Weekly Notes

High Financial Wisdom

THE Reserve Bank has come out firmly in favour of tightening the reins. The report of the Central Board and the Governor's recent address at a meeting of bankers are, as could be expected, worded with great care and discretion but the conclusions and recommendations are unmistakably clear, though not everyone may be convinced of their logical consistency. The scope for altering the structure and rates of taxation is extremely limited (though agriculture could bear a heavier burden), runs the argument, particularly since frequent tax changes have an unsettling effect on investment activity. It follows that deficit financing by Government must be cut down drastically if not reversed to a budgetary surplus by lopping off "less essential" expenditure. "Even if this results in temporarily slowing down development activity in some areas, it may in the long run prove beneficial.

The Bank recognises that the development strategy pursued so far has paid off to some extent; the output of basic industries in 1963-64 increased at a faster rate than that of many consumer goods. But the growth rate of industrial output as a whole was still appreciably below the Plan target of 11 per cent per year. Agriculture and consumer goods deserve, in the Bank's opinion, the highest priority in the interests of price stability and a co-ordinated wage and incomes policy geared to productivity remains a vital desideratum.

Public expenditure, the Bank admits at the same time, is not the only ingredient of the price explosion. Out of the total bank credit expansion of Rs 464 crores in 1963-64, Government accounted for Rs 281 crores or 61 per cent, against Rs 316 crores out of a total of Rs 388 crores, or 82 per cent, in the previous year. The private sector, thus, more than doubled its share of credit expansion. It is possible that the Bank still believes that private expenditure is more amenable to monetary and fiscal discipline but even so it is difficult to explain its lack of concern at the pace of private credit expansion. There is no hint at all that some paring down here, too, "may in the long run prove beneficial".

The Governor expects banks to improve their liquidity by greater deposit mobilisation, regrading of interest rates, and shifting longer term credits to the Unit Trust and the Industrial Development Bank. However, Is not financing by the I D B also inflationary in some sense?

Scooping Up

THE leakage of some parts of a preliminary Reserve Bank study of foreign collaborations has caused some understandable discomfort in official quarters. Some of the findings that have appeared in *The Financial Express* (September 7, 1964) are, of course, common knowledge: that some of the earlier collaboration agreements were highly restrictive and expensive, that the supply of current know-how does not involve any loss of technological leadership, and that in many cases the collaborators enjoy full technical control even though they have only minority participation in equity.

The significant fact that has come to light — though that too had been suspected for some time — is that between 1956-57 and 1962-63 remittances on account of royalties increased about four and a half times while those for technical services rose 54 times. The order of increase appears large mainly because of the small base but the disproportionate increase under technical services certainly does catch the eye. It is obvious that collaborators increasingly prefer to receive payment in this form since it is tax free and a lump sum payment which does not fluctuate with the turnover, etc, of the Indian company. So far, Government has not laid down any maxima for such payments, as in the case of royalty, which is generally subject to a ceiling of 5 per *cent* of sales, subject to tax at 60 per cent hitherto and now 50 per cent.

Foreign capital and know-how have their price and that price has to be paid at least tiff such time as the balance of payments position eases. The absolute magnitude of the price will keep on increasing in the near future, as the number and variety of collaborators multiply. But are we paying a price that is worthwhile in terms of 'he benefits obtained? Admittedly, the benefits cannot be quantified easily. For that matter, we do not even know (nor is the Reserve Bank better informed at present) about the precise foreign exchange burden under various heads separately, such as dividend, interest, repatriation, royalty, technical know-how and drawings, consultancy charges, buying commission, payments to technicians, and other payments. All these are exclusive of items like inflation of equipment prices, investment in kind through sale of equipment paid for in equity, etc.

The feeling is gaining ground even in many responsible quarters that many of the fringe benefits that foreign collaborators are allowed to enjoy could be safely trimmed, particularly in those cases where they are accompanied by equity investment. When a collaborator makes an investment in an Indian company the foreign exchange represented by it should not fly out with compound interest, almost immediately, not counting the long term accrual of capital gains on the investment itself. There is surely some force in the argument that royalty and payments for know-how and other intangibles should be restricted, especially when the collaborator is receiving or is likely to receive remuneration on other accounts.

We regret that owing to a sudden strike in the press the issue of September 5, 1964 could not be published.

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Recasting the Plans

A correspondent writes:

THE price situation is distressing enough but the so-called re-thinking about Plan priorities, to which a section of the Government has committed itself, is no less distressing. It goes without saying that plans should be better drawn up, that the feasibility of individual projects should be established well in advance, that investments should be properly allocated to achieve the twin objectives of a high growth rate and a modicum of price stability, and that investments should fructify in production on schedule. This is difficult in all conscience but imperative. Even the talk of a smaller Fourth Plan is understandable; its size in 1960-61 prices is eroded already. What is not clear about the re-thinking is the change of