consumers are in the most prosperous residential areas of the city—Malabar Hill, Cumbala Hill, Fort and Colaba.

What is the social policy behind subsidising the cost of domestic fuel for those who are most able to pay? Whatever it be, it is entirely on a par with what in retrospect appears to be the policy of helping the oil companies at the cost of the lower income groups.

Municipalisation of gas was first proposed by the socialists in the Corporation some fifteen years ago, but they did not succeed. A proposal for nationalisation was accepted some years later, that was a decade ago. This was no definite commitment, however, but only a gesture. The story is one of cynical unconcern for public welfare in the running of a public utility and would add up to a sizeable treatise on how not to do it.

To bring in ideological considerations into it is only to befuddle the issues. What this over crowded, woefully inadequately housed city, bursting at the seams, clearly needs is domestic gas. Gas could be readily made available and it is being withheld for years. To fiddle with a public utility so essential as gas in a modern city on the specious argument that public ownership must come first before anything can be done is to lose the best of both worlds. Where public ownership is adequate and effective, to hold out for a doctrinaire policy of public ownership is patently-absurd and untenable. Such an attitude, moreover, would be inconsistent with the general tenets and the broad implications of the policy of mixed economy to which the country stands committed. Ten years ago the proposal for nationalisation—whether formally accepted or not, this was never made quite clear was not acted upon. The Centre at the time was not enthusiastic about it, for the very understandable reason that the capital expenditure on acquisition would be an unwarranted drain. Except in certain well defined spheres, the broad policy has been to supplement rather than supplant private enterprise where the latter functions reasonably well Whether in the case of gas, the record of the present suppliers warrants their continuation or not has to be judged on merits and the Government, before it finally decides must present its case. What it has been doing instead is to systematically undermine the operations of the present company and drain its resources. If the policy is that of nationalisation through euthanesia in order to avoid payment of compensation, something perhaps could be said for it. After all, Bombay Gas is a narrowly held company and a sterling company at that.

The case for nationalisation on the ground of evolving a rational organisation of supply, to which Trombay gas could be fed, is not as new as it sounds. The problem presented itself some years ago when the Municipality started generating gas from sewage. This could have been fed into the city supply while simultaneously expanding the distribution net work, The use of Trombay for gas for city supply, however, demands careful examination from the standpoint of the best possible utilisation of our petroleum resources. If and when the petrochemical complex which is coming up in Bombay is developed fully, would so much waste gas be left to be used as fuel? Surely better uses would be found for this valuable by-product. The need for carbonisation of coal on a larger scale will, however, still remain and the preference for coal gas from the viewpoint of resource utilisation would appear to be undisputed.

Money and Prices

IT is not surprising that the aggravation of inflationary pressures in the economy should figure so prominently in the Reserve Bank of lndia's latest report on Currency and Finance for the year 1963-64. This is, of course, a factual rather than analytical or critical report. Within this limited scope, the report covers all the relevant facts about the Indian economy, presenting them in a logical manner. The deterioration of the price situation is ascribed to the imbalance between aggregate demand and supply, which in turn is traced to a sharp increase in money circulation and stagnation of agricultural output. Some other factors are also mentioned such as urbanisation and the growth of population, without making it clear that they have been operating for long and cannot explain the sharp deterioration on the price front during 1963-64. The index of wholesale prices rose by as much as 9.3 per cent during 1963-64 as compared to an increase of only 3.7 per cent in 1962-63, The rise in prices of foodgrains dominated the movement of the overall price index.

In the otherwise dismal economic picture, the trends in industrial production and exports are the only stiver lining. Industrial production rose by 10.1 per cent as against a rise of only 6.3 per cent during 1962. This was to a large extent the result of greater utilisation of capacity in certain industries and easy availability of raw materials. Exports rose to Rs 774 crores, or Rs 98 crores more than in 1962. Utilisation of foreign aid was also greater during the year, thanks to an exlcnt perhaps to the changes in policy and administrative procedure effected during the year.

Though the report disclaims any pretension to being analytical, there are some statements which call for careful scrutiny. In the section on money and banking, it; is stated that "increase in net bank credit to Government continued, as in the past several years, to be the major factor stimulating expansion in money supply". This is obviously a half truth and no more. The report's own statistics do not corroborate it fully. Net bank credit to Government increased by Rs 281 crores as against a rise of Rs 170 crores in bank credit to the private sector. Thus credit to private sector was by no means an inconsequential factor. In fact, it showed a substantial rise over the previous year. Further, the figures of bank credit need some explaining. In a footnote to the table on money supply, it is mentioned that the figures arc adjusted for PL 480 and Pl. 665 funds. This means that the decline in PL 480 funds in the last two years is set off against gross bank credit to Government. This procedure, while being logical, has raided the figure of bank credit to the Government and lowered that of credit to the private sector. To put the facts in proper perspective, therefore, figures relating to net bank credit to Government and private sector should have been given for all the years since 1956. Tins is necessary before one sets out to discover the relative contribution of credit to the Government and the private sector to inflationary pressures.

Another point, perhaps more basic, relating to monetary analysis needs to be mentioned. That rise in money supply is the villain responsible for the sharp price rise is an oft-repeated thesis. However, it would appear from the facts presented in the report that this can by no means be taken for granted, at least not till certain curious facts are explained. Money supply during the first three years of the Third Plan increased by about 31 per cent. but prices rose by about V per cent only. Considering that national income in real terms during the period increased by 10 per cent, the impact of a part of the rise in money supply is obvious. But what about the rest of the increase? One may argue that this distortion is the result of a narrow definition of money supply and that a meaningful definition should cover also time deposits. This is not enough.

however. Money supply his implications for aggregate demand to the extent that it is used for making payments. Time deposits then have to be converted into demand deposits first. So it would appear that the current definition of money supply is not after all so inadequate for the purpose of explaining a price rise.

If, as facts show, the full impact of an increase in money supply is not felt on prices, it follows that the income velocity of money has declined. But how does one square this with the hypothesis that during an inflationary period the velocity of money, if anything, increases? Obviously those who are over-eager to pin down monetary expansion as the principal cause of inflation have yet some home-work to do.

There is also some analytical confusion in the report in the section on credit policy. It is stated that the credit policy was devised to restrain the use of bank credit "to ensure that interest rates in the organised markets take account of the scarcity of capital". But what follows contradicts this. For instance, modifications were made in the slab system of lending by the Reserve Bank in October so as to reduce the marginal cost of borrowing. Though subsequently the lending rates were restored to the level prevailing before October, they were not by any means fixed higher than in the preceding year.

One of the facts which stand out from a study of the balance of payments in 1963 is the rise in invisible receipts other than official donations. Net receipts on this account amounted to Rs 19 crores in 1963 as against net payments of Rs 23 crores during 1962. This must appear most heartening, particularly considering the gloomy prognostications about invisible earnings. A deeper probe into these figures, however, reveals the truth. One single item—"Government, not included elsewhere"—showed a rise of Rs 20 crores in 1963. This item includes receipts from refunds of freight differential initially advanced by India to the U S for PL 480 imports. In other words, it is no more than an offsetting entry against the initial payments made out of our foreign exchange reserves!

Weekly Notes

The Problem Adult

A CENTENARIAN among Indian industries, the jute mill industry is a problem adult. All along its long history there has been an uninterrupted conflict of interests and aspirations between the mills on the one hand and the growers on the other. As the growers were small holders and were never successfully brought together under the co-operative umbrella, the scales were tilted against them on most occasions. The working time agreement among the closely knit mill interests, on the other hand, had a dangerous implication, namely, the virtual elimination of the process of weeding out inefficient mills which free competition would have ensured to the benefit of all parties. The Partition of the country dealt another blow to the industry, but somehow it failed to respond — for which its anaemic preparation existence is responsible to no small degree. Ever since, the industry has bumped along from one crisis to the next so that the appellation "crisis" itself has lost its edge. And as would be expected in the case of an industry with such chronic deficiencies, almost every turn of the market reveals the basic weaknesses.

The recent difficulty which rising raw jute prices have posed is no exception. Owing to climatic factors largely, raw jute arrivals slowed down. Prices shot up. The speculative elements in the market took up vantage positions. The East India Jute and Hessian Exchange reacted fairly soon and devised measures to curb speculative dealings. It is understood that the IJMA too has obtained the consent of the Jute Commissioner for the release of buffer stocks held by the industry.

But there are some underlying pervasive forces at work which may prevent these measures from bearing the desired results. After the working time agreements were revoked, the Indian industry has greatly increased its output. In 1963-64 output reached as much as 1.3 million tons. Exports too, thanks to buoyancy in a number of foreign consuming centres—especially U S A, Canada, Argentina and the U K — reacted favourably and amounted to almost fully 0.9 million tons. But the inferior competitive strength of our jute goods exports is being increasingly felt. What is more, while Pakistan is shortly likely to begin to cut into our hessian market which has been built up in the last few years, hessian exports from this country are becoming more and more dependent on good quality jute imported from Pakistan. Evidently adequate steps were not taken at the right time to ensure larger crops in India after the working time agreement was given up. Hence the present shortage which, if buoyant internal and foreign demands continue, is bound to react on prices irrespective of what regulatory measures may be taken.

There is a feeling that modernisation of spinning in the mills must be succeeded by modernisation of weaving. On the other hand, really vigorous effort by government, even the Government of India, to produce more quality jute inside India is of vital importance for the future of the industry. After all, no less than a fifth of our exchange earnings from exports is derived from the export of jute goods.

Little New Light

MORE than usual interest attaches to the latest annual report of the International Monetary Fund in view of the lively debate that has been going on among protagonists ct alternative solutions of the problem of international liquidity. It was expected that at the forthcoming annual meeting of the Fund at Tokyo some major decisions would be taken on this issue. The Fund's annual report, however, throws cold water on all hopes of a reform of the Fund, weather a thorough-going one as suggested by Triffin or a less ambitious one on the lines of the proposals of Bernstein, Postuma, Stamp, etc. All that appears to be in the offing are some quota increases, though some changes in the provisions relating to gold sapscription have been mentioned.

The rather remarkable change in the climate of world opinion on the problem of international liquidity may be attributed to the favourable movement in the level of international reserves. The payments position of the leading industrial countries like the USA and the UK has shown an improvement and the reserve currencies are in great demand. The non-industrialised countries are also in much better shape.

This is not to say that prospects of a comfortable international liquidity situation are exactly bright. Over the last decade international trade grew at an average rate of 5.8 per cent per annum. Even if this rate is not maintained, the annual rate of growth of international trade cannot be below 4 per cent. On the other hand, the supply of