decided to co-operate with one another. The question is what is to be done when the necessary co-operation is not forthcoming.

it is time that the Forward Markets Commission took stern measures to discourage bull manipulation. New Delhi also should move more nimbly to enforce strictly the price control over cotton. Requisitioning and compulsory survey must be started immediately and farmers and traders contravening the cotton control order must be dealt with severely. In addition, import of foreign cotton should be expedited. Meanwhile, the Indian Cotton Mills' Federation also might try to enforce some discipline on member mills and persuade them not to purchase cotton at above the ceiling prices.

Weekly Notes

Cold Feet Over Decontrol

DRAGGING one cold foot after the other, the Government appears inclined to reverse the policy of decontrol of industrial products initiated last year in September. Experience, it is alleged, has shown that decontrol led to a rise in the prices of decontrolled items, without inducing larger investment to step up production. It is also suggested that re-control would be logically consistent with the tightening up of controls on the prices and distribution of foodgrains. These reasons are specious and the proposed move is hasty and ill-conceived.

The decontrol measures initiated last year were not inspired by expectations of an early or immediate rise in production and investment. They were based upon an altogether fresh approach to the question of price and distribution controls. The main objectives were to (i) restrict controls to a few items only instead of spreading them out thinly and ineffectively over a wide area, and (ii) divert monopoly profits arising out of shortages from intermediaries to producers. Besides, the Raj Committee report on steel distribution greatly strengthened the feeling that, priority consumers apart, prices should reflect relative scarcity and the market mechanism should be allowed to function, subject to the safeguard of various kinds of buffer stock operations. Nobody expected scarcity to disappear and some rise in prices was taken for granted but this rise, it was hoped, would not exceed the premia which consumers were in any case paying on the controlled prices.

In the case of steel, about which the Government is said to be particularly upset, it is reported that prices of (decontrolled) structural and heavier sections like joists, channels and angles are quoted at prices 25 to 50 per cent higher than those fixed by the Joint Plant Committee. True, joists are particularly scarce at the moment, largely due to defence requisitions, but then the great majority of decontrolled products are, in fact, being sold in the market at JPC prices, if not lower. Premium prices relate in most cases to products which are hardly available at all due to certain bottlenecks at the JPC and plant levels. The trade confidently asserts that even a few wagon loads and slightly more regular supplies could eliminate many of these premia. While trade opinion need not be accepted as the gospel truth—traders are definitely compensating their losses on some items by hoarding those in short supply—, there is no doubt that the distribution arrangements are working more satisfactorily than in pre-decontrol days. The market, as a whole, is more competitive and evens out fluctuations in demand and supply less ineffectively than earlier. The difficulties that persist in some structural and sections would also have eased considerably if the consuming industries had made greater progress in standardising their specifications and thereby reducing the number of varieties which they demand.

The so-called price distortions and cost increases of which much is being made in New Delhi need to be appraised in the broader context of aggregate and relative price movements rather than in isolation. Precisely how far has decontrol raised actual costs? To what extent has higher cost been worthwhile in terms of easier or more flexible availability of materials? Is the increase in these particular costs proportionately greater than that for materials which are not involved in this controversy?

A return to controls over a very large number of commodities and at all levels would be an unwise step. The price indices (defective though they are) for materials, intermediates and manufacture have not risen at a rate such as to call for a reversal of policy and the rise itself has been brought about to some extent by the sharp increase in labour costs. To control all "essential commodities", regardless of their relative essentiality *inter se* and the essentiality of their consumption without giving sufficient time for spreading the impact of decontrol would only help to accentuate and perpetuate shortages. The task of demarcating areas of control and decontrol on a rational basis, begun rather half-heartedly earlier, needs to be completed. Nothing has happened to warrant a hasty scamper back to haphazard controls.

Curb On Clean Advances?

THE search for explanations of the seemingly unending rise in prices has produced various types of scapegoats. In keeping with this pattern, the Reserve Bank has been pointing an accusing finger at banks' clean advances as the loophole through which inflationary forces get around its gallant efforts in the field of monetary policy.

Over the twelve months ended February 1964, banks' clean advances increased by 29 per cent, from Rs 220 crores to Rs 286 crores. In a letter to the banks in March the Reserve Bank had drawn their attention to this "inordinate rise" and directed them to bring down the level of clean advances other than to industrial borrowers. Despite this fiat, clean advances declined by only Rs 20 crores between February and August. Clearly, slack season contraction is becoming smaller relative to the expansion in the preceding busy season. And so the Reserve Bank is now contemplating imposing a curb on unsecured advances and as its own contribution to the effort to bring down prices.

To the extent clean advances provide the wherewithal for speculators to operate with, a curb on them will be welcome. But how will the Reserve Bank differentiate between speculative and non-speculative clean advances? And if a distinction is not made, any curb will create serious difficulties for industries which, surely, is not part of the Reserve Bank's objective.

No less fine is the line between secured and unsecured advances, Thus purchase of a D A bill is regarded as a clean advance because the goods which form the security against the bill are not in the possession of the purchasing bank or its correspondent. If. however, the bill is drawn against a Letter of Credit issued by a bank in the importing country, the purchasing bank holds the Letter of Credit as the security and not the goods against which the bill is drawn. To hold advances against such a D A bill as unsecured makes no sense.

Again, pre-shipment advances are often made by banks under authorisation of foreign banks incorporated in Letters of Credit and goods remain in the possession of the exporters for processing or export clearance. So long as banks conform to the terms of the authorisation, the advances made by them are perhaps more secure than even those made against goods actually in their possession.

Banks often grant clean advances to their A-l customers whose standing and stability are beyond doubt. But recently many banks, it appears, have been forced by the Reserve Bank inspectorate to convert such advances into secured advances by making the borrowers sign hypothecation documents. This is curious indeed; how can advances against goods which are in the possession of borrowers be regarded as secured even if the borrowers have signed hypothecation documents? The value of the security offered by these documents cannot be more than that of a promissory note executed by the borrower. Violation of the terms of the hypothecation may be a criminal offence, and to that extent such violation may be restrained, but that cannot make such documents more valuable as security than promissory notes. Banks can close a hypothecation and seize the hypothecated goods, but an unscrupulous borrower can empty the hypothecated godowns before the banks take possession of them.

To change well-established practices in banking is not easy and the difficulties are magnified manifold when changes are imposed without proper consideration. If the Reserve Bank intends to issue directives restraining clean advances, it must clearly define such advances and also make the definition reasonably flexible so that accepted banking practices are not unnecessarily disturbed. In this context, it is well to recall that the definition of *net liquidity* for the purposes of the Reserve Bank's latest credit policy had to be amended within two months of its formulation and perhaps further amendments are yet to come. It is to be hoped that if and when the Bank issues any directives on clean advances, the definition of such advances will not be subject to periodic amendments.

Reform Through Newsprint

THE executive's temptation to nibble at the liberties of the individual to suit the exigencies of administration is constant. The Information and Broadcasting Minister, Mrs Indira Gandhi, was succumbing to this temptation when she told the Rajya Sabha on Tuesday that the Government would seriously consider whether newsprint and other facilities should not he denied to newspapers which were "anti-social". Precisely what type of news papers she had in mind, she did not make explicit, but from the brief exchange between the Minister and Members it appeared that "communal" and "pernicious and blackmailing news' papers" would fall in this category. The problem is not of definition, however. What is alarming is the attitude which sees nothing wrong in the executive assuming powers of summary judgment in matters involving denial of the most fundamental of individual freedoms and using, besides, whatever means are available to it for enforcing these judgments.

No doubt communalism continues to be a genuine problem, and, as the riots in eastern India proved not so long ago. inflamed and biased reporting and comment in newspapers can effectively destroy communal harmony patiently built up over years. Similarly, there are of course, newspapers which may with much justification be described as "pernicious and blackmailing". None of this, however, justifies the arrogation by the executive of the power to arbitrarily circumscribe the individual's fundamental right to freedom of speech and expression guaranteed by Article 19 of the Constitution and. worse still, to attempt to do this deviously in the discharge of the purely administrative responsibility of allocating scarce newsprint. The fundamental rights are justiciable, indeed that is what makes them the foundations of our democratic political order. Any attempt to deny them to particular individuals, on whatever grounds, in such a manner as leaves them without appeal to the courts strikes at the basis of democracy.

It is not that the Government is powerless against newspapers which attempt to disrupt communal harmony. Article 19 of the Constitution has been amended to enable such newspapers to be prosecuted in the courts. But it is for the courts alone to judge and to punish. Any attempt by the executive to circumvent this process is undemocratic. It is surprising that the Minister for Information and Broadcasting should need to be reminded of this.

Staving Off Devaluation

RAISING the bank rate from 5 per cent to 7 per cent is a further emergency measure by the British Government to prevent the country's balance of payments deficits for 1964 from getting any larger than the expected record figure of £800 million. What forced its hand was the flight abroad of short-term funds from London. On Friday (20th November) alone that flight amounted to about 20 million pounds.

This hurried transfer of hot money from London was apparently induced by an expectation of imminent devaluation. The 15 per cent surcharge on imports came into effect only live days before the end of October and has not yet had any significant impact on the balance of payments. On the other hand, since the beginning of September alone the drain on the UK's foreign exchange reserves has amounted to £200 million. Short-term money has been flowing out of London with such consistency for the last many weeks that it is likely to exhaust the whole of the standby credit of £ 357 million which was arranged with the 1 M F in July.

Though it does not seem to have been recognised by anybody, the expectation of devaluation has *in* all probability been encouraged by the knowledge that in the not very remote past one or two of the new government's important consulting economists had vigorously advocated devaluation for Britain. That this expectation has not been squashed is suggested by the reported renewed pressure on the pound on Tuesday.

The British Government, of course, raised the bank rate by 2 per cent in the hope that it will result in a dramatic reversal of the movement of hot money—by making it more profitable to hold it in London rather than abroad. But that hope can be fulfilled only if there is no longer any expectation of devaluation. But it would seem that for the moment the expectation persists in some degree and to that extent the impact of substitute measures taken by the Government is reduced.

It is being said that the British economy can ill afford a tight money policy at this time. The rate of growth of G N P during the first half of 1964 has been only 1.5 per cent as against the target of 4 per cent But the effect of a high bank rate on industrial investment can be easily exaggerated; there is plenty of recent evidence to suggest that in Britain at least industry invests when it feels induced to invest, largely out of its own accumulated funds and quite irrespective of the bank rate.

The British move has had some repercussion abroad, The U S A has felt it necessary to forestall any increased pressure on the dollar by a large transfer of funds from New York to London by raising the Federal Reserve Board's discount rate from 4 to 4½ per cent. Similarly the Bank of Canada has raised its bank rate from 4 to 4¼ per cent.

The reported renewed run on sterling started within 30 hours of the announcement of the rise in the bank rate. It is believed that the Bank of England has been trying to give support to the pound through official brokers and that this support had cost the Bank, between Friday and Wednesday, an amount of gold and hard currency which is estimated at $170 million dollars. The Bank of England has also announced that eleven central banks and the Bank for International Settlements have made available $3000 million for support of the pound. Whether these steps will work or whether the renewed pressure on the pound will continue and force the Government to adopt further emergency measures, remains to be seen.

Defence Aid from UK

DEFENCE Minister Chavan has returned from his London talks with a number of promises of help in his pocket; there have been disappointments too. The final results of these talks, as Chavan told the Lok Sabha on Thursday, will be apparent only after the Labour Government completes its review of U K's defence and financial policies.

The British Government has agreed to provide foreign exchange, and technical help for building in a British shipyard one modern submarine for the Indian Navy. Until this submarine is acquired, the Royal Navy will second one of its own submarines for training Indians for a few months each year, Chavan also signed a formal agreement in respect of the £ 4.7 million loans for rebuilding the Mazagaon Dockyard and building there three 'Leander' class frigates which the Tory Government had approved in September. Besides, though neither the joint communique issued in London nor Chavan's statement in the Lok Sabha mentioned this, it is believed that Britain has been approached for help for 'Sea Hawk' fighters and 'Hunter' aircraft. Other possible British assistance may be in the development of a light tank and a Mach-II engine for the HF 24 plane. All these probably were on Chavan's shopping list and that presumably is where they remain.

While in his talks in London Chavan naturally played up the threat from China, it is not China alone which has been trying to modernise her navy in this part of the world. Pakistan has acquired a submarine and is trying to obtain more. Indonesia has been rapidly increasing her naval strength and now has 16 Russian submarines. The Indian Navy's vessels, experts agree, are outdated and need immediate replacement. There is need for a submarine arm, and a fleet tanker for refuelling at sea. But India's request to the U K for loan of three 'Daring' class destroyers from its operational reserve to meet the urgent need to replace out-of-date ships in the Indian Navy has met with a rebuff.

As usual, Pakistani diplomatic pressure against defence assistance to India was a factor in the talks in London. Besides, recent developments have made it clear that in the western strategic scheme the burden of the 'naval deterrent' to Communist China will be shared between the U S Seventh Fleet and the Singapore-based Royal Navy. It is, therefore, extremely unlikely that assistance from the U K for modernising the Indian Navy will be anywhere near the requirements of India's five-year defence plan.

Relative Rates of Growth Agriculture and Industry

CORRECTIONS

IN the above article by Ashok Rudra published in the issue of November 7, the following printing errors have to be corrected:

Page 1775, equation 6, read $s_{3t} + o_{3t}$ for $s_{3t}o_{3t}$

col 3, read:

$$\left.\begin{aligned} t &= 1970{\cdot}71 \\ o &= 0.35 \\ b_1 &= 0.050 \\ b_2 &= 0.050 \\ b_3 &= 0.300 \end{aligned}\right\} \text{ for } \left\{\begin{aligned} t &= 1970- \\ o &= 0.35 \\ b &= 0.050 \\ b^1 &= 0.030 \\ b^2{}_3 &= 0.300 \end{aligned}\right.$$

the following para, read .040 for .C40

Page 1779, col 1, line 4, read "competitive imports" for "non-competitive imports"

column 3, equations 22, 23 and 24, read X_1, X_2 and X_3 wherever x_1, x_2 and x_3 occur

Page 1781, Table 1, col headed "gross output", read 10086.5 for 100865

Table 3, figures are percentages; read col 1 as 2.0

3.0

4.0

5.0

6.9

Page 1785, col 1, line 34, read $\ominus$ for $\oplus$

col 3, line 2, read Vol XXIV for Vol IXIV

same col, read equation as

$$q_i\ p_i = \bar{q}_i\ p_i + b_i \left[\sum_{i\ 1}^{n} p_i \left(q_i - \bar{q}_i\right)\right]$$

third line after equations and fifth line from bottom, read $\bar{q}_i$ for q_i

Page 1787, col 1, first of the last three equations should read

$$h_i = H_1 + H_2 + 0.535H_3$$

The errors are regretted.

—*Ed.*