

**SOME PAGES FLY
WITHIN THE BOOK ONLY**

UNIVERSAL
LIBRARY

OU_152922

UNIVERSAL
LIBRARY

OUP—556—13-7-71—4,000.

OSMANIA UNIVERSITY LIBRARY

Call No. 338.526 Accession No. Pr. G 112

Author S53C
Sharma B.M

Title Conquest of Prices.

This book should be returned on or before the date last marked below.

CONQUEST OF PRICES

(Headlines on Price Control)

By

B. M. SHARMA, M. A., LL. B., Ph. D., D. Litt.
Lecturer in Political Science, Lucknow University

With a Foreword by

Dr. V. Shiva Ram, M. A., Ph. D.
Professor and Head of the Department of Political Science,
Lucknow University

Upper India Publishing House Ltd.,
Literature Palace, Lucknow.

1943

Price Rupee one

FOREWORD.

Economics has been recently defined as the science of Prices. The predominant position which money occupies in it as the means of measuring quantitatively human wants and desires, is the chief characteristic which distinguishes economics from other social sciences. The relation of currency to prices is obvious and has been emphasised by the war. This important problem of prices has so far received scant justice from Indian Economists. The study of this problem, however, becomes difficult when we remember the hopeless inadequacy of our statistical data. The author of this interesting monograph in "the conquest of prices" has both practical experience and theoretical knowledge of the problem of prices. His study is both timely and opportune, inasmuch as the public is agitated over this question due to the exigencies of war.

The modern state, under war conditions is totalitarian in outlook whether it is democratic in character or otherwise. Since the conclusion of world war No. I, the state everywhere has embarked upon the policy of price regulations which culminated in the New Deal Policy in the U. S. A. a few years ago. The merit of this monograph, it seems to me, lies in the author's correlation of prices to agriculture. He has spared no pains in presenting the existing data

in a manner that is intelligible both to laymen and professional economists. He has given fruitful practical solutions for the difficult problem of price control of food stuffs which are daily necessities of life. They are worthy of serious attention of the public and Government in tackling this problem.

I have no doubt, this monograph will help materially in solving price regulation in this time of stress and emergency. The Author has produced a brochure of surpassing merit within a brief compass. Its scope is wide and necessarily his treatment is brief and limited. Nothing, however, has been omitted that has any bearing on the issues discussed. In easy, lucid and succinct form, the author presents his readers with the results of his deep study, conscientious thought and high pitched aspiration.

It bears evidence of a firm grasp of economic principles and practical knowledge of the subject. I have enjoyed reading the monograph and I have no doubt, the appreciation will be shared by a wide circle of readers. I am equally certain that the public and the Government will be benefited and influenced by this study in the solution of this most important and vexed problem.

'Nalanda', Lucknow,
Feb., 25th, 1943.

V. S. RAM,
Professor and Head of the Deptt. of
Political Science,
Lucknow University.

CONTENTS

CHAPTER I

Dilution of Incomes 1

CHAPTER II

The Falling Rupee 7

CHAPTER III

Economics of Price Control 16

CHAPTER IV

Invisible Stock 32

CHAPTER V

Strategy for the Market 40

CHAPTER VI

Conquest of Prices 55

PUBLISHED BY
Pt. M. B. I. Bhargava,
Upper India Publishing House Ltd.,
Lucknow.

PRINTED BY
Pt. Manna Lal Tewari,
Shukla Printing Press,
Louknow.

CONQUEST OF PRICES

(HEADLINES ON PRICE CONTROL)

CHAPTER I

DILUTION OF INCOMES

1. It is generally recognized that Rising Prices have become enemy number one inside the country. Their control involves a strategy as important as that of the war, with which in some respects it is connected. The following thesis attempts to give the headlines on the subject of price economics in a way intelligible to the common man. It avoids abstract economic theory except when indispensable to explain the various little facts which cumulatively create the tidal forces sweeping the markets of the country.

2. The collective effect of high prices is far more important though less poignant than their effect on individuals. Even when temporary or frictional, as it is technically known the continued flux threatens to make it a concomitant of the war. Its importance, therefore, cannot be exaggerated.

3. In assessing the effect of high prices, one fact deserves to be emphasized that, since the war began, the index figure has risen roughly from 109 to 228 which means that the necessaries which annas eight could buy in 1939 now cost Re. 1/-. In other words,

a rupee is worth only -/8/- in incomes devoted wholly to the purchase of articles necessary to life. In respect of luxuries, the increase in price has been even greater but is set off to some extent by the lower marginal value of money spent on them. Taking all incomes, excepting those which are excessive to the point of being unexpendable, the result is that the rise in prices has halved their value.

4. Government is the single largest earning and spending body in the country. The fall in the value of money affects it in a measure which is stupendous in the aggregate in view of the fact that its income is inelastic, while its expenditure is constantly growing. Briefly, where the rate of tax or of the service has not been changed, and this is true of nearly most taxes and services of the Government, the value received to-day is half of what it was in 1939. This qualitative reduction has been off-set by quantitative increase only in some heads of income of the Central Government and in a very few heads of income of the Provincial Governments but in no heads of income of local bodies. In the last, in fact the qualitative decrease has been accompanied by a quantitative one particularly from taxes of import which have been reduced by the fall in trade. This general impoverishment of public income has been somewhat masked by the fact that many public services have been discontinued on the ostensible reason of war conditions particularly shortage of supplies. Accordingly railway travelling

has been reduced, public works generally suspended and development activities postponed. The result is that the nation is carrying over a large deficit in its public services which may take years after the war to liquidate.

5. The question is if Government can make up for the qualitative decrease in its revenue by a quantitative increase. The difficulties are, firstly, that many heads of income are assessed for a long period and cannot be changed speedily in adjustment to the value of money. Secondly, many of those charges which could be adjusted, fall upon classes whose income is already reduced by the rise in prices. Thirdly, during the war it is neither expedient and may not be profitable to interfere with the rates of taxes of old standing. The fact, therefore, remains that except taxes which are elastic and which belong only to the Central Government, other taxes must progressively lose their value with the rise in prices.

6. To the extent that the Government has not raised the salaries of its staff, the dilution of the value of its income is not borne by it. To the extent dearness allowances have been given the Government has undertaken to compensate the dilution, recouping itself by an increase in its taxes. Loss of the Government, however, is greatest in respect of its outlay for war and Civil Defence purposes for which the limit is the sky. For the money it is so desperately spending the Government is receiving only half of what it

would have received in 1939. This applies also to the labour employed in Government activities. .

7. Thirdly, for the loans which it is issuing Government is also receiving only half the designated value and therefore placing a very heavy burden on the future when the loans will be repaid in terms of money at its proper value.

8. On the prosecution of the war, the high prices are having very curious results. Firstly, they discourage recruitment as the salaries fixed before the rise in prices have no reference now to the value of alternative kinds of labour which is now paid in a multiple more nearly related to prices. Similarly the cost of other preparations for war has steeply risen by reason of their urgency even out of proportion with the general rise in prices. Where this expenditure falls on the British or the American Treasury, another adverse factor also operates from the fact that the ratio of rupee is fixed to the Sterling. The depreciation in the latter is in a small proportion of the depreciation in the former. This has enabled the repatriation of the Sterling debt even more than the absence of countervailing exports of this country. If the rupee was free of the Sterling, the natural ratio to-day would have been very much above that fixed statutorily. This is no doubt advantageous to the country in so far as its permanent debt is concerned but at present it is tending to increase the existing surplus of purchasing power.

9. After Government, the largest single class to be affected by the prices is of the cultivators. Up-to date the benefit of the increase in prices which began in a marked way since last May has only accrued to them in part because the majority has sold their winter crops before the price crescendo started. On the crops harvested since, to the extent they have been marketed, the cultivators have received more money than they can use. The benefit to this class which forms the majority of the population is to be welcomed but it is diluted by two factors. Firstly, the increased assets in the cultivator's hands can be of advantage only when they can be spent in improving his standards of living or production. The former is not possible on account of the general shortage of the articles necessary. The latter requires State help in a measure that has not been offered so far. The consequence is that the one class whom prices have benefited is not able to make use of its assets and may lose or squander them while waiting. Secondly the cultivator's gain has been reduced by the share taken from it by the middlemen particularly the moneylender who has exacted payment of old debts in kind. It has actually happened that the cultivators who sold their harvest with the first rise in prices had to buy or borrow their seed some months later at rates double which they themselves received. Debt legislation, notwithstanding, the moneylender continues his stranglehold on the cultivator, whose improvidence makes him a willing party.

10. Land-owners, except those who have personal cultivation have not benefited from the rise in prices. They may have profited to some extent by leasing vacant lands at high rates but this gain, which by itself is inconsiderable, is more than offset from the prices they have to pay for the services and for the goods of others.

11. The traders have gained by the increase in the value of stocks purchased by them. They have lost to the extent they are unable to replace their stocks under the existing scarcity conditions. On balance, the enterprising have become very rich while those depending on a rapid turnover have lost their business. The control measures in respect of essential commodities have disturbed the market and to the extent they have driven grain underground deprived honest traders of their stock. In any case the volume of business has decreased as the cultivator is learning to stock his own grain rather than bring it to market for sale at prices which are continually rising.

12. Labourers have not been compensated in wages to the whole extent of the rise in prices. Skilled labour has suffered more.

13. Professions have benefited by the liberality consequent to a plethora of money but excepting lawyers who are reaping from a crop of litigation, others have not been compensated to the full extent of the rise in prices.

14. Fixed income holders are the worst sufferers as their real income has been reduced in the proportion it was devoted to necessities, the lower incomes being uniformly halved. This class includes not only salaried employees but also labourers on monthly wages, pensioners, agents and creditors.

15. The conclusion is that while the rise in prices occasioned scarcity from which all have suffered they have reduced the income of all classes except producers in a measure to impoverish the standard of living and to reduce the National Capital. The only beneficiaries, the cultivators, have not capitalised their gains and may conceivably lose them by waiting. It is an ill wind that blows no one good but high prices have thrown the entire economy into a whirlwind of change in which nothing is certain and everything is scarce.

CHAPTER II

THE FALLING RUPEE

16. Is the falling rupee a cause or the effect of Rising Prices? The question cannot be answered in the affirmative. The existence of surplus purchasing power is undeniable but its causes are many and varied and cannot be wholly ascribed to the monetary policy of Government. The mere increase of the Note Issue does not constitute inflation if it has been

balanced by an increase either of the national output or of transactions in the market. The crucial test, therefore, is economic and the forces of Supply and Demand have to be considered in some detail before the note issue is declared to be excessive of requirements.

17. Surplus purchasing power accrues, when the Demand for particular commodities, or for all commodities and services in the aggregate, exceeds the Supply available. This may result in consequence of (a) New demand arising from increase in population, and employment, (b) Change in demand arising from changes in the social, economic or fiscal structure, (c) Disturbances in demand from movements of population and diversion of economic activities, (d) Reduction or elimination of normal supplies, (e) Transfer of supplies for allied or new purposes.

18. The war has caused increase in population for at least two reasons. Firstly, there is a large foreign army in the country, and a considerable evacuee and refugee population. The demand of these is not to be measured numerically, but with reference to their standard of living to maintain which new services and commodities are necessary. The second addition to the population is from the stoppage of leave to officials and the recall of their families from abroad. The annual exodus and the accompanying drain of money now remains contained in the country adding a new unit to demand.

19. Increase in demand from employment is not easy to assess. War has provided new and better paid employment to the unemployed in the middle classes and the superfluous in agriculture. War industries have given a new scope and larger incomes to concerns of the class of village blacksmiths. War projects, on account of their urgency have mobilised labour only partially employed before for work which is regular and almost overpaid. Civil Defence, which only in the United Provinces is costing one crore, nearly one-fifteenth of the budget, has similarly created new employment. Then there has been Government's prodigality with new posts from the Viceroy's Council down to the Civic Guards, providing roughly two men in jobs where there was one. Almost overnight a new class has been created with incomes far in excess of its usual wants.

20. Changes in demand for social reasons are counterpart of the changes in employment. To the extent possible new incomes are freely spent while the very uncertainty of the war makes for general extravagance: there is the psychology of the 'Ball before Waterloo'. In the economic structure, the changes are due to war needs. Not only for military purposes but also to fill up supplies which cannot be shipped from other countries, all productive activities are maintained at the peak of their performance. To the extent that the activities are new, for instance aerodrome construction, they entrench on peace time

activities, like house building the money normally devoted to which has been rendered idle. Similarly public transport has been largely diverted to war purposes. This means the Government spends, where the individual did before, leaving the latter's purchasing power unsatisfied. The fiscal changes arising from nearly a crore of currency notes being put on the market daily, are to some extent counterpart of war activities, to a greater extent the result of exchange transactions. In addition to this access of purchasing power, there is another small, but in the aggregate considerable contribution from the fact that the cultivator's habit of burying silver and immobilising purchasing power has been destroyed by the issue of currency notes. These he is anxious to dispose in whatever investment is open, frequently fancy prices for cattle, tenancy rights, new houses, in fact anything which he considers more stable and durable than currency notes.

21. Movement of population and diversion of economic activities place a new stress on demand, which though temporary and local may have a sympathetic effect which is widespread and long felt. To the extent these changes are financed by Government, the surplus stress involved in the demand represents increased purchasing power.

22. The geographical position of India, with reference to the war, makes her an important base for supplies. Being called upon to make up for the

exports of the Far East, lost to the Japanese, the only limit to India's trade is shipping space. Her trade balance is accordingly accumulating at the rate of 100 million rupees per month. This means, firstly, a reduction of supplies available for internal consumption. Secondly, to the extent import trade of processed goods has been eliminated in favour of war material and men, the purchasing power governed by export is not expended and it collects in a flood, which is turned loose on local supplies. The force of this purchasing power is augmented because it is converted into Sterling which has not depreciated to half the extent of the rupee. This may be of advantage if the conversion could be used to purchase articles outside the country, but as shipping forbids this, the recoil is on the internal market. Accordingly a depleted market has to face a demand increased quantitatively and qualitatively, under conditions in which transport is not normal, and flow of trade is choked by official restrictions. The competition for substitutes for foreign articles is bad but what is worse is the overflow of purchasing powers from articles which have no substitutes. To the extent substitutes are cheaper, as carts are cheaper than cars, another pool of idle purchasing power accretes. In whichever way, the economic situation arising from the isolation of India from international trade, except as a war base, is viewed, one fact is clear that India's supplies have been reduced, while her demand real and fiscal has

increased. These are causes independent of the note issue, except to the extent that they are partly responsible for it.

23. There is also a structural change in supplies. This arises from the fact that the chief beneficiaries from rising prices are the producers, particularly the cultivators. As the poorest section of the community, the increase of their purchasing power means that they have begun to consume part of the produce they previously sold, out of necessity. They can now eat wheat instead of millets. Secondly, their expenditure is on a limited range of articles and is not spread generally like the expenditure of the other classes. Such a structural alteration in demand which is efficient because of the large aggregate purchasing power behind it, has a corresponding structural effect on production and supplies. To the extent the demand is not met, it swells the flood of idle money. If there was no transfer of purchasing power and demand was spread as before on a greater variety of articles there would be less idle purchasing power. What the higher classes have lost from rising prices has not been used by the poorer ones.

24. These many causes mean on one hand that the claim of the people on the goods available has immeasurably increased and on the other that the production of these goods has to be done locally to cover the deficit of foreign imports. To the extent the second is achieved in complete satisfaction

of the demand, the national output equals the national income and new money in circulation carries no inflation. The one sure way to reduce inflation, therefore, is to render the country self-sufficient of its needs. This will absorb the surplus purchasing power.

Unfortunately the isolation consequent of the war prevents the very self-sufficiency which war has imposed as a necessity on the country. This deficiency is covered by inflation and to this extent the note issue is a cause of rising prices. The proposals to correct inflation recently made are four.

- (a) To pay India in durable assets.
- (b) To pay India in gold.
- (c) To raise rupee loans on behalf of United Kingdom for her rupee disbursements in India.
- (d) To liquidate British assets in India.

25. These proposals conceive of the problem as entirely one of the rupee finance. The difficulty again arises from the isolation of India. For example, how is India to be paid at present in durable assets. The shipment of such assets is impossible even if they are available now in the countries which are debtors of India. To the extent possible the repatriation of the sterling debt is payment in durable assets but the consequence of this has been to increase instead of decreasing the note issue. Even if the debts were assigned to articles to be supplied after the war to this country this will bring no immediate relief and

may mean purchases at prices swollen by the war. Transfer of ships to the Indian register would be to take over assets rendered particularly risky by the war. Payment in gold is also in the same class. Even if gold can be transported, it would not reduce the surplus purchasing power unless it went to earth in this country as it usually does. From this there would be no material benefit to the country as the only service which gold can render is to strengthen the financial position which is strong enough. Also like other commodities, the price of gold have been swollen by the war and its import now would carry a large margin of loss.

26. The question of a rupee loan for the United Kingdom is attractive on the face of it. This may absorb some of the balances in deposit with the banks at present. It may mean a slightly better rate of interest but it cannot materially reduce the surplus purchasing power. On the other hand the loan may furnish security to increase bank and Government credit beyond the present limits. England is debtor to this country in the same way whether it is in sterling or rupees. The advantage would be of England more than that of this country that its debt is in rupees which have depreciated rather than in sterling which has not. With trade reduced only to export the overvalued rupee carries an advantage to India which was not foreseen when the statutory ratio was fixed. If and when the rupee is restored to its

old value, England will sell cheaply in return for what it has bought dearly. The statutory ratio constitutes an important difference between this war and the last. The proposal of having the debt in rupees instead of sterling, accordingly has no purpose.

27. The fourth proposal to liquidate British assets in India is also in the same class as the repatriation of the sterling loan with this difference that it would involve expropriation of interests in private enterprise as against interests in public utility concerns which the repatriated debt represented. It is too much to hope that England would take this step in respect of private interests in India which it is not doing in respect of private interests in England. As far as inflation is concerned, this transfer of ownership from British to Indian hands may cancel some of the sterling debts but will not reduce the quantity of rupee in circulation. On the other hand if the owners of British investments are in India the payment made to them out of the sterling assets of India would actually increase the rupee circulation. All these proposals, therefore, cannot bring immediate relief to the price economics of the country. Some of them are on the psychology of the bird in the hand being worth two in the bush. This psychology may have its roots in past experience. An unequivocal declaration from England that there will be no currency manipulation to reduce the sterling debt should remove such apprehensions.

28. The conclusion, therefore, is that the control of prices cannot be achieved by mere change in rupee finance. The note issue of 400 crores since the war may be excessive but part of it is already immobilized in the deposits exceeding 220 crores which are lying in the banks. A small part is also covered by increased national output. The remainder can be absorbed by increased production which in England as in India is the true corrective to high prices. Every form of national activity with the resources available in this country and such resources as can be transported deserves to be stimulated. Paradoxically as it may appear, to win the war we must build for the peace. Otherwise the rise in prices is due to causes unconnected with money but connected with the forces of supply and demand in respect of basic commodities, particularly grain. In proportion as these causes are controlled the prices should return, if not to normal, at least to the level at which they were in April, 1942.

CHAPTER III

ECONOMICS OF PRICE CONTROL

29. The single large commodity entering the market and therefore determining the general price level is grain. Its importance, firstly, is that in the aggregate it represents the largest single source of

national income. Secondly, it is a commodity consumed by everyone of the 400 millions in the country so that on one hand its price touches the country generally and fundamentally and on the other its reactions on the popular psychology gather with tidal force drawn from apprehensions closest to life. Thirdly, forming as it does the largest single item of expenditure in the budget of productive workers, every increase in its price travels the whole length of the productive activities of the country. In the price of grain, therefore, must be found the bed level on which the superstructure of price increase rests. Historically, the present price crescendo began from shortage of grain and has continued sympathetically. To unravel, therefore, the economics of food supply is to the largest extent to know how to conquer rising prices in this country.

Prices depend primarily on the forces of supply and demand but these are not autonomous and according to some economists, not even as important as the forces that modify them. Of the modifying forces, on the side of supply, the most important are *psychological*, *regulative*, *frictional* and *monopolistic*. On the demand side they are *fiscal* and from *changes in the structure of consumption*.

30. It is easy to understand that prices should rise and fall according as the demand exceeds or falls short of supply. To that extent prices have an important economic function as they regulate consumption

and production. This simple theory of classical economists was disturbed by the elaboration of modern trade and industry and has been nearly destroyed by the present war conditions. Quantitative relations of Supply and Demand presumed free and easy movement in the market, the response of supply to demand being spontaneously equal and opposite. With spontaneity destroyed the quantitative relationship has less efficiency in the determining of prices. All the same it would tend to clarify if the price structure is examined with reference to the factual, that is, quantitative bases of supply and demand as they are affected by other forces.

31. In 1941-42 both harvests were reduced by insufficient and irregular distribution of the rains. The reduction, however, was much less than what was expected or what is popularly believed. In respect of wheat the average of 10 million tons was actually exceeded by 70,000 tons though individual areas like the United Provinces were in deficit. Nevertheless it was the price of wheat and not of rice, which was in real deficit that first rose, and rising raised the prices of all other grains. This fact deserves to be clearly realised because it proves that our price problem is not so much of nature's making as of our own. It deserves to be welcomed because the problem of price control appears to have been created not by the inexorable factor of quantity but by other factors which are capable of control.

32. Of these factors the *psychological* one is most important on the side of supply. This was responsible for the hoarding of grain by stockists primarily and by cultivators subsequently in a similar though growing volume. Declaration of stocks which is now legally enforced has reduced concealment but has not and cannot eliminate it. It may have tended to draw the cultivator into the conspiracy as an agent for the stockist, the grain being held in the village for deliveries as and when the stockists can raise the price on the ground of scarcity. It should be realized that the real check against holding up of supplies is the fear of falling prices. This, however, does not exist because, firstly, the tendency of prices to rise is assured by past experience, and secondly, because the present system of price control itself tends to push up prices. The price structure can be saved from the consequences of psychological exploitation only by an assurance that prices will be stable for a stated period. This will not only reduce the tendency to play for prices by hoarding grain but will make control less necessary. The cultivator and the stockist are moved by natural self-interest and inclination to hoard can only be weakened when it is proved to cause loss more than gain. Mass psychology is not effected by acts of Government so much as the facts of economics.

33 The *regulative* control is the second factor which is disturbing the play of forces of supply and demand. The economic pathology is not unlike the

human one—regulative measures, like medicines lead to atrophy of function if instead of stimulating, they substitute for it. When price is fixed by regulation the forces of demand are atrophied and supply has to reckon with something less inexorable and more fallible. In the circumstances two courses are open, the first which is scientific and complete, of controlling supplies and the second which is inexact but inevitable of fixing the just or the economic price. Neither course appears to have been adopted. In the United Provinces as also elsewhere, when prices began to rise it was decided to restrain them by declaring that the limit was reached and it should be the maximum. The reaction of the market to this maximum was to present a condition of artificial scarcity. In the district of Hamirpur, this was met by ordering an inventory of stocks which removed pretences about scarcity and secured prices about 20 per cent. below those in the neighbouring districts. In other districts declaration of stocks was not enforced till 15 months later and each wave of artificial scarcity carried the official prices higher and higher. To relieve distress, each maximum fixed by the authorities became the stepping stone to another, the result being that wheat which was selling at 12 to 13 seers before the war is not available now at 4 seers a rupee. This increase has eventuated not because the demand has increased quantitatively but because the supply was manipulated and withheld. In the measure prices

were raised to excite supplies, in the same measure concealment of stocks became part of the price structure. Declaration of stocks was enforced after concealment had integrated with market practices and had spread from the Bazaar to the villages.

34. This history of the movement of wheat prices shows that price fixation immobilized the play of the forces of demand so that stocks had to be excited by a continuous stepping up of prices except when the middlemen allowed them to be reduced while they purchased their own stocks from cultivators at harvest time. In real truth it was not the authorities but the middlemen who controlled prices because the atrophy of demand left them in command of supplies with which they played for higher and higher prices. Control appears to have failed because instead of making prices follow it, it followed them. Its very failure encouraged speculation which it was designed to prevent. Even when the speculation in wheat was barred it was forgotten that speculation of other grains which substitute for wheat could provide the necessary leverage for raising wheat prices. By itself speculation, within natural limits, tends to harden prices by binding future sales at prices reached at harvest. In the past such speculation secured a natural oscillation of prices between harvests. When it was prohibited or truncated as it was till recently, its worst effects came into play. In fact stockists without supplies thought to make up loss of real business by

speculative purchases and sales on commodities which they never expected to have but of which they knew the price was steadily rising.

35. The second measure of control which disturbed the market was purchases of grain for emergency reserves by Government and large industrial concerns. This was a new demand which disturbed the price level for at least three reasons. Firstly, the purchases which were from the middlemen added one more unit to the already long chain of middlemen with consequent increase in prices. Secondly, such purchases immobilized a considerable quantity of grain, ordinarily in free movement and added a new volume to the existing demand which pushed up the general prices. As this demand was restricted to particular markets it had strength far in excess of its quantity. Thirdly, the psychological re-action of large purchases creates the very panic of stalling and hoarding which the reserves were meant to prevent. It must be noted that the present crescendo of prices began with the action taken for creating reserves and that every step in this connection occasioned a sympathetic rise. The creating of reserves may have been necessary as a protective measure but in effect it was another form of hoarding, with the same economic effects.

36. The third measure of control was the ban on export between districts then and between Provinces now. The result of such a ban is to disturb the ordinary flow of trade and create pockets of scarcity

the prices in which influence the general price level. For instance, there is at present in the United Provinces the larger part of the bajra harvest which is greatly in excess of the consumption for its season. Nonetheless, it is being sold at a price at least three times the pre-war price in relation not to the local demand but to the demand outside the province which being denied has become more urgent and is expected ultimately to absorb the surplus in this Province at prices not lower than those now prevailing. If the bumper crop of bajra had been freely exported from the Province, the prices outside would not have risen to famine level and the local price level should not have reacted in sympathy with them. No system of controlled distribution unless it is done by one central agency promptly and accurately can prevent maldistribution which is the cause of panic prices in areas of scarcity. Free movement of grain to where it is wanted is, therefore, a first essential for bringing down prices from the artificial levels to which they have reached.

37. This leads to the third influencing factor, *Friction*. This represents the time lag arising from impediments in the adjustment of supply and demand in the same market. Of these impediments, transport is the most important. This, on road and rail, had been reduced and for a time was interrupted. In consequence prices shot up to points from which they were not reduced by the arrival of subsequent supplies.

Not only this but in the prevailing conditions of panic the high prices reached in pockets of scarcity have tended to communicate themselves to the general price level. The time lag has furnished leverage for increasing prices. Secondly, friction has arisen from licensing of shops. The grain business is a very intricate one, most grain dealers having their own connections based on custom or on money lending. To the extent that licensing has reduced the number of shops, it has disturbed the inflow of grain through the old channels according to old affiliations.

38. The fourth factor is *monopolistic*. Grain business is competitive not with itself but with the producer and the consumer. In the same market not only the prices but the practices are identical and neither the consumer nor the producer can improve his terms by changing his shops. Prices in the days before the war were regulated by the level in the world market. After the war the market contracted to India and then as free movement of grain was stopped, contracted to numerous pockets. In these pockets the monopoly of the stockists was complete and the prices raised by one of them were accepted by all of them. The war, therefore, has in respect of grain established local monopolies which has enforced not only old practices but also new prices.

39. Such is the causation of high prices on the side of supply. Any price control policy which aims at being real and effective must attack and reduce

each of the causes. In respect of the quantitative deficiency the campaign already started of 'ploughing for victory' deserves not only to be pursued but to be reinforced by facilities for irrigation, seed supply, credit and if possible by changes in the method of cultivation to reduce the existing inefficiency in production. In dealing with the four other causes, two principles of price control have to be kept clearly in view. The first is that price control has to be applied to the profit margins. This means that just price has to be recognized and that only the excess over it should be controlled. The second principle is that price control can work only if the prices fixed regulate the flow of goods in the quantities and in the directions needed. This means that price control should work along the lines of least resistance strengthening existing tendencies more than creating new ones.

40. A just price is not easy to determine. Any average of old prices even with corrections cannot accurately cover the cost of production which have been affected by the war in more ways than can be detected. A price fixed with reference to the index number involves the fallacy of begging the question because the index number is itself largely dependent on the grain prices, which have swollen as noted above by factors other than those of supply and demand. A satisfactory basis for a just price could be obtained from the free play of prices during the harvest months when the majority of cultivators are compelled by

their liabilities to sell their grain. Even though the quantity sold in these months has been reduced owing to rising prices it is considerable enough to contain the marginal value of the produce to the cultivator. A ceiling for prices fixed with reference to the average of these two months and including a small percentage thereon to cover cost of storage, deterioration and interest would not only be just but easier to maintain. Such a price for the whole year will in the first place remove the tendency to hoard grain as this will carry no advantage. Secondly, as the majority of cultivators sell their grain during the harvest months, they and not the middlemen will be the whole beneficiaries of such rise in prices as may be economically necessary. Thirdly, as the price will be just it will be more willingly accepted and may be more easily enforced.

41. This is a far better solution than the complete withdrawal of control rates which the Government of India has just ordered. It is too late now to depend wholly on natural forces; the cultivator has learnt to hoard, the middlemen to conceal and except in the harvest months, when necessity drives, grain will lie dispersed without fear of the law and with power to call its own price. Control may be withdrawn in the harvest months to ascertain the just price, but it must be enforced thereafter, to maintain that price.

42. When the price is demonstrably just it should be inexorably enforced not only against the middlemen but also against the producer and consumer. It should

be illegal for the first two to demand and the third to pay more than the price fixed. The policy of enforcing the price limit only against the middleman, enables him on one hand to plead that the cultivator is demanding more, and on the other to traffic with purchasers willing to contract out of their own rights. When all parties are comprehended in regulative measures, any one of them cannot play or be played against the other. The enforcement of the price fixed must be rigorous and ruthless and if there is some temporary distress it will end the permanent one. Neither the cultivators nor stockists can indefinitely hold up supplies and once they recognize that the price fixed is inevitable and inexorable the flow of grain will become normal and there would be no necessity to step up prices to excite it. Even speculation so long as it is confined within the ceiling fixed may be allowed and even encouraged as it tends to harden future prices. This proposal which secures a just price and its stability will also work along the lines of least resistance and will dispense with any close or day to day control of prices. To prevent the grain purchased at harvest from being concealed or used for the purpose of raising the prices Government shops should buy a moiety of it directly from the cultivators in a scheme to be discussed later.

43. The problem on the demand side is not as simple as on the supply side. This is because demand cannot be assessed quantitatively with the same accuracy as supplies. Roughly speaking the quantitative

46. The psychological factor operates on the side of demand in the same manner as on the side of supply. The rich hoard and the poor buy in a panic adding thereby to the demand of the movement a new burden which must push up the price. Exactly as the prices rise the tendency to buy in excess of need is accentuated and in the aggregate the grain immobilized by the hoarding of individuals can be sufficient to disturb the market conditions.

47. The effect of surplus purchasing power on the demand side has been considered in detail earlier. When money is plentiful, more will be offered for necessities like grain which have become scarce. Not only this but there is a structural change also. One such change appears to have arisen from the grant of dearness allowances and the salaries paid to the class employed in the army and in other war operations, a class which previously lived by agriculture. These classes and not the whole community have been given the power to increase their demand. The expenditure of this class is confined largely to food so that their increased income concentrates on a commodity in the price structure already burdened with demand for other reasons. Even the expenditure on luxuries which the higher classes have to curtail, on account of their absence or high prices, tends to be diverted to food. The old proportions of demand for various commodities in the markets are, therefore, disturbed.

48. The dearness allowances by themselves constitute a vicious spiral in which prices and wages chase each other. Psychologically the increased wages are seized upon by middlemen to increase their prices, a fact which is actually proved by the parallel movement of prices and the grant of dearness allowances. Further any increase in wages is reflected in the manufactured products from which another disturbance in the price level arises. Effective price control can reduce necessity for allowances which are caused by high prices and are their cause in turn.

49. Lastly, on the demand side, fiscal changes have their effect. It has already been stated that to the extent increase in money has outpaced the increase in national output inflation has occurred. Secondly, according to a theory of Mr. J. M. Keynes when saving is not equal to investment, a rise in price is inevitable. If this theory is accepted the large increase in our cash income of the country has not been matched by an equivalent investment. Particularly the chief beneficiaries, the cultivators, have not found any use for their money. Such saving as Government has promoted is microscopic compared with the total increase in the cash income. Thirdly, according to another theory if the bank rate is less than the rate on investment, high prices are a consequence. At present there is a wide divergence in favour of profit on investment so that if this theory is to any degree correct another factor for increase in prices is abun-

dantly active. The effect of these fiscal changes has to be neutralized by programmes to increase the national output. Each class should be offered investment as akin as possible to its interest. This will reduce hoarding of grain which is now regarded as an investment in the absence of alternatives which are secure and profitable. If the surplus money cannot be absorbed in the manner, the only alternative is higher taxation of the new incomes. The example of England is very clear and convincing. Excess profits have been taxed, but not sufficiently and effectively.

50. The economics of food supply are by no means simple and the forces which determine prices come creeping by creak and inlet before their tidal force is felt. Price control measures, therefore, have to refer to a background of details small in themselves but important in aggregate. These measures have to be along the line of least resistance breaking the force of tendencies before they gather together from different directions in a tide which no one understands, and nothing can withstand.

CHAPTER IV

INVISIBLE STOCKS

51. From the very beginning, Price Control has been baffled by the problem of Invisible Stocks. In the United Provinces, in 1939, when the price maxima

was fixed, in 1942 March when grain shops were licensed, in May when the provincial reserve was raised, in October when district reserves were ordered and in November when the number of shops for wheat were reduced, stocks vanished from the market and had to be attracted by constant increases in price. The question now is whether the promising wheat harvest in the fields will be visible or not.

52. It is an elementary rule that strategy should comprehend the whole field of action; that an attack is wasteful if the enemy can retreat and re-align itself elsewhere in a position of greater strength and security. The strategy of Price Control has to comprehend at least three zones, first that of stocks held by the cultivator, second of stocks held in the villages by the intermediaries and third of stocks held in the bazar. If only the last is attacked as has been done so far, stocks retreat or remain in other zones in a position of greater inaccessibility. It is this dispersal which is the problem of Invisible Stocks. It can be solved by either of two strategies, the first and easy one of drawing the stocks back to the Mandi where they can be encompassed, the second and very difficult one of attacking the stocks in all three zones through measures which will be both complicated and widespread. The first is a measure which is natural to the existing order, the second will inevitably involve state control of distribution and ultimately of production.

53. The zone of actual producers is far and away the largest and most dispersed. In normal times, this

zone is not of importance because immediately following the harvest about 75 % of the grain passed from the hands of the cultivators to the market under the pressure of liabilities to the land owners and the money lenders. High prices have changed this position for many reasons. Firstly, they make it unnecessary for the cultivator to sell more than a small proportion of his harvest to meet his liabilities. Accordingly the monsoon harvest this year came very tardily to market and part of it is still in the villages, with the cultivator. Secondly, the almost unbroken upward tendency of prices has ultimately taught the cultivator that it is foolish not to stall, a practice which is self-generative because the resulting shortage raises the price and excites stalling to a greater degree. Thirdly, when the cultivator must sell, the wholeseller who enjoys his custom advances money but leaves the grain in the village where it is free from control measures. The storage of grain in the village does not present insurmountable difficulties because at worst the cultivator can always bury it inside a padding of straw and under a covering of earth which keeps it in even better condition than in bags in the market. The consequence has been that the grain which was marketed immediately after the harvest has fallen from 75 to about 20%, the fall being more marked for grains which can be stored from year to year.

54. After high prices, the next factor which has frozen the supplies in the village is connected with

the currency, particularly the withdrawal of silver. The cultivator has a natural aversion to currency notes not only because they are token but also because they cannot be kept underground or in the roof, the two places of custody for his money. One reason for the recent run on small coins even though their token value is recognized is that they can be safely secreted where notes would be damaged. Secondly, while the value of money has been continually decreasing on account of the rise in prices that of grain has been increasing for the same reason. In his own way, the cultivator understands his advantage in that parting with grain which is a waxing asset for money which is a waning one. Thirdly, it has been whispered to the cultivator that in the conditions produced by the war money is a speculation while grain is a fact which will serve whatever befalls. His investment, therefore, remains in the latter in a proportion which may vary from district to district and person to person but is undeniable. This is so because the whole life of the cultivator is conditioned by fear and his reflexes are not based on reason or facts.

55. The economic and fiscal causation of grain hoarding in villages is self-generative, the economic for the reason that as supplies are held up, prices rise thereby supplying on one hand a continuous motive and on the other a growing means to hoard. The fiscal causation also works in a vicious circle because high prices reduce the value of money and render it

less acceptable. As these factors are set, the conditions can only deteriorate.

56. What are the measures possible? The obvious and what may become the unavoidable one is to control supplies at source from the fields of the cultivator. This has been tried in other countries in this and the last war. But it implies in this country a measure of state control, the complexity and extent of which deserve to be carefully understood. It is obviously impossible and not intended to apply such control to all grains but only to those of key importance. It was a fashion to regard wheat as the key-commodity but the experience of the last six months has shown that its control does not prevent the prices of other grains which are substitutes for it from being independent. Even if its near substitutes are included under control, it is doubtful if the price level of all grains will be subordinated. Secondly, control of one or more varieties of grain will inevitably reduce the area of their cultivation in favour of uncontrolled varieties. This may be partly psychological, partly to avoid vexatious measures of control and largely consequent to the economic consideration of growing grains which carry unrestrained prices. Inevitably once control is extended to the produce of the fields it will have to be carried to the actual sowing operations. The relative proportion of the different crops which the individual cultivator sows will have to be determined and enforced, an operation even more difficult than the collection

of outturn, There may be reasons justifying state control of agriculture which is wasteful, unscientific and out of date. Planned economy may save the soil and increase the return from agriculture but it is doubtful if during a war it can be tried. Not only will a large staff be necessary in addition to the existing land records staff but its control will have to be very close to prevent harassment and corruption. The existing contentment of the rural masses may be replaced by a feeling adverse, if not dangerous to the war, while production which has been increasing may be arrested. The Indian cultivators are so multitudinous, their production so small and varied and their reactions, on account of their ignorance, so unpredictable that state control of supplies from the source may prove a hazardous experiment during the course of a war which they have not so far learnt to recognize as their own. In any case, this method should not be tried before others more natural and less difficult have been exhausted.

57. The first and the most natural measure is to assure a just price and to maintain it inexorably for each grain between one harvest and another. With stability of prices the incentive for withholding supplies will be undermined as its hoarding will be burdened with risk that the stock may deteriorate; and may sell for less than more. To the greatest extent possible stability of prices between harvests should restore the volume and rhythm of the normal movements of supply from the village to the consumer.

58. The second measure is to provide the cultivator with a currency fit for his places of custody. It may be necessary for Government to save silver from being buried in every village home. But silver can be substituted by something more enduring than the rupee note. A coin of any cheap alloy would be acceptable to the cultivator and should make him more ready to part with his grain stocks. In fact the hoarding of such coins if they can be minted sufficiently would reduce the floating surplus purchasing power and in effect have the same results without the cost of public loans. The cultivator who cannot be persuaded to buy any Defence Loans should not be prevented from amassing token coins and thus really furnishing Government with credit for its war purposes. It is tragic that this utility of token coins was not kept in view when notes replaced silver.

59. The third measure is the general one of inspiring confidence in the cultivator and making him to regard the war as his own. So far propaganda has not been able to persuade the cultivator that the success of the Allies is inevitable and that he must contribute to it in his own interest. Political changes could alter his attitude but as they are not probable for obvious reasons the cultivator should be offered economic changes which are the *raison d'être* of his political aspirations. He may be offered a Peace Plan of revolutionary improvements in the conditions of agriculture, securing for him an income comparable with that of

cultivators in other lands where cultivation has been modernised by state aid. It is unnecessary to point out that Indian agriculture is only half efficient and that its potentialities are as enormous as they are attainable. It is a tragedy that the British failed to see the necessity of realizing these potentialities which would have been as much to the advantage of their industries as to those in this country. Poverty is the cause not only of political, but economic antagonisms. A Peace Plan, therefore, drawn up with the help of experts from U. S. A. and Russia and guaranteed by these countries should make the cultivator regard the future hopefully and fight the war in a spirit which he cannot show now for abstract ideals like freedom of negative results like the maintenance of his status quo. Allied with such a plan the cultivator could be invited to invest in improvements he desires, like wells, on a promise that the state would contribute in proportion to his investment. This is a means to extending the savings movement to the largest single class, the total purchasing power in whose hands is far and away greater than that of all the remaining classes put together.

60. A Peace Plan has been found an integral part of the war strategy in other countries. In India, where the necessity to provide a motive for fighting the war was greater, a Peace Plan has been delayed. It should at once be framed and to the extent possible implemented to steady the economic front on which the

military front rests. As transport conditions allow, tractors, machinery for producing artificial manure and other implements of modern agriculture should be shipped into the country. A single tractor in each district for public use would be more valuable in respect of public morale than a tank on the front or a trailer pump in a town. With the resources in the country itself and with existing organisation the cultivator can be made to understand that the state is genuinely interested in assuring him freedom from want. If the cultivator's confidence is not won and prices continue to rise, not only will there be economic distress in the classes engaged in Government and war services but recruitment itself will decrease as it would be more profitable to till the field than stake life on a pay of less real value. The appeasement of the cultivator is, therefore, an essential part of the price control policy as it is of law and order or of winning the war.

CHAPTER V

STRATEGY FOR THE MARKET

61. The marketing of wheat in Northern India is a crude circuitous process but it is remarkably uniform and firmly established. Of the wheat harvested in normal times about 10% passed to the land owner, an equal quantity to itinerant vendors, about 15% to the local grain dealers and the rest went to the nearest

Mandi or market. About 75% of the harvest so disposed went to Mandi in the harvest months. These proportions have been disturbed by the rise in prices. The quantity of wheat going to the Mandi immediately after the harvest has been reduced to half as the cultivator has found alternative ways of disposing it to his advantage. He has either kept it himself for sale at a later date or passed it on to the other agencies who have offered prices higher than those enforced by law in the market. In devising a scheme of control all these agencies have to be considered in detail.

62. Firstly the Zamindar, whose hold on the tenant's grain is partly from custom, partly from influence in the village and very largely owing to money or grain lending relations. In normal times, the most part of the grain purchased by them was for personal consumption or for purposes of grain lending. At present they have been stocking for sale as well. Many of them have also begun or increased their own cultivation so that in the total it can be presumed that land owners hold twice the stock they did in the past. In the U. P. they are under no obligation to take licences as their stocks cannot be proved to enter the grain business.

63. The village grain dealer's hold on the tenant is also of custom and through loans. The latter, notwithstanding legislation, continue to give the money lender a pre-emptive right on the harvest of his debtor. In ordinary times the village dealers have a rapid

turn over as they used to pass over their accumulations promptly to the neighbouring Mandi. At present they have been holding up their stocks either on credit from dealers in the Mandi or with their own resources which have increased from the large profits they have made from rising prices. As they have to report stocks in excess of 20 maunds they have learnt to practise concealment in their own houses or in those of others.

64. It is not difficult in practice to ascertain and attach the stocks of money lenders and land owners. At least so far their methods of concealment have not been developed to the degree to secure complete invisibility of stocks.

65. The itinerant vendors are in a different class. They may work with asses and ponies carrying about 2 maunds, bullock carts carrying 10 maunds and camel carts carrying upto 40 maunds. They are the principal agents in the black market offering to the cultivator prices much higher than those offered by any one else and selling at markets far and near under conditions which evade control. The proportion taken by this class has increased as the majority of cultivators have found it convenient to pass their hoarded stocks to them. They are a real problem in the way of control as their source of supply, their methods of sale and their freedom of movement give them the advantage of pirates. Short of licensing them and restricting the places of their sale, there is no other control possible.

66. The grain that comes to market is taken to the platform of the commission agents, known as Arhatias, where its price is settled and sales made on behalf of the stockists or other purchasers who may be present. Excepting transactions in the black market made at night, all other transactions in the Mandis are through these commission agents who jealously assert their right both against producer and purchaser and obtain from them their commission. So far the commission agents have not been recognized or comprehended in any scheme of control. As the bottle neck in the movement of grain they are of strategic importance which none of the other classes in the market possess.

67. In the market the agencies for sale are varied. Firstly, there are the wholesale dealers who buy for export outside or for sale to retailers locally. They are generally known as Kothi Walas, from the kothas in which they stock grain. They generally have no retail business which is in the hands of at least three classes, firstly, the Thokwalas who have reserves of stocks, secondly, the Phutkarwalas who buy and sell daily, and thirdly, the Kiranawalas who sell flour along with other commodities. So far in the U. P. licences are enforced only for dealers in quantities exceeding 20 maunds who are either Kothiwalas or Thokwalas whose business is such that they cannot conceal the minimum prescribed, the consequence has been for business to transfer itself to the classes which are not

licensed, who have extended their sales with their own resources on behalf of Thokwalas. Their control is obviously difficult for which reason they commit piracy on schemes enforcing price limits. Accordingly the U. P. Government recently decided to reduce licences in more important towns to one shop for 10 to 20 thousand of population. The exact effect of the step deserves to be understood. In a town with the population of about 14 thousands like Etah there were 50 licences issued already to persons stocking more than 20 maunds of grain. The unlicensed who were not enumerated were at least twice as many as the licensed. To reduce business from 150 to one shop is not only to cause untold inconvenience to the public but to interfere with the affiliations which the remaining 149 shops had with their sources of supply. The result accordingly was to cause a complete flight of grain from the market so that the licensed shop had to depend on such supplies as Government could provide.

68. The question is how to comprehend the various agencies for sale without on one hand throwing them out of employment and on the other destroying the sources of the supply to the market. The grain market is an intricate organisation with a capacity to defeat measures hostile to it, in ways which cannot be foreseen. While it may be possible for control to compete in this organisation it is almost

impossible to compete against it. Any scheme to control, therefore, has to work along natural lines, parcelling the stream of supplies along their whole length and not erecting dams from which the stream would retreat backwards for distribution underground.

69. If control cannot be extended to the cultivator and control of sale in the market has proved abortive, the question arises where control should be applied. It is a principle of strategy to lead the enemy to the narrowest point where his movement can be held beyond chances of escape. In the movement of grain from the village to the consumer the narrowest point is the commission agent who weighs all the grain coming to the market, settles its price and assigns it to one or other purchaser. He is obviously the bridge over which the grain should be persuaded to pass for two roads one leading to supplies which Government wishes to conserve and the other to the market which has to be kept alive in order to maintain the movement of grain from dispersed sources.

70. In the district of Etah an experiment was tried, binding all Arhatias in three towns to impound for sale at an official shop, a moiety of every consignment passing through them. The experiment aimed at (a) Maintaining the existing market institutions including all the affiliations between the dealers and the growers. If the former lost half their supplies they still had enough to maintain themselves in business. They had also a motive to stimulate supplies to

offset their loss of half. In any case, they were in double harness with the Government store and could only go or stop with it.

(b) Buying for the Government Store at the price paid to the cultivator and not at prices charged with middlemen's profit which in 1942 was in some instances nearly equal to the price paid to the cultivator.

(c) Commanding half of the entire supply and preventing its dispersal to many hiding places in the open or in the black market.

(d) Enforcing the control price for both seller and purchaser beyond all possibilities of evasion.

(e) Avoiding shocks to the market such as were consequent to the large purchases made last year for emergency reserves.

71. This method was tried since November when the supplies were at their ebb; even so it enabled the prices to be reduced and supplies to be maintained, which in other districts had disappeared. If the wheat is impounded at the flood tide of the harvest, it will be in a quantity big enough to compete with the other shops in the market and thereby rule the prices even without a legal limit. The proposal, therefore, is that purchases should be made directly from the cultivator of a moiety of the produce he brings to market through Arhatias where they are available or directly, where they cannot be organised for an official reserve which will have retail shops

for sale at prices slightly above the cost price. As a natural method respecting free trade in a half share, it will eliminate all frictional causes which make for increases in price. The method can be connected with the withdrawal of control during the harvest month in order to ascertain the just price of the grain for the year. As already proposed this just price with allowances for incidental expenditure should be treated as a ceiling for the whole year from harvest to harvest. Within this price, the day to day rate should vary with the actual prices paid for the grain by the shop.

72. The possible objections to this proposal are :

(a) That supplies will be obstructed by the dealer in order to avoid parting with half, by the cultivator who dislikes or at least misunderstands official interference. As far as the dealer is concerned his opposition should stop when he realizes that procedure is inexorable and that any supplies he requires must come through it. As far as the cultivator is concerned the transaction can be made to appear natural by being entrusted to agents recruited from reliable dealers. For the rest the cultivator should not be concerned as he receives the same price in whatever way his supply is divided after its purchase. In fact this is the only method in which official control can be completely masked.

(b) That evasion may be practised either by avoiding the Arhatias or colluding with them. This is a matter of detail and if control over all Arhatias is

difficult their number can be reduced by a system of licensing. In any case, the supplies that come openly and almost all do so in the harvest months, will in large proportion come under this scheme.

(c) That the official shop may grow to unmanageable proportions. If this happens, dealers who can be relied upon can be given part of the impounded wheat for sale on the same system as the official shop.

(d) That the wheat will remain frozen in the villages in expectation of higher prices. This can be prevented firstly by withdrawing control only during harvest months and imposing it for the rest of the year. If the cultivator knows this he will rush his supplies and thereby bring down prices to their economic level. Such supplies as remain hoarded in the villages can also be disturbed by seizure at prices below those prevailing in the market.

(e) That the volume of free trade would be reduced by half which may interfere with the proper distribution of the produce particularly export to areas of consumption. This objection is partly correct but the method proposed is better than indiscriminate seizures through the system of licensing one shop instead of 150 which has been practised so far. Export which cannot be satisfied in half the produce left for private purchase can be made from the official stock perhaps more efficiently. The system of sharing supplies is on the principle of live and let live; it reduces the share of free trade but does not destroy

it. It is capable of application to articles other than grain. It has already been applied to salt, half the quantity of which is distributed through official arrangement. It could be applied also to cloth, half of every consignment being handed over by the dealer to an official stockist. It is the only method to overcome the trouble of invisible stocks which has been defeating all control measures so far.

73. The proposal to ration supplies has arisen from the failure to control them. It is a desperate strategy that one failure should be cancelled by the risk of another. If supply was difficult to control, demand will be more so. Briefly the problem of rationing can be considered with reference to (1) Its pre-requisites, (2) Advantages, (3) Objections, and (4) Justification.

74. *Pre-requisites.*

(a) Rationing is state control of consumption, the natural counterpart of the control of production. It can follow but cannot anticipate the latter, as the goose has to be killed before it is cooked. Supplies can only be completely controlled by commanding the crops in the field, a process so vast and complex that its results cannot be predicted. A less complex, but also less complete method is for Government to assume all purchasing agencies in the market. The objection is that this will divert grain from such markets and may add to the existing invisibility of stocks. Another method is to purchase as was done last year, through

middlemen but this, while it may secure to Government the stocks required, will increase prices and cause the flight of grain. The only method left is partnership of Government with the existing marketing agencies by which only half of the entire supplies could be impounded for rationing. As a method which makes purchases throughout the year, it does not shock the market, nor carry the risk and cost of storage. But to the extent the method reduces prices and assures free supplies, it renders rationing unnecessary.

(b) A second pre-requisite of rationing is a reasonable price. If the price is too high, no advantage will be taken of rationing, if too low, there may be blackmarketing of rations by those who can do without them, or have substitutes. To secure a reasonable price, large reserves will be necessary, the creation of which may cause the very rise of prices which they are to prevent.

(c) A third pre-requisite is that alternative supplies should not be available to disturb the rations fixed. Rationing loses its justification if supplies exist which money can buy at high prices. In direct proportion to the power of money and inverse proportion to the strength of rationing arrangements grain will escape from rationing for private sale.

(d) A fourth pre-requisite is the quality of grain subject to rationing. If rationing is in private hands, the grain will be adulterated, if in official hands, it may deteriorate, as it did last year.

75. *Advantages.*

(a) Equitable distribution in place of the present scramble for Government supplies. In proportion, however, to the varying quantities of wheat eaten by different classes—the villager eats a seer, against a fourth-seer eaten by the townman who takes milk and an otherwise rich diet—to the presence of private sources of supply, and to mistakes in assigning the ration, equitable distribution may be reduced.

(b) Correspondence of the individual share to the total supply available. This is theoretically possible but its real importance is small and its practical enforcement may be difficult.

(c) Prevention of hoarding by consumers partly by reason of the difficulty of obtaining more than the ration and largely from the assurance that supplies will be forthcoming regularly.

76. *Objections.*

(a) Complicated and cumbersome to the extent of becoming a source of corruption on one hand and of harassment on the other. The task involved in collecting the whole supply, storing and smoothly distributing it, not so much in the ordinary way of business but as a civic obligation, is full of difficulties. The ignorant may be cheated and the well-to-do harassed. The system may become the foundation of bread riots.

(b) Assumption of a new responsibility by the state. To the extent the public is relieved of its own

duty, it will depend on Government and will not make its own arrangements, with ordinary prudence.

(c) Hardship from the waiting for ration which will be felt most by those whom work keeps employed throughout the day. The poorer sections which cannot buy in bulk will be called most to spend time waiting for rations. The floating population which has increased particularly due to the war will not be easily and promptly provided particularly if there is danger of rations going to the black market.

77. Justification.

Rationing may become inevitable, but in the present conditions of supplies and with the possibilities of organising them more naturally, rationing appears premature. The real problem is of supply and this depends on restoring the rythme of market by measures consistent with and not hostile to marketing practices. This is an intricate and not an impossible problem but is essentially one for experts. Accordingly a very grave situation may arise if price control continues to be treated as an administrative and not an economic problem. However successful Government may be as an administrative body, its orders can bind persons not facts. The whole problem of price control should be submitted to the advice of a body of economic experts which should lay down the policy for Government to execute. The enemy gains by attacks which miss it and only those who know about prices can conquer them.

78. The Government of India have recently announced that purchases of grain for storing will be made only by it, directly, or through agents in important markets. With elaborate arrangements, this may save grain from being lost to black markets. To the extent that demand from these regulated markets rules the general prices, there may also be a brake on acceleration of prices from speculation and manipulation of supplies. If the scheme works evenly throughout the year, it may avoid the consequences of hoarding which arose from bulk purchases for official reserves made through middlemen last year. The objections to the scheme are :

(a) That the quantity of grain in the markets to be regulated is a small fraction of the total supply. It is doubtful that this will increase consequent to the ban on storing for sale in markets which are not regulated. Stockists have already learnt ways of avoiding detection of hoards and in the last resort will press the cultivators to hoard on their behalf. The quantity coming to regulated markets will not increase and may, in fact, decrease.

(b) It is an elementary law of economics that prices are determined by marginal utility. If the quantity available for Government purchase is less than what is required for the army and for rationing to the civil population in regulated towns, prices will have to be inevitably raised. In fact having undertaken to feed certain population, Government will have to find

grain at any price. What was only a moral responsibility will become a civic one.

(c) If price has to be raised for obtaining supplies, the effect will be to freeze them to a greater degree, in anticipation of the vicious circle of shorter supplies and higher prices.

(d) If the cultivator is inevitably driven to sell at prices he considers unfavourable, there will be a corresponding effect on the movement to increase production. In any case, to the extent regulation limits his freedom to sell and adds trouble to the toil of marketing, the cultivator will lose the incentive he had so far, to grow to the capacity of his fields and labour.

(e) If the purchasing is done through selected agents the financing of large purchases will have to be done by Government which will add to the existing inflation. In any case, state financing will render the existing purchasing power in the hands of individuals idle and thereby increase prices for purely fiscal reasons.

(f) The whole scheme contemplates canalising of existing supplies. It is possible to canalise a reservoir or a stream ; no one has attempted to canalise rain as it falls, which is exactly the position in respect of grain supplies. A hazardous experiment is, therefore, being attempted. It may succeed if the organisation is most elaborate. If it fails, control will have to be carried to the very fields of the cultivator, a measure

which is unnecessary and which may prove overwhelming.

CHAPTER VI

CONQUEST OF PRICES

This thesis is primarily a reconnaissance of the disposition of the forces which determine prices. Incidentally some tactical details of the strategy of prices have emerged. The following is a summary of these details.

(1) That price control should not interfere with the volume and flow of commodities. Accordingly it has been suggested that control measures should not compete against, but should compete in the market. Government purchases of grain should be in close and equal partnership with marketing agencies, through a system of sharing in all consignments. Only reserves raised in this manner, and brought to sale in the ordinary way will prevent immobilisation of grain, carrying the same economic consequences as hoarding.

(2) That control measures should involve the minimum of interference and should be applied at a point of concentration. The commission agents who form the bridge head between the dispersed areas of supply and the multiple selling agencies are the primary objects of control.

(3) That a just price should be determined to ensure smooth supply and sufficient production. If control of prices is withdrawn during the harvest months, the just price can be ascertained naturally and easily.

(4) That the just price should be stable for the whole year, in order to restore the normal rythme of supplies and discourage hoarding in expectation of increases. The harvest price with a percentage addition to cover the cost of storage deterioration and interest, should be declared the ceiling.

(5) Trade should be normal and movement of supplies full and free in order to prevent pockets of scarcity which create panic and influence the general price level. After the provision of reserves and the determination of a ceiling, restriction on transport should be removed. To secure enforcement of the prices fixed large transactions and the payment there-to should be made through Government agencies, trade being otherwise free.

(6) To reduce the value of grain as investment, token coins may replace the currency notes in circulation.

(7) To reduce the cultivator's exploiting the present, he should be offered a better future through a Peace Plan of modernised agriculture. The surplus purchasing power in his hand may also be absorbed by investment in agricultural improvements, on a subsidy from Government, proportionate to his contribution.

If the cultivator fails to respond, a cess on his rent for investment in agricultural improvement will be economically justified and may be easier to collect than a cess on produce which can be passed to the consumer.

(8) To reduce the surplus purchasing power of other classes, the National output must equalize the increased National income through a vast and varied productive programme. All the available resources and potentialities should be mobilized so that all who have money may have the means of investing or spending it. Particularly production should concentrate on commodities required to raise the standard of living and production of the cultivators because the vast reserves of surplus purchasing power have accrued to this class. Otherwise profits should be ruthlessly taxed, a portion being earmarked for replacing the National capital reduced on account of the war. A programme in respect of this deserves to be drawn up.

(9) Note circulation should not be wholly dependent on sterling assets, but remain related more closely to the National output. To improve financial confidence, England should make an unequivocal declaration, supported if possible by America, that sterling assets will be reduced after the war by currency manipulations.

(10) Rationing, if undertaken, should not reduce the volume and flow of trade.

The Conquest of Prices involves a strategy, operating from diverse salients. The attack has to be comprehensive and not a series of sorties in relief of scattered positions in distress. Unity of conception has to combine with unity of action. For the first economists should be responsible, for the second, the executive agencies of Government. The method of trial and error is no more appropriate against economic forces than against military ones. If the forces of supply and demand are not correctly equilibrated by prices in the midst of plethoric plenty, the people may perish. The necessary executive power and supplies of grain are available ; only a comprehensive strategy is required to encompass and to conquer prices.
