

more people and more money to spend now. Thirdly, inflationary pressures have reappeared in several countries of the world and there is no special reason why these should not have any impact on us now. They might, in fact, initiate a scramble for things in anticipation of future shortages and thus hasten the shortages. Against these factors, the old argument that deficit-spending is easily absorbed in the system, has lost its edge.

For all one knows, it may be premature to have nightmares about spiralling prices. Agricultural supplies have been short, but not all that short. Nor has it been the case that price-rises have been associated with only those commodities whose output had suffered a setback. The remarkable increase in raw cotton prices is not attributable to total unavailabilities. Though output in the current season suffered from untimely rains, we started the cotton year with sufficiently large stocks. In market parlance, the statistical position is pretty strong. And yet, prices have gone up so sharply that special measures have had to be taken. Oilseed prices, which always specialise in shooting up or diving down, have reacted more than proportionately to the reported short crop. Price rises in wheat have already brought forth counter-operations by Government in several States.

If price-rises are not just a reflection of the short-fall in supplies, what else are they due to? Anybody who has heard of the Marshallian scissors will say, increased demand. The only evidence we have for the latter is that there is more money with the public and the prices have gone up. The latter can, of course, be used for a circular argument which is not entirely satisfying. But the former, viz., the increased money supply, becomes valid if we can infer thereby that money incomes have increased, thus raising the demand for all sorts of consumption and investment goods. With all the spending that is going on, some incomes must have gone up. But in what measure these increased incomes contribute to an additional demand for staple agricultural goods nobody can estimate.

There is another line which could be pursued with some profit. Past experience has shown that the relation between spending by the public sector and banking activity is pretty close. Last year was an exceptionally good one for banks and it was also a year of much enlarged deficit

in the Central budget. If this close relationship exists, those who rely on banks for their credit needs can hope for continued good times so long as the prospects for large deficit-spending are good. In so far as the agricultural market is concerned, the facility of abundant credit could well stimulate speculative demand. In other words, if the price movement is viewed as reflecting the combined impact of speculative and genuine consumption demand for agricultural goods, increased Government spending for development purposes could well stimulate both of them and thus cause a large enough excess in demand over supply. If this is what is happening, it is only right that the speculative factors should be curbed, and the increase in genuine consumption demand be met by increased production or import or dis- hoarding of stocks.

If current reports are correct, it would appear that the Reserve Bank has moved in, with a request to commercial banks to disclose their lending against commodities, bullion, shares and debentures. This, together with the Textile Commissioner's check on cotton purchases by mills, and the arrival of kharif crops should mitigate the speculative forces to some extent. But these may have

little effect if the past price rises have already stimulated stock-building by primary producers and ultimate consumers. Considering the fact that in the past two weeks, grain prices in upcountry markets have not maintained the rate of increase obtaining earlier, we might be approaching some ease in prices. It may also be that Government policy regarding exports and imports of agricultural goods will be revised somewhat, to strengthen the other factors. Sensitive as they are, agricultural prices should react significantly even to small changes in the total situation. It has been so in the past and there has been no major institutional change in that sector to make it any the less possible now.

Looking back, price movements of a similar sort in the second quarter of 1953 had created apprehensions of a resurgence of inflationary pressures in some quarters; the upward movement received a check around August that year, and that was the beginning of the slide down. Whether the present wavering of grain prices is akin to that, one cannot say. This will be clear only a few weeks from now. Until then, it might be just as well to avoid jitters in anticipation of inflation and all that it implies.

Evil Omens

BETTER late than never. It is as well that New Delhi has, though belatedly, called Karachi's bluff. Pandit Nehru has made more than one major policy statement in the last few days. His statement on Kashmir is not as significant as his other recent observations, though the Prime Minister has done well in putting the Kashmir problem in its proper perspective. Pakistan had committed, as admitted by a U N Commission, acts of international aggression in Kashmir. At the request of the Maharaja of Kashmir, India offered military help to the people to defend the valley. Kashmir's Maharaja signed an Instrument of Accession by which Kashmir became legally acceded to India. Despite this legal aspect of the problem, India had, even before reference of the Kashmir issue to the United Nations, given an undertaking to the people of Jammu and Kashmir that they would have the right and freedom to decide their and their valley's future status. It was in pursuance of this voluntary commitment that India agreed to holding a plebiscite.

But India's agreement was conditional. She demanded that Pakistani forces must be withdrawn from the State before the plebiscite could be held. This condition was accepted by the U N Commission. "When the Commission shall have notified the Government of India that the Pakistani forces are being withdrawn from the State", it is explicitly stated in the August resolution, "the Government of India agree to begin to withdraw the bulk of their forces from the State in stages to be agreed upon with the Commission". It is clear that the August resolution does not envisage simultaneous withdrawal of troops by Pakistan and India. Pakistan is still in unlawful occupation of some parts of the State of Jammu and Kashmir. Pakistani forces have not been withdrawn from the State on the flimsy plea of simultaneity of evacuation by India and Pakistan. Because Pakistani forces have not been withdrawn from the State, India has not withdrawn the bulk of her forces from that State. As the prior condition has not been ful-

titled by Pakistan, no plebiscite has been held.

These facts are beyond dispute. India's stand is clear. But it is not yet widely realised that circumstances have so changed that, as the Prime Minister explained, "the whole context of the question" has changed. Though the Prime Minister does not disown India's undertaking to abide by the wishes of the people of Jammu and Kashmir, he is emphatic that the conditions and circumstances have so changed that a plebiscite can no longer be regarded as a legitimate means of determining the wishes of the people. Under the August resolution, India was to withdraw the bulk, but not the whole, of her forces only after complete withdrawal of Pakistani troops. It is, therefore, evident that the UN Commission's plan for demilitarisation is based on the assumption that the relative military strength of India and Pakistan will remain as it was then. Pakistan has since received military aid from America, and through her membership of SEATO and the Baghdad Pact. This changes the circumstances under which the pre-condition to a plebiscite has to be fulfilled by Pakistan. That is why, the Prime Minister explains, "it makes little difference now to what extent Pakistan withdraws (from Kashmir)".

Besides this military factor, there have been other political developments which have made the plebiscite redundant. Soon, the people of Kashmir will adopt a Constitution. This will be followed by a general election. When the election is held the people will have an opportunity to express their wishes. India's undertaking to abide by the wishes of the people of Jammu and Kashmir will, thus, be implemented in a democratic manner. This does not mean that New Delhi is unwilling to discuss the Kashmir problem with Karachi. But the Prime Minister has made it clear that "we (India and Pakistan) have therefore, to discuss it (Kashmir) from another point of view in regard to conditions that have arisen now and try to come to an agreement".

American military aid to Pakistan and the latter's membership of SEATO and the Baghdad Pact not only change the Kashmir problem. These military developments call for a re-examination of India's defence and foreign policies, "With large bases surrounding India and

also, as far as my knowledge goes, in the Pakistani-occupied territory of Kashmir, it makes a tremendous difference—There is a much more military potential sitting there behind it. It makes a large difference". This assessment of the developing military situation in this sub-continent confirms the Prime Minister's earlier apprehension that India is under a threat of military encirclement. It would be rash to cry wolf. There may be no immediate threat of aggression from Pakistan. But, in a world plagued by rivalry between the two power blocs, a situation might develop in which India may experience difficulties in making defence preparations. Many years must elapse before India can become self-sufficient in her defence needs. Meanwhile, she will have to depend on Britain, her traditional source of simply, for arms, ammunition and military equipment.

Because Britain and Pakistan are members of SEATO and the Baghdad Pact while India pursues a policy of non-involvement, the question arises whether a situation may not develop in which India may find to her dismay that she cannot rely on her traditional source of sup-

plies of arms and military equipment. There is urgent need to examine these problems from all the relevant aspects. But those who imply that the developing events call for severance of the Commonwealth link or for approach to the Soviet bloc for supplies of arms and military equipment would seem to ignore the realities of the situation. It would be unwise to quit the Commonwealth. Any such hasty action can only delay and hamper India's defence preparations. As a free, sovereign nation, India has every right to seek co-operation from all and every nation in her efforts to ensure adequate defence. These alternative sources of defence supplies should be explored. But it would be fatal for India to join an arms race, or to jettison her foreign policy of non-involvement. Panch Shila does not prevent India from building adequate military strength for defence purposes. Under the U N charter, India can rely on help from the member States to resist aggression. Military developments in this sub-continent do not justify a change in India's foreign policy, though these events emphasise the need for strengthening friendly relations with neighbouring like-minded nations.

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