

contradict our theory of dishoarding. Release of cash balances should ordinarily be accompanied not only by a rise in commodity prices but also by a rise in security prices, for securities and commodities ordinarily form competitive markets. This is true; but it applies to a normal period or inelastic price expectations. When, however, price expectations are elastic,—when, that is to say, people start thinking that the price rise is not to be just a temporary phenomenon but is to continue with greater intensity in the future, a shift from money to commodities causes a shift not to securities but away from them. In times of elastic price expectations, increased expenditure is financed not only out of hoards but also through sale of securities. As a result the security prices fall and the long term rate of interest tends to rise. If, therefore, our analysis of present inflation in terms of dishoarding is correct, then the depression in the securities market, and the consequent rise in the long term rate of interest assume an added significance. They point to a dangerous symptom of economic instability,—a state of elastic price expectations.

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## China Turns The Scale

WESTERN Power's reaction to recent developments in China is typical of the West's attitude towards the East. The relentless advance of the Chinese Communists is not interpreted as palpable evidence of the disintegration of a corrupt, regime but as Kremlin's Machiavellian tactics in sovietizing the whole of Asia. The emphasis varies, but the theme is always the same. Sometimes it is argued that the widespread revolt in Asia is inspired, directed and controlled by Cominform with a view to sabotaging the European Recovery Programme. As a variation of this argument, it is suggested—a suggestion which has recently been endorsed by Chiang Kai-shek, that Russia's policy is to gain control over Asia as a stepping-stone to dominate the world; that, in order to dominate Asia, the Kremlin must be in control of China.

China's dominating position in South East Asia is undeniable; the power that controls China can marshal the massive man-power and the rich resources of Manchuria. In most of the South East Asian countries, the Chinese element is large and powerful. The Chinese predominate in Malaya, and in Indo-China; they are an influential minority in Siam and in Indonesia; China has an adjoining land frontier with Burma. Thus, even if it be accepted that Mao-Tse-Tung is not an agent of Moscow, the Communist threat to Nanking can any day develop into a Communist predominance over the vast area from the Amur to Timor.

That explains why America, Britain, France, Holland and Portugal are disturbed and agitated over the widespread popular revolt in Asia. America entered the Pacific during the war. Today, she remains a Pacific Power, and soon it will be clear whether she wants to salvage China out or will entrench herself firmly in Japan, where General MacArthur is the supreme overlord. Britain packed out of China when that country was declared as the seat of Pacific War Command under American strategy. She has since quitted India and Burma, but is holding on to Malaya, and is trying to fortify Bangkok as a substitute garrison to Hongkong. Meanwhile, France and Holland desperately cling on to their former colonies without whose resources the artificial standard of living of these metropolitan powers cannot be maintained. Moscow is still a disembodied voice in South East Asia.