

COTTON POLICY

by

Shri Ramniwas R. Ruia



FORUM OF FREE ENTERPRISE

SOHRAB HOUSE, 235, D. NAOROJI ROAD, BOMBAY-1

COTTON POLICY

by

Shri Ramniwas R. Ruia

I have a copy of the debate on cotton in the Lok Sabha. I am not a legal man and it is not for me to comment on issues in the legal sense but as a practical businessman and from the angle of business morality I certainly can give you my views what it should be.

According to the Constitution of India, every citizen of this free country has a right to express his views without any fear of damaging repercussions.

The Government also can only be democratic if the masses of the country want them to be so and **keep** them so by upholding their rights as free citizens, to commend and extol, or adversely criticise Government, without fear.

In that spirit and as one who knows something about cotton, being directly in the trade for over **30**

years and two generations before me, cotton being a family business for about a century, having seen and experienced a lot during this period and in the capacity of exporter, importer, buyer, seller, consumer and manufacturer, practically all the aspects connected with cotton, I think I can claim to say something with knowledge and experience.

Naturally the Government and officials, those dealing with cotton matters, (as this is not their only subject, cotton may form a part of their multifarious activities) cannot claim to know everything about everything compared to those who have spent their life-time in this line. That is why, naturally, they have to depend on advice and guidance which however well meant it may be, may also have come from officials who may not themselves be so well experienced in the matter.

If you or I have made a mistake, it is easier for us to accept it and even put it right. This I can understand will not be so easy for officials highly placed, even if they realise it later. Very few can follow the principles of Mahatma Gandhi where he would have no hesitation in admitting as he put it "Himalayan blunders."

On the issue here, the best I can say for them is that even if it was considered that the situation required any particular handling, it could have been

done with much better grace, understanding, patience, co-operation and less show of power and authority. As I understand the meaning of the power and authority, less it is used and shown more effectively it is likely to be. Might may succeed against right for some time, that too against a few but ultimately natural justice must prevail and right will be right.

Impatient resentment of fair criticism or contradiction and refusing to consider a contrary point of view however responsible, to my mind, is not in keeping with the true democratic spirit.

Even if any briefing, coaching or coaxing has to be done to put one's point of view before public, I don't think it is a crime. After all as it is, it is an uphill task for a mere citizen or one of the masses to contradict or cross swords with those highly placed.

They have all the facilities of facts, figures, finances, automatic support, legal and political brains which the rest of us can hardly claim.

So, once in a way when something like this comes up, I think it should rather be appreciated and not resented. Belonging to a family which has always been a Congress supporter and even as far back as after the 1920 movement, from young age I have been holding the same views as the family right up to now,

hope and pray, the Congress Party under the great leadership of our Prime Minister Nehru continue to be in power for a long time to come. Still I must say that like any other well organised country, to maintain democracy in its true spirit and ideal, a well-organised opposition is necessary for those principles to continue for a long time. Otherwise human failings and weaknesses are apt to get the upper hand over our best intentions, ideals and principles.

Our Government has taken up a herculean task for the country. They have achieved a lot in the past ten years and the present Five-Year Plan is in the best interests of the masses.

I wish it every success and all my support and co-operation is there and will always be there, whatever it is worth.

The Prime Minister in a speech on January 4 at Laxmibai Nagar said; "I want to talk to people about our failings as well as our achievements, treating them as our comrades and taking them into my confidence.

Once you trust people, they trust you. If you like them, they like you. It is a law of nature.

The true relationship of two human beings should be one of co-operation and equality and not of

superiority and dependence. Because if one is made to feel dependent, he rather resents such dependence. You should treat them as equals in intelligence to

If the country is going to gain and [the lot of the masses which is substandard is going to come up as it must substantially, even if it requires more and more sacrifices in future it does not matter if a small section of the population has to suffer.

Money can only come from where it is and not from those who have not got it, on the contrary it is their future which is to be improved.

After all whatever one has earned in the past and present, has been earned in the country, by the country, for the benefit of the country and with help of his countrymen.

So, whatever one has, the Nation should have priority for its being utilised in the country's benefit. Not only finances, one also has to contribute through his brains and abilities towards this end irrespective of personal benefits or considerations.

No personal sacrifice is big enough towards this end. I am all for that and also feel that in such a huge task mistakes can be overlooked and corrected.

At the same time, we want to be treated like citizens in a democracy, as independent people who

can ask questions and point out mistakes and expect that such remarks are taken in the right spirit. The intelligentsia is not meant to be treated like a flock of sheep, who just have to follow and swallow everything without being allowed to express one's thoughts.

That certainly does not show respect for the people and if the authorities do not show respect for those they govern, how can they expect from those whom they govern ?

For instance, without any suitable explanations or reasons given for their action in the cotton matter, if this sort of "trinity," as Mr. N. C. Chatterjee put it, is used all the time like "detrimental to the interests of the trade, detrimental to the larger interests to the economy of the country," is one expected to stomach all that is done, just from this phraseology ?

This trinity is a copy of Lincoln's 'Government of the people, for the people,' or 'France's Liberty, Equality, and Fraternity.' Quite the contrary as proved by actions, was it necessary to use such high phraseology in comparatively such a small matter like the forward prices of cotton ?

I think it is an insult to one's intelligence and also to the intelligence of the people of this country. It makes a mockery of the high democratic principles, which our Government is pledged to uphold.

Regarding the cotton affair in December 1955, I would like to understand a few important particulars which I feel one has a light to know and get correct and proper answers from those who are controlling its destiny. I am not a least bit interested in assisting any anti-social activity. Quite the contrary.

Some of my points can well be understood from my speeches as chairman of three textile mills, at their annual general meetings in 1956.

These speeches amply clarify my views that this action was not taken in the best interests of consumers who legitimately bought forward cotton which was to be gradually converted into ready stock. They were made to incur a loss on their forward purchases because of the artificially low ceiling fixed. At the same time they had to pay very high prices for ready cotton which they required for their normal consumption, which means losing both ways.

The then Commerce and Industries Minister has described bear speculators as "unfortunate short sellers." Now, these people were purely gambling on the short side of the market. They had no legitimate interest in cotton.

If they had, there was no question of loss or gain. Their only interest was that if the prices went down, they make profits and if they went up, they incur losses.

.If these **people** are termed as "unfortunates" **meaning** that they deserved sympathy, what about all **other** interests, genuine interests like those of the growers and consumers? I am not talking of a **bull operator** who is not interested in actual cotton. He **also** comes in the same category as the bear operator, as they are both pure speculators.

'But the surprising part is the conclusion arrived at after linking up all the statements and talk. Is it considered that a bear speculator is the one who has acted in the "best interests of India?"

Once the transactions have taken place in the forward market within the prescribed rates, any loss or profit from these transactions, affects only a handful of those who have either bought or sold. The normal practice is that every week they settle, pay or **receive** losses and profits. Where does the question of **national** interest arise in fixing the price with "retrospective effect?"

This only means that by artificial means and with the powers, which the Government holds **authorities** can according to **whim** or choice, **make** somebody lose and somebody else gain.

, I do not challenge the authority of the Government in taking action in the best interests of the **country** if the prices are abnormally high or abnor-

mally low, certainly they should do something about it if it is so.

But how is the Government of the country interested in profiting by artificial **measures** some handful of traders in the market, which means making the other handful to lose, by **fixing** prices with retrospective effect?

Now I am asking, did this new ceiling within a ceiling of Rs. 700/- fixed work?

Was the forward market under this new ceiling at all able to function?

Or was it a dead contract right from the word go? If it was necessary in between the contract period to **fix** a ceiling within a **ceiling**, would not the correct procedure have been to close the **transactions** already taken place **upto** the date the old conditions prevailed, all payments and receipts to be completed at **those** rates, and then the new transactions **from** then onwards to take place at the new rates decided and **fixed** by the Government?

Would not this procedure be called more straightforward, equitable and in keeping with the proper traditions of any well regulated market? **Since** this **lesson**, which Government must have **realised** later as a bad [mistake, hasn't this procedure **been** followed in other markets?

Why did the F. M. C. close the contract the very night the High Court asked the Board of E.T.C.A. to meet the next day and decide what in the independent judgement was a fair and reasonable price ? What was F.M.C. afraid of ?

Did all these unprecedented actions do any credit to Government, particularly those when every now and then they changed laws and bye-laws to suit the action they had already decided to take the next day by legalising it and the more important fact is the question, did all this have any desired effect?

According to me, the only effect was that all proper links between cotton prices were lost in the ready market for more than two months. Everybody was in a dilemma. As the statistical position of cotton was such that prices could not come down and they did not expect some scared and nervous selling by growers over some period and then gradually went up to ceiling and even beyond irrespective of what the Government did or wanted. Was it well advised to close the forward market which was Rs. 100/- below the Government fixed ceiling at that time, at a further artificially reduced price of Rs. 50/- making "Rs. 150/- below ceiling" and that too with retrospective effect; at the same time not being in a position to control ready prices and allowing them to run wild ?

Now the result of all this action of December 1955 onwards was that a few traders lost. Consumers certainly lost. Growers for the time being lost, particularly those ill-fated ones who had to market their crops during this unfortunate two to three months' period December 1955 to March 1956, because they had no holding power.

Middlemen and traders, particularly the clever ones who were aware of the actual position of cotton could take full advantage of these unfortunate people during this period and these are the people whom indirectly the Government helped at the expense of such unfortunate growers who were unlucky to produce and bring their crops to the market during this period and that is why the officials dealing with agriculture and the representatives of the growers resented Government's action.

This applies to some consumers who were left out earlier in the season because of miscalculations. They too must have taken advantage of this temporary crisis. The grower had to suffer this over and above the 25 p.c. damage to his crop which was beyond his control being an act of God. This shows that, during this period all those genuinely connected with cotton lost, particularly those who could read, understand, tabulate, calculate and statistically visualise the real position of the cotton crop.

They were at a handicap, while those who could read the minds of officials beater than others. naturally must have gained.

Under the circumstances, I am a bit surprised at the statements made in the Lok Sabha lately which says that the grower did not lose during this period when the market was put out of gear. Marketwise this period lasted from the end of December 1955 to some time in March 1956.

Then onwards the prices kept on going up and up till they reached and even went beyond the ceiling; But by then majority of the growers had practically liquidated their crops without any benefit to them. Those traders and the middlemen who got hold of any accumulated stocks of cotton, which was by now getting more and more scarce, benefited.

Genuine consumers and merchants had no safeguard against the fluctuation in prices. Of course, the prices only moved one way which was upwards and those who took that view must have benefited but those who want to keep a balance in their operation and take a well calculated reasonable trading risk, had no means to safeguard themselves.

The forward markets remained closed for about six months which meant loss of bread and butter to thousands whose family's livelihood depended on it. Any one who knows the ready cotton markets

knows that the movement of crop is between November and May always, while December to April is considered the peak period. As the markets remained closed during these months, the whole system of normal trading was put out of gear and who else but the grower and the consumer had to be the biggest losers.

It is surprising that after all this sensation upto March 1956, when the crop proved to be 25 p.c. lower than normal both in quality and quantity, the same authorities in June 1956, just three months later, fix the same old ceiling and floor for the new crop, i.e., for the season of 1956-57 where the estimates are that the crop will be about 10 p.c. above the normal, i.e., a difference between the two crops of 33 per cent,

It is further surprising that with this crop in view, very recently a statement has been made in the Lok Sabha when asked about cotton prices that the present prices were satisfactory.

The price in the forward market that day was Rs. 750. Compare this to the action taken less than 11 months back with the then crop prospects. The price of Rs. 750 was not only considered too high but was slashed down to Rs. 700 and that too with retrospective effect.

May I further state that, if Government had decided that the price should not to go beyond Rs. 700 what stopped them from taking action on the very day the prices touched Rs. 700 instead of waiting for it to go up to Rs. 750?

Another surprising statement I read recently in the debate was that the Government likes the price to be somewhere in the middle of the floor and ceiling, all the time. If this is the official view and if these forward and hedge contracts are to be run by a rule of three, irrespective of any other consideration like quantity and quality, supply and demand of the crop, my humble admission is that either the forward market should be completely stopped because then under these conditions it loses all its importance and necessity except for gambling, or, floor and ceiling differences should be drastically narrowed down, i.e., instead of the difference being Rs. 350 as it exists (Rs. 495—Rs. 845), it should be Rs. 50 only, say Rs. 650 as floor and Rs. 700 to be the ceiling.

By this action, speculation will be completely checked, as well as anything like the alleged squeeze of December 1955 or even a bear raid cannot take place.

According to the Government it does not want to encourage speculations. It wants to keep it and prices in proper control. One could not agree more

with these views. But may I point out, what have their actions proved?

First of all it opens new forward contract in June until practically September. i.e. 3/4 months later. This serves no other practical purpose except speculation. Because week after week in these monsoon months crop prospects usually fluctuate, which encourages speculation.

Then every now and then, practically every month strong rumours keep on circulating about foreign export quotas to be given. That leads to further speculation.

Why not say in the beginning that the crop expectations are so much, consumption estimates are so much and subject to every thing going normally according to plan, it expects to export during the year. So much of these particular varieties and staples. Also that export duties will be based from time to time on the foreign demand and margin of profit.

Also that on the above basis it hopes to allow so much import of foreign cotton for consumption here, again subject to every thing going according to expectations. This does not commit the Government to any thing at the same time gives a clear cut idea of their policy to trade and consumers at the com-

mencement, thereby reducing speculation on wild rumours.

Then again constant changing and chopping in rules and byelaws further lead to rumours and gambling. Cannot experienced people decide once for all, for at least one year, what system should govern the market which is in the best interest of the trade and country.

Another point is that there are too many delivery periods—six in the year. This leads to further speculation on the estimates of abundance or shortage of tenderable cotton.

It comes to either a position of a squeeze or a bear raid. No doubt there are safeguards against all such eventualities. All the same these are big incentives to increased gambling.

Finally the most important factor, I may point out, is the wide difference between the floor and ceiling—Rs. 350/- This is the biggest incentive towards speculation.

Why can it not be reduced to Rs. 150/- by raising the floor, and reducing the ceiling? Automatically by this measure combined with the others mentioned above, speculation will be 25 per cent of what it is today,

Fluctuations will be in a moderate and narrow range. From the figures of daily turnover in the market it can easily be found that 80 per cent is pure speculation and hardly 20 per cent genuine hedge selling or buying.

Besides what is the link between forward and ready prices today, For instance, the same Vijay cotton is sold in the ready market 125/- above the forward prices; practically the same applies to Zarilla.

What genuine buyer or seller can make any use of the forward market under these conditions? Both may as well forget the forward market and deal in ready cotton as they did since Dac. 55, till the end of the crop season.

From What I understood from some of the statements made in the Lok Sabha in 1956. I am open to correction. I gather the impression that in the Government's mind there was a feeling that something was radically wrong: with] the E. I. C. A. while Sir Purshottamdas Thakurdas was the Chairman.

I suppose authorities claim that all that has been set right since he and the Vice President resigned. Memories may be short. No doubt Sir P. T. does not enjoy the same health and energy today because of age, but it cannot be forgotten that he was

mainly responsible in bringing the cotton trade to its present shape, form, prestige and regularity and gaining for it over 40 years, while he was at the helm of EICA's affairs, world-wide recognition and reputation.

India and Indian Cotton trade owe him a lot for his services and irrespective of what one may feel today, those in the know, which I claim to be, personally and through what I learnt from my late father, who was his colleague from the very beginning of EICA, cannot forget his services.

Another point that strikes me from the debate is that according to the honourable Minister, the market was squeezed last December and that too by half a dozen people only. Still he argued against any official inquiry.

This seems to me to be rather strange. If his facts are correct, it would be quite easy to be able to go into the dealings of those half a dozen culprits.

So why not have an inquiry? It would be in the best interests of the country and cotton trade to appoint an independent and impartial tribunal to go into the whole affair of the cotton market right from the time 1955-56 contract started functioning, upto

June 1956 when the new contract for 1956-57 was framed, and let the findings be publicly known.

I suggest this particularly because such a body will have to take every aspect and event into consideration and not merely the legal implications and authority.

From all this, the most liberal view I can take is, that somebody or a group of people have misguided the authorities into believing something which did not exist. I make myself bold to say that no individual had any heavy commitments one way or the other in the cotton market, when action was taken by Government, and no individual lost anything more than a normal amount which one would take as a normal risk in the course of the business.

Nothing like an amount which will particularly bother one or hit one financially in a bad way because, commitments were not large individually.

This feeling of heavy individual commitments only exists in one's imagination, which is not borne out by facts. Such risks are taken continuously in the course of business year in and year out, by traders and operators, and any action or legal recourse taken by them should not be construed as a result of big profits or losses to anybody. It is more on

account of the abnormality and autocracy of the action taken which hurts one with a view to know what actually caused it and what was behind it. These facts should correctly be put before the public and those interested in the trade. Then let one judge for himself the correctness or otherwise of it.

I maintain that the trade, industry, manufacturers and consumers, growers, farmers and merchants all generally lost in this unprecedented action on only the "unfortunate" short sellers, who were pure bear speculators, and those who were more confident than others or, say, rather know more than others of Government mind, gained. Sanctity of contracts was undermined. A premium was put on ignorance, lack of foresight and lack of knowledge about statistics, facts and figures, and a big discount, even call it punishment, for those calculating correctly, for using clever and shrewd judgement about crop prospects, supply and demand position and for looking after the reasonable interests of one's business and manufacturing concerns

Is there anything like fair minimum price to the grower and to the consumer based on a normal crop? There must be statistics to show all this. Taking all factors into consideration Like parity and requirements of food and cash crops, imports and exports, Government should publish and guide trade,

consumers and growers, what return they should expect and what and how much of what they should produce in the best interest of the economy of our country,

Finally a word about E.I.C.A. It was rather odd for a responsible body like this one, to meet in undue haste within 24 hours of the Bombay High Court decision and announce the pay out, within the next day or two, of the difference between Rs. 745/- and Rs. 700/-.

Even if they had armed themselves legally such an action savours of favouritism and shows certain strong interests behind it, particularly when it was pointed out to them that an appeal to the Supreme Court was being made.

As a responsible body, I feel, they could have asked also for payment to be made to E.I.C.A. at the rate of Rs. 700 by those who had to pay and then they could have held back both these payments pending decision of the legal action in the Supreme Court of India about which they were given due notice. The irony of it all is that this decision was taken practically by the same body, who on December 23rd 1955 were unanimously against any action by Government. Strange how conditions change, along with it people's interests and with that their opinion also changes to suit personal ends.

That is what I meant when I said what power **and** authority could do. I reliably and authentically understand that option business in the cotton market is going as strong as ever. I wonder whether official view which was so strong against it is still doing anything about it.

Lastly, friends tell me what is the use of your **criticising** those in power and authority except harming yourself as a businessman. No doubt it is a well-meant friendly advice, but I must express my views on the subject. Very few from the business community say anything worthwhile in the form of constructive criticism, even if they strongly 'feel like it within themselves. One has to have certain principles and draw the line between quietly accepting something even if you feel it is wrong and speaking out.

It should be a genuine expression of a difference of opinion always well meant and I hope they can take it; Some of the important qualities with those highly placed has to be, to carry a broad mind, large heart, and strong shoulders. Everything in life cannot be measured with the yardstick of personal gains and losses. In that case there cannot be any progress or improvement in the country.

Having lived for hundreds of years in bondage **under** foreign rule, one has a right to expect

to live in this democratic country as its free citizen equal to all others, with dignity, pride, and self—respect ; not as slave of your own people — because slavery cannot carry with it dignity and self—respect. How can a human being be happy and contented if he accepts something for personal gains against his conscience and better judgement ?

It is not that I claim to be above all such weaknesses, but certainly one has to try to get out of, as far as possible, such human failings.

Whatever I have said has been said without any personal motive. It is what I humbly and honestly believe to be in the best interest of my country fellow citizens, authorities and officials. I hope it is taken in the spirit in which it is meant.

After all it is the recognised principle in life that your best friend will **criticise** your faults more than praising your good points.

How could one be of service to anybody, leave alone the country, if he meekly accepts everything irrespective of its rights and wrongs, because his interest lies there. I am sure your great leaders do **not** expect that of any true citizen.

I venture to end with a note of confidence. Mr. Morarji Desai, our new Commerce and Industries Minister, whom I have the good fortune and honour to know, I am sure, will be very fair minded, just and upright and if I know him correctly, trade and industries can look to the future with confidence and look forward to proper justice and fairplay at his hands.



*(The above is the full text of a press statement by
Mr. Ramniwas R. Ruia on the Cotton Policy
Debate in the Lok Sabha on 19-12-1956*

Free Enterprise
is your Enterprise:
Safeguard it.

