The British Raw Cotton Commission has finalised arrangements for the purchase of Uganda cotton crop. India will receive about 2,20,000 bales from it which will be slightly less than last year's allotment.

The export policy for cotton is not likely to be announced by the Government of India till early December. Exporters, however, desire an early announcement. This would also inspire greater confidence among foreign buyers. Out of the expected yield of about 4½ lakh bales of Bengal Desi, exporters' ideas are that rat least two lakh bales of this variety can be exported without adversely affecting the indigenous supply position.

Consumption of Indian as well as foreign cotton by mills in India during July 1950 was 3,14,100 bales as against 334,570 bales for the corresponding month last year. Total cotton consumption for the eleven months to July 1950 was 3,397,400 bales as against 3,933,540 bales in the corresponding period last year.

Money Market

Battle of the Exchanges

THOUGH the Government cannot be accused of pursuing an expansionist monetary policy, there is a school of thought which argues, by implication, that the policy followed by the authorities is not sufficiently deflationary. It is admitted that the recent spurt in prices is not of monetary origin, but it is hinted that the. rising tendency could be checked by adequate contraction of currency.

In the past few months, there has been considerable contraction of currency. Deflationists argue that this is what is to be expected in a period of declining demand for funds and as long as India imports more than she exports. Decreasing trade demand for funds is reflected in the. persistent decline in the volume of bank advances and the consequent bulge in banks deposits with the Reserve Bank.

It may be that currency contraction falls short of the. combined total of the decrease in bank advances and of the country's trade deficit, but the volume of decrease in note circulation in recent months is not negligible. And, in my case, it is arguable that, despite heavier contraction of currency, the rising trend in prices is likely to continue as long as goods most in demand remain in short supply.

Incidentally, Reserve Bank statistics in recent weeks do not reveal any material decrease in the Banks' holdings of foreign assets. Latest available trade figures, however, indicate that India has been running an unfavourable trade balance in each month during the current fiscal year. Besides, relaxations on import restrictions, announced a couple of months ago, are expected to widen the trade gap.

In the circumstances, it is rather surprising that the Banks' volume of balances held abroad is not shrinking correspondingly. There are two possible explanations for the relative stability in the Banks' holdings of foreign assets in the face of continuing trade deficit month by month—capital imports and or release of sterling from the blocked balances in excess of current deficits.

That the sterling area's gold and dollar reserves have improved considerably since devaluation is an undeniable fact. There is, however, statistical evidence in support of the theory that India's dollar balances have not improved. Contrary to Britain which seems to have attained a dollar surplus, India's trade balance, with America is still in deficit. India is, perhaps, one of the few countries in the sterling area which is still running an overall deficit on her trade account.

Foreign trade statistics, therefore, do not confirm revived speculation about an upward revision in the exchange value of the rupee as a *quid pro quo* to a downward adjustment of the Pakistani rupee. In the absence of endorsement of the par value of the Pakistani rupee by the World Monetary Fund, the trade deadlock between the two countries seems unbreakable. Pending confirmation by the World Monetary Fund of the exchange rate for the Pakistani rupee, there can only be limited trade relations between the two countries. Even so, an upward readjustment of the Indian rupee may be too high a price for resolving the. trade deadlock.

Strange as it may seem, the improvement in the gold and dollar reserves of the sterling area has encouraged speculation about an upward revision of world currencies in relation to the dollar. The Canadian dollar has been revalued upwards; there are rumours about an imminent appreciation in the exchange rate of the Australian pound; despite official denials, speculation about a higher pound sterling continues.

To repeat, foreign trade statistics do not confirm the views held by exchange gamblers. Apparently, Commonwealth Ministers and their colleagues who recently decided, after an examination of relevant factors in their meetings in London, to continue import restrictions from dollar areas do not endorse the view that the pound sterling or any other sterling currency should be revised upwards in terms of the dollar.

It seems preposterous to talk of appreciation of world currencies while the need for quantitative import restrictions is still keenly felt. Despite the post-devaluation increase, the sterling area has not got enough gold and dollar reserves to defend currencies at higher levels. To all these arguments exchange gamblers will, of course, retort that when they buy sterling they hedge their purchases with sales in dollars: bulling up sterling involves bearing dollars, which is what they aim at.

Yet, strange as it may seem, the exchange speculators' views do not seem to be shared by bullion dealers. For, if the dollar is to be depreciated, the official US Treasury's buying price of gold should move up, If and when this happens, the world price for gold may also move up. But the lack of response by bullion dealers to any such contingency is, perhaps, due to the fact that the anticipated depreciation of the dollar will automatically involve a corresponding appreciation of the non-dollar currencies in terms of gold.