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