

THE ECONOMIC WEEKLY

On the Brink in Viet Nam

Vol XVII No 11 March 13, 1965

EDITORIALS

- On the Brink in Vietnam 467
Credit Control Conundrums 468

WEEKLY NOTES

- Central Aid to States—Import Entitlements on Way Out?—Semantics on Deficit—More Taxed, Also More Profitable—On the Economic Survey—III-Paid Teachers—Nasser Serves a Point 469

LETTER TO EDITOR

- Is This 'Functional' Inflation? 472

CAPITAL VIEW

- The Decline of Lal Bahadur—Romes Thapar 473

FROM THE LONDON END

- Indo-British Trade 474

BOOK REVIEW

- India's Invisible Men 476

SPECIAL ARTICLES

- the 1965-66 Budget: Indirect Taxation 479

- The "Manchesterisation" of Ahmedabad

- Howard Spodek 483

- Econometric Approach to Planning Education: Comment

- R K Srivastava 491

- S S Suryanarayanan

- Andhra's Budget 493

- C V H

- Language and Indian Unity: Comment

- Sankar Nath Maitra 494

ROUND BOMBAY MARKETS

- Further Break in Equities 495

BUSINESS NOTES

- I C I C I—Pfizer—Sen-Raleigh

- Scooter Exports — Sugar Production 498

- CURRENT STATISTICS 501

IT is time to ask the U S administration to pause and ponder before it reaches the point of no return in Viet Nam. Two battalions of U S marines have landed along the Viet Nam coast last week, sporadic bombing raids are continuing across the seventeenth degree parallel, and the White Paper issued by the Department of State indicates that the Americans are hell-bent to escalate the fighting. All this means that, over the next few weeks, more people will get maimed or killed, more huts and structures will be burnt down, more standing crops will be destroyed in the fields, more roads and bridges will be wiped out in a territory about ten thousand miles away from the United States mainland.

Till now both the Chinese and the North Vietnamese governments have responded with enigmatic restraint to the American offensive. But at some stage the decision-makers at Peking and Hanoi might feel tempted to drop one or two experimental bombs on U S bases in Okinawa or Taiwan, and the chain of consequences from then on is altogether unpredictable. Clearly, the U S administration has taken on a gamble: it is expecting a particular set of game-theoretic responses from China and North Viet Nam, and its strategy is closely bound to this specific string of anticipated responses, the hypothesis being that, under these conditions, the current temporary precipitation of the war will ultimately help the establishment of a detente in Viet Nam.

But what if the Americans prove wrong, and their impatience plunges the world in a holocaust? The people in Asia—and elsewhere—have a right to ask of the U S Government what fur it is involving them into this awesome risk. If the U S reply is that they feel insecure with each spread of communist hegemony even if it be ten thousand miles away from home, the answer of the people of Asia—including, despite all that has happened in recent years, those of India—will continue to be that they are scarcely interested in accepting martyrhood merely to satisfy the security psychosis of the United States' citizens. In case the U S administration argues that it is the freedom and security of the people of South Viet Nam they are fighting for, one can only be impressed by the Gilbertian aspect of the argument. Roughly three-fourths of the total area and two-thirds of the population of what was euphemistically known as South Viet Nam are now under the control of the Viet Cong. No doubt, some degree of infiltration of both men and arms has taken place from the North in recent years, and yet, given our knowledge about liberation movements in other countries, it will be straining belief to suggest that the Viet Cong could establish itself so firmly without very considerable and dedicated support from the local population.

The so-called South Viet Nam Government based on Saigon is at present little more than a joke, and the unending succession of coups has proved conclusively the utter rootlessness of the regime. If reports emanating from Saigon have any basis, wide stretches of the capital itself have been infiltrated by the Viet Cong. Large sections of both the Buddhist and Catholic communities have of late been vocal in favour of a negotiated peace, and it is insolence on the part of the U S Government to suggest that they know the mind of the South Vietnamese population better. After all even the Americans themselves know only too well that the moment their support is withdrawn the generals and the air captains and the naval lieutenants strutting about in Saigon will all be swept away.

There is hardly any necessity to question the *bona fides* of the recent US actions: it could well be that the American administration, despite General de Gaulle's wry aside, does sincerely believe that the pristine qualities of democracy and freedom are in peril in South Viet Nam, and that their involvement is therefore a matter of morality. But one cannot salvage freedom by encroaching upon the freedom of action of other peoples. The mass of the South Vietnamese population have no desire left in them to

THE ECONOMIC WEEKLY

Co-operative Insurance Building,
Sir P M Road, Bombay-1.

Grams: ECONWEEK
Telephone: 253406

Annual Subscription : Rs 36
Foreign ; £ 3 10s or \$ 10.

continue the war, they have made several categorical assertions to congregate at the negotiating table and hammer out the terms of an honourable peace. It is not for any aliens to veto this expression of desire for peace: saving Viet Nam and its people is more important than saving American face.

It is a great pity that on this issue the official expression of Indian opi-

nion has been cautious and muffled. Given the current heavy reliance of this country on the United States for both economic and military assistance, it could hardly be otherwise. But let not the U S Government be misled: the temper of the people is a different thing. The U S marines may have marched into Viet Nam with saintly motives, but it would save and help peace everywhere if they would without further ado march out.

Credit Control Conundrums

TO the uninitiated at least there will appear to be some glaring contradictions in the state of the economy. That economic activity has been at an alarmingly low level, the Finance Minister has by now convinced almost every one. So no questions at all have been asked about the basic assumption of the 1965-66 Budget—that the economy, meaning here the private sector, needs a strong dose of incentives to get it off the ground to face "the more complex and sophisticated tasks" of the Fourth Plan.

But while, on the one hand, we have this picture of elephantine somnolence, there is, on the other, the impression of great pressure on the banks for credit and more credit, calling forth last month a sharp rise in the Bank Rate and higher interest rates all round. What can an anaemic economy be doing with all this money, Simpleman asks.

Simpleman has other questions, too. He was brought up to believe that a large State-controlled credit institution like the State Bank of India would make it easier for the authorities to regulate the monetary system since they had a direct channel to the credit market. If the Reserve Bank felt that there had been monetary over-expansion and felt the need to restrict bank credit, it would, Simpleman expects, work in close touch with the State Bank, the biggest unit in the banking system by far. But what does he find?

During the current busy season, between October 16, 1964 and February 12, 1965, commercial banks other than the State Bank increased their advances by Rs 65 crores as against Rs 131 crores in the corresponding period of the 1963-64 busy season. And their borrowings from the Reserve Bank increased by Rs 28 crores against Rs 49 crores. These banks, it would appear then, by and large conformed to the discipline enforced by the Reserve Bank in September last year

when the Bank Rate was raised from 4.5 per cent to 5 per cent

However, during the same period, i.e., October 16, 1964 to February 11, 1965, the State Bank's advances increased by Rs 82 crores as against Rs 74 crores in the corresponding period of the previous busy season. And the rise in its borrowings from the Reserve Bank was truly spectacular—Rs 63 crores compared with Rs 11 crores. Is it that when the Bank Rate was raised in September, bank borrowings from the Reserve Bank were lied to their liquidity ratios deliberately to leave the State Bank enough room to expand its advances while keeping the other banks on a tight leash? Or did the State Bank exploit its technical advantage in spite of the Reserve Bank?

Even this is not all that puzzles Simpleman. In his circular on the Bank Rate raise on February 17 the Governor of the Reserve Bank connects the inflationary price situation to the fact that "expansion in money supply in the current busy season... has not been much below the record rise achieved in the last busy season" and that "the reliance of scheduled banks on the Reserve Bank is substantially higher than a year ago". From the figures quoted above it is clear that in the expansion of both bank credit and bank borrowings from the Reserve

Bank—in the latter particularly—the State Bank's share has been predominant. What view does the State Bank take of the contribution of its advances to inflation? Says the Chairman of the State Bank in his speech at the Bank's Annual General Meeting:

"While it is true that we are lending much more than in the past, it must be made clear that the additional credit we are providing is for purposes which are important from the point of view of the country's economy. Thus we are substantially assisting State Governments in their programmes of food procurement and food distribution, besides financing other projects in the agricultural spheres connected with State policy such as the jute buffer stock operations. Apart from this, it is industrial production of high priority and industrial units of all sizes—big, medium and small—that have claimed our first attention and, therefore, account for the bulk of the additional credit we have been providing. Finance for industry constitutes 76 per cent of our total credit portfolio. About a seventh of our finance for industry is accounted for by units in the public sector and the rest by industries in the private sector."

So, then, Simpleman has the Reserve Bank's conviction that bank advances underpinned by large bank borrowings from it have contributed to the inflation; the facts which show that the State Bank accounted for the bulk of scheduled bank borrowing from the Reserve Bank and a very considerable part of bank credit expansion; and the State Bank Chairman's emphatic assertion that his bank's advances went to finance activities vital to the economy* How much of the link between bank credit expansion and the rise in prices and how much of the rationale behind February's credit clamp down survive, Simpleman is left wondering.

Revised Subscription Rates

WITH effect from March 1, 1965 the price of THE ECONOMIC WEEKLY has been raised to 75 Paise. Correspondingly the annual subscription is Rs 36 in India, Pakistan and Ceylon. The half-yearly subscription is Rs. 20. Foreign annual subscription rates are £3 10s and \$10.

For the last 16 years, the price of THE ECONOMIC WEEKLY has been maintained unchanged in spite of heavy increases in costs. Circumstances beyond our control have compelled us to take this step and we hope readers will continue to extend to us the same patronage as in the past.

A FERNANDES
Business Manager