

Selective Credit Controls

WITH the withdrawal by the Reserve Bank with effect from October 23 of the ceiling on clean advances imposed on March 11, 1960, the programme of dismantling the selective controls on bank advances reaches its final stage. In the recent past, controls on advances against sugar, wheat, raw jute and jute goods have been withdrawn in stages. True, in each case, the special conditions prevailing in the particular industry or trade have been mentioned in justification of the withdrawal of restrictions. It is also true that selective credit controls on paddy and rice, oilseeds-including groundnuts, shares and budla operations still remain. Nevertheless, a definite policy of eliminating selective credit controls seems to have been under way.

Under the ceiling restrictions imposed by the Reserve Bank, scheduled banks were required to ensure that the ratio of clean advances to total bank advances in any month from April 1960 onwards did not exceed the ratio prevailing during the corresponding month of 1959. The ceiling on clean advances was thus a little flexible. The other selective controls, which have been imposed so far, have been usually in terms of the *level* of advance-prevailing during the corresponding month of the previous year. The banks were thus free to increase their clean advances proportionately as their total advances increased; this freedom they did not have in regard to their other advances which were subjected to control.

That the ceiling should have been withdrawn on the eve of the busy season confirms that there has been some rethinking on the basic principles of selective credit control. The Reserve Bank's letter to the banks however, merely points out that "control on clean advances as such is no longer necessary". Considering that the ceiling on clean advances was intended to prevent evasion of the other selective credit controls and, in particular, the 50 per cent margin on advances against shares other than preference shares which still remains in force, this does not seem to be quite valid, particularly if the inference is that this restriction was necessary in the past but

is not necessary any more because the circumstances relating to clean advances have changed. The Reserve Bank's reference to "the higher pattern of lending raters" which now forms part of generally tighter credit conditions, however, is more relevant to the situation. On that reasoning, there is a strong case for the withdrawal of all the selective credit controls about the effectiveness of which there has always been considerable doubt.

The clean advances which could not possibly arise from evasion of

control on other advances were the credits extended to the hundi market. These advances, which were secured from the viewpoint of the lending banks, were treated as 'claim' for the purposes of Reserve Bank control. This includes advances against Multani hundis, which is the mechanism through which the Multani money market has been linked to the organised money market. The difficulties which arose during the last busy season in this respect are not therefore, likely to recur this year.

Back in the Pot

THOSE who had restrained their optimism at the agreement on U Thant's appointment as the United Nations Secretary-General have, unfortunately, been proved right. The acceptance by both Russia and the United States of the Burmese delegate's name has, in fact, advanced the problem but little. The core of the dispute persists; and it persists, on balance, because of the obduracy of the West. The Russians have indeed come quite a distance from their originally firm stand on *troika*. Of course, when the *troika* plan had been first suggested, Mr Hammarskjöld was still alive, and the United Nations faced no immediate crisis on the issue of its General-Secretaryship. The Soviet Government was looking 18 months ahead, when Mr Hammarskjöld was due to finish his term of office. The tragedy of his death forced the issue; and it is true that at first Mr Khrushchev did seem to be making an attempt to exploit the resultant situation in favour of *troika*. But only the West was too dull to see that this was not a fixed attitude but one of which Moscow could readily be talked out. The Russian Prime Minister's announcement about pushing the *troika* plan forward at that stage was something in the nature of a lawyer's insincere notice designed to establish a position of "without prejudice". Mr Khrushchev was giving notice that he had not abandoned his insistence on *troika*: but having done so, he was in the market for an interim deal. This is what the United States failed to

grasp sufficiently: but the supposedly less mature Afro-Asians were on to it in no time. The result was that Mr Khrushchev allowed himself to be persuaded with relative ease into postponing his *troika* demand and agreeing to an interim appointment in Mr Hammarskjöld's place. The Soviet Premier lost nothing by agreeing—he had never hoped to push *troika* till the end of Mr Hammarskjöld's term any way. So the eighteen months immediately ahead were open to negotiation.

The alternative suggested by Moscow at this point was quite a concession from the Soviet point of view. Perhaps Mr Khrushchev conscious of the deep hurt, he had caused to the non-committed countries everywhere by his endless and unpopular nuclear tests, was anxious to retrieve some of the goodwill he had lost. Whatever the reason, his plan was most plainly a far cry from *troika*. He accepted the idea of a single Secretary-General for the time being; true, he insisted that the new incumbent must be "assisted" by five (or three) deputies, whom he must "consult" at every step, but he made it clear that none of these assistants would have the power of veto. Amazingly, the United States dismissed the proposal out of hand, under less than 12 hours of its announcement. Only later, under pressure of mounting criticism in the lobbies of the United Nations and elsewhere, did it modify its stand sufficiently to take another, less casual look at the Soviet proposal.

The result was the agreement on U Thant's name—a step forward, but only, it now seems, a deceptive one. It wasn't a case so much of agreement on U Thant's name as a case of shifting the disagreement to the second rank of naming the Deputies. The U N Charter (as Mr Hammarskjöld once himself reminded the General Assembly not long before his death) envisages the distribution of high U N offices on a geographical basis; and it ought, given the requisite goodwill and sincerity, to have been a small matter to agree on five Deputy Secretaries from five different geographical areas regardless of ideological considerations. But suspicion being more the order of the day than goodwill and sincerity, ideological considerations are just what have crept in. That a Deputy each should be drawn from the United States, Russia, Africa and Latin America was readily agreed to (Asia being presumably excluded because the Secretary-General himself would come from there); but the United States quickly staked an awkward claim for the fifth Deputy to come from Western Europe. Only a dimwit would have imagined that this would not immediately provoke the Russians to demand a sixth Deputy from Eastern Europe as well. But apparently, the West either did not foresee this, or deliberately mooted the appointment of a West European with the intention of throwing a spanner in the works.

The position now (at the time of writing) is that U Thant's own name has gone back into the melting pot thrown there, let it be noted, by the West itself. Mr Boland's name is now being brought up in its place, with the probable expectation that it would release Asia to provide the fifth wheel of the United Nations coach. But since this is only a roundabout way of adding a Western name to the list, it is foolish to think Russia would fall for the ruse. The stalemate, therefore, persists; and the key to its solution is in the hands of the West, which has only to drop its claim for a West European Deputy to eliminate the counter-claim of the Eastern Europeans. The issue could then once again be tackled, as it ought to have been tackled from the very outset, on the basis of geography alone. But it is for the West to make the first move; or rather to retract its last one.

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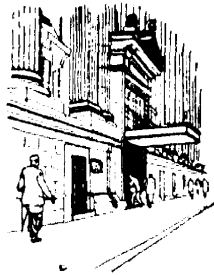
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