ciples of behaviour, leaving the details to industry itself. According to another school this is inadequate, A policy of full employment, in the view of this school, is likely to have a persistent inflationary effect; a measure of qualitative control is therefore needed in order to overcome the inflationary tendency, and since there will b n osurplus resources, to secure the best use of those which are available.

The Government appears to stand in between these two schools. It uses budgetary policy to control the volume of production and consumption and to establish the horizontal boundary between consumption and investment. It enters into th efield of qualitative control to a more limited degree and chiefly with an eye on the future; hence the investment controls.

The technique of planning arc many and varied.. The British Government starting from the vantage point of wartime experience, have sought to achieve that position wherein the correct medley of inducement methods and regulation by statute will bring about the. desired effects. They have used with remarkable skill the array of conventions and institutions, and have brought to bear an outlook of social responsibility on groups and interests which have hitherto been essentially modelled for pressure purposes. The British experience is no doubt worthy of note,

Policing the Price Line

C. Jaganathan

THE problem of holding prices in check has again assumed considerable importance in public discussions. This is not only because both the Government, and non-official circles try to take stock of the prevailing conditions on the eve of August 15, but special importance attaches to this year's stocking, in view of the coming general elections and politicians, Lett and Right, are restive about high prices more than ever before. The official assurance that the price level can hereafter be held successfully has evoked derisive laughter. The Finance Minister, Mr, Deshmukh, stated in Bombay in June last that the Government had in the past four or Jive months successfully held the price line. And only this week he told critics in Parliament that the rise in Bombay cost of living index since devaluation has been much less than in UK or USA. This optimistic outlook on the part of the Finance Minister necessitates a careful review of the inflationary forces in the country and a search for practical measures to bring down the price index.

Price Index Since April

The Finance Minister has no doubt some weighty reasons for expecting an improved price situation. Firstly, the food loan from the United States has already enabled the different States in India to increase food rations. The Price Index of the Food Articles, which stood at 113.5 in January this year was slightly down at 412.6 in April and yielded a lew more points at 409 during the third week of last month. Since April last the general price index has also recorded a decline, from 457.7 to 445.9 last month. The index for Industrial Raw Materials receded from 683.2 to 634.5, Semi-manufactured Articles from 387.8 to 379.4, manufactured Articles from 410.2 to 404.6, and Miscellaneous Articles from 764.5 do 734.5. The trend of prices, therefore, appears to be, by and large downward.

Secondly, the war situation abroad has taken a turn for the better. The cease-fire in Korea and talks for peace now going on in Kaesong show that the Big Powers are by no means reckless and would do their best to avert a world war.

Production Trend

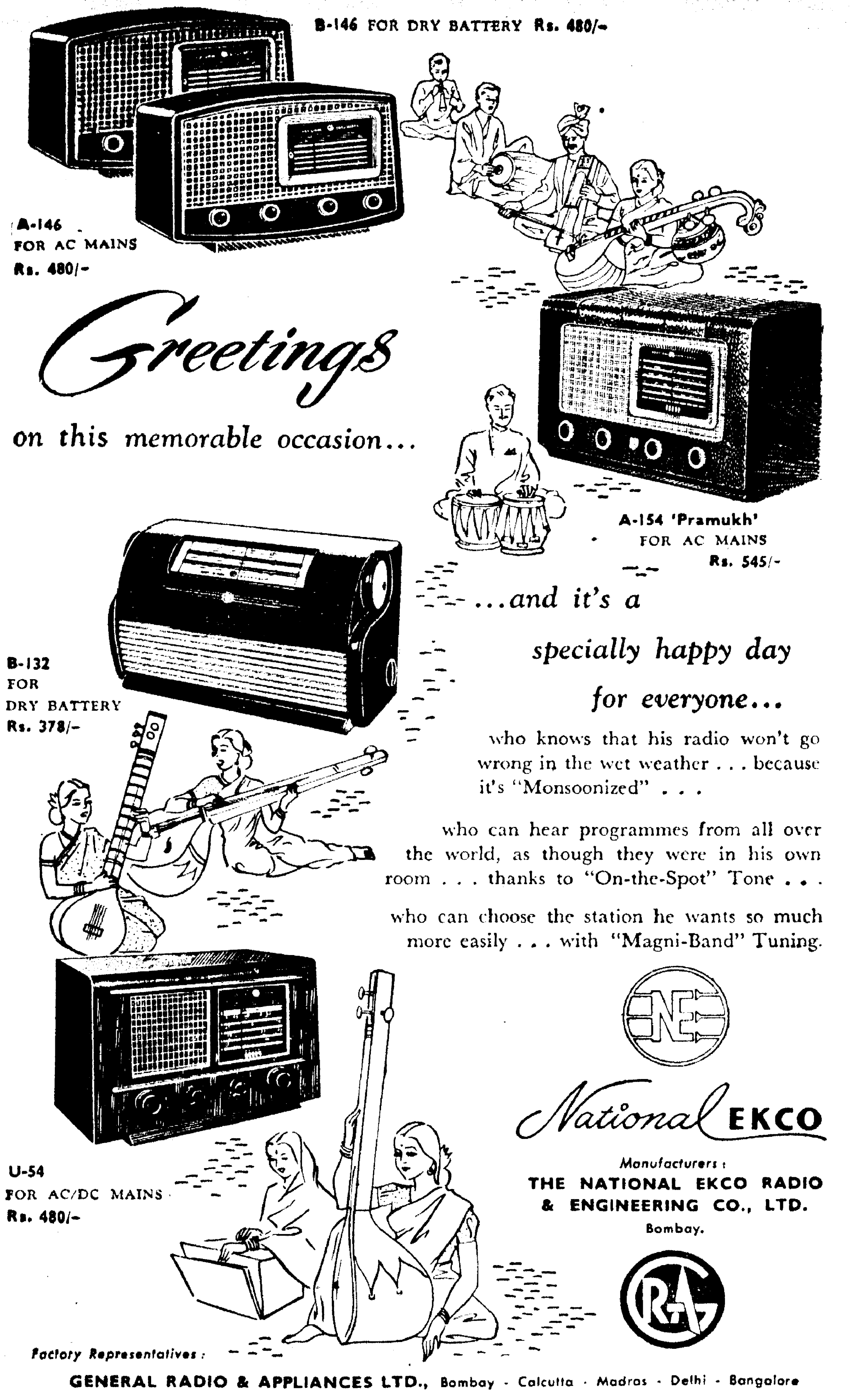
Thirdly, industrial production in 1950 is a pointer that inflationary pressure on national economy, in so far as it is generated by scarcity of industrial goods, is likely to be further reduced in the near future. The Deputy Minister for Commerce and Industry stated recently at Poona that since the beginning of this year industries have started regaining the lost ground. It should not he overlooked that in 1950 production of steel overstepped the one-million-ton mark, the highest level attained since independence; coal touched the record production of 31.9 million tons; cement went up to 2.6 million tons enabling all essential requirements to be met in full; paper reached the record level of 109,000 tons and the production of salt at 17 million maunds was in excess of the estimated demand. Production figures recorded increases in a large number of other industries including important chemical industries like sulphuric acid, engineering industries like diesel engines, and also for industries supplying goods of a high degree of utility like bicycles and sewing machines. As regards the three chief industries, cotton, jute and woollen (as also for sugar, soaps, tyres, tubes and some engineering industries) 1950 was no doubt a bad year. But the trend since January, 1951 appear to justify optimism.

Fourthly, the budget estimates of the Central Government for the year 1951-52 have shown that defiei! budgets could now be regarded as a thing of the past. The need for increasing taxes mainly for meeting the irreducible financial requirements of the Government was over and budget, surplus, advocated as a cure for inflation, has been secured.

Slow-down in Stock-piling

Fifty, in recent months, stock-piling purchases of the United Stales Government have marked by slowed-down. This has been reflected in a sharp set-back in the prices of primary commodities and even essential metals and minerals in die world markets. European production is on the increase. Japan's record in production during the past two years and her new constitutional status are pointers that the output of this country will again be a factor in international trade, particularly in Asian countries. Price trends and trade position in the chief world markets show that dollar scarcity (which diverted trade and different countries towards the American continent) is no longer a. factor of vital importance. Improvement in international currency, production and prices, it can be justifiably argued, is bound to have a healthy influence on India's price level.

Sixthly, the operation of the Colombo Plan taken together with the increased foreign aid offered by the United States since April 3950 would also appear to suggest that more outside assistance will



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INTERIM INDEX OF INDUSTRIAL PRODUCTION

(Base : 1946=100)

	1947	1948	1949	1950	1950 Jan.	Feb.	March	April	May
I Consumer Goods									
(1) Cotton textiles (cloth)	96.2	110.5	99.9	93.8	102.0	102.6	98.4†	105.7†	105.6†
(2) Woollen manufactures	88.9	74.1	77.8	66.7	64.9	66.1	55.8	65.8	64.9†
(3) Bicycles	96.4	127.8	173.6	203.7	140.1	186.1	185.7	219.6	147.1†
(4) Sewing machines	95.7	327.1	408.9	504.7	558.6	610.9	644.4	715.3	808.5
II Raw Materials or Intermediate Goods									
(1) Cement	93.9	100.7	136.3	169.4	181.0	192.1	196.1	194.9	196.1†
(2) Chemicals									
(a) Sulphuric acid	100.0	133.3	165.8	170.8	139.3†	152.0†	137.3†	172.3†	156.9†
(b) Caustic soda	114.3	151.1	217.3	374.0	490.3	542.9	539.4	506.7	490.3†
(c) Soda ash	113.5	242.9	149.3	364.9	421.7	412.6	411.7	425.6	411.9†
(3) Coal	103.9	103.2	108.9	110.8	118.4	130.2	120.4	119.9	120.8
(4) Cotton yarn	94.8	105.9	99.4	85.9	92.1	92.4	88.7†	92.4†	93.7†
(5) Jute manufactures	96.6	100.2	86.9	76.8	84.3	85.0	56.2	80.5	86.5
(6) Non-ferrous metals (copper, aluminium, lead and antimony)	98.9	105.2	109.3	115.8	83.2	133.8	139.8	136.1	134.4
(7) Paints and varnishes	100.5	93.0	80.5	72.8	88.8	91.6	76.6	82.4	79.7†
(8) Paper and Paperboard	87.8	91.6	97.4	102.7	111.4	123.3	122.6	120.9†	127.0†
(9) Steel (ingots and castings)	97.1	97.1	104.6	111.2	119.3	111.7	113.2	112.5	108.9†
III Capital Goods									
(1) Machine tools	50.3	60.0	51.8	29.1	20.7	54.3	95.5	49.3	50.3
(2) Diesel engines	144.8	216.7	438.9	971.7	1,523.7	1,767.8	1,460.9	1,036.7	1,365.4
(3) Electric motors	82.8	130.8	148.3	178.3	263.2	294.3	273.5	288.0	304.5†
(4) Power transformers	82.1	210.3	279.0	441.0	352.4	539.5	585.3	525.7	511.8†
General Index*	97.5	108.9	106.3	105.2	110.8	116.9	110.1	117.0	117.0

* General index takes account of 36 items, some of which are omitted here.

† Figures provisional and subject to revision.

Source: Directorate of Industrial Statistics.

be forthcoming than before in holding down the price level in India,

Food Prospects

Lastly, there is a reasonable chance of food production in the country improving in the near future. Apart from the American food loan and food offers from other countries which promise timely aid, there is the consideration that Indian agriculture in 1951 cannot be so bad as it was last year. The combination of adverse natural factors which caused damages to crops and cultivation simultaneously in North and South India, is not likely to recur. If this line of reasoning is correct, the food grains output (and the output of cash crops, too) will be greater than last year's and, consequently, prices could be lowered.

The arguments listed above may be cited by those who share the Finance Minister's optimistic view of the price situation. They are by no means unimportant in an analysis of the price situation in the country. But it remains to be examined (i) whether the hopeful trends cited above are likely to continue in the near future and (2) whether the Finance Minister has considered the basic factors which generate inflation and satisfied himself that deflationary forces have today got the upperhand. It is

Cost of Living Index

How has the Working Class Cost of Living Index moved since January 1951 and particularly since April last? The working class cost of living indices of the centres in India for which figures are available show that *in ten out of twelve places the trend has been upward since January* 1951 and in one place, the index has been more or less stationary (because the figures are provisional). In jubbulpore the index declined from 171 for January to 166 for March, the latest figure yet available. In Bombay, the working class cost of living index rose from 318 to 332 in April and stood at 335 for June. In Ahmedabad the rise was from 239 to 270 and then further up to 278 in May. In Kanpur the, index was stationary till April but later rose by 7 points to 447. In Delhi there was a rise from 134 to 138 in March and the June figure was 144. In Calcutta the level increased from 344 to 365 for April. In Sholapur, Nagpur, Madras, Ajmer, and Gauhati it is all the same story. The working class population (from which emerge the two great inflationary factors, namely, strikes and demand for higher clearness allowances) is thus more, restless today than it was six months ago.

What, about the middle classes? The Middle Class Cost of Living Index compiled by *Capital* is equally revealing. (August 1939= 100).

Groups	*Weights*	*June* 1950	*Jan.* 1951	*April* 1951	*June.* 1951
Food	53.6	442	435	443	446
Fuel and Lighting	4.4	223	222	222	222
Clothing	12.4	358	408	430	487
Miscellaneous	29.6	240	246	252	255
Combined Index	100.0	362	366	375	384

here that many are unable to share the view of Mr. Deshmukh.

Those who feel encouraged by the slight fall in the Price Index since April last should note however that

(1) Though the Indices of Wholesale Prices (in all Groups) show declines since April, *the July levels are still (or above the levels of January* 1951, excepting in the case of the Food group; and

(2) The trends of the cost of living indices have also be studied side by side with Price Index changes if a correct appraisal of the. public suffering arising out of price level is to be had.

Persisting Factors

What are the factors which aggravate inflation today? Firstly, the increase in population is still at a rate faster than the increased output (in so far as it can be estimated from available figures). Secondly, the armament race abroad is in full swing. Almost every important country abroad has been budgeting for a larger expenditure and increasing taxation. Threat of a world war and the preparedness for war are still the. most powerful inflationary factors—present as well as potential—throughout the world.

Thirdly, in our own country taxation is still going up. The States arc feverishly tapping new sources of tax income and enhancing existing rates of taxation. At the Centre, Mr. Deshmukh has introduced a new era of development budgetting involving " created " surplus for productive and unproductive expenditure. The Draft Outline of Five Year Plan prepared by the Planning Commission definitely envisages higher taxation. Increases in taxes are not always disinflationary;, as is often claimed, because they are (particularly the indirect taxes such as those favoured by Mr. Deshmukh in his 1951-52 Budget) generally added to the prices. Fourthly, during the past eight months the Government have themselves permitted higher prices for cotton, rubber, cement, sugar, cloth, steel and other articles. *There has been definite retreat on the price front.* This reveals that cost inflation has been a serious menace in the industrial sector. Such cost inflations are by no means over and will influence price structure in future. Fifthly, the tension with Pakistan is again on the increase and, internally, big strike waves are in the offing. At the time of writing the railwaymen, Postal and Telegraph workers and the employees in banks are threatening nation-wide strikes. Even if postponed by a few months, these strikes are bound to push up prices and adversely affect production.

Cost Inflation

Sixthly, if the price movements in this country since 1947 are carefully analysed, it can be seen that the rise in food prices and industrial raw materials has been creating cost-inflation in the industrial sector for some time, and afterwards the latter promoted cost-inflation in the agricultural sector.

The result is that the rise in the one operated as a disincentive in the other, and vice versa. Since August 1950 there has been considerable increase in the price indices of semi-manufactured and manufactured articles. This is now creating fresh headaches to the cultivating classes. Further, there has been a spent in the prices of industrial raw Materials, e.g. cotton and jute, the having gone up from 513 in August 1950 to 644 for July 1951. If prices obtained for cash crops shoot up, they never fail to bring about a shift of cultivation away from food grains and thus lead to higher food prices.

The immediate outlook, therefore, is more disquietening than reassuring. The urgency on the part of the Government to evolve and effectively implement an integrated price policy, neglected in the past, has not therefore abated. On the contrary, in view of the Five Year Plan that has been placed before the country, that urgency has assumed the strength of a fire alarm. Since the coining of Freedom, the price level been subjected to several forces that could not be anticipated or guarded against in advance. Partition, riots, trade deadlock with Pakistan, the Korean war and U.S. stock-piling may belong to this category. There was, besides, the unhappy legacy from the last war. But the Government should bear responsibility for failure to evolve a policy, vacillation in policies and inefficiency in administering price controls.

Failure to " Govern "

The widespread blackmarketing in food grains and manufactured products in 1949 clearly underlined the need for an effective policing of those who dictate prices in the private sector of our economy. In August last year Mr, Mahatab and Mr. Munshi got two resolutions passed in Parliament vesting considerable powers with the Government in preventing anti-social element from rigging up prices. But the movement of the Price Index in 1950 shows that the Government did not " govern " effectively. Last year the price problem was mainly a problem of law and order, It was a question of dealing with speculators, hoarders and the ryots who refused to part with the surplus. Owing to lack of effective coordination between the Central and State Governments and the well-known hesitation on the part of the politician to offend the agriculturists on the eve of elections, the prices went their own way and the economy has failed. If the price line, is to be held, the Government have to take measures to see that their laws, rules and regulations arc. enforced.

The Five Year Plan

The Draft Five Year Plan placed before the country by the Planning Commission emphasises the need to step up output and sets targets for industrial and agricultural production. There is no reason to doubt the earnestness of the Government in giving all assistance to private interests to raise national output. But the Plan does not lay down a satisfactory price policy to ensure its implementation and arrest the resulting inflation. Moreover, it does not lay down a scheme of incentives without which production, under a mixed economy, cannot increase sizeably because an overwhelming part of production is now and will remain under private enterprise. No doubt the Government cannot satisfy all interests asking for all sorts of incentives. But they should offer *reasonable incentives* and *be prepared at the same time to step in and do the job if private interests fail to play their part.* So long as the Government are without a plan of incentives coupled with strict control, price level will be at the mercy of every wind that blows.

One of the powerful factors working for higher prices is the impingement of idle and hoarded money on available goods, though with the passage of time, having done its worst, this has now ceased to be a major inflationary factor. The Government have not yet assessed the value of idle money in different areas. They should conduct income and savings surveys in every State, locate the areas with surplus funds and then draw them out suitably by loans, taxes, compulsory deposit or even by freezing them temporarily. Hoarded money, the result of tax evasion and black marketing, should be hunted out. Several measures have been suggested in the. past but the Government have not been able to do much yet to remove this menace to prices, particularly in urban areas.

PRICE INDEX

		Food Articles	Industrial Raw Materials	Semi Mfrd. Articles	Manufactured Articles	Miscellaneous	General Index
August	1947	297.8	366.5	258.3	280.2	456.6	301.4
„	1948	397.7	438.1	330.7	353.0	532.6	382.9
„	1949	413.8	463.9	330.9	349.6	530.6	390.4
„	1950	423.6	513.0	343.8	349.0	735.0	408.4
Jany.	1951	413.5	552.0	358.8	353.5	701.1	414.3
April	„	412.6	683.2	387.8	410.2	764.5	457.7
July	„	408.3	644.0	379.6	405.6	724.6	447.0

Development Budgeting to be Reviewed

The development budgeting adopted by the Government should be reviewed without delay. Already during the past four years the Government have, through budgetary deficits, increased money incomes as also money supply in the country Now they are again on the path of deficit budgetting and greater taxation. This will lead to further addition to money incomes. The authorities at the Centre should effect administrative economy and cut down non-productive expenditure to the bare minimum. At the State end, the Government should put a halt to experiments like the establishment of panchayats, prohibition, etc., which necessitate increase in taxation. Defence expenditure should be pruned to see that waste is totally eliminated.

Often there has been a suggestion that we should try " the income freeze method " to control the price level. Britain has, no doubt, tried " price stops ", " wage stops " and " dividend stops " to stabilise prices and has been successful. But this can be tried in this country only if the Government provide for adequate foreign aid, as Britain has done,, and follow a consistent price policy. The income freeze method will succeed if the cost inflation and the unhealthy interaction of different sectional prices are first brought under control. The basic problem will then be the food prices. These can be brought down only if adequate imports are secured and Central reserves are built up. Without reducing food prices, other prices cannot be controlled and neither Labour nor the employers will observe voluntary or compulsory " freezes ".

Banking in the Years of Freedom

Sukumar Chakrabarti

NEXT perhaps to jute, Indian Banking has suffered the most from circumstances created by the! partition of India. Ever since 1941, banking was the. most prolific of all commercial activities under the impact of war finance until partition called a halt to its progress. And since then, decline in Indian Banking has been very precipitous.

Total deposits of the Scheduled banks reached its highest in 1947 at Rs. 10,42,74 lakhs. Since then, after a continuous fall the figure now stands at Rs. 886,80 lakhs according to the latest return for the week ending August 3. On the other hand, pressure on the banks for accommodation has almost remained stationary. Total Advances and Bills Discounted in 1947 was Rs. 445,64 lakhs and it stood at Rs. 522,88 lakhs on August 3. As against a fall of Rs. 155,94 lakhs in total deposit, the Loans, Advances and Bills Discounted has recorded a rise of Rs. 77,24 lakhs only. Thus the banks have been experiencing difficulty in meeting the increased demand for Loans and Advances with decreasing resources. They have been able to meet demand for advances by drawing down their balances with the Reserve Bank from Rs. 95,77 lakhs in 1947 to Rs. 26,34 lakhs in 1950. This, coupled with declining value of their investment, has squeezed some of them out of existence. During 1948-50 as many as 128 banks with paid-up capital of Rs. 3,87,31,943 closed down.

The continuous fall in the value of the Government securities has hit the banks pretty badly. Total investment of the scheduled banks in Government Securities has fallen from Rs. 483.8 crores in December 1947 to Rs. 366.0 crores in Decernber 1950. The manner of investment has also changed. In 1947 investment in Government securities maturing within 5 years was 30 per cent. While those maturing after 15 years accounted for 25 per cent of the total investment. In 1950, these percentages were 32 and 15 respectively. This is quite in keeping with the tendency of the market which has registered a steeper fall in long term than in short term securities. Securities maturing between 10 and 15 years have, however, proved more popular with the banks because of higher interest yield and investment in such securities increased from 20 per cent of the total investment in Government securities in December 1947 to 29 per cent in December 1950.

With Loans and Advances almost stationary, the banks earnings have not shown any marked fall. Gross earnings fell from Rs. 29,83.4 lakhs in 1947 to Rs 29,102 lakhs in 1950. But with increased establishment charges and loss incurred in sale of assets, the balance of net profit declined from Rs. 9,18.5 lakhs in 1947 to Rs. 6,58.4 lakhs in 1950. Establishment expenses increased during tin's period from Rs. 8,62.7 lakhs to Rs. 11,24.8 lakhs and depreciation written off and loss incurred in sale of assets increased from Rs. 34.0 lakhs to Rs. 71.3 lakhs. It is interesting to note in this connection that establishment expenses increased during this period by 9 per cent in the ease of Indian Scheduled Banks, while in the ease of the Exchange banks it increased by 6 per cent only between 1949 and 1950. (Figures for previous years for the exchange banks are not available).

The Indian Scheduled banks have, however, been able to increase the allocation to dividends to the shareholders from Rs. 2,34.3 lakhs in 1947 to Rs. 245.9 lakhs in 1950, partly by reducing their carrying forward to Reserve from Rs. 77 lakhs to Rs. 63.7 lakhs, provision for taxes on profit from Rs. 294.9 lakhs to Rs. 164.5 lakhs, allocation to other special purposes from Rs. 2,20.2 lakhs to Rs. 1,16.0 lakhs and carry forward to next year's account from Rs. 191.1 lakhs to Rs. 52.9 lakhs