenously produced and the imported product. The prices of indigenous variety of caustic soda and the imported product were fixed at the same level only with effect from 18th May 1951. For soda ash, the prices for both indigenous and imported soda ash from the U.K. were fixed at the same level with effect from 13th July 1951. Even now there are difficulties in the administration of control over the prices of some of the commodities like caustic soda and soda ash, because, consequent on the introduction

Price control under the Supply & Prices of Goods Act.

of free licensing policy in regard to the import of soda ash from all sources, the question of the margin to be allowed to importers from the U.S.A., France etc. had to be considered and it was decided to allow a margin of 10% over the landed cost. The prices of Khewra soda ash had already been fixed at a much higher level at Rs. 30/11/- per cwt. It may reasonably be asked that when differential and higher prices are being fixed for imported soda ash, how would Government be able to check mal-practices of mixing different varieties and passing on the indigenous variety of soda ash as the imported variety.

The above review clearly shows that no fixed principles have been followed in fixing the prices of different commodities. It has also been seen as to how this policy has affected the industry and trade in the country.

CONTROL ON MOVEMENT AND DISTRIBUTION OF COMMODITIES

This Section reviews control on rail transport. It also takes note of the general control on movement of commodities under the Essential Supplies (Temporary Powers) Act and stresses the need for doing away with the inter-State restrictions on the movement of commodities. It then reviews other controls on movement and distribution of commodities, e.g. salt, cotton textiles, cotton, iron and steel, cement and takes note of the new departure introduced in distribution control in regard to sugar.

Transport is rightly regarded as the hand-maid of trade and industry and it performs a vital function in the act of distribution of goods [by creating time and place utility, and the efficacy or otherwise of control on distribution depends in a large measure to the handling of the transport situation in the country. Under the Indian Railways Act, 1890, railways are prohibited from giving preference to the movement of any goods or class of goods over other goods. During the last war, however, when rail transport in India was subjected to immense strain due to the contraction of alternative means of transport and the rise of military traffic on an unprecedented scale, it was found necessary to regulate the available rail transport in the interest of the war effort, on a priority system under the Defence of India Rules. This system was continued after the termination of hostilities and Government acquired powers under the Railways (Transport of Goods) Act, 1947. With the gradual improvement in the overall transport position in the railways, the priority organisation ceased to exist and rationing of transport was replaced by free and equal opportunities to all. The railways thus reverted to the pre-war system of booking goods on the "first come first served" basis. A new section 27A, was however, added to the Indian Railways Act, 1890, before the expiry of the Railways (Transport of Goods) Act, 1947, on 31st March 1950. Under this new Section, the Central Government were given powers to direct and railway administration to give preference to the movement of any goods for a period of six months when in its opinion it became necessary in the public interest to do so. These powers are vested in the Ministry of Railways (Railway Board) and in order to ensure speedy movement of military traffic and other essential goods, viz., coal, foodgrains on Government account, salt, sugar, jute, petroleum, oil and lubricants, raw materials and finished products of iron and steel, cement, textiles, paper and glass industries, plants, equipment and stores including manures and fertilizers required for the 'Grow More Food' campaign. Government issued a general order to the railways to accord preference to the movement of these commodities under the new Section 27A of the Indian Railways Act. Although

the railways were thus asked to arrange preferential movement, they were also directed to make efforts to revert to the normal procedure as far as possible. In so far as iron and steel, cement and textile industries are concerned, 100% transport facilities have been guaranteed by the Central Board of Transport.

No less important than the powers given to Government for regulating the movement of commodities, are the powers assumed by Government under various control orders to regulate movement of those commodities. In fact, in the case of some industries like coal, transport plays such an important part that the entire mechanism of the distribution system depends on the efficient manner in which movement of the same is regulated. General powers of regulating the transport, storage distribution, disposal, and acquisition, etc., have been taken over by Government under the Essential Supplies (Temporary Powers) Act, in respect of essential commodities notified in Section 2 of the Act. Control on the movement of commodities is an essential means for regulating their distribution. Besides the powers of the Central Government, the various State Governments also impose inter-state restrictions on the movement of a number of commodities. On many an occasion State Governments regulate the transport of commodities from one district to another in their own States. While there is a fundamental justification for regulating transport particularly with a view to preventing unnecessary wastage in cross movement and to relieve shortages in certain pockets of scarcity, the exercise of such powers has not always been conducive towards that end. Prices of commodities from one State to another and from one district to another in the same State have fluctuated considerably consequent on the stoppage of the movement of a commodity from one part of the country to another. In a number of cases traders have suffered losses due to wide fluctuations in the prices of commodities without any fault on their part whatsoever.

Part XIII of the Constitution deals with trade, commerce and inter-course within the territory of India. It provides for a free flow of trade and commerce in the country subject to some safeguards. The State Governments can impose "reasonable restrictions" on the freedom of trade, commerce or inter-course with or within that State in the public interest. It was brought to Government's notice that irksome restrictions regarding inter-State movement of essential commodities were prevalent which covered a large number of essential articles, such as, cotton, fuel, milk, cattle fodder, tea, pulses, onions and garlick. The Governments of Mysore, Assam, Ajmer, Saurashtra, Hyderabad and

**General Control
on Movement
of Commodities.**

**Inter-State
Restrictions on
the Movement
of Commodities.**

Madhya Bharat had imposed restrictions on the movement of oils and oil-seeds, while export of oilcake was banned by the Governments of Madras and Saurashtra. The movement of pulses and spices was controlled in Mysore, Hyderabad, Ajmer and Coorg. A large number of State Governments had restricted movement from their territories of milk and milk products, including butter and ghee. Even the export of fuels including fire-wood, charcoal and coal was restricted by some State Governments. Restrictions also existed in some States on the movement of bone and bone products, tapioca, vegetables, fish and mutton, etc. This medley of restrictions on the movement of essential commodities had been allowed to continue in some of these States, although the original circumstances in which they might have been imposed altered. The Central Government considered the problem in November 1950, and advised State Governments to remove these restrictions. Since then some of these restrictions have been withdrawn. In some cases the Central Government issued notifications removing movement control from some of the products such as ghee, cotton seeds, cattle fodder, etc. Even in these cases some of the State Governments continue to interfere with the movement of these commodities and thus cause hardship to trade.

We may now deal with the control on distribution and movement of some commodities and see how they have disrupted the normal trade channels.

The salt duty was abolished from 1st April 1947. Subsequently in November 1947, the production and distribution of salt became the care of the Ministry of Industry and Supply. In anticipation of the abolition of salt duty, the salt merchants had stopped indenting for salt, and this factor coupled with the transport difficulties resulted in shortage of salt supplies in up-country centres in the middle of 1947. Owing to the heavy burden put upon the railways by the large traffic that was offered and their inability to cope with it, due to the scarcity of locomotives and wagons, distribution of salt was seriously hampered. Because of the inadequacy of storage capacity, transport bottle-necks also interfered with the production of salt. Government, therefore, in order to rationalise distribution, introduced from 1st January 1949, a scheme of zonal distribution for despatch by rail. Under this system the principal regions of production have been grouped together and a zone of distribution allotted to each one of the nine *foci* of distribution. It was intended that by clearly demarcating and linking the consuming areas with specified salt sources or import centres unnecessary or wasteful use of the over-burdened transport system would be avoided. Simultaneously, some State Governments like Madras, U.P., East Punjab, C.P. and Delhi promulgated Salt Control Orders. By the introduction of the zonal system of distribution,

Control on the Movement and Distribution of Salt.

it was not always possible for the sellers to cater to the buyers' needs and the trade links built up in the past got disrupted particularly in the case of salt manufacturers of Bombay and Madras. It was also found that railways were not able to adhere to the programme of movement, particularly on the meter-gauge and this caused scarcity of salt in certain consuming areas. Some adjustments have, however, been made in the zonal system from time to time and by and large the system has worked well. The Salt Experts Committee considered it the right solution for equitable distribution of salt and Government have also decided to continue the zonal system of distribution *vide* their Resolution of the 4th August, 1951.

What, however, stands in the way of making supplies of salt available to the consumer at fair rates is the existence of the district nominee system in some States and the existence of control on its price. Under the salt control orders of State Governments, an absolute monopoly has been created for district nominees and no trader except the district nominee is allowed to import and sell salt. Even when a district has sufficient stocks of salt, on account of this monopoly, the consumer has to pay exorbitantly high prices. It is alleged that the rates charged to the final consumer have been so high that the monopolies operating at the consuming centres make at times a profit of about Rs. 500 or Rs. 700 per wagon of 300 mds. The district nominees sell all salts indented by them at the maximum parity rates of Calcutta salt, even though the issue price for Sambhar and Khargodha salt is much lower than the rates of Calcutta salt. The abolition of this nominee system was recommended by the Salt Advisory Committee in July 1950, but no decision regarding the abolition of the system has yet been taken. Earlier in May 1950, Government had abolished the registration of salt dealers at Sambhar and Khargodha, leaving buyers to deal freely with the distributors in the producing centres.

There have been periods of acute scarcity of salt in some parts of the country. In September-October 1949, large quantities of salt went underground for fear of control over the commodity by the Centre. Government controlled the situation and subsequently in March 1950, issued the Salt (Reserves Stocks) Order, 1950, under which persons importing salt at Calcutta by sea were required to sell not less than 25% of the quantity imported by them in the Government Salt Golah at Calcutta. In September 1950, again a scarcity developed in some parts of the country, particularly West Bengal and the quantity to be kept for reserves was then increased from 25% to 50%, although subsequently towards the end of December the quantity was again reduced to 10% only. In September 1950, the Central Government also issued the Salt Control Order and acquired powers to control the distribution, and prices of salt in Calcutta. The Order was subsequently cancelled towards the end

of December 1950. The main reason for occasional scarcity of salt is the insufficient wagon supply. If full transport is ensured and all the traders allowed to enter into business, there is hardly any fear of salt going underground. In a free system, salt would be available to consumers at fair prices. At present although the treasury has lost about Rs. 11 crores by the abolition of salt tax, the expected benefit to the consumer has not been realised. Instead of considering the question of entrusting the work of distribution in the hands of traders, Government broached in March 1951, the question of State trading in salt and invited the opinion of State Governments to take over the distribution. State Governments were of the view that State trading in salt would involve considerable difficulties and would not be practicable and the proposal was then dropped. It is felt that the nominee system which has been condemned by the Salt Advisory Committee as well as the Estimates Committee should be done away with, and the work of distribution entrusted to the normal trade channels under free competition.

There have been many occasions when the consumers of cotton textiles have not been able to meet their normal requirements from the market. Apart from the overall shortage of production and the policy of Government regarding price fixation and exports, the most important factor responsible for this state of affairs is the faulty distribution system. Government have been controlling distribution since June 1943, when the Cotton Cloth and Yarn (Control) Order was promulgated. In December 1943, an Order was passed which made it compulsory on the part of every millowner not to release any cloth or yarn without putting the date and price markings on it. Ceiling prices had to be fixed and all cloth had to be price stamped. In May 1944, the manufacturers were asked to sell cloth only to those dealers who had bought from the mills during 1940-1942, in strict proportion to the cloth delivered by the manufacturers to these dealers. In 1945, control was further intensified and the task of distributing cloth on an all-India basis was attempted. The stocks with the quota holders were frozen. Every person was allotted a quota and the Provincial authorities had to appoint permit holders who alone could obtain cloth from quota holders. Controls were, however, relaxed on 19th January 1948, and normal trade channels were being gradually restored "so as to facilitate the movement of cloth to the largest extent possible". On 24th April 1948, control over prices and distribution of yarn was entirely lifted, but even then inter-provincial movement of cloth was regulated. It is well-known that after decontrol there was a sharp rise in cotton textile prices, particularly in the up-country markets. Prices had, however, begun to come down from the middle of May 1948, but Government decided to reimpose control. In criticising the rise in prices during the decontrol period, it is not generally taken into account that movement control still existed with the result that dealers could not bring

**Distribution
Control on
Cotton
Textiles.**

supplies to consuming centres easily. In regard to distribution the main features of the revised Cotton Textiles Control Order which was issued on 2nd August 1948 are :

- (a) control on prices at all stages ;
- (b) allocation of cloth and yarn quotas to provinces and States ;
- (c) purchase of cloth and yarn from mills against quotas by the nominees of Provincial and State Governments ;
- (d) distribution to consumers under the control of Provincial and State Governments through licensed trade agencies and consumers' co-operative societies.

A time-limit has been laid down during which cloth produced in a mill should be unbaled and during which it should be completely sold. The Textile Commissioner further has powers to issue directions to dealers about the persons to whom and the quantity which they may sell. The textile authorities in the various State Governments also nominated wholesale dealers, popularly known as the State nominees, to make purchases in the producing centres and sell the quotas allotted to the States on behalf of the State Governments. The Textile Commissioner provides these nominees with purchase authorities which serve as transport permits.

On 10th September 1948, was promulgated the Cotton Textile (Control on Movement) Order, under which the country has been divided into 34 zones, each zone being either a Province or a State or a Union of States. The movement of cloth, yarn and apparel by road, rail, air, sea and inland navigation from one zone to another is prohibited unless specially permitted by the Textile Commissioner, Bombay. Movements of cotton-textiles could thus take place only on the strength of a Special Transport Permit to be issued by the Textile Commissioner.

The main effect of the reimposition of control was that normal trade channels were completely dislocated. The Bombay and Ahmedabad merchants, who had acted as distributors of cloth and yarn all over the country were completely put out of the trade as the nominated buyers of various State Governments made their purchases directly from the mills. Important distributing centres like Calcutta, Delhi and Kanpur lost their position as distribution was organised on a Provincial basis. The trade connections built by merchants in these distributing centres across the State borders were completely snapped. The newly appointed agents of Provincial Governments or the consumers' cooperative societies, being less experienced in the work of distribution were unable to lift goods from the mills which had to carry from 2½ to 6 months' production in hand. Cloth and yarn stocks also accumulated in the mills due to the

absence of release orders from the Textile Commissioner. As the State nominees had been given purchase authorities they had complete freedom to purchase such variety of cloth as they liked. Many varieties of cloth lay unsold in the mills. Consequently some changes in the distribution procedure were devised ; according to which mills could sell the stocks of cloth and yarn not lifted by the Provincial or State nominees. The position did not, however, improve substantially and in September 1949, the accumulated stocks with the mills amounted to 3,97,224 bales. In September 1949, the mills were allowed to sell 1/3rd of their production of cloth and yarn to licensed buyers of their own choice. This step gave some relief to the normal trade channels which once again began functioning. In November 1949, however, the margin for cloth distribution was reduced from 20% to 14% and for yarn from 15% to 12½%. After the discontinuance of control over export prices in February 1950 mills found it more remunerative to export cloth rather than to sell it in the internal market at controlled rates. Consequently, there developed a shortage of cloth and yarn in the country. From 31st July 1950, the 1/3rd free sale concession in respect of cotton yarn was withdrawn completely. As regards cloth, the quantity exported by mills began to be debited against the 1/3rd free sale concession and the cloth exported under valid licences became the first charge on the 1/3rd free sale concession. The overall supply of free sale being thus reduced considerably, the traders found themselves unable to procure adequate supplies from the mills. Once again, there was a scarcity of cloth in the free market, which continued for a long time. Even after the complete stoppage of yarn exports from 5th January 1951, and considerable restrictions on the export of cloth from January 1951, the scarcity of cloth in the country continued well up to the middle of 1951. There was an acute shortage of some varieties of cloth such as dhoties, sarees and mulls, while at the same time there was a glut of printed and dyed varieties of cloth. Government took some steps to restrict the production of printed and dyed varieties and issued directions to mills to divert a minimum of the 50% of their production for the manufacture of dhoties and sarees.

The scarcity of cloth which was felt in the market would not have been as severe as it was, but for the defective machinery of distribution devised by various State Governments. All classes of dealers of cloth had to get a licence under the State Licensing Orders, and the internal distribution of cotton textiles was entirely the responsibility of the State Governments, who adopted various modes of distribution. Some of the State Governments introduced rationing of cloth and in some cases the cloth came to be distributed to consumers through the establishment of Fair Price Shops under the State Governments. The inexperience of State Government in the work of distribution, and the grant of licence to firms who had never been in the textile trade, led to difficulties in the work of distribu-

tion. The State Governments, besides appointing wholesalers and retailers, had also to fix profit margins for each trade link subject to the maximum limit of 14% in the case of cloth and 12½% in the case of yarn over the ex-mill prices and frequent changes were made in the margin fixed for each class of distributors in each State. In some States, where the work of distribution was undertaken by the Government itself, persons engaged in the business of cloth distribution were ousted from their business. The Bombay Government under the Bombay Cotton Cloth Dealers Licensing Order, 1949, assumed powers to appoint wholesale distributors each at Bombay, Ahmedabad or Sholapur or at any other place to buy on behalf of Government all mill-made cloth. Government also assumed powers to appoint a district wholesaler for each of the districts. As it is, only a limited number of firms, who had been in the distributive trade got the licence to do business on behalf of Government and it is understood that at one time in Bombay city alone 4000 traders were ousted from their business. In West Bengal too, Government procured cloth through handling agents, from whom Government took a fixed margin as levy. Later on, some 35 nominated buyers were asked to purchase the State quota of cloth with the result that the other wholesale dealers were hardly left with any business, and could not carry on their normal avocations. Subsequently, each wholesaler appointed by Government was linked with a number of approved retailers. Even this system did not work very well. The position in other States has been no better. In all States the dealers have to secure licences and the procedure for distribution of cloth has been changed very often. Some State Governments have also levied administrative charges with the result that even the reduced margin of 14% did not go entirely to the wholesalers and the retailers. No concerted attempt has been made to standardise the margin of intermediaries in different States. Instead of allowing the normal trade channels to function freely, the system of control has been tightened from time to time despite the fact that under a controlled system of distribution, the consumers were not able to get their requirements at fair prices. At a conference of Civil Supplies Ministers of various States in May 1951, it was recommended that the free sale concession should be reduced to 20% and that it should be subjected to mills opening a number of retail shops. The reduction in the free sale cloth from 1/3rd to only 20% has affected the normal trade channels adversely.

Just as the control on cotton textiles has not been helpful in meeting the demands of the consumers, similarly by the imposition of control on cotton it has not always been possible for the mills to secure adequate supplies of cotton for their consumption. There have been occasions when mills had to close down for want of raw cotton either because of the defective system of allotment to cotton mills, or the non-availability of

Distribution
Control on
Cotton.

cotton at the controlled rates. It has already been pointed out, while dealing with the price policy of cotton, that central control over cotton was instituted from May 1949. Under the comprehensive Cotton Control Order issued on 12th September 1949, ceiling prices were fixed for all varieties of ginned cotton. Under the same Order India was divided into a number of zones and the movement of cotton from one zone to the other was prohibited except under permits. Each mill was given quotas for specified quantities of cotton from specified zones and movement permits were issued accordingly. As, however, there was no control on *kapas* in the season 1949-50 and as mills were not able to procure their supplies at the controlled rates they were forced to buy *kapas* at up-country centres. Trading in forward contracts which was allowed in the season was also very short-lived as there were reports of alleged trading in violation of the Indian Cotton (Control) Order, 1949. Certain State Governments such as Madhya Bharat also imposed restrictions on the movement of cotton. The Textile Commissioner in order to make the control more effective devised certain steps to meet the situation and a freezing order was issued on the 4th January 1950, directing that no person in Greater Bombay, who purchases stores or sells cotton and holds a licence under the Cotton Control Order, shall sell or deliver cotton of any description except to such persons and subject to such conditions as may be specified by the Textile Commissioner. About 50,000 bales were requisitioned from the frozen stocks in Greater Bombay and the quantities were allotted to certain mills. This Cotton was defrozen from 8th February 1950.

In the next season 1950-51 prices were raised by Rs. 150/- per candy. Government also announced that an effective machinery working in close liaison with Government will be devised for collective purchase of cotton and the maintenance of prices at reasonable levels subject to the ceiling. The machinery for collective purchase of cotton could not, however, be created and on 13th September 1950, a new Cotton Control Order was promulgated and mills were prohibited from purchasing *kapas* except in some special circumstances. Powers were also assumed to prescribe a time-limit beyond which no person could possess *kapas* and the Textile Commissioner could issue directives to such persons to get the *kapas* ginned before a specified date. As has been pointed out, the prices having been pegged at an artificially low level, it became very difficult to enforce the control over raw cotton. In spite of the two months' old strike in Bombay, the stock position of the mills was not very good in 1950. Cotton control was circumvented by making unauthorised purchases of cotton at prices higher than the ceiling. Government announced the appointment of a Cotton Advisory Board in October 1950, and this Board recommended various steps to make controls more effective, including grant of quotas to mills, taking into account the consumption of each mill in the year 1946-47. Regional

Committees were appointed by the Board in the important cotton growing areas to supervise generally the working of the cotton control within the overall policy laid down. The Board also recommended the requisitioning of cotton where there were cases of piercing the ceiling price. Steps were also taken to institute movement control on *kapas*, and warnings were issued that any attempt to circumvent control by manipulation or mixing of quality or by any addition of unrecognised or unwarranted charges in the sale would be dealt with severely. Other punitive measures were also devised and some areas were sealed off where cotton prices tended to pierce the ceiling. On 8th December 1950, strict regulations of distribution and prices of cotton were instituted in Ferozepore in East Punjab as also in East and West Khandesh in Bombay. Gradually Government nominees were appointed for the purchase of cotton in specified zones for distribution to mills according to the quotas allocated and thereby it was intended to keep the mills off the market altogether. Mills could buy cotton only through these nominees. The institution of the nominee system in certain parts of the country resulted in the complete usurpation of the functions of trade by the few nominees appointed by Government. It gave rise to monopolistic trading in cotton and thus Governments sought to introduce collective buying by the back-door. In some areas, millowners devised schemes for purchase of cotton as in Madhya Bharat and Southern India and in some areas a non-official Distribution Committee was set up, as in Surat in the office of the Surat Cotton Dealers' Association. The Government of India took action in March 1951, to seal off Madras 'A' Zone, Madras 'B' Zone, Bombay North Gujerat 'A' Zone and Bombay 'D' Zone in respect of sale, delivery and movement of cotton grown in these areas. All told, distribution control on cotton in the season 1950-51 resulted in ousting the middlemen from their trade. On 31st August 1951, the Madras High Court declared the nominee system unconstitutional and invalid because, by this system, under the guise of protecting public interest, Government came to interfere arbitrarily with private business.

Government were, therefore, forced to revise the Cotton Control Order of 1950, and in the current season instead of the nominee system trade in cotton is being carried on by three classes of licensees, namely, A., B., and C. licensees. "A" class licensees are allowed to operate in more than one cotton zone and are appointed by the Textile Commissioner from among persons who have sold a minimum quantity of 3,000 bales of Indian cotton directly to any manufacturer during any of the cotton seasons 1948-49, 1949-50 and 1950-51, and have ordinarily carried on business of cotton in more than one zone. These licensees are not permitted to purchase any *kapas*. The "B" class licensees are selected from among dealers in cotton who have sold a minimum quantity of 1,500 bales of Indian cotton directly to any manufacturer during any of the three cotton seasons referred to above in any zone. The "C" class licensees are selected from among persons who do not qualify either for A or B class, but

have ordinarily carried on trade in their respective local areas and have held a licence on or after 1st September 1950. Changes in the conditions necessary for qualifying for "A", "B" and "C" class licenses were subsequently made on the 10th January 1952, in order "to remove certain hardships and anomalies under the licensing system relating to the sale of cotton in India." Simultaneously, steps are being taken to enforce quality control. Some six varieties have been left outside control as Government want to encourage their growth.

As has already been pointed out earlier in this paper, control over iron and steel and scrap is exercised through the following two Orders :

(i) Iron and Steel (Control of Production and Distribution) Order, 1941, (ii) Iron and Steel (Scrap Control) Order, 1943. Control over distribution of steel is designed to enable Government to ration the limited supplies available among a large variety of users according to the nature and importance of the uses and to see that the recipient of iron and steel quotas get their actual requirements in proper time and at controlled rates. The users to whom steel has to be distributed have been classified into the following broad categories :—

- (i) Ministry of Defence.
- (ii) Ministry of Railways.
- (iii) Ministry of Rehabilitation.
- (iv) Government Development Schemes.
- (v) Government Sponsored Housing Schemes.
- (vi) Private Industrial Development Schemes.
- (vii) Steel Processing Industries.
- (viii) Industrial Maintenance and Packing.
- (ix) Export.
- (x) Emergency Reserve.
- (xi) Agricultural requirements.
- (xii) General Public in the States.
- (xiii) Displaced Fabricators.
- (xiv) Harijans.
- (xv) Cottage Industries.

Quotas are allotted directly to the Ministries of Defence and Rehabilitation for meeting their requirements. As regards the Government,

Development Schemes, there are certain co-ordinating authorities which deal with the projects and the quota is handled through them. In regard to the Government's Sponsored Housing Schemes, the quota is handled by the State Governments and Ministries of the Central Government sponsoring the schemes. The quota for private industrial development schemes is intended for all private industries, for the establishment of new factories or the extension of the existing ones. This quota is distributed through certain sponsoring authorities. In the case of electric installations it is administered by the Central Electricity Commission, for cotton textile mills by the Textile Commissioner, for collieries by the Coal Commissioner, for refrigeration and sugar industries by the Ministry of Agriculture, for engineering and non-engineering (chemicals, etc.) industries by the Development Wing, Ministry of Commerce and Industry and for other industries not included in the above by the Iron and Steel Controller. Allotments from the Steel Processing Industries quota are designed to meet the maintenance and raw material requirements of organised industries engaged in processing iron and steel and using power-driven machinery. Steel processing factories which were in existence before March 29, 1950, only are generally considered for allotment of steel from this quota. The quota for industrial maintenance and packing is intended to provide established industries with their essential maintenance and packing requirements. The quota for general public in the States, displaced fabricators and cottage industries, etc., is placed at the disposal of the State Governments.

After the demands under each group and sub-group are considered and sponsored by various sponsoring and co-ordinating authorities, the Ministry of Commerce and Industry decides, broadly, the allocation of the available iron and steel among the above 15 groups of consumers. Before making the final allocations, however, a Priority Authority examines the allotment. After the allocations have been made, quota certificates are issued to specific allottees. In case the allottees are large consumers, they are given the right to issue sub-quota certificates. The quota certificates serve as permits to the holders either to place orders on the producers of steel or on the Controlled Stock Holders of Iron and Steel. The Controlled Stock-Holders serve all groups of users other than the general public and the small scale manufacturers.

At present about half of the home production is taken away by the Government for allotment to railway works requirements, defence purposes and for the use of semi-Government agencies. The remaining portion together with imports is divided among various industries and other users. There are occasions when the quota given to steel processing industries is inadequate with the result that the manufacturers are not able to produce to their full capacity. Moreover, as is bound to happen in the system of controlled distribution, the quota is not always rationally distributed. In

regard to private industrial development schemes also the persons concerned have to get their applications sanctioned and consequently they are not able to get supplies as and when they need them. As regards the requirements of the general public and small scale manufacturers, they have to obtain their requirements from the State quotas. The State Steel Controller operates the allotment by the issue of permits on the Registered Stockholders of Iron and Steel. Similarly, the general public in the States has to wait for months together to meet even their ordinary normal requirements, whereas steel can be had in the black market easily, although at higher prices. At times even the most scrupulous persons, to meet their ordinary need for small quantities, prefer to make their purchases from the black market rather than wait for months to get permits from the authorities.

In the case of cement too, the consumers have to wait for long to meet even their requirements for small quantities. Various State Governments have issued notifications under which cement can be sold only against permits issued by the authorities specified by Governments. The Central Government confine themselves merely to the allotment of cement for central purposes, such as the requirements of the Departments of the Central Government, like the Railways, C.P.W.D., etc., and big organised industries like coal, textiles and chemicals, sugar, etc., requirements for "Grow More Food" schemes, schemes for rehabilitation of displaced persons and educational institutions of an all-India nature. The balance is allotted to the provinces for meeting the requirements of the Provincial Governments, local bodies, general public and small scale industries. In fact, under the present system of distribution the demands are classified under 5 heads, *viz.*, Central, State, Agriculture, Rehabilitation and Education. There are six regions for distribution and each region has been placed under a Regional Honorary Cement Adviser. In regard to States quota the Regional Honorary Cement Advisers authorise the cement factories to place the same at the disposal of State Governments the quantities of cement allotted to them. Different State Governments have devised their own systems of distribution. Generally speaking the State quota is distributed to the stockists in the district for release to private consumers and some portion is placed at the disposal of the Director of Industries, for meeting the requirements of small scale industries. On the basis of the distribution programme chalked out by the State Cement Controllers, despatch instructions are issued by the Honorary Regional Cement Advisers to the producers, who supply cement to their stockists in the various districts. These stockists have to obtain licences from the State Governments for carrying on their trade in cement.

Control over distribution and price is being continued in spite of a considerable increase in production in recent years. This, it is stated,

is being done in view of the fact that there are pockets of scarcity specially in Northern India which are likely to feel cement shortage if control is removed. It should, however, be possible for Government to consider the question of decontrol of cement as new factories have come into being and production is increasing rapidly.

Controls over distribution of commodities and rationing of supplies with a view to its equitable distribution to the population have been unsuccessful in our country, mainly because of the existence of black-marketing. Rationing of supplies generally induces people to devise other means of getting their requirements.

Even in a commodity like sugar after recontrol in September 1949, State Governments were not able to devise proper distribution machinery and the imposition of control did not benefit the consumer in any manner, as they had to procure their supplies from the black-market. Even the movement control orders on sugar issued by some State Governments did not ease the situation and large quantities went underground. The machinery at the disposal of Government is inadequate to maintain control and there are leakages everywhere. It happens oftentimes that in their enthusiasm to scotch the black market supplies are frozen and hoarded stocks seized. This happened in the case of sugar but the situation did not materially improve as a result of these efforts. Such efforts only resulted in dislocating the normal trade channels and suspension of business by middlemen.

The Central Government, therefore, adopted a new policy in regard to sugar from 1st December 1950, which is regarded as a compromise between control and unconditional decontrol. This policy has yielded results and sugar is available freely to the people.

It has been suggested from time to time that this experiment in dual price policy can be gainfully extended to other commodities wherever possible. This has, however, not so far been done.

PROVISIONS RELATING TO PUNISHMENT IN VARIOUS ENACTMENTS

This Section, after taking note of the provisions relating to punishment in the various enactments, stresses the futility of merely tightening the law and states that sporadic attempts to root out the evils of corruption and black-marketing are hardly likely to be successful unless policies relating to controls are made more realistic.

Most of the enactments dealing with controls provide for drastic punishment for those attempting to contravene the orders. Responsibility is placed even on persons who may not be directly responsible for the offences. All these provisions are a hangover of the Defence of India Rules. Under Rule 122 of the D.I.R. it was laid down that "if the person contravening any of the provisions of these rules is a company or other body corporate, every Director, Manager, Secretary or other Officer or Agent thereof, shall, unless he proves that the contravention took place without his knowledge or that he exercised all due diligence to prevent such contravention, be deemed to be guilty of such contravention." This rule and the delegation of extensive powers to the police and the magistracy caused hardship to even those persons who were not responsible for the alleged crime committed under the Rules. The provisions relating to penalties and offences by Corporation in the Essential Supplies (Temporary Powers) Act of 1946 are analogous to the provisions of the Defence of India Rules. The existence of such sweeping powers and penalties is inconsistent with the spirit of understanding and co-operation which should characterise the working of controls. Although Government have issued instructions that prosecutions on the principle of vicarious responsibilities will not be ordered except after due deliberation at the highest level convenient, the retention of such sweeping powers in the law dealing with the matter is indefensible. It may, however, be noted that the position in regard to offences by Corporations has been slightly improved under the Supply and Prices of Goods Act. The vicarious liability Section in this Act provides that every person who was in charge of and was responsible to the company would be proceeded against and punished in case of contravention of any provisions of the Act. It is desirable that the vicarious liability clauses in other enactments be revised suitably so as not to put an onerous responsibility on every manager, secretary or other officer or agent of a Company or Corporation. It is really unintelligible why the manager or secretary whose duty does not place them in a position to control and prevent contravention of orders relating to control should normally come within the mischief of the rules enunciated in the Sections of other enactments *viz.*, Section 9 of the Essential Supplies (Temporary Powers) Act. The change of law in such enactments is vitally necessary in the interests of justice.

Black-marketing, hoarding and profiteering are condemned by all right thinking persons. The manner, however, in which attempts have been made to suppress these evils have neither been above reproach nor have they contributed materially to root out corruption, black-marketing and other anti-social practices in the country. Various State Governments instituted special laws to prevent black marketing, but it is not known if these enactments have yielded the desired results. After 1950, most of the State Governments, presumably under the directions issued by the Government of India, began arresting persons for suspected offences involving breaches of the control regulations and even detained them under the Preventive Detention Act. The Central Enforcement Directorate created in December 1948 has also been busy in trying to put a stop to these mal-practices. The Directorate has been checking inter-State smuggling, investigating mal-practices by textile mills, registered iron and steel producers and investigating large-scale black-marketing by mills, wholesalers, registered producers, registered stockholders etc., as also catching black-marketers by means of test purchase traps, and is also entrusted with checking of misuse of iron and steel by quota holders. In spite of the number of cases in which investigation was carried out by the Central Enforcement Directorate and the efforts made by the Special Police Establishments in checking bribery and corruption, the evils are as rampant in the country as ever. In February 1951, as many as 168 persons engaged in business were detained under the Preventive Detention Act, 1950. Of these about 50 were detained in Bihar, 26 in Hyderabad, 24 in U. P., 15 in Pepsu, 13 in Travancore-Cochin and 13 in East Punjab. Even at the end of June 1951, as many as 59 persons engaged in business were detained under the Preventive Detention Act. Since then, many persons were detained in Punjab (I) for violation of control orders and black-market etc. It is not known if the attempts made to root out black-marketing by these methods in Bihar in October 1950, and in other parts of the country on other occasions, have been successful in eradicating the evil. Even enhanced penalties were provided by an amendment of the Essential Supplies (Temporary Powers) Act, in August 1950 for certain offences. Speaking broadly the law has been tightened from time to time, which has at times resulted in the prosecution of even innocent persons.

ADMINISTRATION OF CONTROLS

This Section emphasises the difficulties attendant on administering the multiple controls efficiently and deprecates the policy of imposing controls without having the requisite administrative set-up to man them properly.

The basic reason why the sporadic attempts to root out these evils have not met with success is that the policies relating to controls have not been conceived properly in that they tend to induce people to indulge in anti-social practices in spite of the risk which is attendant on the contravention of the regulations. Unless, therefore, the policies are revised suitably, it is doubtful if the most stringent punishments would deter people from indulging in evil practices.

The functions of Government have extended considerably during the past few years and Government has come to intervene a great deal more in the economic life of the people. Commerce and Industry is becoming increasingly dependent on the policies of Government, the manner in which they are arrived at and implemented. Moreover, there are a large number of industrial undertakings for the finance and management of which Government are directly responsible. The over-burdened administration has thus been charged with responsibilities which it is hardly capable of coping with. Administration of control is perhaps the most important of all the functions which Government have assumed in recent years in the economic field. It is recognized that essential controls are inter-related and in some cases the failure of controls is directly attributable to the non-existence of controls on the related products. It is well-known that the non-existence of controls on *kapas* and *gur* seriously interfered with the working of controls on cotton and sugar. But it cannot be denied at the same time that it is administratively impossible to extend the coverage of control.

The limited experience of the manner in which controls have been administered demonstrates clearly the impracticability of extending the sphere of controls. The present system of controls has proved to be ineffective because it has been worked in a haphazard manner by an inept and untrained administrative machinery and therefore, the policy of imposing controls without the requisite machinery to enforce them is certainly worse than having no controls at all. The experience of almost a decade in the working of controls shows that the policy has not been framed and conceived properly and that the lack of clear understanding between the Centre and the States as also the lack of right men to administer controls has not been in the best interest of the country. The occasional

swoops on black-marketing and corruption have failed to yield the desired results.

If one were to go into the question of the origin of corruption and black-marketing one could easily see that the irrational policies of price fixation *e.g.* in the case of cotton, cotton textiles, sugar, and rubber etc. and loop-holes in the distributive system and administration are the root causes of these evils and unless an attempt is made to remove the underlying causes, however vigilant a Government may be, it is impossible to control these evils.

RESUME

In this concluding Section an overall assessment of the policy of controls is made. It is stressed that controls which have outlived their utility should be done away with and the remaining controls devised *de novo* by modifying and simplifying them.

The above study clearly shows that the controls operating in the country were imposed on an *ad hoc* basis and are being administered without a clear understanding of the commercial, administrative and other considerations involved. In their concern for holding the price line, Government have controls clamped on the economy without thoroughly going into their rationale. While nobody will deny that the generation of further inflationary pressure in our economy at the present moment is bound to have serious political, social and economic consequences, it must be admitted that to hold the price line by artificial means or to seek to reduce it temporarily by any means can not be regarded as an end in itself, particularly if it interferes with the general economic prosperity of the country. Instead of preventing inflation, controls merely help in suppressing it temporarily and by coming in the way of production. They hinder the operation of the normal laws of supply and demand and to that extent only further the unsatisfactory situation which they seek to change. There is no doubt that some of the controls have clogged the wheels of production and the irrational policy of price fixation has seriously retarded production as also the pace of industrialisation in the country. It would suffice to recapitulate that controls as operated in our country have put serious obstacles to increased production of cotton textiles, sugar, raw rubber, etc. The fixation of uniform prices for all the units also tantamounts to putting a premium on inefficiency and consequently the incentive to better production and to improve the quality is curtailed. Controls in themselves have been responsible for generating inflationary pressures, if one were to take into account the huge costs involved in operating controls both in terms of increased expenditure of Government which have to maintain an army of officers to administer them as also the increasing costs to business houses in filling various forms and submitting reports to Government. The consumers too have to waste a good deal of their time whenever the controlled commodities are under ration. Even otherwise, they have to wait on officers for getting permission to purchase the required commodities. The requisite qualities are also not available and thus consumers are forced to buy what they do not need. The type of employment which controls generate is largely unproductive and does not contribute to the material welfare of the country. Controls have also thrown new burdens on the administration which is hardly in a position to share the consequent increased responsibilities that devolve upon

it in framing suitable and consistent policies and administer it thoroughly and conscientiously. No less important than the problem of devising right policies is the task of implementing them with care at the various levels of administrations. People in the lower cadre, not always being fully conversant with the issues involved, are unable to carry out the instructions properly with the result that hardship is caused to the trading community and the public in general. In the actual task of implementing even right policies, favouritism and nepotism have crept in and have made nugatory the possible benefits of right policy decisions. The work of distribution is at times entrusted to persons who are wholly inexperienced. This has a two-fold disadvantage—firstly it does not facilitate the work of distribution and the consumers suffer ; and secondly it causes unemployment in the ranks of those people who have been engaged in the trade for ages past. These traders ousted from their normal avocation find it difficult to seek alternative avenues of earning their livelihood and if one were to examine the larger question of unemployment in the country, it would be found that the lack of gainful employment exists in a most acute form in the trading community.

In devising regulatory control orders, Government must first try to appreciate the intricacies of business activity as also the level of literacy among petty retail dealers who do not always understand the full implications of regulations. In fact it has been noticed that this class has been harassed quite often by its inability to understand the regulations properly as also by the difficulties in complying honestly with the multifarious regulations under various control orders. It is, therefore, imperative that in any system of controls which may be devised in our country due attention must be paid to the fact that our economy is not so compact and organised as in other foreign countries. It would seem that this aspect of the matter has not received its due consideration so far.

In our country black-marketing and controls have almost become synonyms, and wherever controls are imposed on any commodity, it always results in magnifying conditions of scarcity and the consumer is apt to resort to safety-first measures by over-buying. Finally it may be mentioned that control measures carry with them a rigidity so unsuitable to meet dynamic changes inherent in a growing economy. In a free competitive economy, adjustments are automatically made by the interaction of forces of demand and supply and much has to be said in favour of these automatic adjustments. That adjustment have never been made at the proper time under our control orders can be fully illustrated from the manner in which the consumers experience sporadic gluts and scarcity in some of the controlled items such as cotton textiles and yarn.

If we do not want to perpetuate the era of shortages and desire to put our economy on an even keel, it is vitally necessary that a review of

control measures is undertaken at the highest level so as to do away with such controls which have outlived their utility and devise the remaining controls *de novo* by modifying and simplifying them. The policy of doing away ultimately with all avoidable and irksome controls which unnecessarily interfere with the processes of production and distribution must be the *sine qua non* of a forward economic and industrial policy for our country.
