Weekly Notes

Aid in One Packet

THE aid climate has improved. The Consortium has pledged $ 1028 inn for the fourth year of the Plan, Of this amount, US has offered $435 mn, other member countries $348 mn asd the World Bank/IDA the remaining $245 mn. The total amount pledged is roughly the same as last year, but there are some marked differences. The entire requirments of the year have been met at one meeting instead of being given grudgingly in stalments as was done last year. The terms are easier and about one-half of the aid is not tied to projects. The *US* has contributed more than the other member countries and, besides, the Congress has authorised a fresh contribution of $ 312 mn to IDA, thereby enabling it to continue in business and to help India which is its largest borrower.

It will take time for the credits to become operative. But the amount pledged and the more sympathetic atmosphere in which it has been pledged are assuring. They reflect appreciation of the efforts that have been made at this end to recast policies and to improve the export performance. The donors have been gratified by what is described as the Government's more pragmatic approach to problems of pricing of essential commodities, the rationalisation of import and licensing procedures which is in hand and, not the least, the opening of the doors a little wider to private foreign capital. Which goes to show that the T T K Budget has been received more favourably abroad than at home.

A far reaching liberalisation of imports is, nevertheless, still -ruled out. The servicing liabilities which fall due this year are larger than last year's and there is no assurance that the buoyancy in exports will continue.

Why Are Shares Depressed ?

A Correspondent writes:

WHILE it is perfectly true that economic growth in the country is not linked to the gyrations of the stock market, it cannot be denied that business confidence is very much affected by its behaviour. The present state of the exchange is causing concern in more than one quarter; from small brokers who may have to close shop if the market does not pick up to the Finance Minister who is convinced that "bears are hammering down the market", there is a general worry that unless something is done the business world is likely to face a crisis in October or November.

Yet so far the market has defied analysis; the causes attributed by old hands vary from the Finance Minister's indictment that it is part of a gigantic manipulation by big business, to the belief of stock exchange officials that the margins are too high and controls are too vigorous for adequate free play in the market. The trouble with both these typotheses is that they fail to explain why investors are keeping away from the market. As excessive concern with the behaviour of speculators is the kind of dangerous mistake that old hands from the Finance Minister to stock exchange pudits are more than liable to make.

That speculators are manipulating the market does not seem to make sense; manipulation is a glib expression used by those who disapprove of the exchange to explain any behaviour that they do not understand. Why should bears manipulate at this stage? The normal reasons are to force the investor to sell out so that they can make a killing by cheap purchases. The way the usual bear manipulation takes place is as follows: Suppose a bear wishes to buy a particular stock in large quantities he opens the market by a sale thus depressing that stock, at the same time hoping that a series of investors and small speculators will follow his lead, then as soon as the stock is sufficiently depressed, he cuts the market by purchasing at lower levels. The essential point in the manoeuvre is that others must follow him so that he is able to purchase at lower levels. Now suppose —as is the case today—the investor makes no move at all, he neither sells nor buys; the bear is left stranded and the manipulation is a total failure.

The fact is that a speculator is on*y successful when there are investors in the market. The base of any market is not the speculator but the investor, the speculator can operate only when the market is moving. When TTK therefore complains of manipulation by bears he is assuming that investors are in the market, but the assumption just does not seem to hold, One of the best indicators that the investor is not in the market is that most new issues are taken up almost entirely by the underwriters. Companies with excellent reputations have found that the market has absorbed less than 20 per cent while the underwriters have been forced to take up over 70 per cent of the stock. The root cause of the market depression therefore seems to be the unwillingness of the investor to enter the corporate sector.

Real Estate: the Magnet

TO those who remember the bears of 1960 this is the startling feature. One explanation that is offered is the non-availability of money in the hands of the investing public but this explanation could be considered plausible if all other markets were equally depressed, and that is obviously not the case. Money continues to chase goods, urban property goes skyrocketing, and the inflationary pressure on the economy is unabated. Would we, therefore, be right in making the much more startling and very serious proposition that investors do have money but that they are switching away from the corporate and therefore the industrial sector of the country?

Prima facie at least a whole series of events seems to bear out this theory. One phenomenon is particularly relevant in Bombay: the spectacular real estate boom that is on at the moment is obviously taking away a part of the investment that should come to the corporate and industrial sector; in some cases land prices have doubled themselves within one year and a steady 30 per cent appreciation has become a natural phenomenon over the last two years. Ownership flats are also sharing in this boom; two and three bedroom flats in the smarter areas of Bombay are quoted at 70 and 80 rupees per square foot and some of the new houses are being offered on a freehold basis at as much as Rs. 100 per square foot! The Finance Minister's differential tax on capital gains on urban property has done nothing to restrain the overwhelming pressures on land prices as most landowners have merely switched from selling to leasing at spectacular rates. The Government of Maharashtra itself has joined in this gay venture; land which it leased at Rs 600 per