

Fair or Dual Price ?

PRICE control as we know it today was an offshoot of war-time inflation. And since inflation has proved a continuing phenomena, it has stayed. Some economists believe that inflation itself has come to stay. This is because, among other things. Government expenditure.....whether on armaments or on social services is not very material for the argument—is bound to take up a very large part of the national budget. While Government's spending will itself create, and maintain money incomes at a high level, by keeping goods off the market or by making it not worthwhile for some people to produce as much as they could, it will keep up inflationary pressure also at a high level. This is by no means a very simple argument to follow, since the budget now-a-days is itself the biggest control and taxation is a powerful weapon for combating inflation since it reduces drastically the ability of people to spend.

Apart from such wider considerations, high prices have continued so long, that realism demands, some people think, that we accepted it as a fact and set about making the best possible adjustment under the circumstances. Prices by themselves do not mean a thing. It is relative prices which matter. The shoe pinches because it does not fit; the loot is too large for it. High prices cause hardship because the prices of the labour or services of the people who are badly hit fail to keep step with the enhanced cost of living. So long as there is some reasonable chance of bringing down prices, the demand for revising money incomes upwards for sections of the people may be resisted. For the larger good, they may be even asked to make a sacrifice temporarily until such time that prices can be brought down. For them not to do it, it can be maintained in good faith, would be to feed the flames of inflation and push up prices still higher. One cannot ask people to put up with such hardships with conviction when there is no longer a reasonable chance of bringing the price level down. This is the case for readjustment not so much of wages which have already been partially, if not wholly, adjusted upwards by being linked to the cost of living index through dearness

allowance, but for a re-examination and an upward revision of middle-class incomes—salaries, professional earnings and so on. Dr Matthai has undoubtedly done a great service by drawing pointed attention to this crying need of the hour. Flow greatly the middle-classes have suffered and how helpless they are is evidenced by the fact that the Government have not even thought of compiling a separate cost of living index for the middle-classes. And yet everybody knows that there are striking differences in the consumption habits and pattern of expenditure of the salaried people who have not only to maintain appearances but also incur certain conventional expenses under social compulsion from which the factory hand is blissfully free. Wide changes in prices of the sort we have witnessed in the past may not bring about as quick and dramatic a change in class relations, as was witnessed in Germany after World War I but they do work in the same direction. The accumulated effects of high prices continued over a series of years are equally disastrous. But when the extent of the disruption is borne in mind, a solution in terms of readjustment in money incomes hardly appear adequate or even plausible. It would further strengthen the case, which is quite strong in itself, of bending all our energies towards arresting inflation rather than accepting it and setting about to repair the damages done.

Approaching prices from the producer's angle, quite a different kind of development from that of cost-plus or fair prices has come into prominence of late. This is the theory of dual price policy which does not deny the necessity or the rationale¹ of price control or price fixation by authority, but seeks a *via media* and a compromise with free pricing by providing for two sets of prices, one free and the other controlled, working side by side. Since the *raison d'etre* of price control is to ensure a minimum supply of essential goods at a reasonable price, the theory accepts the responsibility of industry to provide this minimum but demands the freedom for industry to sell the surplus above this minimum at whatever the buyers are prepared to pay. The claims of social justice, it is contended, can thereby be reconciled with the rights

of industry to make the best of the present situation. The argument is further strengthened by an appeal to the incentive which a dual price policy will give to production in the particular line and to economic development in general.

The idea of such minimum requirements for the consumption of the essential necessities of everyday life, was worked out very successfully in Britain through the scheme of utility goods. It proved so successful indeed that it is being continued not by direct Government intervention but by the indirect encouragement given to it. That utility goods are exempt from *purchase* taxes, and that the market for them is steady and large have provided adequate incentives for manufacturers to keep up their production. Originally applied only to rayon and cotton, the utility scheme has since been expanded to cover clothing, hosiery, leather foot-wear, wool, cotton and rayon cloth, bedding and furniture. The purchase tax is still being used to some extent as a weapon to discourage the production of luxury goods for the home market, since the relative necessity of a commodity has been a large factor in determining whether it is taxed at 100 per cent, 66.2/3 Per cent or 33.1/3 per cent or whether it is not taxed at all. There, are besides subsidies, such as on foods, which the utility scheme supplements.

Apart from exemption from tax and advantages by way of preference in allocation of materials, etc., the utility scheme has also been helped by the real economy it secures in costs by setting up certain standard specifications.' Thus, for instance, utility cloth has fewer threads to the inch in warp and weft, a longer length of utility twine is made from a lb. of sisal and so on. The idea indeed is intriguing and for a time the Government of India also toyed with it. But the standard cloth which was produced during the war neither won the support of the mill-owners nor did it meet with the approval of the consumers. Dual price, system is an extension of the same idea in a way, though not. all on fours with it since, as in sugar, there is no differentiation of product in it. Sugar is sold through ration shops at a fixed price, and is sold outside ration shops at a much higher price, but it is sugar of the same, quality.

Then' is no disinflationary angle to the dual price policy. On the

contrary, it is a frank concession to the demand, which the Government now find it difficult to resist, on the part of industry to get more, and is best viewed as a half-way house to decontrol, past experience having shown that removal, of control all at once causes undue hardship to the consuming public. The assumption behind it is that a higher price will lead to increase in production. This is true when production in any one line can expand at the cost of others by drawing resources away from them. This has happened in agriculture through the diversion of acreage to cash crops. In the case of sugar, what has happened is something very similar. Since the price of gur is controlled, to the extent there is competition between manufacturers of sugar and gur for the available sugar-cane, one may get more of it than the other, when sugar mills are in a position to out-bid because of the advantage they have of selling at the free market at a higher price.

Though in a haphazard form, the same principle has been at work in cotton textiles ever since export prices were freed from control. And it one may stretch the point a bit, it has always been there wherever two markets have functioned side by side, one controlled and the other free, though lacking legal sanction it has been given a bad name.

But pressure from another direction, viz., money demand in excess of rationed or controlled supplies can be let out in a manner which help disinflation if the Government take over the entire production, and sell a part of it in free price shops at the highest prices the stuff will fetch, while continuing to supply minimum requirements of the people through rations, *Here* differentiation of product would make the proposition administratively feasible and easier to operate. This could be tried by opening free price shops for cotton piece-goods of fine and superfine varieties at a time when internal demand far exceeded the supply. This is, however, no longer the case with even the superfine varieties of cloth.

What militates against the extension of the idea, whether it is dual price policy or an adaptation of utility schemes through differentiation of product, is the absolute shortage of production of most of the articles of necessity in relation to internal demand.

This will be apparent when the case of food production is considered. As a concession to administra-

tive' deficiencies and as a rough measure of social justice to give the farmer a little more, a case can be made out for something like procurement bonus, or a higher price on a graduated scale for food grain offered to Government. But as internal procurement has never been, anywhere near what was needed to meet the rationing commitments of the Government, to suggest that the farmer should be allowed to sell in the free market the excess of pro-

duction over requirements of procurement would be the height of absurdity. It appears that the Food Ministry has gone back upon, rather than gone further ahead with, dual pricing in the case of sugar, since the mills are not being encouraged to sell more in the *free* market to bring down prices. On the contrary, demand is being staved off at the sources by supplying more sugar through rations in order to bring down free market prices.

Delhi Letter

A Leaf From Sarvodaya

THE Planning Commission, it is now learnt, has evolved a few proposals to give a Sarvodaya touch to the Draft Five Year Plan. Among the various criticisms levelled against the plan, the view that it did not contain any provision for actively enlisting the co-operation of the rural population in the implementation of projects was held in more than one quarter. The major portion of the productive activities in the country had been left to private enterprise and even at the public sector, there was no attempt to make the people feel their responsibility in nation-building work. Sarvodaya group have often suggested that the citizen should be induced to make some contribution in the form of labour to assist the Government in implementing development work. This, could be considered a sort of alternative to taxation and could be the instrument of many-sided social and economic activity for the upliftment of the villagers.

Labour contribution, if properly planned and organized, could reduce the cost of construction work, afford opportunities of training for the villagers, give scope for useful employment for the idle population in the areas to be improved by the development schemes and, above all, create a public feeling that the Government's work is their own. Since last year Sarvodaya circles have been feeling that, though two of the signatories of the Sarvodaya Plan were on the Planning Commission, none of the basic ideas of that Plan was accepted by that body. Now, as if to assuage the feeling of disappointment and frustration in those circles, the Planning Commission has put up some interesting proposals for the acceptance of the State Governments.

These are:

(1) In implementing river-valley projects, an attempt must be made to reduce the work entrusted to contractors and enlist the co-operation of the villagers who would be directly benefited by the project, taken on hand by the Government. It might be difficult to obtain all the required skilled labour from the localities served by the projects but this difficulty will not stand in the way of enlisting unskilled workers. The villagers in the area served by the project should be asked to form village co-operatives and supply unskilled workers to execute the work in their respective areas.

(2) Labour camps should be opened at the site of the irrigation projects to enable students from colleges, volunteers and youth organisations to participate in the construction work. This would help in the organisation of youth movement on right lines and give ample scope for public service for a variety of talents.

(3) The Planning Commission, it may be recalled, has suggested the imposition of a betterment levy for financing development projects. It is now stated that the contribution for betterment need not be financial but may take the form of gift of land above a certain prescribed area of holdings. The idea is that State Governments could thus find land for the villagers who will be obliged to move away from their own lands and homes when such land will be needed for construction of dams or reservoirs for the river-valley projects. Resettling the villagers whose lands have to be taken away is always a problem. Mere payment of compensation in cash is not enough. If land owners in adjacent areas agree to make a gift of land to them, the