

SECRET

321.



A NOTE

BY THE

COMMODITIES PRICES BOARD

ON

CONTROL

THEIR CONTINUANCE

BY

A. D. Gokhale

and

D. R. Gadgil

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A.D. GORWALA

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CONTROLS AND THEIR CONTINUANCE

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

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

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

TABLE I

Statement Showing Area under Cultivation in Reporting Areas in India

(Figures in 000 acres)

Crops	Average Triennium ending 1933-34	Average Triennium ending 1936-37	Average Triennium ending 1939-40	Average Triennium ending 1942-43	1943-44	1944-45	1945-46
1	2	3	4	5	6	7	8
Total acreage under all crops.	3,19,087	3,16,383	3,16,860	3,24,223	..	..	..
*Major Cereals	1,68,563	1,68,122	1,70,865	1,71,360	1,70,947†	1,90,472†	1,85,868†
Cereals & Pulses.	2,37,811	2,34,884	2,34,627	2,40,296	2,51,613	..	..
<i>Oil Seeds—</i>							
Edible	17,344	15,302	18,663	18,093	18,164	19,923	19,166
Non-edible	6,432	6,803	7,391	6,879	5,076	4,933	4,613
Total	23,776	22,105	26,054	24,972	23,240	24,856	23,779
Cotton	20,447	21,706	21,285	20,281	21,086	14,843	14,480
Sugarcane	3,200	3,982	3,546	3,904	4,234	4,154	3,847

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

*Rice, Wheat, Jowar, Bajri.

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

TABLE 2
Statement showing triennium average of yield for selected crops in reporting areas in India (In lbs. per acre)

	Triennium ending 1933-34	Triennium ending 1936-37	Triennium ending 1939-40	Triennium ending 1942-43	Triennium ending 1945-46
1	2	3	4	5	6
1. Rice	852	808	766	731	779
2. Wheat	607	639	671	674	624
3. Cotton	78	91	89	102	105
4. Groundnut	939	868	857	870	799
5. Linseed	272	238	241	260	216
6. Sugar (raw)	2,985	2,442	2,832	2,915	3,061
7. Jute	1,263	1,309	1,094	992	1,139

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

Agricultural Production.—It should be noted that the total acreage under crops in the country has increased very slowly and there is no reason to suppose that the increase will be more rapid in the future. For a short period like say, three years, the effect of increase in production through increases in acreage may be considered negligible. The per acre yields of important crops for which statistics are available reveal no trend towards a general increase in per acre yields. Agricultural production in India fluctuates greatly from year to year. These fluctuations are due, in the main, to the nature of the agricultural season. During particular years in the period of war, the incentive to increased production by way of high prices was considerable. (The incentive, perhaps, led in certain instances to diversion of acreage from one crop to another. But there is nothing in the statistical data to indicate any general increase of productive capacity or any special spurt in production in particular years. It may be that lack of necessary aids to increased production such as increased irrigation facilities or supply of fertilisers was responsible for this comparatively stagnant position of agricultural yields, even in the presence of high prices. If this is true, it would mean that any increase in yield from agriculture in India would not follow upon any specific price policy. It could be brought about only by active measures such as making agriculture more secure through irrigation, improving technique, making fertilisers available, etc. The Central and Provincial Governments have prepared programmes which include a variety of such measures. It would, however be rash to count upon the fruits of any of these programmes being evidenced in production statistics during the course of the next three years. For this short period the physical volume of agricultural production in India cannot be estimated as likely to be higher than the average of the recent past. Of course, in particular years, a very much higher or lower figure of production may be reached because of the conditions during the year.

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

TABLE 3

Statement showing Industrial Production in India from 1939 to 1946

Article	Jute manufactures	Cotton Manufactures	Cotton Piece Goods	Cement	Sulphuric acid	Sulphate of Ammonia	Wheat Flour	Sugar	Paper	Matches	Pigiron	Steel Ingots	Finished Steel*
Unit 1	Tons (000) 2	Million 3	Million yards 4	Tons (000) 5	Cwt. (000) 6	Tons 7	Ld. (000) 8	Cwt. (000) 9	Cwt. (000) 10	Gross Million 11	Tons (000) 12	Tons (000) 13	Tons (000) 14
1939	1179.02	900.47	4114.00	N.A.	579.28	19745	16417.20	13910	1311.88	21.68	1757.04	1915.46	1025.62
1940	1233.85	921.08	4812.15	N.A.	409.19†	13847†	15998.50	23649	1677.16	22.23	1994.10	1246.98	1187.35
1941	1193.98	1087.13	4530.50	N.A.	N.A.	N.A.	18801.10	24201	1854.04	18.07	2009.60	1369.20	1859.60
1942	1081.50	951.58	4024.70	1608.4‡	531.719‡	19874‡	14434.15	17703	1809.48	14.85	1829.70	1293.90	1271.70
1943	965.79	1176.09	4751.10	2118.2‡	864.700	21024	12370.78	21540	1701.37	17.04	1749.70	1852.20	1814.70
1944	995.10	1201.63	4857.20	2048.8	552.723	23521	11651.42	21065	1524.06	17.69	1419.25	1310.79	1298.90
1945	1079.50	1200.59	4655.3‡	2209.80	443.95	21893	14575.96	17167.70	1618.14	22.08	1420.43	1265.48	1317.20
1946	978.87	901.56	4021.5‡	2019.40	602.10	20251	9232.23	13426.20	1464.85	11.61	1326.61	1229.08	1235.04

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

*Including Semis but excluding Bloom, billets and Slabs.

N. A.—Not available.

†Relates to January-July 1940 only.

‡Relates to April-December 1942 only.

§Provisional.

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

TABLE 4

Daily average number of workers employed in Industries

Source.—Indian Labour Gazette

	Government and Local Fund Factories	All other Factories	Total
1939 Perennial	131,066	1,321,066	1,452,132
Seasonal	1,380	295,049	296,429
TOTAL	132,446	1,616,115	1,748,561
Percentage . . . . .	..	..	100·0
1940 Perennial	168,125	1,379,896	1,548,021
Seasonal	1,038	295,369	296,407
TOTAL	169,163	1,675,265	1,844,428
Percentage . . . . .	..	..	105·5
1941 Perennial	219,233	1,630,848	1,850,081
Seasonal	853	305,443	306,296
TOTAL	220,086	1,936,291	2,156,377
Percentage . . . . .	..	..	123·3
1942 Perennial	299,184	1,681,812	1,980,996
Seasonal	545	300,022	300,561
TOTAL	299,729	1,981,834	2,281,563
Percentage . . . . .	..	..	130·5
1943 Perennial	355,371	1,782,551	2,137,922
Seasonal	507	297,883	298,390
TOTAL	355,878	2,080,434	2,436,312
Percentage . . . . .	..	..	139·3
1944 Perennial	419,951	1,804,820	2,224,771
Seasonal	484	294,996	295,480
TOTAL	420,435	2,099,816	2,520,251
Percentage . . . . .	..	..	144·1
1945 Perennial	456,842	1,909,900	2,366,242
Seasonal	671	276,064	276,735
TOTAL	457,013	2,185,964	2,642,977
Percentage . . . . .	..	..	151·1

TABLE 5
Industrial Production in India
Source.—Economic Adviser's Office

Article	Jute manufacture	Cement	Sulphuric Acid	Sulphate of Ammonia	Wheat flour	Sugar	Paper	Matches	Pig Iron	Steel ingots	Finished Steel*	Cotton piece goods
Unit	Tons (000)	Tons (000)	Cwts. (000)	Tons	Mds. (000)	Cwts. (000)	Cwts. (000)	Gross Million	Tons (000)	Tons (000)	Tons (000)	Pounds Million
1	2	3	4	5	6	7	8	9	10	11	12	13
1945—												
January	90.0	179.3	41.75	1741	917.28	8	122.32	1.37	91.69	103.23	106.81	109.35
February	78.0	173.8	33.0	1562	1066.4	47	106.74	1.36	180.67	91.94	95.88	81.45
March	95.6	209.0	44.44	1658	1587.50	102	141.55	1.55	114.14	105.54	117.53	103.65
April	83.6	179.2	31.51	1785	1307.97	400	130.70	1.53	106.28	97.97	107.80	96.56
May	88.7	196.1	36.33	2035	1236.73	3098	145.80	1.63	117.57	110.03	118.17	100.31
June	91.8	183.3	33.57	1866	1389.16	5308	141.11	1.64	115.06	97.81	99.67	100.54
July	85.9	181.0	24.25	2255	1173.79	4566	150.08	1.24	121.70	98.97	107.92	96.66
August	84.0	186.1	19.23	1551	1047.25	0.7	146.48	1.63	120.90	106.41	115.79	96.72
September	90.4	189.8	25.18	1727	902.05	38.7	120.97	1.69	119.79	109.88	104.83	110.91
October	93.5	154.8	47.98	1421	1324.92	102.2	139.12	1.54	126.79	116.86	124.05	115.78
November	101.1	185.3	48.18	1901	1359.41	400.2	125.54	1.63	116.14	104.98	109.34	89.46
December	96.9	192.1	58.53	2396	1263.50	3096.9	147.13	1.87	99.70	121.86	109.47	99.20
1946—												
January	110.6	153.1	45.81	636	1242.99	5305.6	149.72	2.05	93.82	115.22	122.38	98.22
February	97.9	164.8	57.75	1883	1203.99	4563.5	123.40	1.82	126.61	104.26	107.96	83.02
March	86.4	180.5	52.17	1645	1205.00	2840.7	160.6	1.94	141.8	116.4	156.12	86.42
April	89.29	153.00	39.72	1808	983.04	627.7	122.09	1.84	136.17	115.72	105.25	92.9
May	104.86	166.2	42.86	1715	813.63	56.8	135.51	1.40	91.10	110.20	106.89	83.3
June	93.16	169.6	46.53	1436	621.69	0.2	102.67	1.13	122.15	109.49	99.07	81.9
July	99.62	166.9	43.30	2274	451.67	0.7	106.51	1.43	124.00	102.79	105.98	78.3
August	76.68	171.1	41.00	1657	424.44	2.2	107.46	..	100.96	92.56	89.65	80.5
September	84.18	179.5	55.72	1325	516.22	1.7	123.36	..	86.77	85.11	79.20	75.3
October	84.74	191.9	58.71	2003	549.51	27.1	149.40	..	93.65	86.55	84.95	74.3
November	83.69	166.9	59.03	1839	629.34	..	150.91	..	106.34	95.43	89.08	71.4
December	61.32	165.9	59.50	2035	590.71	..	132.72	..	103.14	95.85	88.51	..

* Including semis but excluding blooms, billets and slabs.

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

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

TABLE 6

Source.—Economic Adviser's Office

Period	Coal raising in British India in (000) tons.	Coal and coke loaded on class I Railway wagons in (000) tons.
1945—		
January	2157	91
February	2262	86
March	2529	97
April	2202	97
May	2253	99
June	2035	92
July	1880	92
August	1988	94
September	2267	94
October	2344	103
November	1966	95
December	2145	93
1946—		
January	2462	102
February	2532	97
March	2529	100
April	2175	104
May	2218	101
June	2015	99
July	1869	95
August	2244	91
September	2324	93
October	2040	96
November	1974	87
December	2084	104

* Table No. 7.

TABLE 7

*Electrical Energy generated and consumed in British India (in million units).**Sources.—Economic Adviser's Office*

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

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

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

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

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

TABLE 8
Quantity available for civil consumption in India

Commodity	Unit	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45	1945-46	1946-47
Rice	(000 tons)	24,332	26,422	22,422	25,132	23,662	29,559	27,018	25,321	..
Wheat	Do.	9,250	8,786	9,337	8,393	8,514	9,547	9,004	9,960	..
Other cereals*	Do.	11,361	11,957	13,165	12,095	13,799	13,434	12,202	N. A.	..
Sugar	Do.	905†	1,466	1,100	778	960	1,111	859	875	..
Tea‡	(million lbs.)	104	127	120	97	235	180	32	N. A.	..
Cotton Piece-goods‡ . .	(million yards.)	6,223	5,997	5,493	5,205	3,722	5,115	5,069	5,222	5,136
Iron and Steel‡	(000 tons)	..	1,062	..	860	423	672	666	851	836
Cement	Do.	1,406	873	693	668	219	808	778	1,975	..
Paper and Pasteboard . .	(000 cwts.)	4,011	3,796	3,230	2,387	1,345	1,199	1,572	2,341	..
Kerosene	(million gals.)	223.0	228.8	215.9	192.3	119.5	94.0	104.5	137.2	..
Woollen Manufactures (mill)	(million lbs.)	..	18.0†	4.6	5.6	2.3	0.8	3.3	6.6	..

*Jowar, Bajra, Maize and Barley.

†Pre-war consumption.

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

N. A.—Not available.

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

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

The above requirements have been calculated on the basis of a 12 oz. ration. If the ration is restored to the 16 oz. level, an additional supply of between 1500 and 2000 thousand tons will be required. The requirements for 1947 (4748 thousand tons) have been calculated on the basis of opening stocks and estimated local procurement in deficit areas for the year. It is unlikely that the stock position will improve during this year. It might, in the light of the expected large gap in imports, deteriorate to some extent. Thus, with an average season not better than that of 1946-47 the total requirements in 1948-49, to be met by imports and surpluses, may be placed round about 6500 thousand tons, at a ration of 16 ozs. This could be attained only by an internal surplus of between 1500 and 2000 thousand tons and imports above the 4500 thousand level. Both these targets will be very difficult to attain in the near future. Internal surpluses do not show any tendency to increase and large surpluses of food supplies in other countries are also not expected to develop before 1950. Therefore, all that Government can expect to do is, for the next 12 months, to carry on without being forced to reduce the ration to less than 12 ounces and for the two years subsequently, to try and build up stocks so that the extremely difficult position experienced during the last two or three years does not again emerge and, if the seasons are propitious, also to make some progress towards the 16 oz. ration level.

9. Cloth.—The quantities of cloth produced in India during 1945 were (in millions of yards) 4688 mill made and 1535 handloom and during 1946, 4008 mill made and 1291 handloom. It has been officially estimated that during 1947 if there is no considerable dislocation of production because of strikes, riots, etc., and the three shift Scheme works well, a total production of 4100 mill made and 1300 handloom may be reached. The quantities of imported cloth were negligible in 1945 and 1946 and are not expected to be more than 20 million yards in 1947. Defence requirements have decreased from 575 in 1945 to only 20 in 1947. Exports were 600 million yards in 1945 and are

estimated to decrease to 300 million yards for 1947. The estimates of quantities available for consumption were $12\frac{1}{2}$ yards per head in 1945 and $11\frac{1}{2}$ yards per head in 1946. The best estimate for 1947 is that a total availability of 12 yards per head may be reached. Regarding the year 1948, an optimistic estimate is that productive capacity of the industry will be increased by about 2 per cent because of the importation of new machinery. No very large increase in imports may be expected and the level of exports can hardly be lower than that estimated for 1947. An informed estimate puts both mill and handloom production in 1948 at about a maximum of 5600 million yards. This is only a little above the 1947 level and a considerable way behind that necessary to attain the per head average consumption of pre-war years which was $15\frac{1}{2}$ yards. It is not likely that the pre-war per head figure will be reached even in 1949.

10. **Sugar.**—The average sugar production in India on the eve of the war was about 11 lakh tons per year. As both imports and exports were negligible, this may also be taken to be the figure of the total amount then available for consumption. Production rose during the early years of war and reached the peak level of $12\frac{1}{2}$ lakh tons in 1943-44. In 1944-45 it, however, fell considerably below the pre-war average. In 1946-47 it reached an even lower point and now stands at about 20 per cent. below the pre-war average. Defence requirements which at one time were high have now fallen to 20,000 tons and exports remain at 20,000 tons. The minimum internal demand is calculated at 9.63 lakh tons. This year it will not be possible to meet this demand fully even with imports of about 30,000 tons from abroad. Production during the year 1947-48 cannot be estimated with any confidence because of the uncertainty regarding the reaction to the 40 per cent. increase made last year in sugarcane prices. If that increase leads to a rapid re-division of land to sugarcane, the pre-war average of 11 lakh tons may be reached within a year or two. Plans have been made for expanding the production of sugar within the country but it is not expected that new machinery will arrive before 1948. The total availability of sugar for consumption may be expected definitely to remain below the prewar figure of 11 lakh tons for the year 1947-48. Making an allowance for the increase in population within the decade, this will mean much less than the average per head prewar consumption in India, at least till the end of 1948.

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

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

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

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

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

15. **Supplies of producer goods.**—A number of important producer goods seem to be in as short supply as the essential goods required by consumers. Reference may be made in this connection to the Resources Budget contained in an appendix to the report of the Advisory Planning Board. The supply position in relation to coal, steel, timber, cement and bricks is examined in this budget. It is pointed out that the gap between the demand for coal and pithead production would in any event be significant in the near future and that the gap between demand and the amount which is actually being moved from the collieries would

be decidedly larger. This gap has serious repercussions on the iron and steel industry and to a lesser extent on the cement industry, neither of which can work to full capacity through lack of the right quantity and quality of coal. This, in turn, must necessarily have a retarding effect on the whole development programme. The position in relation to the steel industry is described as follows in the appendix. "In the most favourable circumstances which are not likely to materialise, the supply might approximate to the demand but the actual probability is that there will be an annual deficit ranging from half a million tons upwards during the next three years. The only possible way to meet this gap is by imports. But here too, the immediate prospects are not very bright." The conclusion reached as a result of the examination of these and other shortages is, "in view of probable shortages controlled allocations of coal to steel and possibly cement will be required for the next few years. To do this piecemeal is unsatisfactory. A Priority Board appears to be required to make allocations, at any rate of coal and steel, in accordance with an integrated plan. Allocations of all basic commodities required for constructional work must be linked up with one another and be made in the light of the whole development of the economic life of the country." It is reported that the position has changed a little for the worse since the Planning Committee prepared its budget.

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

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

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

	Dec. 1945	April 1946	August 1946	Dec. 1946
Bombay	242	248	267	279
Ahmedabad	205	199	217	216
Nagpur	272	279	291	292
Patna	305	333	363	397
Jamshedpur	373	328	389	372
Madras	224	228	237	249
Cawnpore	310	308	346	348

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

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

19. Likelihood of continuance of Price Increases.—It is perhaps too early to say how strong the present inflationary movement is and whether it will, in a short time, have spent its force without any deliberate external check. Many factors would suggest that it is too optimistic to hope for the upward movement reaching an end of its own accord. The demand for salary and wage increases has not died down and within the next few months a new movement for general increase in wages of employees of Government may be expected following the publication of the Central Pay Commission's report. The recommendations of this Commission will affect not only all employees of the Central Government but must in turn influence the payment of salaries to employees of all official and semi-official agencies in Provincial Governments, local bodies and elsewhere. We may, thus, witness a considerable increase in the money incomes of a large number of people and naturally in money outlays made by them.

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

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

Moreover, a movement towards inflation is itself recognised to have a deterrent effect on production activity. A rapid increase in production, if this is possible, may no doubt check a small and weak inflationary movement. But the existence of an inflationary movement itself discourages expansion of productive activity. Progressive inflation puts a premium on hoarding and the same tendency is fortified if traders and producers expect that commodities now under control would soon be decontrolled. The immediate effect of de-control has generally been the attainment of a higher level of prices than before. Therefore, if de-control is expected, producers will not market all their supplies but wait, as far as possible, for the removal of control. It is likely that the present tendency towards a rise of prices coupled with the general talk and expectation of de-control will lead to effective supply of commodities to consumers being even less than the total physical supplies. It is, of course, difficult to say whether the existing inflationary trend will continue or not. The presumption is that it will continue for some time and that if early and adequate steps to check it are not undertaken, it may even reach alarming dimensions.

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

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

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

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

23. **Plans for Development and Controls.**—Attention has so far been concentrated on the economic situation during the next twelve months and during the transition period of two or three years. The general plan of economic development and the methods adopted for its achievement also necessitate controls. The intentions of Government, Provincial and Central, as evidenced by their post-war plans and policies, suggest a continuance and strengthening of control regimes. To point only to a few salient features, the announcement by the Government of India relating to Industrial policy refers to a control of the location of industry and the licensing of individual ventures. It also talks in terms of qualitative control of standards of production and promises help and subsidy to industry. Most of these measures would not be possible except in a regime of controls; and if the establishment and the exploitation of industry is to be strictly controlled, the next step of controlling the prices and distribution of the products of industry follows logically. Otherwise, Government would be doing no more than granting individual capitalists the licence to exploit the internal market and protecting them in their exploitation thereof. The plans of the Industrial Panels are also based upon strict control over the import of capital goods and quantitative annual allocations to specific individuals and areas of imports of specific types. The detailed control of the establishment of industry, of its exploitation and of the pricing and distribution of its products that are involved in these programmes would go much farther than any controls that are now in existence or were in operation during the time of war.

24. Similarly, the long term policy in relation to agriculture presupposes a regime of controls. The report of the Prices Sub-Committee, whose recommendations have special relevance to the work of the Commodities Prices Board, puts forward proposals for stabilisation of the prices of all main agricultural products. It recommends the setting up of Price Committees and a Commodity Corporation which would operate so as to maintain a scheme of parity prices. The Committee unfolds an ambitious programme of storage and

purchase of agricultural commodities on Government account. Moreover, it points out that for working such a programme of price stabilisation, Government control would have to enter a wide field and determine and fix the acreages under different crops, supervise and maintain minimum standards of husbandry and take a host of other measures.

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

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

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

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

lifted in the immediate future, hoarding, is discouraged and the physical supplies available on the market are not widely different from the physical supplies actually produced. Therefore, the lifting of controls may be disregarded as a factor in the increase of available supplies.

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

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

little competition to face. Most essential commodities may therefore be expected to rise much more steeply in price under conditions of scarce supply in the countryside than in the towns. As a result of de-control, the poorer and more backward areas may thus be the areas of the highest prices.

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

31. Availability of Substitutes.—The process of substitution will also act much more efficaciously in urban areas than in rural areas. The possibility of substitution by imports is confined to a large extent to superior qualities in cloth or foodstuffs, including oils and fats and sugars. Imported supplies are much the costlier and are those which only the well to do classes can afford. These supplies again move with ease to cities and are marketed in them without much additional cost. To some extent, the possibility of competition of imports may keep prices of superior indigenous products in check in large centres of imports. This factor will be completely inoperative in the countryside in relation to consumption essentials of the poorer rural masses. In these areas, neither in quality nor in price, would there be any alternative to the low standard indigenous product for the consumption of the bulk of the population. Coarse cloth, coarse grains, the vegetable oil traditionally used in the region and inferior sugar or even more inferior gur are the staple consumption of our masses. For these, there are no substitutes either indigenous or imported and when these are high priced or in absolute want, there is nothing for the rural masses but to go without them.

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

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

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

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

Week ending	Bombay	Ahmedabad
31-8-46*	17-13-6	18-9-6
28-9-46*	21-0-0 to 28-0-0	18-0-0 to 20-0-0
2-11-46	36-6-0	26-0-0 to 30-0-0
7-12-46	45-3-0 to 47-9-0	40-0-0 to 52-0-0
4-1-47*	18-3-6	18-14-0

*Controlled Prices.

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

33. Interaction of Price Rises.—It is important to emphasise the cumulative effect of the rise in price of one commodity on that of another. Once prices are allowed to go high, there is nothing in the monetary or the supply situation to bring them down automatically. Any price going up on de-control will tend to remain up and as the sphere of de-control increases, the movement upwards of various prices will help each other and will aggravate the general trend. Even under a régime of controls, it has been noticed how a comparatively high increase in an individual commodity has always been cited as a reason for increases in all others. The increases in consumers' goods' prices will also act upon wages and salaries and will induce an increase in them. The prospect of the effect of de-control on the cost of living index through a general increase in the prices of consumers' goods is alarming because of the cumulative movement which it will set up. The movement in agricultural products will impinge on the cost of manufactured goods

through wage and salary payments, apart from raw material costs, and will make for a continuous increase in them. This is a movement which once begun cannot be checked in closed markets and today all markets are nationally closed markets. The volume of currency issued in India is large enough to permit of a considerable increase in prices. Further, its velocity may increase over wartime velocity making for even more rapid and higher inflationary possibilities. If prices are not controlled, wages cannot be held in check because the cost of living will, under decontrol, be continuously and rapidly moving upwards; and as wages cannot be checked, the prices of manufactured goods will tend to move upwards in sympathy, thus further intensifying the movement of the cost of living. Without some sort of external intervention, monetary or administrative, some sort of check on distribution and prices, there is no prospect of an inflationary movement having once got under way coming to a halt until the supply of commodities in the world as a whole is sufficient to meet effective demand.

34. Decontrol and Relation with External Prices.—The discussion has so far been confined to immediate decontrols and their effect on prices of consumers' goods and the supply of goods to the consumer. In view of the international scarcity of commodities, the results of any immediate decontrol of goods like cloth and sugar will necessarily be to send up prices. According to estimates made above, it would be wrong to expect any substantial change in supply trends, till, at least, the end of 1948. Therefore, prices will continue to rise and may by then reach a height very much above the present level. This could be stopped only by a radical change in the supply position through, chiefly, the international market. It is only when large supplies from other countries are forthcoming at much lower prices than the prices ruling in India, or when there is a sudden fall in the demand for Indian products from abroad that the inflationary spiral may stop. When it stops, the exchange position would have become significantly worse than it is today. If in other countries such as United Kingdom and the Dominions, the control regime is logically, strictly and efficiently preserved, the price levels in them will not have risen very much above their present level. In U.S.A. no doubt the prices may move upwards considerably but in the economy of U.S.A. it is neither unusual nor unexpected for prices to move rapidly both upwards and downwards. The effect on India when the position of scarcity comes to an end will be disastrous, because then Indian prices will have to come down from a very much higher level than at present to a level which is very much below even the present one.

35. Decontrol and Government's ability to deal with Depression.—It has been already indicated that the par value of the rupee can be maintained under conditions of freer international trade only if the present internal price level in India is somewhat reduced. If a regime of decontrol intervenes between the present and the days of plentiful supply of commodities, the degrees of maladjustment between the internal and external values of the rupee will have been immensely increased. A decline of prices when it comes will come with a force which may be even greater than that of the depression of the early thirties, because it is likely, as happened in the immediate post-war years after the 1914-18 war that the change in the supply position and in the psychology of the market will be sudden. With a sudden turning point, the prices will come down head-long and involve the whole of Indian rural economy in disaster. When this happens, Government will be powerless to do anything to steady the downward course of prices. In the first instance prices would have been so inflated that they could not be maintained at their specially high level by any means. Secondly, Government would not have at the time any instruments in their hands with which to counteract deflationary tendencies. It is even more difficult to check the onset of a depression than to control inflation. An inflation can

be controlled by controlling the pace of production and by controlling distribution. The urge upward can be checked. But nothing can be done in a psychologically depressed market to keep prices up. There would be no agencies which would be in a position to support prices because all commodities would then be decontrolled. There would be no agencies of distribution which would enable Government to buy up large quantities of commodities with the expectation of being able to market them. As has been pointed out above, all the apparatus recommended by the Prices Sub-Committee for the support of agricultural prices presupposes a net work of controls. As this apparatus would not be in existence, Government would be powerless to do anything in face of the economic forces let loose. There would even be no justification for doing anything for the producers, the speculators and the traders who would be experiencing nothing but a natural reaction of the full and free play of economic forces which they had themselves sought.

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

Moreover, it is too much to expect that the producer of foodgrains will quickly submit to a wholly partial operation of the regime of controls. Already the farmer who grows cereals complains that consumers' goods are not made available to him in sufficient quantities and at really controlled prices. He makes a similar complaint relating to goods like iron implements, fertilisers and feeds. The level of wages of agricultural labour is also set by the more paying commercial crops. In the area of the Deccan Canals, sugar companies have complained of the high level set up because of the competition of the producers of uncontrolled gur and the cereal farmers of neighbouring areas find the wages more difficult to pay than even the sugar factories. If, now, all consumers' and producers' goods are decontrolled, the prices to be paid by the foodgrain producer will be free and very much higher than before. If the prices of foodgrains are controlled so that the foodgrain farmer receives fixed and limited income while his outlays are not similarly kept in check, he will have a very legitimate and powerful grievance. The general difficulties of procurement of foodgrains are reported to have increased during the last year. If the sphere of decontrol is much enlarged and, as is them

inevitable, consumers' and producers' goods increase in price and supplies to the remote countryside become more difficult to obtain, it is impossible to contemplate the grower of food submitting to a restriction on the prices or the marketing of his produce. Thus, Government is bound to meet with determined opposition to the functioning of food controls alone and the policy of the partial maintenance of controls is bound to collapse.

37. **Difficulties of Partial Controls—Oil seeds.**—The difficulties in administering a partial system of controls may be further illustrated by reference to oil-seeds and cloth and sugar. On the decontrol of oil-seeds, the Government of India thought that the prices of oil-seeds and of oil might yet be kept from rising too high because of (1) the limited export market and (2) price control of the manufacture of Vanaspathi. It was expected that in this indirect manner, oil-seeds prices would be kept from soaring. The position regarding Vanaspathi manufacture was peculiar. The products of the manufacturers of Vanaspathi are controlled in price. The prices of their materials are not so controlled. It was expected that they would not pay a price for oil-seeds beyond the figure dictated by the price of their finished product. As these manufacturers are large consumers of oil-seeds, their behaviour is expected to keep in check the whole oil-seeds market. It is interesting to note that the control of the price of Vanaspathi is control which is not enforced by an elaborate system of distribution as in the case of cloth, kerosene or sugar. For Vanaspathi, there is no system either of a set of defined distributors or of rationing and of allocation of definite quantities. The controls over cloth, sugar, etc., which have a much more logical system and which are more integrated, are alleged to be ineffective and yet Government depends on the proper functioning of the price control of Vanaspathi, for which no similar system is built up. Unless the manufacturers of Vanaspathi and the traders dealing in it are presumed to belong to a category different from those who handle cloth, sugar, etc., there is no reason to believe that the control over prices of Vanaspathi will in reality be even as effective as the control over cloth and sugar prices. Moreover, the supplies of oil-seeds are so scarce, that the demand for exports, the internal demand from industries which use vegetable oils as base products, and the large demand for vegetable oil within the country may all together well keep prices at very high levels in spite of the Vanaspathi manufacturer not making any large purchases in the market. The whole position relating to the supply of and demand for vegetable oil-seeds is so complex that, in the existing situation, it would be rash to suppose that holding off Vanaspathi manufacturers from the market would necessarily affect oil-seed prices.

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

38. **Cotton and Cloth.**—The cloth and the cotton position and the sugarcane and the sugar position are similarly linked together. The Indian cotton grower complains insistently that controls on export and prices of cotton merely benefit the Indian manufacturer and that these controls have given a special profit margin to the manufacturer of cloth which he has exploited to the full while the Indian agriculturist is getting for his cotton a much lower price than is justified by general conditions or by international

movements. If, now, cloth is decontrolled, cotton controls cannot be maintained. For, in that case, while the cloth manufacturer would have the fullest opportunity to charge anything to the consumer, he would be guaranteed his raw material at a definite price. That would be flagrantly unjust to large groups of agriculturists. Presumably, therefore, if cloth controls go, control over the export and over the prices of cotton must also go and similarly if sugar is decontrolled, the prices of sugar cane must also be fully decontrolled.

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

The internal producer may complain that his price is unduly depressed because of limitations on his ability to export, while the Indian manufacturer who buys from him at the unduly depressed price is in no way checked in exploitation. The aim of all productive activity is ultimately to produce consumers' goods. Any set of specially low or controlled prices at intermediate levels which are not reflected in equal proportions in the prices of consumers' goods merely creates opportunities for some intermediaries to get extra gains. Therefore, unless Government is sure that there are special circumstances which prevent licensed importers or exporters from exploiting their position in a special way, the imposition of export and import controls should logically lead to the imposition of controls for the protection of the consumer. Bulk purchase on Government account of imports and the sale of exports through Government agency have both been widely resorted to in other countries because of the problems to which export and import controls give rise. The policy of H.M.G. in the former is instructive; the policy of countries like Argentina in the latter has at least the merit of profiting the general tax payer and not any special class of trader or producer.

40. Government's Responsibility in operating Indirect Controls.—The position of other controls such as the controls of transport priorities or of raw material distribution is also the same. When an industry commands a special priority in the obtaining of, say, coal or is given a special position in the movement of its raw materials or finished products, it is placed in this favourable position, presumably because of considerations of public necessity or social good. The special treatment must obviously be reflected in special obligations undertaken by the favourably treated class of producers. If cotton mills or

cement factories obtain special coal allocations, the obligations to produce given quantities, and market them in a given manner must also be imposed on them. Otherwise, the ultimate aim of social policy which can only be to make consumers' goods available in sufficient quantities over all the area would be frustrated and the only result of special allocations would be, again, to benefit specially the favoured classes. Thus, the other controls against which there is not the same clamour today and whose retention is sometimes advocated even by the business community seem to be controls which can benefit the consumer only if they are supplemented by controls over the distribution and prices of the products of these industries. The interest of the trader and of the manufacturer in having only import, export, or allocation controls, is obvious. He would not desire the addition of controls over the pricing and distribution of his products; but in agreeing to such a policy, Government would be laying itself open to the charge of administering a controlled regime for the benefit of only a certain class. If it is to be absolved of this charge, it will have to satisfy itself that the real advantages in productive effort or in low costs flowing from these controls are passed on to the ultimate consumer.

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

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

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

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

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

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

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

efficacious instrument of allocation in itself. The enforcement of absolute or proportionate acreage legislation all over the countryside is a very much more difficult and delicate business than the control of prices of major agricultural produce.

To sum up, control will have to be exercised over the major items of the food of the poor, over cloth, over kerosene and firewood and charcoal, over rent in urban areas, over the major products of agriculture, viz., cotton, jute, oilseeds, and sugarcane, and over important industries like sugar and textiles. This must be linked with control over prices and allocations of the major industrial products. It has been pointed out that almost in none of the respects mentioned above is control completely lacking today. The only two major items which are not at present under control are oilseeds and jute which have been released from control during the last few months. If these are again brought in and the whole system is integrated and each individual control made to supplement the work of other controls, there is no reason why a workable system of controls sufficient to meet the needs, at least of the transition period, should not function in this country.

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

Secondly, the decision regarding continuance of controls would rest largely on the extent to which administration is expected to control economic activity in the future. If economic administrative machinery is never likely to be required on a considerable scale, present defects may be a sufficient excuse for diminishing its use to a minimum. If, on the contrary, it is likely to be a continuing feature of administration, its present defects must be taken as a challenge to the politician and the administrator. If the execution of Government policy is to depend more and more on Government servants, any immediate defects, however grave, constitute a reason not so much for scrapping the agency as for making every effort to improve its performance as early as possible.

43. Systems of Control: Temporary & Permanent.—The present regime of controls may be looked at from different points of view. The view may be taken that controls as such are always undesirable. It may, at the same time, be recognised that severe scarcities of supply of essential commodities

make it impossible to dispense immediately with controls. Controls would then last only as long as the scarcities continue. Controls may, in addition, be considered necessary for bringing about a smooth transition to a post-war normal economy. In this event, controls would be used not only to distribute evenly supplies of producers' and consumers' goods at fair prices but would be also made to affect the working of economic society so that the changes necessary for making the transition easier are gradually brought about. In this event, the duration of the controls would be determined by the period of transition and their administration influenced by the additional objective. Finally, controls may be adopted as an enduring part of our economic structure as being necessary for giving effect to long term economic and social plans. If this point of view is adopted, the structure and the administration of controls would be shaped for permanence.

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

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

Finally, the state of confidence of the public is also a considerable factor in making given supplies go a long way. The quantities in the hands of people, that is the normal carry overs of individuals and of traders would be large or small in relation to this confidence. It has been a usual experience in war time that the situation in a commodity the supplies of which were supposed to run short and for obtaining which long queues had to be formed was eased the moment a regulated system of distribution became effective and people became assured of obtaining supplies of even small quantities under rationed distribution. All this points to the conclusion that

unless supplies are sufficient to give an average per head consumption which is equal at least to the pre-war average consumption, distribution, under de-control, of essential goods is bound to break down.

45. The Advisability and Utility of Deflationary Measures.—It has been suggested that as an alternative to keeping up the regime of controls, a movement of monetary deflation might be initiated. The proposal admits impliedly that present prices in India are out of parity with prices in most parts of the world; and that when existing conditions of short supply pass, difficulties will be experienced in maintaining the Indian level of prices at current rates of exchange. The proper course of action in order to fight this contingency might be to bring about a reduction of prices under control over the period of transition. It is, however, argued that controls do not work satisfactorily and that it might be better to meet the contingent situation by setting in a deflationary trend now than by continuing controls. Monetary deflation today, it is said, would exert a downward pressure on all prices and place them in a few years' time in an appropriate relation with external prices. It is conceded that controlled reduction of prices may be more rational but this is conceived to be impossible.

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

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

Government Outlay	1944-45	1945-46	1946-47 (Revised Estimate)	1947-48 (Budget)
Provinces	118,49	218,27	253,42	270,55
Centre	490,23	434,57	231,47	327,88
H. M. G. and Allied Govts.	410,84	375,78	48,32	..
	1025,59	1078,02	686,21	98,43

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

46. **Necessity for formulating Policy and for educating the public in it.**— It is extremely urgent that Government should formulate a definite policy towards controls and should announce it with the greatest possible speed. The present situation is unfortunate from all points of view. A regime of controls exists. Yet persons in authority and responsible leaders of public opinion talk as if it was nothing but an evil which should be abolished immediately. In such a climate of opinion, no control regime can survive, for, everybody thinks that it is proper to violate it, every trader contemplates hoarding and getting the most out of the process of abolition and very few non-officials or officials have their hearts in working or enforcing controls. There is little doubt that if Government really thinks that controls are undesirable, it would be best to abolish them completely as speedily as possible. On the other hand, if Government decides that it cannot afford to abolish controls and that the conditions following decontrol will be akin to chaos, Government must not only keep up controls, but integrate them, explain them and enforce them. It must, in this effort begin with Provincial Governments so that the work of the integration of controls is carried out with their co-operation and they are convinced of the necessity of maintaining them. Otherwise there is the danger, as at present happens, of the Central Government maintaining a structure of controls which in effect is being undermined by action on the part of Provincial Governments. It is not enough to have a policy in which the members of the Central and the Provincial Governments both believe. It would be necessary to explain to the general public the objectives of that policy and the circumstances which necessitate it. In order that the policy of economic controls should work effectively, it is imperative that Government should explain clearly to the public the general features of the economic position. There is at least as much need in India today to realise the gravity of the economic position and to set it out, in its broad quantitative aspects, fully before the public as there is in England. The British Economic Survey for 1947 presented estimates and targets and was meant to prepare the public for certain contingencies and certain eventualities. Something of the same sort needs to be done in India. The stark economic realities of insufficient production and supplies must be brought home to the people. The targets and the aims of

Government action must be clearly set forth and the part expected to be played by various sections of economic society and the general body of consumers should be made clear.

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

A. D. GORWALA,—19-4-47.

D. R. GADGIL,—19-4-47.

Summary

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

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

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

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

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

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

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

7. There has been recently a trend towards increase in the wholesale prices of agricultural commodities and in the cost of living. This increase is not due to monetary factors. It appears to be due to recent increases in the levels of wages and salaries and to Government policy relating to controls. This increase is not likely to be checked, in the near future, by increased production. It is likely to continue as long as consumer and producer goods are in short supply and may be aggravated by breakdowns in administration and in transport in particular regions.

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

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

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

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

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

13. If the general level of prices in India increases upon decontrol, this will make still more difficult the problem of adjusting internal prices to external prices. It is likely that an immediate further increase in prices in India will involve a sudden fall in Indian prices at the end of the period of transition. This may result in a severe depression, especially in Indian agriculture.

14. It is not possible to retain controls over foodgrains alone because:

(1) an increase in prices of other agricultural products may reduce substantially existing areas under foodcrops and may lead to breakdown of food administration; and

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

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

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

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

(i) the cost of living,

(ii) the cost of production, and

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

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

cereals and pulses;

sugar, sugarcane and gur;

oil-seeds, oil and oilcake;

jute, cotton and cloth;

kerosene, firewood and charcoal;

coal, iron and steel and cement.

19. The ultimate aim of controls is to secure:

(i) wide distribution of minimum quantities of essentials at controlled prices,

(ii) keep in check the level of prices, and

(iii) maintain levels of production.

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

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

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

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