strings attached to them as regards place of payment of the benefits so that the insurers are unable to give such an undertaking to the Controller. If a policy holder asks for payment of the proceeds of such a policy in India while he is continuing to reside in Ceylon—and legal opinion states that he is entitled to do so, inspite of the intervening legislation Ceylon authorities may not permit transfer of funds to India to make the payment while on the other hand, the Reserve Bank of India may object to paying the claim from the insurers' Indian assets.

Then the problem arises of investing the funds retained in Ceylon locally. The prospects are not 'very bright. Head offices in India are usually at a disadvantage owing to a lack of first hand knowledge of local conditions. Possibility of investing in preference shares is extremely limited. They are not of sound concerns and the few good ones are tightly held and are seldom available in the market. Ordinary shares, mostly of tea and rubber companies, are high priced at the present time and the possibility of depreciation in their value renders them unattractive. An alternative would appear to be Government Securities. They yield very nearly 3 per cent gross flat or to redemption but it is not easy to buy desired strips at short notice. Income-tax is at a heavy rate. At present it is 31 per cent and legislation is proposed for increasing it to 34 per cent.

BURMA: The Foreign Exchange Regulation Act [947 came into force on 1st March, 1948 and the Union Bank of Burma has been conciliatory in enforcing the provisions of the Act. A convenient formula has been worked out in consultation with the life offices. The position broadly is that premiums on Indian rupee policies can be transferred to India and new policies in Indian rupees can be issued to Indians temporarily resident in Burma.

Premiums on Burma rupee policies have to be retained in that country but their investment is problematical in view of the internal political situation. The only desirable avenue is the gilt-edged.

MALAYA AND E. AFRICA: There are no restrictions so far regarding the issue of new policies or on the transfer to India of premiums received. In Malaya there are a number of State loans yielding round about 3¼ per cent gross. Commercial stocks and shares are mostly of tin and rubber companies, (n East Africa, the field for investments is extremely restricted, the only attraction is perhaps in mortgage loans.

Exchange controls serve a purpose, and any country has a right to resort to them when necessary. Every precaution should also be taken to prevent the misuse of life polities as a medium of transporting money out of a country. But impositions of vexatious conditions should be avoided as they hamper the flow of trade. As already stated, regulations in Ceylon force Indian insurers to maintain reserves against Indian rupee policies in Ceylon currency. It is no longer safe, as in the past, to rely on the continued parity of the two rupees in future. Therefore., if an office wants to transact life insurance business in Ceylon at present it has to accept the principle of maintaining the policy reserves in Ceylon rupees, whatver be the currency in which claims have to be met and be prepared for the consequences that may follow from such a course.

New Index of Exports and Imports Prices and Quantities

IN the May issue of the *Reserve Bank of India Bulletin,* a new series of index numbers of prices and quantities of exports and imports has been published with 1948-49 as base. The old series, which have been discontinued, had the pre-war year 1938-39 as base. It is unfortunate that the Bulletin contains no explanatory note on the new series. This omission will perhaps be rectified before long.

The new series is presumably based on weightage as indicated by the composition of trade in the base year 1948-49. In the four tables shown below, we have given both the series showing import prices and quantities and export prices and quantities. For convenience, the series having 1948-49 as the base will he designated as ' A' and the other series by ' B '

Taking first the index of import

I Index Numbers of Import Prices

				1950-51				
		'48-49	'49-50	Ap.-Jun.	July-Sept.	Oct.-Dec.	Jan.	Feb.
A.	I	100	96		74	96	93	97
Base:	II	100	103		117	130	167	145
1948-49=100	III	100	103		104	119	127	130
	G.	100	101		97	114	126	122
B.	I	466	431	472	488	481	535	
Base:	II	294	305	350	343	299	414	
1938-39=100	III	312	294	260	263	307	362	
	G.	346	330	333	330	348	420	

Note:— I stands for the Group: Food, Drink and Tobacco.
II „ „ „ Raw Materials
III „ „ „ Manufactured Articles.
G stands for General Index.

II Index Numbers of Import Quantum

				1950-51				
		'48-49	'49-50	Ap.-Jun.	July-Sept.	Oct.-Dec.	Jan.	Feb.
A.	I	100	86		73	68	86	65
Base:	II	100	81		105	43	55	57
1948-49=100	III	100	52		83	71	83	93
	G.	100	68		87	62	75	75
B.	I	146	130	50	63	119	117	
Base:	II	143	165	262	237	125	135	
1938-39=100	III	138	157	149	163	124	151	
	G.	134	154	157	162	121	141	

III Index Numbers of Export Prices

		1948-49	1949-50	1950-51 Ap.-June	Jy.-Sep.	Oc.-De.	Jan.	Feb.
A.	I	100	114		131	130	122	134
Base:	II	100	106		116	153	163	175
1948-49=100	III	100	98		106	108	107	111
	G	100	103		114	121	122	129
B.	I	254	299	360	341	326	303	
Base:	II	414	408	415	438	550	565	
1938-39=100	III	507	452	455	457	462	455	
	G	395	389	423	412	423	416	

IV Index Numbers of Export Quantum

		1948-49	1949-50	1950-51 Ap.-June	Jy.-Sep.	Oc.-De.	Jan.	Feb.
A.	I	100	118		106	140	149	128
Base:	II	100	91		60	88	97	98
1948-49=100	III	100	109		110	132	139	148
	G	100	105		98	124	132	133
B.	I	96	105	58	106	142	150	
Base:	II	31	33	24	22	29	33	
1938-39=100	III	106	128	119	138	169	183	
	G	67	76	58	74	95	102	

prices, it will be seen that while the general index increased by one per cent between 1948-49 and 1949-50 in ' A ', it fell by 5 per cent in ' B '. The discrepancy widens in the subsequent period. During July-December 1950, the general index rose by 17 per cent in ' A ' and by only 5 per cent in ' B '. In January of this year, the movements were different as a result of which over the seven months July 1950 to January 1951, the rise in the two series were more comparable, viz., 30 per cent in ' A' and 27 per cent in ' B ' If we now look into the constituent items of the general index, it will be seen in ' A ', Group I —Food, Drink and Tobacco, ruled consistently lower for all the dates shown as compared with the base year. During 1950, the index for Group I remains more or less steady in ' B' but in ' A' there is shown a -drastic reduction for the quarter July-September 1950 which is difficult to explain.

Figures for January in ' A' shows a small decline compared to the previous quarter while in 'B' there is a substantial rise of over 11 per cent. This again is difficult to understand; The new series ' A' should on a *priori* grounds, only show divergency from ,' B' in the aggregate or general index as a result of the difference in weightage. Individual groups; especially, the ones like food, drink and tobacco which are heavily weighted by food grains, should not show desperate movements.

As for Group II, viz., raw materials and articles, mainly unmanufactured, ' A ' shows a rise of no less than 30 per cent between 1948-49 and December 1950 against a rise of less than 1½ per cent in ' B ', . Taking the whole period 1948-49 to January 1951, ' A ' shows a rise of 67 per cent and * B' of 41 per cent. It is, therefore, clear that the greater rise of the general index shown by ' A ' is to be ascribed mainly to the greater sensitivity of the new index as applied to the raw material groups, achieved by virtue of the higher weighting of raw jute in place of such articles as, e.g., oil, whose prices have not risen at all comparably to jute prices.

We may now take up the index of import quantities. The 'A' series shows consistently lower values for all the Groups—I, II, III and General for all the dates as compared with the, base year except for Group II during July-September 1950, The fall of Group II index from 105 in July-September 1950 to 43 in October-December 1950 is parallelled in ' B ' though this latter fall is proportionately less. The index for Group I in ' *A*' is throught less than the Base year by an average of no less than 25 per cent One finds it difficult to reconcile this with the previous findings with regard to import prices of Group I as in ' A' which seemed to be consistently lower than the base year. With regard to Group II, the 'A' series indicates import quantities seriously below the base year though it is not so in 'R'.

Now we may examine the index of export prices. The general index rose continually in ' A ' upto January 1951, the total rise being some 22 per cent. 'B' indicated a rise of only 5 per cent in this index. This is accounted for by the considerably greater rise in export price of Group II in the ' A ' series compared with the ' B ' series. Between 1948-49 and January 1951, export prices for three groups snowed rises of the magnitude of 22. 63 and 7 per cent respectively in the ' A' series. The corresponding values in

THE CENTRAL BANK OF INDIA LIMITED

(Established December, 1911)

Head Office:

MAHATMA GANDHI ROAD, FORT, BOMBAY, 1.

	Rs.
Authorised Capital	**6,30,00,000**
Issued Capital	**5,77,50,000**
Subscribed Capital	**5,76,66,125**
Paid-up Capital	**3,14,54,250**
Reserve and other Funds	**3,97,02,992**
Deposit as at 31-12-50	**1,27,04,42,809**

Branches and Pay Offices throughout India, Burma and Pakistan.

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the 'B' series were 20, 36 and *minus* 10.

These larger movements in the prices of exports of Group II find their parallel in the movement of import prices as recorded in the new series. With regard to quantities of export, the general index records more or less a parallel movement in 'A' and 'B ' This is also true of the index for Groups I and II. Only the Group ill, viz., manufactured articles, ruled consistently above the 'B' series.

After this tedious catalogue of the relative movements of the two series, we may allow ourselves to turn to the question of terms of trade. The table below shows the movements of the terms of trade as recorded by the two series:

Terms of Trade

		A	B
1948-49	..	100	114
1949-50	..	102	118
July-Sept. '50	..	117	125
Oct.-Dec. '50	..	106	121
Jan. '51	..	97	99

The movements as a whole have been more or less parallel although the decline in the terms of trade, especially after the Korean War, has been slightly more pronounced, if one looks to the 'B' series. Against this, however, must be set the apparently greater sensitivity of the 'A' series since it recorded a fall in the terms of trade quite a few months earlier than the other series.

Money Market—Recent Developments

THERE have been profound changes in the demand for and supply of money in the past sixteen months. Although a closer examination of the different aspects of the problem lends weight to the assumption that the supply of money has not perhaps kept pace with the demand, there is understandable contusion in money market circles that tightness in the money market prevails, and is gradually being accentuated, despite continued expansion of currency. For a. proper assessment of the issues involved, it is necessary to appreciate both the quantitative aspects concerned and the sources from which the demand and supply for money originate.

There is no doubt about the rapid expansion in money supplies. Taking the average of Fridays, the volume of total notes issued has increased from Rs. 1,153 crores in 1949-5O to Rs. 1,180 crores in 1950 51. Concealed behind these averages, the expansion in currency becomes clear and more pronounced when it is examined on a week to week basis. In the year ended May 25, 1951, the volume of total notes issued increased by Rs. 108 erores. More surprising is the expansion in the volume of total note issues of over Rs. 50 crores in the last two months since the end of the financial year in March, For. it is not difficult to understand or to explain the expansion in currency in busy, export season. It is more difficult to explain continued currency expansion even after the end of the busy season.

Continuous and contra-seasonal expansion in currency has not only been a feature during the past sixteen months, but it also lends colour to the suspicion that the origin of monetary expansion lies elsewhere than in a surplus trade and payments balance. Much has been, and is being, talked about India's favourable trade and payments balance. On the assumption that any such surplus must necessarily be reflected in, and can be measured by, fluctuations in the Reserve Bank's holdings of foreign assets, data reveal that the surplus is not ample. That an overall surplus may reasonably be expected, in the absence of counter-measures, to exert an inflationary pressure on the economy, will not be denied, but statistics indicate that this is neither the prime source, nor the origin, of the rapid currency expansion.

In 1949-50, taking the average of Fridays, the Reserve Hank's aggregate holdings of foreign assets amounted to Rs. 828 crores. In 1950-51, on the basis of the same calculation, they figured at Rs. 832. As in currency expansion, so in holdings of foreign assets, the average cloaks, or rather minimises 'the actual increase. In the year ended May 19, 1951, the Reserve bank's holdings of' foreign assets increased by Rs. 49 crores. There is, therefore, basis for the presumption that currency expansion partly originates from the surplus trade and payments balance; it may be argued further that the disparity between .the increase in the Bank's foreign assets and that in currency expansion is not only to be expected, but is easily explained by the multiplier effects of surplus in trade and payments balance.

To admit that the inflationary pressure on the economy stems ences is not to concede that expansion in money supplies springs from, or is due to a surplus trade and payments balance. It is not an instance of trying to make a distinction without a difference. It is not without significance that the increase in bank deposits at Rs, 44¼ crores shows a close approximation to the Reserve Bank's net increase in holdings of foreign assets, but it is far more significant that, bank advances have increased by as much as Rs. I11½ crores in the past year.

Statistics confirm the *prima facie* conclusion that currency expansion has followed, and. is explained, try the explosive rise in prices. In the past year, the Economic Adviser's index of wholesale prices has registered an increase of 61 points. One has only to bear in mind that this index is based on controlled prices, at which goods are supposed to be, but are not actually, available, and that " free " or " black " market prices have gone up much more. The actual extent of the rise in prices has therefore been greater than is suggested by the wholesale index.

It is not the argument that rising prices do not. reflect international causes and influences. Nor is it the intention to assert hat India's surplus trade and payments balance is itself not: a reflection of international causes and influences. But, it is certainly the crux of the' argument that the authorities have been seducer to pursuing a monetary and financial policy, in their obsession with a surplus trade and payments balance, which is not only irrelevant but is incapable of attaining the avowed objective.

Throughout the Finance Minister's budget speech runs the theme that the capital and revenue budget must be balanced to insulate the economy from the inflationary repercussions of a surplus trade and payments balance. Budgeting equilibrium is a desirable objective. But, it is preposterous to argue, as the Finance Minister has done—arid, apparently, does even now—by implication that the rise in prices can be checked by restricting the demand from the public sector of the economy. Inasmuch as, and insofar as, rising prices reflect world-wide inflation, it is absurd to maintain hat India or any other country can check it by balancing the budget, It can make it all the more difficult for the Government of India to acquire urgently needed raw materials and capital goods, but it cannot check the rising trend in prices.