Cotton Market

Price Disparity Must Go

IT has often been emphasised in these columns that there is a definite case for an upward revision of Indian cotton ceilings.

Firstly, the current ceilings are far below world parity.

Secondly, they are incommensurately low, as compared with the price-in creases registered in the case of competitive cash crops like groundnuts and tobacco.

Thirdly, the current ceilings are unrealistic because the actual rates paid for cotton in the shape of *kapas* are Rs. 100 to Rs. 150 higher than the ceiling fixed by the Government for the equivalent.

The case for conceding a fair increase in the cotton ceilings being unanswerable, the Industries and Agriculturel Ministers were reported last week to have actually proposed an increase of Rs. 150 in the Jarilla ceilings.

Shri R. G. Saraiya. Vice-President of the Indian Central Cotton Committee has made out a very strong case for an upward revision of cotton prices. He quotes the following price indices relating to cotton and other competing crops:—

(Year Ending Aug. 1939= 100)

	Dec. 1949	Jan. 1950
All Agricultural Commodities	516	523
Rice	469	479
Wheat	520	502
Groundnut	615	662
Linseed	507	513
Tobacco	776	763
Cotton, raw	421	423

The colossal price increases that have taken place in respect of wheat, groundnut, linseed and tobacco in particular should convince any one of the grievous injustice done to the cotton farmer through the unjustifiably low cotton ceilings. There is a small flaw, however, in the above indices particularly in those relating to raw cotton. In all probability, the index number for cotton does not include the premia which are actually being paid for seed cotton or *kapas* irrespective of the ceilings fixed by the Government. If unofficial but actual premia are in eluded in the index for raw cotton, perhaps, it would show a substantial increase. Even so, the case made out by Shri R. G. Saraiya stands and has an important bearing on the current situation.

Rasing his arguments on the comparative prices of different agricultural crops, he has justified the demand for an increase in the price of cotton. What he wants is to set right the price disparity between competing cash crops which has actually "resulted in decreased production of Indian cotton and increased reliance on imports of cotton from abroad". What is needed is, indeed, an integrated system of crop planning and prices, such as would ensure that one important crop does not dislodge another by an *ad hoc* in one as against others. And yet, this is exactly what happend during the war years and after; cotton prices were brought down "through a series of empirical decisions to a level which severely discouraged production of cotton."

That cotton production was actively discouraged in India for the past six or seven years, either through fixation of unremunarative prices or restrictions on cotton acreage, is a fact which is now admitted by all, including the Government departments concerned. In fact, the Government have also committed themselves to the principle of raising prices to a level which will stimulate cotton growing.

The Textile Commissioner himself was very recently confronted with a perplexing situation while working out the subsidy that would be necessary to bring the cost of American imported cotton to the controlled price level of Indian cotton of corresponding variety, grade and staple. Now it is reported that he has offered a subsidy of Rs. 225 per bale or Rs. 450 per candy of 784 lbs. to Indian cotton spinning mills using American cotton stapling 7/8". The question of subsidy arose because the Government of India had promised to import cotton on their own account, for supplying to spinning mills in the South for manufacturing yarn for distribution amongst handloom weavers. The subsidy worked out by the Textile Commissioner measures the price disparity at which Indian cotton of the same quality has been controlled.

Will the rectification of this disparity or the disequilibrium mean a burdensome rise *in* the price of cloth? Shri R. G. Saraiya claims that an increase of Rs. 200 per candy in the cotton ceiling would entail an increase of less than one anna per yard in the cost of cloth made from it. If only the price of Indian cotton is raised by about Rs. 200. claims Shri Saraiya, the competitive power of Indian cotton will not be in jeopardy and the prices of cotton will be brought into a more reasonable relationship with those of other crops. As a production stimulant, however, it will carry India much faster to the goal of self-sufficiency.

That the Government are inclined to recommend an increase of Rs. 150 in the cotton ceilings and floors should be taken as an indication of their earnestness for stimulating the production of cotton. The final word in respest of the price revision, however, can be said only after the recommendations of the Planning Commission on the integrated cotton plan are received.

Meanwhile, rumour-mongers were busy this week doing propaganda in favour of cotton de-control. They exploited the situation created by the unfortunate resignations of Dr. Syamaprasad Mukerjee and Shri K. C. Neogy, to indulge in wishful thinking. They, perhaps, thought that cotton control was being prolonged simply to satisfy the whims and fancies of the Industries Minister. Nothing could be farther from truth. The Cabinet as a body is agreed on the continuance of price control and, hence, it was quite proper that the Textile Commissioner should take the first opportunity to repudiate the rumour. In an interview, he emphasized that there was no basis whatsoever for the report that the Government of India were likely to de-control cotton. He added: "The report appears to be based more on wishful thinking of certain interested people than on facts".

Ashmouni cotton of the current crop continues to be successfully cornered by Egyptian speculators. The world's best cotton, namely Karnak, is selling 29.35 tallaries cheaper than the inferior Ashmouni cotton. The price-spread between old and new crop Ashmouni is also at its widest in Egyptian history. The Ashmouni new crop or the October 1950 contract is selling 44.75 tallages cheaper than the Ashmouni old crop of the-June 1949 contract.

Nearer home, the trade talks which have opened at Karachi this week are expected to end in an agreement whereby a barter, of Pakistan commodities for Indian commodities would be possible. The very possibility has caused a decline in cotton prices in Gujerat and elsewhere.

Money Market

Shock Absorber Needed

MONEY market stingency is visibly reflected in continued increase in advances of scheduled banks. In the month ended April 7, 1950, scheduled banks' advances improved by Rs. 214 crores to Rs. 454.84 crores. A decline of Rs. 675 crores in banks' balances with the Reserve Bank for the week ended April 14, 1950, indicates thai the demand lot funds continues unabated.

Increased demand for funds is reflected in continued expansion of currency. Though the aggregate volume of note issues remained stationery at around Rs. 1,181½ crores throughout March, it increased to Rs. 1,205$^3/_4$ crores in the first fortnight of the current month. It is, however, significant that the increase of Rs. 26 crores in the volume of notes in circulation during the month ended April 14. 1950 closely corresponds to the improvement in the volume of advances by scheduled banks.

To the extent of Rs. 20 crores, currency expansion has occurred against corresponding increases in the , Reserve Rank's holdings of rupee securities. This does not necessarily mean that the Bank has undertaken extensive open-market operations or that the Government have resorted to temporary accommodation through creation of *ad hoes.* Up to Rs. 18 crores. the Bank's increase in Holdings of rupee securities represents transfers of securities from the investment portfolio in the banking department to the securities portfolio-in the issue department.

While recent financial statistics reveal continued trade demand for funds, the statement of affairs of the Reserve Rank for the week ended April 14. 1950 is significant inasmuch as it reveals, for the first time since devaluation, a *net* decrease in the Rank's holdings of foreign assets—that is. in the Rank's combined holdings of foreign seen rities and of balances held abroad. From Rs. 855.21 crores, the Rank's aggregate holdings of foreign assets declined by Rs. 3½ crores to Rs. 851.63 crores.

It may be rash to jump to conclusions, but a decrease in the aggregate holdings of foreign assets of the Reserve Bank for the week ended April 14. 1950, may be the first indication that the export season is definitely over and that the import season is on. In the import season, imports are expected to exceed exports, and the trade gap may he accentuated by the recent liberalisation of imports and the belated arrival of goods under licences issued some months ago.

This focusses attention on an aspect of post-war money market development discussed in these columns in recent weeks. Events since last year indicate continued demand for fund? throughout the year; both in the export and in the import season, the money market fesls,the impact of trade demand for funds. For instance, at-present, there is a twofold demand for funds—owe arising.out of exports of cloth and the other emanating from the need for financ-. ing cotton imports.

It is now abundantly evident that post-war fluctuations in foreign trade are having exaggerated effects on the money market. It is arguable that the internal money market cannot escape repercussions in foreign trade, indeed, that is why, financial circles anticipate growing stringency in the money market as the import season gets on its way. This is as it should be, but uncomfortable money market conditions in the export season too, indicate the need for devising ways and means for insulating the money market from gyrations in foreign trade.

This can be done by forming an Export-Import Rank, as in the U. S. A., or a credits department for financing foreign trade, as in Britain, in order to facilitate the supply of intermediate credits to exporters and importers. The need for adequate supplies of intermediate credits to industry as well as dealers in foreign trade is admitted. There are central and provincial industrial finance corporations to help industry tide over temporary financial requirements.

There is a similar case for establishing institutions for providing intermediate credit facilities to exporters and importers. Such institutions can not only assist and further India's foreign trade but can insulate the money market from disproportionate repercussions of emergency demand for funds from foreign trade quarters. With such institutions in existence, export-import demand for funds is likely to be diverted away from the money market, leaving it free to adjust itself to its shrinking resources,

Experience suggests that temporary developments in the short-loan market have strong psychological repercussions on the long-term money market. Money market stringency has a habit of projecting itself to the gilt-edged market. It may not be possible nor desirable to offset basic economic and financial trends and tendencies, but intermediate credit facilitates arc likely to prevent undesirable psychological factors from marking their influence felt on the short as well as the long term money market.