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Unemployment and High Prices

THE Finance Minister obviously intended to allay the growing apprehensions regarding price movements in India when he said that the major problem now was not so much that of prices as of purchasing power in the country. There was, in view of price trends in India in recent months, some need for an authoritative pronouncement on what the Government thought of it all. It was not merely the fact of an accelerated ascent in the trend of prices in the second quarter of this year that disturbed public sentiment. The price rises were occurring against a background which offered little scope for the learned or the armchair economists to work out a neat cause and effect relationship. One cannot blame the uptrend in India on inflationary pressures imported from abroad nor could one take refuge under arguments of "over-full employment" inside the country. For the trend of foreign prices has been, if anything, downward and despite President Rhee's attempt to scotch the truce negotiations, there is no strong expectation of a reversal of this trend. As regards domestic employment, the general feeling is that unemployment rather than employment is increasing. In fact, despite lack of any reliable statistics of unemployment, the Government is concerned about the growing menace of unemployment. And Shri Deshmukh's pithy remark could well be interpreted as indicating the Government's concern about the economic situation. It is surely the lack of output and employment which manifests as lack of purchasing power. And Shri Deshmukh's attempt to divert attention from movements in price indexes to purchasing power in general is, at this juncture, very significant.

It is of course anybody's guess what exactly the variations in the Economic Adviser's price indexes indicate. Umpteen objections may be raised about individual prices and weights on the basis of which the index is constructed and in view of such technical objections, the significance of small variations in the wholesale index may be highly disputed. But large variations, as have occurred in the past three months, cannot be so easily dismissed. And further, when such large movements in the general index reflect disparate variations in the price indexes for sub-groups, certain conclusions about the significance of price changes would certainly be warranted. The structure of relative prices has in recent months undergone a change which has repercussions on the cost-price relationship in the economy. The margin between raw material prices and prices of manufactured articles has been considerably narrowed and with the increase in cereal prices, costs of living have tended upwards. Surely a shift of this sort is not conducive to either increase in the supply of employment in the private sector of the economy or to the maintenance of the real income of large sections of the working population. Against this background, the statement of the Finance Minister that the price situation need not be a matter of serious concern and that attention has to be focussed on increasing purchasing power is, to say the least, naive.

For, the position in the country today is certainly not one of clear depression, wherein straightforward measures of increasing purchasing

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