

be a certain rate of increase in consumer prices which is consistent with stability under the given condition of productivity rise, there could as well occur a rise of consumer prices which goes beyond such a limit.

What appears to be worrying the Japanese government today is just this kind of excessive price rise in the consumer goods field. Now that the government purchase price of rice has been raised by 10 per cent, it is more than likely that the official consumer price of rice will be raised in the fall. Also, another 8 per cent "base-up" of civil servants' pay scale will almost certainly stimulate pay increases in all kinds of service industry field. All this cannot but have the effect of weakening the yen purchasing power further and thus of inviting another round of wage negotiations by industrial workers. This prospect has to be faced just at the time when it is becoming certain that the honey-moon period of productivity increase is about over.

Rising Capital Costs

The "Economic White Paper," which the government made public on July 17, revealed this anxiety fully. It pointed out, for one thing, that the rate of increase of the money wage level was higher, even

in the manufacturing sector, than that of productivity during the last year and that "this has been reflected in the rise of consumer prices".

If we confine our attention to the year 1961 alone, we probably have to admit the fact that the money wage level in manufacturing rose faster than productivity; and this fact has been made much use of by the business world, in particular, in pinning the responsibility for the consumer price inflation upon the working class with the usual accusation of "cost inflation". Obviously, however, one year's comparison of this sort does not establish the causal relation that is sought. By the nature of the case, the rise in money wage level tends to lag behind the productivity rise; and it is essential that we take a longer range view in order to pass judgment on the role played by the money wage rise in stimulating what is alleged to be "cost inflation."

The "Economic White Paper" itself gives an answer to this question by tracing absolute changes in relative weights of major cost items which enter into the price formation of manufacturing goods from 1953 to the first half of 1961. The first half of 1953 is taken as base and the percentage which each cost item occupied then in the total cost is taken as 100. The result of this study shows that labour cost has

been generally on the decline to the level of 80 by the latter half of 1960 with a slight increase of a few points in the first half of 1961. Materials cost also has been falling steadily during the past eight years registering the index number of 90 by the first half of 1961. What has risen above all is capital cost which is the sum of depreciation allowances, interest payments and dividend disbursement. Especially since the beginning of 1957 it has been on the steep rise, reaching the level of 150 by the first half of 1961. Capital cost index usually moves cyclically rising in the downswing and falling in the upswing of business conditions. Thus it is significant that it turned upward in the middle of the most recent upswing reaching a new height even before the recession set in.

If we are to speak of "cost inflation" at all in Japan today, it seems clear, in view of what has just been said, that the scrutiny over capital cost is in order. To the extent, however, the relative rise of capital cost is a reflection of the introduction of capital-using innovations, there is little ground for holding capital cost responsible for "cost inflation." How far this has been the case in the past decade in Japan is a problem which will have to be reserved for a separate discussion.

Capital View

This China Business

Romesh Thapar

PARLIAMENT has assembled, and the Chinese aggression on our frontiers is all-consuming. Clearly, the Prime Minister's off-the-record conference with the leaders of the major political parties has not had the impact which was intended. The debate in the Lok Sabha suggests that the Opposition is still not fully posted with the facts of the tense military situation in Ladakh. Extraordinary theories, divorced from reality, are current about our 'parity' with the Chinese in this area and our reluctance to throw the enemy back. This explains the anger, bitterness and frustration which marks the debate.

The Prime Minister's confidential, off-the-record conference has naturally become the talk of political circles in the town, with the daily press leaking the story within hours of the end of the meeting! We are being told how the stalwarts of the Swatantra, Jan Sangh and Praja-Socialist parties refused to be 'reassured' by the Prime Minister, how they turned, the spotlight on the Defence Minister's 'Intrigues' in the armed forces, how the Defence Minister failed to utter a word during the entire proceedings, and how the Communist Party spokesman had no questions to ask. It seems to have been a parliamentary debate

in miniature and the Prime Minister must surely be feeling relieved that he did not reveal too much.

Parity with the Chinese

Some of the present confusion is due to the loose talk about our armed forces having achieved 'parity' with the Chinese in Ladakh. Indeed, on several occasions the Defence Minister himself has been quoted, accurately or otherwise, making such claims and implying that the lost territories have been recovered. This, together with the puerile reports in the daily and weekly press about our newly-found

strength in Ladakh, which is supposed to have demoralised the Chinese, is all the more bewildering when notes exchanged between Delhi and Peking suggest the opposite. The impression is created that we are not doing all that we can to contain the Chinese, that this 'lotus-eating' stems from the Prime Minister's desire to negotiate despite the unenviable position in which he finds himself and the Defence Minister's dogged refusal to clash with the communist world.

Military vs Economic Strength

From this amalgam of absurdities, a desperate mood is being created in political circles in the capital. Here, I am not referring to those gentlemen who, willy nilly, would like to activate the Himalayan border and to involve us in a protracted and costly military adventure in alliance with the world's anti-communist campaigners. This is the hysterical fringe which until now has had only nuisance value. What disturbs official circles is that this fringe is now becoming a front. Allies are being found among normally sober, thoughtful elements who realise the complexities of demarcating frontiers in a continent which was until only recently divided among numerous colonial powers from the west. These elements are becoming impatient.

The demand is crystallising that if we cannot challenge the Chinese effectively with our present resources, then we should begin forthwith to plan for future military strength even at the cost of economic development, that in the interim period all diplomatic relations with Peking be broken off, that we initiate the search for new friends in this new situation. And these attitudes are likely to grow sharper if the Chinese continue to push south of the line claimed by Premier Chou En-Lai in 1956.

The Government of India does not quite know what to do. In Ladakh, the Chinese appear to have a superiority of ten to one in soldiers. Their pickets are minor fortresses connected by dependable and 'truckable' roads along which supplies and reinforcements can be rapidly concentrated. India, on the other hand, faces the worst possible terrain in her forward movement,

By and large, we rely on slow-moving animal transport to keep our strong points supplied; often jeeps have to be parachuted for local use. Even though we have been able to prevent the Chinese from consolidating new lines of occupation by out-flanking their advanced positions, the situation can by no means be described as satisfactory.

Then again, the Soviet Union, on whom we have been relying as a restraining influence on Peking, seems to be ineffective. The talks which the Prime Minister held with Mikoyan during the latter's stop-over in Delhi made it obvious that Moscow has no real confidence in its ability to persuade the Chinese to abandon their strong arm tactics on the border. Of course, behind-the-scenes pressures are being put, but their effectiveness is dependent on the outcome of the ideological controversies which assail the two giants of the communist bloc. If the Peking-oriented wing of the Communist Party of the Soviet Union were to oust Khrushchov because of the failure of his approaches to President Kennedy, the Chinese would present us with a *fait accompli*.

A Second Bundling Conference

The reluctance of most members of the Afro-Asian group to accept our charges against China also further inhibits our policy-makers. For example, certain China experts consider that Peking's offer, contained in the latest note to the Government of India, to resume discussions between the officials of the two countries is not significant. It is claimed that this offer is merely an attempt to persuade us to participate in a second Bandung Conference which we have until now been firmly opposed to for fear that China, in collaboration with Pakistan, might use the platform to sow discord and misunderstanding between us and our neighbours.

Despite these developments, the Prime Minister has apparently arrived at the view that India can no longer withhold support to a Bandung-like conference. It is a wise decision, for it will compel us to survey the present state of our foreign policy which is none too healthy. A large number of medio-

crities have managed to take up vantage positions in the foreign service, and various mutually opposed groups are paralysing whatever little initiative we have left in Afro-Asian Councils. The challenge of a second Bandung Conference should provide the necessary prodding for a thorough-going reorganisation of the foreign service.

Delhi Allergic to Cabinet Reshuffle Speculation

Perhaps, it is the result of some of these pressures that speculation has been renewed about the transfer of V K Krishna Menon from Defence to External Affairs. Apart from a small, vociferous group, it is generally agreed that we have no one else as a possible contender. Of course, the speculation is based on the report that Morarji Desai will go to Home, Lal Bahadur Shastri to Defence and T T Krishnamachari to Finance. This would mean a rather dramatic reshuffle of the "pack" and this is why the report is discounted. Others are content to suggest that T T K will take over from K C Reddy who leaves to become a Governor; such a step would inevitably place a question-mark on the future of Manubhai Shah.

One of the encouraging signs in the Capital is the indifference to these speculations. Until the Prime Minister moves to appoint, an effective deputy leader, who is equipped to shoulder some of his heavy responsibilities and is able to carry conviction in coordination matters, it is not likely that there will be any reaction either way. This is, without exaggeration, the sorry state at which we have arrived as we prepare to celebrate the anniversary of the transfer of power on August 15, 1947.

And, if you should think any substantial section of the Capital is unduly perturbed or anxious over the drift in our affairs, banish the thought. Everyone is getting ready to take a couple of days' casual leave to make a really long weekend holiday of the anniversary! You would, too, what with the sultry weather, power cuts and water shortage at the oddest times of day and night — and State transport services always ready to oblige at the cheapest rates in the world!