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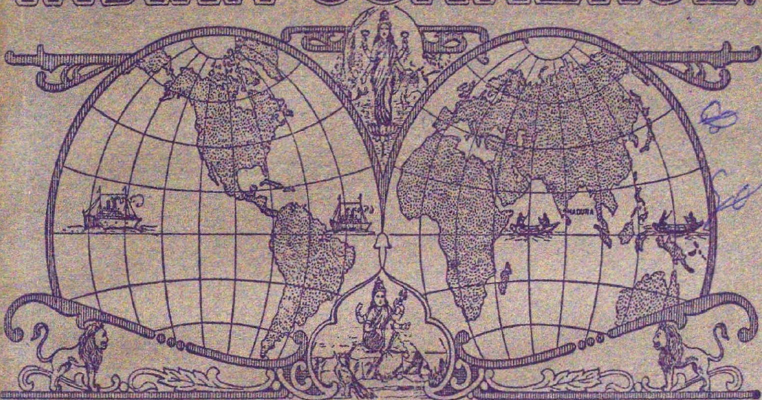

Editor: T. Kalyanasundram, D. Com., F. R. Econ. S. (Lond.)

Annual Subscription Rs. 3. } **Published on the 15th of every month** { **Single copy As. 4**

VOL. II. JULY 1934. No. 19

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INDIAN COMMERCE

A high class English Monthly devoted to
Trade, Commerce, Industry, Finance, Banking, Foreign Exchange,
Co-operation and Commercial Education.

Office: 267, West Masi Street, Madura. (S. India).

Annual Subscripticn Rs. 3] Published on the 15th of every month. [Single copy 4 As.

Vol. II. *July, 1934.* *No. 19*

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Company Share-holders and Auditors:

Their Legal Relationship.

The legal relationship that exists between the shareholders of a Joint Stock company registered under the Companies Act and the auditors appointed by them to audit the accounts of such companies every year, an important point of law that must necessarily be noted by every shareholder, is often not understood nor trouble is taken to know them. To state it briefly an auditor is an expert in accounting and law relating to Joint Stock companies and he is appointed by the shareholders with a view to seeing that the Directors to whom the management of the company is entrusted have carried out their duties in accordance with the rules and regulations contained in the Memorandum and Articles of Association of the company, that all the expenses incurred by the Directors are valid and are in the interests of the company, supported by proper vouchers, that the balance sheet submitted to them by the Directors is drawn up in conformity with the law and also that it exhibits the true state of affairs of the company. Thus it will be seen that the auditor is an expert examiner, appointed by the shareholders on their behalf, to inspect the books of accounts as maintained by the Directors and to report to them whether or not he has obtained all the information he has needed to carry out his inspection effectively and to submit a report to them on the financial position of the company. Further, as he is usually remunerated by a fee for his services, he is liable to the shareholders for any loss caused to them by his negligence to discharge the duties of an auditor as efficiently as possible. In India actions brought against auditors in Courts of Law by company shareholders for the carelessness or negligence of an auditor are but few but in England where the shareholders exercise much discrimination in the appointment of auditors, by virtue of their thorough knowledge of the company law, several actions have been brought against auditors and thus the legal relationship that exists between them have been discussed more than once threadbare. Such actions brought by shareholders make the position of auditors more responsible and they are made to be quite independent and in no case subserving to the dictations of the Directors. But unfortunately in our country, many an auditor, excepting a very few, are at the tender mercies of the Directors, whose work he has to inspect, as a true representative of the shareholders and it is a pity that the shareholders also do not pay much importance to the appointment of the auditor and his reputation for independence, treating this important appointment as a matter of formality.

An auditor discharging his duties towards his principals, the shareholders, bearing in mind that he is their trusted representative and as such is answerable to them but, as is often the case, is not liked by the Directors of the company, is granted a privilege by Section 144 (6) of the Indian Companies Act 1913, viz., "that a person other than a retiring auditor, shall not be capable of being appointed auditor at an annual meeting unless notice of an intention to nominate that person to the office of auditor has been given by a member of the company to the company not less than fourteen days before such annual general meeting and the company shall send a copy of such notice to the retiring auditor and shall give notice thereof to its members either by advertisement or in any other mode allowed by the articles not less than seven days before the annual general meeting". Thus it will be seen that a retiring auditor is given an opportunity to explain his case to his principals, why he is not liked by the Directors and thus vindicate his position so that he might again be appointed as auditor for the succeeding year. If the shareholders know this much as regards their relationship with their auditors, we are sure, the scope for the better success of the Joint Stock companies in the land would be assured.

Now with regard to the duties of the auditor towards the shareholders so as to free himself from the possibility for an action for negligence. It may be stated that an auditor is not an insurer and his duties do not extend over anything beyond the taking of reasonable care. In this connection it would be of interest to note the opinion of Lindley, L. J., *In re London and General Bank* case. He says:

"It is no part of an auditor's duty to give advice, either to directors or shareholders, as to what they ought to do. An auditor has nothing to do with the prudence or imprudence of making loans with or without security. It is nothing to him whether the business of a company is being conducted prudently or imprudently, profitably or unprofitably. His business is to ascertain and state the true financial position of the company at the time of the audit and his duty is confined to that. But then comes the question, how is he to ascertain that position? The answer is by examining the books of the company. But he does not discharge his duty by doing this without inquiry and without taking any trouble to see that the books themselves show the company's true position. He must take reasonable care to ascertain that they do so. Unless he does this his audit would be worse than an idle farce. An auditor, however, is not bound to do more than exercise reasonable care and skill in making inquiries and investigations. He is not an insurer, he does not guarantee that the books do correctly show the true position of the company's affairs; he does not even guarantee that his balance sheet is accurate according to the books of the company. If he did, he would be responsible for error on his part, even if he were himself deceived without any want of reasonable care on his part, say, by the fraudulent concealment of a book from him. His obligation is not so onerous as this. Such I take to be the duty of the auditor; he must be honest-i.e. he must not certify what he does not believe to be true and he must take reasonable care and skill before he believes that what he certifies is true. What is reasonable care in any particular case must depend upon the circumstances of that case. Where there is nothing to excite suspicion very little inquiry will be reasonably sufficient, and in practice, I believe, businessmen select a few cases at haphazard, see that they are right and assume that others like them are correct also. Where suspicion is aroused more care is obviously necessary but still an auditor is not bound to exercise more than reasonable care and skill even in a case of suspicion, and he is perfectly justified in acting on the opinion of an expert where special knowledge is required".

The above remarks of the learned Judge put matters in a nut-shell. We hope shareholders of companies in India would pay sufficient importance to the powers vested in them by the Companies Act, appoint efficient auditors to audit the annual accounts of their companies and thereby see that their company's financial position is critically examined and certified to be correct.

A few copies of Vol. I of the "Indian Commerce" for 1933, containing 386 pages of useful matter, are available for sale.

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Rural Credit through Reserve Bank.

MR. RAMDAS PANTULU REVIEWS PROGRESS OF CO-OP. MOVEMENT.

'The year 1928–29 was the peak year in the prosperity of the Co-operative Movement in all Provinces in India. The unprecedented economic depression, which set in towards the closing months of 1929, marks the beginning of the decline in the fortunes of the Co-operative Movement," said Mr. V. Ramdas Pantulu, presiding over the All-India Provincial Co-operative Banks' Conference, held at Amraoti recently.

25 YEARS' PROGRESS.

'In the quarter of a century since 1904, when the Movement was officially inaugurated in India,' he continued, 'it made marked progress. About 1,00,000 primary credit societies, 600 secondary institutions known as Central Board and a dozen Provincial Banks with a working capital of about 50 crores (excluding loans made by the secondary bodies to the primaries and deposits made by the latter with the former) sprang up in India (British India and the Indian States) in that period. Out of this sum about Rs. 14 crores represented the owned capital of the instituitions themselves, that is to say, their share capital and reserves. The membership of these institutions reached the figure of about 3 millions and on the usual computation, that an average rural family consists of five persons, it means that about 15 million people were brought into the movement. The co-operative credit institution had not only come to occupy an important place in our credit agencies, but also secured a recognised position in the regular banking system of the country. This is borne out by the fact that the Co-operative Banks are definitely brought into the scheme of the Indian Reserve Bank'.

SHRINKAGE IN WORKING CAPITAL

"There has been a shrinkage in the working capital of the credit institutions, mainly because they have ceased to borrow afresh from the investing public there being no outlet for the money. Portions of the working capital which they still possess are either invested outside the Movement in securities which bear low rates of interest or are idle. The profits of the institutions have naturally gone down. With the fall in the net profits of the primary and the central institutions, their capacity to make adequate financial contributions for supervision of societies has decreased, with the result that supervisory agencies have also suffered. Effort is now largely concentrated on effecting recovery of overdue loans, securing old loans by additional or fresh security when they cannot be collected, and in rectifying such of the societies which have any vitality left in them still'.

'As the Central Banking Enquiry Committee has said, 'opinion on co operative credit has now crystallised round the idea that these varieties (short, intermediate and long-term) of credit cannot be supplied by the same type of co-operative organisation and that two different types of them are indispensable.'

AGRICULTURISTS' INDEBTEDNESS.

Another assumption that was a guiding factor in our credit movement was that the indebtedness of the agriculturist was the main cause of his poverty and that his economic rehabilitation could be accomplished by liquidation of his prior debts through co-operative credit societies. The truth seems to be that the poverty of the Indian peasant is due to other causes and is itself largely the case and not the result of his indebtedness. There has been an enormous increase in the prior debt of the agriculturist in the last few decades, and it is still growing with the increasing dependence of the population on agriculture, the decline in village and domestic industries, which once furnished subsidiary occupation, constant fragmentation of holdings, increase in burdens of taxation, rent and revenue, fall in the prices of agricultural products and other economic factors. This process of the growth of rural indebtedness cannot be arrested by the Co-operative Movement alone, nor can the chronic prior indebtedness of the peasant be liquidated or substantially reduced by the Co-operative Credit societies.

WILL PROV. BANKS LEAD?

'The lines of development of co-operative credit in future must therefore, mark in my humble opinion, a definite departure from the methods hitherto tried. The lead in regard to this reform must naturally come from the Provincial Co-oprative Banks and much of the future of the Movement will depend upon that lead. I feel that the time has come for segregation right from bottom to top of 'long term credit' from 'short and intermediate credit' and to develop distinct types of institutions to deal with them separately'.

'The future development of co-operative finance through rural credit societies, central banks and the provincial banks must mainly aim at supplying the credit needs of agriculturists for seasonal operations and for marketing their products. I am in entire agreement with the views expressed by the Registrar of Co-operative Societies, Central Provinces and Bearer in his report for the year 1932, when he says that providing the agriculturist with short and medium loans raising his crops would result 'in the general improvement in his material condition and standard of life'.

RURAL CREDIT.

'It is true,' Mr. Ramdas Pantulu concluded, 'that the Indian Reserve Bank Act does not contain any specific provisions about Rural Credit except providing facilities for the re-discount of agricultural paper by the Reserve Bank. Provision for Rural Credit through the Reserve Bank is, however left for future legislation. I hope that this conference will be able to formulate certain lines on which such legislation may proceed'.

Sunday News.

The Romance of London's Markets

by Collin Brooks

(Continued from page 189)

They are forbidden to smoke, but they persistently smoke. All types of people gather there— the City type, the backwoods type, the truly rural provincial type. All the seats are reserved. At 3 o'clock the three seats in the centre are occupied by the selling broker, who takes the centre, and two members of his firm, who may be clerks, and he begins the sale of wool. At that moment eager shouts ring out from different parts, anxious bidders emphasising their calls by shooting out their arms and waving catalogues to attract attention, and many stand up and shout, but the technique of the auction is such that the broker who sells and the people who buy follow the bargains with closest attention, and when the wool is sold the selling broker marks his catalogue. At a later stage of the sale the buyer initials the selling broker's catalogue and the bargain is checked, and eventually the wool changes hands.

It is sold under known conditions of sale, both as regards taking delivery and as regards payment. There you have wool from the ends of the world coming to be sold in that mere little cockpit in Coleman Street.

Perhaps still more individual is the Metal Exchange. The metal exchange men, like most of the other traders of the City, were originally members of the Royal Exchange and they eventually found that the accommodation in the Royal Exchange was not conducive to business. They eventually made a move and in recent years the Metal Exchange went to Whittington Avenue. At the Metal Exchange you have in the centre of an imposing room a modern imitation of what might be Stonehenge but consisting of well cushioned and comfortable looking benches. Inside that oval you have forty seats, and those forty seats are occupied by forty ring brokers. You cannot have more than forty ring brokers. The number of the ring brokers is definitely limited to these gentlemen. I have called them in another place "The 40 just men."

Business starts in the Metal Exchange by the ringing of a bell. When the bell rings a card-board placard is shown and the secretary calls out "Copper, gentlemen, copper," and for 10 minutes you are permitted to deal in copper. At the end of that time the card is removed, the bell rings again and the voice cries "Tin, gentlemen, tin." You get that rotation of metals throughout the course of business You have this alternation of copper and tin and then you have two five-minute periods for spelter and lead. Spelter is, of course, generally known as zinc, until it comes to London. At 1.20 the bell rings and all trading stops. Three members then retire to an inner chamber. These three members are known as the Fixing Committee, and the whole of their purpose is to fix prices for the bargains that have taken place during the session. That price is highly important, because it governs the whole of the metal prices over the whole of the known globe. It will affect the metal market and the price in New York and in every capital in Europe. In order to be thoroughly English the Metal Exchange having fixed the price now has an afternoon session which is conducted in exactly the same way as the morning session as far as technique is concerned but the prices are fixed at the morning session and they are the official prices for the day. What happens in the afternoon is no business of anybody's and so you get the strange paradox that the day's price is not the day's price at all.

There are other exchanges which differ in technique which I have not mentioned. For example, the Coal Exchange is simply an accommodation room for people who want to deal in coal on three days of the week. They have no strange ritual in the Coal Exchange. There is no privacy; there is a gallery from which the public can see how the coal is bought and sold on the floor below. On the other days it is still bought and sold in men's offices.

I have not touched upon all the exchanges but the point I have tried to make clear is this—that trade for the main part began in the streets of London and has ended up by being sheltered in homes of its own and carried out under concrete regulations.

I cannot sit down without just reminding you of one thing—that last year we saw the whole process repeated again in the creation of a Fur Exchange of London.

What is to be the future of these markets? They have been enormously important in our national life and have been very largely responsible for establishlng the texture of our trading relationships.

At the present time there are two factors which are operating adversely upon them. When about four years ago I had the temerity to write "Something in the City" dealing with the commodity exchanges, I then believed and said that the future to me seemed to be shaping in such a way that the exchanges would tend to grow in importance. It seemed to me at that time that the efficiency of modern transport and communications were not only bringing national ports and producing centres into closer relationship with London, but doing the same thing with international centres. Since 1931, however, you have had a change on the face of industry. We are now seeing industry after industry regulated, and industry after industry governed by some central board of its own, and it looks very much as if the old-fashioned exchanges which depend upon free markets and which depend upon free trade will no longer be wanted, if this movement towards centralisation goes forward. I simply state that as being a factor in the life of the exchanges without offering at this time an opinion as to its desirability.

The second factor is that the exchanges came into being when it was convenient for people to buy all their commodities in one spot. The tendency to-day is for the salesman to go out and visit possible buyers on their own premises, and with that growth of scientific salesmanship you get the possibility that the historic markets will tend to grow less rather than more important in our lifetime. (Applause.)

The Accountant.

Certificate of Origin for certain Textile Goods.

Differential duties under Indian Tariff (Textile Protection) Amendment Act, 1934 Certificates of Origin.

Claims for assessment at the rates for goods of British manufacture under items 158, 158C, 158D, 158G, 158H, 158J and 158L of the Tariff Schedule (*vide* notice dated April 30, 1934) should be supported by certificates of origin in the form prescribed in 1930 for a similar purpose. The form is reproduced as an annexure to this notice.

2. Goods of kinds which have not hitherto been entitled to assessment at lower differential rates of duty, and for which proper certificates are not immediately forthcoming, will (for two months from date) be assessed at the differential rate on importers submitting a certificate in the form below, when they are in a position to certify that the goods are of British manufacture and that they satisfy the conditions for assessment at the lower rate.

I/We, importers of the goods described on this bill of entry and referred to in invoice No. dated in respect of which we claim assessment at the rate appropriate to goods of British manufacture, do hereby declare

(*a*) that the said goods were consigned to me/us by Messrs..................

(*b*) that the said goods were manufactured by Messrs......................... (if the manufacturer is known)

(*c*) that to the best of my, our knowledge and belief in the production of the goods no process other than a process antecedent to weaving was carried out elsewhere than in the United Kingdom of Great Britain and Northern Ireland.

Dated at Calcutta Signature..............

The 1934. Address................

NOTE.—For yarn and sewing thread, substitute the word "spinning" for the word "weaving."

Calcutta Custom House,

The 11th May, 1934.

Form of Certificate of origin to be written typed or printed on invoices of cotton piece-goods of British manufacture for which entry into British India is claimed at the differential rate of duty.

I (1) of (2) of (3) $\frac{\text{Manufacturer}}{\text{Supplier}}$ of the piece goods enumerated in this invoice hereby declare that I [(4) have the authority to make and sign this certificate on behalf of the aforesaid $\frac{\text{Manufacturer}}{\text{Supplier}}$ and that I] have the means of knowing and do hereby certify as follows:—

1. That this invoice is in all respects correct and contains a true and full statement of the description of the said goods, and the actual quantity thereof.

2. That in the production of any cloth which is included in this invoice, no process of manufacture other than a process antecedent to weaving has been carried out elsewhere than in the United Kingdom of Great Britain and Northern Ireland.

Dated at this day of 19

Witness. Signature.

FORM OF INVOICE.

Marks and Numbers	Description of Goods	Quantity (No. of Pieces.)	Dimensions	Gross Weights of Bales of Plain Grey Goods

(1) Here insert Manager, Chief Clerk, or as the case may be.

(2) Here insert name of firm or company.

(3) Here insert name of city or country

(4) The words in square brackets should be omitted where the manufacturer or supplier himself signs the certificate.

NOTES.—(1) The words "cotton piecegoods" in the heading should be corrected when necessary.

(2) In respect of item 158 of the Tariff Schedule, the word "weaving" in paragraph 2 of the certificate should be amended to "spinning."

CALCULATION OF TEXTILE CONTENT OF MIXTURE CLOTHS; INTERPRETATION OF TERM "SATEEN WEAVE"

With reference to the notice in the "B.T.J." of May 24 (page 803) and previous notices respecting the "Indian Tariff (Textile Protection) Amendment Act, 1934," H. M. Senior Trade Commissioner in India has forwarded to the Board of Trade copies of Customs Rulings Nos. 1 and 2 of 1934, issued by the Indian Central Board of Revenue, relating to the calculation of the textile content of mixture cloths and the interpretation of the term "sateen weave" in Tariff Item No. 158 J.

The texts of the rulings are as follows:-

Customs Ruling No. 1 of 1934 of Central Board of Revenue.

Fabrics--Classifiable on percentage--Manner of determination of percentage.

Where the tariff classification of a fabric depends on the percentage it contains of a particular textile material, such percentage shall be deemed to be the percentage by weight subject to the following provisos:—

(i) For the purpose of Item No. 158 C, a cotton chadar, dhuti, sari or scarf with a silk or artificial silk border shall be deemed to contain more than 90 per cent. of cotton if the area covered by silk or artificial silk is less than one-fifth of the total area. In calculating the area covered by silk or artificial silk portions in which the silk or artificial silk is in both warp and weft shall be counted twice over.

(ii) For the purpose of Item No. 158 G, any fabric (not being an embroidered fabric) made from cotton and artificial silk in which the whole of the warp or the whole of the weft is of cotton shall be deemed to contain 50 per cent. of cotton.

Customs Ruling No. 2 of 1934 of the Central Board of Revenue.

"Sateen weave"—interpretation of.

In Item 158 J of Schedule II to the Indian Tariff Act, the expression "of sateen weave" should be deemed to exclude twills and drills of "three thread" or "four thread" weave, and should be applied only to cloths of "five thread" weave and upwards. By "five thread" weave is meant that on the surface of the cloth on which warp threads predominate, such threads after passing under one weft thread should pass over four weft threads.—*Board of Trade Journal.*

Changes in Swedish Banking.

SINCE the Kr uger crash the question of tightening the State's control over the banking system has been brought to the forefront in Sweden. The public reacted to the sensational collapse with remarkable equipoise; but all parties agreed in regarding it as a painful object-lesson proving that further legal restriction on the banks were necessary. Accordingly, the Riksdag on June 2nd, 1933, passed an important law amending the 1911 Bank Act, and it entered into force on January 1st this year.

In assessing its significance, it is important to realise the part which the banks have hitherto played in financing industry. Swedish investors have only since the War acquired the habit of putting their money directly into shares or bonds. They have generally preferred to have time deposits in the commercial or saving banks. Moreover, since Sweden has no open money market in the English sense, business men with temporary surplus funds have no alternative to placing them in the bank. Since the War they have been able to use a special account liable to fourteen days' notice, and thus receive a higher rate of interest than the $\frac{1}{2}$ per cent. obtainable on current account. In such circumstances the banks inevitably became the suppliers not only of short-term credits but also of much of the investment capital for the country's rapidly expanding industries. Loans are nominally granted for a maximum period of six months; but in practice most of them are renewed and run for years. It has been usual for a newly-formed company to supplement its own capital with renewable bank credits and repay them at a later stage out of the proceeds of a debenture issue. The war-time inflationary boom revealed the weaknesses of this system. The banks formed subsidiary investment companies and placed large credits at their disposal. Reckless flotation and merging of dubious concerns by these companies inflicted heavy losses on the banks. The practice of making advances on the security of shares assumed excessive proportions, and in the severe post-war slump the banks were left with many firms virtually on their hands. It is one of the evils of the Swedish method of financing industry that the banks are tempted to keep uneconomic enterprises on their feet rather than undergo the certain loss of liquidating them.

A committee was appointed in 1924 to examine the relations of the banks to industry. Its report, which appeared in 1927, proposed for-reaching alterations in the Bank Law. By that time, however, the frozen credits had been liquidated and industrial companies were financially much sounder; and so the whole matter was quietly shelved. In the boom of 1927-29 the banks were more cautious, though the business of lending against shares again became prominent. The depression was accompanied by the sensational Kreuger collapse in March, 1932, which involved one of the largest banks, the Skandinaviska Kreditaktiebolaget, in serious difficulties. The Government was obliged to grant it assistance to the amount of 215 million kronor; and the Riksdag coupled its approval with an emphatic declaration that stricter public control over the banking system was highly desirable. A committee was appointed to re-examine the connection between the banks and industry; and the Labour Government used its report as the basis for the new law, which is now in force. The Kreuger affair was thus the immediate cause of the demand for new legislation, but it is pertinent to add that, even if the crash had not occurred, the slump would have seriously affected some banks. For instance, the Bank of Gottenburg, which had transacted no business with Kreuger, had to write off Kr. 34·5 millions in 1932 and Kr. 11·75 millions in 1933, the normal amount under this heading being 3 millions. Its difficulties were mainly due to the losses incurred in shipping and the export trade.

The general principle which has always characterised Swedish bank legislation is that the interests of the depositor must be adequately protected. The scope of the new law gives the impression that henceforth the banking system will have to work within a rigid strait-jacket. Yet it must be remembered that many of its provisions have been in operation for years. Among the novel features are the important restrictions placed on the banks' power of granting credits, though some of them were already contained in the Articles of Association of the different banks. The fundamental provision is that no credit may be given without adequate security in the form of real or movable property or in claims against a third party. The business of lending against shares is severely curtailed: there must be an appreciable margin between the market value of the shares and the amount of the loan, and this must be maintained. It is forbidden to make advances against the shares of a company which deals in shares or undertakes issuing business. The renewal of a credit is regarded as a new loan. To avoid friction the operation of these clauses is to be subject to transitional arrangements. The banks must, further, refrain from granting credits to financially interconnected enterprises on such a scale as to endanger liquidity; and the same rule applies to advances made on the security of the shares of such companies. The banks' limited right to acquire shares, according to the 1911 Act, has now been abolished.

Another section seeks to ensure that credit policy shall not be influenced by personal or partisan considerations. Loans must not be granted to directors, high officials and auditors of the bank or to an undertaking with which such persons are intimately connected, except on the security of gilt-edged bonds or equivalent collateral. An exception is made in favour of such a company's commercial bills. Furthermore, no bank director or official may be simultaneously a member of the board of an enterprise dealing in shares or in issuing business. Detailed provisions are inserted to counteract the practice whereby important decisions are delegated by the board of directors to subordinate authorities. The law enumerates various matters, e. g. the buying and selling of real estate, interest policy and the granting of specific kinds of credits, for which the board is to be held solely responsible.

This close network of restrictions is completed by an exhaustive statement of the powers of the bank inspectorate. This State authority has the duty of seeing that banks carry on their business in accordance with the Bank Law, their Articles of Association and the resolutions of the board and general meeting; and it publishes regular statistics. Under the new regime its powers of interference will cover any matter which it interprets as affecting the solidity of the banks. Its functions are made much more explicit. Hitherto the inspection, which is an elaborate affair lasting several months, has taken place about once every three years: in future it is expected to occur at least every other year. The inspectorate has the right to demand from the banks any information which bears on its task. It may propose to the Government measures calculated to facilitate supervision or report any bank guilty of abuses. It has the right at any time to summon the board of directors or a meeting of the shareholders; and there are one or two instances where the board of a bank has actually been convened. Finally, the inspectorate can invoke the co-operation of the Riksbank, a possibility which might well prove of special moment, if it implied that the Central Bank would use its power of bringing pressure to bear on a recalcitrant bank.

There can be no doubt that the new legislation has the active support of the mass of Swedish public opinion. It is not without interest that the Association of Banks confined its major criticisms to the curtailment of the right to acquire and lend against shares. Meanwhile the problem of devising suitable machinery for financing certain types of long-term investment has still to be faced. Indeed, the effect of the new dispensation is to emphasise the deficiencies in the structure of the Swedish capital market. Attention is therefore being directed to the establishment of a new institute to meet the demand for long-and middle-term credits. An expert committee has proposed that a start should be made with a share capital of Kr. 8 millions, of which five millions are to be subscribed by the State and the remainder by the banks, together with a State guarantee fund of 12 millions in Government stock. The institute is to have the right to issue bonds up to four times the amount of the capital guarantee as well as the reserve fund which will be formed later. The long-term credits contemplated are those over ten years, and the middle-term from one to ten years. Risky investments are to be avoided, and the quality of the security is to weigh more than the probable effect on employment. The institute may in certain cases take over old bank credits if this makes it easier for the bank to grant further accommodation while not involving the institute in excessive risk. Its activity is designed to provide a stimulus to new investment and rationalisation, as well as easier credit conditions for the export trades and small and middlesized enterprises. It is calculated especially to satisfy the requirements of those undertakings which, by reason of their structure or the nature of their business, are unable to avail themselves of the bond market. The State having interfered to keep the banks within what it considers to be their legitimate sphere of action, must logically take the initiative in furnishing the needs of the long-term capital market. In view of the traditions which have moulded the Swedish money and capital markets, it will be interesting to see whether this experiment, which will probably be inaugurated by this year's Riksdag, will prove to be an adequate solution.

The Economist—Banking Supplement.

The Future of Gold in relation to Demand.*

BY

PROF. EDWIN CANNAN.

A COST-OF-PRODUCTION theory of value is of little use for explaining fluctuations in the value of things which last a long time and exist in quantities which are very large in proportion to any annual additions which are made to them. We might reasonably refer to high cost of building materials and labour in accounting for the high value of houses in a district where new houses were springing up like mushrooms; but in a district where no new houses, or very few in proportion to the number existing, were being built, we should be content to think of the supply of houses as being furnished, not by the bricklayers and carpenters building new ones, but by the number actually in existence.

Some metals, iron especially, are subject to so much waste by various agencies that the annual production is large compared with the stock at each moment in existence, and in regard to these we rightly regard cost

* An address delivered at the 44th Annual Meeting of the Royal Economic Society, London, on April 20, 1934.

of production as a most powerful element in the determination of value. But the precious metals, of which we may take gold as the type, are only subject to comparatively small losses by abrasion, by being buried in the decayed teeth of corpses, and so on.

One consequence of this is that long before the general cost-of-production theory of value was abandoned, there grew up alongside of it what was called a "quantity theory" for the value of money. Ricardo himself, though he tried to believe that cost was really the regulator of the value of currency as of all other important articles, yet declares roundly in the chapter on Taxes on Gold that the value of money is regulated *entirely* by its quantity. "The demand for money is regulated entirely by its value and its value by its quantity." The passage should be set alongside of the third paragraph of the first chapter of the *Principles,* which begins with a statement that the value of some commodities "is determined by their scarcity alone," but ends with the proposition that the value of these same commodities "varies with the varying wealth and inclinations of those who are desirous to possess them." McCulloch questions whether a classical education would not have spoilt Ricardo as an economist and perhaps that is true, but I cannot help thinking that much trouble would have been saved if in his youth he had written essays for a vigilant preceptor armed with a big blue pencil. Of course, if the point had been clearly put before them, neither he nor anyone else would have denied that various things, among which the most obvious is a change in the magnitude of the working population, will very the value of a currency when its quantity has not varied at all. By the time, early in the present century, when F. A. Walker wrote the article on the "Quantity Theory of Money" for Palgrave's *Dictionary*, the theory was reduced by those who supported, or at any rate did not dislike it, to the very innocuous doctrine that the value of money is determined, like the everything else, by supply *and* demand.

But it seems undeniable that throughout that long period the causes of variation in the value of money which lie on the demand side were very inadequately treated. Partly this was the result of a fault in the method of exposition of econmic theory. The economists of the time were too fond of picking out some favourite influence and saying that something depended on this influence *ceteris paribus*, other things being equal, or the same, or disregarded. Then they would be attacked by someone who saw that some other influence had its importance and who could not or would not see that, no matter how much importance it had, it was one of the "other things" which were "impounded," as Marshall says, in the *ceteris paribus,* so that the proposition attacked was quite sufficiently protected. Even the supporters of the doctrine in question would often themselves forget this, and would defend the doctrine with acrimony, instead of pointing out to their critic that it was quite open to him to pick out *his* favourite influence and relegate their own to the pound of *ceteris paribus*. In this way quantity and anti-quantity theorists had many a confused *melee* which might have been avoided if they had only seen that it did not matter two straws whether they said that the value of money depends on its quantity when the demand for it is unchanged, or that it depends on the demand for it when its quantity is unchanged. On the whole the attackers of the quantity theory were the worse equipped for the fight, and failed consequently to make the best of the case for the demand influnces.

Besides this, the historical events of the period favoured attention to the quantity side of the problem rather than the demand side. The Black Death was a very old story, and I do not thing any historian had ever hit on what seems the very obvious idea that the rise of prices which followed it was the result of the diminished population being left with an undiminished currency, so that David Hum's well-known supposition of the quantity of currency in each man's pocket being increased overnight was fulfilled by diminution of demand instead of increase of supply. There was no such drop in population in the nineteenth century, and the increase which took place, though rapid, was continuous. The changes which occurred in the monetary demand of individuals and institutions were not spectacular enough to force people to face the fact that such changes might be important. On the other hand, at the beginning of the period the effects of increase of currency were fresh in men's minds in consequence of the issue of assignats in France and the Bank restriction in England, while in the middle and at the end of the period there were changes in the production of both gold and silver which were spectacular enough to call very general attention to them and continued long enough to affect appreciably the "quantity," and through the quantity, the value of gold and silver standard money.

But the war of 1914–1918 opened a new era, in which the influence of demand has been no longer overshadowed by that of quantity. It is true that quantity had a magnificent innings in the Continental inflations, culminating when German thoroughness multiplied the mark till it fell to less than a billionth of its former value. But since 1914 we have seen first an immense fall in the value of gold money, and then an approximately equal rise, and this fluctuation, quite unprecedented in combined magnitude and rapidity, cannot be ascribed to any change in supply or quantity, since the quantity has been increasing all the time, and rather more rapidly when the value was rising than when it was falling. Change in demand has been much more important than change in supply.

There seems good reason for believing that this supremacy of demand is likely to continue indefinitely. Great losses of existing quantity are almost impossible—even the amounts which go to the bottom of the sea are often recovered—and as the quantity above ground steadily increases, the proportion of what is still below ground becomes smaller, so that the likelihood of freshly discovered gold being large in proportion to existing quantity, and therefore having a big effect on its value, becomes smaller and smaller. Moreover, great and rapid changes on the demand side are more and more probable as the world becomes less bound by custom and tradition and more and more capable of arriving at conscious decisions. And, further, modern developments have industrialised the production of gold, so that instead of its being very largely a matter of chance whether much gold or little is being produced, we may rely on the production being encouraged by increase of value and discouraged by decrease of value almost as much as the production of iron or lead.

It is consequently desirable to reverse the common practice of forecasting the future value of gold by speculating on changes in its production and assuming that demand will either remain unchanged or steadily increase by some arbitrarily chosen figure such as three per cent. per annum. Instead, let us, at any rate for the time being, suppose that quantity will continue to increase at its present rate or at a rate very slowly diminishing, and ask ourselves what are the possibilities and probabilities in regard to demand.

Under the influence of the passion induced by war nations will melt down their church bells to make guns, and become willing to exchange even so venerated an idol as the gold store of their central bank for munitions and the military services of mercenary foreign troops. They have always done it, and would do it again if a great war should recur. But if that happens, scarcely anything will survive. Let us not worry over so horrible a hypothesis, but confine ourselves to the troubles of peace-time.

I think the first thing to notice is that modern changes have wiped out what used to be the biggest and steadiest demand for gold, namely, the demand for the pockets and tills of the people. No longer are wealthy persons described as "pursey"; no longer do tenants of farms and houses accumulate gold to pay their next quarter's rent. Modern invention has provided a currency of paper, which most people have found more convenient, and recent legislation has taken care that all should use it whether they like it or not. Now, though this was an economy of gold, it was not a very big one, since few countries had any very large sum in gold in actual circulation, and such as it was, the central banks promptly nullified it to a great extent by increasing their holdings. The monetary demand for gold, the future of which we have to consider, is no longer the demand of the people for pocket and till money, but the demand of the central banks and of the persons who are called (not very corretly, as I shall show presently) "hoarders."

First then of the central banks. Can we forecast this at all? We may divide the subject usefully into demand by the banks of countries on the gold standard and the banks of the other countries.

Most of the difficulty in arriving at a clear comprehension of the working of the gold standard arises from the widespread belief that under it gold, instead of being moved in response to different offers like wheat and all other commodities, "flows" automatically about the world regardless of what can be got for it in the different countries. Confused by this belief, the monetary authorities of countries which were adding enormously to their central bank's stock of gold, have protested with their hands on their hearts that they have been unwilling recipients of the accessions which have poured in on them. They honestly think that their acquisition of the gold was not due to their offering more for it than other people, since they have been offering just the same amount as before—*in their own currency*. This, of course, ignores the fact that the fixed amount of currency given for each ounce of gold has no intrinsic unalterable value. Each of the fixed prices in currency offered for the ounce of gold can be and is varied in purchasing power from time to time, and gold is naturally sold to the country in which the fixed price has the highest purchasing power. Incapacity to appreciate this was the more inexcusable having regard to the fact that it had long been known that over-issue of paper currency led to "outflow" of gold: if outflow was caused by over-issue, why should not inflow be caused by under-issue?

The explanation of the mistake seems to lie in the common tendency to confuse general and national, that is local economic phenomena. To each nation, thinking of itself alone, it seems obvious that plenty of gold means cheap gold *alias* high prices reckoned in its own gold-standard currency, and therefore imports of gold, causing greater plenty of gold in the importing country, must, it seems, tend to cheapen the national currency. If the imported gold is not "sterilised" by being locked up in vaults without any additional currency being issued in consequence of its presence, this is, of course, true enough, but that does not prevent the purchase of the gold by the country in question from having its natural effect of tending to raise the world-value of gold. The national currency is lowered in value not to the value of gold as it was, but to its rather higher new value which is the consequence of the purchase. The diminution in the value has been caused not by the purchase and importation of the gold, but by the increase of the paper currency, and if that currency had been increased sufficiently to prevent any purchase and importation of gold, both its value and that of gold would have been lower than they became in consequence of the purchase and importation. The importation and consequent increase of currency kept the national currency and gold on the same level, but that level was higher than it need have been, inasmuch as the world-value of gold was raised by the unnecessary demand.

Even if this had been perfectly understood, there is little reason to suppose that it would have much affected the action of the national monetary authorities. Those of them who protested that it was due to no action of theirs that gold was pouring into their country were in reality unostentatiously rejoicing in its arrival, and would not have stirred a finger to stop it if they had known how to do so. The countries which received no inflow did not thank heaven that they were not acquiring, by the sweat of their brow in producing goods for export, a mass of unproductive metal, but bleated weakly about the "maldistribution" of gold, and were not sorry for, but only jealous of those who were getting it.

As it has been in the past, so it is likely to be in the future for another half-century at least. At the present rate of progress in economic education it is unlikely that understanding of the matter will become at all widespread in that length of time, and if it did, we may be fairly sure that the proper remedy would not be applied.

For what is that remedy? Evidently such a regulation of all the gold-standard currencies taken together as, in conjunction with the demand of non-gold-standard countries and the world's demand for industrial purposes, will keep the value of gold approximately stable. But is there the least probability of a common authority being set up with the power of prescribing to each of all the national authorities how much gold it is to absorb for monetary purposes? I should say, certainly not. Regulation of armaments by mutual agreement is a comparatively simple matter compared with this, and yet is found, to say the least of it, very difficult.

In regard to regulation of demands for gold, as in the regulation of armaments, we have to face the fact that each country will inevitably play for its own individual safety. That safety under the international gold standard—if we assume that the standard is to be adhered to without capricious "goings off" at early and frequent convenience—is to be looked for in a large reserve of gold out of which a "run for gold on the country by persons and institutions outside it may be met when it occurs. The danger of such runs has been much increased since the War by the slovenly conduct of national finances. Instead of following sound financial tradition and funding their short-term obligation incurred during the War at the earliest possible opportunity, governments have been beguiled by the lower interest of the short-term market into maintaining a mass of short-term obligations scarcely smaller than the whole debt of pre-war times. If held directly by persons abroad, the existence in any country of such obligations, payable in gold or in currency convertible into gold, obviously increases the foreigners' ability to draw out much gold, but it also does so even when the obligations are not held directly by foreigners. They are then held at home by banks and kindred institutions which naturally hold that they are safe in accepting large deposits from foreigners if they put what they receive into Treasury obligations which become due in gold in a few weeks.

As the recent conduct of governments suggests that they will go on neglecting the most favourable opportunities for funding, we may expect an increase rather than a decrease in the demands for large gold reserves by each nation which is to any extent the depository for property which the owners desire to keep liquid and outside their own country, and there is no reason to expect that this increase of demand by the depository countries will be met by a corresponding decrease in the demand of the other gold standard countries. I do not overlook the widespread belief that extensive devaluation of currencies will meet and defeat the effect of a largely increased demand, but I think that devaluation as a single "once for all" change can only give very temporary relief. The American idea is reported to be that devaluation sets free "rivers of money" by making gold reserves larger in proportion to liabilities. If, it is supposed, the liabilities of the banking system are 100 dollars and 40 per sent. in gold dollars are in reserve, and then the 40 gold dolars are each cut in half, and each of the halves are called dollars, there will be 80 dollars in reserve, and consequently there will be great "monetary ease." For the moment this may be so, but in the long run the demand for gold will not be diminished, since the liabilities reckoned in dollars will grow till they too are doubled and have reduced the reserves to the old 40 per cent. The amount which people want to keep "liquid," that is in such a form that they can be sure of having definite sums of money to spend or invest when they ask for it, bears at any time a definite relation to the general real wealth of the country. In spite of the many curious doctrines about the growth of bank deposits which are prevalent, it is generally admitted that there is a connection between them and population and wealth. No one, I think, will doubt that if the gloomy prognostication of the panic-stricken bishop in August 1931 had been realised and the pound had fallen to what had been the value of the penny, bank deposits in this country, if it had withstood the shock pretty well, would now be already far on the way towards being 480 instead of 2 thousand millions. The diminution of the value of the unit in which deposits are payable will, of course, diminish the value of the deposits existing at the moment, but they will at once start climbing again till they reach something like the old aggregate value, so that if a currency is devalued to 50 per cent., we may confidently expect that after a few years the aggregate of deposit reckoned in the new units will be double what it was reckoned in the old units before the devaluation. And, of course, when that point has been reached, double the old quantity of gold reserve will be regarded as necessary, and the demand for gold will be just as large as before the change.

To put the same thing in another way, if all business were done in troy ounces of gold, and then legislation were passed providing that the ounce should be reduced from 480 to 240 grains, debtors under existing contracts would rejoice and creditors mourn, but no one would suppose that the demand for gold would be permanently reduced, any more than they would expect the demand for coal to fall if Parliament decreed that a ton should henceforward be 1120 instead of 2240 pounds avoirdupois.

Thus a once-for-all devaluation certainly raises prices, but it is once-for-all, and when prices have once risen in proportion to the devaluation, just as much gold will be demanded as before, and if there is a tendency to rise in the value of gold, this tendency will resume its working. Of course, if devaluation were not once-for-all but was continuous, something per cent. this year, next year and all years after, it could successfully combat a continuing tendency to a fall of prices reckoned in the currency to which the devaluation was applied. But this would not affect the demand for gold for reserve against the devalued currency. With successive devaluations the amount of gold to be held in reserve against each dollar would be diminishing, but as the number of dollars would be proportionally increasing, the total of gold to be held would remain as before.

The question may be asked, Cannot the countries remaining on or returning to the gold standard expect any assistance in keeping down the value of gold from the central banks of the countries which remain off or go off, the standard?

Far too sanguine hopes have been entertained in this direction. It has even been supposed by some that a stampede of countries going off gold might reduce the monetary demand for it almost to nothing. It was forgotten that before the fall of value went very far it would be abruptly checked by automatic returns to the gold standard by this and other countries which, when they went off it, suspended the provisions of their laws providing for the sales of gold by their banks, but did not suspend the provisions requiring purchases of gold. But this is only incidental. The really important fact about countries which go off the gold standard is that they do not in practice diminish their demand for gold but rather increase it. Countries like Spain and Argentina have been for long periods off the gold standard, and have yet maintained their gold holdings without diminution. This country went off in 1931 and has since increased its gold holding enormously. The United States, though holding much more gold than any other country, embarked on a gold-buying policy soon after deliberately departing from the old gold standard.

Countries off the gold standard have indeed a plausible excuse for holding a certain amount of gold. They can say that judicious management of such a fund—selling some of the gold when the foreign exchange goes badly against the country's currency and replacing it by purchase when the swing is in the other direction—will diminish violent fluctuations in exchange and thereby facilitate commerce with the outside world. This is perfectly true. The only trouble is that the management is not likely to be judicious. To use the fund judiciously the managers must be better speculators than the ordinary operators on the exchange markets. In fact they are inclined by the traditional worship of gold to be too niggardly in parting with it, and to be too greedy in acquiring it. "Equalisation funds" are thus likely both to grow and to consist more and more largely of actual gold rather than of domestic and foreign currency.

Leaving the central banks, we have to ask ourselves what are the probablities of increase or decrease of demand on the part of the other institutions and the individuals which are said to hoard gold. Hoarding is not really a very good name for their action. A hoarder is properly a person who keeps a store indefinitely because he likes to keep it. But the so-called hoarders of gold are be-coming less and less of this type. They do not now bury much gold in their gardens with no clear idea of how it is ever going to be useful to them. They put it mostly in safe-deposit vaults—preferring a foreign country for the purpose, because governments have shown themselves more ready to steal gold from their subjects than from foreigners—with the full intention of taking it out and parting with it when it has risen in value measured in their national currency. They are speculators in gold, holding for a rise in its currency value. The more frequently devaluations take place, the greater are their holdings likely to be.

About the industrial demand, all we can say is that as gold is used chiefly for ornament and ostentation, and for these purposes high value is a recommendation, we can scarcely expect from that quarter any counteracting of the tendency of gold to rise in value.

If a monetary standard was known to be steadily rising, and to be certain to go on rising steadily at the same rate, the rise would probably be harmless. At any rate we may be sure that it would not cause the difficulties which come from unexpected violent deflation. Somehow or other people would get into the way of allowing for it in all their monetary transactions and contracts. But there is good reason for expecting the generally increasing demand for gold to act in fits and starts. Equalisation funds, central banks and hoarders are not at all likely to produce between them anything but an extremely unsteady demand.

Though it is going a little beyond my title, I should like to add that while gold has thus been deteriorating as a standard, the only alternative at present practicable, inconvertible paper currencies, independently controlled in each country, has greatly gained in respectability. While gold has been losing ground because the demand for it has become more unstable, inconvertible paper has gained ground because, though the doctrine of due limitation of quantity is still very imperfectly understood, limitation of some sort is, in fact, practised. The awful example of the effects of unlimited issue which the Germans worked out in 1923 has terrified the world. Even the bold Roosevelt in search of a rise of prices, preferred to push the most unlikely buttons rather than the one labelled "greenbacks," which would certainly be effectual. So far neither England nor any of the countries which have gone off gold since she did in 1931, appear likely to go far towards limitless issue and bottomless depreciation. And if any of them should do so, it would not be from a misapprehension of the old kind but from an insane desire to give exports to the foreigner, not for gold but for nothing at all.—*The Economic Journal.*

Sale of Goods.

(Indian Law)

BY

B. G. BALAKRISHNAN, A. C. R. A. (Glas.), D. Com. I. M. C. etc.

The law relating to the Sale of Goods in India, till July 1930, formed a part of the Indian Contract Act, 1872, but as it was not quite exhaustive, the Indian Sale of Goods Act 1930. was passed, based mainly on the lines of the English Sale of Goods Act 1893. As the bulk of the commerce of the country relates to sale of goods, wholesale and retail, it behoves all those who are engaged in 'Commerce,' to have an adequate knowledge of the main provisions of the Act, so that, when entering into transactions, they may weigh well the legal consequences.

In the first place, it must be remembered that the Sale of Goods Act applies only to moveable property other than actionable claims (such as pro-notes etc.,) and money, and also applies to "Stock and Shares, growing crops, grass, and things attached to or forming part of the land which are agreed to be severed before sale or under the Contract of Sale."—Section 2 (7) of the Act. The provisions with regard to immoveable property are to be found in other Acts.

In order to constitute a valid Contract of Sale, there must be an offer by one party, to buy or sell, goods for a money consideration (price), and an acceptance of the same by another. It is essential that all the terms proposed by the offerer must be accepted by the other party, to constitute a valid acceptance. If the other party, (viz., the offeree) accepts part of the terms and modifies the rest, it becomes a counter-offer and, until the modification is accepted by the offerer, there is no Contract. With regard to offer and acceptance, the provisions in the Contract Act apply generally.

Subject to the provisions of any particular Act relating to particular goods, a Contract of Sale may be made orally, or in writing, or partly in writing and partly by word of mouth. Thus, the Indian Law places no restriction on the method of entering into such Contracts irrespective of the amount involved. A Contract of Sale may also be implied or inferred from the conduct of the parties. E. g., Articles may be placed in a show-case of a shop, with prices marked on each and a customer may take an article, paying the marked price to the shop-keeper.

It is very important to know when the property (i. e., title and ownership) in the goods passes to the buyer, because, irrespective of whether payment of the price has been made or not and irrespective of the person with whom the goods may lie, the loss, if any, will fall on the buyer, if the contract of sale has been concluded and the property i. e., title or ownership has passed to him.

If a Contract is for sale of unascertained goods, the property passes to the buyer only after the goods are ascertained. Thus, if a person goes to a shop and agrees to purchase 10 bags of rice for a certain price from the 200 bags stored inside, the property (viz., ownership in the 10 bags) does not pass to him until the shop-keeper takes out 10 bags and keeps them separately. If, after the agreement to purchase 10 bags is concluded and before they are taken out separately and appropriated to complete the agreement, fire breaks out and the whole shop is destroyed, the shop-keeper will bear the loss entirely, and he cannot ask the buyer to pay the price of the 10 bags, as the goods, not having been ascertained, have not passed to the buyer. If, on the other hand, the 10 bags were destroyed after they were separated, the loss will fall on the buyer who is bound to pay the price to the seller.

In the case of a Contract for the Sale of specific or ascertained goods, the property passes to the buyer at such time as the parties may have agreed upon or intended, regard being had to the terms of the Contract, the conduct of the parties and the circumstances of the case.

(To be continued)

Burmah Oil Company Limited

and India's Petroleum Industry—A Review

BY

SIR JOHN T. CARGILL.

At the 32nd Annual General Meeting of the Burmah Oil Company Limited held on June 1, 1934 at Glasgow, Sir John Cargill, Bt., Chairman said :—

The report and accounts which have been in your hands for some time can, I presume, be taken as usual as read. (Agreed.) You will have observed that the accounts are now presented in a comparative form, the figures for the preceding year being set out in red in alignment with those for 1933. Detailed comparison by me as in the past is therefore unnecessary. A further change is the elimination of shillings and pence, but I need scarcely assure you that this denotes no departure from your board's policy of conservative finance. The shillings and pence of our business are still being taken care of!

Capitalisation of Reserves

Our allocation of £289,419 brings general reserve to a figure which enables us to capitalise £2,289,419 and still leave £500,000 at its credit. At the conclusion of this meeting the resolutions necessary to give effect to these capitalisation proposals of your board will be submitted. This increase will bring our issued capital more in line with the realities of the position even though it will still incompletely reflect the real relation of the capital employed to the profits which we show.

As I have already said, our sales of products have yielded us more, not because of higher Indian market values but because of their increased volume in the face not only of an overhead reduced offtake but in the face of increased competition at keenly cut prices from surplus American, Rumanian, and Russian oil offering at prices based on and even below those caused by the fall in the export value of the U. S. A. dollar. Consequent on a weakness in the Indian Customs tariff we had throughout the whole of last year also to meet unfair competition in the inferior kerosene market of India from a foreign product capable of substitution for that product which on entry paid only the fuel oil duty, whereas the indigenous product had to pay the much more onerous excise duty on kerosene. Happily a situation which in this way was increasingly menacing the Indian Government's budgeted revenue from kerosene was ultimately put a stop to by a necessary tightening up of the Customs tariff schedule.

Not higher values but further economies secured in every section of our Burma and Indian operations are, with the increased volume of our sales, alone responsible not merely for their more profitable aggregate but also for the fact that they have contributed a larger share than in 1932 of our total profits. In 1932 only some 40 per cent. of these came from our Indian and Burma trading, 60 per cent. coming from our activities elsewhere, but last year our Indian operations were responsible for some 52 per cent. of our total profit owing to the better Indian and Burma results from the causes I have mentioned to which operations elsewhere, representing mainly interest and dividends, are, of course, not susceptible.

Efficient Management

Your board, and I am confident all our shareholders also, have every reason not only to be satisfied with these results but to be legitimately proud of them. I say legitimately advisedly, for they are the fruits not of monopolistic situation but of a soundly and conservatively built-up undertaking, efficiently and closely managed and controlled for over two generations, during which it has frequently had to fight for its very existence, and at no time in the period free from the clash of world conditions in the industry of which it represents to-day less than 1 per cent., a fact in itself sufficient reply to suggestions of monopolistic conditions.

Prices for petroleum products have always been and still are at their highest, determined by those at which the dominating producing and exporting country, the U. S. A., is from time to time prepared to sell. At highest in India we could never therefore expect to get better than these current from time to time, and in recent years Rumania and Russia have been prepared to sell on occasions well below the U. S. A. parity. At no time have we ever sought more than the lowest competitive price; at many times, as at the present juncture, we have gone below it in our necessity and because of our obligation to defend and hold the outlet necessary in India for its indigenous production and the direct and indirect advantage in revenue and local employment which such an indigenous industry as that of India's petroleum involves for the Indian State and Indian nationals over imported production.

India's Petroleum Industry

I do not for one moment suggest that a local industry may not be created and bolstered up at a cost through tariffs greater than the benefits which it may yield. That is quite possible and, when it occurs and there is no over-riding special justification in security for such a sacrifice, I hold that such a policy is indefensible, and that such an industry cannot be expected to, and should not be permitted to survive. But India's petroleum industry is not of this type. There are two features common alike in the nature if not in their degree to a State's receipts, directly and indirectly, from imported and indigenous petroleum, *videlicet* the employment each provides in distribution and the revenue each yields in income taxation.

What is peculiar to the indigenous industry and beyond the scope of the imported commodity are the operations of crude oil production, pipe line or other transport of that production to the refinery, refining itself, putting the refined products f. o. r. or f. o. b. for the local market and shipping. These operations, exclusive so far as India is concerned to its indigenous industry, involve salaries, wages, local stores, power, rents, taxes, rates, licences, contractors' bills, travelling expenses, transport and freight, royalties. Customs and port dues in connection with them which are spent in India and for which there is no corresponding Indian expenditure in the case of imported oil. In 1932 their value, including income and super tax, in respect of the whole indigenous industry was in the neighbourhood of Rs. 44,168,180—or £3,312,614—representing 32 pies or, say, 3d per gallon on the volume of indigenous production marketed in India in the period.

The Indigenous Production

Now, based on that same marketed production, the value of the preference which the indigenous production enjoys—not because of a designedly protectionist tariff but because there is an advantageous difference between import and excise duties—amounted to less than 9 pies or, say, ·85 of a penny per gallon, so that on this straight comparison India gained 23 pies or, say, 2·15 of a penny per gallon more than she would have gained had there been no indigenous industry to which to give this fortuitous and relatively negligible preference. In the 32 pies or 3d. per gallon income and super tax amounted to 4 pies, or, say, ·374 of a penny per gallon, so that even assuming the imported oil paid as much in income and super tax—and we know, of course, that it did not pay anything like so much, since only its marketing profits could come under assessment—the indigenous industry in money terms alone contributed 19 pies or, say, 1·77 of a penny per gallon in excess of the favourable difference it enjoyed between import and excise duties.

Here, then, is a case where in effect and on balance, even examined merely from the point of view of comparative cash values, there is justification not alone for continuing this fortuitous fiscal support, but clearly for extending it to the extent that the indigenous industry can respond in output to such greater share of the Indian demand as it could economically fill. And this takes no cognisance of all of what this great national industry means in the education and training of India's nationals in scientific and engineering and general constructive activities which no foreign imports can supply just because every function except marketing is as foreign to these imports as their constitution itself.

Burden of Taxation

Last year I gave you some figures to illustrate what we got from the gross proceeds of our sales—expressed as 100—compared with what went in one form or another to Indian State revenues. Again I repeat it is not oil prices which are high—our competitors know this—but taxation. Probably alone out of all the civilized countries of the world the consumption of petrol and kerosene also has still been declining in India. In the case of the latter product, our share of the gross proceeds was at 16·157 per cent. larger—for the reasons I have already given—than in 1932, but excise duties took 24·65 per cent. In the case of benzine our share was again 10 per cent., while excise duties took 44 per cent., against 43½ per cent. in 1932, and not 32½ per cent. as I erroneously then stated. The percentages to us are gross. Depreciation, income and super tax, and reserves have to be found out of them before we get the net figure available for distribution to shareholders on their investment.

In 1933 we paid £ 3,814,000 in royalties and excise duties, or £ 113,000 more than in 1932; while Indian income tax, State duties, and municipal taxes were about the figure of recent years. In the case of the Assam Oil Company, Limited, royalties and excise duties amounted to £950,000.

The addition of wharfage, port dues, rail and river freights, wages, salaries, and sub-agents' commissions brings the aggregate contributions of your own company and the Assam Oil Company, Limited, in 1933, under all these headings to a figure of about £ 9,300,000.

Then looking at our share of the gross realisations from all products sold in India and Burma in 1933—expressed as 100— I find that this amounted to 14·28 per cent. This is larger, again for the reasons already referred to, than we got in 1932—i.e., not higher values, but greater volume at lower prices and reduced costs—but again it is the gross figure from which depreciations, income and super tax, and reserves must be found before the dividend. Allocated over the five distinct activities in which our business is divided, *videlicet* crude-oil producers, pipe-line carriers, refiners, shippers, and marketers, it means a gross amount to each of under 3 per cent.

Unjustifiable Attacks.

I hope I am not wearying you with these details. But they are important, and I want them to reach a much wider and more remote audience than yours. The indigenous petroleum industry continues to be the target for attack and misrepresentation in the Assemblies at Delhi and Simla and in other quarters. From one quarter it may be that it is monopolistic and exploits the consumer; from another it may be that it depresses prices so that the Indian importer of foreign oils cannot live. It may be on occasions, even if obviously contradictory, it is both charges at the same time from the same source. We have nothing against the foreign importer so long as his imports still leave sufficient room for the indigenous production on which multitudes of Indian nationals depend. They must come before the few Indian speculative purchasers who depend on their imports of foreign oils.

In the course of the latest—I suppose it is too much to hope that it is also the last—of such attacks the late Finance Member of the Government of India refreshingly opposed the apparent argument that the fact that a particular company engaged in the indigenous petroleum industry happened to have made very large profits afforded any reason for attack. That in itself, he continued, was no reason for attack, and that one can unfortunately go about and find plenty of people working very inefficiently and at a loss, whose assistance by the State would be no benefit to the State, whereas the State is definitely benefited by concerns which operate with enterprise and with sufficient efficiency to earn decent profits. On this point he concluded that *prima facie* the people who really benefit a country are those who can develop industries and earn profits out of them. And it would be a reflection unintended by me on the good sense of the Assembly as a whole did I not add that this statement by Sir George Schuster was received, according to the Indian *Hansard*, with applause.

The Company's Record

We ask to be judged on our record. It is well known to the Government of India and its people and can stand the closest investigation. We claim that we are the sort of industry which Sir George Schuster extolled and the Assembly applauded.

The late Finance Member made the further comment that the indigenous petroleum industry like, I trust, every other Indian industry, must recognise their obligations to the consumer, and that their efficiency, creditable and valuable though it be, must operate not alone to make profits but to enable their products to be offered at fair and reasonable prices. If there be any uncomfortable feeling, as is suggested to be the case, among consumers that they are in the hands of a powerful and perhaps unscrupulous combine that is the fault not of anything the oil industry in India has done or left undone but of propaganda, either unintelligent and illinformed or definitely unscrupulous, which even a very little knowledge of the fundamentals of the world's petroleum industry and a modicum of unbiased thinking would promptly destroy. In such ways as this of mine to-day, and in previous speeches, I have tried to show how baseless these charges of monopoly and profiteering are, and how acute competition is and must continue while supply of and demand for the commodity remain so much out of equilibrium as they have been in recent years. What more can one do to put a period to these sorts of attacks an industry which if it has, in the case of one or two of those engaged in it made good profits for its shareholders, has done so at prices never above, and frequently well below, world parity and with advantages and profits to the State which have been enormously greater than anything even the fortunate B. O. C. shareholders have secured?

Principal of Indian Market for Indigenous Production

Memories are short and it is well to remind our friends and our friendly critics in India that your company is not a growth of yesterday. It has had to fight its way inch by inch to its present position. It has contended through costly fights for the principle of the Indian market first for the indigenous production so long as the indigenous producer is prepared to sell at competitive prices and to the extent that his production requires that outlet. Our policy has been not to contemplate the export of one single gallon of indigenous production concurrently with continued importations to India of the same product.

We have agreements with our most powerful geographical and other competitors which respectively accept that principle in whole or in part. There is not now and never has been any secrecy whatever about these agreements. We consider them most creditable alike to our own persistence and to the intelligence of those we have made them with. Far from being ashamed of them we have frequently publicly referred to them, for we consider them outstanding achievements in the direction not alone of sound international planning but of protection of the indigenous production's natural outlet while securing at the same time for the consumer that the arrangements cannot be exploited to his detriment.

We and our friends have led the way to recognition of the obvious sound sense of not sending coals to Newcastle while Newcastle has coals, but have gone further and have provided that Newcastle will nevertheless pay no more for its coal than it would if coal were sent there. In this way, as in the rationalisation of our distributing businesses in India, we with the Royal Dutch-Shell and Anglo-Persian Groups have been pioneers in economic good sense.

The Outlook.

As regards prospects for the current year I have on more than one occasion asked you to excuse me from entering into the realms of prophecy when the outlook is so uncertain, as is the case to-day, that it would be quite impossible to make anything in the nature of a reliable estimate as to what the results of the year will finally be. Taking the oil position of the world as a whole the equilibrium between supply and demand is not yet definitely settled, and until it is there can be no stability in the price of oil products generally throughout the world. And as regards our own particular market—the Indian one—we are still, as I have told you, engaged in a fight to protect not only our own interests but the interests of the indigenous oil industry of India as a whole from the continued attacks from American, Rumanian, and Russian surplus and "distress", oils which are being sold at definitely uneconomic prices. Under these circumstances I am sure, as I have said, you will not expect me to-day to make any pronouncement in regard to the probable results of the current year, but a study of our balance-sheet will, I am sure, impress you with the wonderful strength of your company and its undoubted ability successfully to come through in the future as it has done in the past difficult times such as at present we are having to face.

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Edited and Published by Mr. T. Kalyanasundram, D. Com., F.R. Econ. S. (Lond.) 267, West Masi Street, Madura, (S. India) and printed on behalf of the publisher at The Harisamaya Divakaram Press, No. 3, Manjanakara Street, Madura, (S. India