

# The Economic Weekly

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## India and I M F

IT would be idle to deny that there is an under-current of anxiety in the public mind about our position vis-a-vis the International Monetary Fund in particular and the members of the Aid-India Club in general. By appearing to hesitate to approach the Fund until now for credit, New Delhi has, unintentionally perhaps, given cause for anxiety. The recent changes in monetary policy do have the appearance of further trimming the strength of our need for assistance, following, as they do, stringent restrictions imposed on foreign travel, further tightening of the restrictions on foreign studies, and so on. And further cuts—all *od hoc*—can be a little bit discriminating on maintenance imports which have already been cut down to bare bones. All these have an appearance of advertising to the outside world that our situation is very desperate and that we are doing all that we can so that others may not question our *bona fides*.

There is no necessity, however, or there should not be any, for window dressing if the object is to strengthen our case before the Fund, under the Articles of the Fund, India can draw to the maximum of \$ 677.5 million which is equal to her full quota of \$ 600 million plus her gold subscription of \$ 77.5 million. India has already drawn \$ 250 million which means that she has exhausted her gold tranche and the first credit tranche (25 per cent of her quota) and a part of the second credit tranche. If allowance is made for service charges of about \$ 17 million, India should still be entitled to the balance of the second tranche, viz another instalment of \$ 110 million, provided she has sufficient grounds which, of course, she has. It is only when India reaches the third tranche, that is, if she wants more than \$ 110 million, that she enters the delicate area of the Fund's discretion. The fund may waive any of the conditions prescribed in its Articles for borrowing beyond the second tranche; it may waive, but it may ask questions and impose conditions regarding monetary and fiscal policies.

It is all left to the discretion of the Fund and there is nothing in the Articles, of course, to prevent India from getting a further assistance of \$ 300 million, that is, to the full extent of her quota,

India's hesitation, if any, to approach the Fund for this entire amount of \$ 410 million to which she is entitled is, nevertheless, not difficult to understand. The Fund was set up for most laudable purposes—among others, to contribute "to the development of the productive resources of all members as primary objective of economic policy". It is precisely on such development that India has bent all her energies. The full development of her productive resources requires considerable foreign aid. In the present international economic situation with stagnant or very slowly rising demand for agricultural and primary or semi-processed goods, it is not possible for India to make a big break-through in the export field until the programme of industrialisation which she has launched on can be pushed through to a successful conclusion. This is a problem common to all developing countries, the problem of emerging Japans, which is knocking at the doors of the West for a solution. If the Monetary Fund has to carry out the

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purposes for which it was established, it has to modify its Articles and also to strengthen its resource? for the kind of assistance which may be called balance of payments support until the developing countries have finally emerged. India's balance of payments problems are not of the seasonal and cyclical variety which is usually narrowly interpreted as limiting the sphere of the Fund's assistance.

Not that the Fund has not changed with the times. That it has, and in a dramatic manner too, when, after the successful reconstruction of Europe and return of international stability, a new threat appeared of impairment of the international monetary system, in the shape of violent movements of short-term capital among the lead-

ing financial centres. The Fund was not wanting in boldness and energy in rising to the occasion and in evolving arrangements by which it strengthened itself to meet this danger. It secured the general agreement of the major industrial countries to lend to the Fund up to the equivalent of \$ 6 billion, should this be necessary to forestall or cope with a threat of impairment of the international monetary system.

The special balance of payments problem which must afflict all developing countries, however, does not yet seem to have registered with the Fund authorities. Their conception and attitude, we are 'naturally afraid, and with good reason too, are unduly narrow and short-sighted. The Fund is often suspected of being

under the blinkers of the monetary problems and policies of the developed countries. It is high time that it were made to realise much more clearly than it has done so far that this world organisation will cease to be effective and defeat the purpose for which it was set up if it continues to fix its gaze on the developed West and to ignore or remain unaware of the legitimate demands of the member countries which are doing their best to attain the very objectives which are enshrined in the first Article of the Fund which defines its purpose.

The task before India is clear : to take her stand as a developing country and press her legitimate demand and not be apologetic or hesitant about it.

## Coordination in Air

THE Indian Airlines Corporation has produced a good report. It will be given kudos for 'envisaging' operating profits of Rs 81 lakhs in 1962-63 and for closing the last financial year with a loss lower than had been expected a year ago. It is not, however, the report of a business concern. Set out in the proper style of Government budgets, the IAC has made revenue estimates for the coming year, as also estimates of expenditure along with revised estimates of both for the year that has closed. If the expectations are realised, coming in the wake of two successive years of operational losses, the performance of the IAC will naturally be played up and any one who has the temerity to suggest that with a completely sheltered market and spiralling demand for air travel, long queues on the waiting list, and rising air fares, it would be difficult for an undertaking which had the technical competence to keep its planes flying not to make profits. In fact, such criticism will be resented as being too carping and downright unfair.

Now an air service cannot make profits unless its aircraft is able to get sufficient payload and idle capacity is brought down below a certain point. Given technical effici-

ency in running services, the rest depends on the load factor which is another way of saying on the amount of paying traffic which the service is able to get. It is not only higher fares, it will be readily conceded, which are reflected in the financial results. Fuller utilisation of capacity is also essential and this has been achieved in large measure.

That little idle capacity is left led to a significant change in the Government's policy in regard to nationalised airlines. After the airlines were nationalised, no private air operator was allowed to run any scheduled service. All these years those operators who still wanted to remain in business after the takeover could do so only by running chartered flights, mostly cargo. The relaxation was perhaps warranted by the sheer economics of it as brought out sharply by the experience of the nationalised operation of the regular air routes. IAC could not serve them all or take up all the new routes for which there was a felt need for air transport. So this firm principle of public sector operation, after being adhered to rigidly all these years, was finally relaxed a little and the Act was amended accordingly. This, however, did not come with the grace with

which policies are expected to be modified in the light of experience, as they should be. The change first came through the backdoor, but the Transport Ministry found itself in such hot waters after licensing a private operator on a scheduled service, for reasons wholly unconcerned with the economics or rationale of socialised aviation that it was forced to retract its steps and legalise the situation. This it did by throwing open new airlines in which the IAC would not be interested to such private operators as were prepared to come in. Thus a sorry interlude in the history of nationalised aviation came to a close. But, among other things, it also clearly showed the mounting pressure of demand for air travel and the inability of the IAC to cope with it which, incidentally, automatically ensures fuller utilisation of aircraft which it is in a position to deploy on the various routes.

If the modification has been made in the Act and new routes not wanted by IAC thrown open to private operators, what would one say of the obstinate and wholly irrational opposition of the IAC upheld by the Ministry of Transport, to rationalising the operations of the two nationalised undertakings in order to secure optimal uti-