

this apparent anomaly it has been suggested that higher taxation and rising living costs have hampered the urban, industrial community's capacity to save. The farmer does not carry a heavy tax load, He has been able to sell his produce at prices Higher than those he has been pacing for his needs. His ability to save has improved. But, it is explained, the Country has not benefited from these savings as they are either hoarded in bullion, or not available to the investment mangel, because of the absence of the conduit pipe, the banking system.

Investigations conducted by Government departments have exploded the myth of a prosperous country side. To warn the country that a prosperous village community is an imaginative invention which has no statistical basis, is not to deny the need for extending banking facilities in rural areas. They are poor. And it will be readily admitted that banking habits can encourage savings. Here the problem is whether the indigenous banker or the co-operative credit societies should be encouraged to extend credit facilities, Credit societies argue that they have been partially successful in freeing the farmer from the clutches of the greedy money lender. This is not untrue. But there is need for integrating indigenous bankers into the regular banking system,

Without prejudicing the finding of the Reserve Bank enquiry, a possible danger may be emphasised here. It may be that co-operative credit, societies are the most, suitable organisations to help the farmer in securing financial assistance at economic costs, But it would be a blunder for the co-operative movement to concentrate on credits alone. This is the main reason why the co-operative movement has failed to take deep roots in this country. In its pre-occupation with banking activities it has neglected its wider, and more useful, functions of co-operative production and consumption. The farmer must needs be indoctrinated into the banking habit. But he is also in need of help to establish his business as an economic proposition. Abortion of zamindaris alone will not do the trick. He will suffer in the absence of consolidation of holdings. And the co-operative movement can help him and the country to get rid of fragmentation of holdings.

**Bank Rate and After**

**M**ORE than two weeks have passed since the increase in

the bank rate. It was followed by a sharp decline in gilt-edged securities. The market remains idle and inactive at the depressed level. The fall in securities is not due to the rise in bank rate, but to the Reserve Bank's decision not to buy securities on offer at "pegged" rates. Financial statistics do not reveal that the fall in the gilt-edged market is due to liquidation by institutional investors. Nor is there any evidence to show that scheduled banks have borrowed funds from the Reserve

Bank with securities as pledges.

Weekly statistics published by the Reserve Bank and the scheduled banks do not include any item which reveals borrowings, if any, by banks from the Reserve Bank. But there is circumstantial evidence to show that such borrowings have not been resorted to on any large scale. Scheduled banks' interest-free balances with the Reserve Bank today are not less than what they were before the increase in the bank rate. Advances by Imperial Bank show

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no increase. Figures, on the contrary, disclose that the Reserve Bank's investment portfolio is thinner by Rs 9 crores. No loans have matured within the past fortnight. It may, therefore, be presumed that the Bank has sold securities to the extent of Rs 9 crores in the market. It is possible that these sales reflect the Reserve Bank's anxiety to prepare the ground for lending support to the gilt-edged market as and when the need arises.

Statistics reveal a decline of Rs 9 crores in the Reserve Bank's investment portfolio in the week to November 23, 1951, that is, in the week immediately following the rise in the bank rate. In retrospect, therefore, the slump in the gilt-edged market is easily explained. There is no longer any selling pressure in the market. Even moderate buying is likely to have disproportionate effects on prices. On the assumption that the Reserve Bank has liquidated securities to the extent of Rs 9 crores, it is now in a position to lend moral support to the market in such a judicious manner as to create the impression that it is not interested in permitting a rise beyond 3½ per cent in long term interest rates.

Though November has ended, financial statistics do not indicate that trade demand for funds is on the increase. Scheduled bank statistics for the week following the rise in the bank rate are not yet available. But relevant weekly returns of the Reserve Bank and of the Imperial Bank do not disclose any increased demand for funds. Much has been discussed about the probable trend of demand for funds during the current busy season. In the cotton districts the crop has begun to move. But it has yet to find its reflection in financial statistics. Incidentally, it may be of interest to note that, contrary to expectations, the Reserve Bank's holding of foreign assets have declined by Rs 12 crores in the fortnight ended November 23, 1951. Can it be that the expert season has not yet begun? Or is this an indication of the gradual deterioration in India's trade and payments balance?

#### Arabs Say "No"

CAIRO has scored a major diplomatic triumph. It has upset the plan of the Western Powers to form a Middle Eastern Command. Under the suasive persuasion of the Cairo-dominated Arab League, the Arab States, now assembled in Paris, have informed the Western

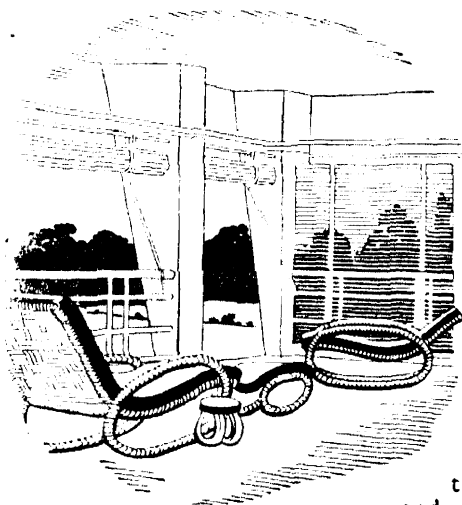
Powers that they do not see any need for immediate formation of the Command. This not only complicates the conflict between Egypt and Britain, but it will also be more difficult now for the Western Powers to form a base in the Suez Canal zone as a springboard for offensive military action against Russia in the event of a war.

Cairo has played its cards with remarkable skill. When the plan was originally proposed it created a furore in the Arab world. Egypt's rival neighbours were jealous of the enhanced status that Cairo would enjoy by joining the Command as an equal partner. Cairo's refusal of the invitation was an assurance that Egypt would not leave the Arab States in the lurch. There were other arguments in the Western Powers' armoury to win over the Arabs. They were told that their participation in the Command would not involve any military contribution. They were further assured that by joining the pact they could train and equip their national armed forces at no cost to themselves.

Many Arab States were willing to swallow these baits. Cairo knew better. It forewarned the

Arab world that the Western Powers deliberately coated the pill with sugar to hide its bitterness. Cairo had bitter experience of what such promises would mean. It had not forgotten the unceremonious way in which the British had "taken over" Egypt as an Occupation area during the war. King Farouk had not forgotten the ultimatum under which he was forced to comply with Britain's demands. Egypt warned her neighbours that the establishment of the Middle Eastern Command would mean 1941 all over again.

This warning has been heeded. Cairo has succeeded in persuading the Arab States to reject the proposal for a Middle Eastern Command. It has cleverly exploited its championship of the Arab nationalist movement to forge a united front against the Western Powers. Like Asia, the Middle East does not regard the Western Powers as their enemies. Along with Asia, however, the Middle East wants the Western Powers to quit this region. Like Asia, again, the Middle East does not receive its inspiration from Moscow. But it echoes Asia in its desire to be left in peace. Both are reluctant to align themselves with any of the rival Power Blocs.



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