apparently not occurred to the estimable colleague that there might be a causal connection between the two, that a people which had lost or forgotten its "lathi" was almost certain to lose its sandesh.

The reaction, as I was saying, is as significant as the event. There has indeed been a feeble official attempt to introduce soya bean milk, which serves China, Japan and all Fast Asia well enough. There has been no evidence of popular enthusiasm for the substitute. There have been no suggestions for local alternatives. There have been no exhortations to forget sandesh and get on with life. There has been no demand that Haringhata make available sufficient milk for sandesh and all else, no demand that the Ministers and officials guilty be openly punished. All we have had is a pathetic whine for the loss and a nostalgic and literary sigh for what is passing away.

The dearth of split milk for sandesh represents only a small part of the much bigger split in Bengal. Partition was a many-splintered thing of which only a few have so far surfaced. Casein for sandesh is not the question at all. Many Bengalis have already lost their taste for sandesh for one reason or another; the fare provided on ceremonial occasions had already been going down fast in quality. Vulgar *borphis* with louder sweetness had already begun to replace the sandesh, even in Bengali weddings. Some of the greatest traditional sandesh-making families in Calcutta had already got involved in protracted litigation of one sort or another, disputing the rights of splinters of fragmented joint families. Congelation, the essence of the process of sandesh making, had been falling apart long before the unfeeling order from Fazlur Rahman, the Minister responsible for doing the *hatal* on sandesh.

"Things fall apart, the centre cannot hold", wrote Yeats without knowing anything about sandesh which was a favourite of Tagore, whom Yeats in a sense introduced to the big world outside Bengal. The sentimental Bengalis, perhaps me included, are silly to lament the lack in so literary and futile a manner; but the whole process, from the order banning sandesh to its ineffective enforcement: to the accompaniment of lament on a scale no non-Bengali can fully under, stand, symbolises the whole Bengali predicament today. The sweetness is gone: the bitterness is faced only in bits and pieces,

—Flibbertigibbet

Weekly Notes

Opposition in Disarray

THE 'no confidence' motion which came up in Parliament at a time when infiltrators from Pakistan had broken into Kashmir and the danger to that border was greater than at any other time since the Pakistani raiders were pushed back in 1947. But for the timing of it, perhaps, the opposition parties cannot be. blamed. They could not possibly have anticipated it. What made it so grotesque, however, was the complete lack of cohesion among the opposition parties who supported it, lending point to the Prime Minister's objection that when censures became a routine annual affair, they served little useful purpose and only set an unhealthy precedent. How grotesque it became could not have been better put than by Hiren Mukherjee, the most accomplished of debators in Parliament, when he had ,to explain that his group had been disappointed that M K Masani had not in his reply reflected the common feeling of all the opposition groups! What, did he really expect? That Masani would put. forward the Right Communist line? While voting for the motion the Communists and PSP groups made it clear that they did so for their own separate reasons, and did not associate themselves with the views put forward by the Swatantra group which had sponsored the motion. What purpose could such a motion serve? Yet the Government's failings on the food front and its ditherings in Plan implementation cry to the high heavens for redress and needed to be ventilated. But for that, too, it was not the time. No country can put up its best front in fighting aggression while its Parliamentarians wrangle over failures on the domestic front.

Even so, the motion has served more than one useful purpose. It brought out the full support of the opposition parties to the stand taken against 'he infiltrators into Kashmir and it wrested a statement from the Prime Minister of the Government's intention to appoint a high-powered commission to examine the need for improvement in the administration, and for more effective implementation of programmes and policies, in the Secretariat, the various Directorates and in the Districts,

Also welcome would have been the assurance from the Prime Minister that the resources gap in- the Fourth Plan will be filled, had it not been preceded by a disturbing statement by him that land revenue would not be touched, because it would create 'tension' among agriculturists. This is disconceiling, indeed. A large part of the growth during the last three plans, the figures for which he threw at the face of the Swatantra critics, has taken place in the agricultural sector which accounts for merely half of the national income. Shouldn't, the latter contribute its fair share to the investments in agriculture which is proposed to be vastly increased and which, the Prime Minister assured, would not be cut under any circumstance. Against this background, the Finance Minister's optimism in regard to foreign aid and adequate untied aid to step up the industrial growth rate to 14 and 13 per cent looks deceptive and ill-founded.

Pakistan's Game in Kashmir

PAKISTAN'S objectives in launching the large-scale infiltration into Kashmir remain unclear. The most facile assumption, and the one which is naturally most current in this country, is that this was Ayub Khan's own Bay of Pigs : the infiltrators had been sent in the expectation that, the local population would rise in support of them, sparking off a war of liberation at a suitable stage of which the Pakistani army would enter the arena. This expectation was belied, which is hardly surprising; what would be surprising is that the leaders of Pakistan had really believed that it would not be It is not only that security arrangements in Kashmir have always been elaborate, but that, as was pointed out in these columns last week, while large sections of Kashmiris may be sullen nobody could consider them ripe material for revolt; in fact, it is not unlikely that they were as much taken aback by the infiltrators from across-the borders as the Indian army.

Any way, if it was Pakistan's hope to start a revolt in Kashmir, there is every reason for relief, if not rejoicing: but. the progress of the Indian army's operations to mop up the infiltrators during the three weeks since they were first detected is such as to cause some uneasiness. The Government now seems to have revised upwards its estimate of the number of infiltrators; Nanda's figure less than two weeks ago was 3,000, but in his statement to the Lok Sahha this Monday the Defence Minister estimated that "our operations have to take account of the fact that about 3,000 to 5,000 infiltrators *stilt* have to be dealt with in the Jammu and Kashmir area" — that is, excluding the almost 1,000 who, the Minister caimed in the same speech, had been either killed or captured or otherwise put out of action by the army. While very little is revealed about the activities of this large body of hostile men within our borders, except for reports of stray encounters with Indian troops or of depredation against the civilian population, the mere fact of their continued survival at large is a matter for concern, however well they may have been provisioned before they crosssed over. The mystery deepens with the confident assurances by the most authoritative quarters that the infiltrators had met with nothing but unremitting hostility from the local population. And they are not merely surviving; the very low figure of those captured — less than a 100 — compared to about 800 killed or put out of action in encounters with the Indian army, seems to indicate that they are neither down and out nor even lying low.

An alternative to the Bay of Pigs theory about Pakistan's intentions is that she is aiming to keep Kashmir on the boil for a long time. No immediate or spectacular successes are sought; what is, is to keep up tension by engaging the Indian army and by forcing the Government to snuff out livil liberties as would be unavoidable in a state of hostilities across the cease-fire line and of sabotage and subversion by the infiltrators who manage to evade the Indian army. This will be consistent with the tactics which Pakistan has adopted in Kashmir in the past. It may also explain why Pakistani leaders have reacted with surprising lack of belligerence even to the capture by Indian troops of not only Kargil, which had been occupied earlier in May, but also three other posts. Pakistan may be preparing for a long drawn out harassing operation. The implications of this for the eastern border between the two countries may be no less serious than those for Kashmir itself. The inevitable consequence of Indo-Pak tension here will be persecution and squeezing out of minorities on both sides, a problem which is not amendable to the military *modus operandi,*

New Prop for Japan's Prosperity

THE conclusion of the Japan-South Korea normalisation agreement registers a new developing *status quo* in East Asia. Despite Korea's experience of Japanese imperialism (1910-43) and continuous anti-imperialist pressure within South Korea, President Park has opted for 'normalisation' after some 14 years of desultory negotiation.

Japanese industry faced with an increasingly serious labour shortage that threatens in the long term to curb economic growth and stimulate wage increases faster than productivity, has thus located again its former source of cheap labour. Japanese companies are falling over themselves to establish factories in Korea now, and even last April, before 'normalisation', seventy such companies were said to be waiting in Seoul *(Asahi,* April 13). In the short-term recession currently depressing the Japanese growth rate (slightly) and Tokyo stock exchange (dramatically), the economic clauses of the agreement are welcome to hard-pressed business *on* other grounds. Japanese reparations payments in goods and services, a useful and lucrative element in past booms, has slackened (payments to Burma ard South Vietnam ended recently), and 'normalisation' includes a Japanese oder of 800 million dollars of grants and loans to South Korea. One Japanese newspaper recently noted that cynics observe that "reparations agreements happened to materialise whenever there were signs of an impending economic slump in Japan" *(Yomiuri,* May 10). For the old Japanese Right (what little is left of it), dreams of the Greater East Asian Co-Prosperity Sphere must seem less remote,, especially when normalisation is taken in conjunction with simultaneous continued encouragement to China (Prime Minister Sato's 'high posture' foreign policy, or rather foreign trade policy) and to Taiwan (150 million dollars credit was offered last April, and more over the next five years). To the 50 million dollars credit given Indonesia last year has been added a further 24 million last May, including, to the horror of the British and Malaysians, eight Kappa space-sounding rockets in July. These are small signs, but do indicate the recognition of Japanese business that further expansion in a world market, the rate of increase of which seems to he contracting, demands generous injections of tied aid to its immediate neighbours. Southeast Asia takes a third of Japan's exports at the moment, but cannot expand this proportion without massive help. That help might be the beginning of a new pattern of economic imperialism.

For the United Slates, 'normalisation' has been the long-term aim as the first tentative step towards a North East Asian Treaty Organisation (japan-South Korea-Taiwan-US) that will skim off some of the froth of the Japanese export boom and divert 'ft into armaments: so simultaneously relieving US defence costs in the area and relieving some of the merciless competition in the world market. This is a delicate operation that involves countering the profound anti-war neutralism of many Japanese and revising the Constitution to permit Japanese rearmament — 'Japan's defence budget is far too low today', McNamara put it bluntly last April. The needs of Vietnam that strain US military resources throughout East Asia have added an immediate edge to this demand. On June 28, coinciding with some of the worst stock exchange crashes ir. the current Japanese recession as well as a large popular revulsion from the Vietnam war, the US offered Japan at a third of their normal price, two battalions of Nike air-to-ground missiles. Further, the payment for these (200 million dollars) was then to be used by the US to purchase military equipment in Japan, an astonishingly 'generous' offer. Japan responded eagerly, although there are still many outstanding points of friction with the US, US investment in Japan at 500 million dollars is substantial (roughly 5 per cent of one estimate of the total value of investment in Japan), but this has not shielded Japan from measures to strengthen the dollar: nor has recent Japanese moves to liberalise its trade prompted the U S to revise restrictions on its wool and cotton imports, its Buy American schemes, its ban on Japan Airlines overflight of the US, nor has it ended the boycott of Japanese goods by the US fishing industry (retaliation for alleged unfair competition in the Alaska salmon waters). Japanese business has a long memory and current experience of the 'liberal' attitudes of Western business when, and only when, it is in a position of overwhelming supremacy. Where serious Japanese competition threatens, Western liberalism abruptly ends. But the US is still Japan's biggest market, and thus the ties are more than immediate frictions can disturb, *ceteris paribus.*

The 'normalisation' agreement is thus a crucial step in the expansion of Japanese business and the decentralisation of U S hegemony in the area, Korean students, fighting to keep open the door of possible future reunification of Korea, and Japanese students and trade unionists, fighting to prevent Japanese incorporation into the Western defence system, have both thus , reacted sensitively — the implications are clear in the short term, even if in the long other possibilities become apparent.

Exchange Earnings of Shipping

Our Shipping Correspondent writes ;

THE Minister of Transport, in his speech to the National Shipping Board in Madras, has once again brought up the question of Indian ships trading between two foreign countries. The Indian fleet carries 10 per cent of the country's international trade today and it could carry 17 per cent, according to the Minister, if all our vessels were plying to and from India. Seven per cent of capacity is therefore lost to India in cross-trades.

This does not necessarily mean that cross-trading is bad; obviously if an Indian vessel is plying between two foreign ports, its earnings and expenses are in foreign exchange and if the earnings exceed expenditure, the excess would be *net* foreign exchange earning for India. Secondly, even if more Indian ships wanted to ply to and from India, this may not always be possible because shipping arrangements are controlled by foreigners. Japanese steel mills buying iron ore seldom give any cargo to Indian vessels if Japanese vessels arc available; nor is India in a position to dictate shipping terms — the Japanese could easily go elsewhere for their requirements, it is not a seller's market at the moment.

Any policy is best determined by going back to first principles : Why does India want a merchant navy? Briefly, (1) to earn or save foreign exchange, (2) to have a say in the international cartels which liner trades have, and (3) as a second line of defence in case of a major catastrophe. Having said this, one has to go a little further: foreign exchange earning insaving is possible both by cross-trading and home-trading, and which is more prolitable can only be decided in a given set of circumstances. Sometimes cross-trading is more profitable, sometimes it is belter to have the ships plying to and from India. What to do in a particular case requires skill and judgement - the kind of judgement (hat very few Indian shipowners have. One of the difficulties of an outsider, however, is a question of data : there arc no statistics available to tell us how much net foreign exchange (i e, . foreign earning less foreign expenditure) any particular Indian company makes.

The fault here lies with the Reserve Bank; the Exchange Control Department is interested in keeping a sort of control on shipping expenses without fully understanding what they are controlling. In practice, the most lndricous system is followed, the control is severest not where it is needed most, but where the Government understands most. For instance it is well-known that the three Indian lines plying in the U K trade pay widely differing commission ranging from an average of 5 per cent for one company to 12 per cent for another, *Prima facie* there is no reason why commission should differ so widely, but Exchange Control does not enquire into this because it does not have the necessary technical knowledge to investigate; on the other hand if a ship needs essential stores or repairs, the entire elaborate procedure of import licences and haggling with the Government has to-be gone through. From an operational point of view and from that of the country's larger interest, it is very much better if the exchange is spent on maintaining the ships than on commissions to freight forwarders.

This criticism of the method of exchange control may seem to have an only oblique relevance to cross-trading, until one realises that the only way of adequately knowing how much a shipping company earns in foreign exchange is by allowing it to operate its own foreign accounts. The scheme that is therefore suggested is that shipping companies should be allowed to maintain a foreign account with the proviso that they will not he entitled to any remittance of exchange from India. They would then have to meet their foreign expenses from their foreign earnings and their performance in exchange earnings could be judged from their net remittances to India-

It will no doubt be argued that this is advocating nothing less than complete freedom from exchange control. In effect that is so, but international shipping, like international airlines, differ from other exports to the extent that not only is their earning in foreign exchange but so also their expenditure. Under the present, system of Exchange Control there is no way to know whether shipping or airlines in fact spend more or less in foreign exchange than they earn, and until one knows how much exchange a ship in a particular trade is earning, no useful policy decision on trading of Indian ships can be taken.

Sugar: No decontrol

THE sugar industry's petitions to the Government for decontrol of distribution are quite clearly premature. The expected production of 32 lakh tonnes or very slightly more in the 1064-65 season is no doubt the highest so far: it is also true that the industry his come a long way since 1962-63 when a total production of only 21 lakh tiuuies forced even so staunch a proponent of the free market as S K Patil, then Food Minister, to control sugar price and regulate distribution through a system of State quotas. But flushed as they are with the record output *of* this season, the sugar mills will do well to remember that their achievement has been made possible by a circumstance which may be ephemeral and definitely is beyond their control — a bumper sugarcane crop.

It was not so long ago, It fact it was only in the last season, that: the sugar industry was scouring the the countryside for *cane.* In that season and the one before mills were threatening to close down for want of cane. Why, even with this year's good crop, according to the President of the Indian Sugar Mills' Association, sugar production "would have been higher had the factories, especially those in west U P, been able to get adequate sane supplies, The working of these factories was; seriously disrupted by largescale cane diversion to gur and khandsari manufacturers. The growers completely or partially stripped cane supplies to a large number of factories in west U P demanding higher cane price, and consequently factories had either to stop crushing operations or 1o work intermittently". It is perhaps natural for the sugar industry to view die diversion of sugarcane to gur and khandsari as a "problem" which "needs in be tackled effectively and permanently", by imposing statutory controls on these industries if necessary. The fact, however, is that our total production of sugarcane is not sufficient to meet the requirements of the three competing users, commensurate with the growing demand for sweetening agents.

In any case, the industry's fears of being left with onerously large stocks out of this year's production are clearly unwarranted. With a carryover of about one lakh tonnes at the beginning and the production of 32 lakh tonnes, total supply this season will be 33 lakh tonnes. On the basis of the present State quotas, internal consumption is estimated at 26 lakh tonnes; in addition, 2.25 lakh tonnes are scheduled to be exported, leaving stocks of less than 5 lakh tonnes, equal to two to three months' consumption, at the end of the season This can hardly be regarded as exces sive. On the contrary, a buffer stock of this size is the minimum consider ing ihe volatility of sugarcane crop: and the consequent sharp ups and downs in sugar production.

The Food Minister is, therefore entirely right to react to this year' record sugar output with caution. He has merely raised the quotas of the Stales modestly by about 15,000 tonne a month and made slight increases i the allotment of sugar to food processing industries. This should be all for this season and the policy for the next will naturally depend on the output. Next season the position will need careful watching so that the Food Ministry does not find itself in the predicament of 1961 when, faced with burgeoning stocks, S K Patil had to take the obvious but short-sighted step of ordering a cut in production—a step which had a disastrous impact on the sugarcane crop of 1961-62 and was responsible for the three seasons of short output of sugar which followed. Instead of alternating between control and decontrol from year to year, what the sugar industry needs is a long-term policy which will relax controls on distribution gradually in pace with output, while striving to raise production, mainly through bigger and better quality sugarcane crops.

LETTER TO EDITOR

PL 480 Once Again

IN a letter published in The *Economic Weekly* of August 7, Bashuri Ghosh has found fault with our analysis, of Ihe impact of PL 480 transactions on money supply. It is her discovery that we have committed an 'egregious blunder" in concluding that the initial payments by the Government for imports of PL 480 commodities under the existing arrangements do not produce any effect on monetary circulation.

But for the provocative tone of the letter of Bashuri Ghosh, I would have refrained from flogging tins dead horse over again. Let me put simply what happens to the balance sheet of the Reserve Bank when the payment is made by the Government to finance PL -180 imports. There are, in all, four steps involved in the initial payments :

(1) the government sells *ad hoc* treasury bills to the Reserve Bank;
(2) it pays the US Embassy;
(3) the U S Embassy invests the sums received in Special Securities; and
(4) government uses what is received through Special Securities for retirement of the treasury bills. It is open to government, however, to maintain cash ha lances higher than before rather than use the excess of cash balances to retire the treasury bills. But this is not of any consequence for measuring the impact as I would show below.

These four steps are illustrate in the table below by tracing the changes in the balance sheet of the R B I. Tt should be clear from the illustration that at the *end* of all these transaction, neither the assets nor the liabilities of the Reserve Bank have changed. It is an elementary principle of monetary analysis that: if money supply is to rise or fall either the financial assets of the banking system including the Reserve Bank or the net non-monetary liabilities of the banking system have to change. Since as a result of the transactions referred to ahove nothing has changed in regard to the balance sheet of the Reserve Bank (and commercial banks do not come in under the existing arrangements adopted for payment of P L 480 transactions), money supply *cannot* vary. *

Bashuri Ghosh makes also the curious statement that " ... on the assets side, the Reserve Bank rinds surplus assets in the form of *ad hoc* treasury hills because it has received sale proceeds of Special Securities tendered by Government. It is thus forced to retire the surplus *ad hoc* treasury bills. If it does not do so, it would have earned equivalent profit . . ,". I am afraid the so-called surplus *(sir)* assets which Bashuri Ghosh talks about is not profit. The mere rise in assets or a fall in liabilities in a balance sheet does not mean that the Bank earns profit.

D R Khalkhate

Bombay,
August 26.

Balance Sheet of the Reserve Bank of India

(Assume Rs 100 crores are to be paid for PL 480 imports)

	Liabilities		Assets	
First step	+ Rs 100 crores	— cash balances of the government	+ Rs 100 crores	— *ad hoc* treasury bills
Second step	+ Rs 100 crores	— other deposits of the R B I which includes the U S Embassy account	+ Rs 100 crores	— *ad hoc* treasury bills
Third step	+ Rs 100 crores	— government cash balances	+ Rs 100 crores	— *ad hoc* treasury bills
Fourth step	— Rs 100 crores	— government cash balances	— Rs 100 crores	— *ad hoc* treasury bills