effect on the gilt-edged market.

And this is hardly surprising. Certain financial observers are inclined to the view that the terms of the Conversion of 1948-52 Loan indicate that the Government does not want to alter its present money policy. But such an inference is hardly warranted. For, unless the Government tests the money market on a genuine cash basis, to talk of interest rate policy makes no sense. The existing interest rates are quite artificial. Whether any departure from the existing interest rates would be desirable or not is an issue on which opinion is sharply divided.

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*Money Market*

# Gilt-Edged Break In London

MAN proposes and God disposes. Last week, when the terms and conditions of the new conversion loan were announced, the Government could not visualise this week's bewildering developments in London. Too much is being talked about sterling devaluation and its possible consequences on the countries whose currencies are, for all practical purposes, linked to the sterling. Too little is known about the landslide in government security prices on the London Stock Exchange.

More disturbing than the slump in British securities are the inspired reports and comments, cabled out from London, on the implications of the recent fall in the gilt-edged market. Comments by financial editors of news agencies are treated by informed observers as personal views and opinions. It was not the personal opinion of a City Editor, but a normal coverage of developments in London by a news agency which informed the world that some financial observers in London were inclined to the view that the unexpected slump in securities—and especially, the absence of official support—indicated that the Government might have abandoned the cheap money policy.

Later experts elaborated the thesis for dearer money policy in Britain. The world was informed that a section of financial experts as well as of the top-ranking Labour leaders was forced to the conclusion that dearer money was a better alternative to devaluation or to controlled austerity a Ia Cripps. The argument is that the Labour Government have almost completed their nationalisation programme and that, in the circumstances, the Government can afford to permit a rise in interest rates.

Implication is that higher interest rates will revive confidence and encourage investment. It is extremely doubtful whether, in the present phase of British economy, dearer money can encourage investment. That apart, it is highly unlikely that the Labour Government, who have an expert economic staff and can command the services of the best brains available in Britain, will favour higher interest rates at the current phase of the British economy: Mr. Bevan and his supporters could not possibly favour such a suicidal policy. And, even the right wing of the Labour Government should be aware that that way lies ruin and higher production costs. At this juncture, Britain can afford everything except that which, directly or indirectly, may lead to higher cost of production.

For the heavy slump in British Government securities there is a much simpler explanation. In and around Lombard Street there are many clever fellows who have read Keynes and know that, in the short term, stock exchange prices are what nine people out of ten believe that they should be. And nine people out of ten believe that stock prices should fall because of the uninterrupted fall in forward sterling quotations in the New York exchange market, because of the loss of gold and dollar resources arising out of Britain's widening dollar "gap" and because of the inspired and engineered belief that British finances cannot be straightened out as long as the Labour Government go on spending huge sums for welfare projects.

The slump in British stock prices has had a psychological effect on local security prices. In and around Dalai Street, it is being argued that if Sir Stafford Cripps is dead set against devaluation of the pound sterling, he has no alternative to allowing interests to use to bring about an adjustment between internal and external prices. This is an arguable view-point, although it ignores the fact that higher interest rates must raise industrial costs just as devaluation will lead to higher import prices.