Crisis in The Jute Industry

G. C. Sen

Ex-Secretary, Indian Central Jute Committee

THE Jute Industry is face to face with a major crisis. While the world demand for jute manufactures is strong, the Industry cannot meet this demand on account of shortage of raw jute. The mills are working on a restricted basis of 42/2 hours per week when they ought to be producing on the basis of a 48-hour working week. The position is extremely unsatisfactory. Unless trade relations between Pakistan and India improve and a steady supply of the raw material is ensured, production cannot be related to demand and neither country is likely to gain by starving markets hungry for jute goods.

Meanwhile, the system of control over prices of jute and jute manufactures seems to have broken clown completely. On account of short supply and the difficulty of procurement, Indian mills have been buying raw jute at rates much higher than the controlled prices. Those that do not care to buy at black-market prices arc forced to restrict production and may be compelled to close down. One important group of mills—the Jardine Henderson group - had to close down temporarily for this reason, about a fortnight ago. *Prima facie* it seems incredible that in a year when, by all accounts, the production of raw jute, both in Pakistan and in India, has shown a phenomenal increase, some of the mills should have to restrict production or to close down altogether for want of raw jute. Yet, this is exactly the position.

It will be recalled that last year similar difficulties arose when after the devaluation of the Indian rupee, Pakistan refused to follow suit, and India did not agree to buy jute from Pakistan at the new rate of exchange (100: 144). Government of India fixed the maximum price of loose jute at Rs. 40 for Tops, Rs. 38 for Middles and Rs. 35 for Bottoms irrespective of quality. mark or place of origin. The Government of Pakistan, by an Ordinance, fixed minimum prices for raw jute at Rs, 23 per maund for Bottoms in terms of the Pakistan rupee. At the new rate of exchange, and after payment of the Pakistan export duty and other incidental charges, these prices worked out to about Rs. 42 per maund in terms of the Indian rupee. As the Indian Jute Mills found it uneconomic to buy Pakistan jute at these rates, there was a complete stoppage of imports of raw jute from Pakistan for a long time.

The position improved to a certain extent after the Indo-Pakistan Trade Agreement came into effect in April 1950. By this agreement. Pakistan agreed to supply, on a barter basis, 40 lakh maunds of raw jute, (consisting of 19 lakh mds. of cuttings at Rs. 28 per md., 1 lakh md. of H.J. and Ropes at Rs. 30 per md. and 20 lakh mds. of Rejections at Rs. 34 per md.) for delivery during May, June and July, in exchange for 20,000 tons of sacking goods, textiles. timber and other materials. Pakistan, however, failed to keep to the schedule, and deliveries of jute were delayed, as a result of which the over-all supply position became very critical in July 1950. Up to the end of August, only 30 lakh maunds of Pakistan jute had arrived under the agreement.

The recent flood and earthquakes in Assam added to the transport difficulties and movement of raw jute of the new crop from Assam was held up until recently. The present position is that although the new crop in India has started to come in, the stock of raw jute in most of the mills is still very low. Before the Indo-Pakistan Trade Agreement expired on the 30th September, Pakistan offered to supply an additional quantity of jute on a barter basis, but the Government of India stuck to their decision not to enter into fresh trade relations with Pakistan until the exchange value of the Pakistani rupee was fixed by the International Monetary Fund. This decision, which was apparently taken in consultation with the Mill Industry and other jute interests, is stated to have been based on two very cogent reasons: the bumper jute crop in India (which according to official estimates is expected to yield an increase of about 13 lakh bales over last year's crop) will be available for consumption in the mills and will keep them going during the next few months; in the second place, the Mills and other interests cencerned are unwilling to figure as principals in another barter deal on the pattern of the last one which, as experience has shown, has not worked satisfactorily.

There may be sound reasons against entering into commercial relations with Pakistan until the- exchange parity between ' the two rupees has been fixed by the International Monetary Fund, but the net result of the decision is that the supply of raw jute to the mills will continue to be inadequate—inspite of the expected bumper crop in India. The official estimate of an increase of 13 lakh bales this year Is likely to prove too optimistic. The increase may not, after all, exceed 7 or 8 lakhs of bales over last year's crop (28 lakhs of bales). If Pakistan jute is not imported, the available overall supply to Indian mills including *Mesta* will fall short of their actual requirements by at least 20 lakhs of bales

Let us examine how this stoppage of trade between the two countries has affected prices. According to trade estimates, in the current season, Pakistan has in stock or in sight about 65 lakh bales of raw jute. (Their official forecast, never very reliable, placed the *increase* this year at 10 lakh bales over last year's crop). She cannot export more than 30 lakh hales: there is no ovcr-st as demand for more. What will happen to the remaining 35 lakh bales of raw jute in Pakistan? In September last the Pakistan Government offered to purchase raw jute from Agents through the Pakistan Jute Board, with the object of stabilising prices and ensuring a fair deal to the cultivators. The prices offered were Rs. 23, Rs. 22 and Rs. 21 respectively for *jat*, *District*, and *Northern Bottoms,* while the prices offered for *Cuttings* and *Rejections* were the same as those paid when purchases were made under the last Indo-Pakistan Trade Agreement. It is difficult to know the actual figures, but by the end of September it was reported that the Pakistan Jute- Board had purchased only about 6 lakh to 7 lakh maunds of *Rejections* and *Cuttings* against barter commitments, and some *Bottoms* for storage. At five maunds to a bale, the total quantity would not exceed 2 lakhs of bales. Statutory minimum prices have been fixed by the Pakistan Jute Board, but the chances are that, before the season is out, the real market price will tall through the floor—unless trade relations between the two count-Vies are restored and raw jute from Pakistan begins to flow freely into Indian markets. Already prices are falling, and it is reported that in the interior smuggling of raw jute is taking place across the border at rates much below the statutory minimum prices -fixed by Pakistan.

In India, on the other hand, inadequacy of supply and difficulties in transport and inequitable distribution have tended to encourage blackmarketing in raw jute. Official attempts to control prices of jute and jute goods have hitherto failed miserably. The sudden upsurge of demand for jute manufactures in overseas markets—particularly in the U.S.A. and Canada—and the soaring prices of jute goods have fed the blackmarket and kept the anti-social elements in the jute trade active . For some time past, *Hessian* cloth has commanded a substantial premium over the ceiling export prices fixed by the Government of India.

After the devaluation of the Indian rupee, the Government of India fixed the maximum prices for the sale of jute, goods, as an anti-inflationary measure, with effect from the 10th October, 1949 ae Rs. 55 per 100 yds. of *Hessian* cloth (40" weighing 10 nz.) and Rs. 1,550 per ton of *Sacking.* The export duty on Hessian was also raised at the same time from Rs. 80 to Rs. 350 per ton, The export ceiling price was fixed at Rs. 55 per 100 yds. of *Hessian* (40"x10 oz.) *plus* 5 per cent commission *plus* freight insurance, etc. 'The. control has never been effective, and jute goods, particularly *Hessian* cloth (which forms 40 per cent of the total export of jute goods), has continued to be sold in North American markets at much above the controlled prices. Dealers in Calcutta have also paid blackmarkwt prices for *Hessian cloth* purchased for export. For example, in the beginning of November, *Hessian* (40" x 10 oz.) was selling in Calcutta at Rs. 80 per 100 yds. against the scheduled price of Rs. 55. Quite recently, black business was reported at Rs. 95 per 100 yds.

It must be admitted that Government have lost an enormous amount in foreign exchange and Income-tax, but they have no idea as to the extent of the loss—as recently stated by a Government spokesman in answer to a question in Parliament. The method adopted by the Indian dealers for evading both price control and exchange control is an ingenious one. Enquiries from an authoritative source reveal the tact that the Shippers show controlled prices in the export invoices but have an arrangement with the importers in U.S.A. by which the balance of the prices actually agreed upon is credited to their account in U.S.A. in dollars. The Government lose in income-tax as well as in foreign exchange.

The matter has been engaging the serious attention of the Central and Provincial Governments and of the Mil! Industry and other Jute interests for some months past. Decontrol of the prices of jute goods has at times been urged by a section of jute dealers, but the Government of India have made their intentions quite clear that control over internal prices as well as over the export prices of jute goods must continue in the interests of the country. Decontrol of prices may bring in their share of the profits to the shareholders of the jute mills and stop the loss of foreign exchange but is bound to have an adverse effect on the internal economy of the country. Another alternative is to nationalise the entire trade and introduce State trading in jute and jutegoods. After careful consideration, and a good dual of deliberation with the Industry and other Jute interests, the Government of India have dropped the idea of State trading for the present. They have, instead, raised the export duty twice within a period of one month. On October 21, they announced their decision to increase the export duty on *Hessian* from Rs. 350 to Rs. 750 per ton. It was stated that while the Industry and Government were most anxious that the price of jute goods should remain as low as possible in world markets, it was clearly anomalous that India should continue indefinitely to export her *Hessian* manufactures at a figure below the American purity, and the enhancement of the duty to Rs. 750 per ton was designed to secury for India the full foreign exchange benefits of the increased dollar prices which *Hessian* fetched in the U.S.A. and Canada.

This measure apparently failed to have the desired effect and the feasibility of State trading in jute goods, together with stricter control over operations in raw jute came to be seriously considered. On November 20, the Government of India dropped the idea of introducing State trading in raw jute and jute manufactures and decided to increase the export duty on *Hessian* and *Sacking* to Rs. 1,500 and Rs. 130 per ton respectively. A Press Note issued by the Commerce Ministry stated;

> "The Government, however, wish to make it clear that they have no intention whatever of seeing an increase in the internal prices of raw jute or jute manufactures. They will therefore; take such further steps as may be necessary to make existing controls effective and will not hesitate to resort to State trading if it appears to them that that would be the best method of dealing with the situation."

On the same date, the Minister for Commerce introduced a Bill in Parliament making these enhanced export duties immediately effective.

The advantage; and the risks and responsibilities involved in State trading in jute and jute manufactures had been examined by the Committee on State trading. In their Report which was submitted in September this year, they advocated a cautious approach to this question and while recognizing " that State trading may be an effective remedy for under-invoicing and other evils, refrained from recommending it *at this stage* for jute manufactures and suggested that such evils should be tackled through a stricter enforcement of exchange control" (Para. 64 of the *Report,* page 32-53). As regards control over operations in raw jute, the Committee thought that " it was essential to take measures to eliminate competitive buying," and agreed with the recommendation of the Export Promotion Committee that " a system of centralised buying should be introduced under the auspices of the Indian Jute Mills Association" (para 58, *Ibid,* page 47).

In a Press Note issued on 8-11-50 the Government of West Bengal issued a warning to hoarders " who were holding back stocks of jute in the hope of selling them at black market prievs," and desired to make it clear that such sales would not be regarded as *bona fide.* On 10-11-50 the State Government issued an order under the Jute (Control of Prices) Act 1950, authorising a panvl of' persons " to enter and search the premises of various jute mills, balers and jute dealers in the State, and also to inspect books and other documents belonging to them or under their control." In order to centralise the purchase of raw jute, the West Bengal Government, it is understood, proposed shortly to set up a Central Jute Purchase Board by promulgating an Ordinance. The Board will comprise representative of various jute interests and will be authorised to buy jute, on behalf of the mills which will be prohibited from making any direct purchase. Balers and other dealers of raw jute will be required to sell jute to the proposed Board and not to any mills direct.

Whether the measures outlined above will be effective in controlling blaekmarketing operations in raw jute and in securing a steady supply to the mills of whatever jute is available within the Indian Union, it is difficult to foresee. The fantastic increase in the export duty (which, according to some people, will not add to the fast declining reputation and overseas prestige of the Indian jute industry) may serve the purpose temporarily in mopping up and securing to the country the difference bet wren the controlled prices and the higher prices still offered for *Hessian* in the U.S.A. and Canada. But the supply of raw jute remains the crux of the whole problem. Even if the purehase of the entire quantity of raw jute within India is canalized through the Central Purchase Board, the overall supply will still fall far short of the demand of the mills. It has been said that the present " excesses in the overseas *Hessian* "market are mainly due to deficient simply and recurring fears of stoppage in the supply. Normal conditions can be largely restored by an increase in the production of jute manufactures, and for this, it is necessary at least for a few years to come to make from 20 to 25 lacs of bales of Pakistan jute available to the mills. As I have said before the sooner the normal trade relations between Pakistan and India an; restored the better for both countries, both for the consumer overseas and for the grower in India and Pakistan.

Book Review

Structure of Incomes

H. T. Parekh

This booklet is a welcome first attempt to analyse Income-tax statistics published as annual reports by the Central Board of Revenue. Economists in the country have made little attempt to utilise these highly informative reports and Mr. Sampath Iyengar's analysis is, therefore, a creditable effort though unfortunately he has only dealt with individual incomes and left out company incomes which have a fast growing importance.

In nine tables for selected year since 1938-39, the author shows how the total number of assessable personal incomes has increased in various income groups. From 2,80,000 incomes in 1938-39, the total number went up in 10 years to 4.60,000 while total incomes went up from Rs. 155 crores to Rs. 455 crores. Incomes liable to super-tax increased only by 15,000 while all the remaining increase belonged to income-tax paying classes with incomes below Rs. 25,000. The steeply rising tax rates since 1939 have resulted in far greater relative fall in higher income ranges so that redistribution of income through direct taxation has benefited lower income groups.

The incidence of progressive direct taxes all over the world has fallen on higher incomes and levelling-up of incomes through this means is the declared objective of all modern governments. The author works out that "disposable incomes" after taxes has remained unchanged for incomes below 5,000 but they have fallen from 85 per cent, to 47 per cent. in incomes above Rs. 1 lakh. He calculates how per capita tax in various income groups has risen most in case of large income and how the rich pay a large part of the total tax collected.

When the objective of modern taxation is taken into account, calculations of this type need not be as alarming as the author would like us to believe. In reality the figures only indicate that the tax system was hardly progressive a decade ago. The author's conclusions are vitiated because he does not isolate direct taxation from indirect taxation. For instance, is it not true that the burden of sales tax, which was unknown 10 years ago, has fallen heavily on low income groups, so that what the latter have escaped in direct taxation, they are paying out through indirect taxation?

It must be admitted that, in spite of all the wealth of details, if it is intended to prove that the rich in the high income brackets are today the real beasts of burden, the case is not fully convincing. Moreover. it must also be remembered that through the medium of private limited companies , a large saving is made in taxation by those in the highest income brackets, and this fact is not touched by the author.

An interesting inference that emerges from the analysis is the large escape from tax of small incomes in the non-salaried sectors, as these incomes have shown no increase which can never be the case. Tax authorities would do well to follow up this enquiry which may yield handsome rewards. How did the author manage to get income-tax statistics for 1948-49 when the published annual report ends with 1947-48?

* How *Indian Income Groups Changed Since* 1938-39, by A. C. Sampath Iyengar, Indian Chamber of Commerce, Calcutta.