the 'B' series were 20, 36 and *minus* 10.

These larger movements in the prices of exports of Group II find their parallel in the movement of import prices as recorded in the new series. With regard to quantities of export, the general index records more or less a parallel movement in 'A' and 'B' This is also true of the index for Groups I and II. Only the Group ill, viz., manufactured articles, ruled consistently above the 'B' series.

After this tedious catalogue of the relative movements of the two series, we may allow ourselves to turn to the question of terms of trade. The table below shows the movements of the terms of trade as recorded by the two series:

Terms of Trade

		A	B
1948-49	..	100	114
1949-50	..	102	118
July-Sept. '50	..	117	125
Oct.-Dec. '50	..	106	121
Jan. '51	..	97	99

The movements as a whole have been more or less parallel although the decline in the terms of trade, especially after the Korean War, has been slightly more pronounced, if one looks to the 'B' series. Against this, however, must be set the apparently greater sensitivity of the 'A' series since it recorded a fall in the terms of trade quite a few months earlier than the other series.

Money Market—Recent Developments

THERE have been profound changes in the demand for and supply of money in the past sixteen months. Although a closer examination of the different aspects of the problem lends weight to the assumption that the supply of money has not perhaps kept pace with the demand, there is understandable contusion in money market circles that tightness in the money market prevails, and is gradually being accentuated, despite continued expansion of currency. For a. proper assessment of the issues involved, it is necessary to appreciate both the quantitative aspects concerned and the sources from which the demand and supply for money originate.

There is no doubt about the rapid expansion in money supplies. Taking the average of Fridays, the volume of total notes issued has increased from Rs. 1,153 crores in 1949-5O to Rs. 1,180 crores in 1950 51. Concealed behind these averages, the expansion in currency becomes clear and more pronounced when it is examined on a week to week basis. In the year ended May 25, 1951, the volume of total notes issued increased by Rs. 108 erores. More surprising is the expansion in the volume of total note issues of over Rs. 50 crores in the last two months since the end of the financial year in March, For. it is not difficult to understand or to explain the expansion in currency in busy, export season. It is more difficult to explain continued currency expansion even after the end of the busy season.

Continuous and contra-seasonal expansion in currency has not only been a feature during the past sixteen months, but it also lends colour to the suspicion that the origin of monetary expansion lies elsewhere than in a surplus trade and payments balance. Much has been, and is being, talked about India's favourable trade and payments balance. On the assumption that any such surplus must necessarily be reflected in, and can be measured by, fluctuations in the Reserve Bank's holdings of foreign assets, data reveal that the surplus is not ample. That an overall surplus may reasonably be expected, in the absence of counter-measures, to exert an inflationary pressure on the economy, will not be denied, but statistics indicate that this is neither the prime source, nor the origin, of the rapid currency expansion.

In 1949-50, taking the average of Fridays, the Reserve Hank's aggregate holdings of foreign assets amounted to Rs. 828 crores. In 1950-51, on the basis of the same calculation, they figured at Rs. 832. As in currency expansion, so in holdings of foreign assets, the average cloaks, or rather minimises 'the actual increase. In the year ended May 19, 1951, the Reserve bank's holdings of' foreign assets increased by Rs. 49 crores. There is, therefore, basis for the presumption that currency expansion partly originates from the surplus trade and payments balance; it may be argued further that the disparity between .the increase in the Bank's foreign assets and that in currency expansion is not only to be expected, but is easily explained by the multiplier effects of surplus in trade and payments balance.

To admit that the inflationary pressure on the economy stems ences is not to concede that expansion in money supplies springs from, or is due to a surplus trade and payments balance. It is not an instance of trying to make a distinction without a difference. It is not without significance that the increase in bank deposits at Rs, 44¼ crores shows a close approximation to the Reserve Bank's net increase in holdings of foreign assets, but it is far more significant that, bank advances have increased by as much as Rs. I11½ crores in the past year.

Statistics confirm the *prima facie* conclusion that currency expansion has followed, and. is explained, try the explosive rise in prices. In the past year, the Economic Adviser's index of wholesale prices has registered an increase of 61 points. One has only to bear in mind that this index is based on controlled prices, at which goods are supposed to be, but are not actually, available, and that " free " or " black " market prices have gone up much more. The actual extent of the rise in prices has therefore been greater than is suggested by the wholesale index.

It is not the argument that rising prices do not. reflect international causes and influences. Nor is it the intention to assert hat India's surplus trade and payments balance is itself not: a reflection of international causes and influences. But, it is certainly the crux of the' argument that the authorities have been seducer to pursuing a monetary and financial policy, in their obsession with a surplus trade and payments balance, which is not only irrelevant but is incapable of attaining the avowed objective.

Throughout the Finance Minister's budget speech runs the theme that the capital and revenue budget must be balanced to insulate the economy from the inflationary repercussions of a surplus trade and payments balance. Budgeting equilibrium is a desirable objective. But, it is preposterous to argue, as the Finance Minister has done—arid, apparently, does even now—by implication that the rise in prices can be checked by restricting the demand from the public sector of the economy. Inasmuch as, and insofar as, rising prices reflect world-wide inflation, it is absurd to maintain hat India or any other country can check it by balancing the budget, It can make it all the more difficult for the Government of India to acquire urgently needed raw materials and capital goods, but it cannot check the rising trend in prices.

In Its prenitude of wisdom. New Delhi has not only revealed its financial bigotry by, presenting a balanced budget, but has adopted a dearer money policy to doubly ensure that the demands from both the private and the public sector are automatically slashed so as to ensure a double brake on prices, In this seemingly profound doctrine of financial orthodoxy, which is now in Vogue in some countries, and even among some economists of international reputation, the fallacy is that nothing that India or any other country does can immobilise the impact and repercussion of forces arising out of international causes and influences.,. But, and this is more relevant, whatever India or any other country does, with her and their foreign exchange parities at the prevailing levels, can only make it more difficult and more costly for her and them to acquire the raw material and capital goods that she and they require to improve production.

Unknown to many, New Delhi has been pursuing this dual policy of financial orthodoxy. Mr. Chintaman Deshmukh has repeatedly congratulated himself for presenting a balanced budget; the Finance Minister has, by implication, endorsed the policy of dearer money. It may not have been done as a deliberate policy, but that is what recent developments in the gilt-edged market mean and imply. Conceivably, the Finance Minister has been compelled by the obvious limitations of the technique and apparatus of the Indian money market and the banking system which, incidentally, is just the technique which any Government in any other country will have to follow in the pursuit of a dearer money policy which is expected to be effective and yet not too drastic or not too unduly precipitous.

There are reasons why not only in India but in almost every country the sequence of dearer money has taken a reverse turn. Dearer money is first reflected in the short-term money market, which later percolates to the gilt-edged market. This time the gilt-edged market has shown symptoms of dearer money long since, and it is only now that the short-term money market is feeling this impact. This normal process has been reversed mainly because the monetary authorities in many countries in the world are trying a half-way house experiment of gradually making money dearer without any change in the Bank rate, which necessarily has an unone psychological repercussion on the money market.

In Britain, the authorities have let it be known that they are no longer interested in aggressive open-market, purchases of long-dated loans. In America, the level of support to the gilt-edged market has been lowered so as to permit a slight rise in long term interest rates. In India,, the policy of open market purchases has not been consistently applied' in the past two years, and the level at which the Reserve Rank is supposed to be a constant buyer of the undated Conversion Loan has been gradually reduced from Rs. 97-8, the immediate pre-devaluation level, to Rs, 92-14 the present limit. As a consequence, long-term interest rates have slightly increased in Britain, in America, in India and in many other countries in the past twelve months.

Despite the Government's dis-inflationary policy, neither credits nor short-term money rates have been scarce or higher because of the surplus cash available to the banking system. For a considerable time, banks met the increased demand for money by allowing their interest-free balances with the. Reserve Bank to run down, they are still far above the statutory limit, but the growing stringency in the money market during the past five months indicates that the banking system has reached a stage when it must experience acute stringency unless effective counter-measures are taken to push the money supply at a level which is adequate to cope with the growing demand.

Competent observers of money market developments are inclined to the view that the money and banking system ft perilously near a stage where the Bank rate, for the first time in the past twenty years, will become effective. To give the Finance Minister the benefit of doubt, it may be that so drastic a policy of dear money is not his aim, but he is yet to show indications that he is aware of the disquieting developments. For, he cannot be unaware that neither in Britain nor in America is such a drastic policy being advocated, or acquired in, by, at least, the Government, although some economists are seriously flirting with the "idea that it may not be an injudicious policy to pursue at this stage to curb the inflationary rise in prices, despite its inevitable effects on employment.

Can it be that Mr. Chintaman Deshmukh is a convert to the orthodox monetary dogma that the time has come to pursue a dearer money policy, even to the extent of making the relatively higher Bank rate of 3 per cent, effective? Can it also be that the Finance Minister is a disciple of those bigoted theorists who advocate a simultaneous application of the principle of balanced budgets and of higher interest rates as a sure and safe dual curb *on* total demand so as to enforce, a salutary check on prices? Both he and they need be reminded that there are brakes which will surely leave disastrous effects on internal employment and production without leaving any appreciable effect on inflation which is world-wide. Lost this be construed as a plea for revaluation, as a possible device to insulate the internal economy from outside inflationary pressure, it may as well be stressed that the remedy is not necessarily a choice of evils—for neither higher interest rates nor revaluation nor a combination of both can achieve what each or both are expected to attain—but lies in a vigorous pursuit to enter into arrangements to move raw material and capital goods available so that production can improve and prices can be brought down.

Stock Exchange

Bombay Burmahs Coming up

Thursday, Evening

WHILE stringency continues in the money market, the beak has passed. The latest weekly return of the Reserve Bank shows a further return of Rs. 10 crores of notes from circulation. Big banks are just beginning to feel a return of their advances though the small banks are still unable to meet the continued demand for funds. Imported cotton is creating a fresh demand for funds for some banks while in the opposite direction some money is returning in sugar and cloth trades. *On* the whole, with the end *of* May, the worst is over in the money market and with the. break of monsoon in June, even the money market may cool down.

In the gilt-edge market, selling pressure has relaxed and prices remained practically unchanged over the previous week. 3 per cent 1957 Loan recoived small enquiries around Rs. 99-15 while some demand is noticeable in the 3 per, cent