

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

advantage of this system of accounting would be to give a clear comparison of the freight differential between carrying coal by rail and by sea. After such a change is made, "it may show that it is, in fact, cheaper for long distances to carry coal by sea than by rail.

Meanwhile, it is unlikely and doubtful that one million tons of coal will move by sea. Unless the Railways are prepared to move this large quantity of coal quickly and efficiently, and unless there is adequate co-operation between Railways and shipowners, no solution is possible. The alternative is for the Railways to take over coastal shipping. There is no point in allowing this chronic discord to continue and risk India's industrial future.

Expansion of Power Programme

THE power programme in the Draft Third Plan was based on estimates of potential demand for power made from a preliminary power load survey carried out by the Central Water and Power Commission. In the course of a more detailed survey which followed the preliminary one, the estimates of demand are known to have been raised by almost 40 to 50 per cent. The results of the latter survey were not made public but overmuch reliance on either the preliminary or the comprehensive survey is ruled out by the very 'narrow basis of the estimates. For example, while assessing the demand of small and medium industries, the demand of the new units that may be started was not taken into account; only the conversion to electric drive of the units now driven by diesel or steam engines was considered. In the case of large and heavy industries, similarly, the demand of only those new units was taken into account whose plans for expansion or installation were complete, or nearly so, at the time of the survey. The bulk provision for unseen loans included in the estimates cannot be expected to adequately make up for these omissions.

Basing themselves on the results of the detailed survey, the Irrigation and Power Ministry had suggested a target of 14 million kW of installed capacity in the Third Plan which was substantially higher than the target set in the Draft Plan of 11.8 million kW. With power shortage appearing manifesting with

increasing severity in the main industrial centres, especially in the eastern industrial belt, and the World Bank Mission's warning of an early aggravation of the position, the Planning Commission has been compelled to move nearer the Power Ministry's estimate of demand. At the last meeting of the National Development Council the allocation for power was consequently increased by Rs 75 crores. It is proposed to increase it by another Rs 30 crores so that the aggregate outlay on power will now be Rs 1,030 crores compared to Rs 925 crores in the Draft Outline. Corresponding to the increased financial outlay, the target of installed capacity has been raised to 13.5 million kW. With regard to implementation also, power schemes will be accorded a much higher priority than originally proposed. The execution of the power programme will be immensely facilitated by the fact that almost two thirds of the projects included in the Third Plan are assured of foreign assistance.

While the increase in the allocation for power was inevitable, the estimates of the States call for further scrutiny. In the light of past experience it needs to be particularly emphasised that the large programme for expansion of rural electrification which is proposed to be undertaken will yield the expected benefit only if attention is given to the industrial and agricultural programmes for utilising the power which will become available and raising the load through effective and coordinated development at the district and block level.

The enormous investment in power generation may also be frustrated by the inadequacy of distribution facilities. It is not often adequately realised that an increase in power generating capacity does not guarantee a proportionate expansion in power supply. Power projects involving more than one State will require arrangements for inter-State exchange of power and the development of regional grids. The decision to earmark special funds for inter-linking State power systems and developing regional grids in the Third Plan is therefore timely, it is abundantly clear to set up a cell in the Central Water and Power Commission to study planning of zonal super-grids, the ultimate objective being to develop an all-India grid

system. Power development transcending State boundaries is essential to correct the tendency of State Governments to conceive of power projects as isolated projects, concentrating on installing power stations within their own boundaries.

Congress Differences Settled ?

CONGRESSMEN and others in Andhra are gratified that the ten-month old feud in the State Congress has been settled — permanently, it is hoped. The feud began with the dismissal of Shri A C Subba Reddi from the State Ministry for contesting a seat on the Pradesh Congress Election Committee disregarding the Chief Minister's injunction. A 'Unity Front' of dissidents was then formed which claimed a majority in the Pradesh Congress Committee and the Legislature Congress Party. The Front demanded that the Pradesh Congress President should quit office and that the State Ministry should be reconstituted.

The first demand was satisfied with the resignation of Shri Narottam Reddi but the second one was successfully resisted till now. In fact angry with the Unity Front's demand, the Chief Minister had dissolved the Party Executive and nominated one of his own choice, deliberately excluding all representatives of the rebel group. This became the focus of fresh and even more furious squabbling and, for the first time, the Chief Minister himself began to be accused of partisanship and of abetting the ministerialist group.

The settlement now arrived at provides for equal representation of the two groups in the Party Executive. The new Executive was constituted unanimously from an agreed list of candidates. The other part of the agreement was that four new ministers, three from the Unity Front and one from among the ministerialists, should be appointed to the State Cabinet.

The settlement has been welcomed for what it is worth. But in so far as its basic condition is that the rival groups should have equal representation in the Party executive and the Ministry, it does not remove the group spirit in the Congress Party, but in fact keeps it very much alive. The facade of unity may survive till the elections are over, but no longer.

An aspect of the settlement which has not received public attention is