Weekly Notes

Foreign Exchange for Railways

WlTH the constant revision of Third. Plan estimates now going on, it is difficult to keep track of all the proposed changes as they are reported in the newspapers. The proposed increase in the physical and financial targets for railways, however, is too important an item to be ignored. The originating goods traffic at the end of 1965-66 is now expected to be 265 million tons against 245 million tons provided in the Third Plan. Coal traffic alone accounts for one-half of the increase. The Plan allocation for railways was Rs 890 crores plus Rs 35 crores from stores suspense account, making a total of Rs 925 crores, exclusive of Rs 350 crores to be financed from the depreciation fund. The foreign exchange component of (he Rs 925 crore programme was given as Rs 186 crores in the Plan. On the eve of the Aid India Consortium meeting in January last, Government revised the foreign exchange cost to Rs 194 crores. exclusive of Rs 36 crores of imports from rupee payment areas. Whether this element of Rs 36 crores was included in the original estimates is not known but it did raise the import, if not the foreign exchange component, to Rs 230 crores even before the recent revision of the physical target for railways.

The working group on coal production and transport recommended an additional investment of Rs 92 crores in railways including Rs 30 crores of foreign exchange. The Planning Commission has accepted this enhancement, partially, at least. According to one report, it has raised the foreign exchange allocation to Rs 219 crores. Presumably, this figure is comparable to that of Rs 230 crores rather than to Rs 194 crores of foreign exchange requirement intimated to the Consortium.

What are the prospects of raising the additional foreign exchange apart from arranging for a little more import from rupee payment sources? India has given an undertaking to the Consortium that it will not ask for more aid even though the foreign exchange component of the Plan has gone up from Rs 2,030 crores to Rs 2,230 crores. An increase under an important head like railways would therefore have to be balanced by a cut under some other head. A larger allotment for railways would not be very awkward by itself for the World Bank and U S are practically committed to fulfilment of the railway programme and have in fact been pressing steadily for its enlargement. What makes it really-awkward is the fact that, following Russia^ inability to deliver in time all the power stations it had contracted to supply, we might need more foreign exchange for power also. Since railways and power get first preference from members of the Consortium, and a large part of its assistance is still tied to specific projects, the danger now is that the cuts will fall on industrial projects unless we earn more foreign exchange ourselves.

Pepping up Prize Bonds

WHEN the Government announced some time back that it proposed to discontinue the sale of prize bonds from July, many explanations were offered as to why the scheme, introduced barely two vears aslo alter much deliberation, should have Hopped. It was suggested by some that the scheme had failed because the terms on which the bonds were offered Here no! attractive enough. Others argued that better publicity could have saved the scheme. unattractive (hough it was. The Covernment itself offered no explanation why receipts from prize bonds should have tumbled from Rs 16 crores in 1960-61, the first year of the scheme, to less than Rs 3 crores in 1%1-62.

Last week, at the joint meeting of the National Savings Central Advisory Board and the Chairmen of the State Boards, the Deputy Finance Minister presented the broad outlines of a new prize bonds scheme which, she said, wan under consideration of the Government. By comparing the terms of the new scheme with those of the old one, one may form an idea of the Government's own diagnosis of why the earlier scheme failed.

Two important changes are proposed. First, in addition to prizes, the bonds are to carry a premium. Second, the existing procedure of holding draws every quarter is to be replaced by either annual draws or a single draw in respect of bonds sold during one year.

It is difficult to see how either of these modifications can make the bonds more attractive to the public. For one thing, if a premium is to be offered on the bonds, this can be done only by reducing the amount of the prize money. The premium itself must necessarily be low, very much below the rate of interest on comparable forms of small savings, The assurance of earning this small premium is not likely to induce those who would not otherwise have bought prize bonds to invest in them. On the other hand, the reduction in the prize money may well make the scheme less attractive than it is at present. What draws people to prize bonds is the prospect of winning a large sum of money, far larger than their investment. Therefore, to the extent that cither the amount of the prize money or the chance of winning a prize is reduced, the scheme is hound to become less attractive.

If the proposal to offer a premium on the bonds will reduce the amount of prize money, that to replace the present quarterly draws with annual draws will reduce the holder's chance of winning a prize. In fact, it has been suggested that even the quarterly draws under the present scheme are too infrequent and that draws should be held every month as, for instance, under the Premium Bonds scheme in the I K . The other new proposal not to have even annual draws and to have instead just one draw for bonds sold during one year would no doubt increase the prize money but this would be offset by the fact that a bond-holder would have just one chance of winning a prize. The argument that this would induce people to buy fresh bonds every year is not very practical since even the optimistic are likely to let up after drawing blank once or twice. Actually, the proposal to reduce the number of draws appears