Off The Record

The Sting in the Tail

AS IN the case of devaluation, so in that of the monsoon, Bombay found to its cost that the sting was in the tail!

At the tail-end of the monsoon, there was such a downpour as had not been recorded since these things began to be recorded way back in the 1820's. But what devaluation could not do, the deluge did. 'It stopped all activity and completely dislocated business, even of the non-official variety that goes on unhampared when the market is closed and there is a bank holiday. Since the banks could not open in any case—the staff had not turned up for work—the Reserve Bank declared Thursday a bank holiday. The notification was quite unnecessary. Few even came to know of it, since communications had completely stopped dead, telephone lines were not working and. none could come to the Fort area. in any case.

The rains flooded Bombay and brought the City to a complete stand-still. It caused no end of inconvenience to lots of people, but it did one good thing. It sobered the markets not a little. The fire-works that were expected after three successive days of bank closure turned out to be no more than a damp squib when markets finally reopened on .Friday.

In the case of devaluation also, as has been mentioned before, the sting was in the tail, to wit, in the decision of Pakistan to stand aloof. She would not let *her* rupee go down the drain with its Indian counterpart. Separation has been her key-note. How could it be otherwise in the sphere of currency, when ..Muslims and Hindus are supposed to differ in everything else? Some considered it as sheer cussedness on the part of Karachi. They were certain that Pakistan had deliberately fallen out of the step in order to spite the Indian Union. Now, it is a debatable question why Pakistan took this step that she did; opinions may also differ about the ultimate benefits she may derive from it.

But there are no two opinions that this somewhat unexpected decision on the part of Pakistan completely upset the nicely laid out plans of mice and men on this side of the border. Jute shares did not shoot up sky-high. Before the Pakistan news came through, Howrahs were reported to have been marked up unofficially from 29 to 32 and expectations were widely entertained that this was only a foretaste of the things to come. Those who had some doubts about jute making much of a show because jute manufactures had been meeting price resistance in foreign markets, particularly in the U. S. A., and had been losing ground to substitutes, banked on tea, textiles and manganese.

The Governors of the International Monetary Fund utter many profoundities and mouthful phrases in their reports; but these give little handle to market operators. There is nothing in them which the latter can seize, or act upon. There is one home-truth, however, in their Annual Reports which stands out. It is to the.effect that devaluation is not advisable until the internal inflation has been checked. Contrary-wise, if inflation is still active as is undoubtedly the case here today, the inference is warranted that devaluation would tend to raise prices.

An analysis of the price-trend in this country goes to show that either as a result of the dis-inflationary measures introduced in October last, or due to good-luck which means a happy accident, prices did stay put in the last quarter of 1948. During January to March this year, they showed a slight tendency to fall but from March onward, the trend has been reversed; prices again started moving upwards, and for the last six months they have never once looked back, though even the magnitude of that rise may not have been such as to call for another dis-inflation conference in New Delhi. Against this background, the market operators cannot be judged wrong or wide off the mark in their assessment of the possible effects of devaluation.

Pakistan's decision, however, upset these calculations. The rains prevented it from creating a much greater upset in the markets than the one witnessed eventually. Now the betting is, how long would Pakistan go on ploughing a lonely furrow or keep out of step, considering that India is still her best market and her economy is complementary? Some give her three months, others a longer run; but few have any doubts that sooner or later, Pakistan will have to toe the line. Later, it has become a question of *making* her toe the line.

For, while market circles were content to let it off with a bet, others have not taken the Pakistan decision in so nonchalant a fashion. They have called for action and acted promptly enough themselves. Jute mills, both in India and Britain, are reported to have declared a buyers' strike. They won't pay a price for jute higher than that ruling before devaluation. Cotton mills have decided upon similar joint action. These reports sound ominous enough, though nothing is known yet who made them or how are they going to be enforced. Raw jute has slumped, in consequence, in Pakistan while Egyptian cotton has gone up.

There is such a thing as a buyer's monopoly where buyers are few in number, as strong as the jute mills and as well organised as the Indian Jute Mills Association, while the sellers are small peasants, scattered and numerous, with no staying power and incapable of collective action. The poor jute growers draw one's sympathy in this unequal fight. No economist can have a serious quarrel with Pakistan if she thought that this was the only means by which she could extract a fairer price for her growers of jute.

Primary producers have always and everywhere been beaten down. Though one hears of it only during periods of depression, the long run tendency has been towards a widening disparity between prices of industrial manufactures and those of primary products, agricultural and mineral. This has been the case since World War I, if not since the beginning of the century, according to Prof. Mills than whom there has been no closer student of prices. He contends that instead of passing on the benefits of greater technical efficiency to consumers, and through them, to the primary producers—*via* increased production, leading to expanding demand for raw materials—industry has managed to retain all to herself the fruits of great productivity. They have gone to swell the share of the fabricators,—management, owners and industrial labour.

Pakistan may rightly complain that the price resistance which jute manufactures have been facing abroad, is being met in a manner which shifts the burden on to the poor growers. The jute mills will not put up with a cut on their profits for long: they endeavour to keep up prices by restricting production. The workers in the jute mills will not accept a cut, either; by taking their wage dispute to the industrial tribunal, they got a favourable award. It is the jute growers who have to take a lower price in the end.

Bulk buying at the inter-governmental level, which has been suggested as a way out from the present *impasse,* is a possible though it may not necessarily work to the advantage of the Indian Union. The scattered and unorganised growers may conceivably gain more from collective bargaining than the buyers of jute who are now in a stronger bargaining position.

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This line of argument, however, should not mislead one into thinking that an issue like devaluation is settled on such weighing of comparative advantages. It is not. Matters of high policy are not decided that way. Mr. Ghulam Mahomed is in Washington and Pakistan's application for membership is pending before the IMF. Thereby hangs quite a different story.