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THE AFTERMATH

IN RETROSPECT, it appears that it is not the devaluation of the pound which has acted as bombshell, but it is rather Pakistan's decision not to devalue her rupee which has caused the greater shock. The way in which New Delhi has been upset about it and the manner in which the Government of India have started barricading the country with measures of control, one more drastic than the other—not to speak of the wide powers they are assuming to impose further controls and restrictions which are even more drastic go to suggest not only that they have been caught unawares but that they have come to the end of their wits and do not know how to meet this unexpected situation.

But, was the Pakistan decision so very unexpected after all? Those who have had any occasion to follow Pakistan's feelings on this subject—which had been freely expressed by their spokesmen, supported by her economists and ventilated in her financial press—could not possibly have any doubts about them. Whether such feelings are rational or not, people from time immemorial have taken pride in their currency, one of the symbols of national sovereignty being the right to have a currency of one's own. When Shivaji was strong enough to fight the authority of Delhi, one of his first acts of defiance was to mint his own coin.

That the Pakistan rupee was being quoted in the foreign exchange market at a premium had been held up in Pakistan as a sure sign of the growing strength of this infant State. It was triumphantly pointed out that because she had important raw materials to sell and because her own financial stability was impregnable, the world had evidently put a high value on her rupee.

Long before even the devaluation of the pound sterling had been talked about, the demand had been frequently, if not insistently, voiced in Pakistan that she must break away from sterling. Was not Britain a debtor country, whose stock had been fast going down, under the load of Marshall Aid loans? The Pakistan rupee must snap its link with the pound in the same way as one should leave a sinking ship! The desire for membership of the International Monetary Fund was there; that was to strengthen Pakistan's position in international finance. There is, therefore, no reason to suspect that Pakistan's decision has been prompted by a desire to spite the other Dominion. On the con-

trary, both the press and public in Pakistan have welcomed it and her spokesmen have adduced very sound reasons for it also. After all, there is something to be said for her not wanting to devalue when she did not have a pressing dollar' problem; on the contrary, it was better for her to avoid a fresh dose of inflation and to try to keep down her cost of living.

Paradoxically enough, the inflationary situation existing in Eastern Pakistan had been cited as one of the main reasons for opposing devaluation and yet, a wail of woe has gone up precisely from that part of the Dominion. For jute growers have been struck down by it and fear a drastic reduction in their money incomes.

Since a large part of our trade is with Pakistan, though its exact measure is still largely a matter of guess-work and cannot be found from published information, one would have supposed that it had weighed with the Government of India before they made up their minds about devaluing the rupee. We still import more than 60 per cent of our raw-jute from Pakistan and a large proportion of our raw-cotton. These have naturally drawn most attention. But the problems raised are really much wider. To begin with, there is the agreement on the exchange of essential commodities between the two dominions; there is also a payments agreement which specifically lays down that none of the countries would impose exchange control. Thirdly, the position of the Indian banks with branches in Pakistan has to be considered. A regulation passed by Pakistan in September last makes it obligatory on banks with their head offices in the Indian Union to keep 75 per cent of their reserves

against their liabilities in Pakistan within that Dominion. These liabilities in the shape of deposits in Pakistan run to several crores. Since these banks habitually keep the balance of their reserves in the Indian Union, they are threatened with a loss of considerable magnitude, as a result of devaluation. The same applies to insurance companies.

The problem of raw jute, however, over-shadows the rest. The latest figures about the proportion of raw jute grown in the two Dominions which is exported are not available. But before partition, nearly 2/3rd of the jute grown was processed in India, and the balance used to be exported. Throughout the inter-war period, the jute mills in India had gained over their foreign competitors; Dundee had steadily lost, as also the jute mills in the continent, if not in America.

On a long-run view, it is not impossible that if Pakistan can hold out, she may find an increasingly larger market for raw jute in countries other than India. For various reasons, however, this is an extremely remote possibility. There remains the chances of Pakistan developing her own jute industry. If the question is viewed coolly and realistically, it will not appear a very feasible proposition, even in the near-distant future. Some mills for the manufacture of jute goods may be established in Chittagong; it is not unlikely that similar attempts would be made in the jute-growing centres which offers the necessary facilities in transport. Even so, the logic of localisation is such and the force of inertia which often lies behind it so compelling, that one can hardly visualise Pakistan taking over a substantial share of the jute manufactures even in the distant future. Yet, there is a consider-

able volume of opinion in this country which regards the political aspects of the problem as the dominant ones in the long run. If Pakistan remains the principal producer of raw jute, they do not think that she will allow it to be processed in the Indian Union for long.

Granted, the long run possibilities are obscure; it will not be realistic, however, to ignore that the Indian jute industry has undoubted advantages as the principal buyers of Pakistan raw jute. And if Indian mills can act in concert with Dundee—this is what they are reported to be doing—they can still have the upper hand. The situation obviously suggests fruitful possibilities of bulk purchase negotiations which will guarantee reasonable returns to the growers, and which may even cut down a part of the middleman's profits which have always loaded up the price of the raw material for the jute mills, and yet assure steady supplies to the jute mills, a reasonable possibility of uninterrupted production and exports of jute manufactures. To be able to derive the best advantage from the situation, however, it would not do for the Government to play into the hands of the jute mills as they seem to be doing. But even here, the policy of the Government is not consistent; nor are their objectives very clear.

How else can one explain or justify the decision to raise the export duty on jute manufactures by a sudden jump, from Rs. 80 to Rs. 350 per ton of hessian? This announcement came in the wake of a previous one to the effect that jute manufactures had agreed—and the Government had accepted the proposition—that prices would not be allowed to rise. To make sure that the agreement is observed in prac-

tice, jute mills had undertaken to sell only to bona-fide shippers and consumers. If the Government feel that the agreement would, in fact, be respected and there is no likelihood of a speculative rise in the prices of jute goods, what was the necessity for this sudden and fantastic increase in export duties which, in the present state of slack demand for jute goods in world markets, particularly in hard currency areas, cannot but fall on the manufacturers themselves? It is mere wishful thinking that export duties can be passed on to the consumers, in this case foreigners. Except under very exceptional circumstances, this is quite impossible and in the case of jute in the present situation, it is improbable in the extreme.

The case of cotton imports from Pakistan is comparable, though in a lesser degree, since there are alternative sources of supply and the world situation in raw cotton has considerably eased of late. That is not to say, however, that with our present currency difficulties, diversion can be either an easy or a 'painless process. After all, the fact cannot be overlooked that Indian mills are specially equipped to weave those particular varieties of cotton which grow in Pakistan. A change can be effected, no doubt; if necessary, by converting the equipment in the mills. Given time, this can be done. But at what cost? And is it really necessary? No one is yet in a position to say how far the attempts to divert our imports will raise the prices of Egyptian and other African cottons on which we would be forced to fall back, in the absence of adequate dollar exchanges.

On the export side, the 'defensive' measures adopted by the Government in the course of the past two weeks range from

enhancement of export duty on jute goods and imposition of fresh duties on mustard oil—an essential necessity for Eastern Pakistan—and on iron and steel, to Government taking over complete control of exports of coal to Pakistan. These measures, in short, completely throw overboard the Indo-Pakistan Agreement.

The spate of export duties and restrictions raise one simple question: Was it not to stimulate exports that the rupee was devalued? Were the Government not aware that inflationary forces were still at work on the eve of the Washington Conference? Or have they appeared overnight, like a genie, after the fateful decision to devalue?

Peace and The Atom

IT WOULD be idle to pretend that President Truman's revelation that "within recent weeks an atomic explosion has occurred in the USSR", does not make a fundamental change in the balance of world power. On the assumption that an "atomic explosion" in Russia means that she already has or will soon have an effective atomic weapon, the USSR automatically emerges as the most impregnable military power in the world today. Does this mean that the Soviet military strategists will decide the present as the most opportune moment to launch a war against the combined armed strength of the Western Powers?

Superficial commentators are likely to jump to some such hasty conclusion on an inexperienced and immature assessment of military strategy. On a closer examination, it would appear that neither the USSR nor the Western Powers have yet a decisive military supremacy. Authoritative military experts do not seem to

If devaluation was wise, the Government should not allow themselves to be stampeded and scared into such a mad rush of regulations. On the contrary, again assuming that the original step was wise and called for under the circumstances, attention should be focussed on settling what are, after all, side-issues, by negotiating fresh financial and trade agreements with Pakistan, so that the country may have a chance to derive whatever benefits devaluation was expected to bring to us. Everything has to be paid for; let us, at least, pay for the continuation of the sterling link more gracefully.

share Mr. Churchill's assumption that it is only America's exclusive possession of the atomic bomb which has saved Britain and Western Europe from Russian aggression in the post-war period. Nor will they fully endorse President Truman's confident assurance, implied in many of his utterances on foreign policy, that the American stockpiling of the bomb has discouraged the wicked men of the Kremlin from wanton aggression.

Even so, it is significant that America has made no secret of its intention to use the atomic bomb in the event of war. Presumably on the justification that negotiations for international control of atomic energy had failed because of Russian intransigence, President Truman announced in a press conference on April 6, 1949, that "if it (use of atomic bomb) has to be made for the welfare of the United States, and the democracies of the world are at stake, I would not hesitate to make it (the decision to use the