What these conditions are will naturally arouse curiosity which cannot be satisfied at this stage.

Nevertheless, one thing is clear. We are going to hear more about the new element' in the price of steel. The Government has accepted in principle that the cost of expansion will have to be put into the controlled price. This is the new element. If the cost of expansion is met from a World Bank loan and the loan has to be repaid within a specified number of years, it follows the cost-plus. formula on which the Tariff Commission has proceeded so long in determining the fair price of steel will undergo considerable change. Ever since the Government issued its Industrial Policy Statement in April 1948, it has toyed with the idea of setting up a steel plant of its own. That idea has not. materialised. But like the clog in the manget. which is the role of social democracy which is not sure of itself, the Government did not let private enterprise take advantage of the steel shortage that has been existing all along and hence the production of steel remained impaled on a formula of price control which allowed existing producers to survive but not to expand. This, indeed, has been the tragedy of steel.

Now there is a change but the skeleton in the cupboard remains hidden. It is now almost forgotten that at one time Government price policy rested on the principle of cheap food and cheap steel because both entered largely into the prices of other things and affected the cost of living. Much of that policy is gone hut one of its props, the control on the price of steel, remains. The theory underlying it, *viz,* cost *plus* a fair return on overheads, has not always been interpreted consistently in practice. It has been stretched a little at each successive Tariff" Board enquiry and now expansion is being worked into fair returns. The results of the re-examination which steel prices are currently undergoing in the hands of the Tariff Commission will therefore be looked forward to with the keenest interest.

If the Government strays away from the narrow and strait path which it had once set for itself, that will be the price it will have to pay for foreign assistance. For on no other terms can foreign assistance be obtained. It is idle to think that assistance from me World Bank would be forthcoming, on terms radically different from those which the American private investor would expect. What holds the latter off is the rate of return on investment in this country or rather the principle of a ceiling on proms which had been accepted though not always adhered the closely, in order to meet the. demands of social justice.

After this, should one still wonder that Nehru-Jayprakash talks have been called off, at least for the time being?

Pakistan's Budget

THE payments situation in Pakistan is easily summed up. The high level of export earnings from jute and cotton is gone. A shortage has appealed in foodgrains which threatens to further strain her depleted foreign exchange resources. With the fall of export earnings, the level of domestic, incomes must also have fallen, but to what extent it is difficult to determine. The change from conditions of relative prosperity, however, has not been sudden and it has not taken the Government of Pakistan by surprise. Pakistan authorities often claimed that they were making definite and calculated efforts to diversify the foreign trade- and to strengthen the industrial structure of the country. The time for testing whether the results aspired lor have been obtained has probably come. The budget for 1953-54 presented by the Pakistan Finance Minister last week-end, however, does not give the impression that the Pakistan authorities have the same confidence that the country is well set on the road to economic: development of the type chosen. Neither do they appear to be equally determined to continue the same lines of policy which they have followed in the recent past.

So far as the current year, 1952-53, is concerned, the budgetary position has been fair enough. It is the next year which causes anxiety. The sharp fall in revenue expected, from Rs 102.58 crores this year (revised) to Rs 67.32 crores, suggests the extent of the ravage that may be caused to an economy depending on a few items of exports when the demand for them declines precipitously. Added to this is the developing food shortage. The Pakistan Finance Minister quite frankly admitted that the country's foreign exchange resources would be put to an ''intolerable strain " as a result of the apprehended "heavy food imports". The wheat deficit in the budget year is estimated at 15 lakh tons. The Governments of the United States and Australia have been approached for wheat loans.

Pakistan's budget for 1953-54 is likely to depend even more than the Indian budget of 1951-52 on the prospects of such loodgrain loans. Failure in securing these loans may spell much greater distress. The other benefits of such loans can be guessed from the shrinking volume of cash balances which are expected to decline at the end of the current year from Rs 62.17 crores to Rs 32.64 crores and to Rs 19.67 crores at the end of 1953-54-

While this over-all picture of the budgetary situation compels attention, equally arresting are the other indicators of the susceptibility of the Pakistan economy to fluctuations in external demand. Customs revenue is expected to fall in 1953-54 to only Rs 31.75 crores from the revised estimate of Rs 61.85 crores in the current year. Imports, already drastically cut, are expected to fall lower still. Sales tax revenue, a considerable portion of which is derived from imported articles, is consequently estimated to decline to Rs 11.50 crores in the next year from the revised estimate of Rs 20.23 crores for the current year.

Such heavy decline under the major heads of revenue makes drastic economies imperative. This explains the emphasis the Finance Minister laid on pruning down civil expenditure to the barest minimum. The axe has not been applied to expenditure on social services. On the contrary, the latter has been increased. A committee is being appointed to scrutinise the various Government establishments with a view to reducing their strength to what is justified by their volume of work. Significance also attaches to the budgeted decrease in defence expenditure from the revised estimate of Rs .67.24 crores to Rs 60. 10

cores in the next year as also to the reduction in capital expenditure on defence account which had generally been very high.

Development expenditure is well maintained in keeping with Pakistan's oft-repeated intention of building up a diversified economy. Capital expenditure has been raised to Rs 60.94 crores from the revised estimate for the current year of Rs 58.16 crores. If the capital expenditure on defence account is excluded, the provision for other developmental purposes will amount next year to Rs 38.26 crores against the current year's revised estimate of Rs 31.67 crores. A further break-up shows that the provision for industrial development in the next year is Rs 12.41 crores compared with Rs 6.85 crores in the revised estimates.

While the Central Government has a borrowing programme of Rs 20 crores, 75 per cent of the net public investments in savings certificates, it has been decided, will go to the Provincial and State Governments. They have also been promised other loan assistance to the extent of Rs 8 crores.

Proposals for increases in revenue include heavy increase in the import duties on liquors and motor spirit The raising of the excise duty on cloth from 5 per cent to 12½ per cent, however, can only be understood as taxing away a part of the gains to the industiy directly arising from the sheltered market provided by rigorous import controls and the high rates of impoil duties imposed some months ago. the increase in the excise duty on cigarette's by 23 per cent and a small increase in the import duty on cigarettes are the other sacrifices demanded for producing a nominal surplus. The increase in import duty on sugar from Rs 20 to Rs 32 a cwt and the levy of a new import duty of 45 per cent on second hand or used gunny bags and jute cloth arc more difficult to understand, Pakistan's jute mills are reputed *to* be the last word in streamlined perfection, equipped with circular looms and latest equipments. They should be able to hold their own against any jute mill in the world Why then this superfluous protection at the cost of the small business man who uses second hand gunny bags? The benefit of the rise in the import duty on sugar is partly at least wiped out so far as the indigenous industry is concerned by the increase in the excise duty from Rs 3 to Rs 7 per cwt.

As was stated at the outset, Pakistan appears to he preparing in a vigorous manner for modifying her internal economic structure. Foreign trade is shrinking to lower levels; the recent shift towards a favourable balance on trade account has been obtained at a heavy cost. That cotton and jute will no longer be the same exchange earners for developmental activities is being recognised and a revitalisation of the economy is being attempted as far as possible from internal resources. The question of devaluation gains in importance in this context. So long as there are possibilities of obtaining foodgrain loans, the foreign exchange position may not cause anxiety, but price support to jute and cotton becomes increasingly difficult to maintain In the. light of these budgetary developments, the reported trade agreement with India gains added significance.