Weekly Notes

Triangular Deals In Rupee Notes

WHEN the import of rupee notes from Persian Gulf territories was stopped and the amount of rupee currency which travellers to India could bring was reduced to a nominal figure, it was thought that the main channel of goldsmuggling had been effectively closed. The presumption was that the bulk of .smuggled gold was paid for in Indian currency which was taken out of the country and subsequently tendered to the Reserve Bank for conversion into sterling or some other currency. The basis for this presumption was perfectly sound, viz, that the foreigner would want a currency that he could use and not rupees.

For a time, the restrictions on the import of rupee notes seemed to have had the desired effect, though the effect could not be seen in the monthly statistics of imports of rupee notes immediately. In fact, the total imports of rupee notes in 1959 was larger than in 1958. This was, of course, understandable, since the introduction of special notes in the Gulf area would mean return in bulk of the notes previously in circulation. The monthly imports are now reduced to a trickle and it is to be hoped that they will remain at a nominal figure.

It was also to be expected that the currency notes which could not be returned through the official channels would seek some other outlets. For the ways of smugglers, however, are devious and they change their modes of operation quickly enough to get round new obstructions. Rupees went to a sharp discount in the free markets and this was taken as a measure of the success of the steps that the Government had taken. It is now becoming increasingly evident that Persian Gulf was not the only loophole. There are other areas from which India receives rupees. There is Afghanistan, for example, which can pay for its imports from India in Indian rupees and so rupees can come back to India through Afghanistan in a manner which is officially acceptable. This is, however, not a big problem, for the leakage can be stopped easily enough by insisting that all rupee payments made by Afghanistan should be through a rupee-account maintained in an Indian bank and not in rupee notes.

There are other ways, for it is not only gold which is smuggled into India; Indian goods are also smuggled out of the country, principally across the land frontiers to Pakistan and to Goa. With the rigid and almost savage import restrictions that Pakistan has been maintaining for some time, Indian textiles, sugar and many other things have become attractive prizes for smugglers. Since Pakistani traders cannot easily pay for these goods by smuggling out gold any more — after the inauguration of the military regime, this is believed to have been effectively stopped — they would be ready buyers of rupees provided they could pay for them in some way and naturally they would he more eager to buy rupees at a discount than most others. It is suspected that Indian currency notes, which arc smuggled out in the first instance to pay for gold, have been finding their way to Pakistan, and are, in turn, being used to pay for goods smuggled out of India.

But, how do the Pakistani traders pay for these rupees? One possibility is out of the foreign exchange which they are allowed to keep from their export receipts under the export incentive schemes. This must be the main source, but there may be a secondary one in the absence of any restriction or slack enforcement of such restrictions on travellers to Pakistan bringing Pakistani currency with them. That Pakistani rupees have gone up in value in free, markets, especially in the Gulf area, while the discount on Indian rupees has increased, suggests the possibility of such transactions taking place on an appreciable scale.

Administering the *Companies Act*

WHEN the present Companies Act was passed in 1956, there was a feeling in certain quarters that it would inhibit corporate activity and thereby discourage capital formation in the private sector. An unusually large number of public companies converted themselves into private companies in the very first year of the working of the Companies Act. But the trend of conversions during the last two years belied those apprehensions. Actually, far from any decline in the corporate sector, by all other criteria except that of number of companies at work, there has been progress. The decline in numbers is, probably, itself a measure of improvement in that it results from cutting out of dead wood and removal from the register names of companies which have long ceased to function.

Private investment in companies has actually exceeded Plan targets and the paid-up capital of companies at work has increased from Rs 1,024 crores in 1955-56 to Rs 1,510 crores in 1958-59. Though the bulk of this increase is in the capital of Government companies — Rs 358 crores out of Rs 486 crores — the capital of non-Government companies also shows a sizable increase-exceeding Rs 40 crores per annum on I he average. The latter increase is, perhaps, not as conclusive as the Company Law Department would like to believe, since a large part of it is accounted for by a few leading companies and the boom in industry and trade and the sizable tax advantages of incorporation have also contributed to the continued expansion of corporate activity. But it does indicate that the new Companies Act has not discouraged expansion of the corporate sector.

The number of companies 'at work' has declined from about 30,000 in 1955-56 to 27,000 in 1958-59 despite new registrations of about 1,000 companies in each year since the enforcement of the Act. The decline of about 6,000 companies is, therefore, largely the outcome of a vigorous policy of weeding out inactive and moribund companies. This chopping off is expected to be completed in the current year. The disparity between the number of companies 'at work' and those assessed to tax is, nevertheless, still considerable, especially in West Bengal where less than one-third of the companies whose names are on the register pay tax. Partly the disparity may no doubt be due to tax concessions, losses etc, but only partly. The elimination of the secrecy clause from the Income Tax Act should help the Department to make a thorough check on the reasons for the continuance of this disparity.

All the activities of corporate sector are not within its jurisdiction. Control over capital issues, stock exchanges and official finance agencies rests with the Finance Ministry. Licensing of industries is the responsibility of another department. The broad policies for expansion and, therefore, for investment are the responsibility of others again. The decisions in regard to these are taken, by and large, independently on the knowledge and experience which this Department possesses. Company Law Administration, therefore, appears to have been left with the law and order job alone, A great deal of detailed information about corporate finances and management has become available to it since the passing of the Companies Act and centralisation of its administration. It can help to integrate corporate activities for the implementation of accepted economic and social policies. How can this broader integration be expected when the activities of the Government departments themselves are not adequately integrated?

Agricultural Implements

AMONG the transmission lines 'from industry to agriculture, there is irrigation and power, there is also fertilisers. But would not improved agricultural instruments also be one of the transmission lines carrying the impulse of change and development from developing industry to agriculture? The wider use of improved agricultural implements should be of some interest in any case, but on this subject, the annual report of the Agricultural Ministry throws little light. There is a paragraph, repeated every year, on the supply of essential materials such as iron and steel, cement and coal "required by the agriculturist for stepping up agricultural production". This follows the paragraphs on fertilisers and the story is the same, viz, inadequacy of supplies, but that does not say much. Nor can one judge very well how far cultivators are taking to improved implements, from the statistics of production under this head in the Report of the Ministry of Commerce and Industry. The number of factories producing agricultural imple. ments (1), their capacity (2) and production (3) (ooo tons) are given in the accompanying table.

Year	(1)	(2)	(3)
1951	66	25.7	18.9
1956	66	26.8	14.8
1957	42	20.0	15.2
1958	38	19,7	13.0
1959	49	23.8	15.9

From this, all that one can see is that manufacture of agricultural implements has not yet become a stable industry, that the number of factories engaged in it had been going down rather fast and that it was only last year that a number of new units came up. Changes in the number of units, however, do not seem to have a proportionate effect on the manufacturing capacity which had also been going down until last year but not as sharply as the number of units. And finally, though there was some improvement in production last year, the best year that the industry has seen so far was the year of the Korean boom when agriculturists had a lot of money.

West *Coast Paper*

PAPER situation has eased a little and paper is now available more freely than before, and not unoften at the official price. This improvement is due to of a number of factors. Government a major consumer, has cut down its demand a little—since it was taking around 10 per cent of the total production, even a small measure of economy in Government consumption produces an appreciable effect. Production has also increased and import through the State Trading Corporation has alleviated the immediate shortage.

Though new units have been corning up—the latest to hit the headlines is with American collaboration —Shri G D Somani's complaints of the difficulties of new entrants are not groundless.

True, West Coast Paper has got off to a flying start. Within the very first year, the mill has attained capacity production; it has successfully solved its technical problems and has been producing paper of a quality and standard which have gained immediate recognition, It has many factors in its favour— highly mechanised plant of the latest model, which means relatively low wage cost; right size of plant to ensure economical production; maximum recovery from the raw material used; and advantageous location in respect of raw material supply.

It has its minor troubles too, for though situated in the proximity of forests, the railway, line which brings bamboos to the mill, it so happens, is run by the Forest Department of the Mysore Government and not by the Railway Ministry. And so the condition of the track and the quality of the service are not what they should be. The Railway Ministry, however, has agreed to take over this line, subject to some special conditions now under negotiation between the State Government and the Ministry, and no insurmountable difficulties * need arise to put off this transfer for long.

But though production and sales are no problem, the company finds that the returns on its investment are inadequate, and the mill has expansion in view. In short, the price at which it has to sell paper is uneconomic, and if is Shri Somani's contention that the current fair selling price fixed on the recommendation of the Tariff Commission is uneconomic not only for West Coast Paper, but for all the new paper mills which have been started recently or which arc going to be started in the near future. This is because the Tariff Commission in its wisdom fixed fair prices -— it actually recommended a cut. which came into force from January 1—because it found all the paper mills already established were earning more than what the Commission thought to be a fair rate of profit. Now, that may be true of the established companies; what of the new units which arc loaded at the start with heavy capital cost and have, therefore, to earn much higher depreciation and do not have a net return adequate to attract more capial into the industry and thus ensure continued expansion of production which is very necessary in view of the fast expanding needs of the country?

Only *a Moral Injunction*

THE problem in the abstract appears to be well-nigh insoluble, for it is *an* industry with so many producers that one cannot think of differential prices, and in any case, differential prices would be unworkable except when there is pooling of production so that each producer can be paid a retention price based on its individual cost of production while the selling price to the consumer is fixed at a uniform rate, arrived at by the weighted average of the different retention prices. It is too complex an arrangement to be workable, and the control on paper price is not a statutory control, but only a moral injunction,