

tion and strong arm tactics, this group maintains a stranglehold over the State. Tolerance of all this is the price that the leaders of the National Conference have extracted from the Centre for 'keeping Kashmir in India' (*sic*). In the process

India has been identified with the National Conference Government and disaffection is forced into anti-Indian channels. The unfortunate events of last week once again illustrated how the process works. The moral is obvious and important.

Monetary Policy

Correspondent Writes :

IT was mainly an accident that monetary policy appeared as the principal preoccupation of the Economic Conference. For it happened to be chosen as the subject of the Presidential address; and further, as a discussion topic, it attracted the largest number of papers and speakers. The greater part of Professor Basu's address was taken up with a survey of recent innovations in monetary theory — the Radcliffe concept of liquidity and its implications for policy — and of what he called "the interesting empirical work" in the field of monetary analysis. What the latter amounted to was a generous pat on the back for the younger Indian economists. Professor Basu admitted that the works of Indian monetary theorists "may not have been significant in the legion of hypothesis building". But since hypothesis building without empirical testing would leave many important issues open, he felt that "the empirical studies conducted by a number of enterprising young Indian economists in respect of some of the outstanding issues in monetary theory" were of importance. A heartening judgment indeed, from a senior economist.

However, when in the third and concluding part of his address. Professor Basu switched over to policy issues, there was, seemingly, no continuity with the theoretical conclusions surveyed earlier. An appraisal of and prescriptions for current issues extended over a wide range of problems, not all of which are of equal relevance to monetary authorities now. For instance. Professor Basu went into an examination of the compulsory deposits scheme which exists now mainly as a tax concession and no more. And he stressed the need for the appointment of a "high powered Commission to Squire into the working of the Indian monetary and credit system", pointing out that things

have changed radically since the Central Banking Enquiry Committee made its report more than 30 years ago. He also argued strongly for an increase in the Bank rate and had some interesting suggestions regarding the external value of the currency. Multiple exchange rates and not devaluation, he felt, was what our balance of payments situation demanded. But an institutional barrier — the IMF with its well known prejudice against discriminatory currency practices — prevents the adoption of multiple exchange rates. Professor Basu's suggestion was to substitute for this a differential tariff policy, with an "ad valorem duty on undesired imports matching an ad valorem subsidy on preferred categories of exports. What was intriguing was the manner in which Professor Basu explained away the institutional barriers against this policy. The approval of the GAIT, he pointed out, was not necessary for articles outside the GATT list. But what of articles in the list? Professor Basu's next sentence was highly suggestive — "Discriminatory taxes and subsidies can also be cloaked in such a manner as not to mouse opposition from the GATT'.

In the group discussion on monetary policy, much time was taken up with the presentation of the papers. The Indian Economic Association appears to have built up a tradition which leaves this particular forum entirely to the junior "budding" economists. While this is no doubt commendable, one would wish for attempts to maintain quality. Could not some standards be applied for the acceptance of papers? This would really be in the interests of the younger generation.

In general, the authors of the papers seemed agreed that monetary policy was a potent force in the economy, though opinions were somewhat divided as to the Reserve

Bank's manipulation of it. In the discussion, it was left to Professor Gadgil to point out that monetary policy operates within significant limitations, what with public expenditure policy on the one hand and private sector pressure for credit on the other hand. Over both these factors, the Reserve Bank has no control and its policies are at best effective in the short run only. Professor Gadgil's remarks seemed to emphasise the distance between Delhi and Bombay and brought up a picture of the Reserve Bank as a well-intentioned but ineffectual body, a not-too-important part in the complicated machinery of government. Professors Anjaria and Muranjan agreed with this view. Professor Anjaria, however, did feel that the Reserve Bank could use its influence effectively in working on the variations in the forces of inflation and deflation; and it could also 'indicate the limits of inflationary fiscal policy.

The feeling persisted that monetary policy still has some vital significance and much of the discussion related to the specific issue of the Bank rate. There were several references to the sparing use of this weapon in this country, as against frequent changes in other countries — which really does not mean much by itself. The arguments for an increase in the Bank rate now are related to the fundamental question of resource allocation. Would a higher Bank rate mean greater economy in the use of capital or would it push up costs further? If, as Dr Raj Krishna pointed out, the return on capital in India is between 16 and 26 per cent, the present rate is indeed at a wastefully low level. If the fear is that a higher rate would affect the cost of public borrowing as Professor Basu pointed out in his address, the severement itself hold? over half of the public debt. And more firm one speaker pointed out that a higher rate would act as an incentive to promote savings.

But on the other hand, since there are other measures to directly control and regulate investments, is there any point in trying to use the Bank rate for that purpose? This was the question posed by the spokesman presenting the Bank's viewpoint. He also cited the "gene-

ral belief" that investment is insensitive to the interest rate. The point that a higher rate would have beneficial effect on savings was, however, not refuted.

Questions relating to a central bank's proper role were also raised. One suggestion made was that the Reserve Bank should divest itself of its non-Central Banking functions—

namely that of provider of credit for the cooperative sector, which job should be entrusted to a separate agency. How this would improve the efficacy of the Reserve Bank's operations was not clear, except that the suggestion was included that the Bank's "monetary discipline" should be extended to the cooperative sector. But it seems doubtful

if an increase in the cost of credit should be a part of this "discipline"; even as it is, there is a wide spread between the rate at which credit is provided by the Reserve Bank and the rate which the agriculturist has to pay finally. This is an inevitable outcome of the hierarchical structure of cooperation in this country.

Looking at Europe

(From a London Correspondent)

THIS is the holiday season in Europe. Your correspondent, a reporter by trade, feels that he too is at liberty to take time off, to abandon the recording of fact for the expression of opinion. It may turn out, however, that in doing so he has not abandoned his trade at all.

The topic is Europe: a topic perhaps more deeply misunderstood in India than any other (except America, maybe). It is provoked by three events. At the United Nations. President Johnson has just appealed for an end to the cold war. In Berlin, the citizens of the western sector have been allowed, for Christmas, to visit the eastern sector, barred to them since the wall was put up over two years ago; the citizens of the east, however, remain barred by their government from going west. And in Paris General de Gaulle is wondering just how large advantages he can win for the French farmer by blackmailing his allies with the threat of breaking up the European Common Market. To understand how Europeans feel about those three pieces of news, and the way their reaction differs from that of, say, an American or a Ghanaian or an Indian is half-way to understanding Europe.

Who Are the Europeans?

Who are the Europeans? First, who are they not? For one, they are not the class of people with pinko-grey skins: this is a matter of mere linguistic usage — for an Englishman "European" no more covers Americans than it covers Chinamen. Nor, more significantly, are they definable by race at all; there are no doubt people in Europe who feel solidarity with Dr Verwoerd because of the colour of his face, but not very many. Nor, *pace* almost

the entire non-western press, are they a gang of rich and selfish hedonists intent on enlarging their own prosperity at everyone else's expense. This description is, alas, to some extent true of the form which 'Europe' has come to assume, that of the European Common Market, but it is no essential part of the definition of Europe.

No. The Europeans are the citizens of Europe, the people who feel themselves European, the people to whom Europe and not just their own corner of it, is part of themselves. This is not the platitude it may sound: fifteen years ago it would not have been easy to declare that such people existed. The Europeans are the men whose ideals gave birth to that common market which has now been distorted into a protectionist businessmen's club. The Europeans are the tens of thousands of young people who in these last few years have treated the frontiers of Europe as if they were lines in the dust, who have travelled on foot, hitch-hiking, by scooter, car or train to every corner of their continent and, meeting their equivalents from other countries, have thought of them not as "them" but as "us".

Not Inward Looking

They are not exclusive, inward-looking people, as they are so often represented. For them, the discovery of Europe is a move outward, away from the narrow nationalisms that have brought their continent to the edge of suicide twice in fifty years. (Just what this means in Europe is hard to explain to those who have not lived with it. Nine years ago, in the uniform of the British army, I went to the site of the concentration camp of Belsen. Here and there are long grassy mounds, like enormous graves. That is exactly what

they are. Notice boards, written in German, and put up by Germans, inform you: here rest seven thousand dead. Of course *one* can react to these memorials of unimaginable civilised barbarity by saying "Bloody Huns" — which is, with one word changed, what Hitler said — or one can swear "Never again". Do you see now why it *matters* so much to us?).

This feeling does not stop at Europe. There *are* not many Europeans who just don't care about Hiroshima or Sharpeville. But it is true that the Europeans are apt to be too busy building Europe to care as much as they should about the world outside. If you are a Bengali or a Maharashtrian, and you know what it is to be an Indian, you know, in a sense, what it is to be a European. Imagine your own country dismembered, and you will perhaps forgive the Europeans, who during Britain's negotiations with the Common Market, were unwilling to put the unity of Europe second to tariffs or quotas on East India kips.

Here then you have a continent just discovering the ties rather than the divisions of geography, rediscovering the unity of its culture: a culture — with due respect to the more ardent Vedic scholars — of great antiquity and of unparalleled splendour and variety, based not on the washing machine or the motor car but on Christianity, as inescapably, whatever one's religion, as Indian culture is based on Hinduism. A continent which, as much as Asia or Africa, is looking for itself.

And this perhaps explains why the European reaction to the events I have mentioned differs from yours or that of an American. To Europe, "the cold war" is "not a propaganda