

Weekly Notes

Interest Rate Differential

COMMENTING on the money market situation in this country. Mr Grantham, Chairman of the Chartered Bank, detects a rift between the Reserve Bank and the Government. Failing to lay hands on India's hidden gold, the authorities have directed their endeavours to the prevention of further hoarding by making savings more popular and curtailing the money supply. This is one of the factors which, according to Mr Grantham, has enabled the Reserve Bank to go contrary to the Government's desire for cheap money. The other is the endeavour to contain inflation due to speculation. Mr Grantham finds that, by its restrictive monetary policy and its selective credit control, the Reserve Bank has succeeded in introducing a dearer money policy without on paper increasing the cost of Government borrowing. This, however, may not continue, unless banks maintain a reasonable interest differential between their borrowing and lending rates.

The situation can be met in either of the two ways by raising the rates on advances further, while holding deposit rates at about their current level, or by pushing up rates on advances sufficiently high so that an adequate differential may still be maintained while competition is allowed to push up deposit rates. Mr Grantham, however, rejects the second alternative on the ground that to allow deposit rates to go up beyond a point will lead to a switch from Government securities to bank deposits. The implication is that bankers in their own interest should, therefore, restore the ceiling on deposit rates which they have recently removed. To restore the differential by pushing up advance rates any further might be all right for the internal economics of the banking system this was obviously the aim of the Reserve Bank in fixing minimum lending rates but it will go against Government's borrowing programme and undermine the structure of security prices.

The solution that the¹ situation calls for is the one which Mr Grantham has recommended for Pakistan. Pakistan which otherwise gets a good chit from Mr Grantham for

its sound leadership political stability and the pragmatic approach to its problem, nevertheless, draws the following observation from him :

"An official restrictive credit policy is difficult to administer in an expanding economy with exceptional seasonal demands and perhaps a little more flexibility is required in the monetary management".

This general observation applies to this country also. A little more flexibility in monetary management is a sound advice, provided excess demand is taken care of much more adequately than has been done so far by fiscal measures.

Moving Coal

THE inadvertent use of the word 'decision' to move one million tons of coal by sea in these columns last week to describe the outcome of the conference of coastal shipping lines in New Delhi has brought forth a violent protest from an angry young shipowner. Decision reached? Nothing of the sort. There was only discussion leading to nothing specific. The correspondent writes ;

Recently, an Eastern Railway official received a telegram from Delhi to the effect "HAVE ARRANGED FOR AN ADDITIONAL MILLION TONS BY SEA THROUGH CALCUTTA FROM RANIGUNGE COALFIELDS STOP WIRE ACTION TAKEN The telegram is characteristic of the entire scheme for moving more coal by sea. Everyone is under the impression that, once the Railway Minister has announced his intentions, the coal will automatically move.

In order to move a million tons of coal into Calcutta, the daily wagon arrivals would have to increase by an average of 150 wagons per day. Last year, the daily arrival was an average of 170; so almost double the number of wagons would have to move in, and the area into which they would have to move in is highly congested. Secondly, if full use is to be made of the existing port facilities in Calcutta, the majority of the wagons would have to be open wagons which could be tipped so as to take advantage of the mechan-

ical loading berth at 18 Kidderpore Docks.

Then there is the problem of unloading at the discharging ports. The Railways wish to receive 50,000 to 70,000 tons of coal at Madras per month. There are only two coal berths at Madras one of which has a wooden jetty. This jetty is unable to hold more than 10 tons of coal at a time. There are no cranes at this berth. All discharging is done by ship's gear and moved into wagons by manual labour. If Railways intend to receive 60,000 tons of coal per month at Madras, they will have to discharge 2,000 tons a day which means discharging continuously at 1,000 tons per collier. Recent experience suggests that even an average rate of 600 tons would be an achievement.

Finally, there has been no satisfactory assessment of the ability of the present coastal fleet to carry an additional million tons of coal. Shipping circles have become so inured to the promises by Railways to improve performance that they are sceptical of any all-out effort on the part of the Railways.

Unfortunately, no efforts were made in the past by the Railways to ensure that coastal shipping is adequately developed as a partial solution to the transport crisis of the country. After all the crisis is only for a marginal amount of coal of perhaps four or five million tons; if coastal shipping had been expanded by transporting more coal by sea, as recommended by the Rail-Sea Co-ordination Committee, then, by now, coastal shipping would have been in a position to move two million tons and more.

The argument of the Railways has always been the untenable one that they pay a higher freight-rate for coal moving by sea. The point is not the higher rate paid by Railways, but the fact that they subsidise the movement of coal by rail. It is totally beyond anyone's comprehension why the subsidy for the movement of coal should not be reflected in the Railways budget. The correct procedure would be for the Railways to charge the same freight rate for coal as they do for other low-freighted commodities. The subsidy for coal should come from the general budget. The