

only speculative capital gains within the tax net. This is precisely what he has done.

In his words, a clear distinction must be made between speculation and investment. This he does by fixing separate time-limits for the two categories of assets. Gains on stocks and shares will be regarded as speculative if they are resold within six months and gains on other property, including land, machinery, etc, will be speculative gains if they are sold within three years.

It is these speculative gains which Mr Lloyd has now brought within the tax net. These gains will be treated as ordinary income and taxed accordingly. This means that the maximum marginal rate of stir tax may apply to capital gains, if a person's total income including capital gains is in the highest income-bracket.

In India the tax on capital gains is payable on *all* capital gains on non-agricultural property. No distinction is made between speculative and non-speculative gains. That looks rather harsh, But the rate at which capital gains, speculative and others, are taxed is much lower than in the U K Here the maximum rate of tax is that of income tax (i e, 25 per cent plus surcharge). No supertax is payable on capital gains. Thus no distinction is made between speculation and genuine investment. As a result we have not been able to treat speculative gains on the lines proposed now by Mr Lloyd for the U K. In most countries on the Continent and in the U S A such a distinction is always made and gains on genuine investment are not treated on par with speculative gains. Will our Finance Minister take a leaf out of Mr Lloyd's book?

A Fairer Trial for Prize Bonds

COMMENTING on the editorial, "Prize Bonds Misfire". (April 7, 1962) a correspondent writes:

"In your otherwise excellent analysis of the causes which have led to the collapse of the prize bond scheme in India it is regrettable that you have chosen to make a scapegoat of the Central Finance Minister. You have accused him of having had moral reservations

towards the scheme. The Finance Minister is best known for his straight-forwardness and he must have, I am sure, convinced himself about the moral aspects of the scheme. The scheme now threatens to fail not because it lacks sufficient moral backing from the leadership but, as you very rightly point out, because :

(a) it is not sufficiently attractive in the terms it offers, and

(b) it has not been given the right type of publicity.

No doubt, the Finance Minister must have okayed the terms on which prize bonds were offered but it is pertinent to ask who advised him to allow a low rate of interest, to place a five-year moratorium on the principal or to hold draws less frequently. I can see here very clearly the hand of officialdom, be it in the Ministry of Finance or the Reserve Bank of India.

One can easily imagine an official arguing that to allow a rate of interest on prize bonds higher than is allowed in comparable forms of small saving will be discriminatory. Or that you could not allow a rate of interest as high as nearly 4 per cent on prize bonds without making sure that the principal remained with the Government for full five years.

If the Finance Minister must be taken to task, it is for having relied overmuch on his unimaginative advisers. I agree with you that prize bonds have not received the right type of publicity. But can you name any scheme which can be said to have succeeded because of official publicity in India? I wish somebody would start a campaign for the abolition of Government publicity organisations so that the task of publicising official schemes which requires imagination and originality could be entrusted to the right people — the private sector, of course !

I do not agree with you when you say that some interested Chief Ministers should take up the scheme. Why not the Central Finance Minister himself give prize bonds another—and fairer trial? If he could be persuaded to introduce prize bonds at all, he could now be persuaded to introduce the much-needed reform? in the scheme. I am

sure he himself must be looking out for schemes to raise additional moneys without having to levy very high taxes. More so now when our receipts from small savings are declining".

Exchange Stabilisation

WHEN variations in the demand for and supply of a currency in exchange markets tend to produce fluctuations in its exchange rate, an exchange stabilisation fund may play a useful role in smoothing out these fluctuations. It would appear at first sight that a fund of this kind will prove less useful in circumstances in which there is a persistent downward tendency in the exchange rate and the balance of payments position of the country is chronically weak. Even in such circumstances, however, it is conceivable that speculative forays may tend to push down the value of the currency lower than would be otherwise justified or produce a larger drain on the country's reserves than would otherwise have occurred. Recent experience, notably in relation to sterling, has shown that short-term capital movements may produce changes in the position of a currency which have no relation to the country's balance of payments. An exchange stabilisation fund may in such circumstances help to buttress a currency in the exchange market and thus contribute something towards its longer-term strength.

This is evidently the reasoning behind the decision of the L S Federal Reserch Hoard to conduct open market operations in foreign exchange on an organised basis and on its own account with the object of maintaining the stability of the dollar. From time to time in the past, the Federal Reserve Board has carried out minor operations of this kind on behalf of the U S Treasury. However, it will now be carrying out such operations on its own for the first time. What is more important, it will set up a fund for this purpose and lay up stocks of foreign currencies with which to carry out such operations from time to time. Presumably, it will replenish its holdings of foreign currencies by selling dollars whenever conditions are favourable. In this

way, it will take advantage of any upward pressure on the exchange rate of the dollar to sell dollars in exchange for the currencies required by it.

If, in deciding which currencies to purchase at any given moment, it takes into consideration the need of different currencies for assistance against speculative pressures, the operations of the Federal Reserve System would in effect help these other currencies as well. The currency authorities of most countries intervene in the exchange markets in defence of their own currencies. With the United States also intervening in the exchange market, it is possible for all these authorities, to cooperate with each other so as to create a massive force counterbalancing speculative pressures in the world's exchange markets. Though nothing has been revealed about the size of the fund that the Federal Reserve Board will set up for its exchange stabilisation operations, it is not difficult to see that this will be quite large in comparison with the funds that the other currency authorities can mobilise for this purpose. The Federal Reserve System's decision will, therefore, mean a considerable accession of resources to the official forces ranged against speculative elements in the exchange markets.

From the viewpoint of the domestic money market, it is important to remember that the Federal Reserve Board's open market operations in foreign exchange would have the same implications as its open market operations in Government securities. The buying or selling of dollars in the exchange market would not, however, be dictated by the same considerations as the selling or buying respectively of securities. On occasion, therefore, the two types of operations might work at cross purposes as far as the domestic money market is concerned. In assessing the importance of the new scheme for the American monetary system, this will have to be kept in mind.

Madras Traffic and the Constitution

WHAT the Madras police has to cope with now is just one of those practical problems of administration in a "dual economy". Can the handcart co-exist with the Hud-

son? How can the pace of the bullock cart be reconciled to that of the limousine?

Madras is not quite an Indian metropolis. In fact, the chief charm of the city lies in its spacious appearance and the leisurely tempo of its life. But apparently, the pressures of urban growth are felt even here. The Madras police have come to the conclusion that manual control of the traffic along Mount Road, the city's main thoroughfare, is not possible any more. With more enthusiasm than foresight, they worked out for the busiest stretch of Mount Road a six-lane traffic system, complete with automatic-light signals. These signals give a time interval of roughly 30 seconds for traffic to clear them and, of course, not all the vehicles that ply on Madras roads can manage this speedy feat. Some segregation of the forms of transport is unavoidable for the working of this essentially modern device. Hence the Commissioner of Police imposed a ban on the movement along the six-lane highway of all slow moving vehicles such as rickshaws, cycle rickshaws and handcarts, from 7.30 a m to 8 p m on all week-days. On Sundays and at night time, however, Mount Road was to be open wide to the slowest vehicle; in town.

Preparations were finalised and all was set for a grand opening of the six-lane scheme by the State's Chief Minister. But the function was postponed. A batch of writ petitions were filed in the Madras High Court praying for the removal of the ban on slow-moving vehicles. The petitioners were the proprietors of business houses situated on Mount Road — an auctioneer, a furniture dealer and two others, all dealing in bulky merchandise. It was their contention that the Police Commissioner's ban deprived them of the use of the handcart, the easiest, safest and most economical means of transport available for their purpose and that this would affect their trade to a considerable extent. The provision by the police of alternate routes close to Mount Road for all slow-moving traffic was useless for the excellent reason that these routes just did not lead up to their places of business. The argument that the ban was operative only during day time and on week-days

was not effective. Actually, the Judge considered this a "total ban" and one which went far beyond what Article 19 (6) of the Constitution would justify ("Reasonable restrictions on freedom of movement within the Indian Union"). Confining his judgment to "lightly laden" hand carts only, his Lordship directed the Commissioner of Police to permit such vehicles to ply on Mount Road. The judgment was quite sharp on the authority's lack of consideration for trading interests: "There is a great deal of force in the contention of the petitioners that the only consideration which weighed with the Commissioner was to hustle the traffic along Mount Road and to prevent any congestion of traffic thereon. No examination of the resultant difficulties upon the merchant community and the consuming public appears to have been examined in the attempted solution of the traffic problem". And again: "Merely to say that to encourage this bullock-rart mentality would not conduce to progress is not a proper answer".

The Madras Police are now said to be studying the situation. Perhaps they are thankful that they have to deal only with handcarts and not the other types of slow vehicles as well. And as the Judge himself suggested, they could regulate the weight and capacity of these handcarts, confine their movements to certain hours of the day or permit only handcarts carrying the merchandise of the petitioner firms by issue of passes. Whatever the nature of the compromise, it is sure to mar the slick perfection of automatic! traffic control. But then Madras is not and can never be a Manhattan.

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