

Weekly Notes

No Export Subsidy Agreement

NOW reputed to be the most prosperous capitalist country after the US, West Germany has kept Britain on tenter hooks for some time. The disquiet felt in Britain is of course about West German competition in world markets which had been looming large on the horizon all these years. Of late, the vague fears had crystallised on two points. One was that the Deutsch Mark which had become scarcer even than dollars, might be made convertible before sterling and thus West Germany might steal a march over Britain and gain an export advantage. The other is still somewhat vague but nonetheless real, namely, that export credits are helping West Germany to wrest the markets won in the hard way by Britain, all the modernisation of plant and scientific development of the post-war years notwithstanding. The British Chancellor of the Exchequer succeeded a month ago in gaining a minor triumph by getting an undertaking from West Germany that the Deutsch Mark would not be made convertible before sterling. This was by no means easy, considering that West Germany has been piling up surpluses in the European Payments Union which she could not exploit to her best advantage, because of the payments restrictions which she no longer needed for insulating her own balance of payments.

Now the two Governments have agreed that none would provide Liny subsidies to exporters, "open or concealed". A joint Anglo-German statement was issued to this effect last week. Also secured by the British Chancellor during his last visit, it is not so clear whose triumph it is. Did Britain have to make this concession in order to persuade West Germany not to go ahead of her in the matter of restoring convertibility? It is true that the prices at which West Germany has been getting engineering orders to the chagrin of her British competitors have been a despair to the latter. But, by and large, it is not so much the handicap in prices but export credits which West German manufacturers have been able to extend which has been the main burden of complaint. Unless export credit comes under the ban on "concealed

subsidies", the joint statement would not convey the re-assurance that is perhaps most needed. The text of the communication does not make it clear that it does.

The Oldest Bear Turns Bull

Ekalavya reports:

THE movement of Tata Ordinaries provides a fascinating experience to Stock Market analysts. The present behaviour is by and large the outcome of a sudden change in the position of an old bear who has turned a bull. A prominent industrialist operator sold about 10,000 Tata Deferreds 'short' during the years 1948 and 1949. It is believed he did this because he feared a big recession and therefore provided for himself, at least a partial hedge against the adverse effects of the expected recession on his own chain of industries. And, for reasons best known to the operator himself, he carried forward his 'short' position continually till the latter part of last month. This had been the largest carry forward of the biggest short seller in the history of the Bombay Stock Exchange. With the conversion of Deferreds into Ordinaries, his short position consisted of over a lakh of Ordinaries. This short position cushioned the market all these years, acting as an automatic check to any precipitous fall.

This Big Bear decided all of a sudden last month to cover his entire sales. It so happened that he could carry out the operation at a steadily falling level, contrary to the normal market experience. Begin-

ning to his covering at around Rs 196; bit by bit he could continue the operation at lower and lower levels and the last lot could be covered at around Rs 193. The reasons for his unusual success are really interesting. First, the bulls who thought that there was no likelihood of an immediate rise in ordinaries found a big buyer in this big bear who could absorb all their holdings. Second, the fact that the Big Bear started covering his sales led some "shrewd" operators to believe that once the covering was completed, the market would become vulnerable and a fall inevitable. This made them readily supply large bundles to the Big Bear, enabling him to cover at falling levels. The consequence was that the market, which it was feared, would become vulnerable actually turned out to be quite strong. From the market point of view, it was a mere redistribution of the short position and rates did not go below Rs 193. On the contrary, the low carry forward rates of the last settlement coupled with the news regarding increase in production and installation of the furnace gave a fillip to the market. One big Bombay bull entered the market and the "shrewd" bears were forced to cover *in turn*, bulls sitting tight.

In one working day after the last settlement (3-6-'54), ordinaries rose by nearly 8 points. The "shrewd" bears who wore incidentally long in cotton had to meet with heavy losses in cotton which hastened them to cover their short sales in ordinaries at advancing

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rates, The normal market phenomenon was in operation. The bears were foiled by their own early action. What the Big Bear escaped, the "shrewd" bears had to face.

The climax was reached last Thursday when ordinaries rose to Rs 208-4-0 (in terms of Deferreds Rs 2500). It is now reported that the Big Bear has entered as a bull with a sizable long position. This has given a further momentum to the ordinaries.

The market is in no fine trim. The rise in ordinaries has been steep but there is no follow up in the other leading scrips. The technical position of the ordinaries is not sound. If there is no all round rise to attract fresh bulls to come forward and absorb the unloading that may take place any time, the present bulls, including the past Bear, may find the market friendless.

Sterling Area Reserves Swell

GOLD and dollar reserves of the Sterling Area have been benefited substantially by movement of short term funds the character of which still appears to be a matter of speculation. For May, the net surplus was higher than for any month since the Korean boom. But it is not regarded as a true surplus that can be explained by favourable movement of trade balances, though trade balances continue to be in plus, 'Hot' or 'funk money' and 'cloak room funds' used to be familiar phenomena at one time when and their day to day, or week to week, fluctuations threatened to dislodge the changing, unpredictable and fickle English weather from its pride of place as the most popular subject of conversation not only in the City, which was understandable, but also among people far removed from it. Flight off some currencies was as familiar as flight to others regarded as more stable. Currencies which were tipped for a rise were often encumbered by the inflow of funds not seeking a shelter but waiting for an opportunity, to be switched over to some other currency when the expected rise had taken place or such expectation proved to be wrong. Money that was liable to move out without notice was not welcome and a defence mechanism was developed in due course to impound it.

The present set up is entirely different—the flow has not turned out to be speculative, since there was

no night off sterling when the Treasury denied that there would be any widening of the exchange margins. From a distance it appears puzzling that the financial pundits should be puzzled about the character of these funds. Now that the international markets have been freed one by one and London is trying to get back its business in gold dealings, for example Liverpool its Cotton Futures, holders of dollar balances would naturally transfer to sterling for building up their working funds for operating in these and other markets. Everything is speculative in the long run. But "until dearth takes us apart", is not a vow demanded in market transactions. The movement of the funds is not speculative in the sense in which the word is understood in the foreign exchange market. It is an once for all inflow and no out-

flow need be feared unless the London markets go into slump, and better opportunities for utilisation of these funds spring up elsewhere.

Political Decorum

HAVING adopted the party system of government and being obviously in no hurry to give it up, it is time we unreservedly accepted the rules proper to the game and stuck to them with reasonable decorum. One need not hold a brief for the Congress to deplore the frequent conflicts that have been arising between Ministries and Legislature Congress Parties or the larger party machine itself in several States and notably in Andhra, Mysore, Madras and Delhi.

This is not a narrow party issue, for it may come to affect the parliamentary system itself, no matter

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what party is in power. We are still in a formative stage, and whatever trends or tendencies manifest themselves now in the ruling party, the Congress, may infect other parties and groups too and establish a pattern which it may be difficult to alter later. The Congress Party has thus an especial responsibility in this matter, and it must watch its steps carefully.

Delhi, Andhra and Mysore have been in the news lately; and essentially the problem affecting them is one of lack of adjustment between the Ministry and the majority party or what are called the parliamentary and organisational wings of the Congress. Differences of opinion are natural in a democracy, and within limits, they are welcome signs of health and vigour. But democracy presupposes the ultimate prevalence of the majority view for good or bad and the ready observance of the conventions and regulations which are essential to the smooth and successful working of this *system* of government.

The game is the same and the conventions and regulations are invariable, whoever is at play; and those who might be temporarily out of office or in the back benches today, smarting under a sense of grievance, real or imagined, ought to think not only of the irksome present, but also of that possible future date when they may come to be in office and the victims of their wrath today may slide into the background, ready, nay, eager to pay off old scores.

If these personal rivalries or squabbles over petty issues affected only the persons involved, they might have been treated lightly. But unfortunately they have very bad repercussions on the administrative machinery and on the life of the citizens at large, not to speak of the danger they hold to the evolution of sound traditions of parliamentary procedure and party demeanour.

Circumstances have so shaped themselves today that the Congress, as the ruling party, is charged with the task not only of seeing the country safely through the critical early years of freedom, but also of establishing healthy traditions and customs for the political development of the country and the successful working of the parliamentary system of government. If it ignores this sacred charge, it will be only at great peril to itself, the country and the progress of democracy.

Letters to the Editor

Conflicting Recipes for Tea and Rubber

IT is surprising that your editorial opinion on the prices of two of the export commodities of strategic importance to South-East Asia, expressed equally emphatically within the space of a week or two, should be so conflicting, if not contradictory. Apparently you want "Heads I win, tails you lose." In the case of tea, commending the recent adjustment in the export duty by Ceylon, you take the Government of India to task for not acting as sensibly as Ceylon has done. Further, you imply that the Government of India was equally insensible in not lowering or removing the export duty on tea when there was a slump in the world tea markets. Flexibility in the administrative apparatus of the primary producing and exporting countries as well as its intelligent working can obviously be of benefit. But to go as far as you do, and suggest that by this means, the countries of South-East Asia could have been much better off is a bit too much.

For, in the very next week, commenting on the activities of the Rubber Study Group, you seem to be annoyed with the Americans because they are not willing to offer a more generous price for rubber. Surely you cannot have it both ways. May be, you favour some sort of international stabilisation scheme to ensure better prices for the raw materials of this region. This has often been suggested but never been acted upon. Barring such collective action, there is little that raw material producing countries can do individually to get a better price for their produce and improve their economic position.

TVJ

Bombay, June 10, 1954.

[If Americans can produce and market synthetic tea with the same success with which they are producing and selling rubber, tea exporting countries will be in the same unhappy position in which rubber growers are today—at the mercy of a large buyer, who can withdraw from the market whenever he likes. The little bargaining strength that South-East Asian countries can have if they act collectively would obviously be of little avail, if synthetic substitutes come up.—Ed.]

Statistical Transgression—No Monopoly of Information Ministry

WHILE generally agreeing with Mr Thomas Shea about the sins of omission and commission in the Government of India publication *India 1954*, I must still plead with him to be fair about one point, namely, the Table of Index Numbers and Cost of Living in selected countries which has so hurt his statistical sense.

If you will turn to *The Economist*—I hate to mention any publication by name, but it cannot be helped because of its authority—you will find in the issue of April 10, for example, a table with the caption Exchange Reserve and Prices' which purports to give the cost of living index for the Commonwealth countries in which are included India and Pakistan. The series runs from 1938 to February 1954, with 1948 as the base. Regarding the figure for 1938 for India, it is not mentioned whether it is for undivided India or for India after partition. It may be, it has been specially computed for that part of the sub-continent which is now India, for convenience of comparison. Or it may be that the figure is for what was for undivided India in 1938 but it is so obvious that it does not call for any special note.

The cost of living index for Pakistan does not even say whether it is for East Pakistan or West Pakistan or for any particular industrial centre, which is more likely to be the case, in the case of India also, it is not stated whether the index is for any particular centre or for the middle or working class or it is one of the statistical monstrosities handed out by the Labour Ministry purporting to be an All-India Cost of Living Index. The latter looks improbable, since this series runs continuously from 1938 in which year—thank God!—the bright idea had not occurred to any one that such heterogenous data as the index of cost of living in different centres could be made homogenous by simple arithmetic!

Mr Shea is being over fastidious in expecting the Research and Reference Division of the Ministry of Information and Broadcasting to be more meticulous than top financial journals.

Statistical Ignoramus
Bombay, June 5, 1954.