

Weekly Notes

Response to Crisis

IT is characteristic of the Prime Minister that in the challenge which China has confronted us with he should see also an opportunity for the country. Perhaps he alone among all our leaders realises fully the vast potential for good of the powerful forces released by the national emergency. He also realises that to harness these forces will need deliberate and sustained effort. The present crisis, he said in his address to the Lok Sabha, "is not a thing which we can deal with, with momentary enthusiasm or enthusiasm that lasts a month or two. It is a longer effort that is required". That precisely is the problem: How to make the enthusiasm last, making possible the prolonged and sustained effort that is so clearly needed?

This has been the frequent tragedy of the Congress Government under Nehru, 'the Prime Minister has given the lead but there have been almost no attempts to follow it up. And the blame in this instance cannot be restricted to the Congress party alone since the opposition has also laid claim to participation in the national effort. Mince the Chinese aggression, politicians belonging to all parties, the Congress and the opposition, have never economised on words—but to what effect? Mainly to advance petty feuds and prejudices. Now that one, perhaps the chief, object of their criticism has been removed they look, and sound, lost—the ground has been cut from under their feet.

The setting up last week of the National Defence Council may probably turn out to be another of those symbolic gestures which have often in the past satisfied the Government and pleased the opposition. With 31 people of diverse persuasions and pursuits it is not surprising that the functions of the Council could not be set down except in the vaguest terms. Even the selection of the members is not entirely understandable. For instance, how does one explain the exclusion of the Chief Minister of Assam? The size of the Council may be explained on the ground that the Government wanted it to be broad-based. But if the intention is to associate the people with the national effort the

thing to do is not to set up one large council or committee in New Delhi with as many people in it as possible but to set up committees, less ostentatious but more effective, in every town, district and village.

the Prime Minister has also courageously affirmed that we will not compromise our basic policies of non-alignment and peaceful co-existence. This is indeed vital. But the preservation of these policies in the days and months ahead which will undoubtedly be full of stresses and strains will not result automatically. It will call for deliberate action. Much will depend on how effective is the use that we make of the military aid which our friends have so generously given us. For the more elective our use of this aid, the less would be the need for additional aid. Equally necessary is it to maintain our objectivity in our relations with all countries, neutral or belonging to the Soviet or Western blocs. We have in the past accepted large quantities of economic aid without compromising our basic policies. If we cannot maintain these policies now, Chinese aggression and acceptance of western aid not withstanding, the failing would be really our own.

Back to Three Tiers

COMING in the wake of the various financial measures introduced by the Government of India, the announcement by the Reserve Bank of the modification in its lending rates might appear to be something of an anti-climax, though its avowed objective, among other things, is to "ensure stable economic conditions for both development and defence effort". The four-tier system of lending rates is given up and the three-tier system brought back again. Under the new arrangement a bank will be able to borrow 25 per cent of its statutory reserves at 4 per cent, another 25 per cent at 5 per cent and the remaining portion of the statutory reserves at 6 per cent. The Reserve Bank will allow any borrowing beyond the limit of 100 per cent of the statutory reserves only in exceptional circumstances, and that too after making detailed Scrutiny and at a penal rate. The existing concessions as regards Tending to small scale industries and co-ope-

ratives will continue with minor modifications.

Frequent tinkering with the slab rates of lending to the commercial banks raises a very important question whether such an involved procedure with frequent changes in tiers is at all necessary. One of the justifications for such a system at the time it was first introduced was that an upward change in the bank rate might raise the cost of government borrowing. This argument is now no longer valid in view of the fact that the yield pattern on the gilt-edged and other government bonds has been already levelled up since August 1962. A straight increase in the bank rate with a ceiling on borrowing would have been a more appropriate policy, assuming that a rise in the cost of credit is all that is required to control expansion of bank credit.

The second point is whether these measures would help to "ensure stable economic conditions" at all. As the circular itself points out the rate of expansion of bank deposits is quite high and is likely to increase further in view of a likely rise in the magnitude of deficit financing. If that be so, then the banks would be able to expand credit without recourse to the Reserve Bank. Unless, therefore, the monetary authorities take additional steps like raising the reserve ratios, the change in the Reserve Bank's lending rates would not be very effective in achieving their objective.

A far more important issue is whether the new measures would help the defence effort. What is re-

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quired is a rational allocation of bank funds to industries or firms which have a high priority in defence production, to ensure that bank credit flows only to essential sectors. For this, it is necessary to prepare a list of high priority industries and sectors in consultation with the industries Ministry, the Department of Defence Production and the Planning Commission and to ask the banks to accord them the first priority in the allocation of their funds. The Indian Banks Association, it is reported, has already suggested a plan on these lines. There is a "wind of change" in the attitude of Indian banks and there is no reason why the Reserve Bank should not utilise this opportunity to work out a plan for the distribution of bank credit to essential industries in consultation with banks. This would pave the way eventually for the establishment of an adequate machinery for effectively co-ordinating monetary policy with general economic policy.

EN I without Mattei

IT was said that the only two living Italians who were internationally important were the Pope and Signor Enrico Mattei, Now there is only the Pope. Sr Mattei was killed in an air-crash on the outskirts of Milan on October 27.

To most people outside Italy Sr Mattei was the President of the Ente Nazionale Idrocarburi, "the Italian State-owned Oil Company". In fact, the E N I is much more than an oil company; it is a vast industrial complex — so vast and versatile (it owns Italy's second biggest daily newspaper, for instance) that immediately after the news of Sr Mattei's death became known, the Italian Conservative Liberal Party was clamouring for a break-up of the different interests which make up the E N I.

And Sr Mattei was the E N I. He was more. His relationship as President of a State-owned corporation vis-a-vis the Government would have horrified public sector enthusiasts in this country. Instead of the Italian Government controlling the activities of his corporation, it was truer to say that by virtue of his personality and political influence, he controlled the Government. His place in Italy's delicate political balance was so crucial that *The Financial Times*, London, did

"not rule out a Cabinet crisis following his sudden death. Sr Mattei's international importance was scarcely less. Recently President Kennedy personally despatched his Tinder-Secretary of State, Mr George Ball, to Rome to invite Sr Mattei to the U S

It was not without significance that Sr Mattei began his public career after the War, as Vice-President of the State-controlled Agip Oil Company, by disregarding with impunity the Italian Government's order to hand over the company's prospecting rights in the Po Valley to an U S oil giant. This resolute action contained the seeds of two of Sr Mattei's three outstanding achievements — the building up of a flourishing Italian oil industry and successfully resisting the ambitions of the private oil monopolies. His third achievement — recognition of the commercial wisdom of buying cheap Russian crude — came afterwards.

The Po Valley which he salvaged for his company subsequently turned out to contain Europe's richest natural gas fields and in 1953 Sr Mattei piloted a bill through the Italian Parliament setting up the E N I, the National Hydrocarbon Agency. And in the space of less than a decade the fire-breathing brand image of the E N I has appeared in places and countries as removed from Italy as the U A R and India. Particularly, in the last few years Sr Mattei had concentrated his attention on the newly-independent countries of Asia and Africa. In many of these countries Sr Mattei and the organisation he presided over have become symbols of the passionate desire to break away from the stranglehold of the private oil monopolies and develop a national oil industry.

Sr Mattei was personally responsible for making Italy the largest importer of Russian crude in the non-Communist world. Last year he pressed the Italian Government to conclude a five-year trade agreement with the Soviet Union, under which Italy undertook to buy 14 per cent of her total petroleum requirements from the Soviet Union. Sr Mattei's growing imports of Russian crude oil had led his business and political opponents to

mount a ridiculous campaign to brand him as a Communist stooge, Sr Mattei himself maintained that he bought Soviet oil because it was available on so much better terms — an indisputable fact.

After the long years of bitter-struggle, there were hints, of late, that the major oil companies were preparing to come to terms with the *enfant terrible* of international oil. At the time of his death Sr Mattei was known to have been engaged in top secret negotiations with the Standard Oil Company of New Jersey. The 'global deal' between Esso and E N I, which was believed to be imminent, would not only have settled the long-standing disputes between the two companies but also have paved the way for close co-operation between them. The proposed agreement was to include long-term supplies of crude to E N I by Esso, supply of petrol products to E N I's distributing company, A G I P, in countries, like the U K, where the E N I has no refining facilities and the purchase of large quantities of petroleum industry equipment from E N I's engineering company, Nuova Pignone. The 'deal' was apparently to be very much on Sr Mattei's terms, for immediately after his death, Esso has denied that there had been any talks leading to an agreement between the two companies. Any agreement with E N I minus Sr Mattei would obviously be on different terms.

While the private oil monopolies will naturally feel a heavy weight lifted off* their chests, it is difficult to say what impact Sr Mattei's death would have on the E N I's activities in the developing countries, though here again the E N I would probably be less ready now to cross swords with the private monopolies. This could have the result of making the national oil industry in some of these countries more dependent than hitherto on assistance from the Communist countries. But the Soviet Union itself cannot but be seriously concerned over the consequence of Sr Mattei's sudden death. Italy is the Soviet Union's largest non-Communist market for oil. But there have been questions asked about