

# Weekly Notes

## *Palai Bank Failure*

IT is inevitable that there should be wide-spread sympathy for the poor depositors ruined by the liquidation of the Palai Central Bank in Kerala early this week. The fact that it was a Scheduled Bank has made the shock of the failure all the greater, and provoked many to say harsh things about the Reserve Bank of India. Some of the criticism is patently unfair. It is true that the affairs of the Palai Bank were known to be unsatisfactory when that Bank was inspected by the Reserve Bank in the past. But it is also true that until 1957, the Reserve Bank had no statutory powers to enforce its directives, and that the management of the Palai Bank persistently disregarded the advice of the Reserve Bank to set its house in order. Under such conditions, the courses open to the Reserve were either to force the Palai Bank out of existence by precipitating a run on it or giving it a little more time to rectify its position. It may be an error of judgment to have chosen the latter; but apprehensions of adverse repercussions on numerous small banks in the Kerala area probably led the Reserve Bank to stay its hand a while. In any event, it is somewhat ungenerous to pillory the Reserve Bank for betrayal of the depositors' trust by those in charge of the affairs of the Palai Bank.

The Palai Bank affair raises, however, certain other questions of significance. Coming as it does close in the wake of another bank failure, it casts serious doubt on the efficiency of bank inspections conducted by the Reserve Bank. They cannot apparently prevent the development of malpractices or discover them early enough for quiet remedies. Even more mystifying is the willingness of the Reserve Bank to allow banks that are suspect to open new branches as in the case of the Delhi branch of the Palai Bank. If the depositors' interests are to be properly safeguarded, both the inspections and the action taken subsequently have to be much stricter than they have been so far. But not many of the present critics of the Reserve Bank will spare it should it adopt a tough line for weeding out unhealthy elements in our banking structure.

Curiously enough, people have vented their wrath more on the policeman than on the wrong-doer. The Palai Bank crashed because the management systematically undermined its foundations knowingly or unknowingly. It was not an external shock but internal malady that killed it, and it is naive to pretend that emergency assistance from the Reserve Bank could have cured the disease. The strength of a banking institution depends ultimately on the observance of a strict moral code by those who run it. This is not incompatible with genuine enterprise. But unfortunately, a great deal that passes for enterprise amounts to no more than sharp practice. It will remain like that as long as social opinion is indifferent to such practices and political considerations prevent the taking of effective measures for eliminating them.

## *Reduction by Persuasion?*

TMIE position regarding cloth prices gets curiously and curiously as Government and the mill-owners wrangle over it. Shri Lal Bahadur Shastri, the Union Minister for Commerce and Industry, is certain that cloth prices, especially those of coarse and medium varieties, are 10 per cent too high. The Indian Cotton Mills Federation says that they are high but not that high. Both agree that textile prices could and should be brought down; but they differ on the necessary measure of reduction and the means required for it. Unchastened by past experience, Shri Shastri prefers voluntary action by producers to control of distribution by Government. To meet the valid point of the inadequacy of domestic supplies of short-staple cotton, Government has announced a further import quota of 4,00,000 bales of short-staple cotton. Contrary to earlier expectations, Government has not agreed to the raising of the price ceiling on domestic raw cotton. To the immediate problem, this would obviously have been no remedy at all. The new crop has been sown already, and an increase in price ceilings would merely have provided a convenient excuse for not reducing cloth prices.

The latest, move in this poker game is the exhortation by the Indian Cotton Mills Federation to the textile producers to cut prices and raise the

production of coarse and medium varieties. The Committee of the Federation has called upon the mills not to charge wholesale prices higher than certain percentages over the October 1959 contracts. These are 10 per cent for superfine, 12<sup>1/2</sup> per cent for fine, 20 per cent to 24 per cent for medium and 27 per cent for coarse varieties of cloth. How much of this will be passed on to the final consumer will depend on the influence exerted by the mills on traders towards adherence to specified prices, and on the speed with which supplies of coarse and medium varieties are augmented. The point is also made by the Federation that the rise in cloth prices has been of the order of 10 per cent in respect of only 5 per cent of the total output. In respect of other varieties, it is contended, the rise is much less, so that a reduction of the order of 40 per cent clear across the board would be impossible.

Out of all this, it emerges that the producers are not entirely helpless in regard to the prices paid for cloth in this country. What impact the measures proposed by the Federation will have on retail prices remains to be seen. But it is becoming clearer each day that should prices remain unaffected by all these persuasive and voluntary devices, discipline on the textiles market will have to be imposed from outside.

## *Mild Coup in Laos*

DETAILS of this week's coup in

Laos are still too incomplete to make it prudent for anyone to attempt an analysis of the motives behind it, or of the possible course of events in the immediate future in this kingdom of Indo-China. But a few facts, at least, are fairly clear. It does not appear that the army as a whole has rebelled; only a part of it seems to have won partial control in Vientiane, the capital, and is now trying to spread its authority. If it is true, as it well might be, that the coup is a reaction on the part of a politically-minded army group against Governments pronounced pro-Western policies, then it is certainly significant that Hanoi is maintaining silence on it for the time being. Obviously there is not complete confidence in North Vietnam that the coup will be able to con-