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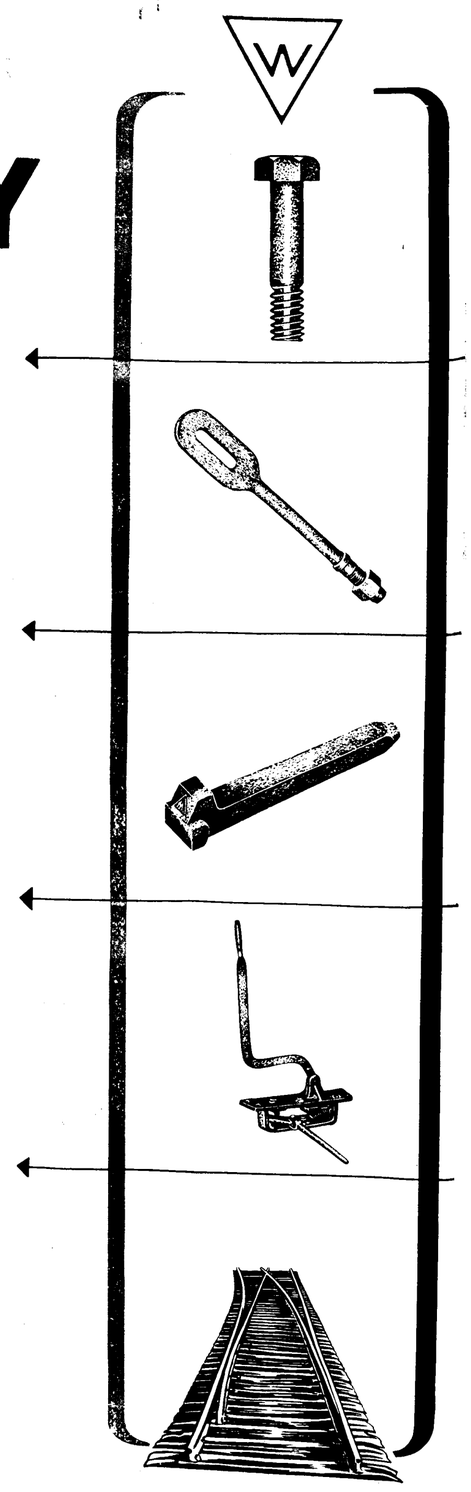
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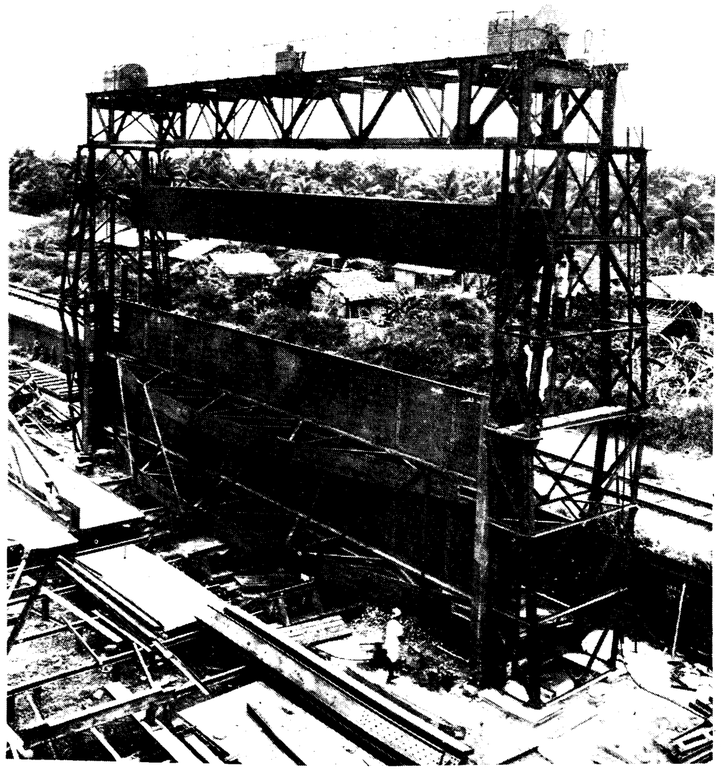
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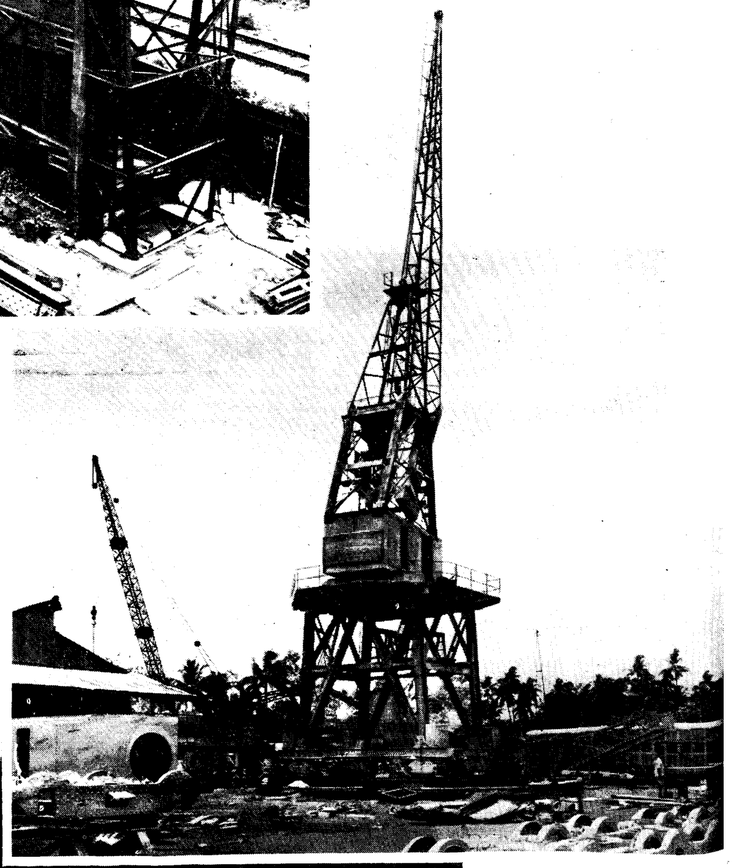
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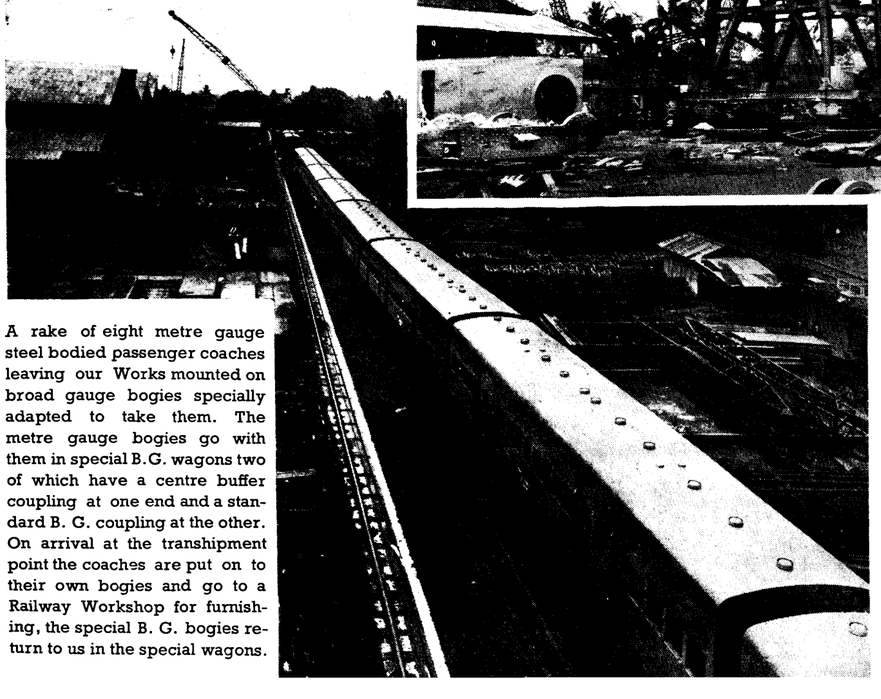


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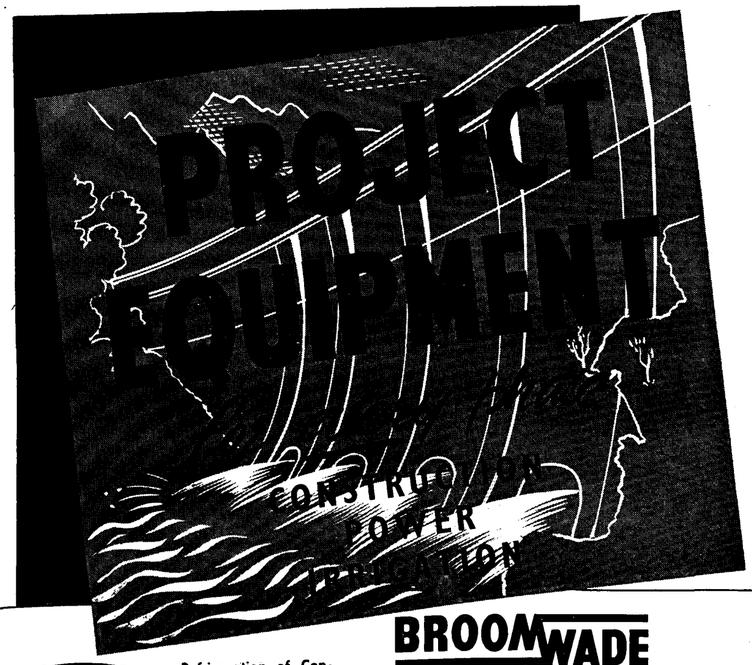
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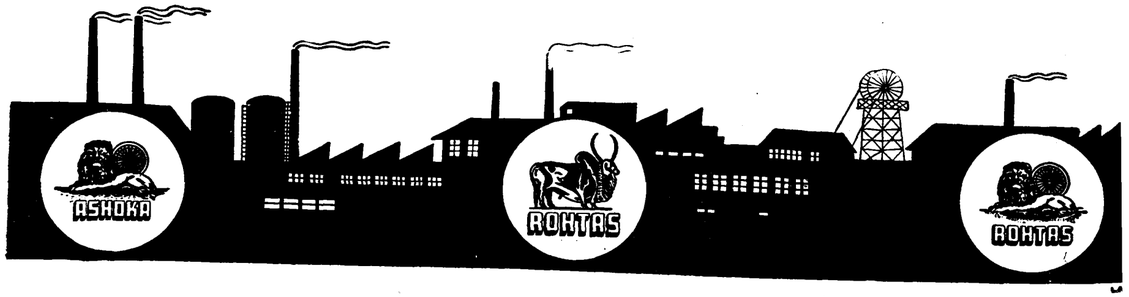
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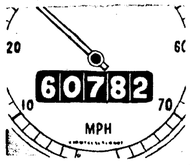
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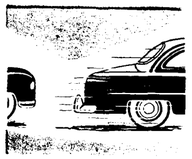
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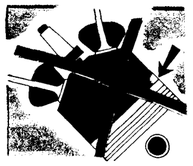
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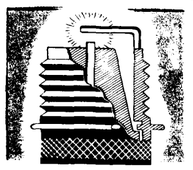
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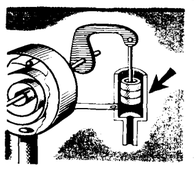
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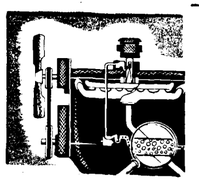
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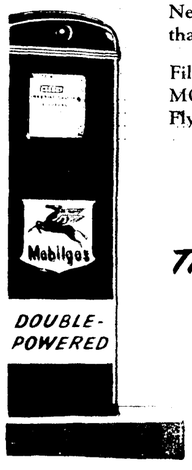


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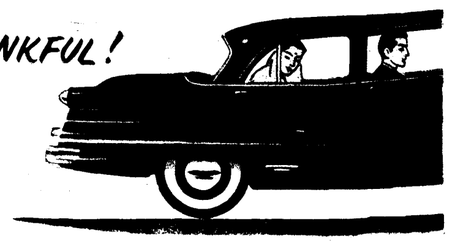
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INDIA'S ECONOMIC PROSPECTS FOR 1980

THE NEED TO DEVELOP EXPORT OF MANUFACTURES

● By W. ARTHUR LEWIS ●

Professor of Political Economy in the University of Manchester.

Professor Lewis is one of the world's leading authorities on the development of backward countries, as well as on the theory and practice of economic planning. In this article written specially for Capital's Annual Review, he outlines for India a process of adjustment from an agricultural subsistence economy to a modern mixed one, exchanging manufactured goods for the extra food required to feed an expanded population at a higher standard of living and nutrition. He considers that, provided India can find the courage to tax or inflate to the necessary degree, persuade her overseas friends to supply the aid she needs, and learn to sell an increased volume of manufactured goods on the world's markets, it should be possible to double the real national income by 1980.

THE nature of a country's trade depends, among other things, upon its agricultural resources. Most countries of the world grow as much of their own food as they can; even among the wealthy industrial nations, it is only the over-populated ones which do not mainly feed themselves. Under-developed over-populated countries, like India, cannot afford to import food; their peoples have instead to put up with a low level of nutrition. But as soon as an over-populated country starts to develop, and to raise its standard of living, it becomes an ever larger importer of food, and it exports manufactures in exchange. The leading examples are England, Germany, Belgium and Japan, and it is only a matter of time before India joins this group.

Whether a country is over-populated depends on its standard of nutrition, its productivity and its arable acreage. In those part of the temperate zone where rain falls throughout the year, one arable acre will support one person at the European and American levels of nutrition. India, with only three-quarters of an arable acre per person, and a less favourable climate for agriculture, cannot possibly feed her people adequately from her own soil. As the standard of living rises, and population grows, India must become an increasingly large importer of food and agricultural products, paid for by an increasing export of manufactures.

Food Requirements in 1980

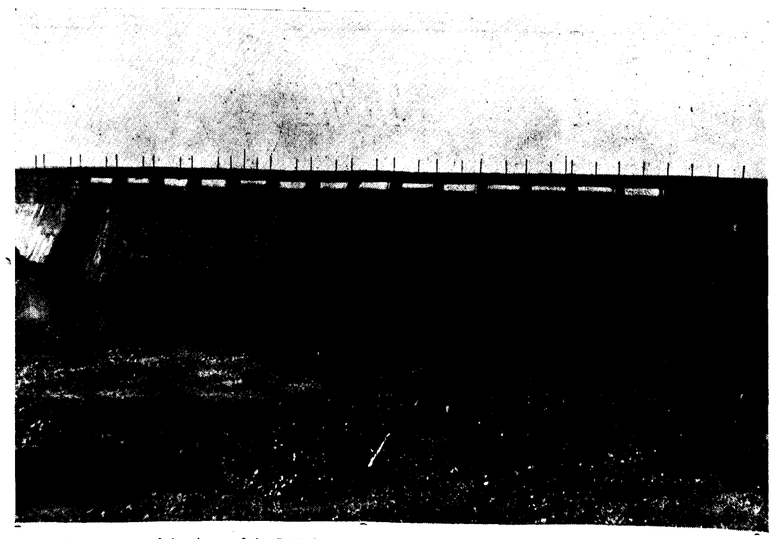
We can get some idea of the orders of magnitude involved if we look ahead some twenty-five years, say to about 1980. No precision is possible in exercises of this kind, yet such exercises are necessary, since statesmen and investors have to make decisions which bear on the next twenty-five years. Looking ahead twenty-five years is merely a matter of extrapolating trends. This is bound to go wrong if major events upset the trends, such as a world war, a major epidemic, or a world slump similar to that of the nineteen thirties. Such exercises as these tell us only what is likely to happen if there is no big disturbance.

On these restricting assumptions, we can be pretty certain what will happen to India's population in twenty-five years. In the past two or three decades it has been growing, except in wartime, at a cumulative rate of 1.3 percent per annum. This rate will accelerate towards 2.0 percent as new health measures become effective. So in 1980 India's population will have grown by not less than 40 percent, and by not more than 55 percent—let us say by 45 percent for the purpose of this exercise.

What will happen to the standard of living is less predictable. It is now lower than it was before the outbreak of war in 1939, when it had been stable for some time. What will happen over the next twenty-five years will depend primarily upon India's own effort, and partly upon external assistance. Over the past seventy years the standard of living in Japan has risen cumulatively by 3 percent per annum; in the United States the rise has been by 2 percent per annum, and in Western Europe by around 1½ percent per annum. India's natural resources are much richer than those of Japan; there is certainly no technical reason why her standard of living should not rise by 2 percent per annum over the next twenty-five years. India is also just as capable of raising the necessary capital internally as Japan was in 1870, but her Government has not yet found the courage necessary for taxation or inflation on the necessary scale, and India's friends abroad are not yet willing to come to her assistance to the appropriate degree. Given current levels of capital formation, India's standard of living will be the same in 1980 as in 1955; increased production will barely keep pace with increased population. On the other hand, there may well be political explosion in India unless her standard of living rises. For the purpose of this exercise we assume that India is going to find her courage, and that food consumption per head will increase by about 1 percent per annum—or say by about 30 percent by 1980. If population increases by 45 percent, and consumption per head by 30 percent, total food consumption will increase by about 90 percent by 1980. What will happen to domestic food production?

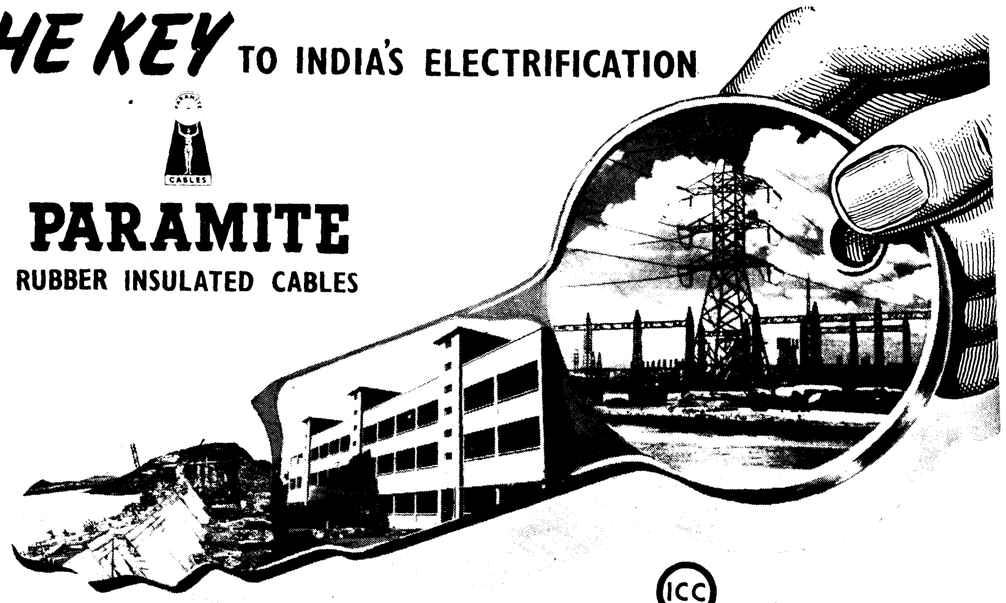
Domestic Production

The area under cultivation cannot increase very much—let us assume that it increases by 10 percent. On the other hand, there is general agreement that productivity per acre can be increased enormously,—by getting the farmers to use better seeds, fertilisers, and pesticides, and by making more water available. The principal agent of agricultural improvement is the agricultural extension worker, of whom there is one in



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A typical peasant . . .

England and in America for every 700 persons engaged in agriculture. This would correspond to about 120,000 extension workers in India, and involves a large multiplication of the present staff. Changes in agricultural organisation have also some part to play, but experience in the U.S.S.R. demonstrates that these may have little useful effect on output *per acre*, while experience in Japan, where the typical holding is still only two or three acres, demonstrates that a combination of research, extension and credit can effect a revolution in output per acre without waiting for spectacular changes in the size of farms. Japan, in fact, holds the palm, having increased her productivity per acre by 45 percent in the thirty years before the first world war. India has begun splendidly to move on the agricultural front. If she accelerates her programme, her output per acre may rise by as much as 30 percent over the next twenty-five years. Combining 10 percent more acres with 30 percent more productivity would give say 45 percent more output by 1980.

If by 1980 food consumption increases by 90 percent, and food production by only 45 percent, there will be a deficiency equal to 45 percent of present output (which equals present consumption). There is certain to be some deficiency by 1980, since the population increase by itself will be as great as any conceivable increase in output. If the standard of living is held down the deficiency will be smaller, but if consumption per head grows by more than the postulated one percent per annum, then the deficiency will be even greater.

Exports of Manufactures

India's output of food is currently worth about 10,000 million U.S. dollars. On this calculation, therefore, India will need to import about 4,500 million U.S. dollars of food (at 1954 prices) in 1980, and must correspondingly export manufactures in exchange. What else can she export in exchange? By 1980, India's agricultural exports will be negligible, because of the growth of her internal demand for agricultural products. Finished manufactures already constitute more than half of India's exports, and we can take it for granted that this proportion must grow rapidly. Let us assume that in 1980 India will pay for her imports of raw materials, of manufactures and of services by exporting raw materials and services, and that she will pay for her imports of food by exporting manufactures. Thus, her export of manufactures is assumed to be 4,500 million dollars.

World trade in manufactures is currently worth about 30,000 million dollars. This trade doubles every twenty-three years, if there is no war and if the terms of trade between industry and agriculture are unchanged. Hence in 1980 world trade in manufactures should be worth about 65,000 million dollars, at constant prices. India will therefore, on these assumptions, need about 7 percent of world trade in manufactures. At present her share is about 2.5 percent, so she needs to capture 4.5 percent during the next twenty-five years. This is equivalent to increasing her exports of manufactures cumulatively by 7½ percent per annum.

Capturing 4.5 percent of world trade sounds a formidable proposition, but it has been done before by nations setting out on industrialisation. Britain did it in the middle of the nineteenth century. The United States gained 6 percent of world trade in manufactures in the thirty years before the first world war (not to speak of the further 16 percent she gained between 1913 and 1950). Japan also gained 6 percent in the first forty years of this century, half of it between 1930 and 1937. If India were to gain 4.5 percent of world trade during the next twenty-five years, her achievement would be outstanding, but it would not be novel or unique.

Neither would it necessarily even arouse comment: the rise of America's share from 6 percent in 1883 to 11 percent in 1899 was hardly noticed by other countries, so busily occupied were they at this time with Germany, whose share in the same period rose only by 1 percent! The fact is that it is fallacious to think that if one country increases its share of world trade it must be doing so at the expense of some others. If world trade is doubling every twenty-three years, there is plenty of room for everybody. Some countries need to expand faster than this, e.g. India, some at about the same rate, e.g. England, and some at a slower pace, e.g. France, with her stable population. No country needs to reduce her trade because India's trade increases. As far as the rest of the world is concerned, if India's trade increases from 2.5 percent to 7 percent in twenty-five years, the result is merely that the physical volume of their remaining trade increases not from 100 to 217 but from 100 to 207, which is a minor difference.

Besides, if India exports more manufactures, she will also buy more food in exchange, and provided the world's supply of food is growing *pari passu* with industrial production, India does not cut into anyone else's market, or upset the terms of trade. Now, there has been a persistent tendency for world agricultural production to grow faster than was warranted by the growth of market demand, over the past eighty years, and for food surpluses to accumulate, and for food prices to decline. This tendency has been interrupted by world wars, but it seems again to have been resumed. India should be able to buy the food she needs in 1980, if she has the manufactures to offer in exchange.

The country whose share of world trade in manufactures should most desirably contract is the United States of America. Having regard to America's low propensity to import, she does not need 30 percent of world trade in manufactures, and the rise of her share to this level from the pre-war level of 20 percent is the major cause of the dollar shortage. If India and other countries can make enough manufactures available on international markets to prevent America's exports of manufactures from doubling more often than once in thirty years, they will be helping to restore equilibrium in international trade, as well as ensuring themselves the supplies they need. For example, India may need to buy wheat from the U.S.A., and Brazil will sell coffee to the U.S.A. If India can sell machinery to Brazil, the triangle of exchange will be complete.



. . . and his hamlet

The Changing Structure of Trade

It used to be thought that world industrialisation would cause world trade in manufactures to decline relatively to other trade, but this has not been so. The share of manufactures in world trade has remained constant over the past seventy years, for which we have figures. And we can think of no reason why this constancy should alter during the next twenty-five years. So long as the industrial countries are willing to import food and raw materials, and so long as there are food and raw materials for them to buy, then for so long will the exchange of manufactures against primary products continue.

But, though industrialisation seems not to affect the volume of world trade in manufactures, it certainly affects its composition. The simpler commodities are disappearing from trade, especially textiles. The structure of trade is increasingly dominated by the fact that coal supplies and minerals are not widely distributed over the surface of the earth, so that even the most highly industrialised countries have to import those metals which they do not possess. This can be seen in the following table, showing the percentage of each group in world trade in manufactures at selected dates:

	1899	1913	1929	1937	1950
Textiles and apparel	40.4	35.1	29.5	22.1	19.5
Metal goods	30.6	38.1	44.2	51.4	56.3
Other manufactures	29.0	26.8	26.3	26.5	24.2
	100	100	100	100	100

India is well favoured by this trend, because she is well endowed with metals, whereas Japan, her nearest rival, is not. India is thus well fitted to become the workshop of the East, if by this is meant the supplier of metal goods of all kinds, and of machinery in particular. Correspondingly,



Women at work . . .



. . . and at play

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From agriculture . . .

India would be unwise, in a bid for exports, to concentrate upon textiles, whose share of the market declines so swiftly. India's career is to be made as a producer of steel and of all that derives therefrom.

The magnitude of India's task may be gauged by translating her exports from dollars into steel. Even when we allow for non-metallic exports, probably by 1980 exports worth 4,500 million dollars will include nearly 4 million tons of steel, compared with India's current total output of only just over 1 million tons of steel. Exports of 4 million tons correspond to an output of 8 to 10 million tons of steel, which is presumably about the right target for 1980. To increase steel production at this rate is not unusual. Germany was producing 1.2 million tons of steel in 1885, and reached 10 million tons 21 years later. The U.S.A. produced 1.25 million tons in 1880, and reached 10 million tons 19 years later. Japan was moving at a comparable rate, when the war stopped her; her output of steel rose from 1 million tons in 1925 to 8 million tons in 1943. It would clearly be moderate, rather than extravagant, for India to plan to raise her steel production to 10 million tons over 25 years

The steel is required mainly for the manufacture of machinery, though there will also be some export of steel to countries which lack ores (by 1980 Japan will be a big market for India's raw steel). Here also India is well placed, since her supply of educated people, capable of becoming skilled workers in engineering, currently exceeds the demand.

Gaining Markets

The market lies at India's doorstep. The countries of the ECAFE region, excluding India and Japan, import about 7 percent of world trade in manufactures. In addition, Japan and Australia are also large importers of manufactures. Neither is the market confined to the doorstep: all major exporters of manufactures sell all over the world. One of the most promising markets is that of Latin America, expanding rapidly, and not well endowed with minerals or with coal. There is trade to be had, if India will go after it.

To "go after it" is the secret of successful trading in manufactures. The world has seen a number of trade drives—the British in the middle of the nineteenth century, the Germans and the Americans before the first world war, the Japanese in the nineteen-thirties—and they all show exactly the same features. First, the world's markets have to be flooded with salesmen, who turn up wherever there are orders, speak the language, and make themselves agreeable. Secondly, every attention is paid to suiting the customer; he may buy in small or in large lots; in standard or in special designs; and he may have immediate delivery. Thirdly, prices are competitive; the customer says what he can pay, in the light of competing prices, and it is up to the factories back home to design and produce at a profit, given the price obtainable. And fourthly, there is liberal credit.

The British and the American trade drives were carried out independently of government, whereas the German and the Japanese trade drives had official support. In the British and American cases the great increase of trade resulted from a lead in technical innovation. The British case was due to pioneering inventions in textiles and in iron which enabled Britain to undersell all her rivals easily, until they caught up. In the American case, her lead in the production of steel after 1880, and of new standardised machines, enabled her to build up a great trade in metal products almost without effort. Germany and Japan were not so well placed; they were doing nothing which others could not do as well, and in addition the Japanese drive in the thirties occurred when the total volume of world trade was contracting. The German and Japanese efforts were therefore more conscious, needed more organisation, and because they were organised, attracted more hostile criticism than the British and the American drives, even though the share of trade captured was in both cases smaller.

Even so, not much official action was involved. Diplomats overseas were required to be specially affable to traders, and to interest themselves in trading conditions. Exporters were encouraged to join exporting associations, so as to share the costs of export promotion, and also to avoid competing with each other in foreign markets, and small subsidies were paid to keep some of these export associations going. Neither Germany nor Japan paid direct subsidies to exports—or paid very small subsidies indeed, if any. The governments interested themselves in exports, and talked exports, but they left the actual work to the business community.

A development of the thirties was the provision of government credit for exports. The Export Credits Guarantee Department in the United Kingdom and the Export-Import Bank in the United States have the same purpose—to compete for trade by offering liberal credit. Any government embarking on a trade drive would now be expected to do as much.

Since the second world war there have been new tricks. The British Government for a time used raw material controls to fix for each firm the minimum proportion of its output which had to be exported. Other countries have used exchange control to subsidise exports, by allowing differential rates to exporters. Such methods involve detailed control of the economy; it is yet to be seen whether they build up exports more rapidly than occurred in the trade drives before they were invented.

Indians are excellent traders, to be found all over the world peddling their wares, whether from door to door in a suitcase, or in vast and imposing structures in the best part of the city. Their experience, however, has been in selling consumer goods, whereas the next twenty-five years calls for selling machinery and industrial equipment. This calls for salesmen with more technical knowledge, and a greater interest in after-service, but the old tradition of looking for business will carry over, and will surely mean that once India equips herself to produce the goods, she should have no major problem in selling them.

Three Objectives

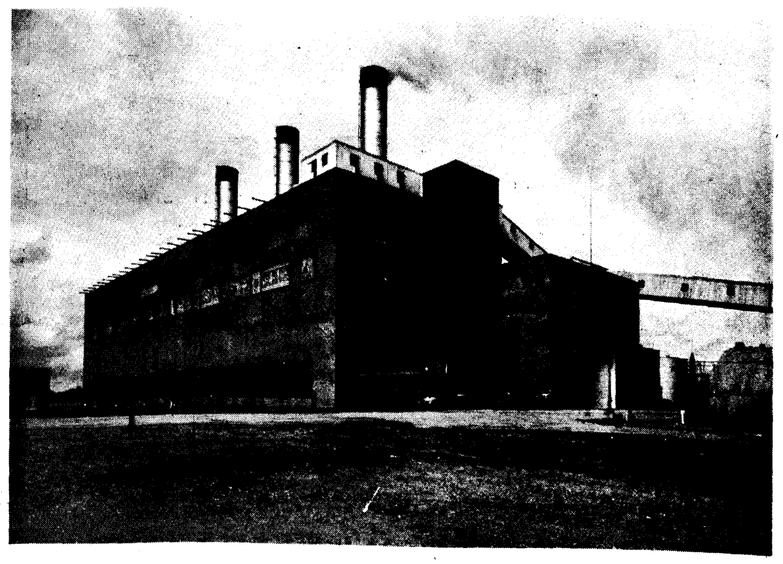
From these calculations emerge three objectives for 1980: (a) 45 percent more food produced at home; (b) 10 million tons of steel, with an engineering industry of corresponding size; and (c) 7 percent of world trade in manufactures. These three are inter-dependent; it is meaningless to emphasise one at the expense of the others.

In fact, it is easy to show that these objectives are self-consistent. If steel production increases by 10 percent per annum, industrial output as a whole will increase by about 5 percent per annum. The output of services will increase slightly faster than commodity output (industry and agriculture together). Consumption will increase less rapidly than output, since investment and government use of resources will increase relatively to national income; consumption will fall say from 82 percent to 73 percent of gross national income. Thus the national income index numbers for 1955 and 1980 look as follows:

	1955	1980
Agriculture ...	46	67
Industry, mining ...	18	61
Services ...	36	90
Total ...	100	218
Population ...	100	145
Output per head ...	100	150
Consumption per head	100	134

Output per head grows cumulatively by 1.6 percent per annum. Consumption per head grows by 1.2 percent, and this is consistent with our assumption that food consumption rises by 1 percent per annum.

These are moderate objectives, well within the capacity of India's resources and of her people. Will she seize her opportunity?



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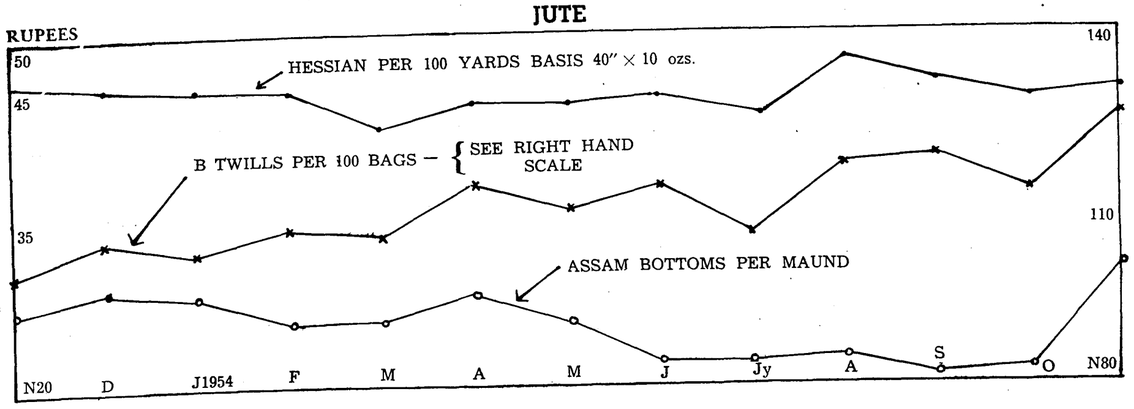
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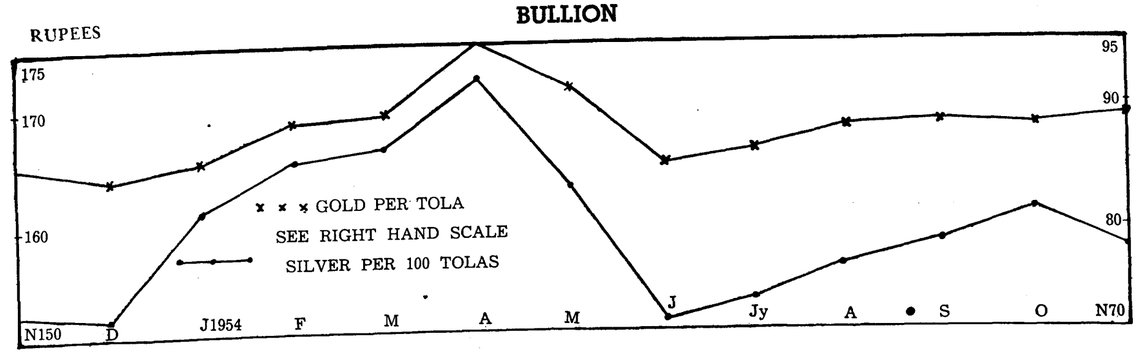
FROM NOVEMBER 1953 TO NOVEMBER 1954

(Month-End Prices)

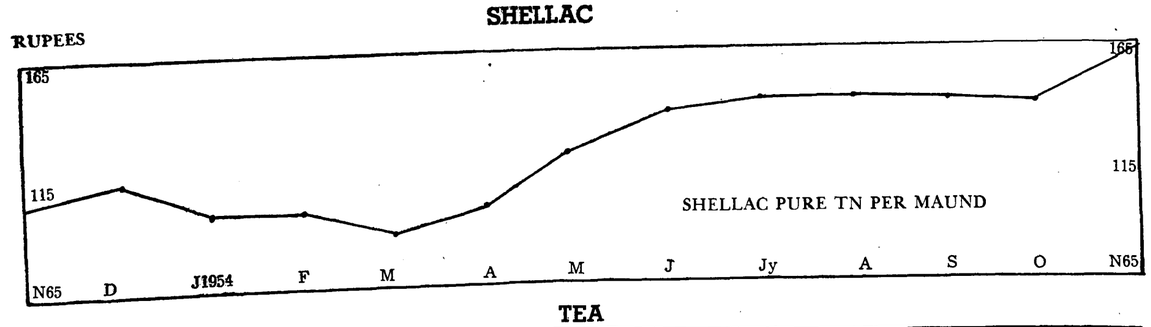
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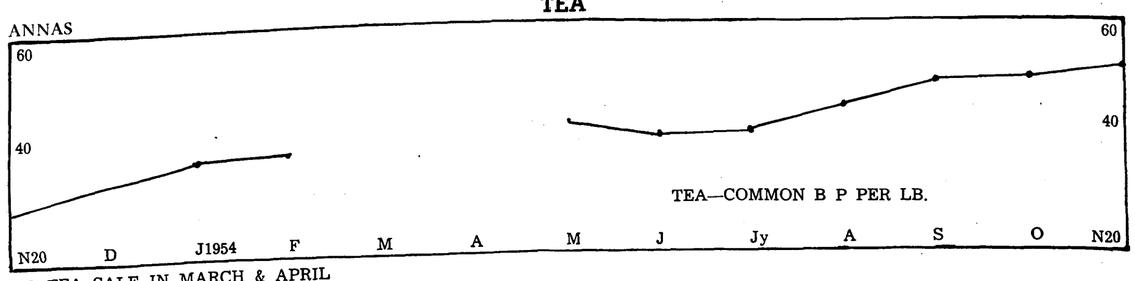
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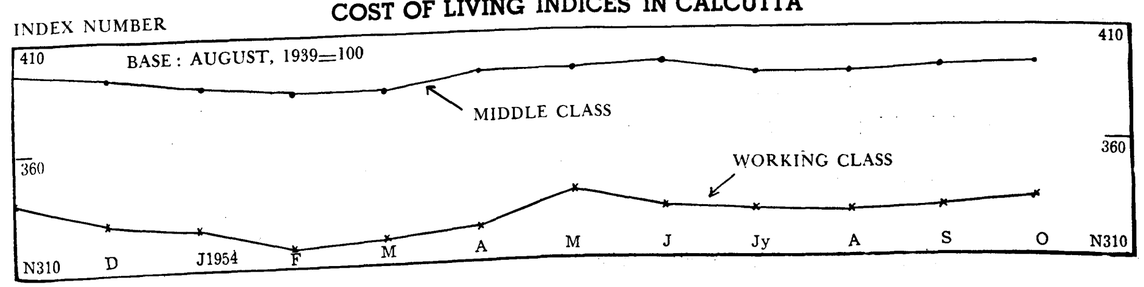


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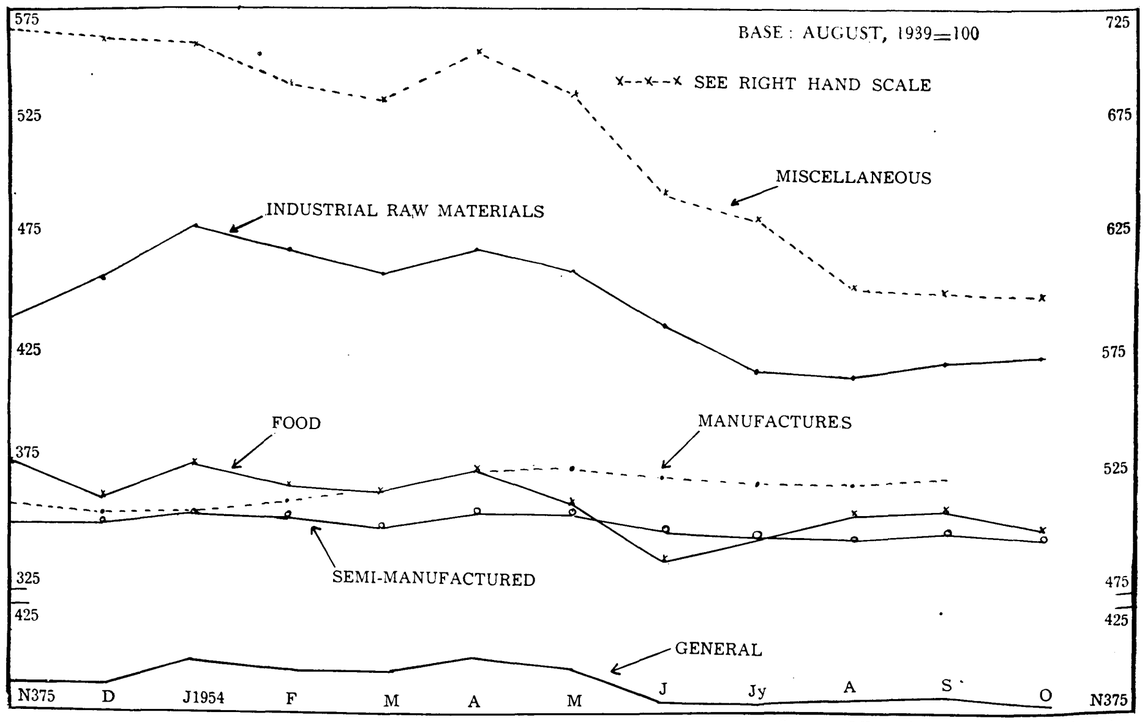
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WHOLESALE PRICES

(MONTHLY FIGURES)



Source: Office of the Economic Adviser to Government of India

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CHANGES IN INDIA'S NATIONAL INCOME

A STATIC ECONOMY IN PROGRESS

● By Dr. V. K. R. V. RAO ●

Director, Delhi School of Economics.

IN the final report of the National Income Committee published early this year, it is stated: "The method followed by V. K. R. V. Rao in his estimate of the national income of India for 1931-32 is similar, except that our estimates have perhaps a smaller measure of inaccuracy than his, mainly because of the availability to us of more data. Nevertheless, it should be possible to compare these estimates, after making adjustments, of course, for territorial changes due to partition and for price changes".* The Report contains estimates of the national income of India in 1950-51; my work on the national income of British India relates to the year 1931-32. Despite the differences in coverage, prices, and extent of accuracy, it is possible to get some idea of the changes which have taken place in the country's national income during the last two decades by comparing the two estimates. That is the only justification for the attempt which is made below.

My estimate for 1931-32 relates to British India, i.e. it includes Burma, and N.W.F.P., Sind, and those parts of the Punjab and Bengal which now form part of Pakistan; it excludes the former Princely Indian States, which now constitute a part of the Indian Union. No attempt has been made in the study to make territorial adjustment for the purpose of comparing the estimates of 1931-32 and of 1950-51; in fact, there are serious difficulties in doing so and I have not yet been able to solve them. What I have done therefore is to compare not the absolute figures, but the proportions which the constituent figures bear to the totals in the respective years; and, wherever absolute figures are used, necessary adjustments are made for changes in prices. I have used my estimates of the occupational distribution of principal workers by urban and rural areas for 1931-32 and made necessary classificatory adjustments in the census figures of 1951 to make the two sets of figures comparable. I have preferred to use the figures of principal workers, which corresponds to the figures of self-supporting persons of the 1951 census, rather than the figures of the total working force including working dependants and subsidiary workers because of difficulties caused by changes in definition and classification in the two censuses. I have also completely reclassified the figures contained in Table 52 of my book in order to present a picture of income by occupational sources (by distributing the figures of income assessed to income-tax over the relevant occupational heads); and in order to make the National Income Committee's figures for 1950-51 comparable with my figures for 1931-32, I have also completely reclassified Table 28 of that Report. In my use of income tax figures, I have taken into account only income above Rs. 3,500 a year for 1931-32 in order to make it comparable with 1950-51, when the income tax was applicable only to incomes exceeding Rs. 3,600 a year. Other adjustments I have made are minor and are therefore not specifically referred to in this article.

To begin with, let us look at the figures of the *per capita* annual national income. In 1931-32, it was estimated by me at Rs. 62; the National Income Committee places it at Rs. 265 for 1950-51. In money terms, there has been an increase of about 327 percent. But if we take into account the changes which have taken place in prices during the period, the figure of *per capita* income for 1950-51 gets reduced to Rs. 64.2 at 1931-32 constant prices. In other words, *per capita* national income has practically remained constant in real terms over the two decades, the increase in 1950-51 being only 3.5 percent over that in 1931-32.*

The practically static nature of the Indian economy in spite of two decades of economic development is clearly seen from the following table, which compares the percentage distribution of principal workers by main occupational categories during the two census years of 1931 and 1951. The same table also gives a breakdown of these percentages by rural and urban areas:

PERCENTAGE DISTRIBUTION OF WORKERS
1931 and 1951

Category	Rural 1931	Rural 1951	Urban 1931	Urban 1951	Total 1931	Total 1951
Agriculture & Mining	78.7	85.0	13.6	15.6	71.2	73.0
Industry	13.0	8.1	42.0	35.7	16.3	13.0
Commerce	4.2	3.1	19.1	20.3	6.0	6.1
Transport	1.0	0.9	7.2	7.7	1.7	2.0
Public Force and Administration	0.6	1.2	5.5	9.7	1.2	2.6
Professions & Liberal Arts	1.1	1.0	5.4	6.0	1.6	1.9
Domestic Service	1.4	0.7	7.2	5.0	2.0	1.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

It will be seen that, in fact, there has been some deterioration in the structure of the economy in so far as the percentage of workers engaged in agriculture and allied occupations has increased from 71.2 percent to 73 percent while that for industry has decreased from 16.3 percent to 13 percent. The increasing rôle of Government since 1931-32 is clearly seen in the increase which has taken place in the percentage of workers engaged in Public Force and Administration, from 1.2 in 1931 to 2.6 in 1951. It is remarkable that the changes which have taken place in the occupational break-up of the employed population in both rural and urban areas is largely in the same direction. Thus, in both rural and urban areas, there has been an increase in the importance of agriculture, and Public Force and Administration; while there has been a decrease in the importance of Industry, and Domestic Service. Only in respect of Commerce, Transport, and Professions and Liberal Arts is there some difference, the urban areas showing a slight increase while the rural areas show a slight decrease. Part of the explanation of these figures may, of course, lie in the comparatively less industrialised character of the additions to Indian territory after independence, *viz.*, the Indian States as compared to the areas which no longer form a part of India, *viz.* Burma and the Pakistani provinces; but there is no doubt that the figures also underline the comparatively static nature of the Indian economy in terms of industrial progress in spite of the increase in urbanisation which has taken place during the last two decades.

Further evidence is provided in support of the comparatively static nature of the economy by the following table, which gives figures of percentage distribution of the share in the national income attributable to the main occupational categories:

PERCENTAGE DISTRIBUTION OF NATIONAL INCOME

Category	1931-32	1950-51
Agriculture & allied occupations	52.7	51.3
Mining	1.1	0.7
Industry	16.6	15.3
Communications	0.6	0.4
Railways	3.1	1.9
Commerce	11.4	15.4
Professions & Liberal Arts	2.9	4.9
Government Service	4.1	4.5
Domestic Service	2.0	1.3
House Property	3.8	4.3
Miscellaneous items	1.7	—
Total	100.0	100.0

It is worth noting that, in terms of their contribution to national income, there has not only been a fall in the importance of Agriculture and Domestic Service, but also in that of Industry, Mining, and Transport. There has been an increase in the importance of Commerce, Professions and Liberal Arts, Government Service, and House Property, the increase being particularly striking in the case of the first two of these items. The total picture that is revealed by these figures is certainly not of economic development.

If we look at the national income from the point of view of the contribution made by the three main sectors of agriculture and allied occupations, Industry, and Services (corresponding to Table 53 of my book *National Income of British India, 1931-32*), we find further corroboration of the thesis presented above. Relevant figures are given below:

Category	Percentage contributed 1931-32	Percentage contributed 1950-51	Difference in percentages between 50-51 and 31-32
Agriculture, Pasture, Hunting and Fishing	56.4	53.9	−2.5
Industry	17.8	16.1	−1.7
Services, including trade, transport, Government, professions and domestic service	25.8	30.0	+4.2

Services still continue to play an increasing rôle in the economy. The only difference is that whereas this would be an indication of economic progress in the case of countries which record a sharp rise in the *per capita* figures of national income at constant prices, it is not equally a matter of satisfaction in the case of countries like India, which show practically no change over two decades in their *per capita* figure of national income at constant prices.

Further confirmation of the static character of our economy is available in the changes which have taken place in the proportion of the income subject to income tax and the wage bill of factory workers respectively to the national income. Thus, whereas incomes subject to income tax constituted 9.7 percent of the national income in 1931-32, the

*Final Report of National Income Committee, p. 5.

* The change in prices is on the basis of the Economic Adviser's Index adjusted with the Calcutta wholesale index and follows the formula set out by Mr. G. S. Gourie in the *Indian Economic Journal*, July, 1954.





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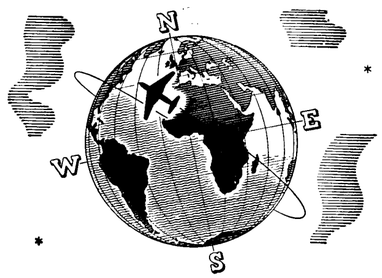
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corresponding figure for 1950-51 was only 6.3 percent. As for the wage bill of factory workers, the figures were 2.2 percent and 2.5 percent respectively in 1931-32 and 1950-51. It is worth noting that, contrary to the popular impression, the average wage per factory worker in 1950-51 was less than that in 1931-32 in terms of constant prices, the increase in the money wage being 270 percent as against a rise in prices of 310 percent.

Significant Changes

There have been, however, some significant changes in the Indian economy resulting from the attempts at industrialisation during the last two decades. While these changes have not been big enough to affect the structure of the economy as a whole, they are nevertheless significant in the smaller field covered by the incomes subject to income tax. The following table presents relevant figures showing distribution by sources, of taxable income in 1931-32 and 1950-51:*

PERCENTAGE DISTRIBUTION BY SOURCES OF INCOME SUBJECT TO INCOME TAX

Category	1931-32	1950-51	Difference between 1950-51 and 1931-32
1. Salaries	35.6	21.9	−13.7
2. Hindu Undivided Families	14.9	11.2	− 3.7
3. Unregistered firms & Associations of individuals	6.8	3.8	− 3.0
4. Individuals	24.8	37.7	+12.9
5. Companies	17.9	25.4	+ 7.5
Total	100.0	100.0	—

It is clear from the above table that salaries are now much less important than before in the total of taxable income, thereby indicating the growth of the business sector in the economy. The fall in the importance of Hindu undivided families, unregistered firms, and associations of individuals combined with the increase in that of companies shows the change in the organisation of business in the direction of a corporate structure. The fact that the largest rise is shown in the sector 'individuals' is not only indicative of the important rôle still played by individuals and other proprietorial concerns in industry, but is, to a greater extent, reflective of the growing importance of Commerce and Professions and Liberal Arts in the income groups above Rs. 3,500 a year in the non-agricultural sector.

Some light is thrown on the important factor of distribution of income in the non-agricultural sector by the following table:

PERCENTAGE DISTRIBUTION OF INCOMES, OTHER THAN CORPORATE INCOME, ASSESSED TO INCOME TAX

Grade of Income	1931-32	1950-51	Difference between 1950-51 and 1931-32
Below Rs. 5000	18.6	18.7	+ 0.1
Rs. 5001 — Rs. 10,000	32.0	21.5	−10.5
Rs. 10,001 — Rs. 25,000	31.3	24.8	− 6.5
Rs. 25,001 — Rs. 50,000	10.7	13.5	+ 2.8
Rs. 50,001 — Rs. 100,000	4.4	8.6	+ 4.2
Above Rs. 100,000	3.0	12.9	+ 9.9
Total	100.0	100.0	—

Incomes below Rs. 25,000 a year have fallen from 81.9 percent of total taxable income in 1931-32 to 65 percent in 1950-51; while those above Rs. 25,000 a year have risen from 19.1 percent in 1931-32 to 35 percent in 1950-51. The sharpest increase has been recorded in the case of incomes above Rs. 1 lakh a year, *viz.* from 3 percent in 1931-32 to 12.9 percent in 1950-51. These figures exclude corporate income; if these are also taken into account, the pattern of change in distribution shown by this table would be reinforced still further. There is no doubt therefore that the range of inequality has been widening in the non-agricultural sector during the last two decades.

Shift in Income

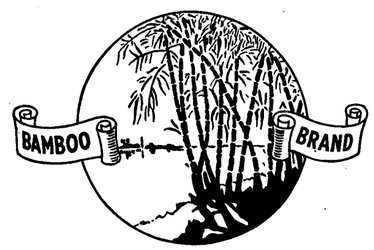
We may notice another fact brought out by our statistical analysis before we conclude this article. There has been a great volume of vocal opinion in the country in support of the belief that there has been in the last two decades a sharp shift in the distribution of national income from the non-agricultural to the agricultural sector. While some support for this thesis may be found in the fall that has taken place in the proportion of incomes subject to income tax to the national income in 1950-51 as compared to 1931-32—to which we have drawn attention earlier in this article—it must be remembered that these figures exclude incomes below Rs. 3,500 a year in the non-agricultural sector and cannot therefore be used as an indication of the decline in the importance of the non-agricultural sector as such. On the contrary, such evidence as we have been able to get in the course of this analysis leads to a contrary conclusion. Thus, whereas agriculture and allied occupations contributed 56.4 percent of the national income in 1931-32, the corresponding figure for 1950-51 was only 53.9 percent; and while the income per principal worker engaged in agriculture and allied occupations increased in 1950-51 only by 5.1 times over that in 1931-32, the national average for all principal workers showed an increase of 5.5 times over that in 1931-32. Within the agricultural classes, probably, there has been a shift in favour of the higher income groups, but this is also the case in the income tax paying class in the non-agricultural sector. What is clear is that, taking the agricultural classes as a whole, there has been no shift of the national income in their favour.

We may now conclude this brief review of the change in India's national income between 1931-32 and 1950-51 by reiterating that there has been practically no change in the *per capita* national income at constant prices in the two years. The conclusion that this suggests, *viz.* that the Indian economy has been more or less static in its character during the two decades ending with 1950-51 has also been borne out by the analysis of other relevant figures available for the two years. But if, nevertheless, we have called this article "A static economy in progress", it is because of the attempts that have been made during this period to industrialise the country and also increase its agricultural output. In absolute terms, the attempt is not insignificant; but in terms of its effect on the structure of the economy as a whole and on the average levels of living in the country, it has made but little impact, though it has certainly resulted in widening the range of inequalities in the non-agricultural sector and brought about significant advances in the levels of living of an infinitely small section of the people.

If the static character of the economy is to be altered, it is evident that developmental effort must be on a far vaster scale than anything seen during the twenty years ending with 1950-51; and it is also clear that such an effort must be accompanied by both restraints on the growth of population and deliberate attempts to narrow the range of inequality in distribution. Such an attempt is being made in the first five year plan that was launched in 1951-52; and it will be continued by subsequent five year plans. Only the future can reveal the extent to which success will attend on these attempts; what is clear from our analysis of the changes in India's national income is that such an attempt was certainly necessary and, almost certainly, long overdue.

*1. Income figures for 1931-32 are for incomes exceeding Rs. 3,500 a year, while for 1950-51 they are for incomes exceeding Rs. 3,600 a year.
2. Figures exclude income from securities.
3. The figures include under item 4, viz. 'individuals', income from registered firms.

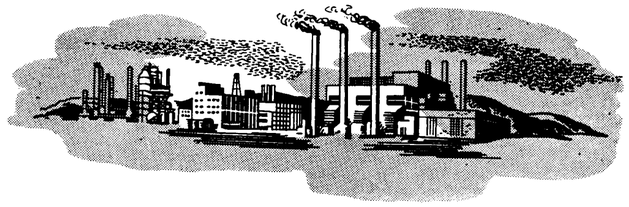
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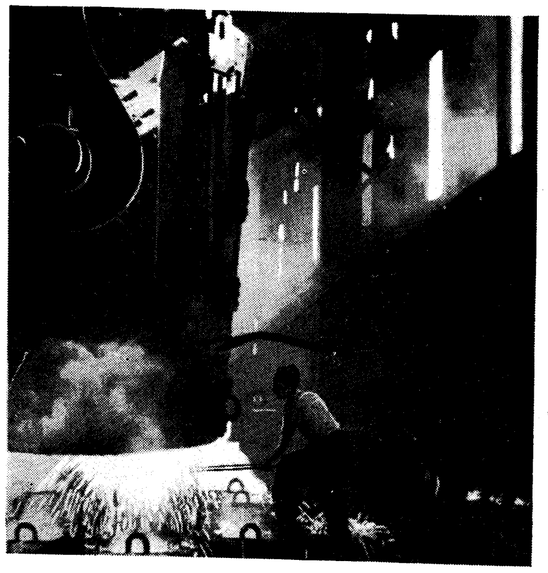
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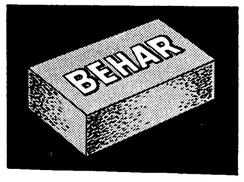
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INDIAN INDUSTRY'S INSTALLED CAPACITY AND PRESENT PRODUCTION LEVELS

● By Professor C. N. VAKIL ●

School of Economics and Sociology, University of Bombay.

THE problem of expanding the industrial potential of India has loomed large in official and non-official circles during the last two years. It is held that the place accorded to industry in the first Five Year Plan is not adequate and that, unless expansion at a rapid pace in several industrial activities is brought about, India's standard of living would not show any appreciable improvement. Efforts are being made to afford greater incentives to industrialists in India so that the private sector may be enabled to participate more vigorously in the national programmes of economic development. The Shroff Committee dealt specifically with the problem of provision of finance for the private sector. The Ministry of Commerce and Industry has set up the new Industrial Development Corporation for undertaking long-range schemes of industrial expansion. Negotiations have been conducted with a view to obtaining assistance from the U.S.A. and the U.K. for the establishment of another private corporation (Industrial Credit and Finance Corporation) for a more or less similar purpose.

There is no doubt that all these efforts are conceived with a laudable objective. The question may, however, be raised whether industrial progress can be brought about by the mere process of increasing the supply of finance for industrial development schemes to the private or the public sector. Is the industrial structure that is emerging evenly balanced both in relation to each of the industries included within the structure and also in relation to the other sectors of the economy? Should not the plans of expansion take into account the needs and requirements in specific fields? Is it true to say that industries, once they are started, find that the problems of adequate markets and of effective utilisation of their capacity are automatically solved? These are somewhat inconvenient questions, but no one can deny that they are important. If we are to achieve planned industrial development and obtain the maximum results by utilising our limited resources to the best advantage, we have to face these problems and solve them. It is not possible for us to go into the pros and cons of each of the above issues. We shall, however, examine one of them, namely, the problem of the level of utilisation of capacity as an illustration of what we suggest.

On the basis of the figures available from the *Monthly Statistics of Production of Selected Industries in India*, which lists more than eighty types of industrial activities, we have attempted to find out the levels at which different industries have been working during the last eight years. After working out the percentage of utilisation in each year to the available capacity, we have tried to present the position in a nutshell by classifying the different industries according to the degree of utilisation of capacity in each year. The table below shows the position in this respect.

NUMBER OF INDUSTRIES CLASSIFIED ACCORDING TO UTILISATION OF CAPACITY

(Figures in brackets give percentage)

Utilisation of Capacity	*Number of Industries*							
	1946	1947	1948	1949	1950	1951	1952	1953
Less than 25%	6 (18)	4 (10)	4 (7)	13 (20)	8 (10)	8 (10)	14 (18)	13 (16)
25%–50%	9 (27)	16 (39)	18 (32)	20 (31)	25 (32)	23 (30)	25 (31)	27 (33)
50%–75%	9 (27)	9 (22)	19 (34)	18 (28)	27 (34)	18 (23)	22 (27)	21 (26)
75% and above	10 (30)	12 (30)	16 (28)	14 (22)	19 (24)	29 (37)	19 (24)	20 (24)
Total	34 (100)	41 (100)	57 (100)	65 (100)	79 (100)	78 (100)	80 (100)	81 (100)

Figures are rounded and may not add up.

It may be noted that the number of industries for which figures of capacity are available has varied from year to year. Anyway, the table brings out the important fact that in both 1952 and 1953, nearly half the number of industries worked at a level of utilisation which was less than 50 percent of their capacity. Detailed figures of capacity are available for all the four years between 1950 and 1953, for 78 industries. Out of this, 28 industries were *throughout* working at less than 60 percent of capacity; 12 industries were working at less than 60 percent of capacity for a period of three years. Thus, in all 40 industries out of a total of 78 were working at less than 60 percent of capacity for a period of three years or more. In other words, about 57 percent of the industries worked for a period of three years or more at less than 60 percent of capacity. This requires careful consideration before any expansion is decided upon. No wonder that a number of industries are complaining about lack of adequate markets. The pressure for grant or continuation of protection has been increasing. Complaints from business men to the effect that some of the new State enterprises would increase capacity in fields where even the existing capacity is not being adequately utilised are heard. Is the problem more of finance for expansion or of utilisation of existing plants and equipment? It is in the context of the low level of utilisation of a number of industries that the problems of rationalisation and weeding out the inefficient and marginal units in each of the industries have to be faced.

Another point to which attention may be drawn in this context is that in the case of some of the industrial units, considerable *expansion* has taken place during many years past. The low level of utilisation persists in the face of an increasing extent of capacity. In other words, if the level of utilisation of capacity is less than that which is desired by the existing units and by the economy, the absolute extent of such under-utilisation tends to be considerably larger than in the earlier years. It may be interesting to note that in the case of 26 industries, the average rate of increase in capacity between 1950 and 1954 has been higher by more than 5 percent as compared with the rate of increase in production.

Expectations and Results

A commonsense question that can be asked is, how capacity can increase if there is no improvement in the level of utilisation. Not always do industrial plants work to full capacity. Most of the industrial firms would like to have some reserve capacity to meet sudden demands. This would explain some under-utilisation. But the extent of under-utilisation that is observable in the case of a number of Indian industries is definitely above that which can be explained on the above basis. Secondly, not all industrial plants can always theoretically adjust the pace of their expansion just according to requirements. This is because the technological character of certain categories of industries makes it inevitable that the minimum possible extent of expansion may be substantially more than what is required. This phenomenon is termed by economists as the surplus capacity arising out of *indivisibilities*. Only detailed investigations can reveal how much of the surplus capacity is due to indivisibilities, how much to the normal desire of business men to have some excess capacity and how much to a lack of correspondence between expectations and results. It may be noted that India emerged after the war with a large pent-up demand for various types of consumer and producer goods. Fortunately for us, we had accumulated during the war a surplus in our balance of payments. On the one hand, the pent-up demand showed itself in the form of imports of various categories of goods. This in itself was a sufficient pointer to the private sector to expand several industrial activities and establish several new industrial units. Another advantageous factor was that in the immediate post-war period, the Indian consumer goods industries were in a position to export goods. This was because both Continental countries and Japan took some time to rehabilitate their war-shattered economies. In the meantime, an additional spurt was given by the Korean boom. One can understand why and how, in the face of the above conjunctural advantages, a considerable rate of expansion in several industrial fields was brought about. But there was a snag in the whole process. In the face of a situation which clamours for expansion of activities, it is rarely true that the expansion that is brought about is only of the requisite extent. In a competitive world, the different business units plan their schemes autonomously of one another, and while each one responds to a particular stimulus, the net result of all their activities would in many cases exceed the required response to the stimuli. Those who are acquainted with the problems of business cycles are aware of this phenomenon. Some such process appears to have been working in India during the post-war period.

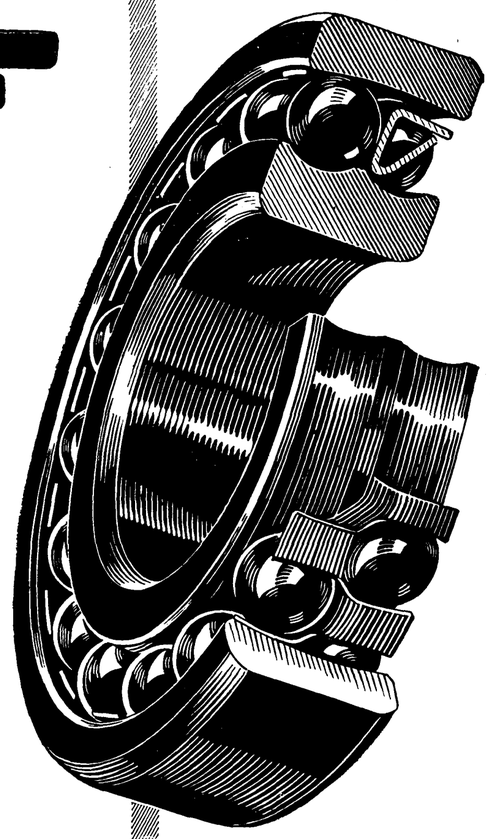
There is also another aspect to the expansion process. It is not always true that expansion is brought about only by efficient firms. In the face of a given stimulus, there is a response from a number of firms. It happens that not merely is the extent of expansion that is brought about larger than what is required, or what is *then* required, but there are also wide divergences in the efficiencies of different firms. Once sub-marginal and inefficient firms get entrenched, there are any number of resistances to the process of weeding out.

It may be argued that the problem of the gap between capacity and production might not have become so conspicuous as to attract the attention of the planners. But, is there sufficient reason to believe that the industrial structure of India is evenly balanced? More than ever before, Government spokesmen are laying emphasis on the need to establish and expand producer goods industries. It is the rate at which the demand for consumer goods grows that determines the rate at which the demand for machinery and plants, both for replacement and expansion purposes, proceeds. After all, producer goods industries in a Welfare State like India are not desired for their own sake. The objective is to facilitate the rapid expansion of consumer goods industries. In this context, unless we make detailed enquiries about the course of demand for diverse consumer goods in recent years, we may find ourselves in a situation in which there is considerable excess capacity in the producer goods industries. The capital at stake is not a small amount. These industries require vast capital outlays; they require a considerably longer waiting period. In view of this, the most careful husbanding of our limited resources is necessary. This, however, requires a minute study of the factors that have determined and are expected to determine the rate of growth of the demand for consumer goods. The crucial question is whether the excess capacity that is observable in a number of industries is a continuing phenomenon. If it is not so, is the mere experience of the recent past in which considerable expansion in capacity took place on account of the reasons stated earlier—a number of which are purely transitory—sufficient to warrant the assumption that the same rate of expansion will take place in the future also? Is it wise to assume that business men and industrialists would somehow go on adding to their industrial capacity both by expansion of existing units and by the establishment of new industries, irrespective of what is the level of utilisation of the existing capacity? Businesses cannot continue to flourish under these conditions.

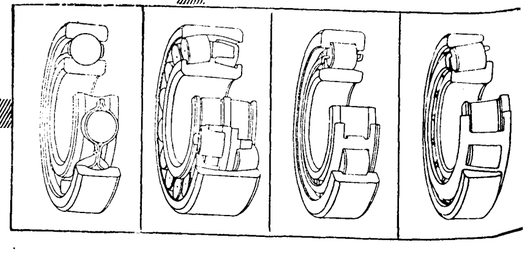
In connection with our efforts at planned economic development of the country, regulation and control of industries are being carried out. Whereas regulation is practised according to rules for each given case, one is not clear whether it is realised that in the process of development and regulation new economic forces may arise, if the process is not properly studied from the overall point of view to determine the trends and control them in the right direction. We have come to a stage when planning need no longer be the addition of scattered schemes made by various governmental units in different parts of the country. It is time we were able to view the working of economic forces in the country as a whole in their true perspective, anticipate the working of new forces which are likely to arise and think of regulating them in a manner that will yield the best results. For this purpose what is necessary is to have a continuous, detached and scientific examination with a view to ascertaining the working of economic forces by competent economic experts. This requires the capacity to analyse available data and perceive the weak spots. The Government comes in possession of a lot of material in the process of administration such as data with the office of the Controller of Capital Issues, data arising out of the licensing of industries, production and other data obtained under the Industrial Statistics Act and so on. Though there is room for improvement in the statistical machinery, it appears that even the available data are not fully utilised to study economic forces. What we have attempted is to indicate the manner in which existing and published data can be interpreted to find weak spots in the economy which should be remedied first before further industrial expansion is decided upon.

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PRIVATE ENTERPRISE AND THE GOVERNMENT

• By W. H. J. CHRISTIE, I.C.S. (Retd.) •

MOST complex organisms, out of their environment, need a guide, interpreter or adjutant. The ocean-going liner, leaving the freedom of the seas for the confines of harbour, is content to surrender the manoeuvring of its bulk to pilot and tugs; the tourist, gazing helplessly at the Pyramids, may be positively glad to find a dragoman at his elbow; even the whale, not exactly out of his element, but a mammal among colder-blooded creatures, does not disdain the company of his pilot fish.

Private enterprise in commerce and industry, increasingly compelled, metaphorically or actually, to tramp the corridors of Government Secretariats, is no exception to the rule. For better or worse, *laissez faire* is as dead as the dodo. Day by day, Governments play a greater part, directly or indirectly, in the lives and business of all of us. Such are the complications of our regimented affairs that we find ourselves needing the assistance or protection of Government quite as often as we have cause to resent its interference. Government, for its part, having once set its foot, hesitantly at first, on the slippery, unfamiliar path of controls, finds it difficult to know how or where to stop, which turning to take, whom to believe. If Government resembles sometimes an apprentice mechanic in charge of a runaway bulldozer in a jungle, and private enterprise a man who has lost his way in the same jungle, but finds himself in the path of the bulldozer, it is apparent that both could benefit by mutual consultation, advice and assistance.

The Missing Link

It is astonishing, though perhaps neither party would be ready to admit it, how little even now Government and private enterprise know about each other. *Omne ignotum pro magnifico*, and mutual ignorance has generated an unnaturally thick barrier of almost superstitious dread and mistrust of each other's powers, intentions and machinations. Enforced closer familiarity, at the human level during the war years, helped to diminish this horror, but enough of it still exists to cause most unfortunate misunderstandings on either side. It is in these circumstances that personal human relationships can provide and have provided a valuable detergent of the intervening crust of suspicion, and a link between the essential needs and interests of both.

Such a relationship is clearly worth cultivating, and the fact that this has already been recognised both by Government and by business men is demonstrated by the increase in recent years of the representative activities of Chambers of Commerce and similar bodies, the respect paid to them by Ministers by attendance at their meetings or the reception of deputations, the visits paid by business men to Government Headquarters, whether as singletons or in teams, the multiplication of Councils, Committees bipartite or tripartite, and Advisory Boards, and by the extraordinary accessibility of Government servants in general. All this is to the good, and undoubtedly some increase of understanding has resulted; but it must also be admitted that much of the effort is misdirected and goes to waste. The resolutions of Chambers of Commerce seem to be filed as soon as the echoes of mutual compliments have died away; the visiting business man has no time to follow up the impression which half-an-hour's friendly conversation may have made; the Committee or Advisory Board is too numerous for coherence, and too often seems to be summoned only to acquiesce in already settled policy.

The links which would provide most effective liaison may take many forms, and it would be unprofitable to define them. The mode and spirit of the relationship may be easier to identify. There should be in the connecting agency something of the evangelist, something of the interpreter, something of the go-between and contact-man. In fact, if it were not for the slightly disreputable nuance conveyed by these last two categories in their best sense they exemplify the kind of link which would be most effective. Government already appreciate the value of go-betweens and contact-men when they appoint ambassadors and public relations officers.

Without neglecting all possible means of forging links in the chain of understanding between private enterprise and Governments, it seems that one of the main objects should be to provide a continual, personal channel of two-way consultation, advice and interpretation; no secret service, but based on mutual respect, confidence and sympathy. Continuous, because an interrupted flow of understanding is worthless: personal, because true confidence can only be established between persons; and two-way, because Governments need to plumb the depths of business mysteries as surely as business men need to find their way through the labyrinth of officialdom.

I am not, of course, propounding any new idea. These ambassadors and outposts of business interests already exist, and are doing valuable work; but it is my belief that, in this still formative period of the relationship between Governments and private enterprise, there are not enough of them. There should be at least one at the headquarters of every Government in India in whose areas of authority business interests of any dimensions are located. Mutual understanding with State Governments is fully as important as with the Central Government, and I have seen one area where bewilderment and misunderstanding had developed extraordinarily because of the neglect of continuous personal liaison with local authority. The offices of Chambers of Commerce are no real substitutes; they are complementary to an invaluable degree, but they are impersonal. The representatives of individual firms do not quite fill the bill, since their loyalties and interests are concentrated, and may be competitive. In what I have written, and in what follows, I have ventured to express my views because I have had the peculiar privilege of being at various times a Government servant in India, a personal representative of business interests generally, and a member of a particular firm.

One point needs to be made at this stage. I may seem to advocate liaison with Ministers and officials to the neglect of the public in general, and politicians in particular who, after all, make the laws which affect private enterprise. This is not so. In a democracy, the voice of a particular interest should be heard in proportion to its importance, ultimately through the representatives of the people, and this will no doubt eventually be the case in India; but there is a compelling practical reason why, for the time being, it is advisable to concentrate on the removal of misunderstandings between private enterprise and "the administration". At the present stage of political development in India, Ministers and officials are, in fact, whatever may be the political ethics of the situation, not only the interpreters, they are the trustees of the people's will. In the political section of the people which they serve, there are deep and dark areas of prejudice and ignorance, which time and patience will remove. The voice of the political representatives of private enterprise is small and almost inaudible. It need not always be so but, for the present, without neglecting opportunities of husbandry in a wider field, understanding and sympathy must be grafted on to the surface from which it is most likely to spread and bear fruit quickly.

I return to my main theme with what may be described as "The Confessions of an S.D.O." A Sub-divisional Officer, especially in an industrial area of Bengal, wields powers disproportionate to his years and experience. He is fully conscious of that fact, and because he feels inwardly rather small and swamped by responsibility, is all the more determined to throw a big chest outwardly. Though my errors of judgment, as an S.D.O., could do no lasting or serious harm, I must often have been an opinionated nuisance to the more mature business men with whom I had to deal. What the business men thought about me I do not know, but from the S.D.O.'s point of view they fell into roughly three categories:

(i) Those who tried to pull a fast one. They were not frank; they never told the whole story, but tried to take advantage of the S.D.O.'s inexperience to secure some personal advantage.

(ii) Those who thumped the desk; who imagined that their own affairs were the most important of those with which the S.D.O. had to deal, and who felt that they could browbeat him into immediate compliance with their requirements.

(iii) Those who, patiently, frankly, without condescension, and with due allowance for the S.D.O.'s other preoccupations explained their case fully and asked for what advice and assistance he could properly give.

Fortunately for me, those in the latter category were the majority. They got as much co-operation as I could give; and it was they who taught me a large part of my job. As for the minority, the slick workers and the desk thumpers, it did not take long to size them up, and they probably got less than a fair share of my attention.

I can give two examples; nugatory examples, but they serve to show the effect of two different approaches to authority. The first concerned another S.D.O., and the story, and the persons concerned, will be known to many. Returning to his bungalow tired after a night spent trying to prevent the spread of rioting in an industrial area, the S.D.O. found a note waiting for him from an irate *burra sahib:* "A corpse has been lying for hours on the foreshore below my house. This is most inconvenient. Please have something done about it immediately". Not an unreasonable request, but the tone was unfortunate. He perhaps deserved the reply he got. "I can understand your anxiety, but be of good cheer. Under the law of Treasure Trove, if it is not claimed within a week, it becomes your property."

The Sadhu and the Rails

By contrast, on another occasion, I had a telephone call from the General Manager of a big iron and steel works. "We've just been taking down a stack of rails for despatch tonight, and have found a *sadhu* sitting in the middle of it. How he got here, Lord only knows, but he says he has been there 100 years and nothing will move him. We don't want to pay him to go, for obvious reasons; and if we move any more rails, the whole pack may fall on the old boy. We simply must get these rails sent off tonight, and the ordinary process of law may be a bit slow for that. We're in rather a jam. I wonder if you can help, or suggest something." The help was forthcoming. The fourth corner of the law may have been overlooked, but soon after nightfall, the *sadhu*—and the rails—were sent packing.

S.D.O.s grow up into District Officers and Secretaries. Without becoming specialists in anything except administration, they acquire a great deal of more or less superficial knowledge of a wide range of subjects. They acquire confidence, and often a profound experience of human nature. They are also usually overworked. It is not surprising that they respond most promptly to the honest, frank and considerate approach.

It was useful to know this much from personal experience, when, in due course, my situation was reversed, and I became a petitioner for official help and advice on behalf of business interests. It was also pleasant, in those circumstances, to have to deal with many who were personal friends and ex-colleagues. But I also realised that this happy position carried with it its own limitations, and that I had still much to learn about the science of representation in the context of India today.

If I try to distil out of my experience of relations with Government since 1947, some of the lessons which I have learnt, they may conceivably be of interest to others who have occasion to approach Governments, either personally or through a representative, and I hope that, indirectly, it may help my friends in Government as well.

Before making a request, or seeking a discussion, it is worth spending some time and thought in trying to visualise the position from the point of view of the Minister or Secretary concerned. It is normally safe to assume that they already know a good deal about the general context of your request, and possibly more about the climate and circumstances surrounding it than you do yourself. The Minister is a politician, and cannot often be expected to see the matter as simply, logically and objectively as it appears to you : nor, of course, is it always expedient for him to say in

public what he may say to you across his desk. Nevertheless, if without presuming to lecture him you can contribute something to his knowledge, and particularly if you can anticipate his difficulties and assist in their solution, your interview will have a fair wind. An offer of help, as well as a request for it, establishes the all-important two-way channel of co-operation.

Your business may or may not be important enough to take to the Minister direct. But, in any case, the Secretary is his righthand man, and should be kept fully informed. It is often opportune to make your appointment through the Secretary, and give the Minister an opportunity, after a brief introductory meeting, to refer you for detailed discussion to the Secretary. It is useful to bring several copies of a concise note of your subject (do not expect either the Minister or Secretary to plough through pages of memoranda and appendices), and it is a good thing to follow up your meeting with a letter of thanks, and your own record of the discussion for confirmation. Do not conduct your business at levels lower than a Joint Secretary, without the Secretary's knowledge and permission. It may be that the Secretary himself, after a short talk, will refer you to a Joint or Deputy Secretary who may be dealing directly with the subject of your business.

Do not seek an interview on a holiday, or with a Minister during a session of Parliament, if this can be avoided. Do not be in too great a hurry. It is extremely unlikely that a complicated matter can be disposed of in a single day. You may have to see several people, and officials are not always masters of their own time, even when they have made appointments. It is advisable always to make appointments in advance, and to find out something about the various channels through which your reference will have to pass.

Be sparing in offers of entertainment: they may be misunderstood, and do not usually help your case. There is too much entertainment, anyway, at most capitals in India.

If you transact your business through a representative give him the full story, including what officials call "material for supplementary questions". Hold nothing back: if your representative is placed in a position where he may appear less than frank, or insufficiently briefed, he will be discredited, and his usefulness diminished.

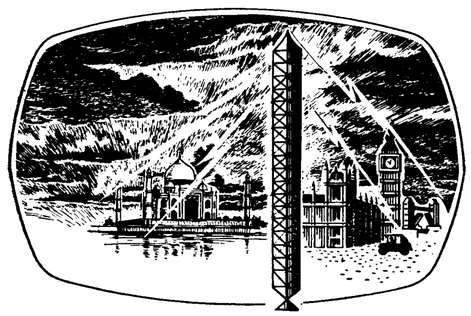
Rules for representatives are probably unnecessary, for the experience of each will dictate them for himself; but it may sometimes be useful to others to know what they are. They include, of course, what has been written generally above, but whereas the visiting business man brings with him the interest of unfamiliarity (which is sometimes an advantage), the local representative is a constant. He will make friends among officials, but has to be careful not to take advantage of friendship. It is even more important in his case that he should establish himself as an equally useful channel from Government to his principals as *vice versa*. He should avoid "shop" as far as possible, on social occasions. Some Ministers and officials, overwhelmed in office hours, prefer to talk at leisure in their houses; but unless this is definitely suggested, it should be avoided. Regular weekly interviews are not usually advisable. When established, something usually crops up before long to throw them out of gear. It is better that an official should say: "Hullo, where on ea have you been? I haven't seen you for weeks", th that he should feel: "Oh Lord, here's this m again. I hope I can get rid of him in ten minute

I have wandered some way from my origi thesis that continuity and frequency (with limits) of personal contact between represen tives of Government and of private enterpri should reduce misunderstandings on either si Provided the rules I have mentioned are observ I feel sure that is the case.

The economic policy of the Government India is at present dominated by the Five Y Plan, including a programme of social adva towards a welfare state. Despite all that appe or is stated to the contrary, the function of priv enterprise in the Plan is well recognised, thou the scope it needs may not be understood. It possible to pick holes in the Plan and to disag strongly about methods: but it is worth reme bering the real significance of the Plan, that it an effort to develop a large area of Asia wit a democratic framework, which is being ma simultaneously with a similar effort in Chi within a Communist totalitarian framework. T respective methods are, therefore, in a sense, trial by comparison, and no one can doubt wh method, for the good of the world, must succe Fortunately, the democratic method allows co tructive criticism. Private enterprise and Gove ment are two of the major agents of this de cratic economic policy. Understanding betw them is imperative, and in the forge of discussio personal, frequent, tactful, sympathetic frank—will the links in the chain of understa ing be hammered out.

1927

The first 'Beam' wireless service between India and the U. K.



The first world-wide shortwave broadcast by Philips

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Milestones in Philips progress

1927 *First world-wide short-wave broadcast — by Philips transmitter.*
1928 *First all-wave tropic-proof receiver.*
1933 *'Key-to-the-World' receiver, opening up world listening.*
1935 *Multi-inductance construction — an epoch-making development in receiver design.*
1937 *Silentode Valve for the best short-wave listening.*
1938 *First radio receiver with bandspread.*
1948 *Entirely new standard of record reproduction by means of new featherweight pick-up.*

1954

Philips introduce Super M Technique

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SMALL SCALE ENTERPRISE

A PLEA FOR RE-THINKING ON INDIAN INDUSTRIALISATION

● By S. K. DEY, I.C.S. ●

WHEN a view is widely accepted and yet nothing can be done to prove its truth in practice, it means one of two things: Either that it is basically unsound, or that it has not been formulated sufficiently clearly for people to understand all its implications. The case for small scale enterprise is in this predicament. Hardly anybody cares to dispute that undertakings in this category have an important rôle to play in the development of our economy. Even the extreme advocate of rationalisation in industry is prepared to make a grudging concession of a large sector to these technological laggards in present circumstances. But the laggards continue to lag, showing little capacity for improvement in the large area left to them. The impression is gaining ground that diversion of resources for their support is waste prompted by mere wishfulness. The objective forces of history have spelt their doom.

It seems that small undertakings can prove their validity only by holding their own and making headway on the ground. That is to say, nothing will succeed except success. We may not expect to convince people at large of a particular course of action without first demonstrating the benefits claimed for it in repeated instances. This is the recognised method of extension, with which we are now familiar in the field of agricultural improvement. The importance attached to this method should not, however, blind us to one fact. Long and laborious preparation is necessary before we can lay on a series of result demonstrations. That is the stage covered by fundamental and applied research carried on in laboratories and experimental stations. Our impatience for immediate practical results makes us skip this stage in pushing cottage and small scale industry. The consequence is that its advocates do not know what to do and how to set about it and find themselves fighting a losing battle all along the line.

Conditions of Success

Every success has its determining conditions. We may stumble upon success in one particular case through accident and without a clear grasp of the attendant circumstances which have made it possible. But there can be no assurance of repeating the experience. To pursue an objective as a matter of deliberate policy, we have first to lay bare the conditions necessary for its fulfilment and then follow a consistent plan of action which will allow these conditions to come into play. All this pertains to theory which, unfortunately is at a discount in the prevalent mood of feverish haste for results. Our plight is grave and haste is understandable, but not justifiable for that reason. Clear thinking remains indispensable for sound action, and good theory is the shortest cut to assured results.

The case for small-scale enterprise can be correctly appreciated only when it is derived from a general theory of industrial advance. This general theory must, in its turn, be itself derived from a still wider understanding of the basic determinants of human progress. It is widely assumed that any change which increases the output of wealth is of value for social growth. The most explicit statement of this thesis is to be found in the Marxist analysis of history. The prime mover in human evolution is the continued release of the forces of production. Hence, conformity with the demands of developing technology is set up as the sole criterion of progress. That social pattern is forward-looking and revolutionary which accommodates these demands to the largest extent, while any factor obstructing their path is counter-revolutionary and reactionary. Cultural, moral and ideological values have no independent significance, but are a reflection of the necessities of the current mode of production. Freedom consists in surrender to these necessities.

This is the technological fallacy. It has been elaborated in great detail in the Marxist scheme of thought. But the Marxists are not its only perpetrators. Its hold is very nearly universal. Undoubtedly, the economic urge has played a large and obvious part in shaping human behaviour. For this reason, the economic interpretation of history has enjoyed a seductive appeal far beyond the circle of conscious adherents of the Marxist creed. Moreover, it has come to be accepted not only as a key to the understanding of past events, but also for evaluation of the future, and is thus looked upon as a dependable and objective guide to social policy. The consequences are worth pondering. It will not be too far-fetched to suggest that this ideological conquest is making a potent contribution to the spread of totalitarian practice.

Economic considerations have not been the only ones in shaping human history even in the remote past. Other motives, impulses and inspirations have also influenced action. The significant fact however, is this. With the growth of understanding, and the increase of man's capacity to control his environment, there is a clearer appreciation of the ends of human endeavour and conscious attempts to direct all available means to their achievement. It is thus that the concept of social planning has emerged. The objective of such planning is to establish a pattern of happy, virtuous, creative living, which implies something more than just high living. Economic resources are pressed to the service of this wider ideal. The organisation of these resources cannot be allowed to develop compulsions of its own to pull us in a direction away from this ideal. Technology is not the master but the slave. The matter can be put simply. We do not seek industrial advance for its own sake. We do so because it promotes a fuller development of our potentiality. The question, then, is: What should be the pattern of industrial advance so that it may help and not hinder creative human growth?

It is evident that the pattern cannot be fixed for all time. Evolution of the economy must be from the simple to the diversified and increasingly complex, as is the way with the development of all things which are living. But the process cannot be blind. It must be subservient to the wider requirements of balanced growth of all aspects of life. Investment in technological improvement, both in respect of the form in which it is made and of the pace at which it proceeds, must be controlled by this overriding consideration. Otherwise the growth of the economy, impelled by its own self-accelerating power of continuing investments, will push ahead of our growth in other directions, leading to distortions, tensions, crises and disaster. Mankind blundered forward like this in the past through periodic crises, wars and revolutions of mounting severity, until the threat in our time is nothing short of complete annihilation. We were then blind. Now we should know better.

This is what we are now in a position to know: The magnitude and complexity of the economic structure at any particular time must be such as to be within the grasp and comprehension of the people among whom it is established. This is the true meaning and essential condition of democracy. We have only understood democracy in political practice. This is an extension of the same principle to the economic sphere. We have found it easy to concede that government is everybody's concern. We must now realise that the economic and industrial arrangements in a society are equally so, if people are to be effective masters of their own destiny. Granted this, the development of the economy, as exemplified by the level of technology in operation, must be adjusted to keep pace with the growth of a people's capacity to understand and control it.

Is this stand Utopian or romantic? That is assuredly not so. It follows as an inescapable conclusion from a dispassionate analysis of the requirements of true progress. It is as scientific, realistic, historical and objective as any prognosis of social development can claim to be. Does this stand imply a reversal of the forces of material advancement? Even that is not so. On the contrary it is only by setting this course that we can hope to move forward continuously in respect of economic development also. Unbalanced economic growth is detrimental to economic growth itself. It is dangerous to have more wealth than you know how to use wisely. Let us turn now to our specific situation in the light of this basic understanding.

We may run over the familiar arguments for small scale industry first. Shortage of capital, lack of technical know-how, country-wide poverty with the consequence of a narrow home market, a large labour surplus—these are the broad characteristics of our economy. They rule out all possibility of our duplicating the industrial structure of the West overnight. We have to be perforce content to work over most of the field in cottage and small workshops with inexpensive tools. These petty units of simple production are a regrettable necessity. They keep us backward and poor, they constitute a drag on progress. Yet they are unavoidable for the time being, we have to continue to carry them with us. Therefore, we cannot neglect them altogether; we must try to infuse new strength in them and set them on their feet. This negative, apologetic, shame-faced attitude to small-scale enterprise is a serious weakness for both theory and practice.

The Total Social Situation

Modest undertakings engaging small groups and simple equipment constitute the normal, optimal pattern in the prevalent conditions. It should be expected that such undertakings will represent the dominant type of industrial establishment in the present scene, because they are the natural and logical expression in the economic sphere of the current phase of our total social situation. They are justified in their own right. There is no reason to push them to the background and feel ashamed of them. They deserve to hold the major share of our attention, because they furnish the base from which we have to start our general industrial advance. It is also a fortunate circumstance that this should be so. Over most of the economic front, we start with no initial disparity between the level of our technology and the level of our understanding and organisational competence. If we are wise, we can maintain this parity as we move forward and steer clear of the problems which baffle the world today.

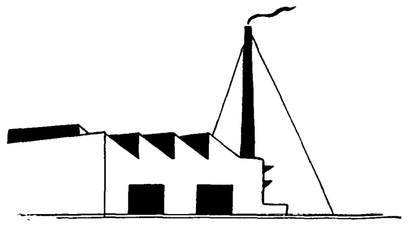
There should be a complete change in our orientation to small-scale undertakings if we realise these facts. We shall then look round and begin to study them with a new and serious interest. At present our faces are all turned to the few large-scale modern installations we have been able to set up. All our hopes for the future are centred on them. It is time for us to discover that the real potential for progress is contained in our organisation of small enterprise. Once we do this, we shall not hesitate to mobilise all our resources for its support. We shall use large-scale industry as a feeder to small enterprise instead of the other way about. Trade and tariff measures, transport and communications, fiscal arrangements, currency and credit movements would be all designed with the central purpose of nourishing small-scale industry.

The vast area given over to petty production will never yield the rich harvest of which it is capable until there is an integration of the economy on these lines. Otherwise, notwithstanding pious professions and sporadic, well-meaning efforts, it will continue to be denuded for the benefit of a small island of giant enterprise. Perhaps the best that the petty producer can hope for in the present climate of confusion, condescension and contempt is a more systematic exploitation in the interest of modern technology. He will then be allowed barely to keep alive as a petty provider and camp follower of big industry. It will be the same kind of raw deal which is the general fate

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of his opposite number in Japan. It will be a perspective of doom.

A different perspective is possible, which holds out the prospect of continuous economic progress. It shows the way in which it may be open to us to build up, step by step, the most technologically advanced industrial structure on the basis of our present small-scale enterprise. Let us ask ourselves this question: What are the principles which should guide the application of technological improvement in our limiting conditions?

A technological improvement is introduced by investment in a new process of production in a particular undertaking. That investment leads to a lower cost per unit of output. There is a gain for the producer. But this gain for one may or may not mean a gain for all. In certain circumstances, the initial gain may not be transmitted to the rest of the economy, in which case the improvement will have been abortive and, in the final analysis, imply a waste of resources. It is true that the improvement will in the beginning impart a stimulus at the point at which it is applied. It will release a larger supply of a particular utility. Thereafter, other producers in other lines can participate in this advantage if they too can increase their efficiency, that is to say, if they too can go in for new investments. This will be possible only if there be sufficient investible capacity left in the economy after installing the improvement in the first undertaking. There will be little chance of this if the economy is poor and the initial improvement involved a heavy investment. Then all the rest will lose to this one producer and their total losses will outweigh his gain. In the end, even he will not be able to retain that gain. He will find it impossible to dispose of his enlarged supplies at a profit to an impoverished market and will be faced with a loss himself.

On the other hand, the chances will be good if the economy is surplus and the original investment is small in size. It may then be expected that the withdrawal of resources from the current process of production, as well as the time taken for the new process to add to the flow of consumer wealth, will both be minimised. Then the disparity between the level of efficiency of the new technique and that generally prevalent will be slight and act as a stimulant without toxic effects. Then the dislocation of the current relations of exchange caused by the change will be moderate and the subsequent readjustment to a fresh pattern will be easier and less delayed. In such circumstances, the technological innovation will have been progressive, because it will give an upward push to the entire economy.

Collective Cost of Progress

Thus, an improvement in any one undertaking or in any one sector of the economy must keep within the bounds of the capacity for improvement of other undertakings or other sectors of the economy and not leap ahead of such capacity. All sections of the economy are held together by bonds of mutual support and these bonds are tighter in a poor community than in one that is relatively prosperous. We cannot push ahead with industrial efficiency if our productivity in agriculture does not follow closely behind. The same rule holds good in regard to the relative movements among the different industries themselves. They must all keep as much in step as possible. We do not often realise this, because the model in customary analysis is the single firm or the specific enterprise, and we assume that what is true of one must apply to the whole. We reckon the cost of production for a particular concern and forget to count the collective cost.

We can now say what kind of technological advance we should envisage in our situation. The advance should be in small instalments in brief stages spread out over a wide front. The improvements adopted should be marginal, representing organisation, equipment and processes which are only slightly more efficient than what were in use before. This will mean that the progress will be slow. But that should be recognised as a sign of sure recovery of health in our feeble condition and ought to be a cause for confidence and not concern. Besides, the progress will be slow only at the start. It will gather speed as it proceeds, as each successive instalment of increase in efficiency turns out more wealth for further investment in yet greater improvement. At each stage, there will be one true test of economic progress. That is, whether there is net expansion, which means increased prosperity for the community as a whole and not for individual establishments or particular industries. At each stage, again, there will be one true test of social progress. That is whether there is greater release for creative self-expression on the part of increasing numbers of people. Circumstances favour our following a course which holds out a reasonable prospect of our passing both tests. That should be an encouraging thought.

But it is not an inevitable course, and fundamental thinking is not enough for charting it and keeping us to it. Basic theory can only clear the issues and indicate the broad direction. We shall still be required to do a vast amount of detailed planning to initiate programmes of concrete improvement in specific undertakings. This is the stage of applied research and experimentation. It would be interesting to consider a few of the problems connected with this aspect of our task.

The first of these is to determine the correct relation between small-scale enterprise and large undertakings employing modern technology. To state that this relation should be complementary does not take us far. That has meant in practice a one-way traffic, in which large units have continually gained at the expense of the small. Our major concern, on the other hand, is the strengthening of small enterprise. Large industry should be operated to this end. Positively, this means that the output of such industry should aim as much as possible to supply the ingredients required in small-scale production. Cheap and abundant supply of semi-processed standardised material to work up into finished goods would be a significant contribution to the improvement of small enterprise. Negatively, big industry must be restrained from appropriating to itself every fresh accession of wealth in the economy. As much of it as possible should go to the benefit of the petty producer in the shape of market and investment. It may appear at first sight that the course suggested here will hurt large-scale undertakings. This is not true. They can thrive only if the people at large become prosperous; and the rehabilitation of the vast numbers of small producers is the sole means of assuring this.

The next question is of selection of the types of small enterprises for encouragement. It is futile to search for only those lines which are free from competition from large factories. There will be few such, and these will be mostly confined to luxury art-work, for which the market will be exceedingly narrow. If small-scale industry is to be our major hope for recovery, it must produce for the masses in the countryside. But how will this be possible? These masses are poor. The products of small-scale industry are costly. How can we expect them to be sold? Will not the indigent villager go in for the cheaper factory-made article every time?

Buyers in the Villages

There is a confusion in this thinking. The masses in the country are poor because they have no industry and press heavily on the land for subsistence. If they can set to work with their hands with simple tools, they will produce and become less poor. The workers on the land will be relieved and will be better off too. The products will be costly mainly in terms of labour and not in terms of cash outgoings. The workers in different occupations within the same local group can then exchange one another's products without any worry about their cost. The cost will score only when translated into the price which is set in the open market. My wife made a rug at home with torn linen. She would not have cared to spend on buying one at the shop.

Let us pause to visualise the picture a little more clearly. What is the relevant point about the example of the home-made rug? It is to emphasise the truth that the pattern of production for use can be very different from that for sale. The new undertakings proposed here will be more directly and closely related to use than we are accustomed to assume. They will succeed and will be found worth while only on that basis. Some of the new products may be made as a result of specific contracts of barter between neighbours. But this will not be necessarily so. The governing considerations will still be demand and supply, but both will be purely localised and may therefore be —indeed, are most likely to be—very different from what are found to rule outside. Consequently, even when exchanges are affected on payment of money, the pricing, too, will be different. Neighbourly transactions will be on special, cheaper terms. In effect, there will be two markets existing side by side for the time being. As the wealth increases and leads to new investments, greater efficiency, cheaper cost and larger output, the two markets will tend to coincide.

Here a doubt will arise. Where is this reasoning taking us? Are we to go further and further It merely helps us to recognise the position we are already in, so that we may take suitable steps to enable us to advance.

Countless Tiny Impulses

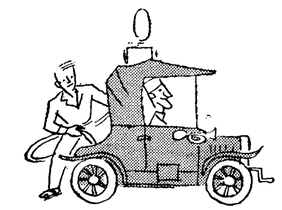
This brings us to our third point. We have seen that the initial increase in production must be in numerous local communities, mainly for their internal consumption and not for the outside market. How will this be a gain for the larger economy of the country? Indirectly, because the people in these communities will enjoy a higher standard of living. Directly, because the extra production will enable these communities to trade a little more of their wealth with the outside than they were doing previously. Thus will the new gain made in multiple hamlets and villages be transmitted to the rest of the economic body in countless tiny impulses. As the localities enlarge their gains, they will expand their trade, opening wider the channels through which technological improvements can flow in increasing measure to raise the level of efficiency of local enterprise.

There are several corollaries which follow from this line of action. They are not difficult to work out in principle, although their practical application will demand a set of concrete measures based on specific factual studies. These studies will relate to the existing pattern of exchange between town and country, in order to determine ways of preventing too quick a drain of the early village gains by a new offer of underselling factory ware. Big industry will have to be trained to forbear in its own long-term interest until the initial gains fructify into a healthy export surplus. Big industry must rest content with the extent of this surplus, realising that then this surplus will be a steadily increasing quantity. The local community will have to be brought up to appreciate that its increment of wealth will have to be first conserved for local use and not dissipated in acquiring consumer goods from outside. We will also need studies about the present situation in each local community in regard to raw material, credit, skill, equipment and demand. Such studies will show which lines of production enjoy a relative advantage and can expect a favourable prospect, so that attention may concentrate on these.

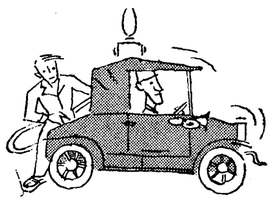
Will this be too large, too far-flung a task? Only if we depend on the few planners and administrators at the top to take on the entire responsibility. Not if we look to the village communities themselves to wake up to the need and come forward to assume an increasing share of the burden. The spreading network of Community Projects and Extension Blocks provides the structure through which the required stimulus can be infused.



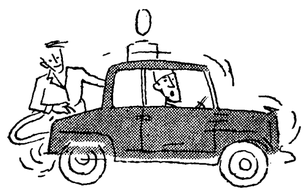
Community Project workers in a West Bengal village



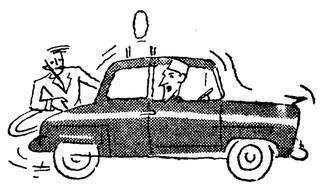
YOUR CAR



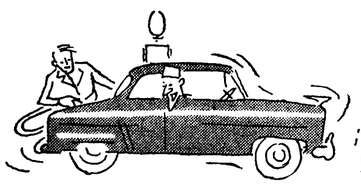
WILL NOTICE



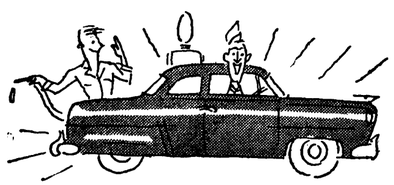
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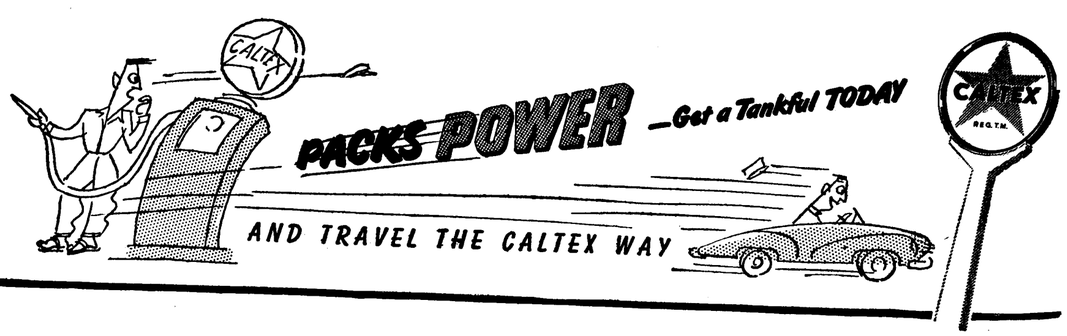
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A REVIEW OF THE YEAR'S TRIBUNAL DECISIONS

THE NEW EQUITY IN PRACTICE

● By The Legal Correspondent of *Capital* ●

IN presenting our annual review of some of the more interesting reported decisions of the past twelve months under the Industrial Disputes Act, it is desirable to make a few observations of a cautionary nature for the benefit of the non-legal reader. The majority of the numerous decisions are based on the facts and circumstances of each particular case and do not involve the consideration of any novel principle of law or equity. They are therefore of no special interest to anyone beyond the respective parties concerned. The cases on which comment is now made have been selected as each indicating something in the way of definition, practical policy or principle which may be of general application and importance. But in order to understand them it is necessary all the time to bear in mind that since 1947 we have been, as we are still, treading on largely unexplored ground. An expert knowledge of the law of Master and Servant is no advantage at all. It may be, and often is, an actual disadvantage, and had better be cast overboard from the start. For, if you begin to consider the solution of an industrial dispute with preconceived ideas based on your knowledge of what the ordinary law of the land is, you begin all wrong. On this subject the pre-1947 law is dead as mutton. In its place you have to try to apply principles, still largely undefined, of fairness, equity and natural justice with a leaning invariably, in case of doubt, in favour of the workman. You have to say: "What would an ordinarily reasonable level headed man, unconnected with the dispute but whose predilection is towards the underdog, decide in this particular dispute?" Last year we ventured to describe this as the New Equity. Its charter may be found in the following observations. They were made by Mr. Justice Mahajan (later Chief Justice of India) in a famous decision.[1]

"Adjudication does not, in our opinion, mean adjudication according to the strict law of Master and Servant. The award of the tribunal may contain provisions for the settlement of a dispute which no Court could order if it was bound by ordinary law, but the tribunal is not fettered in any way by these limitations. In Volume I of *Labour Disputes and Collective Bargaining* by Ludwig Teller it is said on page 536 that industrial arbitration may involve the extension of an existing agreement or the making of a new one, or in general the creation of a new obligation or modification of old ones, while commercial arbitration concerns itself with the interpretation of existing obligations and disputes relating to existing agreements. In our opinion it is a true statement about the functions of an industrial tribunal in labour disputes."

New Meanings for Old

If the above unquestionably accurate observations and the meaning and application thereof are duly digested together with the fact that words such as workman, bonus, gratuity, standing orders, manual, clerical, retrenchment and the like are but symbols and that their colloquial, dictionary and previous legal meanings are not necessarily or even probably the meanings to be accorded to them under the Act, then the digestor is well on his way to an understanding of the principles under which the particular dispute in which he is interested may be decided. Perhaps.

Take the word "workman", in the light of one of the latest reported decisions. If there is any word in the English language the meaning of which is perfectly clear to the average man, educated or not educated, surely that word is one of them. It means a man hired to do manual labour. This meaning is extended by the definition of the word in Section 2(s) of the Industrial Disputes Act but not so as unduly to strain the original meaning if the wording of the definition only is considered apart from its interpretation by a succession of tribunals. "Workman," says the Section, "means any person employed.....in any industry to do skilled or unskilled manual or clerical work for hire or reward....."

Now would you say, bearing in mind the ordinary everyday and also the statutory meaning of the word, that a professional artist is a "workman"? One might have thought that the very question is so absurd on the face of it as to be not worth propounding. An artist is the very antithesis of a workman. He is one who practises one of the fine arts. True it is that there is a certain amount of manual effort when he dips his brush in the paint and transfers it to the canvas, as also when the composer writes down his score or the poet his ode. But his work is essentially creative, mental, intellectual and of the mind, and to say that he is "employed.....to do.....manual work" is, one would have thought, to utter sheer gibberish. And one would also have thought that it would have made no difference if the artist were Rembrandt, Beethoven, Shakespeare or one of Walt Disney's junior assistants, a street musician or a doggerel bard. An artist is an artist. A workman is a workman. Well, this is all wrong and so the employers in this case found.[2] They had dismissed two gentlemen who were artists and employed as such and claiming that they had been illegally dismissed sought reinstatement with back pay. It was contended by the employers that being artists they were not workmen within the meaning of the Industrial Disputes Act. The two artists were assistants to the chief artist and worked under his instructions. The Tribunal held that "the chief artist is the only creative artist and the others only work at his direction and cannot be said to be creative artists.....I therefore hold that the employees are workmen within the definition of Section 2(s)." Reinstatement was ordered. As to back pay the Tribunal made some interesting and important observations. It approved and adopted the ruling in the American decision *Pennsylvania Labour Relations Board* v *Yellow Car and Bus Company* where the Court held "that the award of back pay is based on a legal discretion and that the legislature did not intend that one deprived unlawfully of employment should be maintained in idleness when there was opportunity to do work for which he is fitted and that an employee is bound to use reasonable efforts to find work and to seek for employment after the unlawful discharge." The Court further held "that when there is no evidence of effort to secure employment—since the burden was on the discharged employees to make efforts to secure employment and to give proof to the Court that he had made such efforts—the discharged employee is not entitled to back wages without such proof on his part." Accepting these principles and not being satisfied as to the efforts of the two discharged artists to obtain employment the Tribunal, though it ordered reinstatement, made only a small award as to the back pay.

The other category under which an employee may claim to be a workman within the meaning of the statutory definition is that of the person engaged in "skilled or unskilled...clerical work."

It is often difficult to define with any certitude whether an employee is a clerk and as such a workman or an officer and as such not within the definition. Mr. Sebastian Pereira's was a borderline case.[3] He said he was a workman and his employers claimed that he was an officer. He was admittedly the head of the sales department of a big concern; he signed the correspondence of his department; he had, until the number dwindled through large-scale retrenchment, some 26 persons working under him; he signed the company's leave to register and had authority to sanction leave to those working under him; in addition to signing he also prepared the correspondence, signed credit notes and passed and signed receipts for large amounts. He was held not to be a workman. But other cases are not so clear and it is useful to recall the test, on which the Tribunal relied, laid down in another case and approved later in the *Bharat Bank* case, by the Appellate Tribunal. The distinction is drawn by B. B. Prasad J. in the Uttar Pradesh Conciliation Board and applies especially to banks but is also of general application. "An officer is one who has responsibilities of a directional and controlling nature within the scope of his authority. Powers such as passing final orders for payments, signing receipts and documents on behalf of the banks, appointment or punishment or both of the subordinate staff and grant of leave to the staff are some of the attributes of officers. There may be an officer who may not possess all these attributes. The test is whether his duties and responsibilities are of a directional and controlling nature. Similarly there may be a clerk who may possess any of these attributes in a restricted degree. A clerk does work of a routine or mechanical nature and has no responsibility to take final decision in most of the matters which come into his hands."

If to the above test is added the fact that mere designation means nothing, that to call a man, however officially, an officer does not make him one and *vice versa*, you have a pretty sound guide whereby to solve what is often a very subtle distinction. In Mr. Pereira's case the Tribunal held that he was not a workman and therefore dismissed his complaint.

Transfer of Employees

Our next cases concern the right, if any, of an employer to transfer an employee from one branch to another or from one concern to another under the same employer, and on this thorny point we may be grateful for the enunciation of clear and equitable principles where the ordinary law of the land is not at all free from doubt. At common law each case has to be considered on its own facts and merits. It is a question of construction of the particular contract of service as to whether the servant can at the will of the master be transferred from one branch to another or from one department to another of the same concern. (*Roshanlal* v *District Board, Aligarh: Alexandre Bouzourou* v *The Ottoman Bank*).

The principles laid down by the Labour Appellate Tribunal are much more definite and settle this long disputed issue substantially in favour of the employer. In a Lucknow decision[4] the Appellate Tribunal held that an employee disobeying a lawful order of transfer was liable to the punishment of dismissal and added: "Employees in any concern are in the ordinary course of business liable to be transferred. No concern could possibly be run if it has no right to transfer its employees from one branch to another. The transfer might cause inconvenience but all employees are bound to suffer this inconvenience unless there is some stipulation in their conditions of service which says that they will remain at a particular branch or place of business. The liability to be transferred is a normal incident of service in any concern and it does not necessarily involve punishment. The management has a right to transfer an employee from one branch to another or from one concern to another concern which is also under the same management." This decision, though it is in effect virtually a reproduction and confirmation of some earlier decisions, notably the *Punjab National Bank* case of 1952, definitely clears the air and we now know where we are.

But it must be remembered that this right of transfer vested in the employer is a judicial right to be exercised in a judicial way. There must be nothing arbitrary, vindictive, capricious, or malicious about it. It must not be exercised, for instance, merely as an excuse to put out of the way a trouble maker. In a later case[5] reported in September, the U.P. Industrial Tribunal further clarified the issue by tabulating the limitations on

1. *Western India Automobile Association* v *Industrial Tribunal, Bombay.* 51. Bom L.R. 894.
2. *Advertising Corporation of India Ltd.* 1954. L.L.T. Vol. I. 365.
3. *Sri Sebastian Pereira and Continental Drug Company Ltd., Bombay.* 1954. L.L.J. Vol. I. 406.
4. *Diwan Sugar and General Mills Ltd., Meerut and others.* 1954. L.L.J. Vol. II. 36.
5. *Diwan Sugar Mills Ltd. and their workmen.* 1954. L.L.J. (Sept). 394.

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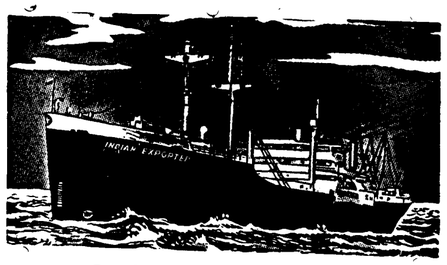
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the unfettered exercise of the power to transfer. It held that "The power of transfer, even from one province (*sic.*) to another is inherent in the management provided that (a) there is nothing to the contrary in the terms of employment; (b) the management has acted *bona fide* and in the interests of its business; (c) the management is not actuated by any indirect motive or any kind of *mala fides;* (d) the transfer is not made for the purpose of harassing and victimising the workmen; and (c) of course, the transfer does not involve a change in the conditions of service." So every future dispute arising out of a transfer has to be approached in the light of now clearly stated principles.

Time-Rated and Piece-Rated Workers

A judgment of the Bombay High Court[6] gives us some interesting guidance on piece-rated and time-rated workers respectively, and also on the limits on the right of the High Court to interfere with the decision of the Appellate Tribunal. The appeal concerned a claim, remarkable even in these days, that an employee who is a piece-rated worker has the right to produce what he likes and to slow down his production at his own sweet will. Chagla C. J. and Dixit incontinently turned down this audacious claim, in the case of a workman permission to dismiss whom had been granted by the Appellate Tribunal under Section 22 of the Industrial Disputes (Appellate Tribunal) Act. Their lordships' conclusions may be thus summarised. "Both in the case of a piece-rated worker and in the case of a time-rated worker during the time the employee has to work the employer is entitled to expect from him average speed and normal skill. When the employee is paid according to the work done by him it is rather an incentive to do more work than less work. Though a piece-rated worker may reach heights on certain occasions which it is not possible to reach every day, it is expected of him to use his normal skill and average speed during the time he is serving the employer. The contention that when an employee is paid according to the work that he does it is open to him to produce more and obtain better wages, and it is equally open to him to produce less and obtain less wages, must be held to be untenable."

We have become used to extravagant claims; but have never before heard it seriously argued as it was in this case that "a piece-rated worker can never be held to be guilty of slowing down production" and that he is entitled to slow down the work because, as was also the case here, (in the words of the Chief Justice) he "deliberately did not wish to use his normal skill and work with average speed." These contentions were decisively rejected. And the case is also of importance in emphasising once again the extremely slender powers possessed by the High Courts in interfering with decisions of the Appellate Tribunal. The legislature has left it to the discretion of that Tribunal whether to or not to give permission to dismiss an employee under Section 22. True it is that this discretion must be exercised judicially and in conformity with certain well established rules and principles. But only where the discretion has been exercised arbitrarily or capriciously or in effect there has been no exercise of the discretion at all by the Tribunal, can the High Court interfere.

Cases of Closure

During the year some interesting cases of closure were reported. It will be news to some to hear it propounded as an accurate presentment of the law under the Act that once a man starts a business he can be compelled to carry it on *ad infinitum* and presumably his heirs, executors, administrators and assigns. The situation is disquieting enough indeed but not as bad as that.

A lock-out is different from the discontinuance of a business.

After explaining the distinction the Madras High Court,[7] confirming their views in an earlier case, held that: "The extreme position taken up by Mr. Bhashyam in that case (the earlier one) was that even if an employer *bona fide* decides to close down the business, that is cease to carry on the business because he does not want to continue it, he cannot be permitted to do so. We refused to accept that contention and speaking for myself (the Chief Justice) I still adhere to that opinion. As I pointed out therein, just as a person cannot be compelled to commence a new business to provide employment for several unemployed persons, so too a person cannot be compelled to continue a business though he decides for reasons of his own to stop it."

But note the word "*bona fide*". The learned Chief Justice went on to add: "If however the employer does not wish to discontinue the business but only to close down the place of business temporarily then the Tribunal can go into the question whether such closure is *bona fide* and for proper reasons or whether it was with the object of victimising the workmen and coercing them to accept his own terms."

And it must be remembered, as was emphasised in a Bombay decision of the Appellate Tribunal,[8] that it is now well established that in matters of stoppage of an undertaking for a short time such stoppage may not be allowed without granting compensation to the workmen.

What is the position if the closure is involuntary, that is not of the employers' volition but against their will and caused by an outside agency, *e.g.* Government? Take the facts in the following case.[9] The closing of a mill was due to a power cut by the Government and this fact was admitted by both sides. The labour unions did not allege any want of *bona fides*, victimisation or unfair labour practice on the part of the management in effecting the closure. That the electric power supply to the company was stopped by the Government was admitted by the unions. It was clear and admitted that it was beyond the control of the management to run the mill and that it had to close it down and lay-off the labourers till such time as the Government thought fit to restore the electric power. It was admitted that the closure lasted for 62 days and that the company had resumed work when the Government restored the power cut. The standing orders of the concern provided clearly that no compensation to workmen should be payable in the case of an involuntary closure such as this. But one merely mentions the latter circumstance incidentally so that the reader may be in possession of the whole of the facts. For any particular standing order, however exactly it may cover the case, is virtually valueless nowadays if the Tribunal thinks it unreasonable, as in fact it did in this case.

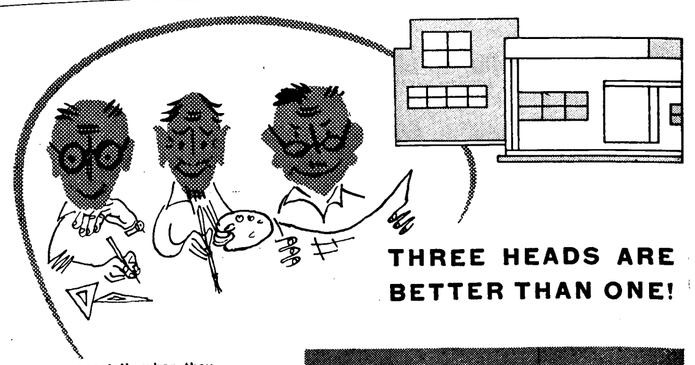
The workmen, thus unavoidably out of work by the action of the Government, claimed compensation. The company denied liability on the ground (a) that to make them pay would be tantamount to penalising them for the action of a third party, and (b) that their financial position did not admit of payment of compensation in such circumstances. To the first contention the Tribunal while blandly admitting that "it may at first sight appear to be unreasonable to allow any unemployment benefit in a case like this," added that "in industrial matters it is not the ordinary law that will prevail but the principles of social justice and equity." And to the second point the answer was that the capacity to pay was not relevant in determining whether compensation should be paid or not but was only relevant in fixing the amount of compensation to be awarded. Applying the aforesaid principles of "social justice and equity" the Tribunal awarded compensation.

A Tribunal Directs

In June[10] was reported a decision which is interesting not so much as illustrating any fresh point of law or equity but as showing how widespread and mandatory the authority of the Tribunals is. The third Industrial Tribunal, West Bengal, had *recommended* the management of a company to start a cheap canteen for the supply of hot meals to their workmen turning down the company's offer to supply tiffin only at their places of work through recognised contractors and hawkers. The use of the mild word "recommended" was rebuked by the Appellate Tribunal. The Tribunal, it held, should have made a direction, given an order. The company, in spite of lack of space, had built a canteen room and proposed to supply meals therein on the basis of no profit no loss. This did not suit the workmen's representative who wanted things on a more ample scale, loss or no loss. Nor did it suit the Appellate Tribunal. Without going so far as actually to prescribe what it termed "the menu" and the meat, fish and other eatables to be comprised therein—these and the crockery, plates, glasses, forks and spoons, and furniture were to be entrusted to the joint control of employers' and employees' representatives—the Appellate Tribunal *ordered* the company to bear the following expenditure which was not to be taken into account in fixing the cost of the hot meals: (a) the cost of utensils including cooking vessels, plates, glasses and other articles necessary to serve meals to the workmen, (b) the cost of furniture, (c) the cost of coal, fuel and electricity, and (d) the salaries of the cooks and the canteen staff. There is not much, perhaps, in the way of general interest in this case; still it does show the astonishing extent to which the Tribunals are entitled to dictate the actual running of a business and virtually to control its management.

The Act is beginning to nibble at the professions too. An artist, as we have seen, is a workman, and an attempt was made in another case to establish that an assistant editor of a newspaper is a workman too. In April[11] was reported from Bombay an unsuccessful claim that an assistant chemist, a graduate qualified by academic, technical and scientific training was a workman, and in May a claim[12] for bonus was made by workmen employed in a firm of chartered accountants. The Adjudicator at Kanpur made some instructive observations of interest to professional men: "A distinction will have to be drawn in a professional concern like this from a trading or manufacturing concern. The income of such professional concerns wholly depends on the ability and competence of the officer in charge, i.e. chartered accountant in this case. The income is from the personal skill of the individual, though the individual may take the assistance of clerks for doing routine work and such assistants are paid remuneration in the form of a monthly salary. The income of a chartered accountant is just like the income of a practising lawyer, physician or surgeon whose income depends inclusively (*sic;* doubtless 'exclusively' is meant) on their personal skill and merit. I do not think that any claim by their employees for a share in such income would be justified."

6. *Firestone Tyre and Rubber Co. Ltd. and another.* 1954. L.L.J. Vol. I. 281.
7. 1954. L.L.J. Vol. I. 289. *(South India Bank Ltd., Tirunelveli).*
8. *Anil Textile Mills Ltd.* 1954. L.L.J. Vol. I. 45.
9. *Asok Textiles, Ltd.* 1954. L.L.J. Vol. I. 855.
10. *Burn's Labour Union and Burn and Co. Ltd.* 1954. L.L.J. Vol. I. 774.
11. *Chintaman Martand Salvekar and Phaltan Sugar Works.* 1954. L.L.J. Vol. I. 499.
12. *Price, Waterhouse and Peat & Co. and its workmen.* 1954. L.L.J. Vol. I. 743.



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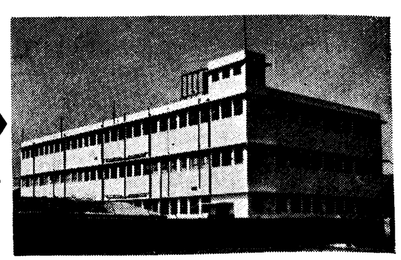
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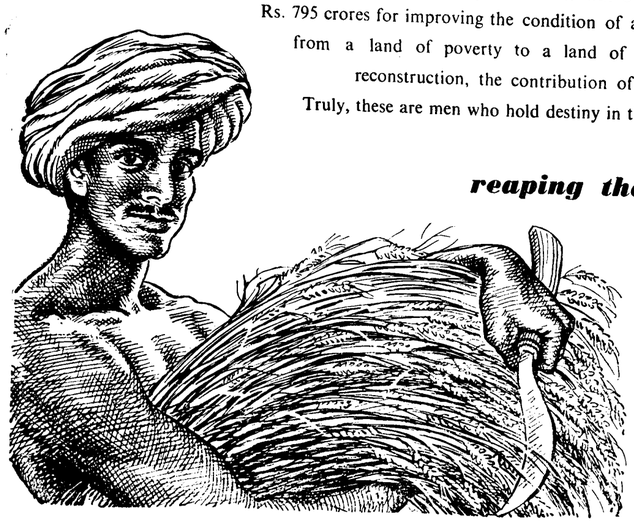
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INDIA IN THE FOREIGN PRESS

● By TAYA ZINKIN ●

EDITORS usually print what their readers are prepared to read; so no picture of a country in the Press of another country can ever be balanced, as readers' interests are limited. An item is newsworthy not according to the importance that is attached to it in the place from which it arises, but according to the importance that is attached to it in the place where it is read. This is one of the truisms of journalism which nobody, not even the average journalist, always remembers. Indeed, it is this difference between the newsworthiness of an item according to geography and readership, even in the same place, which makes for heterogeneity in the newspaper world. If the same events were covered in the same way, with the same exhaustiveness, in all the papers, then surely there would be no case for having more than one paper. Then there is a purely technical aspect which is often ignored by the reader: that of space. Space for domestic news is far more generous than space for foreign news, partly because of the shortage and cost of newsprint; but mainly because the amount of space devoted to foreign news is in relation to the interest of the readers; and just as many readers never read the editorials, so many readers only want to know about home and sports or the stock exchange. In short, there is little room for news and the entire world has to be compressed into a few columns; only the more newsworthy news can be squeezed in. The foreign correspondents of a newspaper are like a basket-ball team; all of them send their ball, but only so many will make the basket; the rest will have to be left out because by the time the ball reaches the basket, the game is over.

So Many Truths

What is news in London is not news in New York. Mr. Nehru opening a dam may talk for ninety minutes of which he devotes three to defending the Commonwealth, three attacking SEADO, and one-and-a-half saying he is glad that a friendly solution has been found for Pondicherry. The same speech will be reported differently by a French, an American or an English correspondent, and the Indian correspondent will send yet another version. All of them will be truthful, but none of them will pick on the same things.

The report of the British correspondent might read: "Opening the ninth dam since Independence, Mr. Nehru told an audience of Bihari peasants that the Commonwealth is really quite a sound formula offering some advantages and carrying no penalties; India can be within the Commonwealth as a Republic and remain free from international commitments". Then he will quote Mr. Nehru and end by saying, "Mr. Nehru made a routine dig at SEADO which is not going to solve but rather increase world tension".

The American correspondent will send something like this: "Mr. Nehru opening a dam in Bihar told an audience of villagers that SEADO was a very dangerous step taken by Americans out of fear and that it will only result in increasing the risks of war and hydrogen bombs being dropped on Asia." Then the correspondent will give long quotations on SEADO and add: "Talking of the Commonwealth Mr. Nehru paid it a routine compliment," and he will end by a discussion of the reasonableness or the folly (depending on the paper for which he writes) of the Five Principles on co-existence and perhaps ask: "Should aid be given to people who have been friends of China for 10,000 years?"

The French correspondent will write: "Today Mr. Nehru told a large audience that a new era of friendship was being inaugurated between France and his country and praised the great courage and wisdom of M. Mendès-France for allowing the people of Pondicherry to decide their fate." Pondicherry is the living proof that France still stands by the three mottos that made it famous: Liberté, Egalité, Fraternité. He will then quote Mr. Nehru's comments on Pondicherry.

Have my three correspondents distorted truth? No; Mr. Nehru did say all these things; they have only applied the newsworthy filter to his speech.

The standard of reporting on India in the best dailies of Britain is very high; this is equally true for the best Sunday papers and for the best weeklies; but in the low-brow English Press India is reported either with a bias or not at all—unless there is a special peg for the reader. Britain and India have very old ties which cannot be compared with Indo-American ties. Ties are a slow growing phenomenon. Only through ties—and these may be affective, cultural or economic—do knowledge and understanding come. It is only a statement of fact to say that in America Mr. Nehru is not "misunderstood", but simply "not understood". In England he is almost a familiar character.

Now I would like to quote at length from reports published in Zürich by the International Press Institute on the Flow of News from India. The surveys were conducted in a scientific manner by Indian correspondents with considerable experience of coverage of India in the countries to which they were posted.

Let us begin with America. The report on India in the American Press was made by Mr. Balaraman of the *Hindu*. He must have been in the United States for a very long time—for he has recently become the senior-most foreign correspondent in America. This is what Mr. Balaraman says:

"India is among the worst reported countries in the American Press, both quantitatively and qualitatively. Only two U.S. newspapers have their own correspondents in India; the others depend on the news agencies, whose coverage of India is unfortunately perfunctory and haphazard. The tiny proportion of Indian news in the agencies' and newspapers' foreign coverage (1.3 percent and 1.1 percent respectively, of all foreign news space) was to be expected: American editors are interested in only four broad classifications of news from India—bizarre or outlandish news, news having some bearing on the East-West struggle and Communism, news connected with American economic aid and news of disasters.

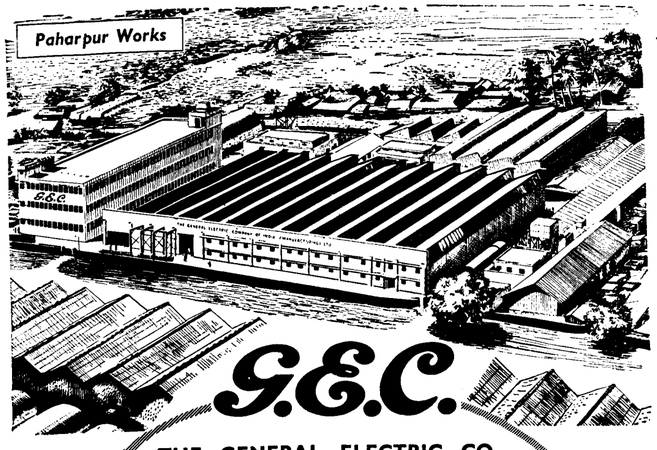
"The resulting picture of India is of an overpopulated country of backward and superstitious people, living in conditions of poverty, disease and starvation; a chronic famine country having a government with Leftist proclivities; saved from falling prey to Communism only by American financial aid and technical know-how. The reader does not get the background necessary for him to understand the significance of the development reported.

"The domestic political scene in India is practically a closed book to the American newspaper reader. From the brief fillers he now and then reads, all the impressions he has gained are that there are two political forces in India, Nehru's "ruling" Congress party and the Communists, the Congress party also being "Leftist".

"Foreign policy is one of the few aspects of Indian affairs in which the American press has taken some interest in recent years, but only so far as it relates to the "cold war" and in a smaller measure to relations with Pakistan. Interest in the latter is because of the Kashmir dispute before the U.N.O.; though the U.S. press has only a hazy idea of the basic issues involved in this dispute, it has been told that unsettled conditions in Kashmir can help only Russia, thus connecting the Kashmir question also with the East-West struggle.

"In the treatment of news of economic affairs in the American press, the accent is usually, and perhaps almost invariably, on what the United States has been doing to help India's economic development. Even such an important item as India's first Five Year Plan got printed only in 15 out of 105 newspapers surveyed. Of these fifteen, some gave broad outlines of the Plan but others devoted only a cursory paragraph or two.

"Though the American Press has shown what it can do in the coverage of stories from India like that of the Swiss expedition to Mt. Everest, human-interest items from India are generally stories about eccentric maharajas, mystics, sacred cows,



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tigers, cobras, child brides and all those topics with which the foreign Press used to associate India and unfortunately continues to do so. But for the inevitable pieces about untouchability or the caste system or child marriages," says Mr. Balaraman," nothing much is published in the daily Press about Indian social affairs."

I would now like to quote the comments of American editors on Mr. Balaraman's report:

"Mr. Balaraman seems to carry a chip on his shoulder, feeling that his native land has been singled out for derogatory treatment by many American editors. This hardly does justice to American editors who are trying to present an intelligent and coherent picture of world affairs to their readers. Snake charmers and sacred cows undoubtedly repel him. It might be said with equal fairness that American editors anxious for a fair presentation of American news abroad are disheartened by the amount of American crime news, Hollywood scandal and similar material which is featured in the Press abroad.

"He complains because news of India's international affairs appears to be tied to Korean or 'cold war' issues. This is hardly a fair criticism, since the deepest personal interests of the American public are involved in these issues, and whatever India does to affect them naturally will be the preferred news from that area.

"On the matter of portraying the social, cultural and religious life of India, Mr. Balaraman is on firmer ground. There is a place for intelligent and readable coverage, even if only of the Sunday feature type, on the progress of India since her emancipation.

"Inadequate coverage by individual newspapers is an economic matter which apparently does not trouble Mr. Balaraman.

"The unspectacular, descriptive kind of reporting that gives readers a true picture of his country will grow as Americans become more interested in India."

And this is what another editor said: "I find little in Mr. Balaraman's brief to warrant much change in handling news from India. The bald fact remains that news from all over the world competes for a scant part of one hour of an average reader's time each day. Because India represents a bridge in East-West relations, the opinions of her leaders acquire added significance. Beyond that, I cannot see that India has much news to command space outside her borders. Five Year Plans to improve a primitive economy have little to interest others. I will grant that India has much to benefit the West in cultural fields. But this falls more naturally into literary volumes and museums."

"My America, Your India"

A third editor's comment was very similar: "I do not think that we publish enough news about India at present, but I cannot see how we are going to get space to publish any more. And it is inevitable that when people are fed as little news about a country as the American Press carries about India, many of our readers jump to the conclusion that India is an overpopulated country of backward and superstitious people who are not fit for democracy and have to be treated like children. I never believed this about India, and yet when I was there for two days in the course of a thirteen-day flight around the world, I swear I came away with a great many of my questions unanswered."

The last comment I shall quote is that of a Virginia editor who wrote: "Americans know little about India. Few editorial writers are competent to write about the country. I think the news about India is slanted, what I read at any rate. Some newspapers lose a sense of values about news, leaving out the solid for the garnishments. But why confine it to India? Think of the Latin American countries, France, Germany, Japan, Australia and other places."

So much for the picture of India in American papers. The fact that there are only two newspapers in America with correspondents in India will come as a shock to many Indians; yet, the answer is an economic one. Television has hit the American daily press so much that they can no longer afford to spend as much money as before on correspondents. Television takes much of the advertising away from them while news is fully covered on television by agencies as well as by commentators; those vary in quality, and their lack of background is often offset by the continuous stream of foreigners who are interviewed by them on the screen.

England, as I have already said, gives a much better coverage of India than America, but even that coverage is uneven. This is what Dr. Shelvankar of the *Hindu* writes: "India's foreign relations receive considerably more attention than her internal affairs. This is readily understandable, but the resultant picture of India is inevitably a lop-sided one. If we pause for a moment to consider the ordinary run of British newspapers, we find that the news of India they provide is not a flow but a dribble, and a very thin and intermittent dribble at that.

"Britain is the one country in which an important proportion of Indian coverage is secured from special correspondents. These, of course, have their differing outlooks and their different contacts: so it is perhaps not really a matter for surprise if their accounts of a situation do not always tally. But such discrepancies do occur, and when they do, one cannot sometimes help wondering if the correspondent's personal predilections are not peeping through.

"Indo-Pakistan relations and the Kashmir question are cases in point. Indians believe the British Press has been inclined to take the Pakistani side; Pakistanis believe the opposite. At any rate, some British reporting of Indo-Pakistan issues appears to an Indian to contain flagrant displays of bias, usually on the basis of wild accusations made only by extremist elements in Pakistan.

"The image of India as the mysterious East, an incomprehensible alien civilisation liable to sink into chaos and misery but for Britain's firm hand, is gone. At the same time, the type of news by which this image was sustained has vastly diminished, if it has not altogether disappeared—news which, apart from the unavoidable and tendentious political items seemed always to seize upon whatever was odd and grotesque, fantastic or weird in the Indian sub-continent. A truer picture of India is gradually gaining ground in the British Press. But it is at best an incomplete and ill-balanced picture, with big gaps in it and of too many papers could it be said that they provide nothing worthy to be called a picture at all."

British Editors' Report

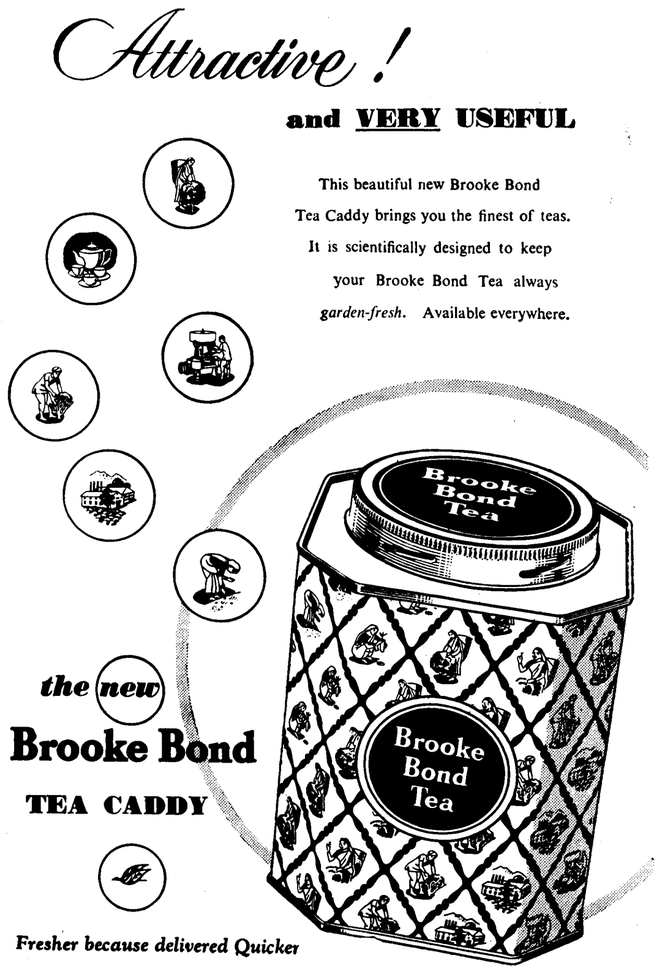
This is the comment of British editors on the picture given by Dr. Shelvankar: "The great size of the country makes it difficult to record developments common to the whole without being either very vague or very detailed. Once one has lost the thread of such developments, it is difficult to pick it up. It is all too easy to leave important trends in overseas countries unrecorded because when any particular news or information arises, one realises that the reader has not the background to appreciate its significance and it therefore tends to get left out.

"Even if the popular papers were much bigger, I doubt whether their editors would want to increase greatly the supply of foreign news, since the popular reader's taste is mostly for the picturesque and exciting rather than the quieter side of current history. Every survey of the flow of foreign news into this country will say that not enough news is printed, but then I find that exactly the same complaint of inadequacy is made about local news. It is only when a strike or a riot or an arresting development arises from their political, economic and social conditions that foreign countries make news or feature articles for the popular British press."

News of India outside the U. K. and the U. S. A. are inadequate and fitful.

Annoying though the inadequacies of the coverage of India may appear to an Indian, it is only fair to point out that in the coverage of Britain in India, which was found by the survey to be the best covered and understood country in India, practically no space is given at all to the steady economic development and the housing programmes or similar subjects. Indeed, there is no reason why an Indian should want to read about the housing estates in Leeds, just as there is no reason why an Englishman or an American should be interested in the Vaitharna dam, unless of course it were to burst and drown enough people in the process to hit the news. In the matter of newsworthiness even accidents have to become bigger and better, like everything else in our atomic age.

The following equation of newsworthiness still holds true: "100,000 dead Chinese = 1,000 dead Indians = 100 dead in the same State = 1 dead acquaintance = 1/1000th of the death of one friend = 1/10,000th of the death of a relation (even not loved) = no equivalent for one's own death."



FOREIGN AID TO INDIA

WHAT AMERICA HAS DONE AND WHAT THE WORLD BANK CAN DO

● By SARUP NATH ●

So much has been written on the subject of foreign aid to India that any further addition to the literature regarding it appears superfluous. However, in view of the continuing need for such aid, there seems some advantage in keeping the subject under constant review in the light of new developments that may take place from time to time. Also, the close of the year seems an appropriate time for taking stock of the position.

Let us, at the outset, restate the case for continued foreign aid to India. The gap between financial requirements of the first Five Year Plan and the available resources, internal and external, was originally estimated at Rs. 521 crores. Schemes costing about Rs. 220 crores (Rs. 180 crores to fight unemployment; Rs. 18 crores for urban and rural water supply schemes and Rs. 18 crores for electricity schemes for small towns and rural areas) have since been added to the Plan. On the contrary, the budgetary resources of the Central and State Governments in the first three years of the Plan totalled only Rs. 535 crores, as against the five-year estimate of Rs. 1,258 crores. Shri V. T. Krishnamachari told the National Development Council that the total deficit would be about Rs. 1,200 crores. Against this we have received foreign aid amounting to Rs. 228 crores. Assuming that sterling balances to the extent of Rs. 290 crores would be spent, there would be an uncovered deficit of about Rs. 685 crores. This will of course be reduced to the extent that there is a short-fall in expenditure, which is expected to be between 12½ percent and 15 percent. It is true that the various measures being taken to increase the revenues of States will result in some improvement in budgetary resources. But to depend too much on these sources of increasing revenue is not warranted.

It will thus be seen that external assistance is needed by India not so much from the foreign exchange point of view but to supplement her own resources. The amount of aid needed is fairly large. The alternative of an increased measure of deficit financing may let loose fresh bouts of inflation which will not only impede the progress of development but will undo the work done so far. On the other hand, foreign assistance will make somewhat less arduous the painful climb up the road to better economic life. The Bernstein Mission report, "Economic Development with Stability," published in February, 1954, said: "The Five-Year Plan is so essential to the well being of the people of India that it should be possible to find an agreed basis for additional foreign aid to India."

Not only is foreign aid necessary now but it will become increasingly so when the second Five Year Plan is implemented. The size of this Plan is tentatively put at Rs. 5,000 to Rs. 5,500 crores, of which Rs. 3,000 crores will be for the public sector. This Plan will be much more extensive than the first one; side by side with further improvements in agriculture and rural economy in general, the second Plan will lay greater stress on industrialisation. One of its aims will, for instance, be to increase the output of steel to 6 million tons. Basic industries of that order necessitate huge investment, largely on imported machinery and technical "know-how." So, apart from the "total resources" aspect, there is also the question of foreign exchange. The accumulated sterling balances will very likely be exhausted by June, 1957, leaving only the sum required to be kept as a minimum currency reserve. The need for foreign aid will, therefore, be far greater than under the current Plan.

The question naturally arises: what are the prospects of getting foreign aid to this extent? Let us look at it in retrospect. The following table, extracted from the Progress Report of the Planning Commission for 1953-54, shows the amounts authorised by the various foreign governments and international institutions in three years, 1951-54, and amounts utilised by the Government of India:—

Rs. crores

	Amounts authorised	Amounts utilised
Loans		
US Food Loan ..	90.4	90.2
Portions of IBRD Loans outstanding at the opening of Plan period ..	7.1	5.5
IBRD Loan for Steel ..	15.0	..
IBRD Loan for DVC ..	5.0	..
	117.5	95.7
Grants		
US Government ..	81.6	21.1
Canada ..	26.4	9.2
Australia ..	5.7	4.1
New Zealand ..	0.3	0.3
Norway ..	0.3	..
Ford Foundation ..	2.4	1.5
	116.7	36.2
Grand Total ..	234.2	131.9

The actual utilisation of Rs. 132 crores works out to about 15 percent of the three-year outlay on the Plan of Rs. 885 crores. Administrative measures both in contributing countries and in India are being tightened with a view to reducing the gap between authorisation of aid and its utilisation. But foreign aid at the present rate may not be able to fill the bill.

U.S.A., The Largest Benefactor

That the U.S.A. has been the largest single benefactor of India there is no doubt. But U.S. public opinion has long opposed economic aid under government auspices to under-developed countries, because of the intolerable tax burden involved. (The huge military outlay has been accepted in the U.S.A. as a painful necessity.) This is a very legitimate grievance. The same cannot, however, be said of the concern, expressed by some Congressmen, that the process of economic development accelerated by foreign aid results in such a disruption of existing institutions as to create an "anarchy and confusion" conducive to the growth of Communism. It was during the public hearings of the U.S. Senate in 1952 that the basic assumption that economic development would serve to weaken the appeal of Communism to the peoples of the under-developed countries was directly questioned for the first time. In reply, Mr. Dean Acheson, recognised that it was not certain that the results hoped for would be obtained by this means. Congress critics also complained that Point Four programme was "fantastically swollen beyond any possibility of doing the kind of job" Congress had originally intended it should do.

Attempts are now being made in the U.S.A. to curtail Government assistance to under-developed countries. The Randall Commission recommended that economic assistance by the U.S. Government to these countries be replaced by outflow of private American capital. This view has been echoed in authoritative circles from time to time, and there are indications that the U.S. Government's programme of economic aid may be slashed to not much more than what "New York City was spending each year to clean its streets and empty its garbage." It may even be stopped altogether.

The U.S. Point Four programme resulted from a generous and statesmanlike impulse on the part of its sponsors. It was not conceived as something to beat down the Soviet menace. In January 1952, Mr. Dean Acheson, Secretary of State, said "... we should be carrying it forward even if there were no Soviet threat." Even as late as mid-1953, Mr. Walter Robertson, a spokesman of the present Republican regime in the U.S.A. said: "We do not regard economic aid as a selfish political instrument." These ideals seem to be losing ground. Economic aid is becoming more and more "a gimmick in the cold war." It tends to be related not to needs but to what Mr. Harold Wilson, former President of the British Board of Trade, calls "political favouritism" and "military reliability." "The Pentagon is to be the judge." The U.S.A. is viewing her relations with Asian peoples simply as an aspect of the struggle with the Soviet Union.

How this has led to a shift in emphasis in the U.S. foreign aid programme from economic to military aid in the recent past will be seen from the following table:—

$ million

	1949	1950	1951	1952	1953
1. **Military Grants** ..	210	526	1470	2603	4281
of which: to Europe ..	170	463	1112	2151	3469
to other areas ..	40	63	358	452	812
2. **Economic Grants** ..	4997	3484	3035	1960	1813
of which: to Europe ..	3943	2775	2409	1453	1134
to other areas ..	1054	709	626	507	679
3. **Loans** (net) ..	652	156	156	420	220
4. **Total, 1–3** ..	5859	4166	4661	4983	6314
5. **Percentage of 2 to 4** ..	85	85	65	39	29

(Source: I.M.F.'s *International Financial News Survey*, 30-7-54)

It is thus possible that U.S. governmental assistance to India may cease after some time. Already there is considerable evidence of a stiffening attitude on the part of the former. According to a recent press report, one-third of the total aid to India for 1954-55, (technical assistance: $19½ million; economic aid: $60½ million) will be in the form of loans. Hitherto, all U.S. aid to India under T.C.A. has been in the form of grants. The press report goes on to say that equipment will be supplied to India only if American personnel is engaged to work it. This amounts to high-salaried American staff being foisted on India irrespective of whether or not she needs them.

American Private Capital

What is more disquieting is the fact that there are no prospects of private American capital rushing in to fill the vacuum created by the withdrawal of Government assistance. The reason is not a shortage of capital in the U.S.A. On the contrary, while high inheritance taxes and graduated income tax have made Vanderbilts and Goulds personalities of the past, savings continue to rise. On 31st July last, deposits in the 527 mutual savings banks in that country were $25.5 billion—a new high. To match increasing savings, there are increasing investment opportunities at home. Fresh investment in domestic trade and industry continues to rise, as will be seen from the following table:—

$ million

	1951	1952	1953	1954 (Jan.-Sept
Total	25,644	26,493	28,391	19,960
of which:				
Manufacturing ..	10,852	11,632	12,276	8,421
Mining ..	929	985	1,011	737
Public utilities ..	3,664	3,887	4,548	3,255
Commercial & other ..	7,235	7,094	7,778	5,855

(Source: U.S. Deptt. of Commerce, *Survey of Current Business*, June, 1954).

Even so, the U.S.A. has investible funds far in excess of her domestic requirements, and these funds are diverted overseas. The leading consideration for the investment of capital abroad is the needs of U.S. economy and security: U.S. capital seeks to secure control over world resources of raw materials and other goods required for U.S. industry or necessary for the country from the strategic point of view. This explains why over 30 percent of American capital abroad is invested in the petroleum industry, with mining a close second. The following table shows the area and industry-wise break-down of American investment abroad in 1950 and 1951:—

$ million

Area Industry	1950 Capital movement	1950 Reinvested earning	1950 Total	1951 Capital movement	1951 Reinvested earning	1951 Total
Areas						
Canada ..	265	224	489	271	228	499
Latin America ..	191	76	267	187	252	439
OEEC countries and dependencies ..	84	52	136	82	132	214
Other ..	162	78	240	63	124	187
Total ..	702	430	1132	603	736	1339
Industries						
Manufacturing ..	119	292	411	140	365	506
Petroleum ..	364	46	410	184	206	390
Mining & smelting ..	68	37	105	96	80	176
Distribution ..	59	27	86	81	64	145
Agriculture ..	—4	7	3	37	3	40
Public utilities ..	16	14	30	—12	4	—8
Miscellaneous ..	80	7	87	77	14	91
Total ..	702	430	1132	603	736	1339

(Source: Princeton University's *Survey of US International Investment, 1951.*)

A study of international flow of private capital during 1946-52, made by the U.N. Department of Economic Affairs, disclosed that the bulk of such capital has flowed into economically advanced, and not under-developed, areas. Relatively little capital has found its way into the independent South-East Asian countries. As Mr. George Humphrey, Secretary of the U.S. Treasury, put it, private investment is not made for philanthropic reasons but for profit. It will not automatically flow into under-developed regions where much groundwork is necessary before reasonable profits begin to accrue. It is here that the U.S. Govern-

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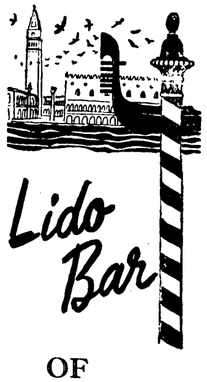
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ment has a part to play in various ways with a view to removing obstacles to a free flow of capital. The Government has taken some measures in recent years to encourage U.S. citizens and business concerns to invest abroad. It is giving wide publicity to information regarding investment opportunities in foreign countries. The U.S. Department of Commerce published in 1953 a handbook called *Investment in India* of which the main conclusion is that in India "there exists a willingness to offer terms of entry that are attractive to foreign investors." This development, the handbook says, "has been made known more by action than by words."

Obstacles to Foreign Investment

But this measure is not likely to help much unless some very real obstacles to the outflow of U.S. capital are removed. Certain provisions of U.S. tax and anti-trust laws are said to be interpreted and enforced so as to discriminate against foreign enterprises financed with American funds. It is very much to be regretted that a tax concession, recommended by President Eisenhower with a view to encouraging investment abroad, has been deleted from the Tax Bill passed by the Congress for the fiscal year 1954-55.

Private American capital does not feel secure in a country where there is no assurance or guarantee of rights based on a treaty of "Commerce, Friendship and Navigation" (Investment Treaty, for short). It is only in respect of countries having such treaties that the U.S. Government is prepared to offer guarantees to private U.S. investors against non-commercial risks affecting overseas investment, such as expropriation, nationalisation, inability of the capital-importing country to convert local currency into dollars for remittance of profits etc. The U.S. President's suggestion that the guarantees should cover war, revolution and insurrection has been turned down.

The importance of Investment Treaties, so far as India is concerned, cannot be denied. The U.S. investor sees no political stability here, and shrinks from the danger of the entire South-East Asian region, including India, going Red. He has grave misunderstandings regarding the personality of the Indian Prime Minister; the *Washington Daily News* of 30th September last described Pandit Nehru as a person "who seems to find delight in sowing seeds of suspicion against the American system." The situation is aggravated by the absence of an investment treaty between India and the U.S.A.

Another point on which India and the U.S.A. do not see eye to eye relates to ownership and control. American capital comes mainly in the form of direct investment so as to give U.S. nationals a controlling voice in the affairs of the concerns financed by them. The policy of the Government of India, reiterated by Mr. Deshmukh during the last annual Fund-Bank meetings, is that ownership and control should vest in Indian hands. On this point, however, India's policy is not very rigid, as can be seen from the case of the three oil refineries now in the process of erection in India.

The World Bank

The prospects of private U.S. lending abroad may be summarised in Mr. Gordon Gray's words: ".....only a few hundred million dollars, at most, is likely to be invested in the underdeveloped countries outside the Western Hemisphere in properties not related to oil. Taking into account the known obstacles and the uncertain effectiveness of limited measures to overcome them it must be frankly recognised that private investment cannot be expected to solve the problem of financing development alone." These words, written in November 1950, are borne out by the experience gained since. Neither can much hope be placed in the assistance given by international agencies. It is true that the World Bank has been generous to India in the past, and that, not content with the existing arrangements and procedure for granting loans to member countries, it is breaking new ground in its attempt to make itself more useful. The Bank's effort to find ways and means of helping Indian industrialists to set up a privately owned investment corporation is a case in point. But that is not enough. The Bank should further liberalise and expand its lending.

Then there is the U.N. Technical Assistance Administration. There is no doubt that it is doing useful work and that India has a prominent place among its beneficiaries. But with its meagre resources it is barely touching the fringe of the problem to tackle which it was set up. Even in its limited sphere of activities, the U.N.T.A.B. has been starved for funds because some donor nations fail to honour their pledges and make "grudging responses to appeals for funds....."

The E.C.O.S.O.C. (Economic and Social Council of the U. N.) had for some time been studying the question of setting up the S.U.N.F.E.D. (Special U.N. Fund for Economic Development. It is to be regretted that the proposal has again fallen through, because of the lukewarm attitude of those members who would have donated the bulk of the funds. Their plea of existing heavy commitments, mostly on account of military expenditure, is the crux of the problem of economic development of underdeveloped areas.

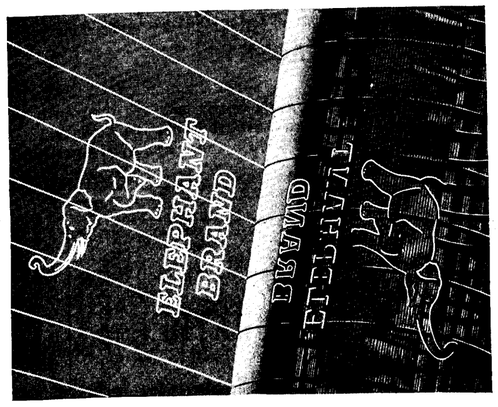
Aid From U.S.S.R.

Another possible source of assistance to India is the U.S.S.R. The impression that the latter is competing with the U.S.A. in offering technical and material assistance to India has deepened with the announcement that three Russian experts have arrived to modernise the diamond mining industry in Panna, Vindhya Pradesh. Then there is the "alluring steel offer." The rapidity with which the U.S.S.R. has started making proposals of economic aid to India "at irresistible terms" is startling. It is too early to comment on the various offers made by that country. But in assessing the chances of India getting any large-scale assistance from that source account must be taken of the report that the U.S.S.R. has committed funds totalling about $1.6 billion in long-term loans for development of Communist China's economy, in addition to the services of 4,500 Russian technicians.

It will be seen from the foregoing that the chances of any substantial foreign assistance coming to India are slender. The need for continued U.S. Government aid is, therefore, imperative. It is argued that it is the U.S.A.'s moral responsibility to help in the economic development of South-East Asia, because "the wealth which flowed from India, Indonesia and other Asian nations to the capitals of Europe.....even helped indirectly in building the U.S.A." It is not our purpose here to delve into history in order to prove the truth or otherwise of this statement. Neither will India put this "moral" argument to the U.S. Government across the counter. All that she need do is to tell the world that she has a programme for economic development for which she has fully mobilised all her resources which are, however, far short of requirements. If no external assistance is forthcoming "the only alternative is economic development under the whip-lash of totalitarianism" which means untold miseries for the masses. On the other hand, U.S. assistance which helps India make her people prosperous will reward the U.S.A. also in the form of expanded trade. Many enlightened business men agree with the point of view expressed in such documents as the Gordon Gray Report and the Nelson Rockefeller Report (*Partners in Progress*) that there would be no future for the U.S. economically without a vast expansion in the productive and consuming power of the under-developed areas.

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LOANS AND INVESTMENTS AS INSTRUMENTS OF BANK CREDIT

● By R. M. MITRA ●

INDIAN banking has been undergoing a process of "agonising reappraisal". Questions are being asked if the banking system is sufficiently comprehensive to be economically adequate, and properly led and organised to be socially useful. The story of banking provides an interesting economic panorama. The evolution of goldsmiths into issuers of notes, the struggles for central banks' monopoly of note-issue, the development of the cheque system and the growth of joint stock banks, symbolise a changing and expanding economy which has been continually regrouping and rearranging forces to achieve new magnitudes and varied expressions of material wellbeing. It need not flutter the dovecots, therefore, if the challenging needs of a growing economy raise new issues about the adequacy of the structure, organisation and outlook of the present system of banking in India.

It is known both historically and etymologically that the money-changers who transacted their business on benches (banco) in the market places of Lombardy are the progenitors of the modern banker. Three centuries of profound change in the lineage of the banker, and the theory and practice of his business, do not seem to have changed his time-honoured and fundamental function as a provider of money in the form in which it circulates. The money-changer who supplied current national coins against foreign coins or sweated national coins, was in fact providing money in its circulating form against assets which did not circulate, but could perhaps in due course be turned into money with a profit into the bargain. This function of the money-changer has gradually developed into the foreign-exchange, drafts-issue, mail-transfer and collection departments of the modern bank. But these more mature and improved variants do not tell the whole story of the diversified growth of the old demand for money in its circulating form against (and, even, in anticipation of) assets which take time to be converted into cash. It is the demand for money in the rôle of credit which is the real denouement of the story.

Deposits and Discounts

Extending horizons of trade and the increasing complexity of production and distribution systems have confronted the banker with the necessity of supplying loan money. When the goldsmith arrogated the functions of the money-changer his customers resorted to him also for safe custody of money and valuables. Gradually, the customers of the goldsmith learned to minimise the use of actual cash and developed a system of transacting payments by passing the receipts or "notes" issued by the goldsmith against deposits of money and valuables. The goldsmith, in his turn, found it possible and profitable to utilise the money and valuables lying with him for making loans at interest. The discovery of this new source of profit stimulated the goldsmith into more developed uses of his notes which began to be issued to his borrowers, not against the cover of customers' money, but against borrowers' promissory notes and collaterals. This transformation of the use of notes was rendered possible by the status which they gained as a medium of currency among the goldsmiths' customers. The process of creating loan-money was not impeded, but in fact further developed, by the emergence of the modern banker who, with his technique of cheque-issue, came to be known as a banker of "deposit and discount".

It may seem appropriate to question why the banker's function of making loans should be regarded as a new or important economic development. It is indeed possible to trace the business of loans to the earliest beginnings of recorded history; bills of exchange "baked in clay" are reported to have been in use in Babylon as far back as the Ninth Century B.C. It is, again, not incorrect to argue that "credit money," which is regarded as the distinctive feature of modern bankers' lending operations, does not represent a modern development either. The argentarii, the bankers of ancient Rome, are said to have engaged in the creation of considerable amounts of credit-money through the use of "deposit transfers and bills of exchange". It is also possible to recall the prohibition of private banking which followed the over-extended use of credit-money in Sixteenth Century Italy when disastrous failures among private bankers led to the establishment of a public bank, the "Bank of Venice," in 1587. Yet it remains true that the accelerating preponderance of procreative deposits (cheques) as the acceptable form of money accompanying a nation-wide growth of the banking habit has invested the use of credit-money with a new significance as a potential for both economic prosperity and depression.

The Use of Credit-Money

Meanwhile, the pattern of credit-money use has been changing with social and economic conditions, and with the organisational and structural changes of the banks themselves. The earliest bankers were mainly family concerns and were, for all practical purposes, free from any legal restriction, and the corrective check of public opinion; nor were these concerns guided by any well-formulated rules or traditional usages. The subsequent growth of partnerships and joint-stock companies failed to bring about any marked improvement in the situation. It was not until the year 1857 that any banking concern published a statement of its accounts. During this long period individual judgments and personal considerations influenced banks' lending activities. It is possible that a certain uniformity of thought guided bankers, because individual judgment is, after all, the product of current beliefs, impulses and prejudices. But this uniformity of thought relating to earlier bank-loans probably did not extend beyond a vague desire for safety and profitability. Even within this narrow range of uniformity there were wide differences of outlook and approach. While the banking world of this age produced awe-inspiring houses like Sir Francis Child, it was not unusual for petty shopkeepers, and even bakers to flaunt as bankers. Such a medley could hardly make for the evolution of any well-defined rule of conduct or established method of business.

The Pattern of Bank Liquidity

The renascent influence of the Nineteenth Century led to all-round economic changes and bankers did not escape their influence. A Select Committee of the House of Commons was appointed in 1836 to enquire into the conditions of joint-stock banking in Britain. This committee made several suggestions for prescribing rules of business to be observed by bankers. These included provisions for adequate capital, non-payment of dividend until bad and doubtful debts were written off, prohibition of advances against a bank's own shares, investment of reserves in Government securities and the periodical publication of balance sheets. Although the Joint Stock Bank Act of 1844 incorporated some of these suggestions, it was more or less a dead letter as few banks were promoted under it and the Royal British Bank, which was foremost amongst these few, came to grief in 1856. Public opinion was by this time profoundly disturbed by severe bank failures. Thomas in his book, *The Rise and Growth of Joint-Stock Banking*, describes how, during the period 1844-60, public criticism led to demands for a limitation of the volume of a bank's deposit in proportion to its capital, Government inspection of banks, prohibition of large advances to individuals, prevention of unfair competition among banks, more uniform and informative balance sheets, accumulation of reserves and restriction of uneconomic branch expansion. It is surprising that during the century which has since elapsed no material change has occurred in the nature of the problems which still cause anxiety to the banking authorities in various countries.

The volatile forces of public affairs, however, on the one hand, changed the course of legislation in Britain in a more liberal direction*. On the other hand, the bank-merger movement, which started in 1883, continued to receive increasing impetus and brought about a new awakening among bankers themselves. Elaborate and deeply-considered rules of business conduct began to be formulated by the bankers for their internal management and administration. The financial economy of Britain was also being organised on the basis of increasing specialisation in the functions of different financial agencies. Share markets, issue houses and acceptance houses began to be looked to for long-term capital, and banks came to be regarded rather vaguely as suppliers of short-term working capital. The growth of bank-deposits, and a consequent decrease in the proportion of banks' own funds, also led British bankers to extend their consideration beyond safety and profitability, and to think more and more of the liquidity of their earning assets. The pattern of commercial organisation which accompanied the expanding economy of the Nineteenth Century favoured British bankers in their search for self-liquidating earning assets. Bills of exchange came to dominate every British banking house, and the pattern of liquidity of bank-assets (as described by Gilbart) gave to bills of exchange a position superior to that of Government Securities.

Advance Ratios

George Rae, in his well-known book *Country Banker*, suggested that the total of a bank's outstanding loans should not exceed the amount of its paid-up capital and reserves plus 20 percent of its deposits and other liabilities. But bills of exchange, which were regarded as a separate form of highly liquid earning assets, could, according to the model balance sheet drawn up by him, be allowed to exceed 45 percent of a bank's liabilities. The considerations which influenced the British bankers of the Nineteenth Century related of course mainly to the necessity for maintaining the liquidity of individual banks. Although Gilbart, in his *Ten minutes' advice about keeping a bank*, visualised banks as the custodian of the nation's entire cash resources, bank-money had not yet succeeded in reducing legal tender to a mere fraction of the total stock of money. So, in spite of the diminishing proportion of banks' paid-up capital, it continued to maintain a noticeable ratio to total banking funds until the overwhelming weight of bank-money began to be felt at the beginning of the present century. The banker of the Victorian age found it still possible to depend on his capital and reserves as a counter against risks involved in his lending operations and it was accordingly considered more prudent and practicable to maintain a working relation between a bank's own funds and the total amount of loans, than to lay down rigid rules for the determination of sound or short-term loans. Though the result was a restriction of the amount of his loans, it did not unduly restrict the banker's power of earning profits as bills of exchange were available in adequate quantities for discount.

The dawn of the present century, however, found monetary habits slowly but steadily changing towards the realisation of Gilbart's dream. On the other hand, revolutionary changes were taking place in the techniques of production, penetration of markets and methods of distribution, which tended to deprive bills of exchange of their self-liquidating qualities. The result was that the multiplying deposits and changing character of trade bills created fresh problems of safety and liquidity. Self-liquidating bills gradually yielded pride of place to Gilt-edged Securities as the principal means of ensuring the liquidity of a bank's earning assets. But the question of a wider and more dependable margin of safety for bank-loans than that provided by a shrinking ratio of capital and reserves, continued to intrigue the thoughtful banker. Both legal and practical measures began to be evolved to guard against unsafe or unsound loans. These measures were devised to regulate loans against the mortgage of real-estate, loans for purely personal or unproductive purposes, loans for supporting speculative trade, loans on shares and large loans to an individual party. Experience, however, seemed to show that even loans which were considered safe in the light of these well-formulated regulations, could disturb a bank's liquid position in times of crisis, and also grow increasingly unrealisable if allowed to remain outstanding for an indeterminately long time. The necessities of a developing situation, therefore, led the practical banker of the Twentieth Century to rationalise the concept of finance for short-term "working capital". He considered it useful to conduct his business so as to be able to restrict his loans to such short-term purposes as the financing of stocks awaiting sale, and receivables pending collection. Though similar movements were taking place in other countries of Europe and in

*The Acts of 1857 and 1879 in fact softened the rigidity of the provisions of the 1844 legislation.

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Aden. Jinja. Kampala. Karachi. Mombasa. Nairobi. Osaka. Singapore. Tokyo.

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Mr. Krishnaraj M. D. Thackersey,
Mr. A. D. Shroff,
Mr. Madanmohan Mangaldas.

The Bank has Safe Deposit Vaults at Ahmedabad (Ellis Bridge, Gandhi, Road and Manek Chowk), Bombay (Head Office, Andheri, Bandra and Kalbadevi), Hyderabad (Deccan), Jamshedpur and Palanpur.

General Banking Business including Foreign Exchange Transacted Details on application.

D. R. THOM,
General Manager.

THE MERCANTILE BANK OF INDIA LD.

AUTHORISED CAPITAL	..	£3,000,000
SUBSCRIBED DO.	..	£2,220,000
PAID-UP DO.	..	£1,470,000
RESERVE FUND	..	£1,750,000

HEAD OFFICE : 15, Gracechurch Street, London, E.C.3.

Branches and Agencies throughout INDIA and the EAST including JAPAN and at MAURITIUS and NEW YORK.

(Incorporated in England.)

The Bank transacts banking business of every description.

Current Accounts are opened and **Fixed Deposits** received on terms which may be ascertained on application.

Savings Bank Accounts opened at Delhi and Howrah.

The Bank undertakes **Trusteeships and Executorships.**

Clive Buildings,
Netaji Subhas Road, Calcutta.
Sub-Branch : Grand Trunk Road, Howrah.

C. F. POW,
Manager.

THE BRITISH BANK OF THE MIDDLE EAST

(Incorporated in England by Royal Charter, 1889 with Limited Liability)

HEAD OFFICE

51, GRACECHURCH STREET, LONDON, E. C. 3.

CAPITAL FULLY CALLED UP - - £ 1,500,000.
(With power to increase to £ 4,000,000.)

RESERVE ACCOUNT - - - - £ 1,350,000.

BRANCHES.

Iraq. BAGHDAD, BASRA.
Persian Gulf. BAHRAIN, DOHA, DUBAI, KUWAIT (and AHMADI), MUSCAT, SHARJAH.
India. BOMBAY, CALCUTTA.
Saudi Arabia. ALKHOBAR (for Dhahran), DAMMAM. JEDDAH
Syria. DAMASCUS, ALEPPO.
Lebanon BEIRUT. RAS-BEIRUT. TRIPOLI.
Jordan. AMMAN.
Aden. (ADEN CRATER).
Libya. TRIPOLI.

No. 314, Dadabhai Nawroji Rd., Bombay. T. M- Tagg, Manager.
No. 1, Royal Exchange Place, Calcutta. C. H. Goadby, Manager.

the U.S.A., the position outside Britain, regarding the specialisation of financial agencies and a well-marked distinction between short-term and long-term finance, remained fluid until the '30s of this century.

Science of Bank Finance

It is interesting to note, however, that in spite of the almost sanctimonious regard in which commercial bank loans for short-term purposes have now come to be held, the growing body of legal regulations makes hardly any statutory distinction between long-term and short-term loans, and does not seem to contain provisions prohibiting long-term loans. The detailed regulations evolving in various countries seem to aim at securing a balanced pattern of bank assets with different degrees of liquidity, and a dispersal of loan risks, by spreading assets, not only geographically by industries and by maturity, but also among a large number of borrowers, rather than at ostracising long-term loans as such, or loans for long-term purposes. There are, of course, regulations limiting long-term investments. But these provisions seem to be a direct reaction against the specific evils of "mixed banking" in Germany and the U.S.A. and of real-estate speculation in the U.S.A., and scarcely an outcome of the conscious fear of long-term financing. It is also useful to note (*pace* George Rae) that decades of devoted consideration have failed to produce any fixed rules of ratios of loans to banks' funds which may fit the changing conditions and different phases of economy in different countries. Although for example it is now generally considered in India that a sound ratio for loans and advances, together with bills discounted, is 50 percent of deposits, the relevant ratio in the case of the Imperial Bank was only 31.11 percent in 1947 and as high as 61.70 percent in 1951, while comparable ratios for all scheduled banks were 43.99 percent and 67.41 percent, in these respective years. Similar wide variations are reflected in the course of banking loans in almost every country.

It is worthwhile, however, to know that continuous vigilance and sustained consideration, which have characterised the last hundred years of the growth of banking, have not failed to produce a system which is basically grounded on certain well-conceived economic principles, but follows a diversified course under the fluctuating conditions of human existence. It has already been indicated that a balanced pattern of liquidity represents one of the principles influencing the development of the science. Rules of credit summed up in the Nineteenth Century cliché "Three C's", seem to embody another fundamental principle having direct bearing on banks' lending operations. The regulations and rules, whether legally prescribed or practically evolved, relating to banks' lending activities, still centre on this well-tried precept. The change that has really taken place is that the rules rudimentarily expressed in the cryptic code, have been elaborated and newly interpreted in the course of changing circumstances and altering needs. The "character" of a borrower is still used by the banker to decide whether he may be depended on not to take advantage of any loopholes in his relations with the banker, and whether his books and statements may be regarded as a reliable index to his business. It is still true that character unaccompanied by "capacity" may invite failure through inefficient management, and more so in these days of changing production methods. Lastly, the borrower must of course have sufficient capital, whether in the form of his own money, share-capital, or unburdened debentures or bonds to meet his initial requirements of fixed assets and part of floating assets. Character, capacity and capital, the three watchwords which are epitomised in the old rule, fittingly enough, still furnish the "motif" of the manual of instructions for the banker.

Rules of Bank-Credit

The growing science of banking is being diligently pursued by an increasing number of practical research workers. Mr. Alexander Wall of the National Bank of Commerce, Detroit, and latterly the Robert Morris Associates of the U.S.A. (affiliated with the National Association of Credit Men in the U.S.A.), have made elaborate investigations into the requirements of the different components of the floating assets of different kinds of business at different stages of capitalisation. These investigations have led to the formulation of "standard ratios" for the guidance of a banker in assessing the capital worth of a borrower.

But even here in this developed field of banking science, the complex pattern of the banker-customer relation has not always permitted strict adherence to the rules wisely evolved and laboriously formulated. In order to maintain a valued connection, the banker has sometimes found it necessary to finance a borrower to tide him over the period he is negotiating a capital issue or a fixed loan, to finance stocks or receivables exceeding sound ratios, or even to finance a part of the initial requirements of fixed assets. A more formidable threat to the integrity of the rules of credit and balanced liquidity, however, comes from a different quarter.

The potentialities for credit-creation and the multiple expansion of deposits which bank-money possesses (as noticed at the outset), are being increasingly explored to further the public policy of promoting national economic development. The call for a "progressive outlook" on the part of bankers, was heard in Britain when the great depression of the '30s appeared to smear the distinction between fixed and floating assets and long and short-term business requirements. The leading British banking journal *The Bankers' Magazine*, as recently as December, 1953, observed, "Sometimes the need of the borrower may be deemed so essential for economic progress or national necessity that the advance will be granted despite the heavy risk entailed and the complete failure of the proposal to fulfil the principles of safety. For example, during the war years heavy risks were occasionally accepted as a matter of policy at Government request to support essential armament production by contractors whose capital resources were quite inadequate to finance the output expected from them." The Indian Central Banking Enquiry Committee in its report published in 1931 called for "a more progressive policy in the matter of granting clean advances on the personal credit of borrowers", and advocated the German system of industrial financing for adoption by such well-established commercial banks as "carry on their ordinary banking business on the safest and soundest lines."

It is no wonder, therefore, that while well-considered plans are being made to inaugurate a welfare state in India, the Indian Planning Commission should consider it proper to call upon the banking system to prepare for a programme of "judicious credit creation somewhat in anticipation of the increase in production and the availability of genuine savings", and for a change in the traditional outlook.

Long-Term Finance in India

In accordance with the objectives set out by the Planning Commission, the Reserve Bank appointed a committee in October, 1953 to examine the possibilties of increased finance for development in the private economic sector, and especially, to ascertain the part which commercial banks might play in providing such increased finance. It consisted of renowned bankers, economists and industrialists, and was headed by Mr. A. D. Shroff. This Committee on finance for the private sector, popularly known as the Shroff Committee, submitted its report in April last. A competent study of the economic situation in the country was made and a number of useful recommendations calculated to improve the investment climate and strengthen the banking structure were put forward. But it seems that the Committee was uncertain in its attitude towards the question of banks' participation in industrial finance, and, especially in the matter of providing long or medium-term capital. The Committee observes in paragraph 97 of its report that it is "definitely of the opinion that commercial banking practice has proved sufficiently helpful in providing finance to industries within the limits of the resources available today to banks in India." The committee further deprecates any "tendency on the part of banks to lean on the Reserve Bank for providing liquidity against these ('term') advances which they make on their own judgment and initiative". But paragraph 88 of the Report unexpectedly includes an exhortation to the Reserve Bank: "It can facilitate larger investments by commercial banks in private industry by suitable adjustments in its lending and re-discount practices". Paragraph 119 contains a suggestion that banks' resources for medium-term finance should be increased through discount facilities to be organised by the Reserve Bank on lines similar to those of the present bill market scheme.

The Committee concludes in paragraph 93 of its report that "on the whole, it would appear that the share of commercial banks in long-term industrial financing in India is relatively small. This, no doubt, is due both to the nature of their liabilities, which are preponderantly repayable on demand, and the risks inherent in long-term advances to or investments in industry. "The Committee, also feels that the system of mixed banking, prevalent in Europe and the U.S.A. before the world depression of 1929-33, is unsuited to the pattern of commercial banking, and appreciatively notes that legislative prohibitions and restrictions 'against combining deposit with investment banking' have been introduced in many countries". An undisclosed process of thought, however, surprisingly leads the Committee to recommend that a consortium of selected banks and insurance companies be organised under the leadership of the Imperial Bank, for larger investments in and underwriting of industrial shares and debentures.

It would appear that the Shroff Committee was torn between a desire to promote industrial investment by banks and a conventional aversion from long-term bank finance. The dichotomy in their approach has produced an unfortunate confusion. On the one hand, the Committee believes that there are inherent risks in term advances to industry, and finds that the post-war "failure of a large number of banks in West Bengal has been attributed amongst other reasons to their long-term advances to industrial concerns." On the other hand, the Committee recommends that re-discount facilities be provided by the Reserve Bank so that medium-term industrial advances may be facilitated and increased. Again, the Committee believes that investment banking has been rightly condemned in Europe and the U.S.A., but recommends that banks be encouraged (through organisation of a consortium) to invest in industrial shares and debentures to the extent of 5 percent of their deposits, in addition to the 5 percent or more of deposits now employed in advances, against similar industrial securities. The confusion seems to have been made worse by an obviously indifferent understanding of what is meant by mixed banking, which perhaps led to an insufficient appreciation of the particular danger that really inheres in "term finance".

Though the mechanism was somewhat different, mixed banking, it should be realised, was essentially a form of underwriting shares and other industrial securities. Almost since the beginning of the practice in or about 1890, the method followed in Germany had been "for banks to permit capital developments to take place in the first instance by overdrafts on current account" in the hope of "these being repaid later by the issue of securities." The method of overdraft served merely as a substitute or alternative for underwriting, integrally connected with the organisation of consortia, and did not really represent genuine "term advances." In ignoring the cognate relation between the two formally separate operations, the Shroff Committee's report seems to have suffered from a specious mutualisation of the issues involved in the underwriting of and investment in shares on the one hand, and direct "term loans" to industry, on the other.

Short and Long-Term Assets

Before considering further the position arising from the Shroff Committee's recommendation, it may be useful to appreciate that some amount of unnecessary confusion is frequently introduced in discussions on the desirability or otherwise of bank-finance for long-term assets as against short-term assets. Every business operation in the competitive form of the present-day complex economy carries a risk (however remote) of loss or failure. It may be possible to construct a schedule of business operations in a descending order of the normal possibilities of loss or failure. But considerations of earning, maintenance of business connections, and availability of the necessary volume of business, make it almost impossible for any business concern wholly to exclude those operations which may show higher degrees of possibilities of loss or failure. Furthermore, it is necessary to realise that this calculation of "normality" does not possess more than a deceptively formal correctness.

First, a normally high risk may be counteracted by the business man's capacity to wait for a change in the business cycle and may in such cases, be more productive of gain than a normally low risk. Secondly, if the economy fails to operate or adjust itself so as to absorb or distribute the losses arising from failure of a high-risk asset, low-risk assets will not escape the repercussions, often in a magnified form, as is shown by the aggressive declines in the values of floating assets during an economic crisis. During the great depression of 1929-33 in the U.S.A. wholesale commodity prices fell by 37 percent, share prices fell by 81 percent and national income declined by 55 percent. It is true that the value of long-term assets also suffered a similar decline. But whereas the fall in the value of floating assets is a permanent loss to the holders of such assets, the fall in the value of long-term assets may be only a temporary loss, if either strong holders carry them or suitable social measures are taken to resurrect and rehabilitate them. It is not necessary here to discuss the further dangers of the unpreparedness of a holder of short-term assets in the midst of a crisis, nor to enter into the intricacies of the influence of compensatory forces in ultimately adjusting losses on short-term and long-term

THE

UNION BANK OF INDIA LIMITED

(Est. 1919)

Head Office:

APOLLO STREET, FORT, BOMBAY.

Capital Paid-up .. Rs. 40,00,000.

Reserve and other Funds .. Rs. 31,50,000.

Chairman:

M. S. CAPTAIN, Esqr.

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Special Departments at the Bank's Head Office and Calcutta Branch are fully equipped to handle every description of Overseas Banking Business.

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WESTMINSTER BANK LIMITED

NATIONAL CITY BANK OF NEW YORK.

F.K.F. NARIMAN
General Manager.

THE

CENTRAL BANK OF INDIA,

LIMITED.

(Established December, 1911).

Head Office: Mahatma Gandhi Road, Fort, Bombay-1.

Authorised Capital.....	**Rs.**	**6,30,00,000.**
Issued Capital	**Rs.**	**5,77,50,000.**
Subscribed Capital.....	**Rs.**	**5,76,66,125.**
Paid-up Capital	**Rs.**	**3,14,54,250.**
Reserve Fund & Other Reserves.	**Rs.**	**4,00,22,194.**
Deposits as at 30-6-1954.....	**Rs.**	**1,26,84,78,112.**

DIRECTORS:

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Dinshaw D. Romer, Esq.
Dharamsey Mulraj Khatau, Esq.
Cooverji Hormusji Bhabha, Esq.
Manmohandas Madhavdas Amersey, Esq.
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Framroze J. Gazdar, Esq.
H. C. Captain, Esq. (Managing Director)

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NEW YORK AGENTS: The Guaranty Trust Co. of New York. The Chase National Bank of the City of New York.

Banking business of every description transacted on terms which may be ascertained on application.

H. C. Captain,
MANAGING DIRECTOR.

The Bank of Baroda Ltd.

(ESTABLISHED IN 1908)

Head Office :—BARODA

Principal Office for Foreign Business : BOMBAY

CAPITAL AUTHORISED	... ...	**Rs 2,40,00,000**
CAPITAL ISSUED & SUBSCRIBED	...	**Rs. 2,00,00,000**
CAPITAL CALLED & PAID UP	... ...	**Rs. 1,00,00,000**
RESERVES	... ...	**Rs. 1,28,00,000**

Branches:

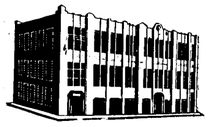
1	**Ahmedabad** (Bhadra)	28	**Kanpur**
2	**Ahmedabad** (Panchkuva)	29	**Kapadwanj**
3	**Amreli**	30	**Karjan**
4	**Amritsar**	31	**Lucknow**
5	**Bangalore**	32	**Madras**
6	**Baroda** (Sayaji Gunj)	33	**Mehsana**
7	**Bhavnagar**	34	**Mithapur**
8	**Billimora**	35	**Navsari**
9	**Bombay** (Fort)	36	**Navsari** (Station Road)
10	**Bombay** (Bullion Hall)	37	**New Delhi**
11	**Bombay** (Mandvi)	38	**Pachora** (East Khandesh)
12	**Bombay** (Zaveri Bazar)	39	**Patan**
13	**Calcutta** (Netaji Subhas Rd.)	40	**Petland**
14	**Calcutta** (Burra Bazar)	41	**Poona Camp**
15	**Calcutta** (Cross St.)	42	**Poona City**
16	**Cambay**	43	**Port Okha**
17	**Coimbatore**	44	**Rajkot**
18	**Dabhoi**	45	**Sankheda**
19	**Delhi**	46	**Sidhpur**
20	**Dhulia** (West Khandesh)	47	**Surat**
21	**Dwarka**	48	**Surendranagar** (Wadhwan Camp)
22	**Harij** (N. G.)	49	**Unjha** (N. G.)
23	**Hyderabad** (Deccan)	50	**Veraval**
24	**Jalgaon** (East Khandesh)	51	**Vijapur** (N. G.)
25	**Jamnagar**	52	**Visnagar** (N. G.)
26	**Kadi**	53	**Vyara**
27	**Kalol** (N. G.)		

Tne Bank has over 50 Branches covering all the Principal Ports and Towns in India and three Branches in E. Africa at Kampala, Mombasa & Nairobi.

The Bank transacts general banking & foreign exchange business.

MATHEW S. D'SOUZA,
General Manager.

THE INDIAN BANK, LIMITED

(ESTD:  1907)

Head Office :—

'Indian Bank Buildings', NORTH BEACH ROAD, MADRAS—1.

Branches in all the important places in South India, Bombay and New Delhi.

CAPITAL

AUTHORISED	**Rs.**	**1,00,00,000**
SUBSCRIBED	**Rs.**	**72,00,000**
PAID-UP	**Rs.**	**57,80,000**
RESERVE & OTHER FUNDS ...	**Rs.**	**76,00,000**
DEPOSITS	**Rs.**	**23.71 crores**

BOARD OF DIRECTORS.

M. A. Chidambaram Chettiar, Chettinad House, Adyar.
R. K. Venkatachalam, Merchant, Coimbatore.
R. Sundram Iyer, Merchant, Basavangudi, Bangalore City.
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N. GOPALA IYER,
Secretary.

assets. It is perhaps sufficient to take note that a bank, like any other economic organisation, cannot live in a hothouse of safety for short-term assets. Its ultimate safety lies in general economic stability. The economic conditions which may raise doubts about the future course of long-term assets will often create immediate difficulties about the realisability of short-term assets.

Long-Term Loans and Investments

The question of a bank's participation in share issues, as recommended by the Shroff Committee, takes on a different complexion. It is not a question of financing a business operation involved in a long-term loan, but a question of sharing losses of a financial operation. Though Allen and others in their book *Commercial Banking Legislation and Control* consider it to be an open question "whether the chief danger of permanent participation is illiquidity or actual loss", it appears that the chief danger of share participation is loss, whereas the chief danger of a long-term loan is illiquidity.

The basic difference between a loan and an investment in shares is that the former asset may normally be expected to turn into cash in the course of its career extending over a calculable period, whereas the latter does not ordinarily liquidate itself in cash, but may be converted into cash by being shifted to other investors. The shiftability of an investment, often confused with its realisability, serves to obscure the dangers of loss developing in respect of an investment, whereas to watch over the course of realisation of a loan enables the bank to take necessary and timely measures to ensure correct behaviour of the loan.

It should also be understood that in the case of a loan, the share capital of a borrowing concern is generally regarded by the lending banker as a hedge against risks. Participation in industrial securities, therefore, provides a narrower margin of safety than is available for a loan, and thus is an inferior form of bank asset to an industrial loan whether long-term or short-term. Again, if technological progress has tended to upset calculations and estimates of the annual amortisation charge for fixed assets, and thus to emphasise the danger of loss relating to long-term loans to industry; then such danger is *a fortiori* further multiplied in respect of participation in equity. In the interest of a clearer appreciation of the issues involved, it is also necessary to realise that losses to bank depositors have not been caused fundamentally by "long-term advances to industrial concerns".

The story of the rise and fall of the Indian Specie Bank and the Peoples Bank of Lahore brings out the real dangers relating to a bank's lending operations. The careers of these two Indian banks show that, if under certain circumstances fixed assets are a "dragging" possession, under different circumstances they yield a better dividend than floating assets. Again, the experience of British bankers in the '20s illustrates that conditions of modern commerce may not infrequently result in commodities and bills receivable being rendered unsaleable and unrealisable, and further that frozen floating assets are worth infinitely less than the record of bank failures, whether in India or abroad, are that it is the bad-banking behaviour concerning loans, and "hit-or-miss" methods, and not the mere making of long-term loans, that leads to disaster. So long as rules for the proper dispersal of assets and risks are observed, and the banker maintains continuous touch with the borrower and his business and watches the course of the industry or trade to which the business of the borrower belongs, so long as proper regard is had to the principles of "standard ratios", and the banker keeps himself prepared to take timely action, it may reasonably be left to the individual banker to determine whether, and to what extent, he will engage in long-term finance in the form of loans.

Furfher, when a bank holds a mortgage on the fixed property of an industrial concern, the value of its asset is determined by the productivity value of the fixed property, whereas when it holds shares in the capital of the concern, the value of its asset is determined by market spasms largely produced by activities not related to the forces of production and consumption. It is instructive to observe that, according to statistics compiled by the International Monetary Fund, industrial share prices in India have recorded a fall of about 31 percent over the period 1948-53, while the index number of commodity wholesale prices registered a rise of 7 percent during the same period. What is more significant is that this fall in the prices of industrial shares has taken place in spite of an increase in industrial production of approximately 25 percent. The uncertainty of equity-price movements is further emphasised by the fact that during the same period, 1948-53, industrial share prices have gone up by 56 percent in the U.S.A., 2 percent in the U.K. and about 283 percent in Japan. If it is hoped that a strong consortium will succeed in holding in check speculative and other non-economic forces, it is a sobering reflection that the consortium can act effectively only if it engages in open-market operations or agrees to hold its investment in a particular company for an indefinite period neither of which is possible without the active co-operation of the central monetary authority. It may be suggested that debentures will be largely, even if not wholly, free from the vicissitudes of the market. But even then a straight mortgage loan enables the banker to have a more continuous, direct and purposive contact with, and control over, the borrowing concern than is possible under the conditions of a debenture-issue; it is almost unquestionable that successful lending by a banker depends on his being able to exercise that intuitively discretionary judgment which is born of an intimate study of the borrowing concern.

Different Types of Bank Loans

It is necessary, however, to sound a note of caution here. Nothing said above is intended to advocate or deprecate either long-term or short-term loans in their relation to each other. The purpose of the discussion is to emphasise that while there is no absolute standard for determining the suitability of a particular type of loan for banks, the unsuitability of investment as a bank-asset is fairly clear. It has been properly remarked by the Mission of the International Monetary Fund in their report on India's economic resources relating to the five year plan, that the question of long-term loans versus short-term loans "is a problem of adjusting banking standards to the needs and traditions of the country". Subject to the observance of the important guiding principles referred to above, different types or forms of loans for different purposes may be made by banks at different times in different countries with different traditions and systems.

It may help unbiassed thought to reflect that "business loans" of commercial banks in the U.S.A. account for less than 45 percent of total loans, whereas real-estate loans represent about 25 percent and consumer loans 15 to 20 percent, that term loans represent more than one-third of business loans, that instalment credit accounts for more than 50 percent of consumer loans, and lastly, that about 55 percent of business loans in the U.S.A. are not supported by any security.

Again, there is a system of bank loans in the U.S.A. known as "constructive loans" which besides term loans provide long-term money to industry. The system of bridge-over overdrafts and the process of continual renewals of overdrafts in Britain, ostensibly for short-term needs but in fact utilised for medium-term or long-term purposes, also represent loans for the medium- and long-term needs of industry, which are a normal, if disguised, feature in the scheme of bank loans, subject of course to the need to diversify risk and to balance the pattern of assets with the necessary degrees of liquidity. It is also important to note that in spite of an apparent aversion from unsecured loans in India, such loans by scheduled banks accounted for 15.9 percent of their total advances on 31st December, 1953 on top of 11.4 percent represented by "other secured advances" which comprise a miscellany of bills, fixed industrial assets, etc. It is also known that the discounting of "multani hundis", which are regarded as quite sound banking assets, is not based on a direct link to bona fide short-term commercial operations, but on credit reports and past performances of Shikarpuri Shroffs. It now remains necessary to appreciate that the basic considerations and principles which influence a banker in making "unsecured" or clean loans apply *mutatis mutandis* to a banker's decision in sanctioning or refusing a proposal for long-term or medium-term loans. It should appear, therefore, that a controversy over the propriety of banks' long-term or short-term loans not only loses significance in a proper consideration of the nature of the risks involved, but also becomes as unrealistically vague (considering the actual practice among bankers) as a generalised discussion on whether banks should grant unsecured loans or finance trade in cotton, bullion or oilseeds when there is a tendency to generate waves of speculation which would cause grievous losses to traders and bankers alike.

Shiftability and Realisability

It would, therefore, seem a dangerous proposition to suggest that instead of acting on canons of normal realisability and credit rules, banks should be guided by methods of "shiftability". It is indeed something of a solecism to point to the evils of "mixed banking" of the German type and then to recommend institution of the German "Konsortium" with its "Leiter" to boot. From the viewpoint of the economic system as a whole it may not perhaps be difficult to agree with H. G. Moulton that "Liquidity is, in fact, tantamount to shiftability", but so far as an individual banker is concerned, calculations of possibilities of sales of current goods to consumers and of the amortisation of fixed assets, are a more dependable guide than the chances of passing the buck. The question of over-riding importance for a banker is that of realisability as distinguished from shiftability, or even liquidity, if it does not also represent economic exhaustion in the normal process of conversion into cash. Though "liquidity" or "shiftability" may be necessary to meet withdrawals of funds in the ordinary course of a bank's business, it should be apparent that no banker can possibly continue to function if more than, say, 50 percent, of its 5 year-average funds disappears in the course of three to five years, following the average. Moreover, when more than one bank is caught in a wave of withdrawals, even the most highly liquid or shiftable assets fail to liquidate or shift in necessary quantities.

While, therefore, it is undeniably necessary for a banker to regulate his loan-portfolios and other assets in accordance with the requirements of normal withdrawals, and so adjust the proportion of his liquid assets on the basis of the system of available economic and social safeguards, it would be fraught with peril, if a banker were to be guided by the methods of "shiftability" divorced from the forces of "realisability". If it ever becomes necessary for a banker to choose between a long-term loan and an investment in shares, the former would be a sound preference. It is true that the Shroff Committee closely follows the Central Banking Enquiry Committee in advocating larger participation by the Imperial Bank and other banks in industrial issues. But history and reason seem to weigh heavily against the wisdom of such a course. In this connection it may be useful to consider whether it would be wiser for the future of equity promotion in India to overcome the reported reluctance of the State-sponsored financial corporations to participate in share issues, and to organise unit trusts as recommended by the Shroff Committee.

State-Guarantee

It may be misleading, however, to conclude without reiterating the warning that no case has been made out here for the Indian banker to undertake long-term industrial loans on a scale larger than he considers justified in the light of his well-formulated principles of graduated liquidity and rules of credit. It is to be emphasised that while it is useful to have an objective view of the problems involved in different transactions relating to short-term and long-term loans, and to guard against dogmatic attitudes or "applied behaviourism" in deciding between short-term loans, long-term loans and investments in share capital, the purported objectivity will be self-defeating if a properly attuned balance is not maintained in considering the suitability of a particular type or size of term-loan in relation to a bank's deposit structure, asset structure and business requirements.

A different problem arises of course if national policy requires a particular type of financing to be undertaken by banks, irrespective of whether such financing involves floating assets and working capital or fixed assets and long-term capital. It is now a growing practice for the State, even in countries with established and fully-developed banking systems, to invite banks and other financial institutions to extend loans for purposes considered necessary in the interest of a stable or progressive economy. But it should not be overlooked that such invitations are also accompanied by a State guarantee, as it has not failed to be realised that the cost of loss on a loan considered socially necessary should evidently be borne by society as a whole and not by the particuar institution making the loan. It is significant that about 15 percent of loans of insured commercial banks in the U.S.A. are covered by guarantees of State-sponsored agencies, and that in Britain, where a system of State guarantee for export credits has been operating for a number of years, a scheme of State support has recently been introduced for mortgage loans. Even in India, State guarantee was offered in the wake of the 1952-53 depression, on finance for growing tea and holding cotton. If therefore banks are expected to undertake medium-term or long-term or for the matter of that short-term finance, otherwise than in the ordinary course of business, or on a scale out of line with the pattern of graduated liquidity, it is an issue, not of revision or even adjustment of the methods of banks' lending policy, but of evolving a system of State-guarantee.

The future will perhaps show the shape of social and economic safeguards that may develop in the planned economy of India. But no structure of credit will possibly remain viable for any appreciable length of time, if the principles for determining the realisable value of assets fail to be correlated with prevailing ideas of economic desirability.

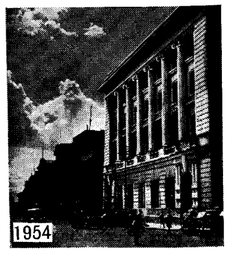
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FINANCIAL CONTROL IN INDIA

• By Prof. V. G. RAMAKRISHNA AIYAR, •
Annamalai University, Annamalainagar, S. India.

THE problem of financial control of Government expenditure has become one of great practical importance, especially in view of the increasing public expenditure in India and of the many irregularities that have been taking place. The object of this article is to describe briefly the main features of the system of financial control—how it works and how it requires certain modifications in the light of recent developments. India has followed other Commonwealth countries in adopting Cabinet Government on the British model. In successive constitutional reforms, institutional and administrative checks have been set up on the British model. For example, expenditure calling for additional funds has to emanate from the President, that is to say, virtually from the President's Ministers. Again, a Select Committee on Public Accounts was set up immediately after the Montague-Chelmsford Reforms. It was accompanied by a Standing Finance Committee corresponding to the British Estimates Committee. But these Committees at first functioned with much less independence than their counterparts in Britain. Their Chairmen were members of the Government responsible for the spending and not, as in Britain, members of the Opposition. The Committees, therefore, were not very effective.

One of the earliest acts in India after the attainment of Independence (February 1950) was to establish machinery whereby the Chairmen of Select Committees were appointed by the Speaker, thus making it possible to appoint members of the Opposition as Chairmen and thus giving an opportunity for free criticism of governmental policy. A new Estimates Committee has also been provided for, similar to the British Committee on the Estimates. It is laid down that the Indian Public Accounts Committee should have 15 members and the Estimates Committee 25 members. A day is usually reserved for parliamentary discussion of the reports of the Public Accounts Committee; the reports of the Estimates Committee will also be debated and commented upon in the Press.

Public Accounts Committee

The Indian Public Accounts Committee works in close co-operation with a strong department of audit whose composition also follows the British system. The Accounts Department is separate from the Audit section; as a result, the confusion which exists in many countries, because the same body authorises and audits expenditure, has been avoided in India. Moreover, the Central Accounts and Audit Departments function not only for the Union Government, but are also responsible for supervising and auditing all State accounts. Municipal and local finances are outside the purview of the Central Government, and are under the States, which endeavour to see that local accounting and auditing are performed with reasonable efficiency.

As in Britain so also in India, the Ministry of Finance occupies a dominant position. Like the British Treasury, the Indian Ministry of Finance maintains continuous control over departmental expenditure. There is also a move to increase the efficiency check on expenditure at the administrative level through the establishment of Organisation and Method departmental officers on modern British lines.

In the 1930s India set up an Economic Advisory Department which functioned in the Ministry of Commerce and had a statistical unit attached to it. But economic questions are coming to be more and more the concern of the Ministry of Finance and the Cabinet Secretary associated with it. The Indian Ministry of Finance has been reorganised so as to pay more direct attention to economic questions. One section is responsible for all revenue matters; another entitled "Expenditure" (parallel to British Supply) is concerned with departmental estimating and outlay; the remaining departments—Internal Finance, External Finance and the Budget Division—are closely associated with economic affairs.

Social Accounting

Social accounting, or the use of national income calculations as instruments of policy, has not yet been developed in India, but is now becoming popular on account of the need to increase revenue. All previous investigations on India's national income had a social rather than economic purpose. They were conceived to measure the distribution of income and the extent of poverty.

Early in 1945, a small National Income Committee of experts was established to investigate methods of procedure and this sponsored a multi-purpose (social and economic) sample which might provide data for more comprehensive social accounting at a later stage. There is now a strong interest in planning, and especially in the planned development of national resources by public authorities. The Planning Commission now established is much closer to the Government and to the administration, though not as close as in Britain; its position and duties have not yet been very clearly defined.

Character of Financial Control

Financial control in India is of a two-fold character: Internal and External. Internal or treasury control is exercised primarily by the Finance Department, which is charged with the duty of seeing that economy is observed by the administrative departments. In practice, this control is limited by several factors. One of these is the personality of the Finance Minister. In Britain, the Chancellor of the Exchequer is regarded as next in importance only to the Prime Minister and is always a leading member of the party in power. When he says "no" to a proposal, it is final. This is not the case here. Finance Ministers in the States and at the Centre have not been members of the party enjoying a majority in the Legislature. The authority of the Finance Department is not final, and its control is not as strict as that of the British Treasury. Finance does not constitute a whole-time charge for a Minister in the States and he is also placed in charge of spending departments like police, jails, law, courts, education, etc. As such, the Finance Minister becomes a party to the expenditure which he is ultimately to sanction as the head of the Finance Department. No Finance Department can dictate or veto policy. Ultimately, administrative considerations must prevail. If the Government, for instance, decides on a policy of prohibition, the Finance Department has to accept it in spite of the resulting loss of revenue.

External control over public finance is exercised by: (i) the Legislature; (ii) Committees of the Legislature; and (iii) the Audit Department. The main function of the Legislature in connection with finance is to vote supply, which includes voting of expenditure as well as provision of funds by taxation or otherwise to meet the expenditure.

Control over Expenditure

As far as control over expenditure is concerned, the provision in the new Constitution is satisfactory. Many items of expenditure previously classed as non-votable (about 80 percent of the total expenditure) will now be votable, such as defence, salaries and pensions of superior civil services, external affairs, etc. The items now classed as non-votable are also non-votable in Britain and other advanced countries, such as debt charges, salaries and pensions of High Court judges, allowances and emoluments of the head of the State, etc. In another respect also there is an improvement over the Government of India Act, 1935. A vote once passed by the Legislature is final in the sense that it cannot be modified by the Executive. There can be no restoration by the Executive of grants rejected or reduced by the Legislature.

Sections 162 and 163 of the Government of India Act, 1935, provided that the executive authority of the Federal Government or a Province extended to borrowing upon the security of the revenues of the Federation or the Province; these provisions have been reproduced in the Constitution. In view of the growing magnitude of the annual loan operations, it seems necessary that the specific sanction of the Legislature regarding the purpose and the amount of each loan should be obtained before the loan is raised. If the loan is being raised to meet a revenue deficit or any other unproductive purpose, the Legislature, and particularly the money market, will take due notice of the fact. It will also enable the audit to see whether the loan has actually been spent for the purpose for which it was raised, and whether the amount spent is not greater than that sanctioned by the Legislature.

The main Committees of the Legislature concerned with financial control are the Standing Finance Committee and the Public Accounts Committee. The function of the Standing Finance Committee is to advise the Government on new proposals for expenditure before they are included in the Estimates. The main Committee of the Legislature concerned with financial control is the Public Accounts Committee. Public Accounts Committees have been in existence at the Centre and in the States ever since the inauguration of the Montague-Chelmsford Reforms. They have done useful work in improving financial administration. As far as their membership and functions are concerned, they have generally been modelled on the lines of the British Public Accounts Committee. Secretaries to Governments, heads of departments and other spending officers are called before it to give evidence. This exercises a wholesome influence on the spending of public money. The Auditor-General (or the Accountant-General in the case of a State) usually attends the meetings of the Committee to assist it in its deliberations and proceedings.

Position of Auditor-General

The Auditor-General is rightly given the same position of independence as a judge of the Supreme Court. This is a very necessary provision. The Auditor-General of India exercises powers and functions for both the Centre and the States. As audit and accounts was a provincial subject, provinces were free even under the Government of India Act, 1935, to make their own arrangements though they did not prefer to do so on grounds of economy and efficiency. In the new Constitution, the provisions relating to the States have been separated from those relating to the Centre.

Financial transactions of Governments mostly consist of (i) receipts of revenue; (ii) expenditure; and (iii) purchase and issue of stores and stock. As far as the audit of expenditure is concerned, the functions of the Auditor-General are sufficiently comprehensive and are practically the same as those of the Comptroller and Auditor-General in Britain under the Exchequer and Audit Department's Act. There is however one important difference. In Britain, the Comptroller and Auditor-General combines in his own person two offices which were formerly separate. In his capacity as Comptroller of Exchequer Issues, he controls the issue of public money; in his capacity as Auditor-General, he is auditor of public accounts. This is not so in India and the separation of accounts from audit gives scope for financial irregularities. For instance, during the last war large sums were issued from the treasuries in Bengal on the authority of the Bengal Government; these payments were found to be irregular and about Rs. 19 crores had to be written off. The English practice is commendable. Another point in relation to the powers of the Auditor-General is that though he is free to decide the scope of audit in relation to expenditure, his budget is controlled by the Finance Department. As far as audit of receipts is concerned, the position is very satisfactory. In Britain, the Comptroller and Auditor-General is required by law to audit all accounts of revenue and to report on them to Parliament. In India, the Auditor-General cannot of his own accord undertake the audit of the receipts of any department. He can do so only with the approval of, and to the extent desired by, the Executive.

New Sources of Revenue

In Britain, the Comptroller and Auditor-General performs all the functions connected with assessment, collection and remittance of collections into the Treasury on behalf of the House of Commons. In India, however, audit is restricted only to the remittance of collections to the Treasury. The fact is that when the audit regulations were first framed in about 1870, land revenue was the main source of revenue. Audit officers did not have the necessary knowledge to check the assessment and collections of land revenue, and in any case it was duplication of work which was normally done by the District Collectors. But now land revenue is no longer a source of income for the Centre. Taxes on income, customs and excise can easily be checked by audit officers as in Britain and if income-tax receipts are subject to audit by audit officers, there is a fair possibility of checking the enormous evasion of income-tax.

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FINANCE FOR INDUSTRIAL ENTERPRISE IN INDIA

• By DR. N. DAS, I.C.S. •

Secretary, Commerce and Industries Department, West Bengal.

DURING 1953-54, overall industrial production in India reached a postwar peak level which has surprised friends and confounded critics alike. This rise in production has been maintained ever since. Furthermore, expansion of industrial capacity, as distinct from actual production, has also been steadily on the increase. Nevertheless, there is a feeling in the country that the financial requirements of industry—particularly those in the private sector—are not being adequately met. While the financing of enterprises in the public sector is taking place more or less "according to plan", private business men and entrepreneurs continue to complain that they are finding it difficult to procure the necessary finance for development. It has been pointed out, for instance, that although industrial investment in the public sector has increased from a negligible figure during 1945-50 to Rs. 29.5 crores in 1951-54, that in the private sector during the latter period has been only Rs. 75 crores (this excludes the figures relating to petroleum refineries). It is true that the situation improved considerably during the third year of the plan (i.e. during 1953-54), but it is obvious that an average annual investment of Rs. 25 crores in private industry is grossly inadequate for a country of the size of India, particularly when it is remembered that the field of private investment is virtually unlimited.

But can we lay the blame for this state of affairs exclusively, or even mainly, at the door of the financial and banking mechanism in the country? The question can be answered best by analysing what the financial requirements of the private sector are and how they are being met at present.

As is well-known, industries require two main types of capital: (a) fixed or long-term capital for the purchase of block assets such as land, machinery and buildings; and (b) working or short-term capital for financing stocks of raw materials, stores and finished products and for meeting day-to-day requirements. In addition, they require capital for extensions and replacements which is mainly of a long-term character. Even as regards working capital, that part of it which is necessary for holding a minimum level of raw materials, stores and finished goods should be regarded as long-term in nature.

Now, in so far as short-term finance is concerned, it is the general experience that large industries do not find any appreciable difficulty in obtaining the required capital. This, however, is true only in a limited sense. As has been pointed out by the Committee on Finance for the Private Sector (popularly known as the Shroff Committee), although the five year plan envisages an expansion of Rs. 158 crores in the short-term requirements of industries to be provided principally by the joint stock banks during the period 1951-52 to 1955-56, the actual figures of industrial advances made by scheduled banks since 1951 do not show any significant rise. This is due, at least in part, to the fact that the deposits of scheduled banks have remained more or less constant during the past three years. Some improvement would, however, occur if the various impediments in the way of banking expansion were removed, so that their resources, and consequently their ability to make larger advances to the private sector, could increase. The Shroff Committee has suggested the adoption of some positive measures in this direction, of which the most important are: (a) liberalisation of the Bill Market Scheme of the Reserve Bank of India; (b) liberalisation of existing remittance facilities; and (c) grant of subsidies to banks to open branches in rural areas.

Commercial Banks and Industry

Another significant fact is that, even today, commercial banks provide only a small part of the working capital of private industry. In a recent survey of the major industries in India, it has been found that commercial banks provide between 15 and 55 percent of the working capital, and the remainder has to come from "other sources". While larger units experience no difficulty in raising the finance, it is the smaller units which find the existing arrangements inadequate and unsatisfactory. When it is remembered that the value of the net output of small enterprises (other than village or cottage industries) is of the order of at least Rs. 300 crores (as against the net output figure of Rs. 550 crores for factory establishments), it will be realised how very important it is that small units also should receive adequate short-term finance.

It is, however, in the realm of long-term finance, whether it is for the purchase of block assets or for extensions and replacements, that the greatest difficulties are encountered. Modelled as they are on the lines of the British deposit banks, their investible resources consisting mostly of demand or short-term deposits, it has not been possible for the ordinary joint-stock or commercial banks in this country either to participate in the floatation of companies or to collaborate with industrial concerns in the manner and to the extent to which banks have collaborated with industry in Germany, Belgium, the Netherlands, Italy, Austria and Hungary.

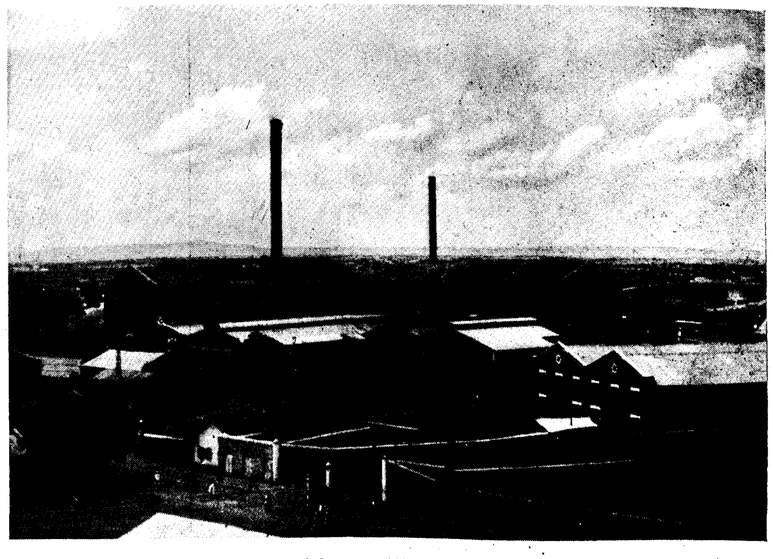
This lacuna did not present any insuperable difficulty in the early years of industrial development in this country. This was because the managing agents provided, or helped to provide, most of the finance. Some of these firms not only did the preliminary work of research and experiment prior to the launching of new concerns, but also actually promoted joint stock companies. In addition, most of them either employed their own funds to finance the requirements of the concerns with which they were connected, or arranged for such finance by acting as guarantors. There being no institutions in India corresponding to the issue houses, investment banks and underwriting firms of Western countries, and the tradition of industrial banking as practised on the Continent being also unknown, managing agents filled a very important gap in the economic and financial system. Despite the criticisms levelled against the managing agency system and occasional instances of speculative activity and inter-company investment of funds by them, no impartial observer can deny that, but for the financing of industrial enterprise by these agents, the industrial progress of India would have been much slower than it is.

Industrial Banks

During the last three decades or so, however, it has been increasingly felt that the managing agency system was unequal to the task of providing or arranging finance for industry—particularly for those concerns which, though inherently sound, were comparatively new to the industrial field. Attempts were, therefore, made by certain enterprising business men to start "industrial banks", primarily with a view to financing industrial ventures. Some eight of them were started during 1917-1923. All these institutions had, however, to close down in the course of a few years because: (a) although the promoters were stimulated by the model of industrial banking as practised in Germany, they did not have any experience of such operations; and (b) in an anxiety to achieve rapid success, they indulged in risky and costly investments.

The failure of the "industrial banks" in the 'twenties of the present century does not, however, prove that existing institutions are the best agencies to provide the financial requirements of industry. That there is a need for special institutions is indisputable; as a matter of fact, since the end of World War II, such institutions have been set up in many countries to meet the challenge of reconversion of wartime industries to peacetime conditions and to promote industrial development. Even in the U.K., two special institutions called the Industrial and Commerce Finance Corporation and the Finance Corporation of Industry were set up in the postwar period. The former provides finance for such small and medium-sized industrial and commercial business as could not readily or easily obtain the facilities provided by the ordinary banks, while the latter finances large-scale industries—particularly new enterprises. An Industrial Development Bank was set up in Canada in 1944, while in Australia an Industrial Finance Department was created within the Commonwealth Bank of Australia in 1946. Similar developments have also taken place in the comparatively underdeveloped Latin American countries. "Fomento" credit organisations or specialised institutions have been set up in Mexico, Brazil, Chile, Argentina and Colombia, mostly since the end of World War II, to assist in the mobilisation of capital for productive purposes and to provide long-term credit to industry.

It is, therefore, natural that similar demands should have been put forward in India as well. Leaving aside the commercial banks on the one hand and indigenous moneylenders on the other, the existing agencies for industrial finance in this country are: (a) the managing agents; (b) institutional investors like insurance companies and investment trusts; (c) statutory finance corporations like the Industrial Finance Corporation of India and State Financial Corporations; (d) co-operative finance organisations; and, finally, (e) the investing public. We have already considered the part played by managing agents in stimulat-



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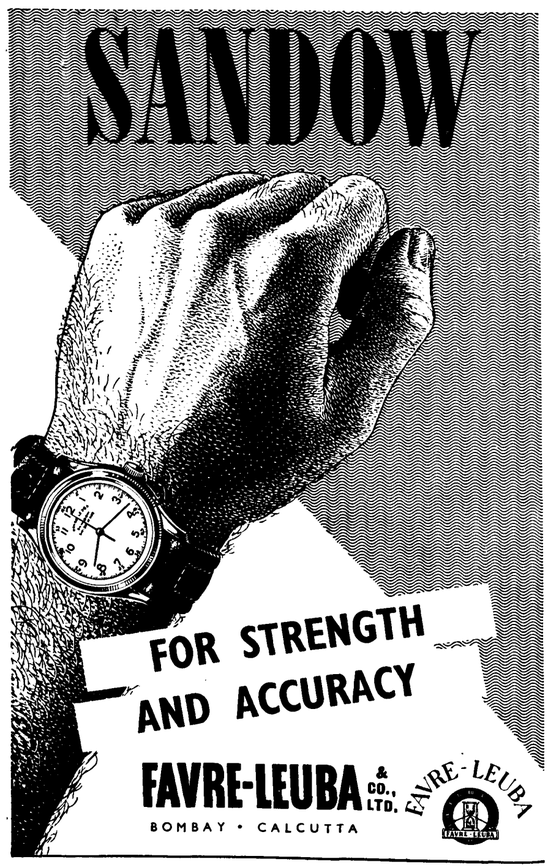
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ing and promoting industrial development. Although, in the altered conditions which prevail today, managing agents seem no longer able to play the dominant part they used to play even two or three decades ago, the fact remains that they still control the major sector of private industrial enterprise. In 1952-53, for example, some 112 managing agents controlled and managed 617 joint-stock companies, and it was through this close association that the latter were able to obtain their capital requirements. As regards institutional investors like insurance companies and investment trusts, the former have come to hold an increasingly large number of the shares and debentures of well-established companies. On 31st December, 1952, out of the total assets of Rs. 292.92 crores, the investments of Indian insurance companies in industrial shares and debentures amounted to Rs. 41.79 crores. This increased still further in 1953. The investment trusts which function in India, on the other hand, are mostly managing agencies under a different name, investing mainly in companies managed by a particular agent.

The statutory finance corporations (the Industrial Finance Corporation of India and State Financial Corporations) which have been set up are of comparatively recent origin and it is too early yet to say whether they have been able to make an appreciable contribution towards a solution of the difficulties which face private industrial enterprise in this country. According to its balance sheet as on 31st March, 1954, the Industrial Finance Corporation of India had issued bonds amounting to Rs. 7.81 crores and made loans and advances to industries aggregating Rs. 11.20 crores. The various State Financial Corporations also are reported to have sanctioned loans and advances to industries in the neighbourhood of Rs. 2.5 crores.

Industrial co-operatives occupy an important place in the Indian capital market, particularly in relation to small and cottage industries. At the end of June 1952, the working capital of the various industrial co-operatives (the majority of them are in South India) was Rs. 8.65 crores.

We now come to the most important agency in the capital market, that is, the investing public. Unfortunately, the absence of accurate and up-to-date data about this important source of corporate finance makes a proper analysis exceedingly difficult in this country. We have no comparable data to show the precise amount actually subscribed by the investing public from year to year. The quarterly reports published by the Controller of Capital Issues of the Government of India merely indicate the amount "consented to or permitted" for the purpose of raising capital and not the "actual issues" of capital. Even so, the figures are not encouraging:

INDUSTRIAL CAPITAL ISSUES CONSENTED TO UNDER THE CAPITAL ISSUES CONTROL ORDER SINCE 1948.

Year	Industrial Issues Consented to (Crores of Rupees)
1948	71.8
1949	41.1
1950	59.7
1951	44.0
1952	32.7
1953	71.4
1954 (up to 30th June)	31.2

As regards capital actually raised in the open market, the Reserve Bank of India has recently undertaken studies which throw some light on the real state of affairs. Unfortunately, the latest available report relates to the years 1950 and 1951 only. According to this report (Report on Company Finance in India), the net additional paid-up capital and debentures and mortgages invested in joint stock companies registered in India with rupee capital and having a minimum paid-up capital of Rs. 5 lakhs, was only Rs. 10.86 crores in the year 1951. Even conceding that the coverage is not identical in both cases, this contrasts very miserably with the figures of Rs. 59.7 crores and Rs. 44 crores for which consents were given in 1950 and 1951 respectively.

The conclusion is, therefore, inescapable that adequate amounts of indigenous capital are not forthcoming in this country for purposes of industrial investment, at least in the private sector. The Shroff Committee has analysed in some detail the complex economic, political and psychological factors which continue to inhibit such investment; of these, the most important are the fear of nationalisation, the rising labour costs and uncertainties caused by the awards given by various Labour Tribunals, and the actual operation of Governmental controls affecting particular industries. The increasing frequency of the incursions made by the Government into the field of investible resources also limits the capital available for private enterprise. As is well-known, there has been a considerable diversion in recent years of voluntary savings into Government loans and securities. No doubt, part of this is due to the fact that institutional investors like banks and insurance companies have to hold up a portion of their investment portfolio in Government and trustee securities, but this preference of the ordinary investor for such securities stems largely from lack of confidence in ordinary industrial securities. This lack of confidence, in its turn, has been due to malpractices on the part of some sections of the entrepreneurial community on the one hand, and the inhibiting economic, political and psychological factors already referred to, on the other.

Mere liberalisation of existing methods and techniques or a closer accord between the Reserve Bank of India and the various monetary and fiscal agencies in the capital market will not, therefore, help. Even the setting up of new institutions to provide long-term finance to industry may not resolve the essential complexities of the situation. If the private sector is to play a useful part in the field of industrial development, the basic obstacles which inhibit investment must be removed. At the same time, as has been emphasised by the Shroff Committee, the business community itself should seek to inspire greater confidence by enforcing proper discipline and codes of conduct on the management, and by rooting out the many unhealthy practices that still prevail. Finally, entrepreneurs must also make adjustments in their social outlook. "It would be futile to expect in the world of today conditions similar to those which prevailed in the early stages of capitalist development abroad". Business men must realise that a certain measure of control by the State in the public interest is inevitable in a planned economy. They must also realise that the concept of social justice must prevail over doctrinaire freedom of action or the right to unlimited profits.

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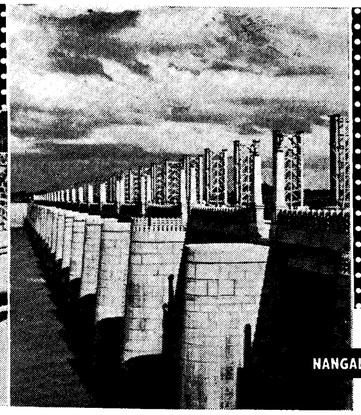
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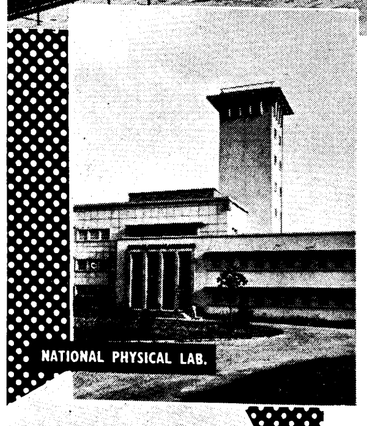
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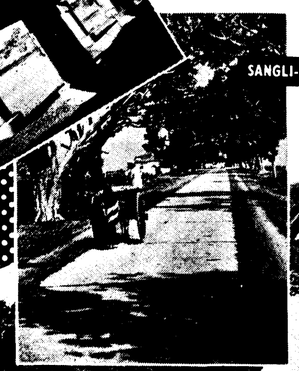


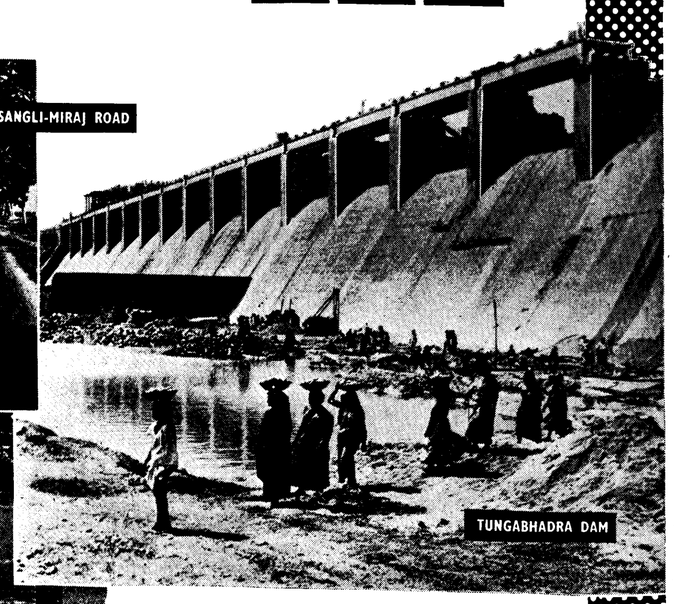
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ECONOMIC PROGRESS IN PAKISTAN

STRESSES AND STRAINS IN A DEVELOPING ECONOMY

THE serious economic problems which Pakistan has had to face during 1954 are basically problems which, to a greater or lesser degree, have confronted all South and South-East Asian countries since the end of the Korean war. They arise mainly from a weakening in the terms of trade between the economically undeveloped countries of Asia on the one hand, and the more industrially advanced countries of the West on the other. This has resulted from the general fall in world prices of primary commodities, such as Pakistan's jute and cotton, which has taken place since 1951; combined with the general steadiness of the prices of goods manufactured by the West.

What are its consequences for the backward countries? Because they do not receive adequate prices for their raw materials, their export earnings are low. As long as they accept a low standard of living, no special difficulties are encountered; but as soon as an undeveloped country embarks on a development programme and has to buy highly priced capital goods, it runs into difficulties in its external balance of payments. Pakistan earns 90 percent of its foreign exchange from raw jute and cotton exports and is trying to industrialise in order to reduce its dependence on imported capital and consumer goods. The change in terms of trade is therefore a serious matter for it. Every new factory, each new water-power scheme, every new electrical project, even new irrigation plans, all require expenditure of foreign exchange in a world where, considered against the price of exports, these requirements are becoming more expensive.

The Difficult Choice

In 1948, Pakistan had the choice of remaining a primarily agricultural country or of industrialising. No one has seriously criticised the decision which was then taken that it should embark on a plan for industrialisation. It was left at the time of partition without many of the industries on which the economy of undivided India had depended. The high prices for jute, cotton and other raw materials which followed the Korean war gave Pakistan the breathing space to implement this industrial programme, but after the fall in prices which followed the end of that war, conditions, so to speak, returned to normal. Raw material prices fell and foreign exchange earnings available to import capital and consumer goods for the new development programme which, by that time, had made some progress, were reduced accordingly.

The full effect of those inescapable difficulties began to be felt in 1953 and Pakistan has had to face their full impact during 1954. Although the heavy deficits of the post-Korean war years have been eliminated, mainly by very severe restrictions on imports, the underlying problems remain. The choice was either to industrialise and spend foreign exchange on capital goods, or not to industrialise and spend the money on consumer goods. This has inevitably meant a tightening of the economic belt. This policy, coming into full effect at a time when exports in terms of value were falling, is reflected in the following statistics. Payments for commercial imports (which exclude imports on Government account) stood at Rs. 73 crores in 1953-54 against Rs. 121 crores in the preceding year and Rs. 192 crores in the boom year of 1951-52.

Drastic Restrictions on Imports

This reduction was only achieved by a severe restriction on imports with the resultant increase in the prices of many consumer goods, reminiscent of the war years. The restriction on imports became complete in 1952 when all imports coming into the country became subject to control. This situation was brought about entirely by the fall in foreign exchange earnings. In 1953-54 total exchange earnings were down to Rs. 142 crores compared with Rs. 152 crores in the preceding year and a peak of Rs. 247 crores in 1950-51. As the restriction on imports took place after the fall in foreign exchange earnings, gold, dollar and sterling reserves had fallen to the low level of Rs. 63 crores at the end of June, 1954, compared with the peak of Rs. 151 crores at the end of 1951.

The fundamental answer to this problem is to achieve an expansion in foreign exchange earnings which will enable more capital and consumer goods to flow into the country. As industrialisation proceeds, and provided this process does not outstrip the need to import reasonable quantities of capital goods and raw materials, additional sources of exchange earnings such as jute manufactures, cotton piecegoods and paper should substantially contribute to earnings in future years.

The Exchange Rate

Whenever Pakistan's balance of payments problem is discussed, some critics inevitably fall back on the suggestion that there should be a readjustment in the exchange rate. Those who advocate such a policy possibly overlook the fact that Pakistan's exports at present consist almost entirely of raw materials, and their prices are conditioned by world markets. Any readjustment of the exchange rate would not increase the quantity of raw materials sold or the foreign exchange earnings of the country. All that would result would be an increase in the value in terms of rupees earned by the producers, which would in turn have an inflationary effect. Furthermore, devaluation, in the case of imports, would automatically result in additional revenue being required to finance Government development schemes. On balance, it would seem that at present it is not in the interests of Pakistan to devalue her currency, at least from the purely economic angle. There is, however, the psychological effect of an overvalued rupee which produces stresses and strains on the economy that would not necessarily occur if the rupee were devalued.

Food Situation Improves

Most of Pakistan's economic development can be traced to overall planning based on these considerations. A good deal hinges on the food situation which, two years ago, was causing great anxiety and had been a source of great pressure on the country's balance of payments. Following the American wheat loan, the crisis was overcome. The success of the "grow more food" campaign and the increase in acreage brought about by irrigation schemes has greatly eased the food position. Production of both wheat and rice increased during the year. Indeed, in the case of rice there was an exportable surplus. Prices of foodgrains have declined and several food distribution control and economy orders have been withdrawn. The increase in food production has, however, been achieved at the expense of jute and cotton; though less of the latter is now available for export, this has probably helped to maintain a satisfactory price for the producer.

Following the food shortage the cultivated area under jute was restricted to about 60 percent so that the yield during 1953-54 was only 47 lakh bales as compared with 68 lakh bales in the previous year; the carryover of 27 lakh bales from 1952-53 has mostly been sold. The acreage under cotton also fell and production was only a little more than 14 lakh bales. This, combined with the increasing consumption of new mills being set up all over the country meant less and less for export. Raw cotton exports, for example, amounted to 11 lakh bales in 1953-54 compared with 15 lakh bales in the previous year, while jute exports at 51 lakh bales were just a little less than those of the previous year. Both these reductions resulted in a fall in export earnings.

Progress in Industrialisation

During the year, some progress has been made in furthering the programme for industrialisation. In his Budget speech on 15th March 1954, the Finance Minister stated that private investment in 1953 was almost equal to total private investment during the previous five years. In addition, Rs. 10 crores has been invested by the Pakistan Industrial Finance Corporation. This Corporation supplements private investment, particularly in enterprises for which private finance is not forthcoming. In many cases projects started by the Pakistan Industrial Development Corporation have been handed over to public companies either during the course of erection or shortly afterwards. Only a short time ago the P.I.D.C. brought to the market Rs. 30 million worth of shares in the Karnaphuli Paper Mills. The issue was oversubscribed the same day. The country is now self-sufficient in jute goods, and thus saves foreign exchange valued at Rs. 40 million a year. Furthermore, by the end of December, jute goods worth another Rs. 70 million will have been exported from East Pakistan jute mills, of which the Adamjee Jute Mills are the most important. A target of 15,000 looms was laid down under the development programme and it is expected that 6,000 will have been installed by the end of 1955.

The Karnaphuli Paper Mills commenced production in 1953 and will reach full capacity during 1954. The Mills, in due course, will produce 30,000 tons of paper and will save foreign exchange amounting to about Rs. 30 million a year. A scheme for the establishment of a newsprint mill in East Bengal with a capacity of 30,000 tons a year is also being prepared. In the cotton textile industry, 882,000 spindles were installed by the end of March 1954, and a substantial increase on this figure will have been achieved by the end of the year. The number of mills has already risen from 17 at the time of partition to 62 at the end of March 1954, and it is expected that by the end of 1955 the target figure of two million spindles will have been reached. In other industries using the produce of the country, such as sugar, tobacco and cement, similar progress has been made. In the engineering industries also, although plans are not so far ahead, there is reason for satisfaction. The P.I.D.C. is looking into the question of establishing steel rolling mills and a team of 14 German experts from Krupps is busy prospecting for iron ore in the Punjab. A ship repair and a ship building yard are in the course of construction in Karachi, these will provide facilities for shipping repairs and for the construction of small craft.

Natural Gas Discovery

Possibly the most important economic development in Pakistan has been the discovery of reserves of natural gas estimated at over 2,000,000 million cubic ft. at Sui in Southern Baluchistan. Pakistan has been extremely short of indigenous fuel. Over half a million tons of coal and about the same quantity of furnace oil have to be imported each year. The gas at Sui will provide alternative fuel sufficient, it is estimated, for the next 100 years. The discovery of Sui gas forms part of a comprehensive prospecting programme carried out by Pakistan Petroleum Limited. The gas has a high calorific value and will be tapped and conveyed by pipelines to Karachi, Multan and Lahore. The cost of laying pipelines from Sui will be about £9 million. The scheme is being financed partly by the World Bank and a new Company—the Sui Gas Transmission Company—which has been formed with assistance from the International Development Finance Corporation to market the gas.

Growing Pains

All this progress, and it is substantial, is in the right direction. In the final analysis, Pakistan will save enormously on foreign exchange thus releasing the available exchange for more consumer goods. In the meanwhile, a period of great strain and stress must ensue; it is necessary to ask whether, in fact, the present rate of progress is not too great and that the strains imposed on the economy are not too heavy. There have been instances of newly formed industries running out of raw materials due to import licensing problems. Obviously, if private investment is to continue at the present rate, investors must have an assurance that new industries which they set up are going to be able to obtain their raw materials and that shortages of foreign exchange and administrative delays are not going to restrict production. But these difficulties are to some extent the pains which any rapidly growing child experiences. Pakistan is no exception, but while it grows care will have to be exercised to see that the diet is balanced and that by the end of four or five years, when many of the present plans are completed, that the economy has not been subjected to too many strains meanwhile.

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THE INDIAN JUTE INDUSTRY IN 1954

A PERIOD OF RELATIVE STABILITY



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THE economic history of any industry whose fortunes are closely linked with the ebb and flood of international trade is unlikely to be lacking in incident, and no more characteristic example can be found than the jute industry and trade. Contrary to popular belief, the Indian mills have not always possessed the Midas touch, and the story of the development of the industry is one in which fortune has often shone fitfully and periods of prosperity have been followed by times of intense depression. In that respect, the years since 1950 have been characteristic of many previous phases in the mills' experience and, at a time when largely as a result of a prudent and conservative policy the industry is enjoying a period of relative stability, it may be profitable to reflect on the dangers and difficulties which have been overcome in order to achieve it.

During the last five years, the Indian jute mill industry has experienced a variety of economic hazards which have tried its fabric to the utmost. In 1950 and 1951 there was a physical shortage of raw jute which, complicated by the political difficulties arising out of separation, and combined with the economic ones introduced by the imposition of price control and its later removal, created famine conditions, drove prices of jute and gunnies higher than ever before and produced a startling reduction in consumption on the part of one of the main consuming areas—the vital U.S. market—of hessian goods. The power of the industry to compete with overseas jute producers was crippled by the imposition of a penal export duty, particularly on hessian, and the rival European industries were given every opportunity to establish themselves in markets which had long been the preserve of India.

In 1952, supplies of raw jute became plentiful once more as a result of one of the largest harvests in the history of the trade. The export duty was reduced to more reasonable proportions and prices of jute and jute goods fell rapidly to the lowest figures experienced in the post-war period. There was a rapid recovery of consumption in the United States and large orders for hessian from the Argentine raised hessian consumption to a reasonably healthy position. Unfortunately, a reaction had already set in in the industry's markets for heavy goods which absorbed a major part of the mills' production. 1952 saw a disastrous fall in the demand for sacking from some of the most important markets, notably Australia, and this tendency continued unabated during 1953. During the calendar year January-December, 1953, the world offtake of sacking was 100,000 tons less than the offtake in 1951. As a result, mills' stocks began to increase with all that that involves in weakening the competitive position of mills as sellers *vis-à-vis* their overseas buyers. From a figure of 92,000 tons in September, 1952, the total stocks rapidly increased until they reached a maximum of 138,000 tons in May, 1953. Thereafter, following a period of hesitancy, there was a slow decline. By January, 1954, stocks were 95,000 tons and by October had fallen to 69,000 tons.

Fluctuations in Prices

All these violent changes in fortune were reflected in equally violent fluctuations in prices. From an average monthly figure of Rs. 44-2 in July, 1949, 40in 10oz. hessian increased to an average of Rs. 112-11 in April, 1951, falling again to Rs. 39-4 in April two years later. Raw jute rose from Rs. 32-6 a maund in July, 1949 to an average of Rs. 106-8 in June, 1951, thereafter declining to a level of Rs. 22 in April, 1952 and subsequently rising to the present figure of approximately Rs. 29.

Fluctuations in the prices of the raw material used by mills as well as their product have repercussions which are not confined to the mills themselves. As an important cash crop throughout the eastern provinces of India and in Eastern Pakistan the price which the cultivator gets for his raw jute is of the utmost importance not only to the ryot but to the many other commercial and political interests who are involved in his fortunes. Undoubtedly the Indian cultivators benefited from the rise in raw jute prices in 1950 and 1951 and the level of prices then attained was one of the main reasons for the bumper harvests of 1952 and 1953. On the other hand, they stimulated cultivation over large areas of marginal lands not really suited to jute production, and as prices fell the losses suffered by such uneconomic producers caused much bitter protest and a good deal of agitation for Government intervention with the object of fixing prices. Since then the smaller crops in 1953 and 1954 have given a reasonable return to the cultivator and this will become more marked should the anticipated fall in rice prices take place. The shortage of jute goods, particularly hessian, in 1950 and 1951 and the rapid change in prices had a most serious immediate effect on the consumption of hessian, particularly in the United States, and there is no doubt that both caused a great deal of serious consumer resentment and probably a strong tendency to turn to substitutes. The astonishing recovery of hessian consumption in the United States in 1952 and 1953 after the removal of the export duty indicates, however, that the effects of scarcity and high prices were less permanent than at one time they appeared to be. The Indian industry was fortunate in that the strong demand for jute goods during 1950 and 1951 in America and elsewhere was accompanied by an equally strong demand for substitute materials and it was not, therefore, always easy for consumers of burlap to obtain adequate quantities of rival packaging materials.

Viewed against the dramatic disruptions of the years from 1947 to 1952, 1953 and 1954 have been

characterised by conditions of relative price stability. This is all the more remarkable because, as indicated, during that time the industry has had to deal with three developments, each of which in itself might easily have had very disturbing effects on the economy of the entire industry and trade. The first was the impact of two successive bumper crops of jute, which might have been expected to present problems almost as difficult and embarrassing as those of shortage. The second was severe reduction in offtake of sacking goods involving all the main sacking markets. And the third—a direct consequence of the second—was the difficult internal problem which the mills were forced to face as a result of the accumulation of heavy stocks of goods, particularly sacking. The liquidation of the heavy stocks of jute from the 1951 and 1952 seasons and the impact of the short crop of 1953 might have been expected to cause large fluctuations in the prices of raw jute. Apart, however, from a period of weakness in March and April, 1953 and a certain recession in June and July, 1954 prices have remained remarkably steady throughout the period. As far as goods are concerned, sacking production was 455,000 tons in 1953 and will probably be in the region of 500,000 tons in 1954. Exports in 1953 were 96,000 tons less than in the previous year and stocks increased by almost 40,000 tons between July, 1952 and the same month of 1953. By August, 1954, this had been reduced to 36,000 tons. Prices of sacking consequently fluctuated rather more, but even then the range was smaller than might have been expected. Hessian prices have been remarkably stable and, apart from a period of weakness in April, 1953, have varied very little.

Better Demand

The gratifying result of this position has been that the world markets in which the wide and erratic movements of jute goods prices in 1950 and 1951, and in particular their rapid increase to uneconomic levels, had produced first exasperation and later the determination to use other forms of packaging, have over the last two years been offered Calcutta products in supplies ample to meet any requirements and at prices which have been remarkably cheap. That there has not been a more rapid reaction on the part of buyers to this favourable situation is mainly due to one of the long-term results of the disastrous mistakes of 1950 and 1951. High priced stocks bought in the reaction to the Korean War have taken a long time to liquidate, but the improvement is there. The Argentine, which took only 18,000 tons of hessian in 1952, purchased 103,000 tons in 1953 and has already taken 60,000 tons in 1954. Australia, whose sacking imports in 1952 and 1953 were not more than 49,000 tons and 47,000 tons respectively, has already taken 66,000 tons. U.S. hessian offtake has been rather disappointing, but the recovery from the dangerously low consumption in 1951 has on the whole been maintained.

The Indian jute mill industry has in fact extricated itself by the exercise of skill, good timing and judgment from a potentially very dangerous market crisis. Production has been nicely balanced to meet actual world requirements at a reasonable level of prices, and the danger of over-production, which at one time seemed to loom very closely ahead, has been overcome without resort to panicky or extreme measures.

Expansion of Markets

It is to be hoped that these conditions of price and supply will continue to prevail. More time is required to re-establish jute goods in markets which suffered severely during the difficult periods in 1950 and 1951, particularly in the United States, Canada and Australia. There will be no better propaganda in favour of gunnies or burlap bags than a retention of existing levels, which will go far to reassure consumers that the jute industry is in a position of relatively assured equilibrium again. Indeed, the general trend in all agricultural and raw material producing countries towards adequate supplies of the basic agricultural products makes this even more necessary than during the hectic days of 1950 when the Korean War demand often made the price of containers a secondary consideration; all that mattered then was that they were available. In a buyers' market, the buyer needs to be reassured not only about present price and supplies but also wants some indication that they will be maintained. The present level of jute prices and supplies is from the consumer's point of view very satisfactory; are there any reasons why this happy and necessary state of affairs should not be maintained?

One possible source of difficulty, which indeed was the genesis of the problem in 1950, is the shortage of raw jute. Jute production is markedly cyclical in character and it could be argued that the bottom of the curve which began with the short crops in 1953 has still to be reached. Fortunately, other factors are coming into play which may offset any tendency to a continued low level of crop. One of great importance is the relationship between paddy and jute prices for, to a considerable extent, this governs the amount of land which is diverted from rice production to jute cultivation and vice versa. For the greater part of the war years the price of paddy was rather higher than that of jute and this acted as a constant brake on large jute crops.

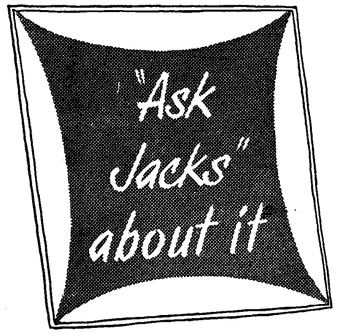
Raw Jute Prospects

That position was radically altered in 1950 and the high prices of jute at that time stimulated two of the largest crops on record. Equally, the reaction in prices in 1953 caused short sowings and probably continued in the present year. With luck, however, there should be ample jute during the remainder of the present season and the satisfactory prices which are now prevailing for raw jute will, particularly if there is any reduction in paddy prices when the harvest comes in during December and January, ensure ample sowings next year.

Another possible cause of disturbance is, of course, any radical change in demand from the consuming areas. One of the disturbing features of postwar markets has been the continuation of Government purchase and distribution of jute goods, for it was common experience that operations by a centralised purchasing agency usually produced a much more irregular buying policy than is the case when trade is in the hands of private importers. Although, unfortunately, centralised buying by a Government agency still characterises a number of extremely important markets, there is some hope that the gradual liberalisation of arrangements is in sight and that in certain cases the return of the trade to private hands may not be long delayed. It goes without saying that what the jute industry has got to fear more than anything else is a serious depression, particularly if, as is likely, it affects the production of agricultural crops and their movement. There must be many who have watched the gradual recovery in world food production and the appearance of surpluses with some degree of apprehension, recollecting that these were the first precursors of the great depression of the 'thirties. As opposed to that time, however, there is no doubt that controls over the production, and particularly the disposal, of agricultural commodities are more thorough-going and effective than ever before and with economic development proceeding apace in every direction, there seems little reason to think that any serious recession will develop or, that if it does, it cannot be controlled by the many methods now available to modern financial administrations.

Stiffer Competition

Stability is good for the jute industry but only if the opportunities it presents are thoroughly grasped. The problems which now face the industry, though less immediately acute, are in their long-term repercussions even graver than before. The emergence of new and formidable overseas competition, the capture of many established markets by new forms of packaging and the difficulties inherent in the consistently increasing demands of labour, present the industry with new problems. To face them much requires to be done. Steady progress has been made in re-equipment and modernisation, but there is still a great deal to do. Scientific research has cleared up many problems and done a good deal to assist the industry, but every day presents new problems and new directions in which science can come to its assistance. A beginning has been made with market development both by individual mills and on an organised basis, but there are endless questions of marketing and development which need to be followed up. Finally, although relations with labour in the mill industry have been better than in many other spheres of industrial activity, there is still much to be done to ensure that improved efficiency and productive capacity is obtained from the workers in return for the substantial improvements in conditions of employment which have taken place in recent years. Important developments in all these directions are taking place, but it is essential, if satisfactory progress is to be achieved, that violent adjustments are avoided and that the industry should be given the time and the opportunity to carry out its essential reorganisation.



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SELLING INDIAN JUTE GOODS IN THE UNITED STATES

THE NEED FOR MORE INTENSIVE PUBLIC RELATIONS

● By A Special Correspondent in New York ●

TIMES have changed since the days when anyone could take the American market for granted. While all sellers must meet the test of growing competition, the pressure on foreign suppliers to this market is even greater, considering the advantage enjoyed by well-integrated domestic competitors. The Indian jute industry and its future in the American market is no exception and if it is to share in the still expanding American economy, it must be prepared to accommodate the needs of American consumers in terms of price, supply, quality and service. These considerations allow for no compromise in a free market where competition is the arbiter of all trade, and business observes the rule that "the customer is always right".



In the decades over which the Indian jute industry grew to become the industrial giant of the East, its products enjoyed an economic advantage in the North American market which is now seriously challenged by competition on all sides. No longer can jute be sure of its unrivalled leadership as a heavy duty textile in the packaging and industrial fields. Today it must struggle to hold its own and fight for future gains against the combined threats of competition from substitutes and changes in industrial and packaging trends.

The situation faced today has evolved over the past twenty years, although the impact suddenly became clear in the recent post-war years. High prices, physical shortages and loss of confidence in regularity of supplies gave competition the chance it had waited long to seize. Thus, within a short time a foothold was gained by substitutes and some markets were lost, never to be regained.

Even if we grant that many of the evils which befell the industry at this time were beyond the control of the mills but were the aftermath of war and the partition of India, the injury done to the competitive position of jute goods was very real and some of the scars still remain.

Belated Plans

Fortunately, the leaders of the industry and the Government of India faced up to facts and a positive plan of attack was got under way. A survey of this market made by the Indian Jute Mills Association in 1949 led first to the opening of the Association office in New York, then to the I.J.M.A. Market Development Programme which was launched late in 1952. The subsequent visits to America of two delegations of Association officials served to afford a broader understanding of the problems faced by jute fabrics in the American market and to highlight some of the measures which must be taken to meet the challenge ahead.

A programme of trade relations and public relations has been undertaken to retain the goodwill of the American trade and provide a direct link with the Calcutta industry through the North American office of the I.J.M.A. in New York. The increasing contact with the trade throughout America which this office now maintains is proof, in itself, of the part played in affording a liaison between the mills and their customers in the States.

Along with this recognition by the leaders of the Calcutta industry of the problems confronting them in the American market, the Government of India acted to restore the competitive position of Indian jute goods in America by successive reductions in the export duty from Rs. 1,500 to Rs. 120 per ton. This action went a long way towards the recovery from the abnormally low burlap consumption in the United States during 1952.

Competition from Substitutes

About 80 percent of the jute goods consumed in the U.S.A. annually is used in the form of burlap bags largely for agricultural packaging purposes and it is in this traditional market for jute that the impact of competition has been most severe. This competition has developed from the aggressive marketing of the multi-wall paper bag by the major paper companies with vast financial resources. These competitors are industrial giants. As an example, International Paper Company, at the end of 1953, had total assets of $277 million. Moreover, like others, the operations of this competitor of the jute industry are entirely integrated—which means that it controls its product from the timber in the forest to the multi-wall paper bag which it delivers to the ultimate consumer. In the year 1953 the sales of this one competitor totalled $673 million, of which the largest portion was represented by the products of its kraft paper operations. This illustration is significant as a measure of the competition which must be met by the Calcutta mills if they are to retain their position in the packaging field and gain an increasing share of this market.

The progress which the multi-wall bag has made in capturing a larger share of the packaging market in the last fifteen years may be noted from the fact that production of multi-walls has increased from 500 million in 1939 to more than 2,500 million in 1953. It is true that not all of the gain made by the multi-wall bag has been entirely at the expense of burlap bags as many pulverised products that were formerly packed in cotton bags have been taken over by the multi-wall paper bag. Nevertheless, the inroads on traditional burlap markets have been substantial as represented by such products as potatoes, feed, fertiliser, flour and others in which there has been a trend to paper packaging in recent years.

The startling expansion in the use of multi-wall packaging at the expense of textile bags has not been the result of any unqualified physical superiority of paper bags but it has reflected the ready response of consumers to the well-financed and positive promotion efforts of the paper industry which has exploited to the very limit such advantages as they have been able to claim for their package, at the same time making use of every piece of adverse news regarding jute and jute products.

Among the claims which they have promoted are the lower initial cost of paper *vs.* textile bags, the added economic advantage of price stability with virtually no price fluctuations over extended periods, continuity of supplies and sanitation and convenience for the user. Great sums have been spent annually in getting these points across to consumers and even in cases where textile bags still afforded other advantages, the emphasis by the paper industry on a positive advertising theme for paper packaging has been drummed into the buyer by constant repetition to the point where his possible preference for textile bags has been submerged before the onslaught of propaganda.

In still another direction, jute has had to give way to substitutes in the form of changing merchandising practices in the form of consumer packaging. This is particularly evident in the case of potatoes where the practice of pre-packaging potatoes for sale in the self-service chain grocery stores has moved at an accelerated pace to the 5, 10 and 15 lb. consumer size bags. This, of course, accounts for a substantial volume of potato shipments that formerly moved in 100 lb. burlap bags from the farm to the retail store.

Still another factor which has given impetus to the trend from the traditional burlap bag is the success with which the paper industry has promoted, almost entirely through advertising claims, the acceptance by consumers of the smaller package. This effort started from the inability of the paper bag in many cases to function as a satisfactory package in a 100 lb. or larger size. Notwithstanding this obstacle, the paper industry turned a disadvantage to an advantage by creating a demand for the 50 lb. and 80 lb. package as a factor of convenience which appealed to labour so that with its newly won independence it was able to insist on the lighter package as a matter of physical convenience. This has resulted in what is now referred to as the one-man package for which the 50 lb. bag has become firmly entrenched in spite of the fact that, in many cases, packaging and handling costs are higher than in the case of using the traditional 100 lb. burlap bag.

Bulk Handling

Bulk handling is another trend which has cut down the use of all containers in such fields as the shipment of flour, feed, grain and other commodities. The trend toward this form of shipment for large volume commodities has been accelerated by the pressure to save on lower costs in the packing operation as well as the elimination of rehandling of bags in shipment in favour of automatic conveyance by pneumatic and mechanical means. An example of the economies claimed for such methods can be found in the claims of the manufacturers of bulk handling equipment for the feed industry wherein they point to savings of as much as $4.00 a ton on feed delivered in bulk over that handled in bags.

Changing Industrial Methods

Any analysis of the competitive position of jute fabrics in the American packaging market

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would be incomplete without recognition of the part played by the evolution which has taken place in industrial methods in the changing competitive scene. In the first place, the paper bag is cheaper because of the lower raw material cost to which must be added the fact that the paper bag manufacturing process is virtually automatic with a minimum of labour involved in turning out the finished bag. This must be compared with the higher fabric cost *plus* the more laborious aud costly process of sewing and turning of the textile bag.

A slow but steady attrition has taken place in this direction and it will only be arrested when the user of the bag is confronted with convincing proof of the economic advantages of staying with textile bags.

The stimulation of interest in return bag programmes by large bag users is one way in which the bag user can be shown a definite economic advantage in packing costs on a cost per trip basis. In the case of the feed industry, the feed manufacturers can pass this saving on to the feed user in terms of a lower cost per ton than can be offered with the one trip paper container.

Jute as an Industrial Fabric

The markets for jute as an industrial fabric have normally accounted for about 20 percent of the consumption of jute imports to the U.S.A. While these markets have also been subject to the inroads of competition from substitutes and the evolution of changing industrial methods, there is good reason to believe that the greatest prospect for the expansion of jute consumption in North America lies in the future development of new industrial uses.

The U.S. industrial market is vast and complex and represents a growing demand for new products and better and cheaper methods of producing existing products. It seems safe to say that many new uses for jute fabrics as heavy duty industrial textiles may be hidden on this wide industrial horizon. If jute can do a better job or a cheaper job than a fabric now in use, there is no question about the fact that it can enjoy wide acceptance if such markets can be uncovered and properly exploited.

Need for Research

This confronts the jute industry with the need for conducting a technical search for such markets and then encouraging a distribution system which will exploit sales to industrial users. The cotton industry, in which the mills serve such markets by direct selling, is in a position to work with such consumers in a way which supplies them with the fabrics they require. For geographical reasons, jute mills cannot enjoy similar intimate contacts with ultimate users of their goods and this makes the need for liaison and the evolution of a better and more comprehensive system of distribution the more pressing.

Innovations may also be required from the mills in Calcutta if a successful approach to new industrial markets is to be made. These markets may require constructions which vary considerably from the standard range of fabrics which mills now turn out in volume. If the market for other constructions for industrial uses can be shown to be large enough, it may be very profitable for the mills to set themselves up to supply them. In addition to supplying what may be regarded as specialties, the mills may be called upon to furnish limited sample quantities for experimental purposes and then to work with the end users to come up with the product they need.

In such fields as the building insulation industry, roofing, irrigation canal linings, automobile fan belts, body insulation and seat spring construction, the potential yardages available could be enormous for the right fabrics at the right price. Equally important with these considerations for the industrial users is the assurance they can be given of dependable continuity of supplies at reasonably stable prices. The fact is that in high speed mass production operations such as in the automobile industry, the manufacturer cannot take any chances with possible interruption of raw material supplies or wide price fluctuations.

There is no doubt that if the required effort is made to sell and serve the large potential industrial markets which the U.S. economy has to offer, an enormous demand can be developed which can more than offset any permanent losses that have been sustained by jute goods in the packaging field.

The Challenge

These are some of the threats to the future of jute in American packaging markets which must be met and what must be done if the Calcutta industry is to hold what it has gotten something of what has been lost and in the growth of the overall domestic market in the U.S.A. The task ahead is enormous and will test the energy, endurance and ingenuity of the best the Calcutta mills have to offer.

A start has been made by I.J.M.A. with the Market Development Programme for North America. A broad programme of national advertising has been carried on since 1952 in which the economic and physical advantages of burlap bags have been called to the attention of commercial users in trade publications and agricultural supplies. While it might seem strange that it is necessary to advertise the advantages of a product so long and universally used as the burlap bag, it must be remembered that the American economy is a continuing process of evolution in which competitive substitutes, seeking to capture the traditional markets which jute has served, use every device at their command to emphasise the advantages which they claim for their products.

A better understanding of the task involved and the market which advertising must help to sell can be had from the fact that America has an agricultural population of over 29 million on some five million farms. This agricultural community is far from an agrarian peasant class. On the contrary, it is constantly reached by all modern communication means which advertisers employ including specialised agricultural publications, radio and television commercial appeals, and direct promotion and selling efforts by those who seek to expand their agricultural sales.



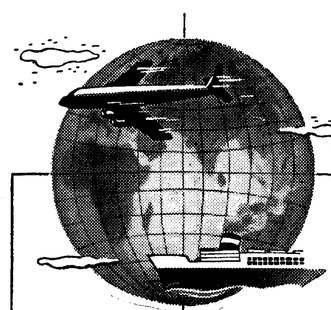
An educative poster for users of jute sacks.

Advertising budgets by the large domestic paper manufacturers who promote the multi-wall bag are very liberally assigned and aggregate sums which are spent total many millions of dollars annually. The I.J.M.A. effort, on the other hand, has been on an institutional level. It can hardly be expected to compete with the heavy appropriations of domestic corporations and it has, so far, been modest in proportion to the task at hand. The diversity of packaging uses for which jute fabrics are employed and the vast geographical distribution of the markets involved widen the scope of the advertising job to be done. In a sense, advertising of this kind may be peculiar to the American market in terms of what people understand overseas but, nevertheless, the fact remains that advertising has been shown to account to a substantial degree for the fact that the American market seems to feed on itself and expands in size year after year.

In recent months the I.J.M.A. programme in North America has been broadened to include a product development programme with the aid of one of the largest independent research and development organisations in the country. The object of this effort is to supplement the work of the I.J.M.A. Research Institute in Calcutta with a technical effort in the U.S. market. This should develop new uses by co-operation with the end users of the fabric. It is too early, as yet, to assess the results of this programme but it certainly can be regarded as a progressive step in the right direction.

A continuing contact is being maintained with all segments of the domestic trade in the U.S.A. and increasing public relations efforts are being carried on with all classes of consumers.

The entire programme is designed to convince users of jute goods in America of the interest of the Calcutta mills in serving this market and, while many of its objectives are long range, a closer contact with this market than has ever existed before is now maintained. If the future of the jute mill industry is to equal the greatness of its past it must meet this formidable challenge with all the resources at its command.



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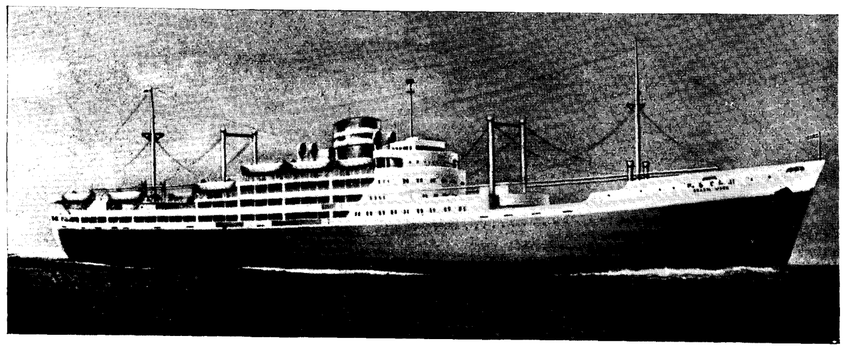
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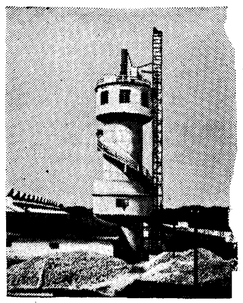
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THE FREIGHT MARKETS IN 1954

● By A Freight Market Correspondent ●

DURING 1954 freight markets showed few fluctuations and the dull tone of the opening months deepened as the year progressed, reaching bottom about July-August. Since then there has been a distinct improvement and rates now show a reasonable return to owners. It is difficult to attribute the recovery in rates to any one factor, indeed it is more a combination of several, namely seasonal demand, plus an unexpected grain movement to India as a result of severe flooding here, and a renewed tendency to stockpile in some countries. It has often been suggested of course that the margin between a boom and depression is as narrow as 5 percent, *i.e.* if there are 95 ships and 100 orders there is a boom and, *vice versa*, a depression. Apart from the grain movement already mentioned, last year's forecast regarding bulk movements has proved reasonably accurate. A substantial business has been done in ore exports and much of it has gone through South Indian ports, where shipping charges are considerably cheaper than in Calcutta. The chief difficulty has still not been overcome: that is the lack of adequate rail facilities.

The unpopularity of Calcutta Port was further emphasised this year by labour trouble, and the lack of discipline amongst workers under the Dock Labour Board scheme has seriously hampered efficient working. Severe bore tides this year have added to the difficulties, and congestion has occurred frequently during these periods resulting in the detention of vessels at Sandheads. This trouble is not likely to be easily overcome and may well recur with each bore-tide period. It is interest to note that with the introduction of speed categories for the inward navigation of the river, the number of days during which low-powered vessels are prohibited from entering the port has gradually increased. In 1953 there were 110 such days, in 1954, 114. For outward navigation in the same years the figures are 126 and 129 days respectively. Vessels most affected are those carrying full cargoes of salt, coal and ore.

Dock Labour Board

In October, 1953, all workers on stevedores' books were registered under the Dock Labour Board Scheme, but unfortunately many incorrect registrations were made resulting in a surplus of labour which naturally increased the cost of the scheme. These facts were made clear to Mr. N. M. Ayyar, Secretary, Ministry of Transport, when, he met the representatives of the steamer agents in Calcutta in April, 1954. The Dock Labour Board comprises representatives of the Government, the Port Commissioners, the labour unions, the stevedores and the steamer agents. The distribution of membership is as follows:—

Port Commissioners	2 (Including the Chairman)
Government	2 (R.L.C. Central) (L.C. West Bengal)
Steamer agents	2
Stevedores	2
Unions	4

The result is that any motion the unions disapprove is voted down by a combination of unions and Government representatives—at least that has been the case so far—and conversely the opposite arises. The Chairman has the casting vote.

The Chairman of the Dock Labour Board is also the Chairman of the Port Commissioners and it would appear to be impossible for anyone to carry out this dual rôle successfully. As Chairman of the port, and therefore responsible for its efficiency, he must criticise himself as Chairman of the Dock Labour Board, which is responsible for much of the port's present inefficiency. This is no criticism of the present incumbent; it is a self-evident mistake which it would seem must be rectified before any progress is made. The appointment of a neutral chairman to the Dock Labour Board would be an invaluable contribution to the restoration of normal work in the port.

The administration of the Board is in the hands of the Administrative Officer and a Special Officer for discipline, but unfortunately this machinery has never functioned properly and is as far from achieving success today as it was a year ago. The second essential for the restoration of normal work is the correct enforcement of discipline. This applies mainly to winchmen and pool labour, as the permanent labour employed by stevedores has consistently shown a willingness to work normally.

The Problem of Discipline

This enforcement of discipline could be achieved by returning disciplinary powers to the employers. There are then three main points where improvements can be effected:

(a) The appointment of a neutral Chairman.

(b) The re-allocation of membership of the Board as follows:—

Government	— 1 member
Port Commissioners	— 1 member
Steamer agents	— 2 members
Unions	— 3 members
Stevedores	— 2 members
Exporters	— 1 member
Importers	— 1 member

(c) The return of disciplinary powers to the employers.

The standard of work in the port today is at least 50 percent under normal and stoppages for the slightest of excuses are the rule rather than the exception. The effect on the country's trade is most serious, and the distribution of sugar and foodgrains is being badly hampered.

The most recent tactics of the disruptive element amongst stevedoring labour are worthy of close examination. A trivial incident is made the basis of a complaint, work is immediately stopped and the matter referred to the aggrieved man's union and the Dock Labour Board. This readiness to stop work on the flimsiest excuse has grown alarmingly, and the cumulative effect on the port's working has reached serious proportions. An enquiry is held and, usually, to assist in re-starting work, an apology is made by the accused, guilty or not, and of late, monetary compensation for the alleged loss of watches, fountain pens, etc., is extorted. It is fair to say that in no other port in the world is a shipowner faced with similar difficulties, and the obvious cure would seem to be to re-organise the Dock Labour Board to make it fully representative, bearing in mind the welfare of the country and the heavy financial responsibility of the users of the port.

Increased Costs

The economy of a country is strongly influenced by costs incurred at its ports. In 1938 the cost of discharging one ton of rice in Calcutta was 8 annas and the rate of discharge was about 2,000 tons a day. In 1947 the cost was Rs. 2-1 and the rate of discharge about 1,500 tons a day. In 1954 the figures are Rs. 3-4-6 and about 750 tons a day. Comparative figures for loading ore were, in 1938 5 annas and 1,200 tons a day, in 1947 Rs. 1-10 and 700 tons a day and in 1954, Rs. 2-12 and 500 tons a day. The usual chart of rates throughout the year is attached. Since these figures were compiled there has been a very marked increase in rates, although it is doubtful if this will be maintained. On the average, 1955, whilst showing a better rate level than 1954, is more likely to be marked by a decline from say March, until seasonal demands again bear influence in the last quarter of the year.

TRADE.		High.	Low.	Current.
COAL				
Calcutta to	Colombo	29	25	26
	Rangoon	24/12	24/4	24/4
	Singapore	30	24/4	28/4
	Hongkong	36/8	28/4	30
	Japan	40	33/4	33/4
	Korea	41/8	35/8	36/8
America to	Continent	27	18/4	27
	Japan	51/8	42/4	52
Australia to	Korea	39	35/8	35/8
China to	Chittagong	21/12	15	15/12

TRADE.	High.	Low.	Current.
ORE			
Calcutta to Japan	40	30	33/4
Coromandel Coast to Japan	38	28	30
Mormugao to Japan	40	33/4	34/4
India to Continent	42/4	35/8	43
Mormugao to Continent	45/4	32/4	43/4
Vizagapatnam to America	48/12	36	49
GRAIN			
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China to Ceylon	30/12	26/8	31

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Further studies



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Useless...unless refined



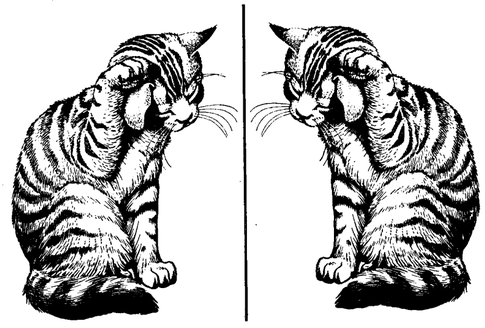
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With apologies to Ronald Searle and Hugh Horton Esq.



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all work and no play...

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THE TEA INDUSTRY IN 1954

CURRENT PROSPERITY IN PERSPECTIVE OF RECENT MISFORTUNE

● By A SPECIAL CORRESPONDENT ●

IT has been a matter of great exasperation to tea producers. Though the crisis of 1952 was in many quarters regarded as the clumsy creation of the producers themselves, the boom of 1954 is attributed to natural causes, and is expected to continue indefinitely. Is there any truth in this theory that God made the thunder, but that lightning made itself?

Much has been written about the crisis of 1952; about its unreality; and about the clever and unscrupulous way in which Governments, labour and even the Press were deceived. But the toad beneath the harrow knew exactly where each tooth-point went, and when the results of the year's workings were published, even the most sceptical paused in the expression of their disbelief. It is not pleasant to give publicity to misfortune, but the following table, gleaned from subsequently published accounts, indicates the extent of the losses of 1951 and 1952 in one area only, and provides a starting point for an examination of the industry's fortunes in 1954. Though the companies are given the shelter of a number instead of their usual style and title, it will not be difficult for those who are interested to determine their identity; others, less interested, or with a greater sympathy, will accept the figures at their face value, secure in the knowledge that a fully documented list has been lodged in *Capital's* office.

Company No.	Issued Capital in Sterling.		Loss 1951	Loss 1952	Loss expressed as percentage of capital. 1951	Loss expressed as percentage of capital. 1952.
1	43,560	Rs.	136,979	355,457	23.59	61.22
2	245,027	£	29,016	80,590	11.84	32.89
3	24,000	£	7,950	11,285	33.13	47.02
4	9,000	£	2,717	8,773	30.19	97.48
5	55,014	Rs.	221,400	588,960	30.19	80.31
6	80,000	Rs.	185,227	514,147	17.37	48.21
7	38,660	£	21,581	28,571	55.82	73.90
8	22,000	Rs.	161,307	368,320	55.00	125.60
9	128,000	Rs.	293,426	1,033,346	17.20	60.56
10	55,000	£	16,914	37,007	30.75	67.29
11	93,000	Rs.	237,466	1,175,906	19.15	94.85
12	13,402	Rs.	215,875	214,989	120.84	120.34
13	85,800	£	16,601	66,637	19.35	77.67
14	57,500	£	31,083	38,792	54.06	67.46
15	120,000	£	72,641	184,141	60.53	153.45
16	35,528	£	16,620	15,849	46.78	44.61
			Average Loss		29.31	64.56

When it is remembered that the average dividend declared in Cachar over the last twenty years has worked out at only 3.4 percent per annum, the magnitude of the loss, of the inroad into reserves, and of the indebtedness which resulted from the workings of 1951 and 1952 are immediately apparent. And even so, these figures do not tell the whole story, for many things are left undone before the stage is reached at which hard cash is lost. Maintenance work, plans for improvement, the purchase of fertilisers to help future crops, the timely replacement of machinery, repairs to roads and buildings, and a host of similar activities are one by one abandoned, so that, to the cash losses of a particular season must be added the loss due to the decline in the value of the property itself. As one manager expressed it: "I made ends meet by cutting out the heart".

The tide turned in the first half of 1953, and for the rest of the year ran strongly in favour of the producers. There was never any need to enforce the Regulation Scheme which producers had voluntarily accepted at the end of 1952, and though there were periods at which it seemed that prices would recede, the year finished with little of the normal "end of season" decline. The prosperity of 1953 was repeated on an even higher plane in 1954, and if the market values of shares are any guide to an industry's prospects, the prospects of tea are now very good indeed. Export prices have averaged a rupee a pound more in 1954 than in 1953; and the sales of dust for consumption in India have resulted in prices which are nearly 12 annas a pound more than in the previous year. These prices and the continued strength of demand have transformed the share market, and though taxation will take much of the extra profit, and though anxiety regarding the recommendations of the Taxation Enquiry Commission has created an undercurrent of uneasiness which shows signs of strengthening, the following list of share prices indicates that, so far, there has been little profit taking.

	Present Price.	Price a year ago.	Price two years ago.
Arcuttipore	11.3/16	3.15/16	3
Baitakhal	10.3/4	5.3/4	3.1/2
Central Cachar	125	62	35.1/2
Chandypore	142	63	82
Eastern Cachar	8.5/16	3.1/2	2.7/8
Hattikhira	30.1/4	12.7/8	10.1/8
Kallinugger	99.1/2	55	70
Kunchunpore	22.3/8	5.5/8	7.1/2
North West Cachar	266	56	49.1/2
Pathemara	18.5/16	3.7/8	2.5/8
Roopacherra	20.3/8	6.13/16	9.1/4
Rungamuttee	193	72.1/2	75.1/4
Sonai River	19	5.9/16	5.7/8
Tilkah	10	10	10



Pruning a tea bush

It was inevitable that this return of prosperity should be accompanied by a demand from labour that wages should be restored to their pre-depression level. It was equally proper that one of the first charges upon prosperity should be such restoration, and though producers were obliged to restore with caution, by 1st January, 1954, every worker—save those on certain Cachar gardens—was once more in receipt of the wages which he had enjoyed before the depression. There had been stormy scenes when the wages were reduced; even the more pleasant act of restoration was not without incident, as when a quick-witted official locked the doors of the conference chamber as the employers' representatives were staging a dignified walk-out; but labour's acceptance of a wage cut—an acceptance which required very considerable courage on the part of labour leaders—created a most favourable impression in the minds of the employers, and inspired them to do what they could, not merely to restore wage levels but also to refund the cut.

As a result, there followed a series of announcements as unusual as was the event by which they were inspired. In one district after another, without pressure either from the Government or from labour, the employers announced their intention, wherever the combined workings of 1952 and 1953 permitted, of restoring to the workers all the money which they had lost as a result of the statutory reduction of wages in 1953. The first company to make this announcement was the Jatinga Valley Company in Cachar—of all areas the most stricken—and though there are many gardens which are even now in debt, it is probable that by the end of 1954 seventy-five percent of the gardens will have refunded the "wage cut" to their workers. Where such refund is not possible, neither workers nor the management nor the shareholders will get anything: the fruits of the 1953 season's prosperity will be devoted to an effort to pay off debts and to rehabilitate the Company concerned.



Tea being planted

Plantation Labour Act

Amongst the recommendations of the Rajaram Rao Committee was one which suggested that the implementation of the Plantation Labour Act should be postponed. This recommendation, though extremely wise, came in for a good deal of criticism. There were those who argued that once Parliament had passed an Act, that Act should be immediately enforced—even though the Act specifically provided that it should be applied at such times and stages as Government might direct. There were others who regarded the slump as a device to secure postponement of the Act's introduction; surely a remedy worse than the disease. And there were the labour leaders who

had fought vigorously for the amenities which the Act provided, and who were naturally disappointed that the depression had delayed their implementation.

Simultaneously, therefore, with the restoration of the old wage levels, there was a campaign for the re-examination of the Act, and in January of this year, a tripartite conference in Calcutta agreed—in the opinion of some, too hastily—that the compulsory provisions of the Act should be introduced with effect from April, 1954, and that thereafter a phased programme should be drawn up in respect of those provisions which required the drafting of rules. Perhaps the most striking of the compulsory provisions which were introduced on 1st April, 1954 was the recognition of the worker's right to annual leave with pay; a provision which has added rather more than 5 percent to the industry's wage bill, but which, for the first time in the industry's history, provides for over a million workers the benefits of "holidays with pay".

Since that January conference, the task of drafting model rules has continued, with differences being steadily reduced. In these negotiations, in Delhi and in Ootacamund, labour has displayed restraint and astuteness, and has recognised that progress will be infinitely swifter with an agreed solution than with an imposed solution which will have to be enforced literally over the company's dead body. As a result, the provision of new houses continues on a voluntary basis almost as fast as the most optimistic draft rule proposed. Yet though much is being done, and will continue to be done, under the Plantation Labour Act, the fact undoubtedly remains that if too hot a pace is set for the employer, either the Act will be generally disregarded, or companies will go out of business. Those which will go out of business will be the conscientious ones.

Another event of that January conference was the acceptance by labour leaders of the replacement of food concessions by cash. Probably the industry paid a higher rate of compensation to the workers than the replacement of the actual foodstuffs warranted, and probably prosperity prompted a generosity which calculations have shown to be excessive; but the administrative convenience of a wage paid in cash, instead of in cash and kind, and the absence of those daily wrangles over the quality of cheap food to which each worker was entitled, are some compensation for the extra



Flood in North Bengal

cost. Thus ended negotiations which had continued for seven years, and, so completely has the situation changed, last month there was a strike on a small Assam garden because the management had not "converted."

For Mr. Giri, the January conference was a triumph, because agreement was reached in principle on all the items on the agenda, and because the memories of the fruitless discussions twelve months' earlier were obliterated. Yet the assumption by an industry of heavy obligations in times of prosperity has its dangers, particularly in those areas to which prosperity is a stranger, and there exists in many minds a growing sense of uncertainty and alarm.

Gardens and the Governments

Shortly after the restoration of wages and the acceptance of the Plantation Labour Act, some State Governments sought to cash in on the industry's good fortune. In Assam, the rates of agricultural income tax were increased by 50 percent, while a carriage tax was levied on jute and tea There is some doubt whether the carriage tax is legal, in that it may be said to offend the freedom of inter-State trade; but the Assam Governmen has rightly pointed out, first, that the sum involved—(a quarter of an anna a pound)—is very small compared with the total price of tea, and secondly, that Assam needs development. In South India, the Madras Government introduced an agricultural income tax for the first time Later, at the beginning of the Puja holidays, the Central Government increased the export duty from four to seven annas a pound; an increase which should bring in about eight crores of rupees in a full year.

The industry's reactions to the higher expor duty have been a combination of philosophica resignation and of mild resentment. The resig nation derives from the facts that the Ceylon dut is even higher, that the Pakistan rate of exchang takes the place of an export duty, and that te is certainly fetching a most handsome price. Th



resentment springs from the facts that no reduction of the duty was made when prices were abysmal, that taxes once imposed can be removed or reduced only with difficulty, that mid-season changes are unsettling, and that the tax-gatherer should have been content with the increased income tax and corporation tax receipts by which industrial prosperity is accompanied. There is also an uneasy feeling that labour will share Government's impression that these new taxes are borne by the consumer, and that the industry's prosperity remains unaffected, no matter how high taxation may be. At the same time, there is an appreciation that flood damage in North East India will cost a lot to repair, and that if the new revenue receipts are spent for this purpose, either directly or through the State Governments, all will not be lost.

A year of such prosperity would have been miraculous had it passed without some misfortune. When the season opened, there were stories of drought and of insect pests, and it seemed that the crop would be a lean one. Then came the rains, and the crop rapidly caught up, until now it is twenty million pounds ahead of that of 1953. But though the crop has been good, two events have interfered with its reaching the consumer. First there were the floods, which smashed road and rail communications in North Bengal, killed nearly two hundred people, washed away most of three gardens, endangered several others, and left devastation to which no picture can do justice. For several weeks only elephants and aeroplanes could reach isolated areas; there were forty-two major breaches in the Assam Link; and the road system was entirely disintegrated. Inevitably despatches of tea from the gardens suffered; wagon-loads of tea were held up at railway stations and on stretches of the railway line which had been isolated by breaches; and only the air services maintained—and stepped up—their services.

These difficulties are now being overcome, but in the meanwhile there was the dock strike in Britain, which led to some remarkable routeing of tea, and which created an artificial shortage, so that prices have gone even higher than the balance of demand and supply dictates. Pessimists fear that the hold up of tea on the gardens and by the dock strike have a great deal to do with the present level of prices, and there is natural apprehension lest there should be a glut of tea at the beginning of the new year, which will effectively prick the bubble of prosperity.

It is probable that a less pessimistic view is the right one. Granted that present prices are unnaturally high, and that some recession is inevitable, it seems unlikely that the world supply position is such that a serious fall need be apprehended. There will be profit-taking in shares; there will be a fall in prices, because present prices have been inflated by temporary causes; but the level should not fall alarmingly.

Two Committees

Meanwhile, two Committees are examining the industry's structure. The first is the Menon Commission which owes its origin to the disputes which arose between Government, labour and the employers over the accuracy of the Rajaram Rao Report; arguments which culminated in the abortive Calcutta conference of December, 1952. Labour maintained that the Rajaram Report gave a totally false picture of the industry's structure and of the cost of labour in relation to production costs as a whole. The employers doubted whether the Report gave a true picture of these costs, and were certain that the general public was not likely to be enlightened as to the industry's real capital position. Labour in particular, and Government to some extent, had failed—so urged the employers —to recognise how much of the industry's fluid reserves had disappeared, and how much of the reserves which were left were in the form of immovable tea buildings. Despite these differences, it is possible that the Commission would not have been set up had there been no need to reduce the minimum wage in the early months of 1953. The reduction of wages, and the postponement of the implementation of the Plantation Labour Act, forced Government's hand; for there was naturally a good deal of public criticism of action which affected so directly the pockets and prospects of the workers.

The Menon Questionnaire is in every sense a formidable document, and if it is completely answered by even one in five of those to whom it is addressed, and if the answers are accurately collated, a vast amount of valuable information will be collected. No one can foretell the Commission's recommendations or the action which will be taken upon them, but the mere collection of *facts* is often sufficient to dispel misunderstandings and it is certainly true to say that a detailed, dispassionate report, even if no action is taken upon its recommendations, can help enormously to remove those prejudices and misconceptions which lead so often to industrial and political unrest. This Commission has a tremendous task, for it is to deal with all plantation crops.

The Auctions Argument

The second Committee whose work will be watched with interest, is the Committee set up to examine the possibility of selling a greater proportion of Indian tea on the Calcutta and Cochin auctions. The Committee's terms of reference have been couched most prudently, and it is clear that the Government has no intention of ignoring the economic factors involved.

Those who favour the proposal point out that during the war all teas were sold in India, and that producers got their money far more quickly than they do today. They also point out that the processes involved in the storage, sampling and sale of tea are lucrative, and that the more tea that can be sold locally the greater the opportunities for employment and for the making of profits. In support of their opinion, they instance the great success which has attended the sale of tea in Colombo, and the sale of wool in Australia. They remind their listeners of the 1952 slump which followed the re-opening of the London auctions, and though they do not say that the one was necessarily the cause of the other, they argue that once a producer has sent his teas ten thousand miles away, he is at the mercy of the buyer.

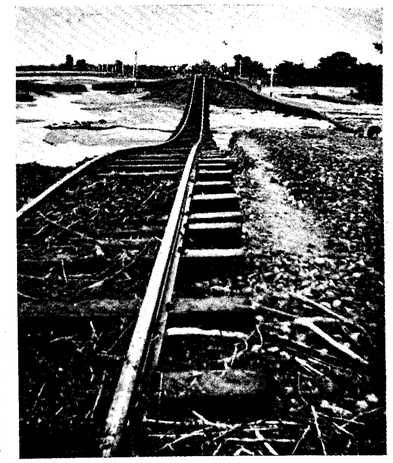
Those who doubt the wisdom of any attempt to limit the seller's freedom to choose where he should sell his tea, adduce equally strong arguments. They fear that once a producer is obliged to sell his goods in a particular place, the advantage passes to the buyer, because the buyer realises that the producer has nowhere else to turn if prices are unfavourable. Colombo's success is due partly to her enviable geographical position, partly to the fact that world demand at present is strong, partly to the fact that all her low grown teas and some of her high grown teas can still be exported unsold, and partly to the fact that there are still many other auction centres. Limit the number of auction centres, and the "buyer's ring" of which so much was heard in 1952, becomes a real possibility. What is more, every buyer—and particularly the small buyer—prefers to buy his requirements on his own doorstep, instead of ten thousand miles away. This preference does not derive from prejudice; it derives from the very human considerations which are the foundation of "economic laws".

So far as bringing in extra business is concerned, there are many who argue that it is not in the general interest to add to the earnings or to the number of middlemen, especially if to do so is to endanger the far more extensive stake of the producer. More than half India's crop is already sold in India; that portion which is sold abroad commands a much higher price than does the portion sold in India; and the only persons who would benefit were more tea sold in Calcutta and Cochin would be the intermediaries between the producer and the consumer.

One may perhaps discount the suggestion that the more tea which is sold in the country of origin, the more forcibly does the overseas buyer resent the payment of export duties, or the suggestion that Indian shipping would suffer if the title to teas passed to foreign purchases in India; but it is clear from the arguments adduced by the two schools of thought that the Committee is dealing with a very complex subject. It is probable—though prophecy is dangerous—that the Committee will reject the argument that because all teas were successfully sold during the war under the emergency bulk contract system, therefore all teas must necessarily be sold successfully through Calcutta or Cochin auctions; that it will also reject any proposals calculated to subordinate the interests of the industry as a whole to the hope of increasing "middleman's business"; that it will pay due regard to consumer wishes; but that it will propose that the conditions of storage and of sale in India should be made so attractive that business will automatically increase.

Nationalisation and Indianisation

The existence of an industry, so large a part of which is controlled by non-nationals, invariably presents most complex problems, not merely to those who run the industry, but also to the Government in whose territory the industry operates. In times of depression, it is easy to accuse the foreigner of an incompetence or a chicanery which jeopardises the employment of many lakhs of workers. In time of



The railway track . . .

prosperity, profits become equally suspect, and to the normal problem of employer-labour relations is added the extremely delicate question of nationality. The word "nationalisation" acquires a new meaning.

It has thus come about that prominent labour leaders in the last two years have urged that Government should buy up the tea industry, using either funds specially raised for the purpose or the sterling balances. Once the industry has been bought up, the new owners will be content with smaller profits; the workers will receive higher wages and better living conditions: taxes will be reduced; the price of the commodity itself will be lowered; and there will be no drain of the nation's resources to foreign parts. Tea gardens are gold mines, and what is more reasonable than that the gold mines and all they stand for should be acquired? The greater the stories of prosperity, the greater the urge and the need to buy.

Government's present reaction to these promptings is that, if there is money available, it is better to use it for new industries and nation-building rather than for the somewhat unimaginative purpose of buying other people's businesses. In this attitude, Government would have the support of many of the rank and file of labour, who have come to dread change of ownership because it gives the new owner—no matter who he may be—an opportunity to alter conditions of service, and even to reduce staff. Yet though Government may feel that money spent on buying tea gardens could be better employed, that does not mean that Government is disinterested in other forms of Indianisation. On the contrary, Government has expressed in the clearest of terms its expectation that there will be a rapid increase in the number of nationals recruited to the industry's officer cadre. (The other cadres are already completely Indianised.)

Many reasons have been given for the undoubted fact that the proportion of nationals in the tea industry is smaller than in most other industries. Perhaps the two most frequently quoted are first, that neither the young Indian nor his parents approve of plantation life, and secondly, that Indianisation must be necessarily slow in an industry which is not expanding and in which vacancies occur infrequently. For the former impression, writers like Mr. Mulk Raj Anand and his *Two Leaves and a Bud*, must take the blame; for the latter, the employer who fears to move with the times. A recent Press Note has indicated that the industry is preparing proposals



. . . and the bridge of the Assam Rail Link after the floods



Tea in the nursery

on the subject of recruitment, and it is to be hoped that an acceptable programme will be devised.

Tea Chest Controversy

The bitter controversies which raged over the indigenous tea chest have given place to an atmosphere of peaceful co-operation. The Centre has given up its considerable import duties on the imported chests; the tea industry is becoming more reconciled to the local chests; and the plywood manufacturers themselves have fostered better quality and more rigid inspection. A lot is still to be done, particularly in the matter of price—Ceylon tea producers can buy Finnish chests in Colombo cheaper than North Indian producers can buy Bengal chests in Calcutta—but it is good to write that plywood manufacturers are themselves very conscious of remaining defects, and are working hard for their eradication. The recent re-animation of the Tea Chest Committee of the Tea Board—which held its first meeting in September—provides a forum for the discussion of grievances under the chairmanship of an impartial official.

But great dangers remain. In the first place, installed capacity, even on a single shift basis, greatly exceeds the tea industry's requirements; in the second place, the price of timber has shown no sign of falling; and in the third place, the plywood industry is slow in exploiting the use of plywood for purposes other than tea chests. It has always been said that the Finnish industry derives its strength from the fact that the production of shooks is still only a sideline, the bulk of the industry's output going for furniture, partitions and similar uses.

Looking back on the events of the last two years, it is safe to say that the depression of 1952 was caused partly by the fact that it was believed that production would vastly outstrip demand; partly by the amount of low quality tea which was finding its way to the market; and partly by the fact that private hoards of tea were collectively far greater than was imagined. Auction prices fell, and fell at a time when tea companies' reserves had been depleted through the 1951 food crisis, when new wage awards had increased expenditure, and when natural calamities had disrupted supplies and communications.

The fall in prices was nevertheless greater than circumstances warranted; the big buyers hesitated to lay in stocks on a falling market; and when it was realised that crops were not enormously in excess of the normal—indeed, that they were quite normal—the season was over. Since then, quality has improved and demand has increased; the hoards in private hands have been consumed; and stocks of tea in the big distributors' hands are much less than is convenient. The delays caused by the floods and by the dock strike have added to the distributors' anxiety; and high prices have been the result.

It would seem, therefore, that the depression and the boom must be attributed to the laws of supply and demand; though the influence of "market forecasts" has also played its part. Yet the impartial observer is forced to observe that neither the derisory prices of 1952 nor the exceptional prices of 1954 were entirely deserved; and that the sooner prices adopt a more stable level, the better for all concerned.

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INDIA'S COAL INDUSTRY IN 1954

● By A SPECIAL CORRESPONDENT ●

THERE is always a time lag in obtaining statistics about the Indian coal industry and inevitably therefore it is never possible in the annual number of *Capital* to give a complete and up-to-date account of the industry's working over the calendar year. But figures are available up to a sufficiently late date to establish the general trend of events however and, for practical purposes, the industry's performance in 1954 can therefore be assessed with a fair degree of accuracy. It seems then that 1954 has witnessed the continuance of a trend which commenced in 1953; a trend towards a slight decrease in production. In 1953 coal production fell by approximately 375,000 tons from the record output of 36¼ million tons established during the previous year; in 1954 there has been a further reduction of somewhat the same order of magnitude and the final output figure for the year will probably not greatly exceed 35 million tons.

This continuing decrease in production is not in itself sufficiently large to give cause for serious concern. It is however significant of something unfavourable in the conditions under which the coal industry is now operating; and, further, it is a surprising phenomenon in view of the fact that coal is a great basic industry on which the country's industrial economy is largely dependent, that its fortune might therefore be expected generally to reflect the state of the economy as a whole, and that at present industry generally is fairly buoyant, indices of production are steadily rising and the country is progressing satisfactorily along the road to industrialisation. Compared with the economy as a whole, therefore, the coal industry is showing disquieting symptoms of stagnation and frustration. The truth of the matter would seem to be that over the past few years it has found itself faced with cares and problems which have been imposed from outside, artificially as it were, which are foreign to the conditions under which any industry can be expected to function successfully, and the solution of which is very largely outside the control of those who are directly responsible for the industry.

In any analysis of the factors involved in the coal industry's present situation, transport must inevitably find a prominent place. At the beginning of 1954 the transport system in Northern India had to face the massive problem of conveying pilgrims to and from the Kumbh Mela; the Mela over, the railways recovered and, aided by favourable conditions during the traditional slack season from July to September, they overtook the leeway and by the end of the year they will probably have succeeded in establishing quite a significant increase of over half a million tons over the 1953 despatches. This improvement does reflect genuine and strenuous efforts on the part of the railway authorities and is a matter for satisfaction and congratulation. Nevertheless, it tells only a small part of the story and it would be futile to pretend that the coal industry's long-standing transport problem is anywhere near a solution. For one thing—and perhaps this need not be regarded as more than a venial sin on the part of an administration which is perpetually beset by intractable problems and is a classic target for every type of critic and malcontent—the railways' claims about their performances are not completely disingenuous and cannot quite be taken at their face value.

In July and August, for instance, they gave considerable publicity to the fact that, for the first time, they were offering the coal industry more than 5,000 wagons per day. The truth is that the 5,000 wagons exist only on paper. The number of wagons that can be allotted on any single day is naturally governed by the railways' depôt capacities; and if you add up these capacities you find that the daily maximum cannot exceed something in the region of 4,250. The 5,000 wagons then are really little more than a beautiful dream. Further, it is of little use to offer a wagon for the loading of coal if the wagon cannot then be transported to where the coal is to be consumed. Unfortunately, the capacity of the railway system is still severely limited by junctional inadequacies and directional restrictions; and when the railways offer wagons to the coal industry it is only too often a fact that their despatch is limited to the "easy" destinations where the demand for coal is already fairly well satisfied, and that the up-country and distant destinations are still starved of adequate wagon supplies.

This continuing inability of the railways to provide an efficient transport network on a truly national scale has made it impossible for the coal industry to exploit its natural marketing opportunities and indeed prevents any accurate assessment of the country's overall demands for coal. It has further given rise to the vexed question of rationalisation, which in essentials means simply the principle of supplying a consumer from the nearest coalfield which can provide coal of the quality he requires. On the face of it, rationalisation is reasonable enough and might be expected to lead to a better utilisation of scarce transport resources. In practice however it can involve very serious interference with long established business relationships; if applied indiscriminately and unreasonably, it can put a colliery out of business; and, when all is said, it is a source of acute frustration to a colliery management when it is prevented from selling its coal wherever its market lies merely because of an arbitrary pronouncement by the railway authorities. The coal industry's transport problem will solve itself and the railways will be serving their natural function only when a colliery can freely despatch coal wherever it is needed.

"Sub Judice"

Transport however, important as it is, has not been the coal industry's main preoccupation during 1954. The most important single event, and the factor which must exercise the greatest influence over the industry's destinies for the next few years, has been the appointment of a Tribunal to adjudicate, on an all-India basis, on demands formulated on behalf of the industry's labour force. The Tribunal was appointed in February and the issues before it cover all the major items, including wage rates and terms and conditions of service. After disposing of the numerous formalities which have inevitably to be gone through in such an important adjudication, the Tribunal commenced its main hearings at the beginning of November and the case is still before it. It would be improper to discuss the merits of the dispute while it is still *sub judice;* but the questions before the Tribunal are of such basic importance to the industry and have so greatly overshadowed all other events during the year that it cannot be ignored. Its deeper implications demand the most careful and assiduous study.

Labour costs account for approximately two-thirds of the coal industry's costs of production and it has been calculated that the demands which have been placed before the Tribunal would add about another Rs. 24 per ton to the cost of coal, or, in other words, would increase the present controlled prices by about 150 percent. Labour demands, of course, are always inflated and it is not necessary to assume that the Tribunal will award anything like this increase. Nevertheless, the figures quoted demonstrate how basic and fundamental the adjudication is to the entire economy of the coal industry; and, since coal enters into the cost of production of most industries, the repercussions which the Tribunal award may have on the economy as a whole need no emphasis. It is no exaggeration therefore to say that the coal industry's future revolves very largely around the outcome of the All-India Tribunal; that, with so much in the balance, the uncertainties of the Tribunal must have a paralysing effect on the industry's energies and development plans; and that, until the Tribunal award has been announced and its effects properly assessed, there must be a period of hesitation and indecision.

Future Indefinite

There is another aspect of the Tribunal situation. The Tribunal award, once it is made, will be independent of all economic laws and circumstances. It will be an imposed solution by which the industry is legally obliged to abide for a stated period, irrespective of what may happen to its economic fortunes. Again, this is a characteristic of all Tribunal awards. Hitherto it has been generally believed that all economic activities, including the employment and remuneration of labour, are governed by laws which are purely economic in their nature and operate irrespective of man-made pronouncements and theories. The system of compulsory adjudication by industrial tribunals does not however fit in with this belief. Perhaps the problem can best be seen in the context of the coal industry's export situation. For the past year and a half or two years India's coal exports have been declining because of factors outside her own control—mainly the improvement in supplies and increased competition from other supplying countries. Exports are a very vital matter for the Indian coal industry: they provide an invaluable outlet for the industry's production and, if they fall off, the million tons or so of coal which will be thrown back upon the internal market will be sufficient to make all the difference between a sufficiency and a glut of internal supplies. Exports then are dependent upon economic factors operating throughout the international sphere but nevertheless have a direct bearing on the internal economy of India's coal industry. On the other hand, that industry is going to find itself legally obliged to extend to its labour force terms and conditions of service which are independent of economic fluctuations; and the problem—the problem whose existence the theory of industrial tribunals hardly even admits—is going to be to reconcile legal obligation with economic exigency. Again, faced with the prospect of the unpredictable yet vitally important Tribunal award, it is not surprising that the coal industry views its future with hesitation and uncertainty.

There is a third factor, or rather set of factors, greatly complicating the industry's circumstances and future prospects: namely, the wide extension of Government's interference with and control over the industry's affairs which has occurred during the past few years. Of fundamental importance of course are the controls exercised over coal prices and distribution. In recent months these controls have been the subject of considerable public discussion and there is very little that can be added to what has already been said. While the industry's fate remains bound up with the decisions to be given by the Labour Tribunal, however, it would be premature to depart from the existing system of control and it seems therefore that in their present form the controls must yet remain for at least a number of months.

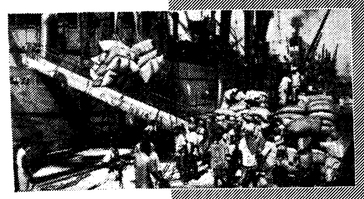
There are however other aspects of Government intervention which, though their effects can finally be judged only on a long-term basis, have undoubtedly also an immediate impact on the industry's circumstances. The output of metallurgical coking coal is strictly controlled in the interests of conservation and recently the Government has promulgated the Coal Mines Conservation and Safety Rules, which provide for far-reaching official intervention in such matters as mining methods, sand stowing, installation of washeries, etc. The Government now has before it the report of the Committee on Coal Washeries which was appointed at the beginning of the year and the entire future of this important aspect of the mining industry's operations must depend on the early formulation of a realistic Government policy towards washeries. In the matter of mining rights and leases, Government-appointed committees have recently been investigating rates of royalty and dead rent; the industry is governed by the Mines & Minerals (Development and Regulation) Act, the full effects of which will be determined by rules which are expected shortly; and it is well known that some State Governments, imbued with unrealistic ideas about the exploitation of the country's mineral wealth, have vague ambitions towards the expropriation of mineral leases.

Cumulatively, these enactments and measures involve an unprecedented degree of Government intervention which has come into existence within a comparatively short space of time; and, in the circumstances, it is not surprising that colliery managements should be bewildered and little able to foresee the course of events in the immediate future. Combined with the uncertainties of the labour situation and the difficulties and deficiencies of the transport system, this element of increasing Government intervention helps to explain the coal industry's frustration and comparative stagnation. What is needed now is a breathing space, a period in which the industry can digest the mass of legislation which has been forced on it in recent years and in which the Government machine can successfully work out the practical effects of that legislation. Granted moderation and realism in future Government policies, the long-term prospects of the coal industry—with increasing industrialisation, new steel plants, railway expansion, gasification schemes, etc.—are on the whole favourable; and, as the industry has already shown in its excellent post-war production record, it has in full measure the ability to take advantage of any opportunities that the future may offer. In short, if the industry is given a fair deal, its present stagnation and frustration need be only a passing phase.

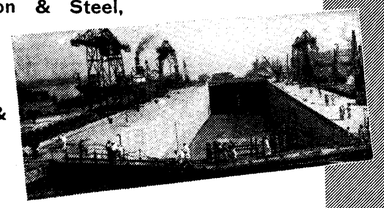
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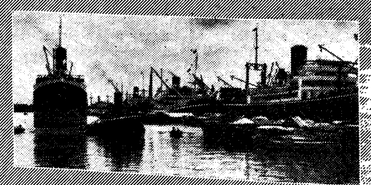


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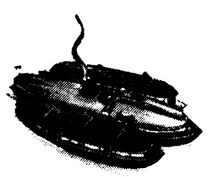




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TARGETS FOR THE INDIAN SHIPPING INDUSTRY

THE CASE FOR SPEEDIER EXPANSION

● By DR. SUDHIR SEN ●

FOR Indian shipping the first seven years of independence has been a period not of spectacular expansion, but of quiet consolidation. As a result of the slow but steady progress made during these years and the various measures taken by the Government, the industry can now confidently look to the future and is far better placed to take a fresh leap forward. How much ground should it attempt to cover in the next leap? This question, already uppermost in the minds of those closely connected with the industry, is bound to attract increasingly more attention as the first Five Year Plan period approaches its end. In examining this question we need, above all, a realistic approach that would steer clear of defeatism as well as wishful thinking.

The report of the so-called Re-Construction Policy Sub-Committee on Shipping, which was submitted almost exactly seven years ago, is still looked upon as the sheet-anchor of our shipping policy. Its recommendations were clear and specific: the coastal trade to be reserved for national ships; 50 percent of India's overseas and 75 percent of her "adjacent" trades to be carried in Indian bottoms, as also 30 percent of the trade then lost in the Orient by the Axis countries; a fleet of two million gross tons to be built up—this tonnage target was considered to be the minimum to realise the trade targets; and all this was to be achieved in five to seven years, that is to say, by December, 1954 at the latest.

These were indeed bold recommendations—how bold can be gauged from the fact that at the time the Sub-Committee reported the Indian fleet consisted of only 127,083 gross tons. In other words, we were to increase our tonnage almost sixteenfold in a five-to-seven-year period. In fairness it must be admitted that the time did look propitious for embarking on a go-ahead programme: money was still plentiful and cheap; the capital market was easy; large sterling balances had accumulated abroad; "Liberty" and "Victory" ships were on sale; the freight market was rising; political independence was in the offing. Moreover, India had just begun to haul foodgrains in unprecedented quantities across the oceans to feed the nation. Here, it was felt, was a unique opportunity—to expand the tonnage, to carry these bulk cargoes in Indian-owned vessels, to save the ocean freight, and to conserve the hardening dollars. Lastly, there was a world shortage of tonnage accentuated by the virtual disappearance of the merchant fleets of Germany, Italy and Japan.

Commendable Initiative

A bolder policy during 1947-49 might have greatly speeded up progress, but today it would be merely academic to debate this issue. Private enterprise availed itself of the favourable circumstances as far as practicable; and owing to the commendable initiative shown by it in those years, the tonnage did expand for a time at an appreciable rate. In December, 1949 the fleet consisted of 83 ships with 356,214 gross tons, but thereafter the expansion distinctly tapered off. By then the Indian economy was plunged into one of the worst crises in its history, with the heavy influx of refugees from across the borders, the mounting food deficit and near-famine conditions in many parts of the country, and the shortages first of dollars and later of sterling and rupees. When the Planning Commission came into existence in March, 1950, one thing was clear to all thoughtful people: things would have to be prevented from getting worse before one could expect them to get better. The problem was further complicated by the fact that a large number of projects had already been launched, almost in a pell-mell fashion, with the result that a scramble had developed among them for the limited available resources—financial, key construction materials, even technical personnel.

The tasks before the Commission were obvious enough: to tackle the food problem which by then had become priority No. 1, to cut down on expenditure wherever feasible, to minimise fresh commitments, and to fix down-to-earth targets in all major fields of our economic life. In doing so priority had to be given to those projects which were already under way. And so the inevitable happened: first, the Plan was shaped more by the force of circumstances than by conscious design—for the most part it was a "rationalisation" of the projects already under execution; and, second, the axe fell heavily where no firm commitments had yet been made; above all, on the development of industries including shipping.

Given this background it was no wonder that the target for shipping set in the first Five Year Plan should have been modest—only 600,000 gross tons to be reached by March, 1956. After the Shipping Sub-Committee's recommendation of a 2-million gross ton target, this looked very much like an anti-climax. Even with this low target shipping fared better in the first Plan than most other industries. The Plan, let us not forget, did not provide even for a single steel plant, and it is only now that this omission is being made good.

Indeed even last year it looked problematical if even this modest target of 600,000 gross tons was going to be realised by the end of the Plan period. The tempo of tonnage expansion has recently been somewhat accelerated with the result that the fleet has now reached the 475,000 gross ton level. With these new acquisitions and the expansion programmes which the leading shipping companies have in view for the immediate future, the industry now bids fair to reach the allotted target by the end of the Plan period.

Significant Steps

To measure past progress only in terms of tonnage expansion would be a mistake. We must take into account the substantial gains, though of a somewhat intangible nature, that have been achieved in other directions. Today we are no longer debating whether shipping should be in the public or the private sector; the Industrial Policy Resolution of 1948 assigned it to the latter; this clarification removed what might otherwise have become a major stumbling-block to future progress. The establishment of the Directorate-General of Shipping with effect from 1st September, 1949, with powers to deal with all executive matters relating to shipping was another significant step; it was also a proof of the importance which the Government attached to the development of our shipping. The reservation of the coastal trade for Indian shipping, which came into force in August, 1950, was a momentous decision. Mention should be made also of the establishment of a Corporation which took over the ship-building yard at Visakhapatnam and of the Eastern Shipping Corporation, which has been sponsored and is largely owned by the Government. To help solve the problem of finding capital for the industry the Government initiated the policy of granting long-term loans to the shipowners; the terms and conditions of such loans were liberalised last year. Lastly, valuable experience has been gained by Indians, both as shipowners and as ships' personnel, in operating fleets, on the coast as well as on the overseas routes. These are solid gains; taken together, they have laid the foundation on which it is now possible to build a broadbased shipping industry for India.

Since the Shipping Sub-Committee's report of January, 1947, it has become customary to speak in terms of a 2-million gross ton mercantile fleet for India. For example, in an interesting talk given before a group of naval officers on 26th August, 1954, the present Director-General of Shipping stressed that "if India is to take her proper place among the maritime nations of the world, she has to have a minimum of two million tons of shipping". What are the financial implications of such a target? And what are the practical problems which will need to be tackled and solved before we could expect to attain this goal? These are questions well worth probing into, more so at a time when the second Five Year Plan happens to be on the anvil.

Assuming that the present target will be fulfilled in time, we shall, after March, 1956, still need 1.4 million gross tons to reach the 2-million target; to this should be added about 150,000 gross tons to replace obsolete or over-aged vessels from the existing fleet. At current prices the cost of this additional tonnage may be estimated at Rs. 155 crores, if all of it were to consist of new buildings. There is, however, no reason why we should not purchase second-hand vessels; in fact, the major part of the new acquisitions may well have to be old tonnage if the 2-million gross ton target is to be reached by, say, March, 1961. The initial capital requirement might be reduced to one-half if it were decided to buy vessels with an average life of 8 to 10 years. Anyhow, even a capital outlay of, say, Rs. 100 crores spread over a period of five years need not frighten us. We are already used to thinking and acting in such dimensions—our giant multi-purpose projects like the Damodar and the Hirakud are each going to cost at least as much; the ultimate cost of Bhakra-Nangal may not be much below Rs. 200 crores; the 500,000-ton Hindustan steel plant at Rourkela will probably cost around Rs. 100 crores when the costs of all ancillary works are taken into account. Besides, according to the latest reports, the second Five Year Plan is expected to provide for a capital outlay of Rs. 5,500 crores, of which Rs. 2,500 will be the share of the private sector. A 100-crore investment target for national shipping does not appear to be out of line with our planning in general.

Indeed, from a financial angle even such heavy investment in shipping has some special attractions. First, the ships will begin to produce almost from the day they are acquired—the time-lag between capital investment and realisation of benefit will be practically zero. Contrast this with the case of the giant projects mentioned above where the lag or waiting period will run into several years. Second, the ships will earn valuable foreign exchange which can be used for procuring from abroad the much-needed capital equipment for numerous development projects. Should India some day be faced with another food crisis—our sugar deficit is already mounting and in the current year we are going to import 700,000 tons of sugar—the additional foreign exchange will be as good as additional food. The Industrial Policy Resolution of 1948 had rightly stressed that, in the present state of the nation's economy, the emphasis should, *inter alia*, be on the production of "commodities, the export of which will increase earnings of foreign exchange". Few industries can beat shipping in this respect. Its invisible exports have an unusually high potential to earn, or save, foreign exchange. These are unique advantages; indeed shipping represents almost an ideal case where the initial capital cost could, if necessary, be met largely from "created money".

Acquisition and Utilisation

The financial problem need not be considered insuperable. But difficulty arises as soon as we turn from the *acquisition* to the *utilisation* side. Will it be possible to find gainful employment for this greatly expanded tonnage? And will Indian shipping be able to hold its own on the high seas against competition from the advanced maritime countries? The implications of these questions

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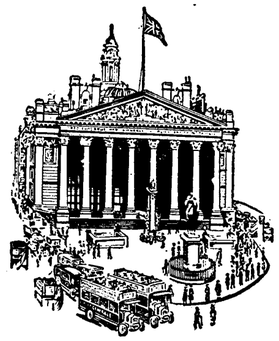
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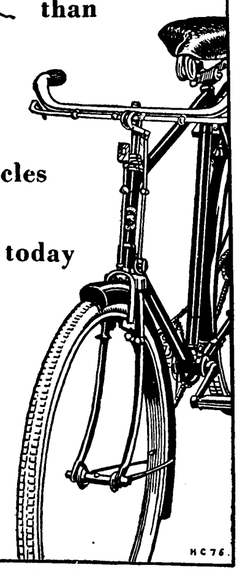
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e wide and far-reaching. Here we can do no ore than touch upon some of them.

Let us first consider the employment potential our coastal trade. At present it yields a cargo approximately 2.7 million tons, which supports fleet of 307,000 gross tons. Already one can hear minous talk of over-tonnage in the coast. To ggest that we have already reached the peak in astal shipping would be unrealistic. The deve- pment under the present and future Five Year lans will in due course produce more wealth, row up more surpluses in different parts of the untry and stimulate inter-regional exchange of ods, part of which should automatically go to ed the coastal trade.

This is admittedly a longer-term consideration. or the immediate future a great deal will depend n the ability to effect rational co-ordination be- ween railway and coastal transport. Only a few ears ago when our railways were faced with an cute shortage of wagons and locomotives, coastal hipping stood the country in good stead. For xample, large quantities of coal were then moved coastal colliers numbering 30 to 40 per month. ut with the improvement in their position the ailways have been steadily cutting into the coastal rade with the result that the coal cargo, which till remains the mainstay of coastal shipping, has unk almost to one-third from its post-war peak. he railways could do so the more easily because hey have been operating on the basis of a freight tructure which is largely out of line with present- lay prices—the existing freights, especially on ong hauls, at times do not cover more than 40 to 0 percent of their real costs. To rely heavily on oastal shipping only in times of crises, otherwise o leave it to its own fate, would be a policy of pportunism. As long as the railways are left free o pursue such a policy, the coast will continue to uffer from chronic instability. Nor would it be ossible to build up a vigorous shipping industry f it is to rest on the precarious foundation of a luctuating residue of trade.

The essentials of a well-co-ordinated transport olicy covering rail and sea are clear enough. The oastal sea-lane is an integral part of our system f communications; it should be treated as such; nd wasteful competition between the two, whether deliberate or accidental, should be avoid- ed so as to achieve the optimum utilisation of the ailway rolling-stock and the coastal tonnage and o keep down the incidence of transport costs to he economy as a whole. All over the world water ransport has been found to be much cheaper than ail transport. This holds good also for India, al- hough the artificial railway freights now in force tend to distort the picture. For transport, espe- cially of bulk commodities, from port to port or from one near-port town to another, the coast en- joys a definite natural advantage; as much of such transport as possible should therefore be left to it. In addition, an attempt ought to be made to fix a floor at a high enough level for the coastal movement of such commodities as coal and salt. If steps are taken on these lines, not only will coastal shipping be rescued from its present in- stability, but it will be able to support a much larger fleet.

The problem of our coastal trade, however urgent it may be, is, at least in one important res- pect, comparatively easy to solve. The coast is now reserved for national ships; the competition comes only from the railways; the issue is entirely domestic and can be resolved by suitable read- justments in official policy. The adjacent and overseas trades present a different set of prob- lems because, first, the competition comes from non-Indian shipping lines and, second, adequate Indian participation in these trades presupposes admission with sizeable fleets into powerful Con- ferences which dominate the field.

Adjacent Trades

The trades with Burma, Ceylon, Pakistan and other nearby countries involve normally a cargo of around 1.7 million tons. In recent years India's share has shown an appreciable rise and now amounts to 35 to 40 percent. This is just about one-half of the target fixed for adjacent trades by the Shipping Sub-Committee of 1946-47. Never- theless, this trade is likely to gravitate more and more to India because of the natural advantages she enjoys with her long coast-line, geographical proximity and the fact that the trade either ends or originates in her territory. The process could, however, be accelerated through inter-governmen- tal negotiations. It is true that some of the neighbouring countries have declared their inten- tion to develop their own national shipping, but even after making due allowance for this aspira- tion, it should be possible to raise India's partici- pation in these trades to a higher level.

It is the overseas trade with distant countries that holds out the biggest promise for Indian shipping, but it also poses the most complex prob- lems. This trade is now estimated at 16 to 17 million tons including 3.5 million tons of oil cargo; of this only 4 to 5 percent is at present carried in Indian ships. The post-war Shipping Sub-Com- mittee, "proceeding on the generally accepted principle that a country should carry in its own national bottoms at least 50 percent of her mari- time trades", urged that the objectives of India's future shipping policy should, among other things, be to secure a 50 percent share in these trades. To reach this target her share would have to be in- creased 10 to 12 times from its present level.

The biggest hurdle to cross here, as we all know, is the opposition from the established Conferences. Some of them have gone to the length of running down such an objective on the ground that it in- volves "flag discrimination". We need not go into the chequered history of these words and how with time they have been invested with elastic con- notations. Suffice it to say that, as originally in- tended, they only meant discriminatory treatment of vessels at a port on grounds of their foreign ownership, which several international conven- tions sought to avoid in order to promote inter- national shipping. Surely there can be no sug- gestion of any discrimination if India aims at se- curing a 50 percent share in our own overseas trade. This is a clear case of protecting legitimate national interests by legitimate means. Only recently the U.S. Congress legislated that 50 per- cent of the Government-financed cargo should be carried in U.S.-flag ships. The 50 percent target recommended by the Shipping Sub-Committee would, if anything, still leave a generous margin of our trade to others. To call this "flag discrimi- nation" is an indiscriminate use of these words.

"Every philosophy", said a German thinker, "is an apology". The remark, in spite of the obvious touch of cynicism, contains a hard core of psycho- logical truth. Our theories or ideologies are often nothing but rationalised versions of self-interest. We may appear to base our actions on them, but the sub-conscious thought process is often just the reverse—self-interest is the major premiss on which we build up some theory or ideology. This is what seems to have happened to the concept of "flag discrimination" as is now used by some. In any case, it largely explains the over-emphasis which, a century ago, was laid on free trade by the Manchester School, until Friedrich List with his infant industry argument supplied an essential corrective. Today hardly any economist would seriously question the need for protecting the in- fant industries in the under-developed world. The principle is now accepted almost as an axiom; the only relevant questions are—how much protection, in what form, and for what length of time.

Some Axioms

In addition, the shipping industry has a few axioms which are peculiarly its own, and which must be fully grasped if we are to evolve a clear- cut and adequate policy for its future. First, a ship is as good as a factory—a 10,000 d.w.t. modern cargo ship would cost about a crore of rupees, or as much as a substantial landbased factory in most other industries. Second, it is a *floating* factory, and as such it cannot. unlike other industries, be protected with a tariff wall. Protection in this case must be in the form of subsidies or bounties. Third, it is exposed to international competition on the high seas, against which it has to be pro- tected. To operate successfully its competitive power must be on a par with that of the other maritime countries. To this we can also add a few corollaries: first, our shipping will need at least as much State assistance as the shipping industries of the major maritime countries receive from their own Government; second, these countries own large fleets, much of which was acquired in times of low prices, and possess vast financial resources built up through generations of shipping, our in- dustry will therefore need additional subsidies to compensate for the disadvantages due to its late start, especially in times of soaring prices; third, as and when other maritime countries extend some new State help to strengthen the competitive posi- tion of their shipping, we too shall have to follow suit and allow the same extent of additional State aid, no matter in what form; and, fourth, such aid should be allowed with a minimum of time lag; too much delay will mean too much opportunity for others to squeeze the under-aided, and there- fore the competitively weaker, parties, out of the field.

In official quarters there is a tendency to assume that all should now be well with our shipping in- dustry since the Government has adopted a policy of granting liberal loans for the acquisition of fresh tonnage; that all that now remains is for the shipowners to come forward, take loans, buy ships and expand their fleets. Such optimism ignores the realities of the situation. It is true that the Government is now extending loans to cover 80 to 90 percent of the purchase price of a ship at 4½ percent interest for coastal and 2½ percent for overseas vessels, the amortisation period for both types of loans being fixed at two-thirds of the residual life of the ship or twelve years, which- ever is less. It is also true that but for these Government loans, it would have been well nigh impossible for the shipowners to find the capital for any substantial acquisition of tonnage. Never- theless, the fact remains that interest-bearing re- payable loan capital is not the same thing as risk- bearing equity capital which carries with it no lia- bility for repayment or for interest charges and which earns only the dividend that a company in course of time is able to earn and distribute.

Since 1948 our capital market has been in dold- rums; recent signs of its revival have been weak and sporadic, and therefore none too reassuring; meanwhile, the available capital resources are being used up for our expanding public sector. The sources of equity capital are therefore likely to run dry also in future. The new Industrial Credit and Finance Corporation is being establish- ed at an opportune moment, but it can at best pro- vide a partial solution of the problem. At a time when the Government is planning for a rapid expansion of both sectors of the economy, how the available capital resources are going to be shared between the two and, more particularly, how private enterprise is going to raise the necessary risk capital remain among the big unanswered questions.

For some time Indian shipowners have been pressing for more liberal State assistance. The specific claims made by them include exemption from income tax of proceeds from sale of ships or amounts realised from insurance companies so long as they are utilised for further acquisition of tonnage; similar tax exemption for profits when ploughed back into the industry; reduction of inte- rest rates charged on Government loans and exten- sion of the loan amortisation period to twenty years; a 20 percent Investment Allowance, similar to what has been granted in Britain this year to help industries in general and shipping in parti- cular to solve the problem of replacing plant and equipment at the high level of present-day costs. The shipowners have also been urging the Govern- ment to give relief under Section 49D of the Indian Income-Tax Act regarding double taxation; exemp- tion from customs duty on stores and bunkers con- sumed by coastal ships ; and exemption from sales tax on ships' stores, bunkers and repairs. Of late they have been asking for some operational or promotional subsidy.

It will hardly stand to reason if these proposals are summarily brushed aside on the ground that they would involve a departure from the practice followed in the case of other private industries. They need to be examined with the utmost objec- tivity and in the light of the axioms and corolla- ries we have stated above.

Decasualised Dock Labour

Among the other high priority problems we must include the present dock labour situation and the inadequate handling facilities at our ports. The decasualisation of dock labour, instead of im- proving things, has resulted in a marked fall in output with corresponding increase in the time taken for loading and unloading vessels. Nor are the ports properly equipped for efficient and expe- ditious handling of cargo. The bearing of these two factors on the industry is obvious. As the vessels pile up idle time, their freight earnings are reduc- ed and profits dwindle. Besides, with such delays in the turn-round of vessels, we shall need a much larger tonnage, and correspondingly more capital outlay, to lift the same cargo. Unless things are set right by timely and resolute action, all this will have a crippling effect on the industry and will upset the calculations about our future trade and tonnage targets.

The conclusion that emerges from the foregoing discussion is simple. All that the shipowners can do is to buy and ply ships, maintaining of course the necessary efficiency in management. But they can buy and ply ships only when there are enough cargo prospects and when they are able to compete with others in lifting such cargo. It is mainly for the Government to satisfy these conditions. It is their business to effect rail-sea co-ordination, to secure Conference memberships, to take effective steps to give our shipping a far larger share in Indian, especially in Government-owned, cargo, to find risk capital or adequate substitutes for it, to build up the competitive position of the industry so as to place it on a par with other countries, to tackle the dock labour problem, and to improve the port-handling facilities. On the willingness and ability of the Government to fulfil these res- ponsibilities will depend the future prospects of our shipping industry, also the target that could be appropriately fixed for the next Five Year Plan. It is essential that in fixing this target boldness is tempered by realism and backed by determination.

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INDIA'S SUGAR INDUSTRY

• By HITINDRA MALIK •

IT is perhaps little known that as far back as 600 A.D. the envoys of the Chinese Emperor Tsai Heng, who trekked across the Gobi Desert and crossed the mountain passes of the amirs, arrived in India to learn the technique of making white sugar from cane juice. Like most ancient arts and crafts, the sugar-making craft in India disappeared when classical civilisation came to an end. In modern times India, which had once taught the world how to make white sugar, had to learn anew and to build her industry from scratch. Meanwhile, the country had to depend entirely on imported sugar and for many years Java held a near-monopoly of the Indian market. Annual imports were around 1,000,000 tons and were valued at approximately Rs. 150,000,000. Actual imports in 1929-30 amounted to 940,000 tons.

In 1932 the Indian industry received its first major impetus when the Sugar Industry Protection Act was passed. The revenue duty of Rs. 6 a cwt, which was then in force, was converted into a protective duty of Rs. 9-1 a cwt; Rs. 7-4 a cwt was the protective element and Rs. 1-13 a cwt the revenue surcharge. This gave a stimulus to the existing sugar factories which were then struggling for survival, and also encouraged new enterprises. In the crushing season 1931-32, there were 32 factories in operation which produced 159,580 tons between them. In 1932-33, the number of factories increased to 57 and production jumped to 290,000 tons. The area under cane cultivation also increased from 1,971,000 acres to 3,317,000 acres. The sugar boom was on and expansion continued at a phenomenal rate. In the 1933-34 crushing season, 112, factories functioned and production rose to 454,000 tons. Correspondingly, the area under cane increased to 3,481,000 acres.

India today has 134 sugar factories in operation, with an invested capital of Rs. 360,000,000. The industry employs 130,000 skilled and unskilled workers, 3,500 other employees and supports 20,000,000 agriculturists. But self-sufficiency has not yet been achieved. The industry has an annual rated capacity of 1,500,000 tons while the annual demand is estimated at 1,800,000 tons. Actual production in the 1953-54 crushing season amounted to 1,010,000 tons. On this basis, approximately 750,000 tons will have been imported by the end of 1954 to compensate for the shortfall in domestic output.

Uneconomic and Inefficient

The sugar industry is a relatively simple one and does not employ any very complicated processes. All the raw materials are locally available, with the exception of sulphur, but as the industry consumes less than 10 percent of the country's total sulphur imports, it is not an appreciable charge. However, it is uneconomic and inefficient by modern standards; the cost of production is considerably higher than in other sugar manufacturing countries. Most of the plant installed is obsolete. The last major investment in this industry was in 1933-34 when equipment valued at Rs. 33,638,000 was imported. Since then there has been no rehabilitation and renewals and replacements have been negligible. A plant with a crushing capacity of 1,000 tons a day is rated an economic unit whereas the average crushing capacity in India is 600 to 800 tons a day. On this basis, most of the existing plants are uneconomic units.

The other important factor and, in the present context, of even greater importance than the purely industrial aspect, is the agricultural element. The industry depends heavily upon agriculture because sugarcane is the vital raw material. The amount of sugar manufactured depends upon the quantity of cane available. The sugar problem is therefore an agricultural as well as an industrial one. Any consideration of increased output, efficient production or self-sufficiency must necessarily take into account the vagaries and the primitive techniques of Indian agriculture.

Gur Production

There is yet another aspect which complicates the situation and which is peculiar to this country. India is the only gur consuming country in the world and nearly three times as much gur is consumed as sugar. Although it is a cottage industry about 2,715,000 tons to 3,100,000 tons of gur are produced each year. Gur is consumed mostly in the villages and by the poorer sections of the community but there is a marginal stratum of society whose demand for gur as a substitute for sugar and vice versa is elastic. Its preference at any given time, dictated by the price factor, can appreciably influence the working of the sugar industry. Sugar has a serious rival in gur, which competes not only as an alternative product but, what is more important, also for supplies of sugarcane. The crushing seasons of 1951-52 and 1952-53 are sound examples of the intimate relationship between sugar and gur. They bring into focus the mechanism which balances production between the two commodities. In 1951-52 there was a heavy slump in the price of gur, so production declined appreciably. All available supplies of cane were diverted to sugar factories and a record quantity of 15,496,000 tons of cane was crushed as against 11,016,000 tons in the previous season. Sugar production reached its highest-ever level of 1,483,100 tons. For a brief period it seemed as if self-sufficiency was round the corner but this was only a temporary phase. The illusion was broken in the following year when gur prices staged a recovery and the gur cottage industry was once again in the market for cane. In 1952-53, only 13,191,000 tons of cane were crushed and the production of sugar dropped to 1,316,300 tons.

Diversion of Cane Supplies

Because gur production fell in 1951-52, there was comparative scarcity with a corresponding increase in price in 1952-1953. The demand for sugar as a substitute therefore increased. This increased demand came at a time when sugar production was decreasing, because gur was once again a lucrative commodity and drawing away cane supplies from the factories. Fearing that a sugar shortage might result, the Government of India decided in 1952-1953 to import 137,000 tons at a cost of Rs. 72,500,000. Here is a unique example of a cottage industry conducted on primitive lines exercising a decisive influence on the fortunes of a modern large-scale industry. The reason for this is that whereas the sugar factories are compelled by law to purchase at the minimum price fixed by the Government all the cane offered to them, there is no corresponding compulsion on the cultivator to sell his crop to the factories at the minimum price or for that matter to sell it specially to them. The agriculturist is the sole arbiter and the right of apportioning his crop between gur making and sugar manufacturing lies entirely with him. He naturally disposes of his supply in the dearer market.

The dependence on the agriculturist is carried a stage further because the acreage under cane cultivation depends upon the fixed minimum price of sugarcane and the relation this bears to the prices of alternative crops like rice, wheat and groundnuts. For example, the minimum price of sugarcane in 1951-52 was Rs. 1-12 a maund and 4,792,000 acres were under cane cultivation. Actual cane production amounted to 60,680,000 tons. The price was reduced to Rs. 1-5 a maund in 1952-53; the acreage dropped to 4,376,000 acres and only 52,600,000 tons were produced. In 1953-54, the price of cane was raised to Rs. 1-7 a maund. Under normal circumstances the acreage under cane should have increased correspondingly but the alternative crops were much more remunerative and the small increase in the minimum cane price was offset by larger gains in the other crops. The area under cane actually declined still further and only 3,446,000 acres were sown. Since then the monthly wholesale prices of rice, wheat and groundnuts have dropped appreciably as food production has gathered momentum. Although the minimum cane price for the 1954-55 season remains unchanged at Rs. 1-7 a maund, the area under cane has shown an increase. The first all-India estimate of sugarcane for 1954-1955 puts the acreage at 3,637,000 acres—an increase of 5.5 percent over the previous season.

Uncertainty of Cane Supplies

The control of the cultivator over the production and distribution of sugarcane bears no relation to the needs of the sugar factories. The conditions of supply of this vital raw material to the sugar industry are largely determined by the economics of agriculture. However desirable this may be from the cultivator's point of view, the results are most unsatisfactory as far as the sugar industry is concerned. It is difficult, if not impossible, for the sugar factories to plan their production schedules. Adequate and regular supplies of cane are essential for the efficient and economic working of a sugar plant. This is among the leading problems with which the Indian sugar industry has to contend.

Equally unsatisfactory is the quality of Indian sugarcane for it has an extremely low sucrose content. The average percentage of recovery in India is the lowest for any major sugar producing country of the world and works out to 10 percent, as compared with 14.33 percent in Australia, 12.25 percent in Cuba and 12.93 percent in Formosa. In India, 10 maunds of cane are required to produce one maund of sugar while in Australia 6.98 maunds of cane suffice. The Cuban ratio is 8.16 maunds of cane to a maund of sugar. Translated into money equivalents, this means that in India the cost of cane per maund of sugar works out to Rs. 14-6 as against Rs. 7-12 in Australia and Rs. 9-2 in Cuba. Nowhere in the world are sugar factories called





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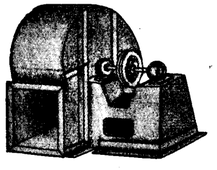
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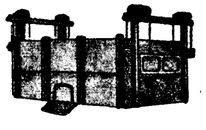
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Premature Harvesting

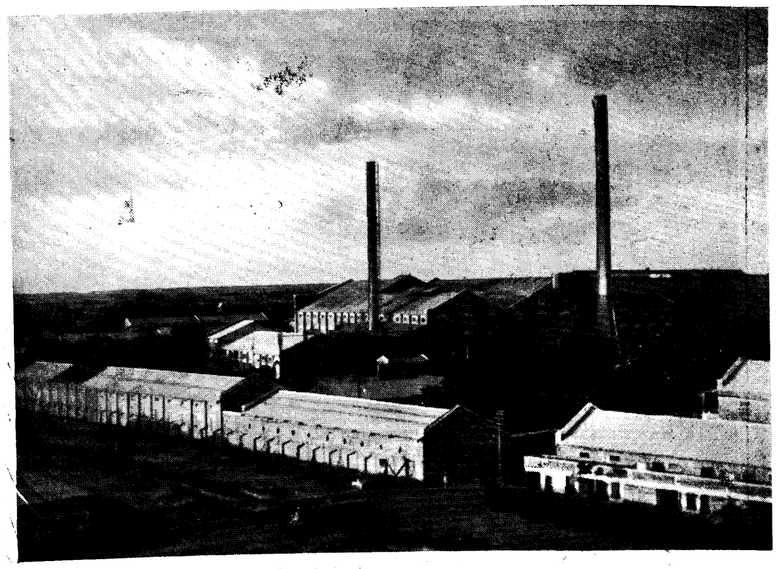
The crop is often harvested prematurely without giving an opportunity to the cane to ripen and to acquire its full sucrose content. The reason for this is that cane is a cash crop, the price of which is based on weight, and the cultivator, perennially in debt and in need of funds, is anxious to collect his money at the earliest possible opportunity. Also at the back of his mind is the fear that if he allows his crop to remain standing for any length of time it may be ruined by pests and disease. No effort is made to phase the harvesting so as to suit the sugar factories; nor is there adequate planning for the cultivation of the early, medium and late ripening qualities. The result is that in the latter part of the season sufficient cane is not available to enable the factories to continue in operation. The crushing season is cut short, which makes production uneconomic. Apart from this functional inefficiency there is the overall problem of low yields which is characteristic of Indian agriculture. Although the acreage under sugarcane cultivation is only about 2 percent of the total area under foodgrains, no other country in the world has such an extensive area under cane as India. But yields are deplorably low. The all-India average yield is estimated at 14 tons an acre as against 56 tons an acre in Java.

This is the crux of the problem. Poor recovery, low yields and the lack of a regular flow of cane supplies over the entire season are the fundamental factors which are responsible for uneconomic and inefficient production. Under these circumstances, it is debatable whether it would be an economic proposition to rehabilitate the existing plant. However technically efficient it might be, it would remain uneconomic if the basic raw material is poor and inadequate for it to work at optimum capacity.

Duties and Cesses

It is contended that the excise duty of Rs. 2-12 a maund and the cane cess of 3 annas a maund add to the ultimate cost of sugar. This is true, but in the broad industrial context these charges are of secondary importance. The fundamental question is whether or not the industry is economic. In explaining the high price of sugar, the argument is put forward that labour charges have risen. This is as it should be. What is more, these charges will increase still further; as living standards improve the earnings of labour will rise. The solution does not lie in cutting down wages or reducing the price of cane or abolishing Government duties. A "tightening of the belt" is never a permanent solution, nor is it a desirable one. The answer lies in raising the standards of agriculture and rationalising the means of production.

Efforts are being made to step up yields and to improve the quality of the cane. Experiments have shown that yields can be increased considerably by proper irrigation and by the judicious use of fertilisers. Government experimental farms in Uttar Pradesh have succeeded in raising 20 tons an acre as against an average yield of 12 tons for the State. Agricultural experts who are working on this problem contend that further improvement is possible. In a drive to step up production, "pay after the harvest" loans of fertilisers were made available to cultivators in Uttar Pradesh, Bihar and Punjab. The dosage prescribed was a top dressing of two maunds of ammonium sulphate an acre for irrigated crops and one maund an acre for rain-fed crops. Although initially applicable to 220,000 acres of standing crops, it is planned to extend this scheme throughout the Indian Union. Agricultural problems vary from one State to another and it is impossible to lay down a development scheme which would be applicable throughout the country. For instance, the Deccan grows the adsali variety of cane, which is cut in 18 months and should be fertilised within four months of sowing. A different variety of cane is planted in the south which is harvested in 12 months. This requires to be fertilised within two months of planting. The chemical compositon of the fertiliser and the prescribed dose must also vary to suit the composition of the soil in different parts of the country.



A sugar factory in Western India

Irrigation in U.P.

The problem of irrigation is a major one in Uttar Pradesh. This State depends largely on rain water and if the monsoon fails the cultivator faces disaster and so does the industry. Uttar Pradesh and Bihar have been particularly unfortunate this year. Ravaged by floods earlier and now faced with drought, Bihar faces the prospect of a crop failure which will ultimately affect sugar production in 1954-1955. To augment the water supply of the State, a scheme is in hand to install tube wells which would be an invaluable standby in the event of a monsoon failure. Madras, on the other hand, has a network of canals and the problem here is one of over-irrigation. Because the price of cane is based on weight, there is a strong temptation for the cultivator to over-irrigate his crops which adds to the weight of the cane but reduces the sucrose content. Only in the Deccan is the problem somewhat simpler. Here the sugar factories maintain their own plantations. With an abundant canal water supply and unhampered by the whims of the cultivator the sugar factories are free to raise their cane on scientific lines. The results have been much more satisfactory. On an average, yields of about 30 to 40 tons an acre have been attained and recovery increased to 11.51 percent—the highest in India.

Experimental Stations

Valuable research work is being done by Government experimental stations. As a start, it is aimed at ensuring an average yield of 20 tons an acre, 12 percent recovery and a crushing season of 120 days, as against the present figures of 14 tons an acre, 10 percent recovery and an 80-day crushing season. Experiments are also being conducted on new varieties of cane to suit the varying climatic and soil conditons of different sugarcane growing areas. But it is extremely difficult to translate these scientific results into mass practice. The diffusion of knowledge is poor. The ignorance and the conservatism of the cultivator act as a "bottleneck" between the laboratory and the vast areas of land which produce India's sugarcane. It is not merely a question of improved agricultural techniques, it is the overall sociological problem of the Indian cultivator.

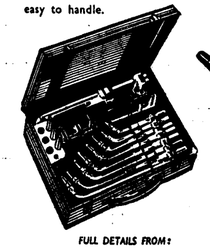
Sugarcane thrives best in the warm and humid climate of the tropics and logically cane cultivation should primarily belong to the south. But, by a strange accident, nearly 80 percent of India's sugarcane acreage lies in the semi-tropical areas of Uttar Pradesh and Bihar, where climatic conditions are not so favourable. It was to Bihar that the envoys of the Chinese Emperor came to observe and learn the craft of sugar making. Such is the force of custom and tradition that North India is still the home of sugarcane. This accident, if it may be termed as one, has had a profound influence on the industry. In accordance with the principles of classical theory that industry must be located in close proximity to raw materials, India's sugar industry gravitated to the north and today 102 of India's 134 factories with a productive capacity of 1,150,000 tons are clustered around Uttar Pradesh and Bihar, all competing with one another to obtain as much sugarcane as possible. It is this fact which gives the cultivator so much control over the industry, for it has led to the peculiar position where a substantial section of the industry has no cane plantations of its own and must therefore completely depend for its supplies on the agriculturist.

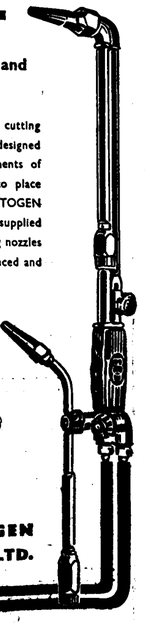
But now new enterprise looks forward to exploiting the resources of the south. With an ideal tropical climate and a vast network of canals which has now been opened up, the sugar factories plan to have their own cane plantations on modern and scientific lines. So great is the esthusiasm that some of the sugar factories in Uttar Pradesh and Bihar are considering dismantling their plants and re-installing them in the south. The advisability of such a course is open to question. It seems absurd to incur additional expenditure on plant which has worked for 20 years and more without rehabilitation and is now obsolete. Efficient production can never be achieved with the existing units. Surely it would be better to install new equipment and to begin afresh with all the advantages that modern technology has to offer. The future belongs to the South and a new phase lies ahead which may bring with it self-sufficiency and economic production.

cutogen no. 4

combined welding and cutting blowpipe

An interchangeable welding and cutting blowpipe, CUTOGEN No. 4 is designed specially to meet the requirements of welders travelling from place to place on varied repair work. The CUTOGEN No. 4, chromium-plated and supplied with long life welding and cutting nozzles of various sizes, is perfectly balanced and easy to handle.

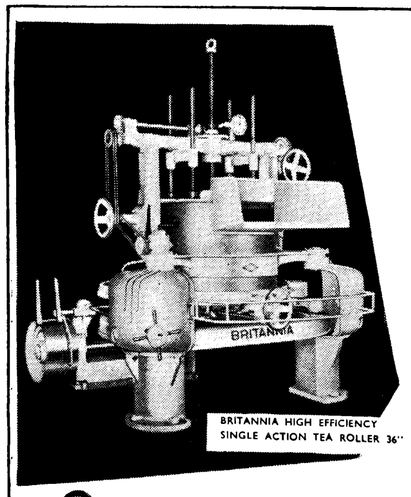




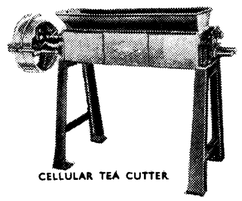
FULL DETAILS FROM:

THE INDIAN OXYGEN & ACETYLENE CO. LTD.

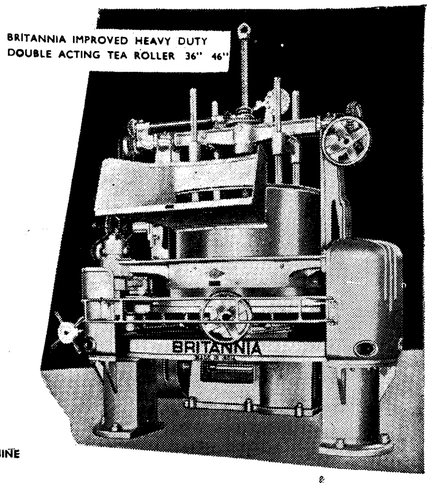
IOX 42

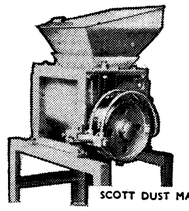


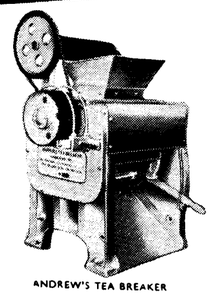
BRITANNIA HIGH EFFICIENCY SINGLE ACTION TEA ROLLER 36" 46"

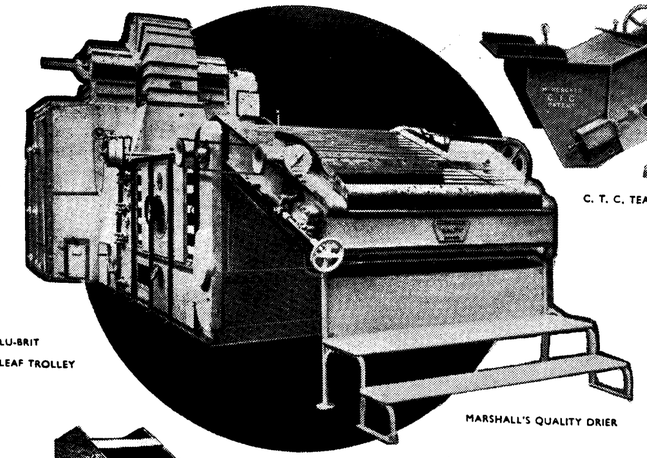

CELLULAR TEA CUTTER

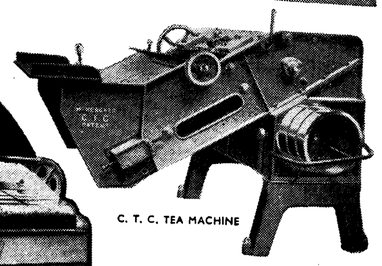
BRITANNIA IMPROVED HEAVY DUTY DOUBLE ACTING TEA ROLLER 36" 46"



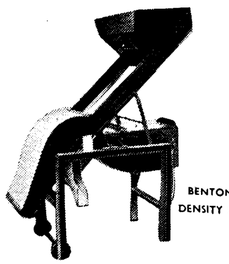

SCOTT DUST MACHINE

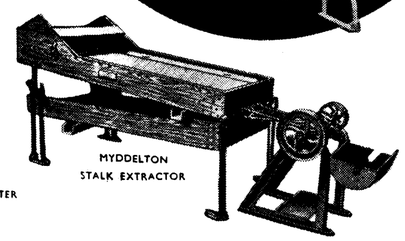

ANDREW'S TEA BREAKER


MARSHALL'S QUALITY DRIER

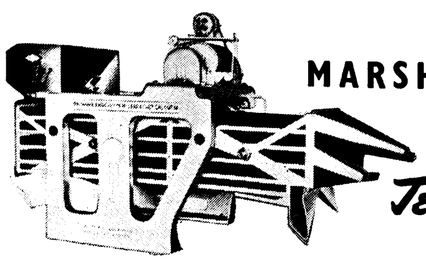

C. T. C. TEA MACHINE


ALU-BRIT TEA LEAF TROLLEY

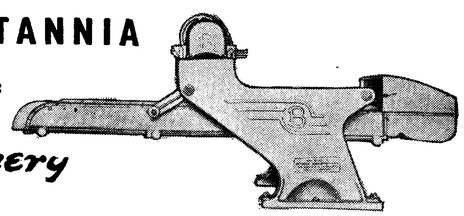

BENTON DENSITY SORTER


MYDDELTON STALK EXTRACTOR


DUPLEX TEA PACKER


BRITANNIA BALANCED PUCCA TEA SORTER

MARSHALL-BRITANNIA RANGE OF *Tea Machinery*


BRITANNIA BALANCED TEA SIFTER

MANUFACTURED BY

BRITANNIA ENGINEERING CO. LTD

MANAGING AGENTS **MCLEOD & COMPANY LTD.** CALCUTTA

SOLE SELLING AGENTS FOR INDIA AND CEYLON

MARSHALL SONS & CO (INDIA) LTD

33/1, NETAJI SUBASH ROAD
POST BOX NO. 22
CALCUTTA

MARSHALL'S BUILDING
SECOND LINE BEACH
MADRAS-1

THROUGH :- BROWN & CO. LTD.
LANKA WORKS.

ADVERTISING IN INDIA

• By G. H. Gates-Reed, M.I.A.M.A. •

Illustrations by Miss V. Floyd

IN order that the discussion in this article may proceed with at least a lowest common denominator of understanding, by advertising is meant all or any of the "impersonal" methods of sales promotion, either of a product or an idea. This simplification quickly lumps the chicks of propaganda, publicity, press advertising, sales promotion, press and public relations, with the multi-media they employ, into one rather full but easy-to-handle basket. Advertising is then defined as salesmanship without the use of salesmen.

A PARABLE:

"Well, gentlemen, there it is. We'll just have to advertise. After all, it is a new product. Competition will probably be keen, and of course the dealers will like it. About "X" lakhs to cover everything, newspapers, etc., etc. What do you think?"

"I suppose we'll have to, as you say. I must admit I believe in a little advertising; after all, everybody does it, but this seems an awful lot of money—a chunk out of the profits as it were, Anyway, my sales staff will get it back for us in time, eh? Not a bad product either!".

"Yes, and there's the tax point, of course. And I thought the best thing would be for you to handle it, old man. After all you know all about salesmanship, and I believe you've got a brother in printing somewhere in the Punjab, haven't you? That should help. Anyway, draw up a programme, and make it go as far as you can. I'm not without ideas myself actually, and of course, there is always the advertising agent".

"True! Never could see why one had to use them really. Leeches on the budget, I always say. But it will be a bit much for me on my own, so I'll bring in one of those fellows. After all, we're not without ideas of our own and it will give us a chance to get down to the real job of selling, a chance to get down to pay for the advertising, I always say".

Comments on this familiar dialogue are to be found in the public statements of two men who ought to know. First, Lord Leverhulme: "It is wrong to imagine that advertising is simply an adjunct of a sales campaign. It is in fact an integral part of the production function...advertising should be regarded as just as important a branch of the industrial operation as design production". Second, Sir Miles Thomas, D.F.C., Chairman, B.O.A.C., "I believe in advertising for exactly the same reasons that I believe in production, distribution and retailing. Those functions exist as part of the economic system created to satisfy the legitimate requirements of the consumer. Without advertising the system would collapse".

THE PREMISE:

It is essential in any survey of advertising in India to acknowledge that, for a wide variety of reasons, Indian industry, with but relatively few exceptions, still treats advertising as a tiresome Cinderella, or if acknowledging its value, fails to recognise the equal need for a truly professional approach to its execution. This failing, for it is certainly that, is not peculiar to India. It was part of the early phases of the industrial revolutions of most manufacturing nations. It is vitally important however, during the formative key years when India's new manufacturers are developing the home market, and looking to foreign markets, that the approach to advertising be rational, scientific and forceful. There is an excellent opportunity here to learn from the mistakes of others. As an example, it is a defeatist outlook when the plastics industry complains that under-consumption in relation to installed capacity is partly due to the fact that many consumers still prefer to buy imported equivalents—which had established themselves in the first place by hard advertising related to quality. It is just as useless for one branch of the soap industry to accuse the other of using unfair methods—i.e. high pressure salesmanship of the advertising kind. It is in exactly such cases that all the weapons of planned advertising could be brought to bear on the problem. A competitor's effort will not be defeated by a directors' meeting, but a contact meeting with the advertising agent would be a good start.



Back to the Parable

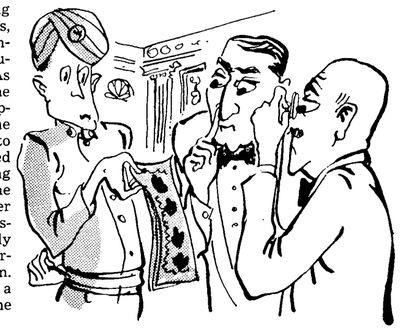
The earlier parable is then not nearly as far-fetched as it may seem, nor does it cover all the sins committed against advertising. It is a fairly general international failing that at one time or another nearly everybody from the Managing Director's secretary, not forgetting the Managing Director himself, to the apprentice in the works imagines that he can have a stab at handling the firm's advertising, and of course, do much better


"after all, we're not without ideas of our own"

than whoever is unfortunate enough to be responsible for it. True, it is not difficult to fill a given space with some sort of message just as anyone can fill an exercise book with reminiscings and call it an autobiography; but whether or not a successful advertisement or book results will depend on the skill, technique and ability of the authors.

In India there are additional problems. To produce an advertising campaign for a mass market product in this country is considerably more complicated than sitting in Berkeley Square and producing a campaign for the same product for the markets of the U. K., France, Germany, Italy, Spain, Holland, Yugoslavia, Switzerland, Belgium and Portugal, all put together. The differences in the buying habits and customs of the peoples of Kashmir and of Travancore-Cochin are certainly no less than they are between the peoples of the U. K. and Portugal. You need ten languages to reach the mass markets of the European countries detailed. Ten will be at least two languages short of those required for a reasonably comprehensive appeal to the mass market of India. There are many other technical complications which make the implementation of a national campaign here a tougher proposition. Although, for instance, national costumes might be featured as a stunt in an all-Europe campaign, in India, unless an impersonal approach is used, illustrations need always to be corrected to bring them into line with regional characteristics. Nor can English be considered the answer to the language problem, for although the English-language Press is still by far the strongest and most national, in dispersal it does not by any means cover the mass market. And so the complications accumulate.

The fact that in the immediate past, (in many industries still today) the greater percentage of the revenue spent on advertising in this country was by manufacturers' agents promoting imported goods, does explain why the new indigenous industries particularly, have possibly not appreciated


Flurries in Berkeley Square

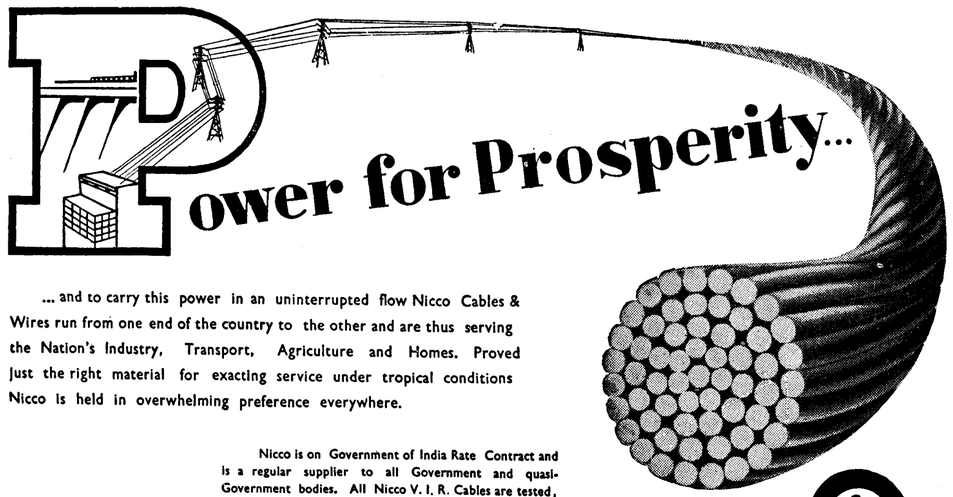
Lord Leverhulme's point that advertising is an inherent charge to be treated as a part of the manufacturing cost of the article even before production commences. Output must always be related to potential offtake and in turn to the possibility of securing that offtake—by employing all appropriate methods of sales promotion and not by the salesman alone. It would be as well to make the point here that the advertising cost is not really passed on to the consumer, because it is in fact only possible to manufacture on a mass production basis, thus securing all the benefits of lower consumer prices, if a mass demand is established. To quote yet another Lever Bros'. director, Chairman, Sir Geoffrey Heyworth: "Advertising makes mass production and the benefits that flow from it possible. Advertising expenditures sustain the necessary demand to bring about savings in production costs which, although they cannot be exactly calculated, are probably greater in amount". Certainly Lever Bros.' experience has proved this to be so.

But possibly the point is being laboured because marketing experience itself will inevitably show that the Cinderella approach will not produce lasting results in the long run; the acceptance and use of advertising must be realistic, recognising it as an essential unit in the manufacturing and marketing machine, a policy process that will be effective in relation to the effort and wisdom put into its direction. Our next concern is to consider the facilities available in India for conducting advertising campaigns on professional lines starting with particular reference to the maligned advertising agency services—"the leech on the budget".

Agency Essential

It costs an advertiser nothing to draw on the services of a highly-trained account executive who has behind him the services of a studio, staffed with fully qualified, and so highly paid, artists and visualisers. It costs him nothing to be able to discuss with experts in advertising (in its many forms of Press, radio, cinema, display, etc.) and in print, paper and typography, the most effective and economic approach to the production of his promotion material. It costs the advertiser only the postage charges to have his blocks and many other items packed and routed to the newspapers of India; the story could be continued. And yet the all-too-general opinion about the advertising agent runs something along the lines of the opening parable.

It is obvious that these services require the employment of a specialist, and not inexpensive, staff backed as it must be by the inevitable retinue of administrative and clerical personnel. It is as obvious that even firms whose budgets may run into many lakhs would be adding very considerably to the overheads of their publicity department if they were to attempt to provide these services within their own organisation—and would gain nothing really positive by doing so. Provided advertisers work in close liaison and give their wholehearted support to the agency principle there is no doubt that the present system is much more beneficial to all concerned. Whereas it is true that the agency services in India are not by any means as strong and comprehensive as they might be that is much more the fault of circumstances (general and financial) peculiar to India, rather than to slackness on the part of the leading agencies. It is obvious that it was only between the wars that the agencies in India developed into productive units tackling the ques-



Power for Prosperity...

... and to carry this power in an uninterrupted flow Nicco Cables & Wires run from one end of the country to the other and are thus serving the Nation's Industry, Transport, Agriculture and Homes. Proved just the right material for exacting service under tropical conditions Nicco is held in overwhelming preference everywhere.

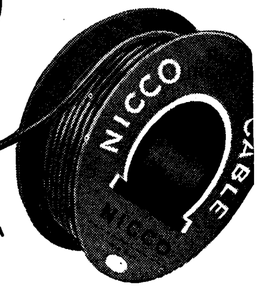
Nicco is on Government of India Rate Contract and is a regular supplier to all Government and quasi-Government bodies. All Nicco V. I. R. Cables are tested, sealed and certified by the Government.

LIFE-LINES OF THE NATION

NICCO

CABLES & WIRES

NICCO PRODUCES:-
Bare Copper, Solid & Stranded Conductors.
Annealed Tinned Copper Binding and Fuse Wires.
Aluminium Conductors Steel Reinforced.
V.I.R. Insulated Cables.
V.I.R. Insulated Flexible Cords.
Motor Car Ignition Cables.
Bell & Telephone Wires.
Aerial Cables.
V. I. R. Insulated Lead Alloy Sheathed Cables.
V. I. R. Insulated Tough Rubber Sheathed Cables, Etc., Etc.



THE NATIONAL INSULATED CABLE CO., OF INDIA LTD.
STEPHEN HOUSE, DALHOUSIE SQUARE, CALCUTTA
Works: Shamnagar (West Bengal)
Branch: Kashmere Gate, Delhi. Agents in all States.

CHART and COMPASS



TO AUSTRALASIA

To a large extent, the navigator's success is dependent on the accuracy of his instruments and information.

No less does this apply to the businessman planning ventures overseas. In Australasia, you can rely on the services of the Bank of New South Wales—the most experienced and most widely-represented commercial bank in the region. The Bank of New South Wales offers a complete banking service at over 850 points in Australia, New Zealand, Fiji, Papua and New Guinea.

Consult and use

BANK OF NEW SOUTH WALES
FIRST AND LARGEST COMMERCIAL BANK IN AUSTRALASIA
HEAD OFFICE: SYDNEY, AUSTRALIA
(Incorporated in New South Wales with Limited Liability)

IP5302

ALUMINIUM
AND THE FIVE YEAR PLAN

Only 11 years ago the first aluminium ingot was produced in India at the Indian Aluminium Company's plant at Alwaye. The birth of this basic metal industry was an important event in our industrial history. Aluminium was then destined to play an increasingly important role in India's economic progress.

A measure of this importance is provided by the fact that the first Five-Year Plan envisages an increase of 400 per cent in the annual production of aluminium—from 4,000 to 20,000 tons.

To meet this planned expansion in output,

1. **we have doubled the installed capacity of our Alwaye smelter from 2,500 to 5,000 tons;**
2. **we have nearly doubled the capacity of our Belur Rolling Mills, to 7,000 tons of rolled products per year;**
3. **we will put into commission our new extrusion plant at Alwaye (annual capacity 1,000 tons) at the beginning of 1955; and**
4. **we have been licensed to put up an additional 10,000 tons smelter at Hirakud.**

Thus INDAL, the pioneer, will contribute the bulk of the expansion required for the achievement of India's target of 20,000 tons of primary aluminium capacity by 1955-56.

INDAL

INDIAN ALUMINIUM COMPANY, LTD.
31, Chowringhee Road, Calcutta.



Suspicion with which the agencies are faced

tion of preparing all forms of advertising matter suited to conditions here. Previously they had been little more than clearing houses for prepared material (art work and blocks) sent from the U.K. and America. Today they fight difficult financial odds in an effort to give a service which as we have shown earlier would produce frowns and flurries in Berkeley Square and environs, if (among other troubles) the same multi-lingual approach had to be planned for most of the time.

Agency Finances

Perhaps a frank discussion of the finances involved in agency practice would be a help to a clearer understanding. In the first place the 15 percent (or sometimes more) the advertising agent receives, as an agent, from the members of the Indian and Eastern Newspapers Society (and others) is strictly not payable direct to advertisers. It is, however, the backbone of the agent's financial structure. Unfortunately with diversified campaigns embracing many languages the effort required from the agent in putting forward all the services already detailed is often not adequately rewarded. This is due to the low advertising rates (justifiably low, without a doubt) of the vast majority of the vernacular publications. To be explicit, a 10" × 3 column advertisement in a leading English journal, ordinary position, will be costed at around Rs. 20 a single column inch, i.e. Rs. 600—to the agent a return of Rs. 90. But with a complete national campaign his whole organisation will now have to come into operation to have that material adjusted in detail in order to appear in a series of vernacular papers: rates possibly Rs. 5, often less. The return, Rs. 22-8; the average return down to Rs. 56-4, and so on, according to the number of vernaculars involved.

It is also estimated that something like 106 advertising agents are handling the press appropriations of India which, according to the Press Commission, for the daily press alone totals around Rs. 5 crores. At first glance that is a considerable sum, but in fact it is not so when the 15 percent on it is divided by 106. In addition, many of these agents are not *bona-fide* in that they split commission with their clients, which immediately implies they will not be giving good advertising service. Again, there are other advertisers who are able to obtain direct commission from the less scrupulous, or from the non-organised branches of the press and who do not therefore use an agent, an additional drain on the above comprehensive figures.

Here is a series of quotations from a letter received from a leading agency manager which will help to complete the picture:

"Whilst a fair portion of the time that any one of the agent's experts spends on the work of any client is recoverable by a direct charge, such as for artwork, etc., in practice, this figure does not cover more than 20 percent of the cost of the combined executives salaries. The whole cost of the general overhead of clerks and 80 percent of specialists' salaries at all levels has to be met from the commissions that the agent receives.....Briefly, the position is that the total of commissions only just, and in some cases not even just, covers this figure.....

.....Also whilst commission remains static at 15 percent (for members of the I. E. N. S.,) the overhead costs of the agency rise steadily year by year, as the general cost of living irrespective of the state of business, the salary bill rises whether business increases or decreases. This means, therefore, that for the financial results in each year, whatever they may be, to be the same, a steady increase in turnover is necessary to keep level with the wages factor alone."

Agencies' Difficulties

This rather lengthy dissertation is an attempt to dispel some of the suspicions with which the agency service is faced. It is hoped to prove that they are indispensable; possibly at the same time it has been established that given greater co-operation and the wholehearted financial support of their clients they will in turn become of greater value to the client. Whereas it is understandable that the advertiser very naturally wants to ensure



Stab at handling the firm's advertising

that his budget will go as far as possible it must be appreciated that the agent expects the client's whole support and that it is a completely wrong assessment of his ability to serve when clients, for instance, make use of the free facilities offered to obtain ideas and designs, and then place their print order direct because it may be possible to obtain a slightly better price (the agent receives a commission from printers and blockmakers)—to quote only one misuse of the agency service.

In the words of John Ruskin: "There is hardly anything in the world that some man cannot make a little worse and sell a little cheaper, and the people who consider price only are this man's lawful prey".

All the points made on agencies' difficulties are succintly summed up by K. R. S. Varadhan in his article *Advertising—A Growing Factor* written in AD-REPS Annual, 1954:

"At the outset manufacturers in India are less appreciative of the importance of publicity than their compeers in Western countries. Secondly, the demands on the agency by the advertiser are far beyond the scope covered by the commission



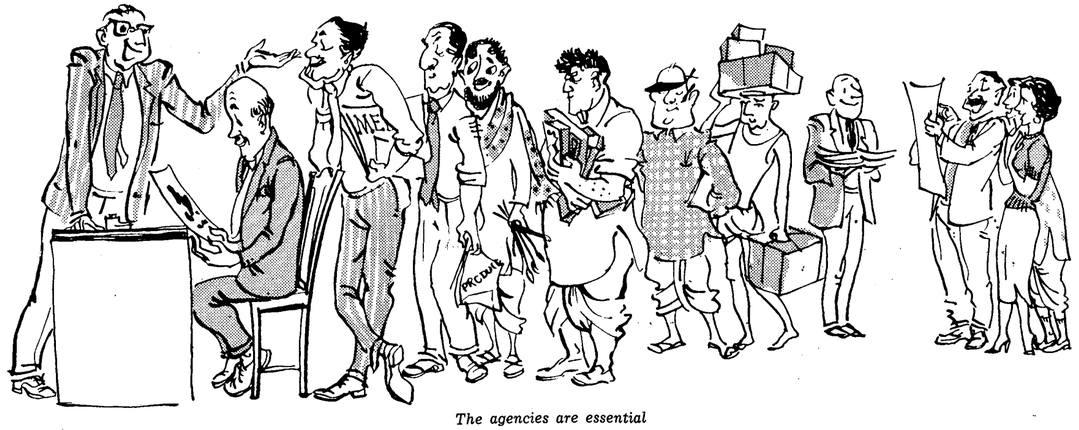
the approach be rational, scientific and forceful

allowed to them by newspapers and other space sellers in this country. Thirdly, the initial creative effort needed to produce a campaign for any given product is much more than what is needed for a similar effort in the advanced countries. Often it is found that even an established and experienced manufacturer is unable to provide basic information about his product, the market in relation to country's total output, or its special quality. Many have no literature of any kind. Thus a considerable amount of initial research work has to be taken up by the agency for which it cannot expect payment from the advertiser. Fourthly, advertising, to be of value, has to be planned with a view to release in a number of languages—anywhere between 13 and 18. The clerical and creative staff essential for this activity alone is often not commensurate with the budget allotment of the client concerned. Fifthly, the quality of reproduction obtained in a majority of publications precludes the use of high quality design."

Back to the General

The firm with the limited budget that does not warrant employing the services of a full-time advertising manager can hardly dispense with agency service. Generally speaking, the sales manager is the most likely person to maintain contact with the agent—certainly it is not the job for the store-keeper, or a clerk who has little else on his hands for, to revert to the general premise, a professional approach to advertising, recognising it for the power it is, must always obtain no matter how small the budget; even when an Advertising Manager is employed, the sales department has obviously to be consulted and will play a considerable part in the direction of advertising policy. All that has been written here applies equally to Government advertising whether national or provincial, even though the word more often used is propaganda. The Governments of India have vast projects, changes and ideas to "sell" to the people of India. All the weapons in the barrage of planned advertising must be used, but used correctly, and with the all-important appreciation of the fact that they can also be extremely dangerous weapons if not handled well.

In conclusion it would be well to recall the words of Mr. A. D. Shroff, Chairman of the Indian Society of Advertisers: "The progress of this vast country depends on rapid industrialisation and the expansion of trade and industry. Advertising has an important part to play in promoting trade and fostering economic growth".



The agencies are essential

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A RATIONALE OF THE PLANTATION INDUSTRIES IN INDIA

• VALALE I. CHACKO •

IF in 1952 the problem of the tea industry was too low a price, in 1954 it has turned out to be too high a price. With an exceptionally high price for tea, the whole plantation scene during the past year can only be seen through a highly distorted perspective. The plantation industry includes other crops too and prosperity in tea cannot be taken as indicating a boom in all. Even in tea, many growers are apprehensive about the startling increase in prices which has raised many problems that will last beyond the days of high prices. But the problems of the industry during 1954 did not arise merely from high prices; they stemmed from other, more fundamental, reasons. The plantation industry has been weathering a storm of public disfavour and Government disapproval for the second year in succession. At this stage, its course can be charted, but not its full effect.

The principal plantation crops originated in India as introduced crops, and the plantations were far and remote from where the general public could take a look at them; so the industry was taken as foreign-owned. The organised sector of the industry was developed for the purpose of meeting export demands and was largely managed by non-Indians. This has had a bearing on the attitude of the administrator, the politician and the Press towards the industry. It accounts in a large measure for the wave of public criticism against it during the past two years. There is a tendency to overlook the fact that plantations are basically an agricultural enterprise and largely an Indian industry. Planting is largely agriculture extended to suit modern, organised, managerial techniques. It can be applied to any agricultural crop although in India it is confined mostly to tea, coffee, rubber and cardamom. Even among these there are small holdings. Its essential basis is large-scale exploitation to which peasant holdings do not lend themselves, but in recent times one of the most acute problems before the plantation industry, as before the entire private sector, has been the wave of irrational popular sentiment against bigness in productive units. As far as the plantation industry is concerned, this issue is likely to dominate all others in coming years. Unless the economic advantages of big holdings are proved beyond question, and also that those advantages are beneficial to the community at large, the very basis of the plantation industry might be destroyed in India. There cannot be a plantation industry without units large enough to allow modern, managerial concepts to be applied. Plantations are probably the largest industrial enterprise and perhaps the oldest. They are certainly the largest employers of labour. They produce consumer commodities for export and during 1953 the total value of exports of plantation products exceeded that of any other commodity. As long as India's industrial advance depends on imports of capital goods from abroad, exports will remain the principal contributor to her progress; as such, plantation crops will hold a very important position. But the greatest contribution of the industry to the Indian economy can be ascribed to other reasons.

Extending Cultivation

For a country so heavily dependent on its agriculture and where agricultural land is so overcrowded, any extension of the cultivable land is a gain of the first order. The plantation industry did not occupy land that was already overcrowded. It opened up areas away from the settled plains, in the mountainous regions where it had to establish communications, clear jungles, fight malaria and other diseases and build roads, houses and factories. Planters were pioneers in the scientific agriculture and practices they have adopted on their holdings. They have greatly influenced peasant agriculture in the neighbouring areas. Scientific research in tea, coffee and rubber was first organised by the plantation industry long before Government assistance was forthcoming. Whereas Indian agriculture has been content to go on with centuries-old practices, the plantation industry has experimented with new ideas and methods in almost every aspect of cultural care, crop management and marketing. The full impact of plantation practices has not yet been felt by Indian agriculture because of the isolated nature of the plantations. But where peasant holdings are in close proximity to plantation holdings, as in Coorg and in certain parts of Travancore, the effect of the practices followed in plantation culture on peasant holdings is unmistakable.

It is not only as initiators of modern cultural practices or as settlers on hitherto unusable tracts of land that the plantation industry is valuable to India. Its contribution to Union and State revenues is considerable. In 1954, the revenue from the tea industry by way of excise and export duty alone would bring the Central Government Rs. 18 crores and from income-tax about Rs. 13 crores. The 9,000 tons of coffee allowed for export should bring the Exchequer over Rs. 1 crore and by way of excise duty nearly Rs. 86 lakhs. In fact, coffee pays the highest rate of export duty today, amounting to 53 percent of the internal value of the cheapest coffee. In addition to the Central taxes, the industry subscribes to a large variety of State and local taxes, the most important being the agricultural income-tax.

A large, well organised and expandable industry has been created where, had production been left to peasant holdings, it would have been confined to the casual crops of a few ryots.

Planters' Organisations

In fact, almost all the improvements in workers' amenities, labour health, the care of children and their education can be traced to the existence of tea, coffee, rubber and cardamom cultivation on plantation holdings. The most outstanding feature of the industry however remains its organised nature. Planters have tended to organise themselves into closely-knit associations since the very early days of the industry. The Mysore Planters' Association came into existence over 90 years ago and there was a district association of planters in the Wynaad as early as 1853. District associations of planters sprung up as soon as new districts were planted with coffee or tea or rubber. There are about 15 such associations in existence in the South at present; they are linked to a Central organisation, namely, the United Planters' Association of Southern India. That body itself is fairly old, having come into existence in 1894.

The industry is a very profitable one for the country. It earned more foreign exchange than any other industry during 1953-54, and will earn even more in 1954-55. It employs more labour per investment rupee than any other and has been forced to adopt labour welfare measures far above the standard common in any other sector of agriculture or most manufacturing industries. Yet it suffers from the greatest measure of public ignorance. That ignorance is reflected in legislative measures and in the policy pursued by the Government. It is not only tea, coffee, rubber or cardamom that can be included among the plantation crops, but also pepper, orange, coconut, cashew and arecanut, though these crops are not raised on a plantation scale in India. Nevertheless, the development of all these crops must be judged against the background provided by the conditions prevailing in tea, coffee and rubber.

The Tea Industry

Tea is grown mostly in the North; 76 percent of the area falls between West Bengal and Assam, and over 20 percent in the south of the Peninsula, of which slightly more than half is in Travancore-Cochin. Tea is the best organised among plantation industries and produces over 620 million lbs. annually, of which about 450 million lbs. are exported. In 1952, it was estimated that world production in the previous year had been about 37 million lbs in excess of demand. That was considered one of the reasons for the painful depression which hit the tea industry during 1952. Another was the fear of the release of a considerable quantity of tea held by the Ministry of Food in the U.K., the principal tea market. The effect of the depression in 1952 on India, which suffered most as the largest producer, was to induce producers to curtail production in 1953. In the latter half of 1953, the trend in the market was in the opposite direction and the increase in price has continued during 1954 with little prospect of any marked recession in the immediate future. Just as the 1952 depression resulted from a miscalculation of market trends, the 1953 restriction on production has been another miscalculation. With such evidence of depression as the closing down of gardens and the depletion of reserves, it is doubtful whether the producers could have done anything else. But the central fact is that neither the movement into deep depression, nor the later rise to prosperity, can be considered sufficiently permanent for the purpose of fashioning long-term Government policy. An inclination to do so has been a disturbing feature of 1954.

Government policy regarding the various plantation crops has neither been uniform, nor conceived with an eye to imposing equal burdens and encouraging the expansion of the industry. The export duty on coffee was levied at the rate of Rs. 62-8 a cwt. and the rate has proved prohibitively high. In addition to the application of all general labour laws, the plantations have been brought under the scope of the Plantation Labour Act and under the unemployment relief provisions of the Industrial Disputes Act, irrespective of the fact that agricultural crops are subject to seasonal uncertainties and that what is now applied to the three crops cannot be applied to any other sector of agriculture in India. In Madras, agricultural income-tax has been proposed, specifically for plantation crops, at rates which range from 34 percent to 50 percent of the profit from an estate. In all the plantation States, minimum wages have been applied to plantation labour in addition to the relief provided under the Industrial Disputes Act for retrenchment; they are treated as the most favoured workmen under the welfare amenities provisions of the Plantation Labour Code. It is calculated that one acre of tea now pays approximately Rs. 610 a year to the Government, both State and Central. One acre of coffee pays about Rs. 325.



A rubber tapper at work

These large imposts on the plantation crops are in addition to a progressive labour welfare policy. In the case of rubber it is a protected industry, and as for coffee it is subject to arbitrary price fixation about which controversy still continues. As for the entire plantation industry, the squeeze has been applied from three sides—by increased taxes and duties, by compulsory improvement in labour conditions and wages, and by control of prices.

Official Interference

Plantations would not have attracted such notice from either the State or Central Governments if they were unorganised and in the form of peasant holdings. Nor would they have been such valuable contributors to the nation's export trade. The irony of the situation is that the major

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amendment proposed by the Government last year to the Tea, Coffee and Rubber Acts was to do away with the right of organised bodies in the industry freely to choose their representatives to the Statutory Boards constituted under the Act—to weaken the very foundation of organisation by which the country gains most. The total effect of recent Government policy, in distorting the economy of the industry, has been to kill enterprise and frighten away the sources of fresh capital. It will naturally take some years before its full effect can be observed by those who are not connected with the industry. Some people made money, perhaps more money than they have made in the past few years, but with the prevailing uncertainty nobody is putting back as much into the industry either by way of capital or care as is needed.

If ever there was a need to provide the impetus for expansion, it is now. Coffee and tea have a growing market and by volume of export in tea and by quality in coffee we hold a natural advantage. India is short of rubber, the manufacturing industry is engaged in a steady expansion of production and rubber growing will have to keep pace with demand. Research has provided another reason for replanting. Higher yielding and disease resisting varieties of plants are being evolved and the old stands need to be replanted. Expansion and replanting, therefore, mean new wealth, more employment and more revenue for the Government.

The Land Reform Bill proposed by the Travancore-Cochin Government is probably the precursor of other such measures, and the industry cannot ignore the axe poised over its head not only in that State but in other States as well. This may not cause an abandonment of the estates but it will cause a dangerous reluctance to invest any more in the industry. It will also give a rise to a tendency to work on a short-time basis which is not suitable for long-term crops. It will, of course, take some time before the full effect of the present policy will show itself but over a large sector of the industry the inclination is to resort to the traditional peasant practices with coffee stands intermingling with orange, pepper, banana, yams—in short, with anything that will grow. The plantation industry, as it has been known over a hundred years, will cease to exist if the severity of the burdens on the industry, uncertain Government policies and the threat of land reforms affecting the size of holdings are allowed to continue. What now affects the outer fringe will eat into the heart of the industry.

The biggest threat to the efficiency and productivity of the industry arises from something scarcely realised at present and which is not obvious to the general public or the Government. That is the age of the plantations. More than 60 percent of the standing coffee plants are over 50 years old and stand on exhausted soil. So are the stands of tea and of rubber. Unless these aged and exhausted stands are replanted, the industry will suffer a period of declining production from which it may never recover. Other producers with better conditions and opportunities for cultivation will expand as India did until the first quarter of this century. This expansion enabled her to oust China from the leading position in the world tea market. The future of the plantation industry is beset with problems of the kind it has never had to face in the past. The most outstanding fact of the present situation is that the industry has lost its vigour to expand and advance; the increase in production is merely the fruit of past expansion and care.

BRINGING PRESSURE TO BEAR IN THE RIGHT PLACES

A frail and unstable substance in nature, rubber has been transformed by human ingenuity into a versatile raw material with a thousand uses in the home and industry. A major part in this development has been played by the tyre industry, whose foundations were laid by Dunlop in 1888. Since then, the company has constantly searched for new ways of getting more out of rubber, making it do more for mankind. This unique fund of knowledge and experience is the secret of Dunlop leadership over the years.

It is this assurance of quality which distinguishes Dunlop Hose, recently added to the manufacturing range to serve the expanding needs of India's agriculture and industry as the Five Year Plan becomes a reality. The Dunlop range of braided hoses made in long lengths by the lead-press method includes types capable of withstanding very high pressures, which have until now been imported. Already on active service at dam sites and mines, in fields and in factories, Dunlop Hose is helping to extend India's economic independence in yet another direction.

Once again, Dunlop are bringing pressure to bear in the right places—as they have been doing since the world's first pneumatic tyre was made to contain air under pressure.



DUNLOP *Hose*

ANOTHER ASPECT OF DUNLOP ENTERPRISE

DX 449

THE ACHIEVEMENTS OF THE D.V.C.

A DETAILED ENQUIRY INTO THE FEW "MISTAKES" IT MADE

● By P. S. Rau, I.C.S. ●

Chairman, Damodar Valley Corporation,

MR. NEHRU, Prime Minister of India, said: "The big river valley projects are magnificent schemes. Anyone who sees them is greatly impressed. The launching of these mighty schemes shows our faith and courage to undertake mighty tasks." How magnificent is the Damodar scheme and how impressive are the various projects in it? Let the facts speak for themselves.

In 1943 the Damodar Valley was the scene of one of the worst floods that had devastated that fair region, bringing in its wake much suffering and destruction to a luckless population. Today, the valley presents a very different picture. In it a great engineering epic is being enacted, so to speak, in the form of large installations designed to harness the forces of nature to the service of man. It has one of the most modern power stations in the East—perhaps the biggest in South-East Asia —two mighty dams under construction with hydro-electric power attached to them and two comparatively small ones completed, a barrage on the Damodar and two large main canals, one of them designed for navigation—also under construction. Thus, the last few years have seen the valley switch over from being frequently a desolate scene of death and destruction to one of planned development, and such a large change in a comparatively short time could only be brought about by a multi-purpose scheme such as this. And if one may visualise the shape of things to come a decade hence, one may well find a Damodar Valley peopled by a prosperous and progressive peasantry drawing their sustenance from a river system that not long ago spelt frequent floods and devastation, and an industrial population contributing their share to the economic prosperity, not of the valley alone, but of the country as a whole. Such, then, in broad outline, is the kind of transformation that has been initiated in the valley. The "river of sorrows" will gradually become a river of joy, of sustenance and abiding prosperity and progress to the people of the valley.

How did the scheme originate? What led to the conception of this multi-purpose project that was destined to change the entire economic life of a region? The river Damodar rises in the Palamau Hills of Bihar and after a south-easterly flow of some 180 miles debouches into the plains of West Bengal and falls into the river Hooghly, some 30 miles below Calcutta. The most significant among its tributaries is the Barakar. The river being a hill stream is barely a trickle in the summer, but becomes a raging torrent during the rains and is subject to floods. The first record of these dates back to the year 1730 since when floods of varying magnitude have occurred every few years. One of the worst of these occurred in 1943, breaching the Grand Trunk Road and washing away railway bridges, isolating Calcutta from the rest of the country, and throwing out of gear the country's defence arrangements at a crucial stage of the war. Attempts to control the Damodar floods were first made in the early decades of the eighteenth century. It is scarcely necessary to recapitulate the details of the measures taken then, or subsequently over a period of some two centuries; the significant point is that steps to tackle the problem were taken spasmodically throughout that period, culminating in the present Damodar Valley Project. Determined to tackle the problem once for all, the Government of India secured the services of Mr. W. L. Voorduin, a TVA engineer, who prepared a blue print for the unified development of the Damodar river system. To implement the scheme the Government of India created a statutory authority called the Damodar Valley Corporation, somewhat on the lines of the Tennessee Valley Authority.

The Corporation was formally set up on 7th July, 1948. The scheme included, on the basis of a design flood of one million cusecs, a series of eight dams at Tilaiya, Deolbari and Maithon on the Barakar, at Bermo, Aiyar and Sonalapur on the Damodar, on the Bokaro and on the Konar, with a hydro-electric power station attached to each dam, a barrage below Silna, a low diversion dam at Bermo for hydel power generation, a thermal power station with an installed capacity of 150,000 Kw. The plan provided for an aggregate controlled reservoir capacity of 4.7 million acre feet, perennial irrigation for an area covering 7.6 lakh acres and power at a peak-load of 300,000 Kw. Mr. Voorduin also indicated the possibility of providing navigation facilities and water supply. The total cost of the scheme was estimated "extremely roughly" to be Rs. 55 crores. The scheme was subsequently divided into two phases. Work started on what was meant to be the first phase, viz. Tilaiya, Konar, Maithon and Panchet Hill Dams; the Bokaro Thermal Power Station; about 500 miles of high voltage transmission lines, mainly 132 Kv, and an adequate number of switching and receiving stations; a barrage at Durgapur and about 1,950 miles of irrigation canals, including branches and distributaries as well as drainage channels. The first phase also included the reclamation of a sufficient area of waste land and the construction of houses for families to be displaced from the reservoir areas in accordance with the "land for land" and "house for house" policy adopted by Government.



Mr. P. S. Rau, Chairman of the D.V.C. and writer of this article, addressing a Press conference in Calcutta.

Before undertaking a survey of the progress so far of the various projects, it is well to remind ourselves of certain special features of the Damodar scheme. It is a multi-purpose project—the first of its kind to be conceived and executed in India—with the triple object of flood control, power generation and irrigation-cum-navigation to be pursued *pari passu* and not one in preference to the others in order to achieve the maximum benefits by treating the entire river system as one unit and developing its resources in an integrated manner. It is not only the first river valley scheme to be undertaken in India; it is also unique in that it is being executed by the agency of a statutory corporation as a joint enterprise of the Centre and the two States, the beneficiaries of the scheme. Above all, it constitutes a great experiment in decentralised administration in the development of the country which is bound to influence for good or ill the future governance of the country.

Let us now proceed to take stock of the present position:

Tilaiya: Though somewhat small in comparison with the other projects Tilaiya comes first chronologically. It is on the Barakar river, with an appurtenant hydro-electric power station. Construction work on this all-concrete dam began in January 1950. The dam and the power station attached to it were formally opened by the Prime Minister on 21st February, 1953. The station has two units of 2,000 Kw each, while provision has been made for a third. Besides providing a regulated release of water the whole year round according to actual requirements for use by the Durgapur barrage and canals for permanent irrigation, the Tilaiya dam also acts as a mild moderator of floods. The dam is the work of departmental designing and construction as are also the hydro-electric power station and the 11/33 Kw step-up outdoor station. Hazaribagh and Kodarma towns and the nearby mica mines were among the first to receive power which is now being gradually extended to more and more mica mines and adjoining villages and small towns. Part of the old Kodarma-Singrawan road was submerged by the reservoir and in its place the DVC has constructed a 7-mile long new road with a 550 ft. bridge across it as a link of the Patna-Ranchi national highway.

Konar: Next comes Konar. This dam is built on the Konar river at a point 23 miles beyond its confluence with the Damodar. The dam will serve all the three purposes, viz., supply of perennial irrigation to the lower valley as one of the feeders to the Durgapur canal system, generation of hydel power and supply of 400 cusecs of cooling water to the Corporation's power station at Bokaro. Unlike Tilaiya, which is all-concrete, Konar is a composite structure with a central concrete gravity-type spillway in the river bed, fitted with gates, and earthen embankments on the flanks. Provision exists for an underground power station with a 7-mile long tail race tunnel.

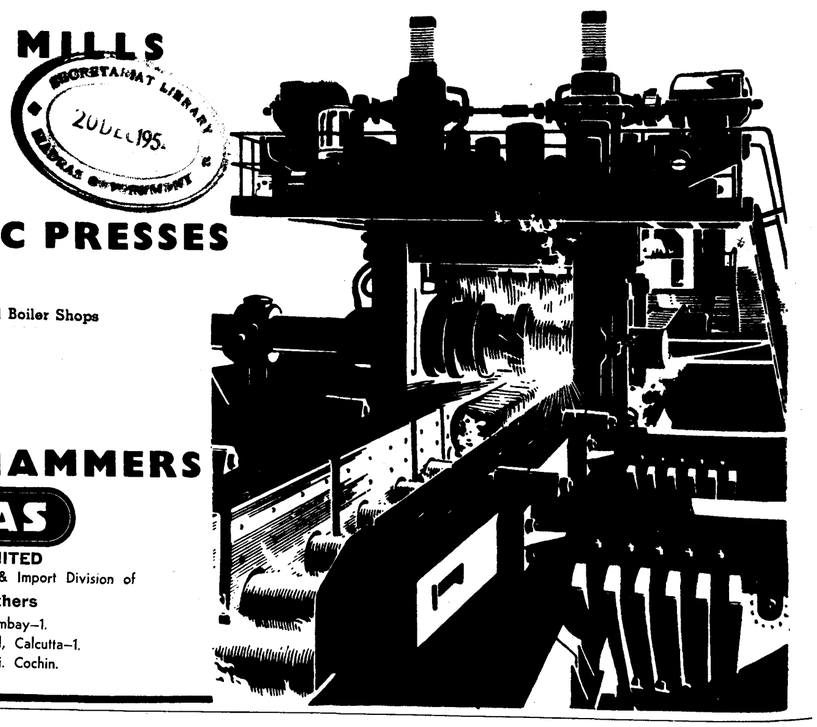
Maithon: The Maithon dam, the third of the first-phase dams, is a composite structure—partly concrete and partly earth—and expected to rise to a height of 162 ft. with an overall length of over 12,000 ft. designed for flood control and irrigation. The area submerged measures 26,500 acres, the total storage is over 1 million acre ft. To the dam will be attached an underground generating station with an installed capacity of 60,000 Kw and will produce 176,000,000 Kwh of hydel power. The construction of the dam, although delayed by about a year, is now making satisfactory progress and is

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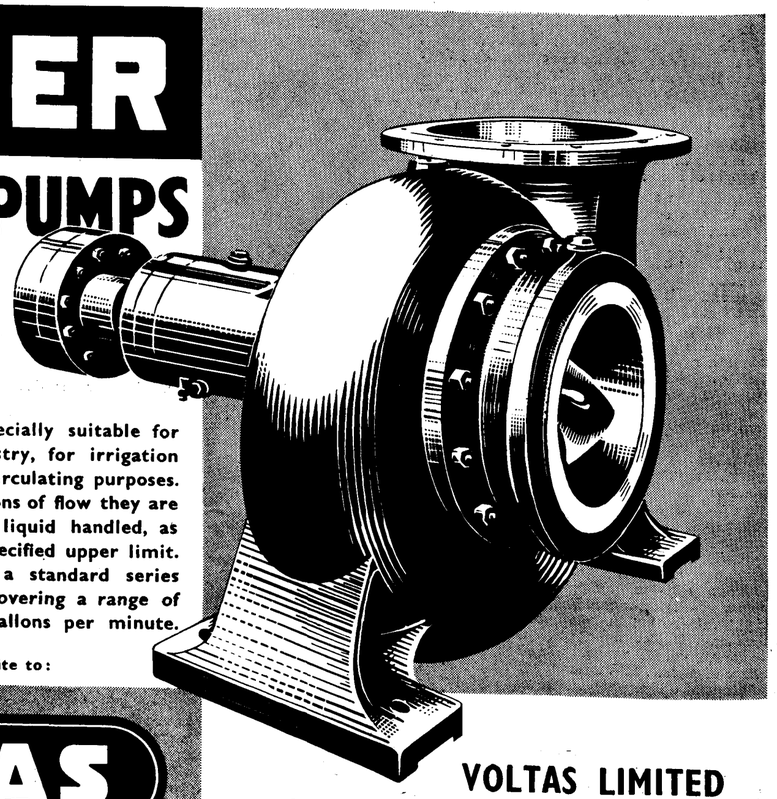
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expected to be completed by the next cold weather. The power station however will not be ready till about the middle of 1956.

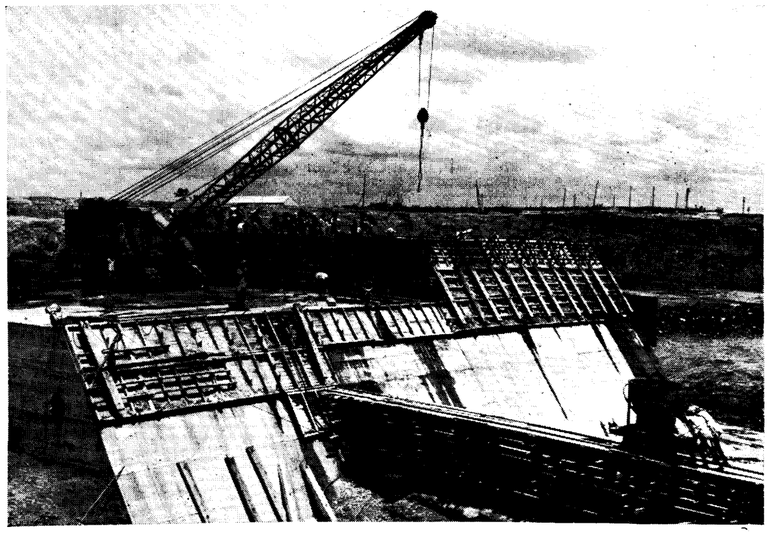
Panchet: Panchet Hill, the last but largest of the DVC dams, is also a composite structure—partly concrete and partly earth. Maithon and Panchet together will give the lower valley full protection against the worst flood hitherto recorded and afford perennial irrigation to nearly 700,000 acres and generate 40,000 Kw of hydro-electric power. The height of the dam is 133 ft.; the overall length including the dykes is a little less than 17,000 ft. Work on the dam has commenced in real earnest. The slow progress on this dam is the result of the slow progress of the Maithon dam as the plan was to transfer machinery and equipment from the former as and when it becomes surplus. It is now expected to be completed sometime in 1957. The power station will take a little longer.

Bokaro Thermal Power Station

A 150,000 Kw. coal-burning power plant formed an integral part of the Damodar Valley scheme from its very inception. Load surveys carried out in 1947 in the valley and its environs indicated the existence of a very large potential market for power. Accordingly, tenders were invited by the Government of India on 19th March, 1948, for the supply of plant and equipment for constructing a 150,000 Kw coal-burning electric power station, which for 37 weeks in the year would supplement the hydro-electric power when the stream flow is low, and would immediately meet the power demands of the Valley pending the completion of the hydel stations. Plant and equipment were supplied by the International General Electric Company of America. The first unit of the plant was declared open by the Prime Minister on 21st February, 1953. A diversion weir was constructed across the Konar river for providing cooling water to the power plant to the extent of some 2 lakh gallons per minute.

To transport directly to the plant site heavy machinery and equipment, some of which weighed 125 tons apiece, a railway siding was taken right into the plant building. Negotiations were also made with the port and railway authorities for providing suitable unloading and transport facilities. The Port Commissioners arranged for a barge to carry the special railway wagon which the railway authorities obtained from abroad. The heaviest pieces were lifted by two port cranes and held steady while the boat moved out and the barge carrying the special wagon moved in. It was then lowered into the special wagon and transported to the site where it was unloaded by the plant crane which had been installed earlier. Some pipe pieces which were not so heavy but whose dimensions exceeded the permissible limits, were transported by road with special arrangements for transhipment under road bridges wherever necessary.

About the middle of 1949, ten young Indian engineers, with previous experience in the line were selected from various industries and sent to the United States for a year for training in designing, constructing and operating similar plants. On their return they have been given key positions in the construction of the plant, thus obviating the need for a large force of foreign technicians.



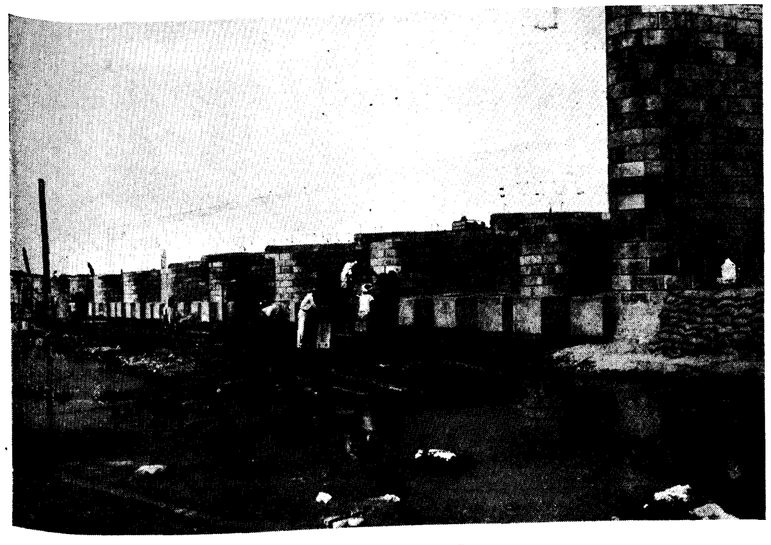
Work in progress in the Panchet Hill area.

The contract for grading and excavation work at the plant site was given to the Indian Mining and Construction Co. Ltd. But their resources in plant and equipment were found to be insufficient to cope with the required speed of work and eventually they had to wind up their business, and a large part of the work left incomplete by them was done departmentally. This entailed the loss of nearly a year.

To regain at least some of the time lost, concreting was started simultaneously. Soon afterwards, the steel structures were erected and as soon as sufficient progress had been made in this direction, all the heavy equipment like air preheaters, dust collectors, etc. were moved to their proper locations, and the erection of the steam generators began, by lifting and placing in position their 40 ton steam drums. Concrete roofs and floors were cast later. Nearly 66,000 cubic yards of concrete was poured. It required 5.3 lakhs sq. ft. of timber shuttering, 2,800 tons of steel and about 15,000 tons of cement. All the 6,900 tons of structural steel was imported, due to the shortage of steel in the country, and the long time required for fabricating it locally.

The DVC are justly proud of this station. The plant has now been operating for about two years. For the first year, three American operators were engaged to guide the Indian operators. But now the station is wholly operated by Indians, under Indian supervision, and by a staff mostly trained by the Corporation. Within a few years, these technically trained and experienced men will become an asset to the Corporation and the country.

The DVC has often been criticised for its inability to sell all the power it generates from the moment of generation. I am no electrical engineer myself, but I am assured by those competent to give an opinion that this is impossible particularly in India. In the first place, most business men do not begin to think seriously of taking power till it is ready at their doorstep. Then equipment to receive current has to be ordered mostly from abroad and this takes time, particularly nowadays. It is also an expensive matter. It is understood that whereas it costs about Rs. 1,000 to build for one kilowatt of power, the equipment needed to receive that quantity of power costs something like Rs. 3,500. Experience in this country shows that it takes on the average about seven or eight years, if not more, fully to load a station. Judged by these standards the DVC will not come out too badly.



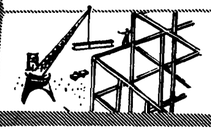
(downstream face) at Durgapur.

Barrage and Irrigation

Irrigation is one of the most important objectives of the DVC Project. When the original project report was drawn up, there were no detailed surveys indicating which particular areas would be irrigated. But the topography and the nature of the soil were generally examined and it was anticipated that the building of the eight dams would give sufficient storage to enable irrigation of approximately one lakh acres in Bihar, and about 6 lakh acres in Bengal. When the number of dams to be constructed in the first phase was reduced from eight to four, the possibilities of irrigation in the upper valley became somewhat restricted. But the irrigable area was later extended to 8.25 lakh acres, as a result of better water-management plans.

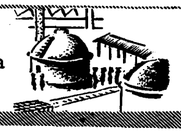
There is an impression in certain quarters that the Corporation has deliberately neglected to pursue the irrigation project with vigour. This is not correct. Early in 1948, even before the Corporation was formed, Mr. Mathrani, Chief Engineer of the Barrage and Irrigation Project, was instructed to start excavation of canals by employing manual labour as soon as the plans were finalised. But it was not possible to start work immediately. Detailed field surveys for fixing the canal alignment had to the taken up first. Also, the basic water-management plans had to be examined very carefully so that the rival needs of flood control, power generation and irrigation could be met in the most economical manner and without any serious deterioration in the lower reaches of the river. There was an acute difference of opinion amongst the top technical staff of the Corporation on water-management plans and, in particular, on flood releases and water requirements for irrigation. In consequence, the irrigation part of the project had made little headway when Mr. Mathrani left the Corporation. This officer before leaving had made some valuable suggestions such as (1) the costs were under-estimated and revenue over-estimated, (2) the construction of the two dams at Maithon and Panchet with the former raised by 25 ft. with the barrage and canals was all that was necessary for achieving the amount of flood control, irrigation and power they had in view, and (3) the proposal to have three chief engineers, one for irrigation, one for designs and a third for construction, was unsound. He warned that whatever the number of Chief Engineers, there must be one co-ordinating technical head who should be in overall charge of the project. The Corporation and their engineers considered but rejected these suggestions. If they had been accept-

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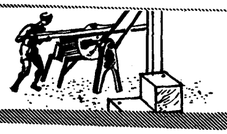
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ed, much adverse criticism and some wasteful expenditure of public money might have been avoided. As it was, this officer was replaced by another —this time from the Bengal cadre—in November 1948. His tenure of over 3½ years of this important post however proved singularly unproductive. The work of field survey proceeded very slowly and perhaps without a full sense of urgency. What is worse, it has been reported that "most of these surveys were later found unacceptable, the designs were based on hypothetical data instead of factual data". While a good deal of basic design data was collected; there was no real progress in the designs of individual structures. It also took a long time to reach a decision on the water-management problems. Though earth-moving equipment worth over Rs. 1 crore was purchased between 1950 and 1951 for excavating the canals, no excavation work could be taken up because the canal alignments were not settled. There was similar delay in starting the construction of the Durgapur Barrage and other structures. In view of this lack of progress the Corporation itself felt hesitant and early in 1951 insisted on a proper revision of the estimate before incurring substantial expenditure. This officer was replaced in July 1952 by another who had previously worked in the Mayurakshi Project. Things then began to improve. The technical staff was reorganised and an efficient field organisation soon built up. In November 1952 the construction of the Durgapur barrage was taken up, and satisfactory progress has since been made. Some 70 percent of the design work has been completed. Nearly 40 crore cu.ft. of earth-work has been done, which is nearly 25 percent of the total programme. Work is in progress for another 50 crore cu.ft. The Durgapur barrage is nearing completion and should be ready by June 1955. Nearly 30 percent of the canal structures have also been taken up. While one cannot be absolutely sure, it is confidently expected that one lakh acres would be given *kharif* irrigation in 1955. The total expenditure on the Barrage and Irrigation Project till March 1954 was approximately Rs. 5 crores out of a total estimated provision of Rs. 22.7 crores.

The history of irrigation in upper Bihar is somewhat dismal. Of the eight dams envisaged earlier, some irrigation would have been possible in Bihar from Aiyar and Balpahari. When these dams were left out of the first phase of the DVC programme, primarily as a measure of economy, the prospects of irrigation in Bihar became very much restricted. Maithon and Panchet Hill are being built almost on West Bengal's doorstep and these reservoirs can hardly be utilised for irrigation in Bihar. The country near the Konar dam is much too wild. Tilaiya is the only dam which offers some scope for irrigation in Bihar. Even here the undulating nature of the countryside makes any irrigation scheme an expensive proposition. In 1951 a scheme was drawn up for irrigating nearly 15,000 acres at an approximate cost of over Rs. 1,000 per acre. This was considered too expensive by the Government of Bihar, and understandably so. After further examination, another scheme has been prepared which will irrigate about 11,000 acres at an average cost of Rs. 330 per acre. This is now under the consideration of that Government. Further surveys for irrigation from Tilaiya, as well as from Maithon and Panchet Hill dams, are in progress; but it is unlikely that any less expensive scheme can be devised.

Rehabilitation

The four dams will together cause the submergence of nearly 70,000 acres of land, of which roughly two-fifths is arable. Ordinarily, under the law of land acquisition, owners of the acquired property would have been paid compensation in cash. But it was the wish of the Central Government which had the strong support of the West Bengal and Bihar Governments in this regard that the Corporation should in this matter regard itself not as a business concern but as a welfare organisation and arrange resettlement of the people in such a manner that the least possible hardship may be caused to them and that the people may be enabled to live under good conditions in well-planned villages. In fact the hope was expressed that the displaced person would "exchange his hovel for a decent cottage, darkness for light and fanaticism for faith." Unfortunately, this very commendable policy did not get the full co-operation of the local people, some of whom found in this a rare opportunity for creating discontent, for reasons of their own. Some mistakes were probably made in the planning. But the Corporation embarked on its programme of resettlement with energy and enthusiasm, and with a keen desire to improve the lot of the affected people in the manner the Central Government had wished it to do. If proper co-operation had been forthcoming from the people, much good might have been done. But instead of enthusiasm and support or even understanding and sympathy, there was distrust and cynicism as a result of propaganda by designing persons. The [illegible] who were very largely of aboriginal stock, were led astray and were made to believe that the Corporation was not giving them a fair deal.

The Tilaiya dam was the first to be built. A large organisation was set up with a competent technical staff, civil and mechanical engineers, agronomists, soil scientists and welfare workers, for giving the people affected land of equal fertility in exchange for the lands to be submerged, and modern, well-planned houses in model villages. Arid slopes were carefully terraced by means of heavy earth-moving equipment, the fertility of the land was built up by adequate use of fertilisers and green manure, and tanks and ponds were dug at suitable places so as to foster paddy cultivation. Much labour and thought went into the planning of the villages. Well-ventilated houses, proper roads with trees on either side, children's parks, community centres and temples were built; fruit trees and fuel reserves were provided so that the villagers may have the desired amenities. For the acquisition of the Tilaiya reservoir area approximately Rs. 65.5 lakhs would have been paid by the Corporation under the Land Acquisition Act. But we spent nearly Rs. 30 lakhs more on the resettlement programme, of which Rs. 17 lakhs were spent on replacement of land, Rs. 5 lakhs on providing better houses, Rs. 3 lakhs on village forests and Rs. 4.5 lakhs on roads and community centres in the villages. Yet we failed to enlist the co-operation of the villagers. Out of 343 houses built, only 161 have been occupied. Up to date, the remaining 182 houses remain unoccupied and the people for whom they were built are agitating for cash compensation. Similarly, out of 4,500 acres reclaimed, 1,750 acres are still unoccupied. Repeated appeals to the people have failed to win them over. It seems that they have been led to believe by some of the local political workers that the Corporation would spend still more on rehabilitation, or offer still better terms, if only they would hold out.

The Konar dam has been built in an area which is full of forest and there is not much displacement of the people. The arable area involved was small. The Corporation reclaimed barely 500 acres which the people readily accepted. Another 1,500 acres were reclaimed by the people themselves, the Corporation only acquiring the waste land. But in the two bigger dams, namely, Maithon and Panchet Hill, which are now under construction, the resettlement programme has become very controversial. On the one hand, there is the policy of the Central Government to give land for land. They feared that if compensation for land is paid in cash, most of the displaced persons would squander the money and become just landless labourers. On the other hand, the people themselves are lukewarm about taking land in exchange. As at Tilaiya, rival political parties are at work inciting the local people to demand impossible amounts of compensation and not to commit themselves to any definite course of action. The Corporation has been reclaiming land in the expectation that at least some of those affected would prefer to take land at the last moment. But we have to be cautious. In the Tilaiya Project they were not satisfied in spite of our spending large sums of money, and some of the expenditure on reclaiming land and building houses has proved infructuous. The Corporation is anxious to avoid similar losses in the Maithon and Panchet Hill projects. The conviction is however growing that though the policy of giving land for land and house for house is basically sound, it is perhaps much too enlightened for our present political conditions.

The bulk of the displaced at Maithon and Panchet Hill will probably take cash compensation for land as well as houses. Still, the Corporation may assist them as far as possible by developing suitable village sites, and providing amenities in the form of roads, playgrounds and community centres. They will also acquire waste lands according to the people's choice and allow them for reclamation by the people themselves under the expert guidance of the Corporation's technical staff.

Soil Conservation

The necessity for soil conservation and afforestation for silt regulation and to a certain extent even for flood moderation has been recognised in all quarters and hardly needs any emphasis. Hence Section 12(e) in the DVC Act specifying the promotion of afforestation and control of soil erosion in the Damodar Valley as one of the functions of the Corporation. The Planning Commission has also felt the special need of the country in this field and has laid emphasis in Chapter 22 of the Five Year Plan and allotted a sum of Rs. 2 crores to be spent on anti-erosion work during the plan period.

To discharge this important duty of promoting afforestation and control of soil erosion in the Damodar Valley, the Corporation created a Soil Conservation and Land Utilisation Department in September 1949 with Mr. A. de Vajda at its head with a foreign-trained Indian scientist as Deputy Director. On Mr. A. de Vajda's departure in January 1952, the department was combined with the Rehabilitation Department, and Mr. K. S. V. Raman, I.C.S., was put in combined charge which he held till his return to Bihar in the middle of 1953. Since then temporary arrangements have been in force.

The work undertaken so far and the future programme follow closely what has been recommended by the Planning Commission in Chapter 22 of the Five Year Plan. The Corporation has an experimental farm at Deochanda, a soil laboratory, research and demonstration centres and an engineering organisation for investigating, planning and executing the various soil conservation measures. The annual cost averages Rs. 4.4 lakhs.

The Department has taken up soil conservation of the valley including survey of soil fertility, survey of land for reclamation and for suitability for irrigation. The survey has been standardised after consultation with leading soil scientists in India. Soil samples are examined in the laboratory at Hazaribagh. Land use planning is being done for areas selected for resettlement in the basis of soil capability maps.

Various kinds of experiments are being conducted at the Deochanda Experimental Station—24 run-off plots 50′ x 10′ at 3 percent and 5 percent slopes have been selected for investigation and measurements are being taken of the run-off of water and silt against the rainfall of each storm under different types of grasses and vegetation at different fertility levels and under different cultivation practices. Lysimeter experiments have been set up during the last year to measure the amount of nutrients washed away and the amount used up by plants. Two small automatic run-off recording stations have also been set up outside this Station area. Different types of local and imported shrubs and trees known for providing good cover are also being tried out. The giant Star Grass is a very useful find and it is now being used for turfing the downstream surface of our earth dams.

Maps of rainfall, population, soil and present land use are being prepared for the valley; air-mapping of the upper valley has been undertaken on 6″ to a mile scale with a 10 ft. contour.

Since the permanent Head of the Department has left the Corporation, the work of soil conservation has suffered, but we have been trying to secure the services of a first class expert through the good offices of the Central Government. Senior officers of the Food and Agriculture Ministry have recently seen the soil conservation work of the DVC and expressed high approval of it and promised substantial financial aid for the furtherance of the schemes.

Industrial Development

It has always been understood that the DVC would assist in the development of at least small scale and cottage industries by various means such as preliminary investigations into the possibilities of different types of industrial enterprise and the starting of pilot schemes with a view to demonstrating the feasibility of such enterprise. Schemes have been prepared for likely small industries which may be initiated by the Corporation itself to provide leadership and encouragement to industrialists, to demonstrate improvements in the existing traditional techniques and to develop new lines.

The following schemes have been prepared: the Central Finishing Workshop for handforged items; cold storage; lock manufacture; ceramic industry; aloe fibre industry; irrigation pumping service industry; and utilisation of construction camps as industrial centres. Of these those relating to the Central Finishing Workshop, cold storage and lock manufacture have just been approved by the Central Government and the Planning Commission. Plans are in train for their speedy implementation. The total expenditure, recurring and non-recurring, on the three sanctioned schemes is estimated to be just over Rs. 13 lakhs.

Briefly, the Central Finishing Workshop aims at the production of tea garden and agricultural implements generally. Orders are placed and material supplied to the villagers in the centre and payment is made on delivery at fair rates. These products, when received at the centre, are marketed after being given finishing touches.

The object of the cold storage scheme is to provide cold storage for certain foods and vegetables.

Lock manufacture is proposed to be introduced as a cottage industry in Bachai, one of our resettled villages. Villagers will be trained and the production operations will be supervised by a Corporation officer.

Purchase Policy

It was realised early that the success of the Damodar Valley Project would depend mainly on our ability to adhere to the construction pro-

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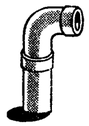
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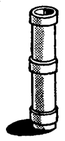
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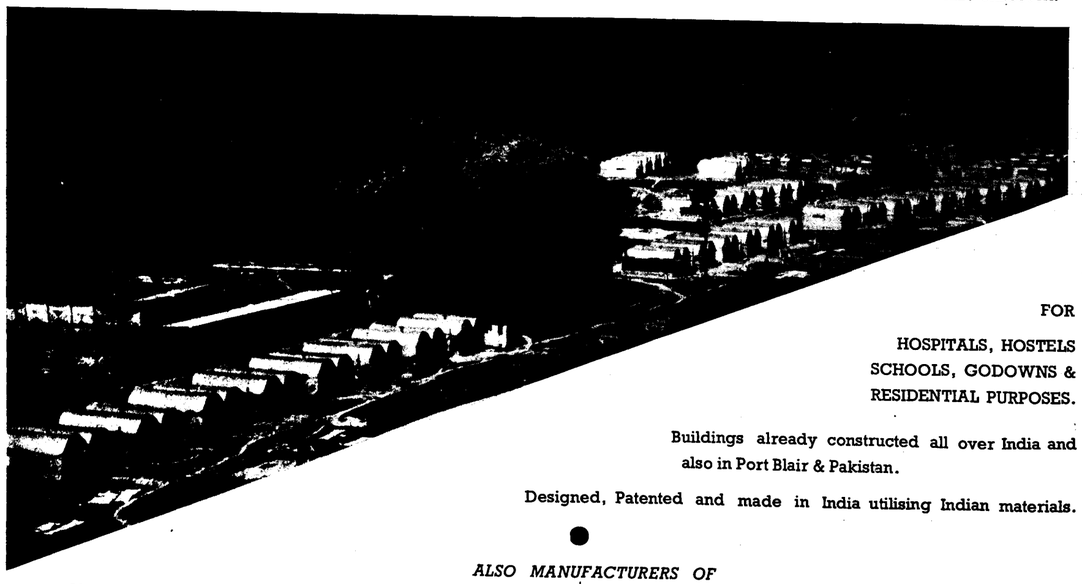
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gramme chalked out by us and that arrangements would have to be made for a continuous supply of stores as and when required if this aim was to be achieved. Initially, the intention was to utilise the Central purchase organisation of the Government of India (DGI & S) for the purpose. But it became clear quite soon that it would not be practicable to depend entirely on the DGI & S. It was therefore agreed that while "full advantage should be taken of the rate contract system and standardised stores should be purchased through the DGI & S (now DGS & D).....as to the rest, the matter should be left to the discretion of the Corporation." The policy is being followed.

The Purchase Branch of the DVC which started with a small nucleus of one officer, one superintendent and three assistants in August 1948 has been organised to meet as far as possible any demand made by any project at any time within the shortest possible period. The branch now has its own clearing and forwarding section for clearing the imported stores from the docks, a transport section for collecting the stores from the dockes and local suppliers for carrying them to the work-sites, an insurance section for transit insurance, and a claims section for lodging and realising claims. The present strength of the branch consists of 11 officers and a staff of 123.

Normally, purchases are made in India, preferences being given, wherever possible, to indigenous manufactures. The ratio of imported to indigenous stores purchases is roughly 60 : 40. Inspection of stores purchased is done either by the Inspection Wing of the DGS & D, or by our own inspection staff, and also by the indentors before final acceptance. The following statistics will give some idea of the volume of work and the value of purchases made by our purchase organisation at headquarters:

Total number of indents dealt with till 31-8-54	...	9,983
Total number of items in the above indents	...	106,045
Total value of purchases (exclusive of direct purchases made by the Projects & Chief Electrical Engineer)	...	Rs. 20.74 crores

Costs are a vital element in public projects and where they appear to rise steeply they become—and naturally—the target of public criticism. An uncritical public is inclined to seize upon the figures and rush to the conclusion that the rise is unjustified without caring to enquire into the reason why. A factual statement of the position is therefore essential for a correct appreciation of the phenomenon. Two or three preliminary observations may be made. We all talk of planning nowadays, but there had been very little actual planning before 1945-47 when this great project was conceived and began to be implemented. We need not be ashamed therefore to admit that there was not as much detailed planning of the scheme as there would perhaps be now.

Secondly, although the main features of the scheme were clear and remained, many important changes were continually made, not only in detail but also in the scope and structure of individual component projects. Thus, for instance, the transmission system originally provided for only 150 miles of transmission lines and 5 grid sub-stations. This subsequently rose to over 500 miles of transmission lines and thrice the number of sub-stations. The irrigable area was considerably extended and provision of navigational facilities was a new idea. In other words, the Damodar Valley Projects did not issue from somebody's brain as Pallas Athene from the head of Zeus, complete in every detail, ready to be implemented. On the contrary, it grew, shedding in the process some features and acquiring others.

Thirdly, there was the devaluation of the rupee which straightaway raised the price of articles of American origin by some 10 percent.

Fourthly, the commencement of the construction synchronised with a period of rising prices.

Fifthly, land acquisition costs have tended to increase substantially for various reasons.

Sixthly, the Government's policy of "land for land" and "house for house" has been responsible for heavy expenditure, for this entailed not only acquisition of land for rehabilitation purposes, reclaiming it by tractors and bull-dozers, making it fit for cultivation and bringing it up to the level of productivity of the land of which it was being given in lieu. One or two crops had to be sown by the use of fertilisers in order to satisfy ourselves and the future owners that the required level of productivity had in fact been reached. All this cost money.

Finally, there has been an unfortunate tendency to under-estimate which necessitated periodical stepping up of the estimates which gave the public a wrong impression regarding costs.

Estimates and Revisions

The cost of the Damodar Scheme was initially estimated at Rs. 55 crores in the Preliminary Memorandum on the Unified Development of the Damodar River prepared by Mr. W. L. Voorduin in 1945. This was an extremely rough estimate, as more accurate estimates would have been available only after the completion of the necessary field investigations. It did not include the costs of navigation facilities and water supply works. The cost was assessed on the basis of the prices prevailing at that time.

The first revision of the estimate was made in 1951, when it was expected that excepting the Panchet hydel station the major portion of the first phase programme including irrigation, barrage and canals should be completed by 1954-55. At the time the 1951 estimates were prepared, sufficient reliable data were not available in respect of component schemes and the scope of the work was also not in full view. With the progress of works and expenditure, it soon became apparent that the estimates would have to be stepped up. The estimates have, accordingly, been under revision since May 1952. The subjoined table shows costs at various stages:

Name of the scheme.	Preliminary Estimate of 1945 by Voorduin. Mr. Voorduin.	Project Report by Mr.	Estimate prepared in 1951.	Revised estimate as prepared in 1952.	As estimated at present 1954 Nov.
	(Figures are in Rs. crores)				
Bokaro Power Station	7.70		12.06	13.94	15.21
Transmission	2.30		6.30	8.27	8.27
Barrage & Irrigation	5.74		19.96	19.96	22.78
Tilaiya	2.15	1.41	1.96	3.00	3.64
Konar	2.91	4.14	10.62	13.79	9.94*
Maithon	7.93	8.53	12.32	13.90	15.09
Panchet Hill	9.08	Notprepared	14.04	14.88	15.78
Total cost	37.81		77.26	87.74	90.71
Aiyar	10.74				
Bokaro	1.24				
Bermo	0.62				
Balpahari	4.59				
Additional Projects :					
Extended Transmission System (since approved)					6.41
	55.00		77.26	87.74	97.12

* Konar Hydro-Electric postponed ; hence its cost is deducted from the figure.

The estimates do not include interest during construction.

Bokaro :—Mr. Voorduin provided for a steam power station of three 50,000 Kw sets, i.e. 150,000 Kw in all. For economic and financial considerations, and for providing a standby, the Bokaro Station had to be re-designed for a capacity of 200,000 Kw. Although the 1951 estimates provided for the installation of three sets of 50,000 Kw each, provision had been made for civil works for the fourth set. Being a coal-burning project, the power station had to be located in the coalfield in close proximity to coal and substantial capital expenditure has had therefore to be incurred on access roads, building a new colony with essential amenities and making special arrangements for cooling water supply. Orders for the main plant and equipment were placed in U.S.A. in February 1949 and the devaluation effected in September 1949 alone caused an increase of about Rs. 2.25 crores in the estimate. Again, during the six years from 1945 to 1951 prices, both at home and abroad, had shown a steep rise. These factors resulted in the increase reflected in the 1951 estimate.

The increase in the 1952 estimate is mainly attributable to inclusion of escalation charges (Rs. 82 lakhs), increase in the cost of concreting, form and brick work of the buildings, increase in the quantity of structural and other steel, changes in the design of intake and discharge tunnels, and increase in the cost of erection necessitated by the extension of construction programme.

Some increase in the estimated cost was also caused by additional concessions granted to labour in pursuance of our enlightened national labour policy and to delay in the erection of machinery caused by delay in obtaining replacement of damaged and short-landed materials. There has also been some increase in the "Customs" duty.

Transmission System

Mr. Voorduin's preliminary estimate was intended mainly to show the relative location of proposed or possible neighbouring systems to the proposed Damodar system. No detailed studies for location of transmission lines or switchyards or for transmission voltages had been made. The preliminary estimate provided for only 150 miles of 132 Kv transmission lines and 5 grid sub-stations under what Mr. Voorduin called the "tentative Damodar Valley Transmission System". The power load survey of the valley undertaken in 1947 clearly pointed to the need for a much longer transmission system. The position also changed radically with the Bakaro Steam Power Project having been undertaken ahead of the dam projects and the decision to take over the surplus power of 22,500 Kw from the Sindri Fertilizer Factory for bulk distribution through the DVC Grid. It was, therefore, decided to extend the transmission lines to link up known load centres and provision was made to extend the 132 Kv transmission lines to Kharagpur and Burdwan. The capacity of the Transmission System had thus been increased in 1951 to include 350 miles of 132 Kv lines with eight grid sub-stations, 30 miles of 66 Kv lines with five stations and 90 miles of 33 Kv lines with ten switching stations, provision being made also for a complete carrier and radio telephone communication system.

Orders for some of the equipment and materials required for the transmission system were placed in 1949 in a hard currency area and devaluation in September 1949 resulted in an addition of almost Re. 1 crore to the capital cost of the 1951 estimate.

The total mileage of the transmission lines was later further increased from 470 miles to 503 in the 1951 estimate with a corresponding increase in the grid sub-stations. This and a further rise in the price of materials and construction cost explains the excess revealed by the present estimate.

Barrage and Irrigation

The site for the proposed irrigation barrage had been shifted to Durgapur and as a result of detailed investigations, the total additional irrigable area went up from 7.75 lakh acres as estimated in the Preliminary Memorandum to 8.41 lakh acres, exclusive of the area serviced by the existing canal system. In other words, there has been a net increase of nearly 50 percent in the total irrigable area, involving a proportionate increase in the total expenditure required for irrigation and drainage works.

As stated in the beginning, no provision had been made for a navigable channel in Mr. Voorduin's estimate of Rs. 55 crores. Studies made in connection with the irrigation canal system clearly indicate that navigational facilities can be developed as a valuable by-product even in the first phase of the programme. The main reason for developing navigational facilities was that development of water transport would greatly benefit this highly developed industrial area with heavily congested railway traffic. The financial position of the irrigation scheme will further improve when linked up with navigation. It was also felt

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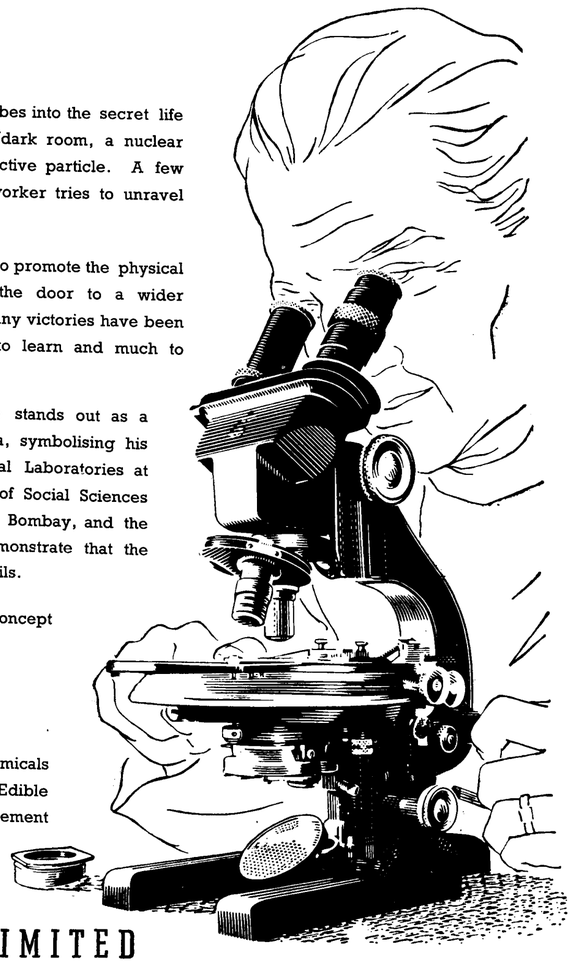
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that postponement of the navigation channel to a later data would involve additional cost, for the cost of land would go up as a result of irrigation and power development and most of the canal structures, the headway at bridges, regulators, and falls would need to be reconstructed or remodelled. It was, therefore, decided to include the navigable channel in the first phase of the programme. This alone accounts for an increase of Rs. 2 crores.

The rise in prices and in construction costs has also contributed to the increase in the estimate. During the post-war period the rise has been of the order of 100 percent. As there has been a marked extension of the scope of barrage and irrigation scheme, the present estimate permits no comparison with the preliminary estimate prepared as far back as 1945.

The increase in 1953 estimate is mainly due to the higher cost of acquisition of land, as the Corporation has been treated as a private person as distinct from a public body as originally contemplated, and to inadequate provision on account of establishment in the previous estimate. As detailed designs of the barrage were not available earlier, increases also occurred in the provision made for foundation, excavation, de-watering, afflux-bund and cost of concreting of the main raft in respect of headworks. There has also been increase in the bridges and locks as increased loading standards, and better specification and greater width of roads were insisted upon by the West Bengal Road Development Department, terminal facilities for navigation were also not provided for in the earlier estimate.

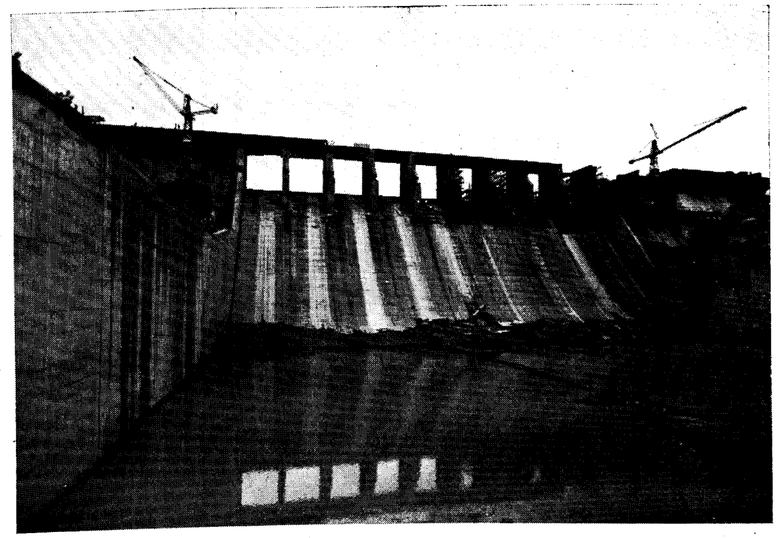
Tilaiya

Subsequent to the publication of the Preliminary Memorandum, Mr. Voorduin prepared separate project reports for Tilaiya, Maithon and Konar. The detailed project estimate of Mr. Voorduin for Tilaiya amounted to Rs. 1.41 crores against Rs. 2.15 crores in the Preliminary Memorandum. The DVC's first estimate of 1951 amounted to Rs. 1.96 crores. The devaluation and the rise in prices affected this estimate as well. The estimate of 1952 put it at Rs. 3 crores, the increase being mainly attributable to the higher cost of reclamation of waste land for the rehabilitation of displaced population, deeper foundations, increased cost of establishment owing to delay in the completion of the project, and inclusion of provision for the construction of the Ranchi-Patna Diversion road not made in the earlier estimate. The cost of the construction power plant, which was originally proposed to be treated as a separate scheme, was ultimately charged to the Tilaiya project. There has also been some increase in the cost of works in the hydro-electric section due to the provision of steel, concrete and form work required for the third unit, which is proposed to be installed at a later date.

The increase in the present estimate is on account of cash compensation paid for the land, as the displaced persons refused to accept land for land and house for house. The change in design of under-sluice gates and extension of the construction programme by one year also contributed to the increased cost.

Konar

The detailed project report on Konar prepared by Mr. Voorduin put the cost at Rs. 4.14 crores as against Rs. 2.91 crores estimated in the Preliminary Memorandum, thus increasing substantially his own original estimate based on the assumed overall cost per acre foot of storage capacity. Again, Mr. Voorduin's estimate had provided for a hydro-electric station at Konar with an installed capacity of only 10,000 Kw but this was raised to 40,000 Kw in the 1951 estimate. Devaluation and the rise in prices have also contributed to the increase.



Concrete dam at Konar.

The increase in the 1952 estimate is mainly due to the change of design from an earth dam with a concrete spillway to a concrete gravity dam in the river section. The higher cost of reclamation of waste land for rehabilitation of displaced persons and increase in the price of steel required for the spillway were other contributory causes. The present estimate does not take into account the hydro-electric portion of Konar Project as it has been postponed for the time being.

Maithon

Mr. Voorduin's detailed project estimate for Maithon amounted to Rs. 8.53 crores as against Rs. 7.93 estimated by him earlier in his preliminary memorandum. The subsequent rise in the cost of materials and labour accounts for the increase in the 1951 estimate. At the time this estimate was prepared, sufficiently reliable data necessary for the preparation of a reasonably accurate estimate were not available. The excess over the 1951 estimate is mainly due to increase in quantities and rates for work, increase in quantities resulting from raising the dam height by 4' to obtain a greater margin of safety and inclusion of provision for cut-off sheet piling under the advice of the Board of Consultants. As the work has been done departmentally, provision had to be made for residential buildings required for staff engaged in construction. A power plant had to be installed at Kumardhubi to provide for construction power. The provision made for establishment, tools and plant and overheads also proved inadequate.

Further increase in cost, as revealed by the present estimate, is mainly attributable to the increase in the cost of land. As advised by the Government of Bihar, compensation for land was given at the rate of Rs. 1,500 per acre of first rice land as in the case of land acquired for the Sindri Factory in the same district as against Rs. 1,200 per acre provided in the earlier estimate. A corresponding increase was also made in the rate of cost of other classes of land. The increase under the hydro-electric installation is due to inclusion of provision for dollar payments to Harza Engineering Company for designs not previously provided for. The Government of India have now decided that the T. C. M. aid should be shown in the budget because the aid is to the Government of India and not to the DVC.

Panchet

Mr. Voorduin's preliminary estimate for Panchet Hill Project was Rs. 9.08 crores. He did not prepare any detailed estimate for this project. The DVC's 1951 estimate amounted to Rs. 14.04 crores. At the time the 1951 estimate was prepared, field investigations had not been completed and even the dam site had not been finally selected. The Maithon estimates were taken as basis in order to arrive at a rough approximation to the estimated capital cost of Panchet Hill and therefore the 1951 estimates were very tentative. In the intervening period, the requisite field investigations had been carried out, which led to the selection of a new site for the dam and the preparation of general plans. These were approved by the Board of Consultants and the cost of the Panchet Hill Project in August 1952, including the hydro-electric installation, was estimated at Rs. 14.88 crores.

The present estimate has been affected by the increased cost of land including rehabilitation, also by increases in quantities in the embankment, introduction of a filter section, increase in the rate for concreting and certain other items. There has also been an increase under hydel owing to inclusion of provision for an access road and fees payable to the Harza Engineering Company for designs.

Extended Transmission System

This extension, which is estimated to cost Rs. 6.41 crores, has been approved by the Government of India during the current year subject to certain observations. Potentially, power is by far the most important source of revenue to the Corporation and the advantages of extending the transmission system in order to take on all the available load are obvious.

The complex nature of the multi-purpose Damodar Project embracing a wide range of construction activities at several far-flung sites, the insufficiency of reliable data, continued increase in prices and the several other causes mentioned above, over many of which the Corporation had no control, have all tended to increase the cost of the project and revision of the estimate. The phenomenon of rising costs is, however, by no means a feature peculiar to the DVC.

Conclusion

Considering the unpropitious times at which the project was launched, the difficulties of every description that had to be encountered, the wonder is not that mistakes have been made, but that there have not been more of them.



Women at work in a Bihar village.

FIGURES OF 1953

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INDIAN INSURANCE IN 1954

FAR-REACHING EFFECTS OF PREMIUM CUTS

● By P. R. GUPTA ●

THE year 1954 will be remembered as a landmark in the history of Indian insurance. During the year, premium rates of almost all the important Indian life insurance companies were drastically reduced and this had far-reaching effects on business. The reduction gave rise to a long and bitter controversy. In March 1954, the New India Assurance Company Limited suddenly cut its life premium rates sharply, and was followed by the Oriental and other companies. The industry was taken by surprise and panicky conditions prevailed. Strong representations were made by the other insurers jointly to the Controller of Insurance and the Ministry of Finance asking them to intervene and cancel the reductions. It was argued that even if some companies were justified, on the basis of their own experience, in bringing down premium rates, the industry as a whole would be injured and most of the middle-sized and smaller companies would find the new rates uneconomic. It was further argued that if the experience of some companies was favourable, they could give higher bonuses to policyholders. As, on an average, 80 percent of the policies of insurance companies were on a "with profit" basis this would be quite fair.

However, in spite of the representations, the Government did not intervene immediately, particularly as the reduction of premium rates meant relief for the consumer. Instead, it appointed an expert committee to look into the matter. The committee submitted a report suggesting "floor rates" of premium, but recommended a scale which was substantially the same as the reduced premiums of New India and Oriental. Further meetings and conferences took place, but by this time the controversy was settling down and it seemed that the reduced rates had come to stay. Ultimately, at a meeting of the Executive Committee of the Life Insurance Council it was decided that whatever reductions had been made could remain, but until December 1955 no further reductions should be made by companies having a business in force of Rs. 2 crores or more. If, however, any insurer had not reduced the premium since January 1954, he could do so with the consent of the Controller of Insurance.

Appropriate Solution

The present solution seems to be the best under the circumstances, because the alternative of enforcing "floor rates" for premiums is wholly alien to the traditions of life insurance business. Enforcement of "floor rates" would virtually amount to introducing a "tariff" for life business in the same way as there are "tariff" rates for fire and miscellaneous business, as no company would like to quote above the tariff rates. However, the new premium rates have come to stay and have been in operation for several months. It is now generally felt that they will be workable and sound for a majority of the companies, though some of the smallest might suffer.

The way the new rates were brought into force is rather unfortunate, but there is no need to fear an impending catastrophe in insurance. After all, there has been a case for reduction of premium rates. Improved mortality and higher interest earnings have been a feature of recent years, and the expense ratios of all companies, except some of the very biggest, have gone down. The new premium rates, furthermore, are not much lower than those prevailing in India about ten years ago. What should be avoided is a rate war in the future and the Executive Committee of the Life Insurance Council has taken adequate steps to ensure this. As the Chairman of the New India Assurance Company Limited has pointed out, "the basis on which current premiums were calculated were getting further and further away from reality. For instance, we experienced in recent years 50 percent of our assumed mortality; we earned a gross yield of not less than 3.58 percent in any one year during the period 1947-52 and the yield has progressively risen to 4½ percent in 1953 against the assumed rate of 2½ percent; our renewal expense ratio has been below the provisions contained in our premium rates. . . . We are satisfied that the revised rates offered by us are within the capacity of every well managed company without any inconvenience or hardship."

Increased Bonuses

As the controversy on premium rates has been dying down, a new one on a different front has started. It arises from the practice of declaring higher bonuses. In the last few months, a number of companies have declared bonuses very much higher than those declared after the preceding valuation. The argument put forward has been the same, that if conditions have justified a lower rate of premiums for current policyholders, they would justify a higher rate of bonus for old policyholders who are paying premiums at higher rates. The following companies have declared bonuses in 1954 for their valuations as on 31st December, 1953. The bonus rates of the current valuation and the previous valuation are compared.

REVERSIONARY BONUS PER THOUSAND PER ANNUM

Company.	Valuation as on 31-12-1953.	Previous Valuation.	As on.
New India	Whole Life Rs. 15 Endowment Rs. 14	Whole Life Rs. 11 Endowment Rs. 9	31-12-1950
National	Whole Life Rs. 17 Endowment Rs. 14	Whole Life Rs. 10 Endowment Rs. 8	31-12-1950
Hindusthan	Whole Life Rs. 17-8 Endowment Rs. 15	Whole Life Rs. 8 Endowment Rs. 8	31-12-1950
Indian Mutual	Whole Life Rs. Endowment Rs.	Whole Life Rs. 11 Endowment Rs. 11	31-12-1950
Andhra	Whole Life Rs. 12 Endowment Rs. 12	Whole Life Rs. 9 Endowment Rs. 9	31-12-1950
New Asiatic	Whole Life Rs. 15 Endowment Rs. 12	Whole Life Rs. 9 Endowment Rs. 7	31-12-1951

New Business

New life assurance business has been increasing steadily since the beginning of the war and its phenomenal growth during the last ten years will be apparent from the following figures taken from the Government Year Book.

NEW AND TOTAL LIFE ASSURANCE BUSINESS IN INDIA
(In Crores of rupees)

Chart I.

Year	Indian Insurers (New Business) Sum Assured.	Non-Indian Insurers (New Business) Sum Assured.	Total (New Business)	Total Business in force.
1943	64.2	10.0	74.2	378
1944	97.0	11.9	108.9	454
1945	123.7	12.6	136.3	557
1946	140.9	12.9	153.8	651
1947	126.5	13.1	139.6	706
1948	121.7	12.9	134.6	724
1949	130.0	12.2	142.2	765
1950	125.8	13.7	139.5	780
1951	131.4	16.5	147.9	873
1952	129.3	16.4	145.7*	916*

* These figures are subject to correction.

Fortunately, the Department of Insurance has taken action in improving the statistics, which were defective because a large number of companies did not submit their returns in time. It has prepared revised figures in the 1953 report. The figures for 1952 are incomplete for the same reason as the previous statistics, but the Controller of Insurance has given an assurance that they will be corrected in the next Year Book.

In 1954 new life business is expected to show a spectacular increase. The greater prosperity of the people, the implementation of the five year plan, the spread of life insurance amongst those who never took insurance policies before, have all contributed to the increase in business. But the most important reason is undoubtedly the reduction in premium rates.

Another source of new business—and this is an important one—is the estate duty policy. Since the passing of the Estate Duty Act in October last year insurance companies have been offering all kinds of facilities to prospective clients for such policies. Not only have they introduced new schemes to cover the liabilities of parties; they have also widely publicised, through leaflets and booklets, the benefits of taking out policies to cover the liabilities. Further, most of the bigger companies have extended the age at entry up to 60, or in some cases even up to 65, for the special purpose of issuing estate duty policies. All this has brought a large windfall of business to insurance companies, but this business has gone almost entirely to the big offices.

Conversion of Old Policies

There is one other source of new business, and this may prove to be the biggest factor in any increase. This is the new business that is coming in by the lapsation and conversion into paid-up of old policies. The new premium rates are so much lower than the old rates that it is cheaper now for policyholders to take new policies by converting comparatively old policies into paid-up, or even in some cases by allowing their old policies to lapse. This process is now going on on a large scale and will no doubt result in the depletion of renewal premium income and bringing in of old policies back again at a much higher initial cost. Insurance companies have recently been worried about this development, and the matter was referred to in the speech of the Chairman of the Oriental at the last annual general meeting. However, nothing can be done, for the consumer cannot be prevented from accepting a cheaper offer. The resulting strain for companies cannot be avoided. It is an inevitable feature of the economy where there will be trade cycles and periods of higher and lower interest earnings, which will affect the premium rates of insurance companies. A gradual reduction of premium rates might have had less serious repercussions on old policies—and here it is necessary to repeat that the way the reduction was brought about is unfortunate. In any case, there is no reason for undue anxiety, because this is after all a passing phase and will be over in a couple of years.

Share of New Business

In Chart II and Chart III are given the new business figures for the years 1949 to 1953 of ten leading Indian life offices and six leading foreign life offices doing business in India. As mentioned in my previous articles, the new business of foreign companies (mainly British) continued to increase after independence. The increase continued in 1953 also, as will be evident from the figures in Chart III. But in 1954, because of the sudden reduction of premiums by Indian companies and the increase in bonus rates, the business of foreign companies in India is likely to receive a setback as only a few of them have reduced premiums.

Chart II.

NEW BUSINESS
(In crores of rupees)

Name.	1953	1952	1951	1950	1949
1. Oriental	23.42	21.23	22.22	20.51	19.49
2. New India	19.91	18.04	16.68	13.44	11.69
3. Hindusthan	18.89	16.38	16.28	13.75	13.25
4. National	12.00	10.06	9.55	8.75	7.60
5. Metropolitan	8.76	8.05	7.51	7.00	6.55
6. Bombay Life	4.89	4.85	4.05	3.10	2.88
7. Bharat	4.42	4.27	3.84	3.55	3.05
8. Bombay Mutual	4.40	4.32	4.25	4.10	4.01
9. United India	3.80	3.82	3.51	3.40	3.15
10. Lakshmi	3.52	3.43	4.28	4.33	4.52
	104.01	94.45	92.17	81.91	76.19

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Total Claims paid	**13,99,78,843**

Points from the Administrator's Report :

* Nearly 70% of total Assets invested in Government Securities

* Good prospect of handsome Bonus in the Valuation as at 31st December, 1954.

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Chart III.

NEW LIFE ASSURANCE BUSINESS IN INDIA OF FOREIGN COMPANIES

(In lakhs of rupees)

Company	1953	1952	1951	1950	1949
Norwich	5,32	5,12	3,33	1.77	1,59
Prudential	3,00	3,03	2,90	2,50	2,47
Cresham	2,57	2,13	2,04	1,71	1,44
North British	77	79	56	56	51
Royal	82	86	83	76	56
Sun Life	3,27	3,27	3,92	3,93	3,38

Shroff Committee's Report

An event of great interest to the insurance world this year was the Report of the Shroff Committee on Finance for the Private Sector. The Committee was appointed with Mr. A. D. Shroff as Chairman and was aided by a distinguished team of bankers. It reported on the causes of the shortage of capital in the private sector and suggested ways and means of increasing it. Various aspects of the problem were examined some of which relate to the investment conditions of the Insurance Act. To enable insurance companies to play a larger part in meeting the growing financial needs of the private sector, it was recommended that Section 27 of the Insurance Act be amended so as to require companies to invest their funds as follows: 25 percent in Government securities, 20 percent in Government and other approved securities, and the balance of 55 percent in other investments specified in Section 27A. The Committee felt that the provisions in sub-section (3) and (4) of Section 27A, which require that not more than 2½ percent of the liability be invested in any one company, restrict the investment activities of insurance companies. It recommended that the limits of 2½ percent referred to in both sub-sections 27A(3) and (4) and 2 percent referred to in sub-section 27A(3) be raised to 5 percent. Apart from these, several anomalies regarding investment in the Insurance Act were brought to the notice of the Committee by insurance interests; it has referred these to the Government for detailed examination. The Shroff Committee also suggested the possibility of banks and insurance companies forming, under the leadership of the Imperial Bank of India, a consortium to sponsor capital issues. A committee has been examining the matter in detail.

Taxation Problems

The Shroff Committee commented on the heavy burden of taxation on insurance companies. But as the matter was outside its terms of reference, it made no recommendation but left it to the Taxation Enquiry Commission. Mr. A. D. Shroff, however, in his Chairman's speech at the annual general meeting of the New India Assurance Company Limited, referred to it in some detail. He pointed out that as life insurance was one of the most important methods of mobilising individual savings, everything should be done to popularise it. The Taxation Enquiry Commission was asked to consider amendments to the Income Tax Act so as to liberalise the treatment to insurance companies and the insuring public.

Among the features of taxation which have drawn the greatest public attention are the following:

(a) The present limit of exemption from income tax which is one-sixth of the income, subject to a maximum of Rs. 6,000 in the case of an individual and Rs. 12,000 in the case of a joint Hindu family, is too low. These exemptions were fixed in pre-war days, but since then the cost of living, and consequently wages and salaries, have increased very considerably. Regarding the limit of one-sixth of the salary, most employed people enjoy provident fund facilities. In such cases the limit is practically reached by the provident fund contribution and little relief is available from the insurance premium. Mr. Shroff suggested that the limit should be stepped up to 25 percent, with a maximum of Rs. 10,000. This appears to be very reasonable.

(b) At present, four-fifths of the annual average of the valuation surplus allocated to policyholders is exempt from taxation. But the industry has made representations that this limit be raised to 100 percent, that is, the entire surplus distributed to policyholders should be exempt from taxation, on the ground that elements which cannot fairly be regarded within the scope of income-tax are being taxed on the present basis. It is hoped that the Government will consider this representation sympathetically.

(c) The statutory reduction of the period of valuation of life assurance companies from five years to three years has resulted in an unfair treatment of companies which were having quinquennial valuations. These companies are not getting two-fifths of the income-tax refund due to them on account of tax deduction at source in excess liability. The representations made in this respect to the Government have not yet been successful. It is hoped that the Government will recognise the injustice and will rectify matters as soon as possible.

Similarly, in general insurance business, companies are taxed practically on the same basis as ordinary commercial concerns and no relief is granted so that they may build adequate reserves to meet exceptional and catastrophic losses. The present allowance of 50 percent of the fire and miscellaneous premiums and 100 percent of the marine premiums is inadequate. The representation made to the Taxation Enquiry Commission by the Indian Insurance Companies Association, Bombay, recently gives the point of view of the industry. It states that to evolve a tax structure that will help consolidate the financial strength of Indian general insurance companies, they should be permitted to add 5 percent to the reserves annually till they reach 100 percent in fire and miscellaneous business, 150 percent in marine cargo business and 200 percent in marine hull business, without being subjected to taxation. This, it is pointed out, would provide the necessary stimulus for insurance companies to build reserves, and would enable them to consolidate their position in the international market.

General Insurance Premiums

Since the reduction of life insurance premiums the question of cutting general insurance premiums has come to the fore. Earlier in the year, the Tariff Committee was asked by the Controller of Insurance to consider the feasibility of reducing rates of general insurance business. The industry, however, feels that the prevailing tariff rates are not high and the rates for the bulk of the cargo in marine insurance are dictated by international factors. There is also a general complaint that existing cargo rates are uneconomic. Actually, ever since the abolition of the combined marine surcharges on marine cargo risks in 1947, competition has forced down basic rates of premium all over the world to a level that does not appear to be economic, and the present tendency is to use the war risk rates to subsidise the marine rates. With regard to miscellaneous rates, it is pointed out that though motor rates were increased last year, the present rates are still lower than those prevailing elsewhere. Actually, the experience of motor insurance is very unsatisfactory everywhere. In fire insurance, the existing rates closely follow the pattern and level of tariff elsewhere in the insurance world. Hence it is felt that there is no case for reducing premium rates in general insurance business, although claims experience in 1953 has on the whole been favourable.

Writing a year ago, I mentioned that as a result of the recession in trade and industry in 1952, general insurance business would be affected. The Government Year Book setting out the figures of 1952 has now been published and shows a fall in both fire and marine insurance business, though there has been some increase in miscellaneous business as compared with 1951. The figures are given below:

Chart IV.

(In lakhs of rupees.)

	Premium less reinsurances in 1952.	Premium less reinsurances in 1951.	Increase or decrease.
	10,44.62	10,82.23	—37.61
Fire	4,72.40	5,07.26	—34.86
Marine	6,06.49	5,90.94	15.55
Miscellaneous			

In 1952 the distribution of business between Indian and non-Indian insurers was as follows:

1952

NET PREMIUM (In lakhs of rupees.)

	Indian.	Non-Indian.	Total	Percentage of Indian to Total business.
Fire	7,65	2,79	10,44	73
Marine	2,72	2,00	4,72	58
Miscellaneous	4,10	1,95	6,06	67

The percentage of the business of Indian companies to total business in the year 1952 was also lower than in the previous year; 1953 has been a better year with the revival of trade and industry and the stimulus received from the five year plan. The Government figures for the industry as a whole are not available but the following figures showing the fire, marine and miscellaneous business of five leading general insurance companies will indicate the position.

Chart V

NET PREMIUM INCOME

(In lakhs of rupees)

	1953	1952	1951	1950	1949
New India					
Fire	233.32	229.28	223.32	169.73	170.32
Marine	83.97	91.14	57.70	62.41	58.04
Miscellaneous	72.34	65.51	82.70	37.62	35.84
	389.63	385.93	363.72	269.76	264.21
Ruby General					
Fire	25.90	25.93	22.51	21.17	20.97
Marine	10.48	9.74	12.64	10.39	8.15
Miscellaneous	35.42	34.69	39.07	34.79	32.31
	71.80	70.38	74.24	66.35	61.43
Concord					
Fire	31.59	31.38	30.01	28.65	25.85
Marine	10.65	10.68	12.18	11.95	11.86
Miscellaneous	9.76	9.59	9.36	9.10	9.94
	52.00	51.65	51.55	49.70	46.67
Jupiter General					
Fire	15.42	18.90	28.33	27.04	29.40
Marine	4.80	4.47	4.95	6.91	6.37
Miscellaneous	15.85	14.85	15.81	15.06	14.25
	36.07	38.22	49.09	49.01	50.12
British India General					
Fire	32.76	34.29	39.55	33.07	31.23
Marine	6.14	5.52	5.01	3.79	3.77
Miscellaneous	18.96	17.82	20.23	17.33	18.91
	57.87	57.73	64.80	54.19	53.93

Overseas Business

The following chart (Chart VI) shows the expansion of the overseas business of Indian companies. It will be seen that both life and general business has been showing steady improvement.

Chart VI.

OVERSEAS BUSINESS OF INDIAN INSURERS

Life:

(In crores of rupees)

Year	New Business	Business in force.
1952	11.43	69.83
1951	10.42	64.09

(In crores of rupees)

Year	New Business	Business in force.
1950	7.53	56.65
1949	7.95	61.54
1948	7.04	45.30
1947	5.51	25.35

Other than Life:

Net Premium Income (In crores of rupees)

1952	7.49
1951	6.32
1950	4.84
1949	3.94
1948	2.94
1947	2.11

In 1953 and 1954 the business from Burma has been particularly good. But the recent action of the Burmese Government in prohibiting policyholders who have taken policies in foreign currencies, including Indian rupees, from paying their premiums in kyats (Burmese currency) will affect the business there considerably. Representations are being made by the Life Assurance Offices Association in the matter and it is hoped a suitable solution will be reached at governmental level. Overseas business with other countries, particularly in South-East Asia and the Middle East, is increasing but the local exchange control restrictions of some countries are a handicap. The Government of India and the Reserve Bank of India are always eager to help companies to expand abroad, but are keeping a careful check to prevent the waste of national funds in dubious foreign markets. In this connection it is a matter of satisfaction that for the first time a reinsurance association has been formed in India. The Reinsurance Association of India (International) Ltd. was registered on 7th October, 1954, at Nagpur as a Mutual Reinsurance Association with leading insurance representatives of Madras as directors. The Association intends to carry on accident, fire and life reinsurance business in India and abroad. Membership is restricted to insurers but for the first few years individuals will be taken on a temporary basis. It is hoped that this organisation will help develop reinsurance business on the right lines as this is one of the fields in which Indian insurance has not developed up to now.

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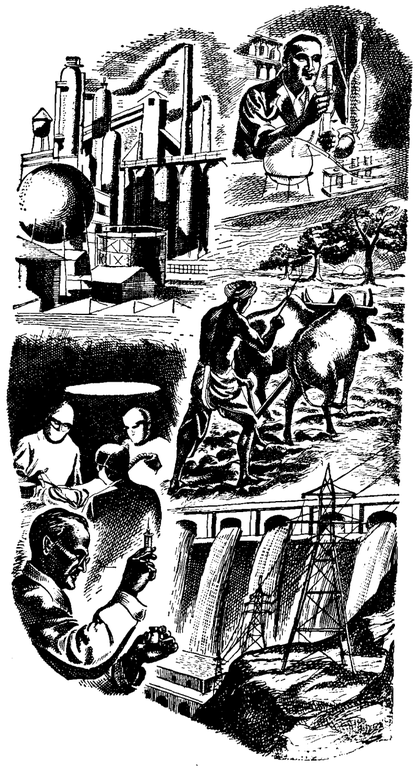
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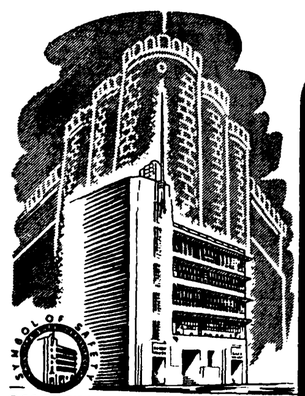
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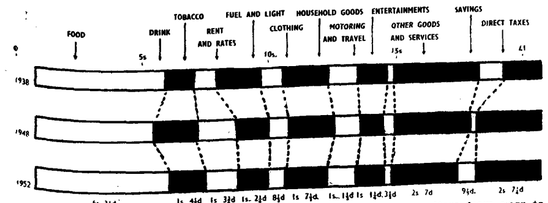
IN BRITAIN TODAY

● By OUR LONDON CORRESPONDENT ●

TO survey a year before it has ended, with the attendant risks of being proved a false prophet when the time arrives, is a task which no-one, not even the most assiduous of students of "economic indicators," accepts gladly. Nevertheless, that is what I propose doing here, and I take heart from the fact that the statistical data upon which the conclusions are based—the Blue Book on National Income and Expenditure, 1946-53—made their appearance in September without any significant qualifications regarding later trends; that the month-to-month developments so far in 1954-55, as measured by the various indices, the trade returns and the state of the gold and dollar reserves, suggests that the previous year's general improvement is being maintained; and that it would call for a major political or economic crisis at this stage to halt the advance, let alone to reverse it, and in the economic sphere the effects of such crises are cumulative rather than immediate. The widespread dock strike in October, for instance, though it had the immediate effect of immobilising trade to the value of some £200 million and interfering with production in some industries, will have much greater influence on the economy as a whole in 1955 than in 1954.

It is possible to say, therefore, that for Britain the year 1954 has been one of steady advance rather than great achievements in the economic sphere—another stage of the Chancellor of the Exchequer's "long pull" back to prosperity and economic stability—while in the political sphere she has recovered much prestige and again assumed the traditional rôle she occupied in world councils—that of the seeker after compromise wherever compromise was possible, but a resolute defender of the "freedoms" of democracy whenever and wherever these have been threatened. Neither of these advances have been made in isolation. In the economic sphere particularly the wholehearted co-operation of the Commonwealth and of the Colonies has proved invaluable and is readily acknowledged, and it is gratifying that the benefits accruing from the general overall combined policy have been shared. Support has also been forthcoming in the political sphere, not only from the Commonwealth but also from America, while the latter's defence aid, though it is now on a declining scale, has done much to bolster up the sterling area's economic revival.

How Each Pound was Used

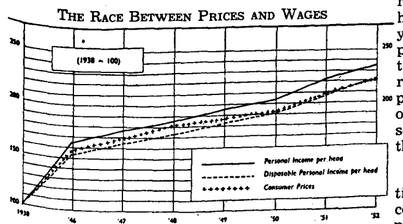


The way in which people spend each pound of their income alters from year to year. Direct taxes take much more of the pound today than in 1938—an extra shilling in 1952. Then, because people choose to spend their money differently and because prices of goods and services do not move uniformly, the allocation in actual spending has changed. Rent, which has increased less than the average of prices, makes a much smaller proportionate claim on the purse, while drink and tobacco, which cost three or four times as much as in 1938, show the largest rises.

Away from Austerity

We are concerned here, however, mainly with the domestic scene. The most significant change that the year has produced is undoubtedly the definite move away from austerity—that arid policy which survived the last war longer than has been the case ever before and threatened, more seriously than most people imagined or were prepared to admit, the inherent industry and inventiveness of the people. There was little incentive for the individual to work harder and to earn more, since the additional earnings were either swallowed up by higher taxation or had to be frittered away on luxuries as expenditure on basic needs was controlled by rationing. One could have saved, of course, but with such bogeys as nationalisation, capital levies and the like round almost every corner, and the welfare state available to cushion one against the hard facts of life from birth to death, was it worth while? The outlook for industry was even worse. Why increase output, or invest to expand production if the sole beneficiary—and bulk buying, E.P.T. and all the other restraints and restrictions which masquerade under the glorified title of "planned economy" made sure of that—was the Government?

The Race Between Prices and Wages



Every year since 1938 the income per head of the British population has risen. The money going into peoples' packets, however, has risen less than gross incomes, because deductions at source for income tax and national insurance take a large slice today. The disposable income left is available for spending or saving. Does it go as far as it did before the War? This diagram shows that in the immediate post-war years it did not, as it had risen slightly less than the prices of consumer goods and services. But since then, incomes have caught up with prices, and in 1952 the average money available to each person in Britain would have bought just about as much as in 1938.

It is three years since Britain's economic policy underwent a reorientation, and 1954 has provided convincing signs that the various moves to "set the people free" are producing the desired results. The elimination of controls and restrictions, both on the individual as well as on industry, has proceeded gradually, as indeed it had to to avoid possible chaos, but it has gone on steadily. The ultimate aim, convertibility of sterling, has yet to be achieved, but we have gone a long way towards that goal. To outline the steps by which this progress has been made, even those which have been taken this year alone, would waste quite a lot of space, for they are well known. The highlight was undoubtedly the final winding up of food rationing on 3rd July, nearly nine years after the end of the war with Japan and four times longer than after World War I. Briefly, the policy has been developed thus: In the first year there was a general appraisal of the situation with stern denial as its main theme; the second year provided encouragement to the earner and consumer in the form of considerable tax concessions; while in the third year encouragement has been extended to businesses, in the Budget, but mainly by other ways, to finance re-equipment and expand capital investment.

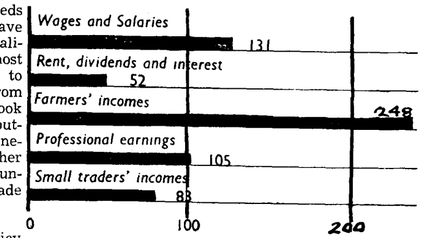
To what extent has this policy succeeded? The actual figures for 1954 will not be available until next year, but we do know that the 1953 trends have been continued and that year's figures are nothing if not encouraging. They disclose that production, incomes, profits, wages, security prices, exports, and gold reserves are all moving upwards, while unemployment and the overseas visible trade deficit are moving in the opposite direction—in fact, that the "indicators" are moving as they should. The change in world conditions has contributed to this satisfactory state of affairs, but the Government's policy has made an equal if not indeed a greater contribution, particularly in the restoration of various economic freedoms. Prices have risen, it is true, and more steeply in recent years because the Government has refused to expand subsidies in line with increasing consumption, but it is significant that wage rates have risen more than prices so that the disposable personal income per head today will buy as much or even a bit more than was the case in 1938, something it failed to do in all the years between the outbreak of war and 1952.

So far I have just outlined the general position without turning to the figures themselves to confirm my statements. The diagrams accompanying this article—for permission to reproduce which I am indebted to the Intelligence Department of Barclays Bank Limited, as a supplement to whose monthly "Review" they made their appearance in February of this year—present the picture as it stood at the end of 1952. The 1953 Blue Book furnishes evidence of further progress. In the case of the individual, for instance, it discloses that over the five years 1948-1953 personal spending in Britain, allowing for the intervening rise in prices, rose by as much as 6 percent, with the sharpest rise in expenditure on food, which was 11 percent more in real terms. The main reason for this is apparent in the general rise in incomes which has been going on since 1949. Whereas the number of individual incomes below £250 a year has dropped from 11,650,000 to 8,410,000 and the number in the next group up to £500 is down from 9,980,000 to 9,240,000, all other groups under £10,000 a year increased their number. The main increase was in the £500 to £750 group, which rose from 2,130,000 to 5,215,000. Over the same period the number of individual incomes exceeding £20,000 a year was unchanged at approximately 2,000. In addition, a smaller percentage of income was paid in tax for all income groups, with the sharpest reduction, from 18 percent to 10 percent in the £750 to £1,000 group. Not only have people spent more, especially on food, rent, household goods and clothing, but the habits of thrift that were thought to have disappeared are showing a slow but steadily increasing revival. The total figure of "personal" savings in 1953 is placed at £870 million, but after allowing for those of farmers and sole traders which are included in this figure and represent purchases of vehicles, plant and machinery, new houses and other buildings, and stocks acquired, it is reckoned that "persons" saved in financial forms about £306 million in the year.

The Gainers and the Losers

Purchasing Power of each Category of Incomes

100 = 1938

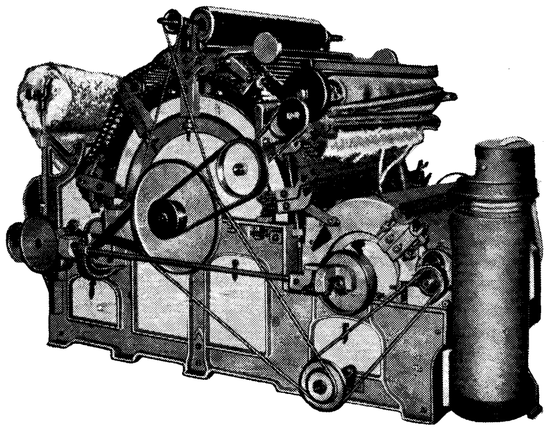


After taking into account changes in the prices of consumer goods, but not changes in taxation, this diagram shows that in 1952 farm incomes, wages and salaries and professional earnings had all increased in terms of 1938 purchasing power. But income from other sources had lost purchasing power.

On the business side the figures are no less impressive. The gross domestic product, that is the total output of the United Kingdom, excluding imports, rose between 1948 and 1953 by 15 percent in real terms to a new record level 3.6 percent higher than the previous best achieved in 1951. Expansion was at a higher rate than average in manufacturing output and transport and communication. Gross trading profits of companies operating in Britain, struck before providing for depreciation and the rise in stock values, rose over the same period from £1,795 million to £2,463 million, with the peak reached in 1951, since when there has been some decline. Payments on Ordinary shares moved up from £395 million to £513 million, while tax payments on company profits increased from £564 million to £926 million. In 1953 itself, of the total incomes of companies, before depreciation, rather less than a third went in dividends and interest, nearly a third in British taxes, while more than a third was saved. Unfortunately the savings were being held rather than invested in new plant and machinery, though there is ground for assuming that business capital expenditure, under the incentive of the investment allowance, has recently begun to revive again.

In Britain today we are not only healthier economically, but happier individually. As the end of the year approaches there are indications that plans are being made for doing away with, or at least further relaxing, the few restrictions which still remain, relieving the hardship of the needy, and moving ahead to greater prosperity and a higher standard of living. There is always an "if" to qualify such aspirations. Here's hoping we meet and overcome it.

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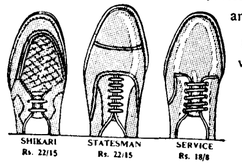
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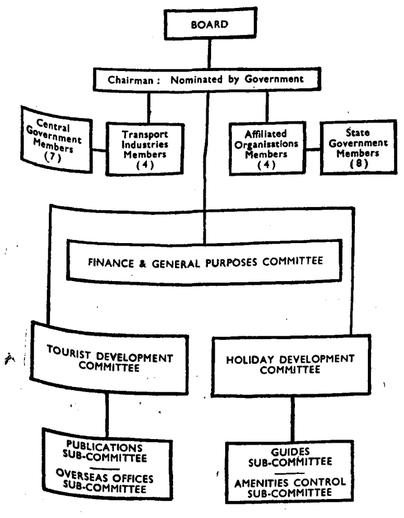
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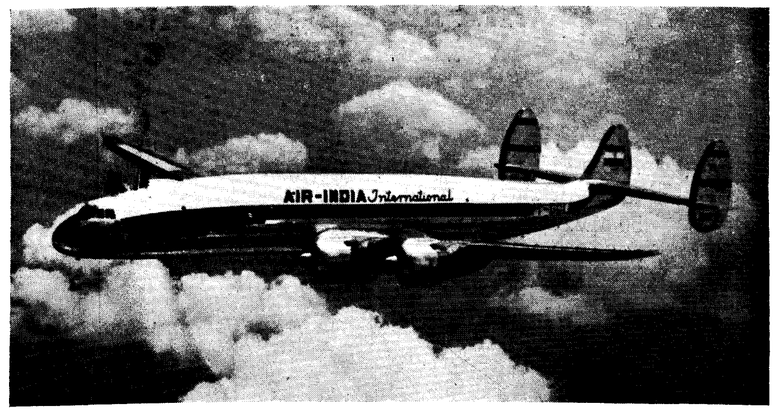
● By HUBERT E. WOUTERS ●

INDIA'S Deputy Minister for Railways and Transport recently announced that in 1953 a total of 28,060 tourists of 58 different nationalities visited this country. Just over half this number came from Britain and the United States of America—7,845 and 6,206, respectively, to be precise—which leaves an average for the remaining 56 nationalities of no more than 250 each. That may well represent an advance on previous years, for statistics in this respect are not easy to come by, but when the figures are compared with those of other countries who have appreciated the value of encouraging the tourist industry as a means not only of acquiring foreign exchange to ease balance of payments problems but also of fostering good relations and increasing international trade, they are rather disappointing. That opinion may, and probably will, be contested, but it is reached after taking into account that in the last two or three years the Indian Government has frequently announced official interest in the development of tourism, participated in international discussions aimed at fostering it, has organised meetings of travel agents, and, not least of all, granted special facilities to tourists in respect of such things as the clearance of personal effects, restricted examination of baggage and simplified Customs formalities. These measures are all moves in the right direction, but they are essentially administrative. In the final analysis the attraction of tourists is a human, rather than an administrative, problem, and it is difficult not to feel that this aspect of the matter has not yet received the official consideration which it undoubtedly demands.

There is always a danger in trying to lay down hard and fast rules as to how this industry ought to be developed. The experience of other countries is not always a sure guide, for conditions and circumstances vary. There is no reason, however, why India should not examine the official approach to the tourist industry in such countries as Britain, France and Switzerland—all three of which regard it as an important contributor to the general economy—and select those measures which are either suitable or adaptable to Indian conditions. Within the limited scope of an article such as this it would be impossible to examine these in any detail, but a brief survey of their basic features may serve as a useful guide to further research and investigation. As might have been expected, the Swiss approach is the most scientific as well as the most comprehensive. The Swiss National Tourist Office, with headquarters at Zürich, though it emphasises the fact that Switzerland was not made into a tourist country but became one almost as a natural development, nevertheless possesses a wealth of analytical material dealing with the administrative, economic, human and more general aspects of tourism. Threading one's way through this mass of documentation is no easy matter—most of it is in German or French. Nor for our purpose is it very rewarding, for as I have said above it is essentially analytical rather than constructive and we are concerned here with building up rather than assessing the effects of something already built. India could never be as tourist-conscious as Switzerland, where the bulk of the population is actually engaged in the industry or associated with it in one way or another. What one *can* learn from Switzerland, and learn better there than perhaps anywhere else, is the way in which the tourist should be treated, and the lesson is best learnt by visiting Switzerland and seeing for oneself.

SUGGESTED STRUCTURE FOR AN INDIAN TOURIST BOARD





Tourism in France

The French Government, through its Directorate General for Tourism functioning under the ultimate control of the Public Works, Transport and Tourist Ministry, takes no less an active interest in the tourist industry, but the emphasis here is the strong link with the French Government Railways and other forms of transport. To some extent the Indian approach so far is similar, but the ramifications of the French Direction Generale du Tourisme, working through its own service agencies and the innumerable branches of such organisations as the Union des Fédération des Syndicats d'Initiative, the Touring Club of France, the Automobile Club of France, the Aero Club of France, the youth hostel and camping organisations in addition to the normal travel agencies, leave one absolutely amazed. Not all these potential sources of information and guidance for the traveller in France may turn out in practice to be as helpful as they promise to be on paper, but that the majority are is evident from the casual way in which, for example, the hitherto insular and conservative British as well as Indian visitors to England, undertake trips to and through France today. One other feature of the French Government's approach to the tourist needs to be mentioned. This is the excellence of the literature which it distributes, through all these channels, to prospective visitors. Each district has its own brochure, a four, six or eight-fold affair, attractively printed in colour, with a detail map on one side while the other is given up to a series of panels, two of which present an artistic symbolic front and back cover design and the remainder to a general description of the area and its particular features of interest to the tourist. With each folder goes a conveniently sized booklet containing more detailed particulars regarding routes, mileages, centres of interest, hotels, youth hostels, camping sites and the sources from which information and assistance can be secured.

The British approach to the tourist industry and its development is a typical one. The work is left to the British Travel and Holidays Association—a Company Limited by Guarantee which was incorporated in 15th April, 1929. The main official support for this organisation takes the form of grants-in-aid from the Board of Trade to the extent of about 88 percent of its total income, the remaining 12 percent being derived in roughly equal amounts from subscriptions and donations (from Local Authorities; Inland Transport; hotels and caterers; shipping companies; brewers, distillers, etc.; travel agents; associate members; and air transport, in that order of importance) and as revenue from advertising, sales and other sources. Whether financial assistance from the Government on this scale is justified is open to comment, but examination of the Association's statistics suggests that it is. In the year ended last March, for instance, there was an overall credit balance on travel account in favour of Britain of £2 million against the Board of Trade grant to the Association of £721,000. More important still was the fact that the tourist industry attracted £31 million in dollars against only £5 million in dollars paid out by British residents travelling abroad. This was theoretically halved by an adverse balance with Western Europe of £24 million, but even so represents quite a considerable advantage, particularly as the figures do not include fare payments on international routes.

It is apparent that tourism can be made to pay good dividends and that it can be developed. In 1933 the total of all overseas visitors to Britain was under 350,000. Last year the figure had risen to a new peak of 818,600, excluding some 200,000 Irish visitors, and of the foreign visitors as distinct from Commonwealth and other British visitors nearly a quarter were business visitors. But the scope for tourism is still enormous, and as international barriers are removed—for which the International Union of Official Travel Organisations and other bodies are earnestly working—and travel becomes easier and less expensive, it will expand further. India's interest is therefore understandable, particularly in view of the fact that within her borders she can offer to the tourist a scenic and climatic variety which few other countries can rival, the historical and cultural background which the traveller never wearies of seeking, and the excitement of witnessing the growth to full stature of a new nation.

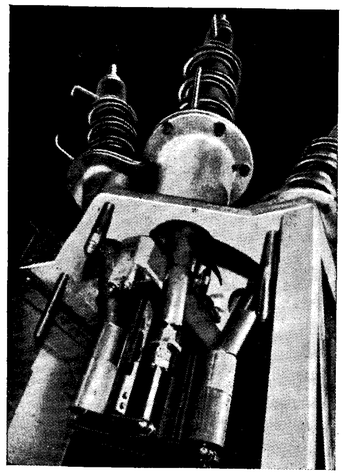
Some Suggestions

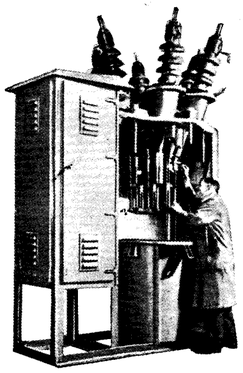
What should be India's approach to tourism? Creation of an official organisation of which the various private enterprise services contributing to the tourist industry would be affiliated members will help. Since transport plays so important a part in any tourist's plans in this country, and most forms of this are now nationalised, the Government should meet the bulk if not the entire cost of the organisation, and then lay down standards of service which the affiliated members would have to maintain. This would apply to sea, land and air transport services, to hotels and catering establishments, and to that indispensable bugbear the Official Guide. State Tourist Boards would act as semi-independent agencies or branches of the central organisation. They would be responsible for supervising standards within their own areas, preparing local publicity material, and advising the central organisation on their respective areas through their representatives on the Central Board. The latter would control all overseas offices and publicity and deal with reception and information services and other matters relating to overseas visitors at all points of entry.

Finance is an important factor. On the basis of B.T.H.A. statistics, it costs roughly £1 to attract each overseas visitor, of which 85 percent goes into publicity in one form or another, 10 percent covers wages, salaries and pensions, and the remaining 5 percent is spent on general administration. Its total income last year was £840,000 and expenditure £851,000. It has, however, been in existence for a quarter of a century. India, starting from scratch, may have to work to rather more generous margins until tourism has been developed.

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RESEARCH IN THE U.K. COTTON INDUSTRY

KNOW-HOW AND KNOW-WHY

• By A Correspondent in London •

"KNOW-HOW" is a phrase in such common use today that it is regarded as furnishing an almost complete answer to the many problems which beset the world, and not the least of these is the development of the so-called under-developed countries so as to improve their economic health, raise the standards of living of their people, and ultimately equip them to discharge the important rôle which they must play—as independent nations with vast potentialities—in the sphere of international affairs. "Know-how" is important, of course, but I would venture to suggest that it is not all that important. Your craftsman, for instance, can learn it from experience. Much more vital is "know-why," for if we know why things happen or why they do not it is a much simpler matter to devise methods of procedure easy to assimilate and no less easy to adopt or even to adapt. That is where scientific research comes in, and more especially fundamental research, and why it has come to occupy so large a place in industrial development generally. The value of fundamental work in providing background information for the attack on the practical problems of industry is priceless.

To illustrate this argument let us examine what research has done for the cotton industry and in particular the work of the Shirley Institute of the British Cotton Industry Research Association. The history of the Association is not without interest, for it serves to dispel a popular misconception that research is a costly luxury which can be indulged in only by large organisations, or, worse still, should be left to the State to organise and finance. When the British Cotton Industry Research Association came into being in 1919 its annual income was no more than £13,000, guaranteed for a five-year period, from the main trade associations, together with certain grants and also subscriptions from some individual firms, all on a voluntary basis. Within the short period of three years the demand for its assistance had grown to such an extent that it was necessary to add a new laboratory block to the old mansion in which it was housed. This demand continued to increase, accentuated by the development of man-made fibres. In 1927 a Rayon Department was created, and in 1935 a Silk Department was formed to carry on the work of the British Silk Research Association. By 1951 the Shirley Institute was concerned less with a particular commodity, raw cotton, than a multiplicity of raw materials processed on a particular type of machinery. Further expansion was inevitable, and the Council, which consists of representatives of all the sections within the industry, the Cotton Board and the trade unions, and also a representative of the Department of Scientific and Industrial Research, decided this could best be financed by a statutory levy on all firms in the industry who processed cotton, and a voluntary arrangement on the same basis for firms with non-cotton activities. The idea was approved in 1952 by the industry and in 1953 by Parliament with a maximum total for the levy of £250,000 in any one year. In recent years the income of the Association has averaged about £300,000.

On the scientific side, tribute must be paid to the work of Mr. A. W. Crossley, F.R.S., the first Director of Research, and to his successor in 1927, Sir Robert Pickard, F.R.S. Both of them had contracts with the textile industry in their earlier years, and their later contributions to its development were of incalculable value. When research work was first started in 1919 it was naturally concerned mainly with raw cotton. Dr. Crossley was a great believer in the importance of working on good foundations and the value of fundamental research. He concentrated, therefore, on the scientific understanding of the principles underlying the main processes of the chemical finishing industry—scouring, bleaching, mercerising, dyeing and printing. As a result much was learnt of the properties of the materials used in the industry and there were developed a number of analytical control tests by which change in these properties could be observed. From this early work has gradually been built up a massive fund of knowledge of the chemistry of cellulose (natural and regenerated), cellulose esters and esters, silk fibroin, starch and dyes, and the photo-chemistry of dyed materials—the basic information, in fact, on which so many practical problems of the industry have subsequently been investigated and solved.

The advent of Dr. Pickard on the untimely death of Dr. Crossley introduced a change of outlook of great import. Fundamental research was continued, with wider scope, but through the new media of "The Shirley Institute Bulletin" and a Liaison Department the fundamental knowledge already gained was disseminated to the spinning mills and weaving sheds. In other words, it was converted into "know-how" for practical application to increase the efficiency of the industry. Special attention has been paid to this development over the years. Today, some 1,400 members receive a confidential Bulletin every two months and about 2,000 individual inquiries with regard to day-to-day problems are dealt with each year. The sixteen members of the Liaison Department make as many as 4,000 visits every year; technical committees meet every six months to guide the research work; mill managements, operatives and trade union executives make special visit to the Institute; and members of the staff lecture to scientific and technical societies and teach at the Colleges of Technology and at Technical Schools. The links between the Institute and the industry are close and strong.

The contributions which all this research has made to the cotton industry would require volumes if they were to be dealt with adequately. In an article of this nature it is possible to do little more than catalogue the main ones, leaving the general reader to imagine their impact and the textile technologist to appreciate their true value. Right from the start research was conducted into the relative efficiencies of different methods of desizing grey cloth—an essential preliminary to the subsequent scouring treatment. Studies of the rot steep, the grey sour, and the enzyme steeping process were made, and led ultimately to the introduction of the continuous desizing methods which are now accepted as standard English practice. This has been extended to spun rayon—a more difficult problem—but progress is also being made here. The process of scouring, or treating cloth with hot caustic alkali to remove waxy materials, also received intensive study, which was subsequently extended to full scale trials in mills, and yielded results of great value to the finishing industry. A major achievement, and one which is apt to be forgotten since it is now a matter of history, was the improvement and control of the bleaching process which resulted from the discovery of the effect of pH on the rate of modification of cellulose. Years of investigations, starting from the fundamental study of the action of sodium hydrochlorite on cellulose under known conditions, established the importance of the control of pH. Since then the bleacher has been provided with a simple and reliable method of controlling the quality of his product; the suprammonium hydroxide test giving an empirical measure of molecular chain length, showing whether and to what extent the material has been weakened by chemical attack, and the "copper number test" giving an empirical measure of the reducing power of the cellulose upon which depends its tendency to become discoloured on storage or during any heat treatment such as vulcanising or steaming. The modified methods are now used as routine checks in all the most progressive crafts throughout the bleaching industry.

Next in importance to the raw fibres to the industry come the starch, gums and allied substances available in so many forms for warp sizes, thickening pastes for printing and for various finishing processes. The main scientific findings from the research into these are now well known and, in many instances, widely applied. The selection of starches for sizing and finishing, where film strength and complete gelatinisation are important, is no longer a question of trial and error. The development of rheology has stimulated important work in connection with calico printing. The relationship of viscosity at high shearing stress to sharpness of definition and at low shearing stress to levelness of print and "furnishing" has been established, and an instrument has been developed to assess the behaviour of printing pastes under a very wide range of shearing stresses.

The light fastness of dyes and the property which some of them possess of accelarating the tendering of cellulose by light is an important problem, and current work on the effect of humidity on this property is likely to be of much practical value. Basic work on heat transfer and fluid flow through packed textiles form parts of the current programme also, as well as related practical investigation of the "washing-off" of textiles and their drying, both by heat and by mechanical means such as "mangling" and "whizzing." Early work led to the discovery of the remarkable fungicidal properties of salicylanilide and to its development as a mildew antiseptic (Shirlan), which, with later work on mineral khaki dyeing and chrome proofing, played an important part in the protection of military stores and equipment used in the Far East during the last war. Detailed studies of the moisture relations of cotton, rayon, nylon and silk have been published. Work on the fractionation of cellulose rayons has been in progress for many years and is being published at the present time. An ultracentrifuge was built at the Institute for use in this work and recently modernised X-ray equipment is being used for studies of the fine structure of cellulose and fibroin. One of the first six electron microscopes in the country is also established at the Institute and has been used to study not only fibre structure but also to examine cardroom dusts and bacterial populations in connection with the medical problem of byssinosis. Fundamental electrochemical investigations have been published concerning oxidation-reduction equilibria in anthraquinone derivatives related to the important group of "vat" dyes.

Much of the basic material for this article is derived from the views of the present Director of Research, Dr. F. T. Toy, as published in various scientific journals, and especially in a recent issue of the journal of the Society of Chemical Industry, *Chemistry and Industry*.

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ESTATE DUTY ON SHARES

● By N. T. RAJU ●

THERE is a growing recognition of the importance of private enterprise in the economic development of the country and an ambitious rôle has been assigned to it in the first Five Year Plan. Corporate and private savings have to flow into industrial and other capital projects in increasing volumes if the desired level of investment is to be attained. A major portion of such capital formation would no doubt be through limited company shares and stocks. Additions to such types of property are the national need of the hour and as such types of property also form an important part of many large estates, especially of those of persons in the business community, it may be interesting briefly to discuss the provisions of the Estate Duty Act in relation to shares or other interest in business or industrial enterprises generally and in limited companies in particular.

A company is in law a person, distinct from the members or shareholders interested in it, having a continuous existence and a perpetual succession. In the absence of special legislation, estate duty can be successfully avoided by individuals by the interposition of a company in their transactions. As the transfers or transmissions of shares from one member to another are recorded by the Company, collection of duty becomes easy and when the shares are quoted in the market their valuation is simple. But when the shares are not quoted, or they are not easily transferable or when it is a Controlled Company, in the last case with the possibility that benefits might have been derived from it otherwise than by way of distributed profits, the provisions of the Estate Duty Act are elaborate and intricate.

Location of Assets.

All property situated in India is liable to estate duty without regard to the country of domicile of the deceased. Moveable property even if situated outside the country will attract duty if the deceased was domiciled in India at the time of death. For purposes of determining liability to estate duty, it has been provided in the estate duty rules that bank accounts shall be deemed to be situated at the branch at which the account was kept, insurance policies at the place where the monies thereunder are payable, shares in a partnership where the business is principally carried on and shares or debentures in a company at the place where the company was incorporated. The share of a partner in a partnership or of a member in a company is regarded as moveable property though the firm or company owns immoveable property.

When property or interest in a partnership is sold to other members of the family, confusion usually arises whether the transaction is actually a sale or a gift in disguise. In case of *bona fide* sale for valuable consideration, the property will not attract estate duty on the death of the deceased but gifts are so exempt only after a waiting period of two years from the date of gift.

A sale for partial consideration may be treated as a gift if it was not a matter of pure business but contained some element of bounty and the burden of proving the existance of an element of bounty appears to rest on the Revenue authorities. A sale cannot treated as a gift simply because the purchaser has not a good bargain. *In re. Thonnley,* a father sold to his son, for less than the intrinsic value, a block of shares in a private company but it was held on the special facts of the case that there was no element of bounty.

Imperfect Gifts

So far as liability to estate duty is concerned, gifts made within two years of the donor's death are void and they are voidable whenever made. There are numerous court decisions regarding gifts which through some negligence or omission on the part of the donee or donor have proved to be "imperfect." The act of making the gift may be ineffective so that the property gifted away remains part of the estate passing on the death of the deceased or sometimes the act becomes effective subsequent to the date of gift but within two years of the death of the donor thus attracting estate duty.

In one case, *Lord Advocate* v. *M'Neill,* a mother endorsed a bill of exchange in favour of her son by way of gift but there was no evidence of delivery to her son in her lifetime. The bill was held to be her property and part of the estate passing on her death. In fact, property which the owner attempted to give but did not give effectually remains part of his estate.

Delivery of the intending donor's own cheque is not a transfer of property. The cheque is a revocable mandate until it has been paid. If the cheque is cleared within two years of the donor's death, though it was actually issued much earlier, the amount of gift will be liable to duty. In *Rolls* v. *Pearce,* however, it was held that the donor's cheque, though unpaid, constituted a valid gift once it has been negotiated. In another case *Rose* v. *Commissioners of Inland Revenue,* the deceased executed voluntary transfers of shares and handed them to the donees but the transfers were not registered within two years of the death of the deceased. It was held that the donees were beneficial owners of the shares from the date of execution of the transfer and therefore exempt from duty. There is yet another case which, though not about imperfect gifts, is interesting. In *A. G.* v. *Oldham,* the deceased made a gift of 25,000 ordinary shares in 1934 and died in 1936. In 1935, the company capitalised certain reserves (mainly accumulated prior to the gift) and issued 10,000 bonus shares to the donee. Estate duty was paid on the 25,000 original shares but the Crown claimed duty on the bonus shares as well. The latter were held not to be taxable as the donee did not receive them from the deceased.

The value of property taken in gift for purposes of estate duty is its value at the time of the donor's death and not at the time of transfer. Consequently in case of property subject to heavy depreciation, like motor cars or furniture, the value at the time of gift may be widely different from the value at donor's death. In the case of livestock or perishable goods, the property may be non-existent a little time after it is gifted away and consequently no duty will become payable. It would therefore seem that, when the object is to make a gift of goods which depreciate in value, it is better to transfer the actual goods and in other cases to give equivalent cash with which to purchase the goods. In *A. G.* v. *Oldham* the value of the original shares would be much less after bonus issue. Therefore the donee has the double advantage of not having to pay duty on the bonus shares and of having the original shares valued at the post-bonus price.

The principal value of any property on which estate duty is levied is the estimated price which it would fetch if sold in the open market at the time of the death of the deceased. In *Ellesmere (Earl)* v. *Inland Revenue Commissioners,* open market value has been held to mean the best price which can be reasonably obtained and it is immaterial that there is in fact no "open market" for the property in question. The basis of valuation is the selling price and not the intrinsic value.

Partnership interests form an exception to this rule. They are estimated as a proportion of the partnership assets after they have all been realised and all debts and liabilities discharged. The basis of valuation of goodwill should always be explained or its absence accounted for. In the case of *A. G.* v. *Boden,* a father and his sons entered into partnership on terms that the son should give as much time as the business required and not engage in any other business, but the father was not so bound. On the death of any partner his share was to accrue to the other partners but was to be properly valued, and the value paid to the representatives of the deceased. Goodwill was to be valued and paid for on the death of either son but not on the death of the father. On the father's death, estate duty was duly paid in respect of the value of his share but the Crown claimed duty on his share of the goodwill as well. It was held to be taxable on the ground of cesser of interest but to be exempt on the ground of purchase.

In another case, *A. G.* v. *Ralli,* the deceased agreed by the terms of the partnership deed that on the death or retirement of a partner his interest in the firm should go to the other partners. It was held that there was no gift and what passed on death to the remaining partners was by reason only of purchase for valuable consideration.

When a company has notice of death of any of its members, shares standing in the name of the deceased member cannot be transferred unless the company is satisfied that the transferee has acquired the shares for valuable consideration or there is produced a certificate from the Controller of Estate Duty that either estate duty has been paid or will be paid or none is due.

Special provisions apply to companies which are incorporated outside India. Members of such companies do not become liable to duty unless they are domiciled in India or unless the company has been treated as resident, for the purposes of the Indian Income Tax Act, for two out of the three completed assessments immediately preceding. A company is resident, under the Income Tax Act, when the control and management is situated in India or when the major portion of its income is derived from India. Members of such companies who are not domiciled in India are liable to estate duty but at a flat rate of 7½ percent on the value of shares exceeding Rs. 5,000.

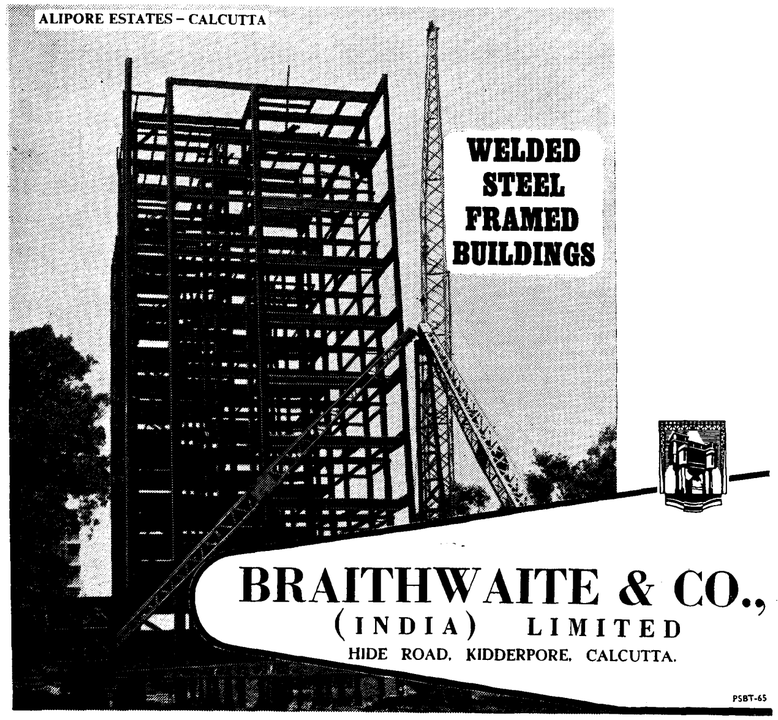
Unquoted Shares

Stocks and shares which are quoted on the stock exchange are valued at the quoted prices. When they are not quoted, the valuation may have to be supported by certificates from brokers or secretaries of the company stating the dates and prices of recent sales, the last three years' dividends, the amounts carried forward in those years, and particulars of any bonuses declared. The commonest method of valuation in Great Britain is by a comparison of the past and prospective dividends with the yields obtainable from quoted shares of a similar class with an allowance for the relative unmarketability of the unquoted shares. When there is a wide discrepancy between the profits earned and those distributed, primary regard may be had to earnings in valuing the shares.

Majority interests in businesses with unquoted shares are valued on the basis of underlying assets and earning power. Market prices are normally appreciably below net asset value per share, so that duty payable on the basis of a market quotation would be much less. Proprietors of such companies have therefore an inducement to obtain a quotation for the shares and also to see that the quotation is low and not high. A secondary reason for seeking a stock exchange quotation for companies of a semi-private character is the need for providing cash to pay estate duty. Ready money is seldom available to pay duty on any big scale, and often the necessary cash cannot be realised unless shares are made marketable and sold to the public. It may therefore be expected that, in course of time, shares of companies hitherto held by a few persons may begin to be traded on the stock exchanges and we have had some instances of this sort already. Also it may be reasonable to expect that more and more of the successful private limited companies may be converted into public limited ones as a means of reducing the burden of taxation.

Controlled Companies

Legislation in the United Kingdom regarding Controlled Companies was occasioned by the deliberate avoidance of duty by forming companies by transferring property of the deceased and by receiving benefits from that company otherwise than by way of distributed profits. The elaborate provisions in the Estate Duty Act give a rough indication not only of the scope for avoiding duty through Controlled Companies, but also of the extent to which such avoidance has been practised. A Controlled Company is one which is under the control of not more than five persons, near relatives, nominees, partners or trustees being treated as one person. When a Controlled Company was formed by the deceased by transferring property to it and when benefits accrue to him other than dividends on shares, the value of his shares as a proportion of the net asset value of the company will be a gross underestimate. The Act lays down that, in such a case, the value of the shares of the deceased will bear the same proportion of the net assets of the company as the benefits accruing to the deceased bear to the net income of the company for the last three accounting years. Assets distributed before the death in a capita form to shareholders and debenture holders, and assets distributed otherwise than for value, are added back to the assets of the company in determining the value of interest of the deceased. The Company itself is accountable for duty and it becomes a floating charge on the assets of the Company. When assets are distributed before the death of the deceased, the recipient is accountable for the duty for which those assets may become liable. But when assets or income have been distributed after the death of the deceased, the recipient is accountable for duty owing by the Company to the extent of those assets or income, and not merely to the extent of the duty attracted thereby.



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THE WELFARE BUDGET IN INDIA

NEW PLANS AND INSTITUTIONS

● By S. R. SARNA ●

WELFARE States are new; the idea behind them less so. In the West, social philosophers from Plato downwards have pleaded for social justice and social welfare, which are the forerunners of the institution now called welfare State. In India, the Aryan way of life and of thinking, which derived inspiration more from *rishis* and *acharyas*, than from kings and generals, held social welfare to be the ultimate objective of community life. According to those ideas the duties of the State were not limited to the maintenance of law and order or realisation of State revenues from taxes and levies; it had also to promote social security and foster social welfare. These ideas of social welfare, the fundamental principles of a welfare State, can be found in Kautilya's *Arthashastra*, written between 321 and 300 B.C. Kautilya stipulated that the king should give the utmost attention and importance to the welfare of his subjects for "in the happiness of his subjects lies his happiness; in their welfare, his welfare; whatever pleases himself he shall not consider as good, but whatever pleases his subjects, he shall consider as good".

But social welfare in those ancient times was not as comprehensive a responsibility and function of the State as that in the modern welfare State. Social services in general, in those ancient days, were not organised or controlled by the State, but were rendered by private and voluntary efforts, and, therefore, the expenditure on social services was met from private funds, augmented by collections from charities, donations, gifts, contributions and endowments, though State aid was also gratefully accepted. In times of famine and other calamities, the sovereign was almost always the fountain-head of relief and rehabilitation measures. In a modern welfare State, the State budget has to provide for regular expenditure on welfare services, to promote or assist various welfare agencies and to extend the field of work and to organise ways and means for welfare finance. In those far off days, the State budget, if there was a budget at all, was a close preserve of the security services, as distinct from social services, and was therefore entirely devoted to general administration and defence services. The benevolent policy of the State towards social welfare, as outlined by Kautilya, laid down that the "King shall always protect the afflicted among the people as a father protects his sons". But the magnitude of expenditure met by the State exchequer, except in times of distress, was an uncertain factor and depended entirely upon the whims of the sovereign and his advisers.

The direct responsibility of the State in respect of certain social services, and chalking out a regular budget for the departments concerned with those social services, was taken up in the British period. Though the beginning was hesitant and halting, the growth of the idea has been steady. It started on account of the famines occurring in different parts of the country, in the days of the East India Company and afterwards. The Orissa famine of 1876-78, the Bihar famine of 1873 and the South India famine of 1876-78, moved the Government of India to accept famine relief as a State responsibility and to frame a code of famine relief. The emphasis on famine relief brought with it agricultural development, the co-operative movement on the lines suggested by Sir Fredrick Nicholson in 1892-93, and public health and medical services to fight epidemics which follow famines. Meanwhile Macaulay pursued vigorously a new educational policy, and schools were brought under State control, and teaching, hitherto voluntary, became a paid job. From these loosely-connected beginnings, the Government gradually ventured into the sphere of social welfare.

The dawn of Independence on 15th August, 1947, brought with it an urge for making India a full-fledged welfare State. The popular swing towards a welfare State received great support from Mahatma Gandhi who propounded the ideals of "Sarvodaya" (social welfare) and Ram-Rajya (Welfare State). The guiding policy of the State, as enunciated in the Directive Principles adopted in the Constitution of the Indian Republic, has been formulated to promote the welfare of the people by securing and protecting a social order in which social, economic and political justice shall prevail in all institutions of national life. This resolution drew attention to the many gaps in India's national life, and has since led to thought on such problems as rural development, land reform, uplift of backward classes, eradication of illiteracy and poverty, social reform, provision for old age and health insurance, protection to the infirm and the destitute, and unemployment relief.

The social and economic conditions in India, of which the chief features are a low national income, illiteracy, unemployment and backwardness, call for huge efforts towards reconstruction, mobilising human efforts, material resources and development finance. But freedom of action is greatly restricted by financial stringency, from which India suffers in common with other under-developed countries. The Government's resources already carry the heavy burdens of the expenditure on security services, foreign relations, river projects State enterprises, civil works, and capital outlays. With capital formation in static conditions, expenditure on welfare projects is not easy. It is not surprising, therefore, that social welfare, however popular, has so far made but limited progress. As Kautilya had observed, "all undertakings ultimately depend upon finance."

The Government of India appointed a Planning Commission to formulate a plan of national development. It was recognised that "the approach to the problem of economic equality and social justice has to be tackled, on the one hand through positive measures intended to level up incomes and economic status, and on the other hand through corrective action in respect of glaring inequalities." Planning in India is motivated by the idea of creating a welfare State, neither on the lines of Russia's controlled economy nor on those of America's capitalist economy. The Planning Commission has made it clear that planning is a continuing process; and therefore one plan, however inadequate for overall requirements, is a forerunner of many other plans. To translate the objectives of development planning for creating a welfare State, therefore, priorities and targets of positive action had to be fixed up, and the financial outlay had to be decided. The first five year plan, which came into force in April, 1951, is based upon a correlated approach to socio-economic development and provides for a capital expenditure of Rs. 2,068.78





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crores. Later, Rs. 175 crores were added to the capital outlay, mainly for the purpose of reducing unemployment.

Thus, slowly but steadily a welfare State is being carved out. Though an overall and well co-ordinated welfare budget is yet to take shape, large expenditure on welfare services, as part of State policy, is being incurred. Money is being devoted to rural development, eradication of illiteracy and ignorance, improvement of health services, labour welfare, uplift of backward classes, rehabilitation of displaced persons, famine relief, protection of the infirm and destitute, and many other social services.

Sources of Welfare Expenditure

(a) Central and State budgets : The State, when it embarks upon development planning for creating a welfare State, is called upon to play an increasing part in providing services for the welfare of the people. The State Budget in that case is expected to set a pattern of, and bring into motion the machinery for, providing these welfare services and paying for it. This may be done by taking over special services of vital importance, to execute special programmes of social welfare, to assist specialised private agencies by financial aid and other guidance, to provide trained personnel for welfare work, and to initiate social legislation.

(b) Local bodies : Local bodies in the administrative machinery are subordinate to the State Government, but they are nearer the public and therefore more important. It is essential for development planning that programmes of local development be conceived and executed as an integrated enterprise, carried out in close co-operation by the State Government and local bodies. But, on the whole, the growth and development of local self-government has in past decades been retarded in the urban areas and neglected in the rural areas, on account of various stresses and strains, so much so that local bodies have not expanded their resources to any great extent, and have found it difficult to maintain the existing level of services. Thus, there is much scope for local bodies to promote welfare services in their areas, to execute local works under co-ordinated welfare programmes, to work in co-operation with the State Government and private social organisations. Local bodies consist of village panchayats; local boards or district boards in the rural areas; and town or municipal committees and corporations in cities. Village panchayats are being revived and are in different stages of formation, so full information about them is not available. Data on the working of municipalities and district boards is being collected by local self-government departments in the States.

(c) Voluntary and private organisations : Much work in the field of social service is being done by private agencies. In fact, without the active co-operation and support of the community, in the field of social welfare, it becomes very difficult for the State to perform its share of responsibility with success. Progress in social welfare, however, cannot be achieved by "doling out" or by "compelling co-operation." An essential feature of democratic planning is that citizens, whether as individuals or as groups, have to share the responsibility and contribute according to their capacity, if not more, and that the State has to enlist public co-operation, whether through positive assistance or through active participation.

India has a glorious tradition of social service rendered on a voluntary basis, and voluntary organisations are carrying on the traditions of service and sacrifice for humanitarian and welfare work. There are more than 10,000 such voluntary organisations, big and small, engaged in various welfare activities in the whole country, though complete information about their activities is not available. Welfare expenditure, on behalf of these voluntary organisations, is met from the funds collected in the form of charitable endowments and trusts, contributions, donations and gifts, in cash or kind, for various welfare and relief purposes. The total amount of this welfare expenditure and its achievements are not known, but are believed to be of a gigantic nature. It has, however, been estimated that Rs. 50 crores are collected every year by voluntary organisations, out of which perhaps more than 50 percent is spent in the course of the year.

(d) Foreign aid : A new opening in the field of social welfare and welfare expenditure has shown up in the form of external assistance. This aid, primarily aimed at the development of under-developed countries, comes either from foreign governments in the shape of grants, loans or technical aid, or from international organisations such as W.H.O., U.N.I.C.E.F., U.N.E.S.C.O., F.A.O., or from foreign institutions like the Ford Foundation for specific programmes of social welfare. It has, however, been emphasised that self-help rather than external assistance should be the basis of development efforts, and that "external assistance is acceptable only if it carries with it no conditions, explicit on

ly the country's ability to take an independent line in international affairs." Foreign aid received from various sources and for various purposes, amounted to Rs. 155.3 crores in the years 1951-52 and 1952-53.

Rural Development

Though it is closer to development efforts than to social services, improvement in village life holds the key to socio-economic welfare because 85 percent of the entire population is living in the villages. Therefore, "go back to the village" should be the basis not only of development planning, but of social welfare also. Plans should pay proper attention to agriculture and irrigation, rural education, health, housing, communications, social welfare, supplementary employment, land reforms and many other problems. The pattern of rural development was suggested by the Grow More Food Enquiry Committee in 1951, though illuminating attempts by many commissions and committees had also been made in the past. The Committee said that "no plan can have any chance of success unless the millions of small farmers in the country accept its objective, share in its making, regard it as their own and are prepared to make the sacrifices necessary for it..... In its turn, agricultural improvement is an integral part of the much wider problem of raising the level of rural life. The economic aspects of village life cannot be detached from the broader social aspects; and agricultural improvement is inextricably linked up with a whole set of social problems."

The committee proposed the establishment of a national extension organisation for intensive rural development in selected places. This recommendation has led to the Community Development Projects and the National Extension Service; the aim is to bring the entire countryside under extensive development schemes within a period of ten years. These new agencies were expected to take help from village panchayats and co-operative societies where they exist and to create them where they do not. The community development programmes are related to and supported by certain projects sponsored under the Indo-American Technical Co-operation Programme and the Ford Foundation. On top of it all, this programme relies upon the voluntary co-operation of the rural population, through cash contributions or active work, so as to revitalise rural life through self-help.

The Government of India, in consultation with State Governments and in co-operation with the U.S. Technical Aid Programme, decided in May, 1952 to launch the programme. Accordingly, 55 projects under the community development programme were inaugurated in various places all over India on 2nd October, 1952. More community

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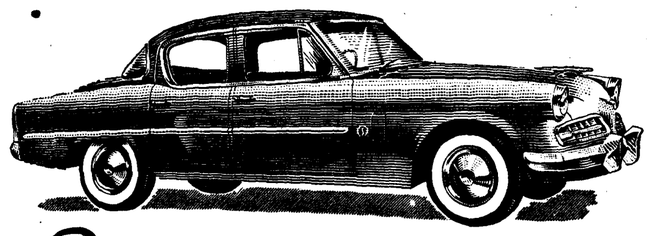
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projects were launched in 1953 and 1954. The National Extension Service was inaugurated in 237 selected blocks on 2nd October, 1953, and more blocks have been added in 1954.

Education

Though India is spending Rs. 115 crores every year on education, the Committee on Ways and Means of Financing Educational Development has estimated that a national system of education, when it comes into full operation, will require an annual expenditure of nearly Rs. 400 crores. This increased expenditure will amply provide for the successful implementation of the Directive of the Constitution that free and compulsory education should be provided for all children up to the age of 14, within ten years of the commencement of the Constitution, along with the provision of secondary education to 20 percent and university education for 10 percent of school-going children. In addition to Rs. 400 crores for direct expenditure on education, Rs. 200 crores will be required for a teachers' training programme. A national educational system will also have to arrange for a building programme costing Rs. 272 crores or even more. Adequate provisions for other educational and creative activities may call for additional expenditure, thereby raising the total capital outlay on education to Rs. 500 crores.

Health

The health of the nation is "a positive state of well-being which promotes the capacity for work and brings adjustment of the individual to his total environments, physical and social." Therefore, health services involve the application of medical science, in preventive and curative directions, for the benefit of the individual and of society. Thus, the policies and programmes of health planning are closely linked up and connected with an integrated programme of social improvement. But the level of health in India, judged from all standards and requirements, is very low. Statistics relating to the expectation of life, level of health as indicated by the death rate, the rate of infantile mortality and maternal mortality, preponderance of epidemic diseases and respiratory diseases, and many other factors show a sorry plight so far as the health of the nation is concerned.

The causes of poor health, and consequently the pattern of health planning and development, have been fully investigated and recommended in the health plan, popularly known as the Bhore Plan, prepared by the Health Survey and Development Committee in 1946. The main causes of this poor state of national health are the absence of hygienic environment, poor nutrition, sub-standard housing conditions, absence of adequate sanitary arrangements, lack of medical care and hospital facilities, inadequate arrangements for prevention of diseases, shortage of trained personnel and meagre attention to health education. Lastly, the availability of financial resources for medical and health services being very limited, the state of health is bound to suffer. The Bhore Plan, which was restricted to British India, suggested that more than Rs. 300 crores would be required to carry out the recommended programmes for safeguarding the health and well-being of the citizens. Under changed conditions, and on account of increasing attention to a national health policy, the total amount to be spent upon a comprehensive health plan may rise above Rs. 600 crores.

Labour Welfare

Though the worker is considered as the principal instrument in the fulfilment of the economic progress and social welfare of the country, the working class in India is suffering from many handicaps and hardships. The first positive guidance towards social security for the working class and a rational labour policy, came from Article 32 of the Constitution which stipulated that "the State shall, within the limits of its economic capacity and development, make effective provision for securing the right to work, to education and public assistance in case of unemployment, old age, sickness, disablement and other cases of undeserved want." The Government, of course, could not afford to let labour problems and labour relations go down the hill, and has of late become alive to the various basic aspects of the labour policy and essential needs of the labour force. The Central Ministry of Labour has made strenuous efforts to reorientate labour policy so as to promote the welfare of the working class by legislative and administrative measures and to create a satisfied and efficient labour force.

Welfare of Backward Classes

Though "backwardness" in a backward or under-developed country has got universal, and not restricted, application, its prevalence in India is found more in certain communities and in certain parts of the country on account of social prejudices



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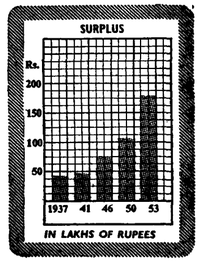
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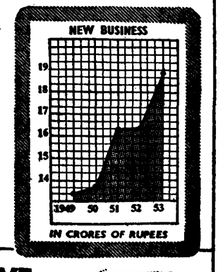
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and economic disabilities imposed by other socially dominant and economically advanced groups. These prejudices have resulted in an ill-balanced social structure, whereby the under-privileged and backward classes, which include scheduled tribes, scheduled castes, criminal tribes and other backward communities, have been relegated virtually to a position of "lower-class citizens". The Constitution made special provisions for the uplift and welfare of backward classes which, according to the 1951 census, numbered 704 lakhs, the total population of scheduled tribes being 191 lakhs and the scheduled castes 504 lakhs. A Backward Classes Commission has been appointed to study the problem and recommend a composite plan for uplift. It has been, furthermore, recognised that special programmes of assistance and development are needed so as to enable the backward classes to take full advantage of the new opportunities and to resolve their peculiar difficulties. These programmes, for which the plan provided an outlay of Rs. 28.87 crores, include educational concessions, vocational training schemes, increased provision of social services, and schemes for economic betterment.

Rehabilitation of Displaced Persons

Though the problem of displaced persons from Pakistan who had to move into India in search of shelter is essentially different from the problem of the working classes or backward classes, their rehabilitation in the national life is as urgent and necessary as of the others. The total population of displaced persons in India, as recorded in the 1951 census, is 72.95 lakhs, of which roughly 46.99 lakhs have come from West Pakistan, 25.49 lakhs from East Pakistan and 0.47 lakhs are unspecified. Furthermore, according to rough estimates, about 6.55 lakh displaced persons from East Pakistan are believed to have arrived in India during the post-census period.

The problem of the relief and rehabilitation of this displaced population was, for a newly-formed State, of gigantic proportions and at the same time urgent. Therefore, the Central Government took over the responsibility for the rehabilitation of displaced persons. It must be admitted that commendable work has been done in rehabilitating a population starting from scratch, on which more than Rs. 200 crores have been spent so far. The main requirements of rehabilitation, after movement from Pakistan into India, were accommodation and earning opportunities. For accommodation, various housing schemes, building of new townships, allotment of evacuee houses and housing loans have been sanctioned and executed. For earning opportunities, employment exchanges have helped in placing displaced persons in employment; urban loans have been granted for the resettlement of other persons in trade and industry; and agricultural land has been allotted under rural schemes.

Famine Relief

Famine relief is an emergency service, which may or may not come under social service. But famine conditions have become a regular feature. The area lying between Rohtak in Punjab and Rayalseema in the South often suffers from famine conditions. The first Famine Commission, presided over by Sir Richard Strachey, formed a Famine Code which, after incorporating improvements arising from experience gained in later famines, has been made the basis of the present famine relief policy. As a result of this policy, a permanent fund has been created to provide urgent relief during famines, and State Governments provide regular grants in the budgets to meet relief expenditure.

Other Social Services

A disturbing feature of social conditions is the negligence towards and utter disregard of the various under-privileged and handicapped sections of the society, apart from the backward classes and working classes. Without the uplift and rehabilitation of these individuals and groups, however, the evolution of a welfare State will be lop-sided and the achievement of welfare services far from complete. The scope of work, in this sphere, is far-flung and comprises: (1) Protection to the infirm and the destitute. (2) Rehabilitation of criminals, vagrants and delinquents. (3) Child welfare and youth guidance. (4) Women's welfare, including removal of prostitution and immoral traffic in women. (5) Unemployment relief. (6) Adequate provision of housing to lower income groups. (7) Relief to victims of natural calamities. So far, this work has been done, though on a restricted scale, by private agencies, with or without aid from official quarters. No authoritative and comprehensive evaluation of the targets and achievements of this social work, however, has been undertaken and, therefore, no information is available. But a welfare State cannot afford to keep affairs in such a mess. Therefore, it is high time that a co-ordinated programme, enlisting close co-operation between State agencies and private organisations, is brought into being.

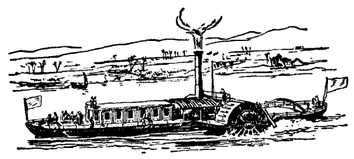


Village potters

To bring the welfare of the people nearer and to raise the standard of living to respectable levels, a sum of nearly Rs. 1,000 crores may have to be spent under a full-fledged and co-ordinated plan for social welfare. For giving a concrete form to social welfare planning and executing the overall welfare plan, it is suggested that: (1) the welfare plan should be separated from other development plans; (2) a Ministry of Social Welfare should be created at the Centre and also in the States; and (3) though it may appear a very bold move, the "social welfare" budget should be separated from the general budget on the lines of the Defence budget and Railway budget.

The financial outlay required for the welfare budget in coming years may tend to become enormous, and its size may perhaps be a handicap. But it should not be forgotten that the need for social welfare is more enormous. It must be emphasised that the ultimate object of the welfare budget is not to spend for benevolence and generosity, but to create conditions in which occasion for the exercise of charity and benevolence is reduced to the minimum and to promote a social climate under which social justice and social security is made available to every citizen not as generosity but as a civic right.

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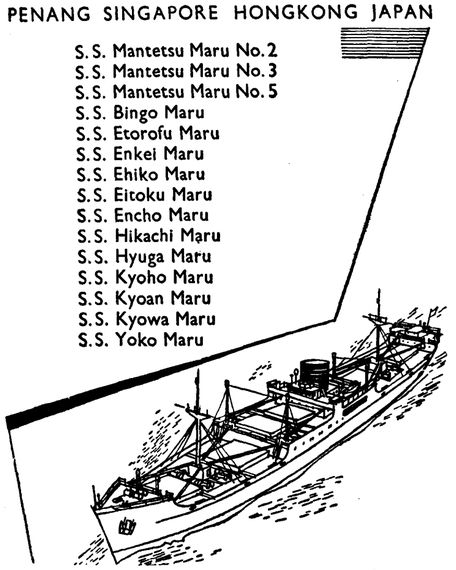
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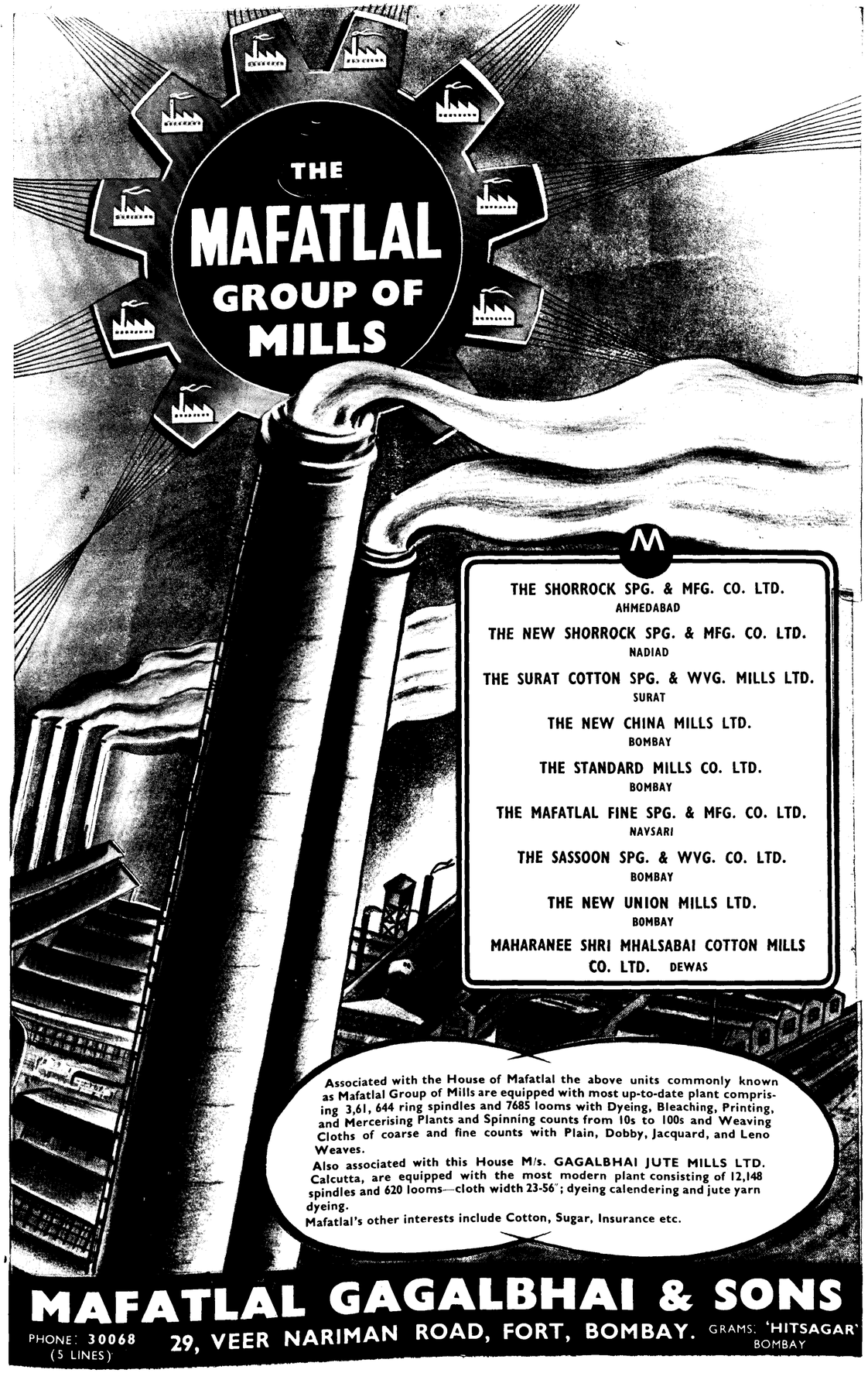
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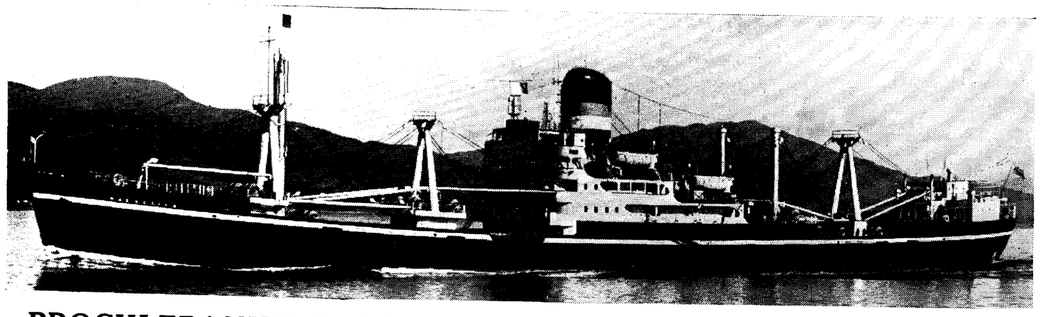
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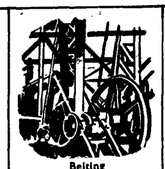
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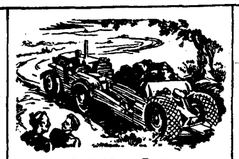
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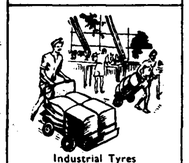

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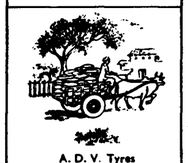

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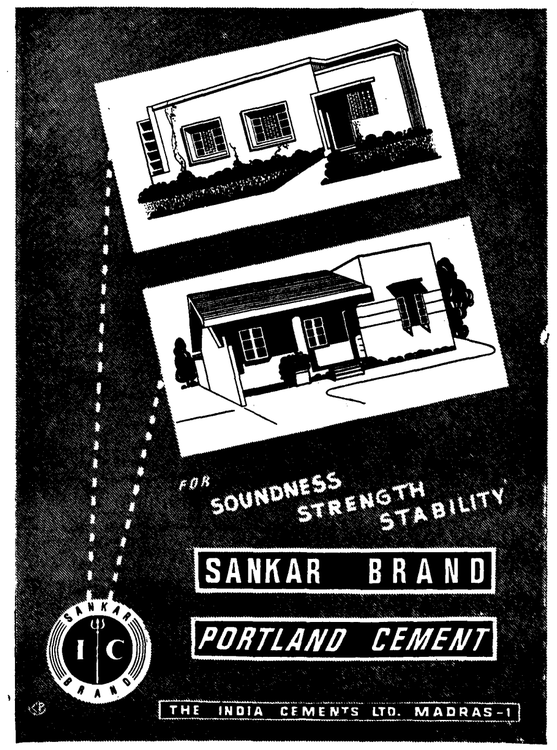
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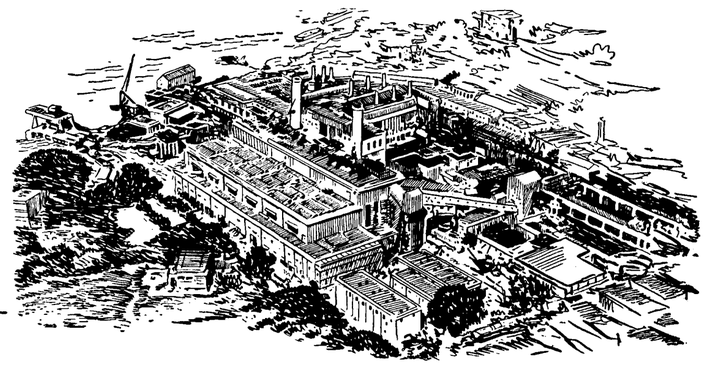
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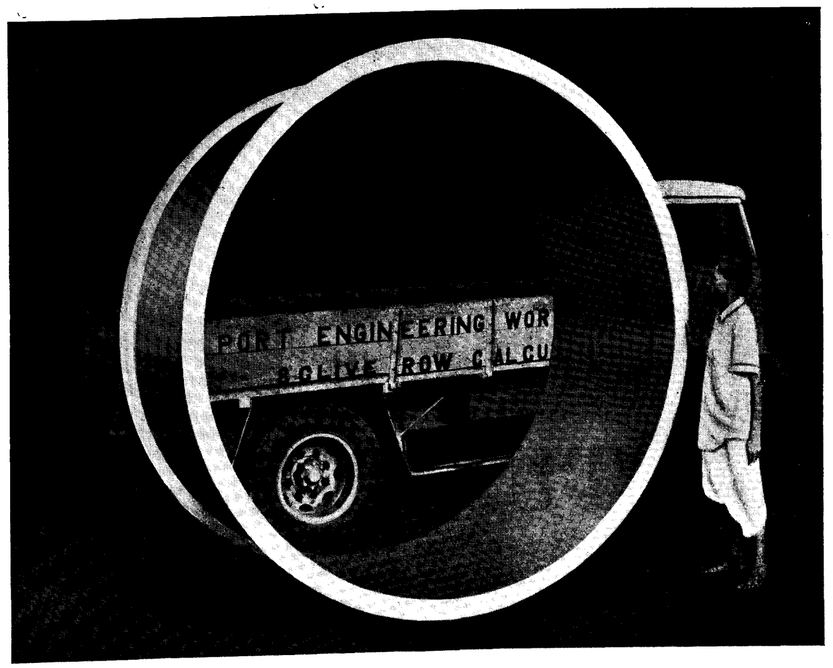
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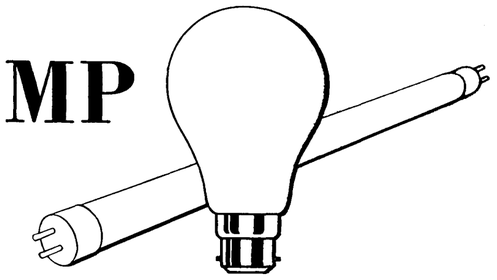
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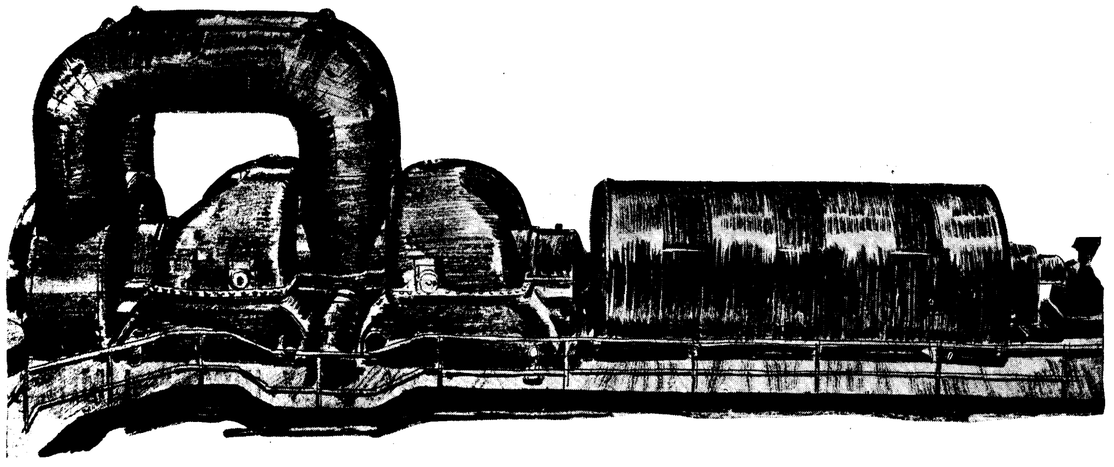
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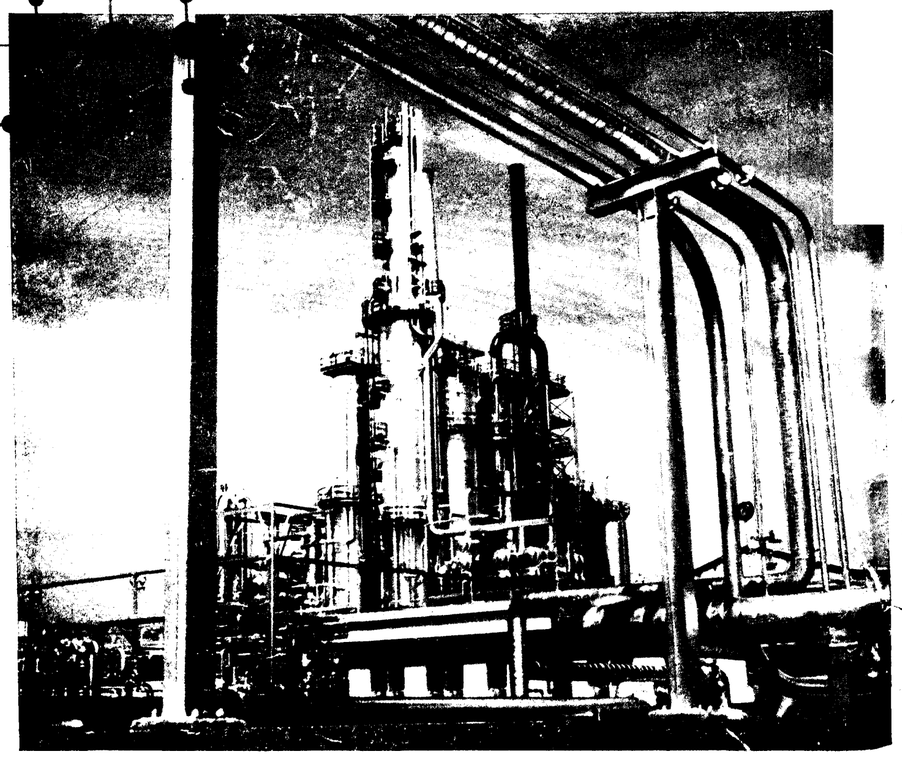
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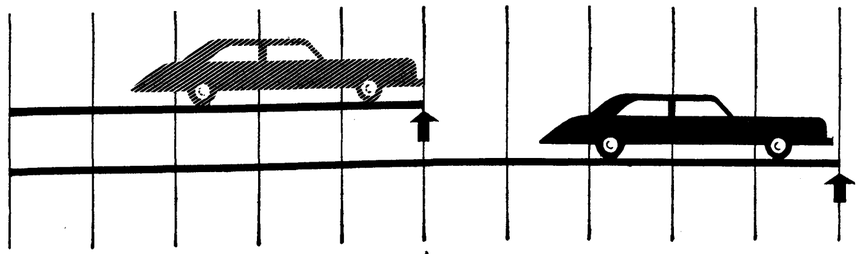
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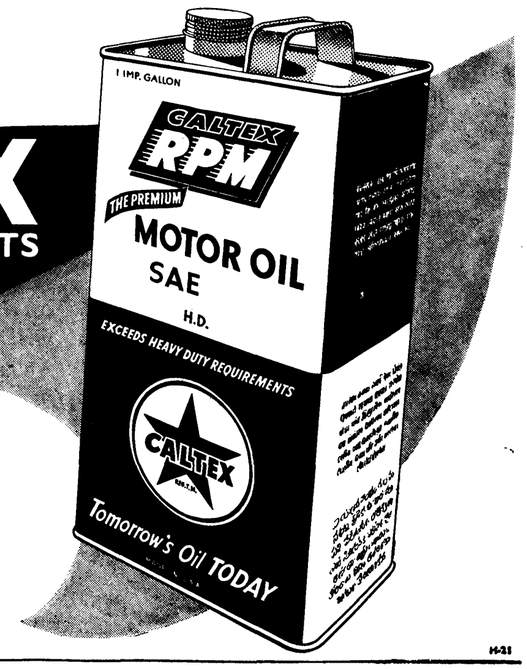
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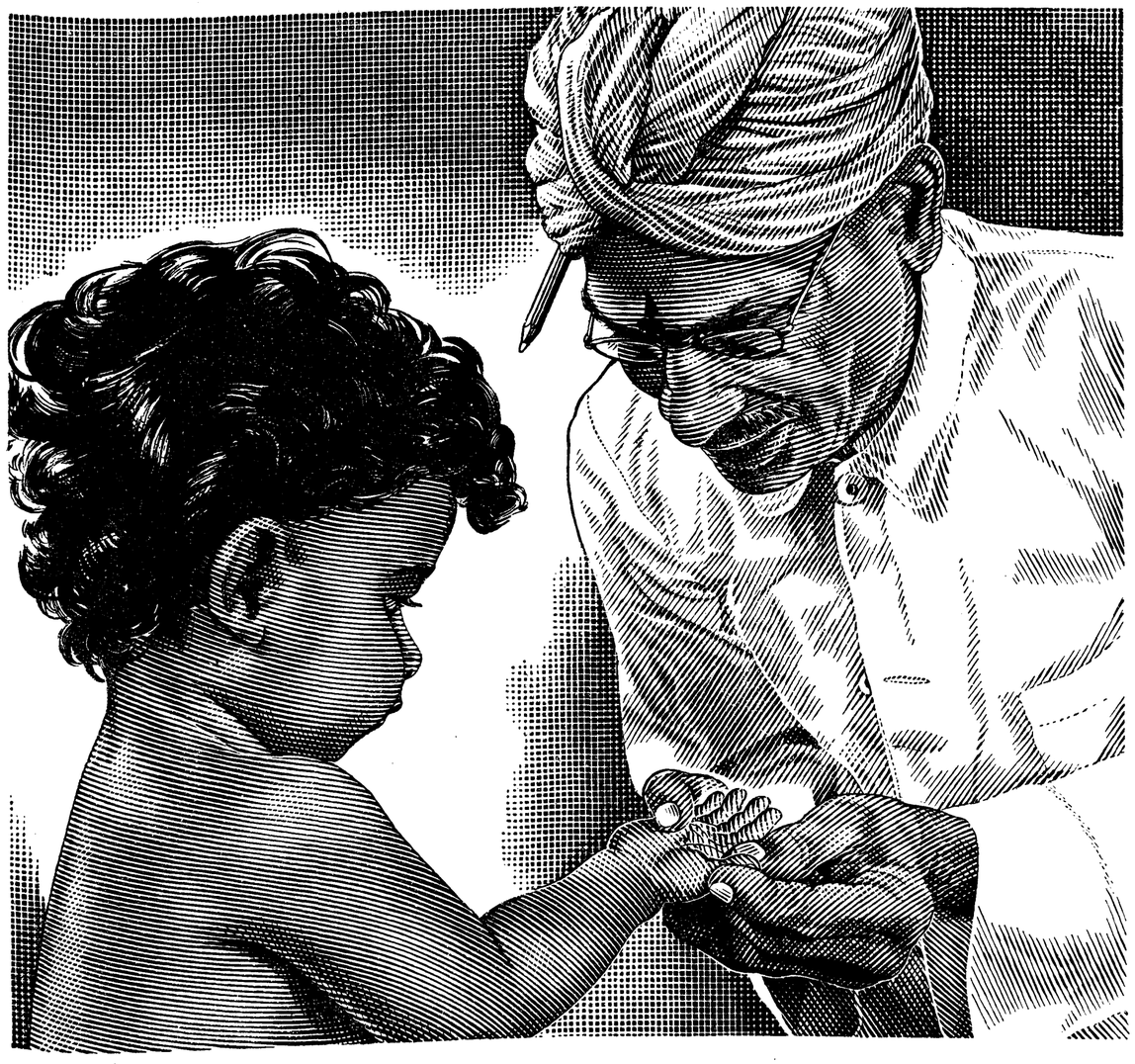
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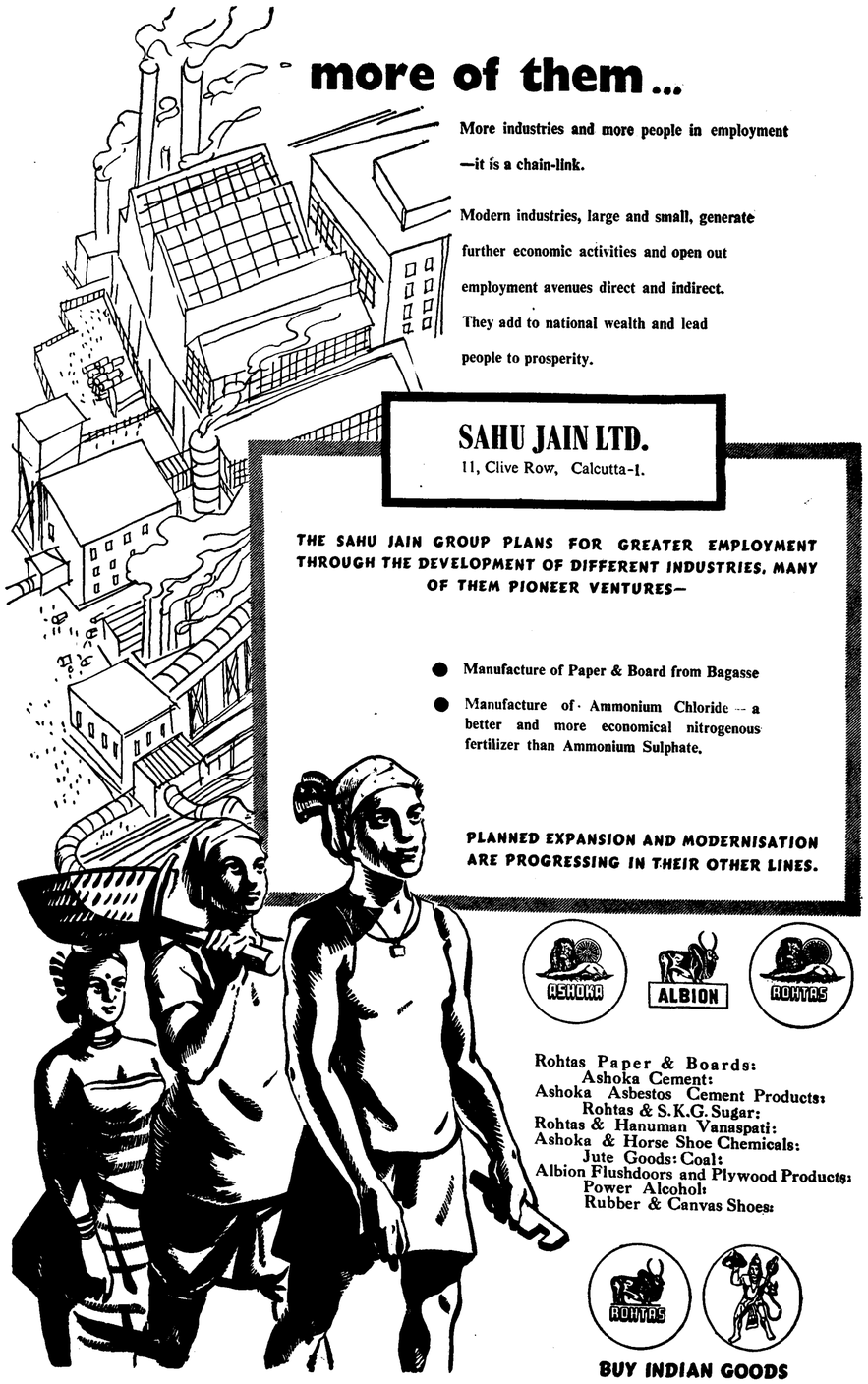
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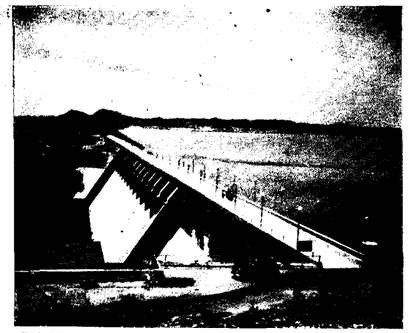
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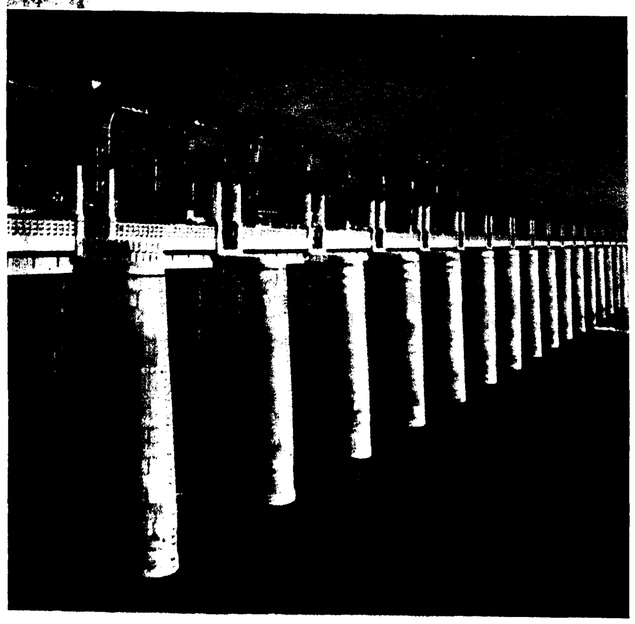
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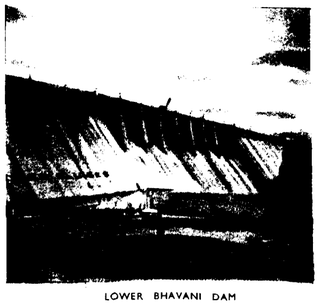


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EDUCATION AND TECHNICAL PROGRESS IN INDIA

● By Dr. THOMAS BALOGH ●

(Fellow of Balliol College, Oxford)

Doctor Thomas Balogh is a world-renowned economist who has often been distinguished for an unconventional approach to the problems of his science. In this article, written specially for Capital's Annual Review, he deals with a matter of fundamental importance to the development of India as a modern industrial nation. His views are the outcome of a recent visit to this country, where he was struck by the inability of the present system of education to meet the calls which are now being made upon it, and which can be expected to multiply with the country's progress. He points out that India's future educational needs cannot be satisfied by a system imported for the purpose of maintaining imperial power, and readily adopted and perpetuated for reasons of temperament and social history. His advice is that it should be replaced by one giving more attention to technical and scientific rather than to humanistic disciplines.

THE second five year plan—whatever the detail-outcome in the current discussions—will impose on Indian society a heavy strain. It will demand abrupt mental adjustments by almost all classes of the population to the requirements of rapid technical progress—apart from the task of extracting substantial contributions from all for the erection of vast capital works. It will demand, in particular, a complete change in the attitude to education and to the selection of that nucleus on the rapid formation of which the success of the experiment so much depends. All those who follow in Britain the endeavour of India—under the unmatched leadership of Mr. Nehru—to achieve by democratic means, maintaining democratic freedoms, what has only been achieved by severe repression in totalitarian countries, must realise the magnitude of this particular task and be determined to help in its execution.

In many ways it is the remnants of British methods and traditions which seem the most difficult obstacle in the way of its achievement. It is easy to evolve commonsense principles for an educational policy in countries on the verge of emerging from a position of primeval poverty. It is easy to say that this policy should be in the closest harmony with the technical and administrative requirements of the rapid development of the country; and that it must create neither an élite apart, hungry for a different life, separated from the main stream of the population, and possibly in desperate inner conflict, nor a mass of unemployed and thus disaffected intellectual proletarians. Yet it is precisely such an unbalance which has tended to be produced by the 19th Century educational structure created by the British in India, to cope with problems completely different from current ones, by completely different methods.

Importance of Civil Service Tradition

The tremendous advantages to India to be derived from the existence of a well-trained, reliable, administrative staff, confident of its powers and capacities, with strong traditions of unity among the bewildering variety of Indian life, can hardly be over-estimated. Nobody who compares the proud record of the Indian Government since the liberation, under unparalleled difficulties, with that of some neighbouring territories, can have the slightest doubt about this. The *esprit de corps* of the I.C.S., and more recently of the I.A.S., was, together with the all-embracing organisation of the Indian Congress, the power which defeated the centrifugal forces of a sectarian or linguistic origin and not merely preserved the State, but launched it on an expansion at home and immensely increased its prestige abroad.

All this has to be stated. But it is equally true that the organisation of the Civil Service—apart from certain central organs such as, for example, the Planning Commission and the economic advisers in the various departments—has remained unchanged and the organisation of recruitment has still to be radically altered. Yet it is obvious that an administrative set-up created to manage an authoritarian State under a Viceroy would be unable suddenly to cope with the problems of a Welfare State dedicated to eliminating unemployment and reversing the fatal trend towards declining incomes by conscious and purposive action. State guidance and State initiative are implicitly the basis and core of all further plans for social and economic development.

Whatever the final shape of the second five year plan it is certain that it will need for its success an attitude on the part of the administration wholly different from that of the old régime. If the proposals for a territorial reorganisation of the States are accepted the rôle of the Civil Service in preserving the fabric will increase further. Yet with some conspicuous exceptions (of which the Delhi School of Economics, where I gave some lectures at the beginning of this year, is a notable example) the ways of administrative recruitment and of higher education are singularly ill-fitted for that task. While the Indian Government has taken action to remedy some of the deficiencies that action is, as yet, hardly commensurate with the needs created by the coming plan.

Impact of the old Universities

It must be admitted that the problem is a formidable one. Liberation left India with a lopsided system of education. The outcome of the imposition on India of British institutions and methods even then was unsuited to her needs. University and civil service reform in Britain in the middle of last century was animated by the wish to secure intelligent, honest and devoted servants to a largely negative State. The effortless superiority on which that special mysterious art, administrative capacity, was said to depend and which was demanded uniquely from the service, was then thought to be best obtained by a judicious mixture of breeding, character, and purposefully useless, somewhat dilettanté, erudition. All this could best be procured by selecting the subject from among a mainly well-to-do élite. The "plebs" were ruled out by maintaining very costly social standards at the universities. A formal education which developed dialectical powers rather than knowledge of the world and its problems. and severely discriminated against vocational training and technical knowledge. was a second essential ingredient of this scheme. Finally, physical courage combined with intellectual conformity was fostered through games.

This combination of Arnoldesque muscular Christianity with the feudal traditions of the old universities was then transferred to India, the first of the colonies to be made fit for self-government by an increasing "Indianisation" of the Civil Service. When the clamour for the extension of educational facilities at home led first to the rise of London University and then to that of "Redbrick", these additions were also translated to India.

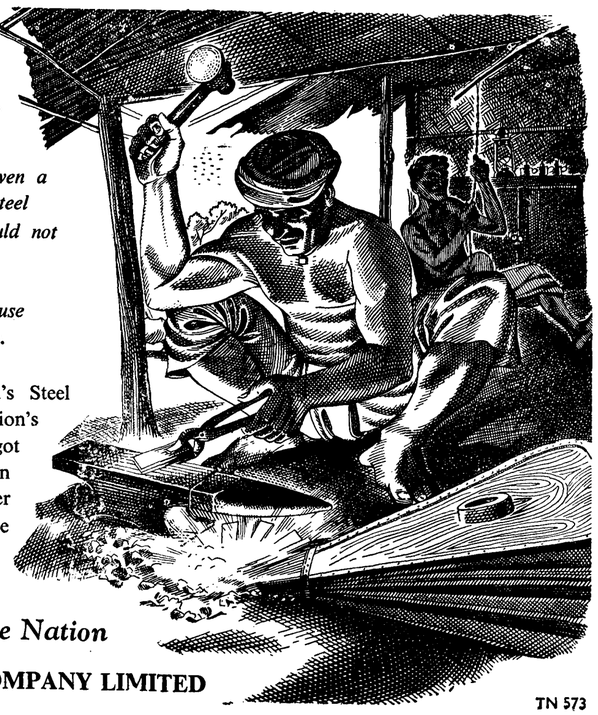
The system undoubtedly served Britain well, though not quite as well as some wish to pretend. (It has had something to do with the terrible political and economic failures since 1914.) At any rate, Britain knew of no other intimately. It was all, it seems, it could give. It was not apparently realised, even after 1945, that this predominantly



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humanist and dilettanté approach presupposed a certain social and economic background and could work only within the limits of that background. So long as no positive duties devolved on the State, so long as it was sufficient to keep things about where they had been and not interfere too much with "other people's" business, no obvious deficiency arose. But this was quite plainly not the case in India even before 1914.

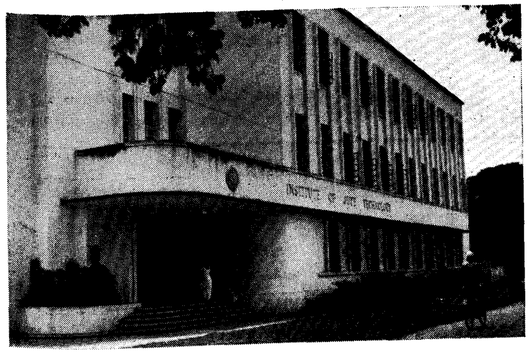
Negative Education and Positive Tasks

The imperial power failed to protect its dependencies from the damaging influence emanating from modern economic systems (and often—*e.g.* in Burma—even economically deleterious effects) acting on traditional social systems. It can, of course, be argued that, except perhaps for Japan, no conscious action had up to then ever been taken to transform a community and its techniques and make it fit to take the impact of modern life with its corrosion of traditional social arrangements. But this innocence could no longer be pleaded after 1920 when, perversely enough, the Whiggish approach made its greatest spurt into the educational void of the British colonies. Indeed it was, or ought to have been, obvious that international inequality was increasing and that the growth of population was threatening to overwhelm the under-developed areas and depress their already hopelessly inadequate physical standards. Nor was the assumption that university graduates would automatically be absorbed by a dynamically expanding economy at all sensible or even legitimate for India, or indeed, any of the other areas. The failure to integrate education with administration and to provide equal social status once the educational ladder had been provided, was the third vital social question to which little, if any, attention was paid.

Despite these basic weaknesses (or perhaps because of them—they were much in the bureau-aristocratic tradition of the East) this system took root with astonishing vigour in India. There can be no doubt that in fostering national consciousness, it contributed powerfully to the undermining of British authority. This is perhaps one of the reasons why even liberation did not result in a root and branch reform. The fact that the old university system can help little in solving the problems of the 20th Century India and might—through Communist inflation—do grave damage to the new Republic does not seem to be altogether appreciated, or at least vigorously acted upon. Yet so influential and keen an observer as Professor Mahalanobis of the Indian Institute of Statistics, notes in his draft recommendations for the second plan, that even the more modest first five year plan cannot be achieved because of "Inadequate administrative organisation and the lack of sufficient facilities to give training to technical personnel". If this was the case during the first five year plan. which has been found, by an all but unanimous public opinion, insufficient to deal with India's basic problems of poverty and unemployment, how much less adequate will it be in the second period, which represents almost a doubling of the effort.



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Educational Expansion Insufficient

Remedial action has been sought in establishing many more technical schools and extending scientific training. The magnitude of the task can be imagined if one reflects that even after some years of strenuous efforts the number taking vocational and technical education was still woefully short of requirements. The terrible unbalance between "arts" and the "rest" remains. There are hundreds of thousands of students of the "classic" type, including law, for the thousands, or at most tens of thousands, in technical colleges and training schools. But a mere quantitative expansion of training or educational facilities is in my opinion not sufficient. *There must be a change in the attitude to education and to the selection of personnel.* This will be far more difficult.

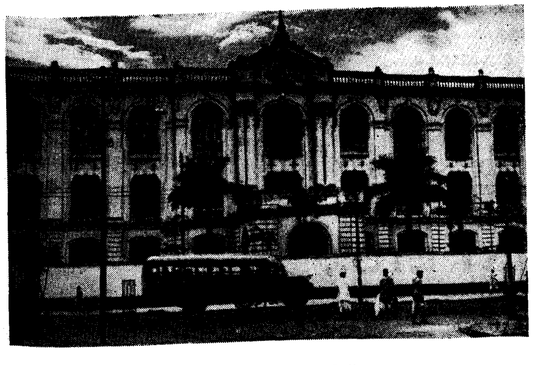
The pattern of Indian society, the importance attached to classical learning and dialectical powers rather than a knowledge of the actual world and its technical requirements, made India an eager recipient of the precepts of the "Oxbridge" (Oxford-Cambridge) educationist. The easy victory of this attitude over the appreciation of detailed technical knowledge gave a material stimulus to this distortion of India's educational system. Not for nothing are the high-class products of the educational methods of St. Stephen's College in Delhi still dominant among the recruits to the Higher Civil Service, and thus in society. They are becoming the new élite, all-powerful in the State. The business technicians, the managers and also the eager reformers of the Planning Commission, with their practical knowledge of modern affairs, are severely kept to their place. The latter are often not even "established" in the high administration. This imparts a basic weakness to vital links of society and of the bureaucracy. The system discourages what it ought to stimulate.

Can one be astonished that the whole character of education and the methods and subjects of teaching become conditioned by the patently best way to success in the professions and the State service? Even in the arts nearest to actual life, say economics, there is an insidious tendency to encourage an abstract "pure" theoretical approach unrelated to the history or the present realities of the life of the country. Indeed this attitude threatens even in science to lead to a preference for "pure theory". A good deal of money is even now being spent on institutions whose task is not primarily the solution of the country's special scientific problems.

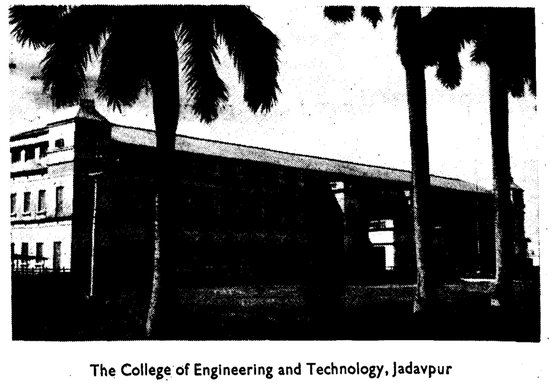
The Cost of Failure

This type of "Oxbridge" education can help little relatively to its cost in solving India's basic problem—even when it is successful in producing clever candidates. When it fails and in the case of the larger universities it often does fail, the consequence is even more disquieting. A large number of the graduates turned out seem unable to find employment anywhere. Yet what an important and inspiring rôle they could fulfil, going out into the rural areas and spreading literary and technical knowledge. But their background and education is of little use for that vital task.

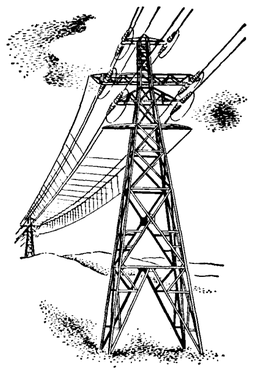
There is the obverse of this picture and one which is hardly less serious. Despite the determined efforts of the Planning Commission there is as yet little demand for helpers even if they were available. There are only 6,000 "village level" workers—and over 500,000 villages. And perhaps the sharpest condemnation of the old British system is implicit in the lamentable fact that in a coun-



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try of over 360 millions where between 75 percent and 80 percent of the population depends on agriculture, only 3,600 received higher education for its improvement in the year after liberation. No doubt much has changed since—but it is astonishing that even now far from all successful agronomic candidates find employment, while Indian methods of production and crop yields remain distressingly low.

There must be a double attack on this deadlock not only from the supply side of technicians but also from the demand. Only thus can the industrial and rural conditions for a rapid technical advance be met—the right personnel found and trained in the right way. If there is no prestige attached, and no possibility of a rise to the highest position in the technical services, neither the numbers nor the quality will be found.

The system of the British Civil Service Commission was taken over to safeguard what was rightly felt to be an important asset in securing administrative competence and integrity, and freedom from those illicit bureaucratic practices which hamper the development of so many poor countries in all parts of the world. But while this guaranteed some freedom from nepotism it also perpetuated the old order of things in the highest sphere—there is no surer way to success in India than through the Civil Service.

The Urgency of the Task

No doubt if India had time the relentless and seemingly inexhaustible enthusiasm of the reformers in high office—and Mr. Nehru is only the most notable—would in the end break or bend the system and bring to full fruition what, at the moment, appears a still insufficient development. Unfortunately, there is no time. The first five year plan, with its great success both on the agricultural and industrial front, has not been able to arrest the increase in unemployment, and there still is widespread distress, even though average real income has increased quite considerably. A decisive success in the next five years seems to depend on a new attitude of mind—not so much in the Centre, where immense strides have been made, and first-class experts are available—as on the periphery, in the States and Districts, at the vital link between planning and execution.

Greater Flexibility Needed

Much would be gained by introducing greater flexibility into Civil Service recruitment and especially permitting a smooth promotion from the technical into the "political" service. Once the taint of inferiority, so damaging in India, is removed, talent will be available in the non-classical sphere. This is a primordial condition of success.

The second requirement—related to the first—is a determined effort to concentrate energy on producing a sufficient number of technicians and teachers willing to go into the villages and transform village life by becoming part of it. The co-existence of a vast number of unemployed and unemployable intellectuals in the cities when there is crying need for people to care for the neglected masses of the countryside is one of the more distressing aspects of contemporary India.

Foreign Help

The third requirement is the speeding up of the expansion and intensification of technical education. It is difficult to see how this can be managed without foreign help. A sufficient number of teachers is not available (especially as potential teachers are also urgently needed as administrators on the development schemes). A much extended and State financed two-way approach seems required. Foreign experts must be invited and young men sent abroad. Scholarships should, however, be given on the condition only that the recipients will master certain urgently-needed techniques and will put them at the disposal of the community after their return. Too many external students now seem to be able to waste their time abroad.

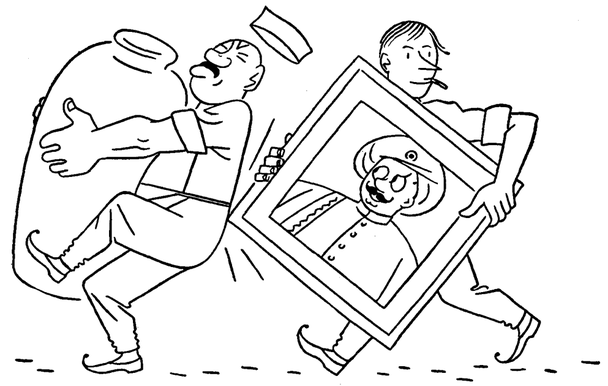
None of these tasks is easy. The dead weight of tradition is a greater obstacle. There can be no doubt however that the ruthless challenge of Communism with its frightening and all-persuasive drive towards literacy as a basis of indoctrination and technical training, cannot be met without a break with the past and its prejudices. India has already set an example by changing from the economic laissez-faire of the last phase of the British régime by initiating the five year plans on a democratic basis, preserving democratic freedoms. She has charted a new course that will decide the fate of a far larger area than herself. She must buttress it by reforms in the field of education, especially in the technical field. Britain on her side ought to do her utmost to help in this immense task.

New targets and new methods are needed, and there is not much time to lose.

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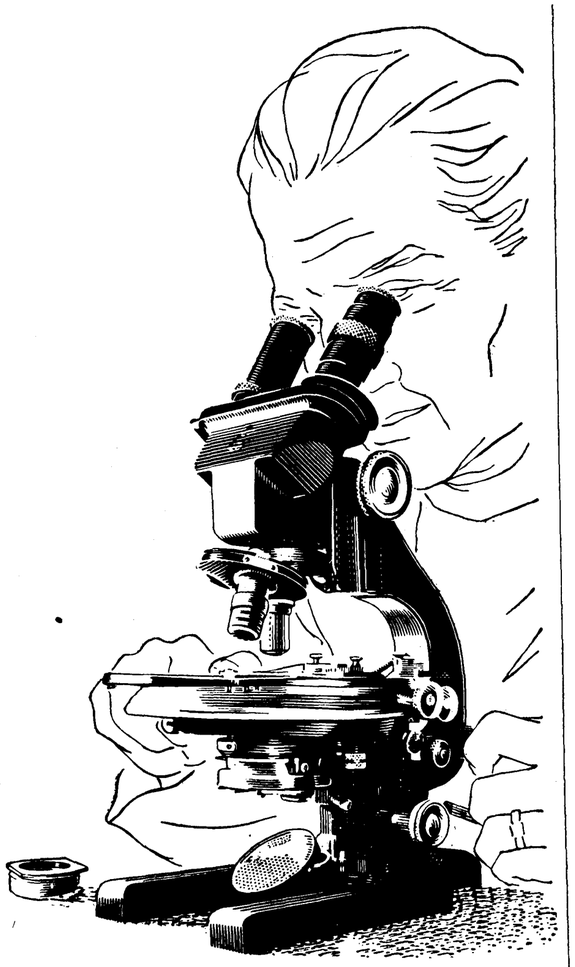
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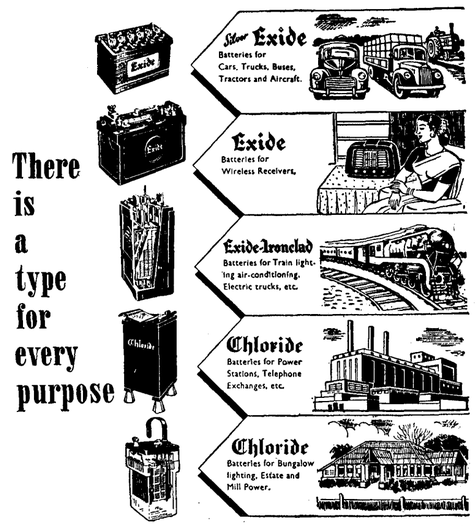
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SOME REFLECTIONS ON THE PLAN-FRAME

HIGH HOPES FOR SAVINGS

• By PROFESSOR C. N. VAKIL •

THE second five year plan is the basic theme of economic discussion in India today. It is expected that the Planning Commission will issue a draft plan soon. Discussion has hitherto centred on the plan-frame, the broad objective of which is to double the rate of growth of national income a year during the second plan period. At present the rate of growth of national income a year is estimated at about 2½ percent; it is expected to go up to 5 percent a year under the second plan. The doubling of the rate of growth of national income is sought to be brought about by two sets of measures. It is assumed that the ratio of savings to national income will go up from the current rate of about 7 percent a year to about 11 percent a year by the end of the second plan. In other words, the rate of savings is expected to be increased by about 60 percent. It is sought to encourage the development of household and small industries, in which production of goods would involve a low ratio of capital to net output. In order to expand the productive capacity of the economy, it is sought to emphasise heavy industries in the pattern of investment outlay. Thus, on the one hand, the plan would be shifting the emphasis towards industries which are highly capital-intensive and simultaneously towards industries with low capital intensity. The strategy is to divert towards heavy industries a portion of the resources which would tend to be utilised for the expansion of output from the mechanised consumer goods units and, at the same time, the expansion of consumer goods is to be brought about by the encouragement of small-scale and cottage units.

The Problem of Finance

The plan-frame does not outline in detail the requisite policy measures that would follow as a corollary of the above programme though the Memorandum by the Panel of Economists has devoted some attention to this. Nor has the plan-frame examined the extent to which different parts of the strategy are internally consistent. Perhaps, the most serious deficiency is that no measures are suggested by which it would be possible to increase the rate of savings. As no clear lead on any of these issues has been given, what has come about is a somewhat confused discussion of the plan-frame. As the financial problem, i.e. the stepping up of, or the ability to procure, the required volume of resources, is the crux of the whole issue, naturally the authorities who have to tackle the problem at the highest level appear to be somewhat worried. To them, no doubt, the targets of the plan-frame are praiseworthy. Perhaps, they are also capable of achievement. But all this is on the assumption that it will be possible to step up the proportion of resources flowing towards the fiscal authorities. The recommendations of the Taxation Enquiry Commission are not very helpful in this context, because these recommendations had the first five year plan and the strategy contained therein as the possible lines of attack on the problem of future economic development. It may be noted that the Taxation Enquiry Commission is strongly in favour of increasing the rate of indirect taxation. It did not visualise the possibility that an important objective of the strategy of the second plan would be to restrict the growth of organised consumer goods industries more or less to present levels. As the price of the products of cottage and small-scale units would tend to be relatively higher than those of factory-made consumer goods, additional taxation would tend to involve additional burdens on the consuming public. The Taxation Enquiry Commission recommended indirect taxation on goods consumed by the masses, so the additional burden would fall on the common man. The administrative problem is more serious. Even assuming that the additional taxation would cover the products of household and small-scale industries, the gigantic problem of tax collection from numerous small-scale producers will baffle the administration. At the same time, the Taxation Enquiry Commission was strongly against heavy deficit financing. But within less than a year, the plan-frame announced a target of about Rs. 1,000 crores as the possible limit of deficit financing during the second plan period.

A Rise in the Marginal Savings Rate

Assuming at this stage that the strategy of the second plan is accepted, the question is how to provide the resources to fulfil the needs of the strategy. What the plan-frame visualises is a rise in the rate of growth of per capita income as a result of which it should be possible to raise the marginal savings ratio. The additional resources, it is argued, will flow from the increase in incomes. In the first place, it is assumed that it does not matter if each income receiver has to contribute to the exchequer a higher proportion of his income. In the second place, it is maintained that administrative arrangements could somehow be made to collect resources if the principle is accepted.

But when one settles down to the practical problem of how to mobilise resources, a number of difficulties crop up. Studies on national income and savings during the last few years indicate that at best only a constant proportion of resources is being saved. It is also reflected in a constant proportion of the share of the fiscal authorities in the total national income. National income has been rising during the past few years. Estimates indicate that it has risen by about 12.2 percent in the four-year period between 1950-51 to 1953-54. The annual rate of growth of national income works out on an average to 3 percent a year. A detailed study of these figures indicates that it is the agricultural sector that has benefited most from the rise in incomes. What is, however, disturbing is that incomes might rise without any perceptible effect on savings. The ratio of savings to national income has no automatic tendency to rise. The governmental authorities who might have been hoping for increased tax and other resources as a result of the rise in income have been disappointed. It has also been found that the different additional tax measures recommended in the first five year plan could not be imposed for a number of reasons. This indicates that a substantial proportion of the rise in incomes must have been reflected in the form of a rise in consumption standards and in the provision made for stocks. If the average standard of living is fairly low, most of the marginal increment of income would tend to be utilised to raise consumption—other conditions being unchanged. This appears to have been the case in regard to the agricultural sector. In the same context, it has been found that there has been some rise in the real wages of workers in organised factories. Between 1948 and 1954, real wages appear to have risen by about one-third. Thus the increase in incomes has been utilised to raise living standards, however small the rise may have been. This is also indicated by the increasing significance of the problem of unemployment. Net investment has not been rising with the rise in incomes. Besides, the value of machinery imports has been declining as compared to the trend a few years earlier. The fundamental question therefore is whether it is possible to devise the right fiscal measures in order to step up the ratio of savings to national income.

Income Growth Related to Capital Formation

It may be argued that what is sought to be brought about is a gradual rise in the savings ratio from about 7 percent to 11 percent. The burden will not be felt so much because incomes would be gradually rising. But a rise in the rate of growth of income is not an automatic process. It results from a rise in the ratio of savings to national income. Income is mainly the result of capital formation. There is no hen and egg problem. Unless a discontinuous rise in the savings ratio takes place, incomes will not be lifted upwards and the rate of growth will not be raised. When one looks more closely at the plan-frame, one finds that it implies the expansion of income as well as of employment. The question is how income per worker would rise, if most of the additional incomes are utilised in the form of payments to new workers or of additional payments to under-employed workers. The ratio of savings to income among workers is low or negligible.

Productivity and Savings

What is amazing is that a substantial portion of the increased employment is to be in fields where net output per worker is expected to be very low. In other words, additional output in the economy as envisaged in the plan-frame does involve a reduction in the marginal net product per worker. Hence, as for given increments of output more employment is now considered to be necessary than would have been the case otherwise, the savings effected out of the additional incomes would be negligible. What is sought to be brought about in the Indian economy is an unusual method of economic progress. As much encouragement as possible is being provided for the development of inefficient productive units. It is not realised that savings as a proportion of income would tend to rise only when the output of goods expands more than proportionately to additional doses of employment in the manufacture of the required outputs. The terms "productivity" and "production" appear to have been used synonymously. This is incorrect. Other conditions being given, when there is a rise in productivity, it should be possible to release more resources for other fields. If production expands proportionately to employment, the same unit of resources a worker as was available otherwise would be available for diversion to other fields. But the consequences of the measures suggested in the plan-frame are likely to bring about a shift in the methods of production from those which are more productive to those which are not so. The postulated gain in employment in this context is achieved at the cost of a possible rise in the ratio of savings to national income. Anyway, accepting the different parts of the current strategy, it is difficult to envisage how it would be possible to bring about an initial spurt in the savings ratio. If this is not done, we must conclude that we cannot achieve the targets of the plan.[1]

Finance is crucial to the fulfilment of targets. We cannot build heavy industries unless we are able to procure the resources. It has been claimed that we do not require substantial outside assistance in order to fulfil the second plan. The plan-frame is said to have indicated how the rate of growth can be stepped up without the economy being made dependent on outside resources for savings. Such claims are not justifiable. It has also been argued that the plan-frame would not imply any reduction in current consumption standards. Our arguments have so far accepted this assumption. It may be possible, however, to step up the proportion of savings to national income provided some measure of forced savings is introduced. If we do not realise this factor immediately, we shall be forced to do so at a later stage. All that the plan-frame tells us is that a higher rate of capital formation is possible in the economy if we have a higher rate of savings. Surprisingly enough, the most important item of savings on which accepted economic thought dealing with economic development has laid emphasis, i.e., a rise in productivity, is generally ignored in the plan. In fact a policy opposite to that prescribed by economic experience and economic knowledge is sought to be utilised. Even then, it is not clear how the ratio of savings could be raised.

Conclusion

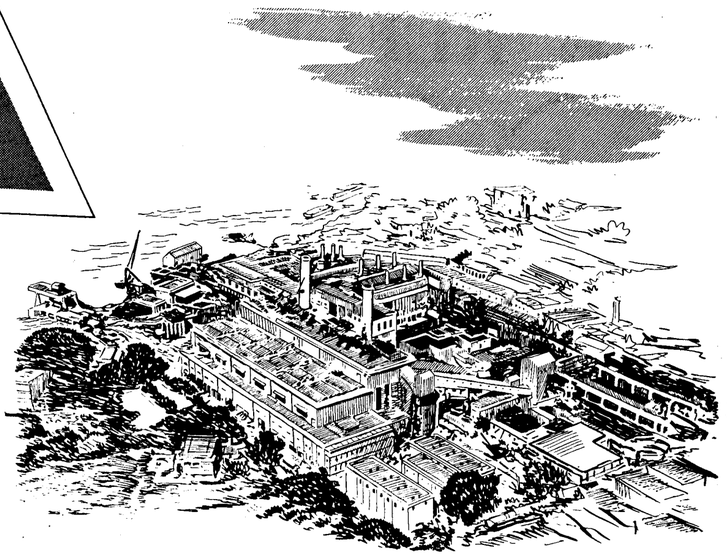
In sum, the plan-frame is intended to achieve the following:

(i) The rate of growth of national income is to be doubled.

(Continued on page 123)

1. I am indebted to my colleague, Dr. P. R. Brahmanand, for considerable help in writing this article.

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DIVIDEND TRENDS IN INDIAN JOINT STOCK ENTERPRISE

PRODUCTION UP, YIELDS DOWN

● By P. C. JAIN ●

(Reader in Economics, University of Allahabad)

THERE has been a remarkable increase in India's industrial production in recent years. The general index of industrial production has increased from 97.2 in 1947 and 105 in 1950 to 146.6 in 1954 and 166.7 in April, 1955. The increase in output has taken place not only through the installation of new capacity but by utilising the existing capacity more fully so that a larger number of factories than ever in the past are now working nearer full capacity. This could have been expected to increase the earning capacity and consequently the rate of dividends declared by Indian joint stock enterprise. But, unfortunately, this has not happened. In 1954, cotton textiles, jute mills, engineering and metal works, coal mines, sugar factories, the tea industry and paper mills declared an average dividend of 12.34 percent, 9.29 percent, 13.29 percent, 11.31 percent, 10.92 percent, 37.31 percent, and 12.32 percent respectively as against the corresponding figures of 11.28 percent, 9.61 percent, 13.49 percent, 12.46 percent. 11.91 percent, 19.05 percent and 13.21 percent in 1953 and 13.12 percent, 15.02 percent, 15.87 percent, 10.14 percent, 16.37 percent, 17.03 percent and 11.25 percent in 1948.* It can thus be seen that, as between 1948 and 1954, there has been a deterioration in the case of cotton mills, jute mills, engineering and metal works and sugar industry while there has been an improvement in the case of coal, tea and paper industries. The year 1954 has been one of exceptional boom for the tea industry and it recorded a very high average rate of dividend, but the improvement in the case of coal, tea and paper has only been moderate.

Lower Dividend Trends

In spite of an increase in industrial production in 1954 the average rates of dividend declared by Indian joint stock enterprise, except the tea industry, have been lower than the highest dividends** in the past: cotton and paper mills declared the highest dividend of 27.03 and 16.56 percent respectively in 1942, sugar mills 14.80 percent in 1944, coal, engineering and metal works, jute mills and tea industry 15.96 percent, 16.66 percent, 19.66 percent, 31.46 percent respectively in 1946.

In 1954, the first three places for having declared the highest dividends were occupied by tea, engineering and cotton textile companies as against tea, engineering and paper companies in 1953, tea, coal, and engineering companies in 1948, cotton textile, tea and paper companies in 1942. This shows that (a) the tendency for the old established industries in the country such as cotton textiles, jute manufacturing and paper to yield place to newer industries still continues although the cotton textile industry has improved its position and has gained the third place in 1954 as against the first in 1942; (b) the tea industry is unique in so far as it has successfully maintained a high place in spite of many difficulties; and (c) engineering companies are making frantic efforts to secure the first place.

There is no doubt that in 1954 there has been a marked improvement in the profit-earning capacity of Indian joint stock enterprise in relation to the low levels touched in the past. But even now (a) a fairly large proportion of joint stock companies are not in a position to declare any dividend whatsoever, and (b) the number of companies which have declared a dividend of more than 40 percent is smaller than in the past. In 1953 and 1954 only 4 and 37 tea companies respectively declared a dividend of more than 40 percent as against one jute mill, one paper mill, four cotton mills and 17 tea companies in 1946.

* See *Capital Annual Review*, dated 21st December, 1950, pp. 63-66.

** See *Capital Supplement*. dated 20th January, 1944, pp. 63-64 and *Capital Diamond Jubilee Number*, dated 16th December, 1948, pp. 53-57.

The profit-earning capacity of a company depends on the margin between its costs of production and the net sale proceeds realised for its production. During the war and the immediate postwar period there was in India, as in the other countries, a sellers' market and the high costs of production did not matter so much. But since then the sellers' market has given place to a buyers' market with the consequence that the prices of most goods produced by Indian industry have fallen while the costs of production have proved rigid owing to an inflexible wage structure, high taxation and worn-out and old machinery in most Indian factories. It is unfortunate that the Government does not seem to realise that the high taxation in various shapes and the high labour costs imposed on industry by its policy have resulted in increasing the costs of production while the price level has declined. It is this fact, above all, that has kept the profit-earning capacity of Indian industry low.

Textile Industries

The output of cotton piecegoods has increased from 3,651 million yards in 1950 to 4,891 million yards in 1953 and 4,998 million yards in 1954 while, over this period, the output of yarn has increased from 1,175 million to 1,505 million and 1,562 million lbs. The supply of raw material has increased and there is a greater demand for yarn and cotton piecegoods both in India and abroad. Moreover, while the index number of wholesale prices of yarn and textiles has improved from 432 and 400 respectively in December 1953 to 433 and 418 in December 1954 the index of raw cotton prices has increased only by a smaller margin from 451 to 454. This should have been expected to increase the average rate of dividends declared by cotton textile mills. But although there has been an improvement in the average rate of dividend from 11.28 percent in 1953 to 12.34 percent in 1954 the improvement is not commensurate with increased production and a relatively greater rise in the prices of textiles and yarn than in raw cotton as the industry continued to be handicapped by high labour costs, excessive taxation and high manufacturing costs due to worn-out machinery in most units.

In 1955 the output of cotton piecegoods is expected to exceed 5,000 million yards, but the prospects for the future are not particularly bright as it is expected that in their misguided zeal to protect the handloom industry the Government will impose a ceiling of 5,000 million yards on cotton piecegoods output to help the handloom producers. There is no doubt that the economic condition of the handloom producers deserves to be improved, but it would be like killing the goose which lays the golden egg if it is done at the cost of the mill industry.

The jute mill industry is faced with much greater difficulties. The output of jute manufactures has declined from 0.95 million tons in 1952 to 0.89 million tons in 1953 and to 0.83 million tons in 1954. Although the output in 1955 is expected to be larger, the difficulties of the jute industry are likely to continue. Added to the difficulty of getting adequate supplies of raw jute at competitive prices is the problem of facing keener competition from Pakistani, Dundee, Continental, Japanese and possibly Turkish and Philippine jute mills. The devaluation of the Pakistani rupee has not resulted in reducing the prices of Pakistani jute to the Indian mills and, in spite of the withdrawal of the export duty on Indian jute manufactures, the incidence of taxation and wages on the Indian jute mill industry continues to be high thereby raising its costs of production. The Industrial Tribunal appointed by the West Bengal Government in April 1954 has recommended an overall increase of Rs. 3-12-8 in the emoluments of the Indian jute mill worker from Rs. 63-6 to Rs. 67-2-9 a month in addition to other minor increases in wages. The Tribunal's recommendation, if accepted, would add nearly Rs. 1¼ crores to the wage bill of the jute industry and it would raise the cost of production of Indian jute goods by nearly Rs. 14 a ton. The jute industry is not likely to be able to pay the higher wages and stand competition from the more efficient newer units in foreign countries. The Indian jute mill industry has made brave efforts to modernise its plant and equipment and some 28 mills have already been fully modernised at a cost of Rs. 10 crores. But much leeway has yet to be made up. The imports of jute machinery have increased from Rs. 1.78 crores in 1952-53 to Rs. 2.23 crores in 1953-54 and Rs. 3.32 crores in 1954-55 but these imports will have to be considerably increased and provision will have to be made for cheap finance to enable the jute mill industry to undertake the stupendous task.

It would not be correct to argue that the jute mill industry should set its own house in order. The industry has made brave efforts to meet the various difficulties as they have arisen. The mills in the membership of the I.J.M.A. worked 42½ hours a week up to 10th July 1954. As the demand for jute goods increased the working hours were raised to 45 a week from 12th July, 1954 and to 48 hours a week from 18th October, 1954. But in the face of falling demand it was decided in December 1954 to keep 12½ percent of the looms sealed. If early steps are not taken by the Government to enable the industry to improve its competitive power the working of the jute mills may still have to be further restricted. The average rate of dividend of the jute industry has declined from 12.9 percent in 1951 to 9.61 percent in 1953 and 9.29 percent in 1954.

Engineering Industry

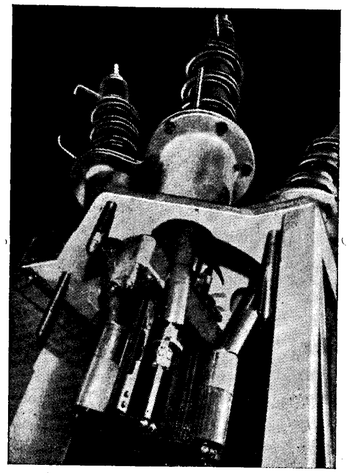
The general engineering, electrical engineering and the chemicals industries (the latter two not covered by this survey) have made most remarkable progress during the past few years. The highest increase in production among all the industries has been recorded by them not only by working the existing plants more intensively but by the creation of entirely new productive capacity. The index of industrial production for general and electrical engineering has increased from 233.0 in 1952 to 258.7 in 1953, 319.3 in 1954 and 378 in April 1955 which is very much in excess of the increase in the general index. The output of finished steel has increased from nearly 1 million tons in 1950 to 1¼ million tons in 1954 and a further increase in output is expected in the future.

In the past one of the greatest handicaps of the Indian iron and steel industry was the artificially low price of steel fixed by the Government. At one time in 1954 the difference between the selling price of Indian steel and the landed cost of imported steel rose as high as Rs. 200 a ton. This was unnecessarily handicapping the Indian industry. This discrepancy has to some extent been removed by an upward revision in the Pool's selling price of steel from Rs. 353 a ton in July 1952, Rs. 395 a ton in September 1952, Rs. 400 a ton in March 1954 to Rs. 420 a ton with effect from 1st July 1955. This rise in the controlled price of steel is expected to show itself in higher dividends in the future.

In the tentative framework of the second five year plan it is proposed to increased the output of pig iron to 1.8 million tons and that of finished steel to 5 million tons by 1960-61. In the meantime the greatest difficulty of the engineering industry is a shortage of pig iron and steel and inadequate transport facilities for carrying raw materials and the finished commodity. In 1954 we imported much less than half a million tons of steel but if the Government's scheme to import one million tons of steel per annum proves successful the shortage of steel would be reduced to that extent.

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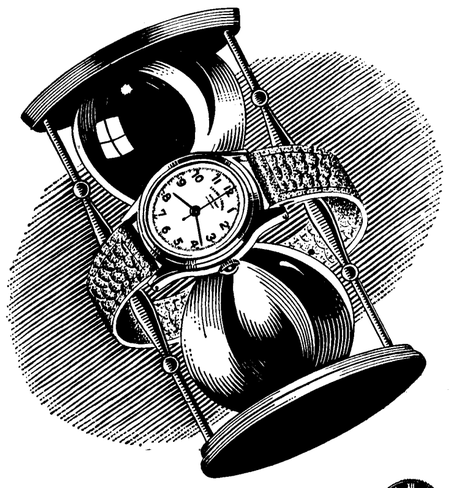
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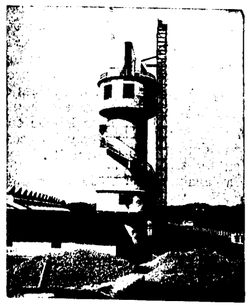
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In contrast to the other Indian industries the average dividend of engineering companies has remained more or less steady at 13.42 percent in 1951, 13.63 percent in 1952, 13.49 percent in 1953 and 13.29 percent in 1954. The average dividend does not give a correct idea of the profit-earning capacity of the industry which has improved in the past two years as the older companies are utilising part of their inflated profits for renovation and expansion and the newer companies are busy building up adequate reserves.

Coal Mining

The output of coal has increased from 32.31 million tons in 1950 to 35.8 million tons in 1953, 36.8 million tons in 1954 and 19 million tons in the first six months of 1955. In the second plan it is proposed to increase it to 60 million tons by 1960-61. The average rate of dividend of the coal mining industry has increased from 8.45 percent in 1952 to 12.46 percent in 1953 and 11.31 percent in 1954. But the dividend does not reflect the advantage which higher production was expected to give to the coal mining industry because although the prices of coal are fixed the costs of production keep on rising due to higher labour, transport and other costs and increased taxation. Out of the total output of 37 million tons of coal nearly 34 million tons are produced by private enterprise and 3 million tons by State enterprise. If the threat of nationalisation of the Indian coal mining industry becomes effective the future prospects of the industry are gloomy as the collieries under State enterprise are running inefficiently and mostly at a loss.

Sugar Industry

The average dividend of the sugar industry declined from 13.82 percent in 1951 to 11.91 percent in 1953 and 10.92 percent in 1954 in spite of the fact that the output of factory sugar has increased from 1.29 million tons in 1952-53 and 1.0 million tons in 1953-54 to a record figure of 1.6 million tons in 1954-55. The Government imported 0.76 million tons of sugar in 1953-54 and 0.6 million tons in 1954-55, which helped to keep the sugar prices down. Moreover, 25 percent of the total output is subject to controlled sale by the Government. So that, although the industry has to pay a high price for sugarcane, the price it realises for sugar is not commensurate with raw material prices. The sugar industry is one of the most heavily taxed industries and a little less than one-fifth of the cost of production is accounted for by Government taxes of one kind or the other. There has been an increase in sugarcane cultivation in recent years and the yield of sugarcane crop per acre of land and the recovery of sugar per 100 maunds of sugarcane have increased. But in order that the future prospects of the sugar industry may improve these will have to be increased further.

Tea Industry

The tea industry declared an all-time record average dividend, taking all industries into consideration, of 37.31 percent in 1954. This happy state of affairs was made possible by boom conditions during 1954 and the early part of 1955. It is remarkable that the inordinate rise in the world prices of tea took place in 1954 in spite of the fact that while the total world supply exceeded 1,300 million lbs the total demand was not much in excess of 1,200 million lbs. According to one estimate, the rise in prices took place because of a miscalculation by the bulk buyers who expected the world supply to be below demand and paid fancy prices so as not to be left without tea. This increased the industry's margin of profits. In the case of a tea company which was already making profits in 1953 the position was as shown below:

	1953	1954
Net average sale price in annas per lb.	32.50	41.90
Cost of production in annas per lb.	25.25	26.71
The 'profit margin'	+ 7.25	+15.19

In this case there was an increase in the 'profit margin' from annas 7.25 to annas 15.19 a lb. In another case in which the company made an actual loss in 1953 the position was as follows:

	1953	1954
Net average sale price in annas per lb.	38.44	58.67
Cost of production in annas per lb.	39.78	35.98
The 'profit margin'	– 1.34	+22.69

In this case the profit margin increased relatively more as was only to be expected.

As a result of high prices of tea some plantations in India have reduced the quality of tea. A fall in quality, if not checked in time, is likely to harm the profit-earning capacity of the tea industry as the high prices cannot be expected to continue indefinitely. Handicaps to the industry are the new taxes imposed on it by the Assam and West Bengal Governments. These taxes are likely to

DIVIDEND RATES (on Ordinary Shares)

Dividend percentage p.a. (exceeding the first but not exceeding the second figure)	Cotton Mills		Jute Mills		Engineering & Metal Works		Coal Mining		Sugar Industry		Tea Industry		Paper Industry	
	1953	1954	1953	1954	1953	1954	1953	1954	1953	1954	1953	1954	1953	1954
0—2½	2	1	4	9	..	..	4	1	..	..	2	..	..	..
2½—5	8	5	16	3	2	2	6	3	3	2	2	1	..	..
5—7½	7	2	5	8	2	..	1	4	..	3	3	3	1	..
7½—10	4	7	10	12	2	5	3	2	6	3	14	8	1	2
10—12½	4	..	6	8	1	3	..	..	..	1	8	2	1	..
12½—15	2	2	4	3	6	4	1	4	3	4	7	3	1	5
15—20	5	3	5	5	4	2	8	6	3	1	16	6	3	..
20—25	3	1	2	1	..	1	2	1	2	..	21	7	..	..
25—30	2	2	2	2	2	2	2	..	..	1	12	3	..	..
30—40	1	1	1	..	..	..	1	..	..	..	6	15	..	..
40—50	..	..	..	..	..	..	..	..	..	..	4	14	..	..
50—60	..	..	..	..	..	..	..	..	..	..	..	10	..	..
60—70	..	..	..	..	..	..	..	..	..	..	..	5	..	..
70—80	..	..	..	..	..	..	..	..	..	..	..	5	..	..
80—90	..	..	..	..	..	..	..	..	..	..	..	2	..	..
90—100	..	..	..	..	..	..	..	..	..	..	..	1	..	..
Over 100	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Number of Companies	38	24	55	51	19	19	28	21	17	15	95	85	7	7
Average rate of Dividend	11.28 per-cent	12.34 per-cent	9.61 per-cent	9.28 per-cent	13.49 per-cent	13.29 per-cent	12.46 per-cent	11.31 per-cent	11.91 per-cent	10.92 per-cent	19.05 per-cent	37.31 per-cent	13.21 per-cent	12.32 per-cent

(Continued on page 124, col. 3)



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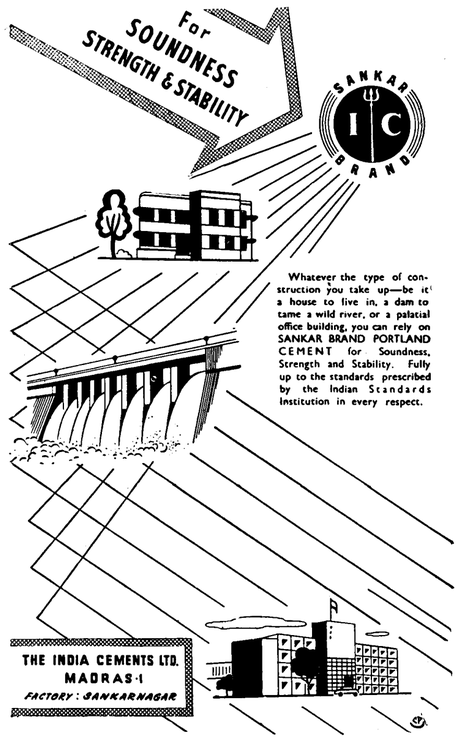
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FINANCING THE SECOND PLAN

● By B. R. SHENOY ●

(*Director, Gujerat University School of Social Sciences*)

WE are promised a rise of about 27 percent in India's national income, from Rs. 10,800 crores to Rs. 13,700 crores, between 1st April, 1956 and 31st March, 1961. Allowance being made for the population increase, this would mean that an individual's income, the aged and the infants included, would rise from about Rs. 23-12 a month to about Rs. 28-8 a month, an improvement of about 20 percent. We would not, however, be allowed to consume the whole of this rise. Through "fiscal and other devices", which remain to be spelt out, the Government would make "special and persistent effort at restricting consumption" such that consumption per head would rise only by about 12 percent. A family would not be allowed to devote to the improvement of its living standard more than Rs. 14-4 out of an increase in income of Rs. 23-12 a month. The difference would be ploughed back into the plan. An administration which may bring this about in a democratic set-up with a large private sector, which is free to produce what it may, and with free citizens, who may consume or save their incomes in accordance with their individual choices, would merit much praise. We hope that the "other devices" are not the devices of coercion.

Employment and Other Targets

Slide-rule experts have computed that the larger investment and consumption would create 12 million new jobs, 9 to 9.5 million outside agriculture (consistently with the industrial and mining bias of the plan) and 1 to 2 million in agriculture—this is regarded as the "kingpin" of the second plan. Apart from absorbing into employment the natural growth in the labour force of about 1.8 million a year, which was about the achievement of the first plan, the second plan would, thus, help relieve urban unemployment and the chronic and massive rural under-employment. Per capita consumption of cotton cloth would rise from an annual average of 15 yards to 18 yards; there would be improvement in the consumption of cereals of better quality and in the progress towards a more balanced diet; the proportion of school going children below 14 would roughly double to about 60 percent of the total; farmers would be protected against any "sustained fall in agricultural prices" by prompt action including "open market operations by Government." For the attainment of a socialistic pattern of society, "a few steps" will be taken towards the Taxation Enquiry Commission's ideal of personal incomes which, after tax, would be subject to a ceiling of 30 times the national average per family. The targets of production under the several heads have been drawn up to satisfy the envisaged magnitudes of consumption and investment, and "by aggregating ..... the capital requirements of individual targets", the plan-frame arrives at the "total amount of net investments required for achieving the targets." The figure of the net investments, thus computed, is Rs. 5,600 crores. This covers both the public and the private sectors, but excludes non-monetised investment, e.g., land improvements effected by a farmer by his own labour, with materials not acquired in the market. The public sector would account for Rs. 3,400 crores of the net investment, and the private sector, Rs. 2,200 crores.

Problem of Finance

The plan-frame makes a distinction between net investment and total developmental expenditure. The latter would include "in addition to capital formation proper, a part of the current expenditure on ..... activities such as health and education", which are normally charged to revenue, and not to the capital budget. The developmental expenditure corresponding to the net investment of Rs. 3,400 crores in the public sector is estimated at Rs. 4,300 crores. This latter figure is roughly comparable to the outlay of Rs. 2,069 crores (subsequently revised to Rs. 2,290 crores) initially proposed for the first plan. The plan-frame, then, proceeds to find the finance to match the investment. Since finance for the plan and for the other outlays of the Government are not raised separately, but are part of one budget, the problem of raising the aggregate financial needs of the Government are considered together. The expenditure outside the plan being estimated at Rs. 4,500 crores, the aggregate outlay of the Government would be Rs. 8,800 crores. During the past four or five years, the Government (including the Centre and the States) has been appropriating annually about 7 percent of the national income in taxes and 1.5 percent in non-tax revenue. This is a rather low rate of taxation and would be inadequate to meet the needs of a bold plan. The plan-frame, therefore, proposes to raise the levy under this head, including possible levies in the form of compulsory borrowings, to, on an average, 9.6 to 9.8 percent of the national income of the plan period. Other sources of receipts are the surplus from the railways, loans from the public including small savings, foreign assistance, and deficit financing. The total finance is proposed to be raised under these several heads as follows:

	(Crores of Rupees)
1. Revenue and other current receipts at the current rate of 8.5 percent of the national income	5,200
2. Railway surplus ..	200
3. Loans and Small savings	1,000
4. Foreign assistance ..	400
5. Additional taxation, compulsory borrowings, and higher profits from Government enterprises	800 — 1,000
6. Deficit financing ..	1,000 — 1,200
Total	8,800

We may, perhaps, legitimately assume that items 2, 3, 4 and 5 above would be entirely utilised for investment under the plan. If the expenditure charged to revenue should permit, as normally, a surplus during the plan period, part of the receipts under 1 above should be available for the plan; on this assumption item 6, deficit financing, would apply wholly to the plan. Finance for the public sector would be, then, raised as under:—

	(Crores of Rupees)
a. Railway surplus	200
b. Revenue surplus on the basis of Revenue Receipts at the current rate of 8.5 percent of the national income	700
c. Loans and Small Savings ..	1,000
d. Foreign assistance ..	400
e. Additional taxation, compulsory borrowings, and higher profits from Government enterprises	800 — 1,000
f. Deficit financing	1,000 — 1,200
Total	4,300

Item (b) above is a residual figure, being derived from the remaining data.

The manner of raising finance for the private sector is less precise. The total investment of Rs. 2,200 crores in this sector is proposed to be distributed, Rs. 1,100 crores in construction, Rs. 500 crores in industry, mining and transport, Rs. 200 crores in agriculture, and Rs. 400 crores in working capital for trade and industry and in residual items. The plan-frame is unable to indicate the source of savings for investment in construction. New investment in organised enterprises and in transport having been estimated at about Rs. 75 crores in 1953-54, an annual rate of investment of Rs. 100 crores in industry, mining and transport is considered "feasible". It is proposed, if necessary, to use the capital issues control, the export and import controls, a differential tax policy, loans, or "planned increases in prices" for realising important investments in this sector. Savings from elsewhere in the private sector would be, in other words, coerced or induced into the desired industries. The commercial banks are believed to be easily capable of meeting the demand for additional working capital, especially in view of the funds they would receive from the contemplated deficit financing. No mention is made of the manner of financing the net investment in the agricultural part of the private sector. The plan-frame procedure of prescribing the total amount of investment first, and then looking for the finance to match it, is not economically tenable. In preparing the national budget, it is permissible to determine expenditure first, (though in poor countries such as ours the sufferable upper limit of expenditure is soon reached), and then collect the wherewithal to meet the expenditure. The Central and States budgets in India together represent about 10 percent of the national income. The budgets can grow by drawing on the remainder of the national income. This procedure cannot be applied to a plan which seeks to embrace the entire saving and investment activity of the nation. Here an assessment of the available real resources, which is none other than the physical counterpart of the estimated national savings, must come first. The amount of the total national investment must match these resources. If the inventory of the resources includes the non-monetised sector (of which one hears a little more than its significance merits), then, the total investment must include it also. The increase in national income and the annual rate of its growth are the end result—not the first link in the chain—of the volume and the pattern of investment.

Free Consumption Choice

In a Communist economy, by restricting resource allocations to the consumer trades, the planning authority may determine the quantum of national savings *before* the Communist citizen goes to the market or before he gets his ration coupons. A Communist plan can, therefore, cast the blue-print of expenditure first and then force down consumption accordingly, though there are definite practical limits to the squeeze on consumption even in a Communist society. In a democratic set-up, where production and consumption are free, savings ensue only *after* the citizens have completed their shopping. Being the function of individual choices, the scope for increasing voluntary savings is comparatively limited. Back-door devices of limiting consumption by tampering with monetary circulation, are self-defeating as experience has shown it again and again; the citizen would react in protest and try to regain his habitual norm of consumption; the beneficiaries of windfall gains will raise their level of consumption; and the savers would try to protect their savings against rising prices. This will upset the apple cart of the Minister for Planning who, in collaboration with the Ministry of Finance and the Governor of the Central Bank, had tried to invest more than national savings permitted. In the general scramble that would ensue some at least of the apples would be damaged or lost. In the end, the realised total net investment would be less than the original target if expansionary credit creation had not been resorted to. Savings, the precious life-blood of the nation, would get diverted into non-developmental channels, or into projects of very low social priority. As the writings of Hayek, Robbins, Schumpeter, Robertson and others, and the experience of inflation and of the working of controls in an inflationary background, have shown, it is futile to think that controls can prevent the damage that inflation would do.

The comparative elasticity of savings in a totalitarian set-up probably explains in part the more rapid economic progress of Communist countries. In Poland, Czechoslovakia, Hungary and Bulgaria, in recent years, and in Russia during the last few decades, national income is stated to have risen annually between 12 and 16 percent. In the U.S.A. the highest rate of increase achieved was 4.5 percent; during the last quarter of a century the rate was 3 percent. Among non-Communist countries this was exceeded only by Japan, where the rate was 6.7 percent; a successful combination of Western techniques of production with Eastern standards of living permitted Japan to plough back into investment a larger part of the current output than in other democracies. In Australia, the rate did not exceed 3.2 percent and in Canada, Switzerland and Germany, it was well under 3 percent. Maybe, a large part of the income of the Communist countries is channelled into armaments and heavy industries so that the impression on the standard of living of their peoples may not be anything comparable to the statistics of the growth of income. This is, however, a matter of policy. The material fact is that the excessive restriction on consumption in Communist countries has made it possible to invest much more than democracies would be able to under the same order of per capita income. Some have doubted the accuracy of the income statistics of Communist countries and their strict comparability with the income statistics of democratic countries has been questioned. But I hope that they are not so incomparable as to be wholly meaningless in juxtaposition.

The Limit of Real Resources

No plan can be bigger or bolder than real resources available. The calculation of real resources must depend upon the reliability of the estimates of saving. If we must avoid uncontrol-

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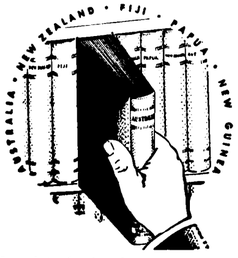
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led inflation, under no circumstances can total net investment exceed (allowance being made for withdrawals from the currency reserves, the past savings of the community, and for foreign assistance) the total net current savings of the community. Revenue surpluses, loans and small savings, profits of State enterprises, the ploughing back of profits in the private sector, deficit financing, credit creation and so on are but several devices of dipping into the common pool of national savings for purposes of the plan. There is no device for creating real resources which are not saved. The current rate of savings in India is generally estimated at 7 percent, or less, of the national income. Including the non-monetised sector and investments abroad, the Taxation Enquiry Commission put the rate at 7 percent for the year 1953-54. Excluding the non-monetised sector, the plan-frame places the rate of domestic savings at about 6 percent of the national income at the close of the first plan. During the past five years it has risen by about 1 percent of the national income. It may therefore be too optimistic to assume that the rate of increase may be accelerated during the next five years. Governmental policies are not conducive to such acceleration. The concepts of social justice, the Welfare State, and the socialistic pattern of society, to which, along with our Government, we are all enthusiastic votaries, would tend to reduce overall national savings; it would be a natural outcome of a reduction in the inequalities of income distributions.

In the field of wages, the official objective seems to be to link the level of wages to output; as we cannot both eat the cake and have it, this would limit the national margin for ploughing back into investment as current output increases. The policy of price support of agriculture is, in essence, a device of transferring income from the rest of the economy to those occupied in agriculture; it may well amount to converting potential savings, through the tax device, into current consumption of the agriculturists. Abolition of zamindaries and nationalisation of industries may have a similar effect unless we can be sure that the amount of the compensation would be all saved and invested; even so the channels of investment may not be those with high social priority. During the past few years, we have had comparatively good harvests. Traditional experience suggests that we should not be surprised if a couple of years of bad or indifferent harvests follow. Under the circumstances, even assuming that the "special and persistent effort at restricting consumption" by the Administration through "fiscal and other devices" would bear significant result, it may not be safe to rely on a rate of domestic saving much higher than 7.5 percent at the end of the next five-year period. The rate assumed by the plan-frame is 10 percent.

Case for Revision

This renders it necessary to amend the plan-frame in two important respects. Firstly, the size of the plan should be revised to match the real resources as indicated by this rate of saving. Secondly, the estimate of the rate of increase in national income should be revised to conform to the investment of this rate of saving. On a rough estimate, the order of magnitude of the investment would be Rs. 3,500—Rs. 4,000 crores. Estimated investment in the public sector in the three years of the first plan amounted to Rs 885 crores (as against the five-year target of Rs. 2,290 crores), or behind schedule by about one third. If the proposed investment in the public sector is placed at about the target under the first plan, and if we may assume that actual investment, at constant prices, may be about 70 percent of the target, then, the proposed investment in the public sector would be about 43 percent higher than under the first plan. On the other hand, the investment outlay proposed in the plan-frame for the public sector would be about 270 percent of the probable achievement under the first plan. The over-ambitious character of the second plan is reflected in the failure of the plan-frame to place the necessary finance under the ordinary sources of revenue. This is significant as a deficiency of total real resources gets manifested, in the sphere of finance, by a failure to secure finance otherwise than through an excessive creation of credit or deficit financing. The first round of the quest for finance by the framers of the second plan showed a deficit of Rs 2,400 crores. By increasing receipts under tax and non-tax revenue by Rs. 800—1,000 crores, and by allotting Rs. 400 crores to foreign assistance, this gap was reduced, in the second round, to Rs. 1,000—Rs. 1,200 crores: this was proposed to be filled by deficit financing.

The deficiency of resources would be, in fact, larger than the amount of the deficit financing. With the exception of foreign aid, the estimates of finance for the second plan seem to be generally inflated. The plan-frame estimates of receipts from railways and the revenue surpluses are not comparable with the corresponding heads in the budget statistics. This difficulty, however, does not apply to the other heads of receipts. The total revenue receipts of the Centre and the States amounted to Rs. 728 crores in 1954-55 (R.E.) and averaged Rs. 696 crores a year during the past five years. The plan frame estimate for the second plan is about Rs. 1,200 crores a year. Net receipts under permanent debt of the Centre and the States averaged Rs. 38 crores a year during the past five years. The exceptional collections of Rs. 115 crores in 1954-55 must be viewed together with the fact that in 1953-54 there was a net redemption of permanent debt by the Centre of about Rs. 39 crores. Part of the steep rise in subscriptions during 1954-55 may be said to reflect the normal demand for such debt carried forward from the preceding year. The plan-frame estimate of an average receipt of Rs. 120 crores a year under this head seems, therefore, to be over-optimistic. This applies, though in a lesser measure, to the estimates of small savings, which are placed at Rs. 80 crores a year by the plan-frame, as against Rs. 52 crores in 1954-55 and Rs. 40 crores a year during the past five years.

Over-estimates of Income Growth

The deficiency of resources would be, in fact, larger than the amount of the deficit financing. With the exception of foreign aid, estimates of finance for the second plan, under all other heads, are unduly inflated. During the past seven years or more, loans and small savings have averaged about Rs 80 crores a year; the plan-frame hopes to raise Rs. 200 crores a year under this head. Revenue surpluses, including net contributions from the railways averaged about Rs. 45 crores a year; the corresponding figure of the plan-frame is Rs. 180 crores. Tax receipts under important heads, that is, income and corporation taxes, have, in recent years, either declined or have remained steady. The increase in customs revenue does not suggest the possibility of raising tax income on the scale contemplated in the plan-frame. There are indications of a recognition that a five percent rate of increase in the national income a year is unattainable. But there is not yet evident the same measure of recognition that the targets of investment need substantial downward revision. If the plan is not suitably adjusted to the available resources, it may either prove to be a list of aspirations, or lead to inflation which would jeopardise economic development. The third possibility was a writing off, by degrees, depending upon the exigencies of the plan, individual liberty and democratic institutions in an effort to prevent inflation and to raise the rate of saving by authoritarian devices. If domestic resources are found to be inadequate, deficit financing cannot supplement them Deficit financing is not a modern version of the *Akshaya patra* of the Hindu fables.



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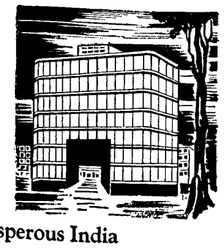
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IMPORTANCE OF SMALL-SCALE INDUSTRY

• By SUSHIL DEY •

IT is unfortunate that many of us suffer from a pronounced allergy to anything associated with Marxist ways of thought or expression. Dialectic is a recognised tool of Marxian analysis. Traditional schools have a horror of touching it for this reason. Yet, dialectic is by no means a Marxian invention. It is at least as old as the Greeks; and Hegel, whom any student of philosophy would consider the most venerable of its modern exponents, had to be stood on his head in order to arrive at its Marxian version. Our aversion to dialectic is, indeed, unreasonable. It provides a most illuminating approach for gaining an insight into the essence of the process of change. Dialectic is a formulation of the most general law of change. It avers that change takes place through a conflict of opposites. It is a continuous process, in which, at any moment, a new synthesis is in the act of emerging through the resolution of the clash between the thesis, which represents the situation as it exists, and the antithesis, representing the forces which are trying to negate that situation. Such a view emphasises nature and life as a state of becoming, instead of a state of being. It focuses attention on the dynamic quality inhering in all phenomena. It highlights the aspect of evolution and growth, revealing at the same time the dissolution and decay which constitute the other, necessary aspect of the same process.

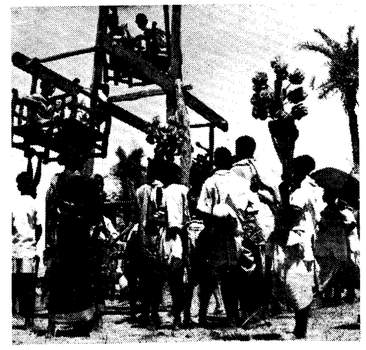
Cottage versus Large-scale Industry

In this writer's opinion, the inconclusive nature of our endless debate on the rival claims of cottage and small-scale industries on the one hand and factory and large-scale production on the other is due to our neglect of the dialectial view. What is the real object we are seeking? Industrial development is a process. Its concern is with continuous improvement of our productive powers. Such improvement is effected through a series of technological devices of increasing efficiency. Corresponding to each stage of technological advance is its appropriate organisational setting or form. The essence of industrialisation is this uninterrupted rise in technological efficiency. This is the heart of the matter, the content of the process. The outward aspect or form in which this content is expressed must be continually changing, as the content continues to mature. This form will be simple at one stage of the process, complex at another. The appropriate organisation may be in a cottage or a small-scale undertaking at one time, but a gigantic factory at a different stage of growth. No sanctity attaches to these particular forms, all of which must be regarded as impermanent. Any one of them is necessary and progressive at one time, unsuitable and reactionary at another.

The basic issues in our industrial debate are being wrongly framed. The question is not, do we want small industries or big industries? The question is, what are the conditions necessary for securing a continuous growth of productive efficiency? Lack of capital, employment and market compel us to go in for an organisation of most of our enterprise on a petty scale and with simple tools and equipment for the present. But it does not follow that every type of enterprise at this moment must assume this form, nor that enterprises organised now in this form should be preserved in that form for all time to come.

The Romantic View

It seems important to stress this point, because there is a school of thought whose influence is still not inconsiderable, which wants to preserve the cottage or small-scale type of enterprise for its own sake, for the supposedly idyllic, æsthetic and moral virtues of this type of organisation. This is a static, "museum piece" point of view. The cottage or small-scale form may be the best suited for organising unskilled, capital-starved and, consequently, technologically immature labour. But why should we prescribe this straitjacket attitude towards this labour when it begins to develop its efficiency, which must surely be the purpose we have in view? In fact, to remain static in a changing world is an impossible dream. To cease to grow is to die. The virtues of simple, self-sufficient and idyllic living extolled by the protagonists of cottage industry cannot be preserved by flying in the face of realities. Artisans and craftsmen condemned to practise their trades with primitive techniques for ever will be just ground out of existence, as, indeed,



A merry-go-round in a village fair

has often been their fate in the past. The promotion of the basic virtues of the idealists does not call for unchanging forms. Values can abide only through ceaseless mutations in their outward expression.

This does not mean that the cottage or small-scale type of production must necessarily disappear from every field of enterprise in the continuous process of growth. It is quite possible that a small productive unit engaging highly personalised labour exercising artistic judgment and manipulative skill will continue to remain the most effective organisation for certain products. But such units will survive and flourish only if they continue to grow, notwithstanding their being small, individual or family undertakings; and they will continue to grow only if they can achieve a continuously rising level of efficiency. Many of them will use power and fine precision instruments. Others will turn out individualised products of antique value to collectors. But they are unlikely to occupy any but a small segment of the total employed force in a developed society. Utility articles for mass consumption will be inevitably produced in large factories in the mass. It ought to be noted that a small part of high quality manual production can hope to find a market for its high-priced products only because of the prosperity generated through mechanised technology in the rest of the economy.

There is a second school of supporters of petty industry who want to plan its revival on a wide scale because it can expand new opportunities of employment with very little call on capital. This school does not favour the retention of what are called hand and household industries for all time. They want the use of these industries as a stopgap measure until heavy industries and machine tools can be built with most of the little capital which can be procured at the moment. As large-scale industries begin to come increasingly into existence, a shift can take place of labour from the cottage and small-scale sector. Meanwhile, an immediate expansion of the petty sector is expected to relieve unemployment and add to current consumer wealth through the output of the newly employed labour in hand and household enterprise.

The Interim Employment View

As distinguished from the romantic "museum piece" view, this may be called the "interim employment view" of cottage and small-scale enterprise. These are the considerations to be borne in mind in assessing it: Employment for its own sake is not a very desirable attitude to take. It must be productive employment, that is to say, engagement of labour which leads to output that people value and are prepared to accept freely. If our object were to expand opportunities for employment irrespective of this consideration, we could do it best by shutting down all our capital installations and undertaking all our work with our hands. We could secure over-full employment, but would be desperately poor, in fact, so poor that vast numbers would perish. Only that employment is effective and, therefore, worth seeking, which leads to increase in wealth. Again, only that increase in output can be recognised as an increase of wealth and in that sense effective, which people are willing to pay for.

The expanded output of rural, cottage and ill-equipped small workshops must be inferior to similar products of large and modern factories. Consequently, these inferior products can be absorbed in the open market only if their prices are

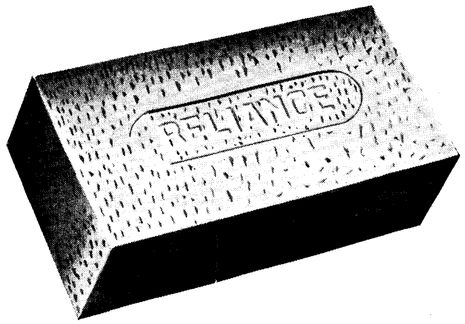


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ept severely low. Such prices would be unremunerative to the producers. It is precisely for this reason that cottage and small-scale industry cannot expand its production at present. There exists a vast fund of idle productive capacity, represented by unused or ineffectively used labour and unutilised or partially utilised material, tools and equipment, which is held back from production today for exactly this fear of loss through competition with more efficient undertakings.

It has been suggested that we may impose disabilities on competing efficient enterprise so that inferior production may be able to find a market. Such disabilities can take various forms. Large undertakings may be subjected to special taxes and cesses. Their production may be frozen at a particular level and they may be forbidden to increase it further. They may be also asked to stop the manufacture of certain types of products and the market for such products may be reserved entirely for cottage and small enterprise. What would be the broad effect of such measures if they were pursued consistently over most part of the economy? We would lop off the efficiency level in the most advanced sector and the productivity of the economy as a whole would threaten to decline. Because the inefficient units are numerically vast, employing a large labour force, while the larger organised undertakings engage on the whole a smaller one, there may be some scope for a judicious use of a handicapping system in the ultimate interests of the people as a whole. But there are severe limits beyond which the gain to the weak cannot be sustained on account of the loss to the strong. Indeed, there will be no gain at all unless the entire scheme of support of present inefficient enterprise is carefully designed to raise it steadily to the level of the most efficient.

Progressive Efficiency

This, then seems to be the only correct approach. Petty and inefficient enterprise occupies an overwhelmingly large area of our economy. This constitutes a drag on the small sector of large, organised industry which depends for its advance on the prosperity of the people practising agriculture and the arts and crafts of the rural areas. We must be therefore concerned about the predicament of cottage, rural or small enterprise. But the object of such concern is not to maintain this enterprise at its present inefficient level, but to raise it to progressively higher levels of efficiency. As it is so raised, the organisational pattern and form of this enterprise must continually undergo suitable changes. Such changes are necessary and should be welcome. Planners of cottage industry adopting this approach will be often confronted with the question—are you out to support cottage industry, or to destroy it? In a sense, they are out to do both at the same time. They are really out to help cottage industry to outgrow its immaturities and, in doing so, continually to evolve new modes of organisation, which may soon retain no likeness to cottage industry at all.

The rise in efficiency of petty, rural enterprise is achieved through progressive intensification of the application of capital. But the process has to start from the low level at which this enterprise is languishing now. In order to do this, we have first to expand the output of this enterprise at its existing inefficient level. Such increase of output will be obviously sub-marginal from the point of view of current market demand. We have already seen that this is the reason why productive capacity in rural industry is forced to remain idle at present. But just as there exists this unworked sub-marginal supply, so also there exists an unexpressed sub-marginal demand. The supply is not brought into the market because it will not fetch a sufficient price. The demand remains unsatisfied, because it is not backed up by offer of anything of value, which might give it the power of purchase. But the two can be brought into correspondence with each other and meet in a sub-marginal market. This would be an inferior market of inferior goods and services exchanging with one another for credit. This would be a new market, in addition to and below the level of quality of the existing market. The goods and services which enter this market also represent new creation, in addition to and cruder than those which are being already bought and sold in the established market. The demand which is satisfied by such inferior goods and services represents an extension of the demand which could be satisfied previously in the conventional market.

The Village Exchange Scheme

This is the Village Exchange Scheme for extension of rural production which is already being practised in West Bengal and which conventional theorists find so difficult to grasp and appreciate. Its features have been described sufficiently in the brochure distributed free by the Development Department of the West Bengal Government and in the book entitled *Industrial Development: A New Approach* published by Messrs Thacker, Spink of Calcutta. Here it is only necessary to indicate the significance of this new scheme as a planned stimulus to the process of evolution of rural industry.

Growth is initiated by the simultaneous stimulation of the sub-marginal production potential in a number of enterprises or crafts, a demand for whose output can be created through a system of mutual exchange. The basic principle is a simultaneous extension in a number of directions at once. Growth is possible only if it is multilateral and, consequently, balanced at each step. If the output of a particular enterprise were to expand beyond the capacity for expansion of other enterprises, there would be no matching supply, and further progress would be halted by overproduction.

The Principle of Imbalance

But this principle of multilateral expansion or balanced growth must contain within itself its own negating element. At any particular moment of time, one particular enterprise or one producing unit out of a number of such units in any one enterprise, must be free to step out slightly in advance of the others. This exerts a forward pull on the others, which then strain to catch up with it. This is the element of imbalance which is necessary even for achieving balanced growth. Otherwise, perpetual and undisturbed balance would lead to a completely static situation and there would be no growth registered at all. The function of capital is to introduce this element of necessary imbalance in industrial advance. But this imbalance cannot be large or sudden. It has to be moderated so that other units and other enterprises are capable of achieving a new adjustment among themselves and attain a fresh balance at a higher level. The original disturbance is caused by the adoption of an improved technique through application of new capital. The subsequent equilibrium is attained by others adopting improved techniques also. Capital facilities must be available to others to enable them to do so. To make sure that this is so, the technological change effected in the initial instance must not appropriate too much of the new capital which has been formed. That is to say, the new capital formed through expanded production must be evenly distributed over the different units and enterprises. It also means that each instalment of improvement at each step must be moderated to keep pace with improvements achievable in other spheres. Planning for growth implies a need for this calculated imbalance.

How Progress Takes Place

With growth, there would be specialisation. We may start from scratch in an area where all industries have perished. There the first task would be to introduce a number of new crafts, each of which would satisfy some of the bare essentials of impoverished existence. They will be introduced by imparting elementary training in these crafts to representatives of different families in the neighbourhood. Their products would be crude and would not sell outside, but, if canalised through mutual exchange, would satisfy their own elementary requirements. The little cash spent by these families now in meeting these requirements by outside purchases would then be saved and could be used for technological improvement of their crafts. In selecting the crafts for improvement, there would be a gradual narrowing of the range of enterprises introduced originally, so as to concentrate on those crafts which hold out promise of further advance on account of local advantages. The output in the selected enterprises would keep increasing and would demand matching increases in similar selected enterprise in the neighbouring communities. These communities would enter into exchange relations with one another; that is to say, the principle of multilateral expansion would be applied to a steadily widening area, along with the extension of the area of exchange.

The efficiency of rural enterprise would keep rising with this process. Starting from far below the margin of the normal market, it would gradually keep advancing towards this margin until it would attain parity with the efficiency of competitive market production. Then there would be no scope for a sub-marginal market, because the additional production would no longer remain sub-standard. Finally, there would be no special village exchange, because the need for it would have disappeared. Seen in this light, village exchange can be appreciated as a special therapy to aid the natural evolution of industry which has sunk into a moribund state. Like all things in life, it is impermanent. It is necessary and progressive at this moment; but it will be superfluous and should be discarded in due course. The dialectical view will help us to realise this truth.

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THE NEW COMPANIES BILL

● By TULSIDAS KILACHAND, M.P. ●

THE Companies Bill 1953 is in the last stages of its long and arduous journey towards becoming law. The Bill has already been passed by the Lok Sabha; the Rajya Sabha has passed it with two amendments. These amendments still remain to be considered by the Lok Sabha, and the Bill then has to get the President's assent. If these formalities are completed in time and the plans of the Finance Minister materialise, the Bill is likely to come into operation by 1st April, 1956.

The growth and functioning of the corporate sector in the next few years will be governed by this law. The task that is being assigned to the corporate sector under the proposed framework of the second plan is formidable. An investment of Rs. 750 crores by the private sector is envisaged during the five year period. This places a great responsibility on companies, which they can, in all fairness, be expected to discharge only if they have adequate freedom of operation.

The Companies Bill fails to ensure this freedom. At each stage of its journey, from enquiry towards enactment, the Bill has been made more and more restrictive. The Draft Bill introduced by the Government incorporated some restrictions not included in the Company Law Committee's recommendations; the Joint Select Committee added more restrictions; and in Parliament still more restrictions have been added, so that the Bill has now become an unwieldy patchwork that reflects a compromise between different political viewpoints, effected not necessarily on grounds of operational efficiency but mainly on the basis of political ideology.

No Alternative Forms of Management

Another danger to the efficient running of the corporate sector arises from the Bill's failure to provide for the development of forms of company management alternative to the managing agency system. Owing to prejudice bred of ignorance of the managing agents' rôle in promoting, financing and managing enterprises, the managing agency system is suspect. This bias against the system is to be seen not only in the provisions in the Bill specifically relating to managing agents, but also in other provisions of the Bill.

The whole Bill, with its restrictive bias, was framed on the assumption that the managing agency system would continue and would be all-pervasive. When the Joint Committee introduced provisions to enable the Government to abolish the managing agency system in stages by notification, this assumption went awry. The development of alternative forms of management becomes urgent under these circumstances, and the law should have been framed to meet the needs of the emerging forms of company management. The Bill fails to do this. Since companies in the private sector not having managing agents will be subject to the same restrictions as those having managing agents, the development of all companies, and not merely of those intending to have managing agents, will be hindered.

In the public sector, where Government companies are not allowed to have managing agents, the severity of the law is mitigated by the fact that in many matters concerning these companies the Government will be both the applicant and the judge. The Government has also taken powers to exempt them from the application of provisions by notification (which, after a long argument in the Lok Sabha, the Government has agreed, will be issued only with the concurrence of Parliament.)

In view of the fact that the Government wants to encourage alternative forms of managerial organisation, it would be appropriate to allow some liberalisation of restrictions in favour of companies not having managing agents—or secretaries and treasurers, who are merely a variant of managing agents. In this respect some relevant clauses are those prohibiting the issue of equity shares with differential rights and the interlocking of corporate finances.

Differential Rights of Shareholders

According to the Bill, equity shares with differential rights regarding voting, dividend, participation in capital on dissolution etc., are prohibited. It must be appreciated that such a drastic provision does not exist in the law of the U.K., the U.S.A. or any other country, and therefore this provision, if enacted, will become a unique feature of Indian company law.

Differential rights with Government consent were allowed in the original Bill, but the majority report of the Joint Committee was in favour of an absolute prohibition of equity shares with differential rights. Differential voting rights enable managing agents holding a minority share in the equity capital to control the company, and as such there is justification for prohibiting differential voting rights in companies managed by managing agents. But the case against differential voting is not equally valid in director-controlled companies. Sometimes an inventor or pioneer does not have the finance necessary to have control of the company, and he is given shares with differential voting rights in order to afford him some advantage over financiers. For example, Henry Ford and Lord Nuffield started their career as inventor-pioneers, without relatively large financial resources, and they were able to maintain control over their companies by virtue of their holding of shares with differential voting rights. To deny differential voting rights in such cases would be tantamount to a denial of opportunity to an inventive and enterprising man of moderate means of control over companies in whose floatation he has had a part, and the perpetuation of finance capitalism. or absolute control of financiers over industrial and commercial concerns. It would be advisable to allow differential voting rights in the case of director-controlled companies. The capital issue authorities should be able to check abuses in this direction.

Besides the problem of voting rights, there is the problem of dividend rights. Sometimes a company may be financially run down, it may be up to the neck in debts, and its shares may be quoted in the market at half or less than half their paid-up value. In such cases it would not be possible to raise equity or preference capital in the market, and the only way left would be to issue shares with differential rights as to dividends. This might be in certain cases the only way to save the company, as nobody would be willing to take up a fresh issue of its shares if in dividend rights they are *pari passu* with the highly depreciated equity shares. The provision to allow the issue of equity shares with differential dividend rights would be useful in such cases. The capital control authorities should be able to prevent abuses in this regard.

Interlocking

The Bill also puts restrictions on inter-company loans and investments. The practice of interlocking of corporate funds is generally beneficial, but it has been subjected to abuses, which have been attributed by the Bhabha Committee almost entirely to the managing agency system. I suggest that in respect of inter-company loans, only an ordinary resolution, instead of a special resolution, should be made necessary where the borrowing company is director-controlled. For inter-company investments a unanimous resolution of the Board (instead of a special resolution of shareholders) should be prescribed for investment in shares in excess of the prescribed limit, and Government consent should be dispensed with, provided the borrowing company is director-controlled. There would be an adequate check on any abuse of this at the capital issue control stage.

Arbitrary Limitations

The Bill lays down the number of companies of which a person may be director, managing director, managing agent or manager, irrespective of the size of the companies, the complexity of managing them and the capacity of the persons managing. In addition to the individual limits on the remuneration and managers, the Bill sets a limit on total managerial remuneration without taking account of its implications in the case of new and growing enterprises. Similarly, the prohibition of the appointment of certain persons as buying or selling agents will be unduly harsh on companies whose business consists solely of buying and selling.

These arbitrary provisions will make it difficult for them to obtain qualified and suitable personnel. They put a premium on mediocrity, and unnecessarily curb the capable and the talented by reducing the scope of their activity and the reward for their work. Even big companies will be unable to attract the best talent in the initial stages, when they will need men of extraordinary merit to pilot the business at the formative stage. The Government appears to have realised the rigidity and impracticability of these provisions, and has sought to soften their rigour by acquiring authority to waive the provisions regarding the minimum remuneration of the manager and the maximum number of companies under a managing director or manager. A noteworthy provision of the law in this respect is that where relaxation of the restriction is necessary, it is not effected by suitable exceptions but by Government authority, thus accentuating the concentration of power in the hands of the Government.

Government's Powers

The Government has taken powers also to restrict the management's freedom. Most decisions of the management, and even of the shareholders, of a company require the approval of the Government before they can be put into effect. Government sanction is required for matters such as an increase in the number of directors and in the remuneration of managing director or manager, although in all these cases limits may be set by the company's articles or by law. Changes in the constitution of managing agents, even when they arise by such natural phenomena as the death of a partner or director, or by the efflux of time as in the case of the retirement of directors in rotation, will require to be approved by the Government. Under the Bill the Government will be called upon to decide on matters such as the fitness of managing agents, about which there can be differences of opinion.

The Government had already assumed some of these powers temporarily under the 1951 Amendment Act, to meet transient and abnormal circumstances. The assumption of these powers on a permanent basis must remain a continuous temptation to unscrupulous politicians and bureaucrats to use them for political or personal ends. Such powers will leave less scope for the formation of healthy traditions, which can grow only in an atmosphere of freedom. By taking excessive powers in its hands, the Government has assumed responsibility at once for the efficient development of the corporate sector and for the success or failure of the Bill.

Needless Restrictions

The Bill contains needless restrictions which will inhibit the working of companies. For instance, the appointment of a managing agent or an associate as a selling or buying agent outside India requires approval by a special rather than an ordinary resolution. Redemption of preference shares out of the sale proceeds of unwanted property is prohibited. Similarly, the provision prohibiting the application of premiums on shares to items other than those specified, except by following the procedure laid down for the reduction of share capital, affords an instance of the tendency to regulate the affairs of a company in minute detail. There is small justification for requiring a special, instead of an ordinary, resolution for the election of certain persons connected with managing agents as directors, especially as the right of managing agents to nominate *ex officio* directors is restricted to one-third of the Board or two, whichever is less. In all these cases, the discretion of the companies is unduly fettered without

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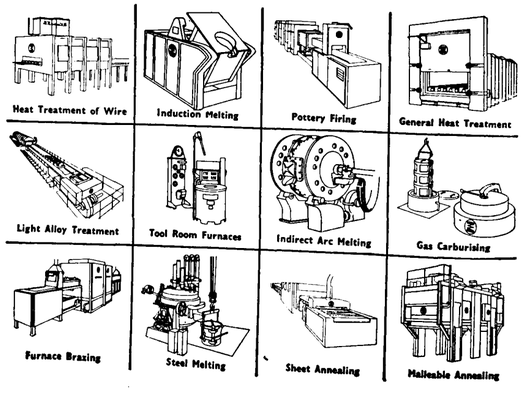
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Involved Procedure

Details concerning the day-to-day management of companies, which should have been left to the directors, are required to be referred to shareholders. The consent of shareholders is necessary to sell, lease or otherwise dispose of the company's undertaking or property; give time for payment of debts due from a director; invest otherwise than in trust securities the sale proceeds resulting from the compulsory acquisition by the Government of the company or its property; or borrow in excess of the sum of the paid-up capital and free reserves of the company. Moreover, a special resolution is necessary for every contract between a company, and its managing agents or associates for the sale or purchase or supply of any movable or immovable property, or the rendering of any services other than that of managing agents. The appointment of a sole selling agent by directors will also have to be approved by shareholders within six months of the appointment. All loans to companies in the same group will need the approval of shareholders by a special resolution, and investment between companies in the same group exceeding 10 percent of the subscribed capital of the receiving company or 20 percent of the subscribed capital of the investing company will, however, require the approval of the Government in addition to sanction from shareholders by ordinary resolution. The provisions to restrict the management's discretion in these matters are not to be found in the company laws of other countries. Such procedure will be lengthy, leading to loss of business opportunities, and it will be expensive.

Discrimination Against the Corporate Sector

The capacity of the corporate sector to compete effectively with other forms of business organisation is seriously crippled by the discriminatory prohibitions and restrictions on its activities. A company cannot issue share capital other than equity and preference share capital or issue equity capital with disproportionate rights in respect of voting and other matters. It cannot pay the managerial staff remuneration in excess of individual and overall limits laid down in the Bill, though proprietary and partnership concerns, foreign companies and official bodies will not be subject to such limitations. Nor will a company now be allowed to pay tax-free remuneration to its employees. Similarly, its freedom to contract with its managing agents is limited by the provisions of the Bill, which prohibit the appointment of managing agents or their associates as buying or selling agents within India or the grant of loans to them. The rigidity of these provisions may cause organisers to adopt other forms of business organisation free from such restrictions.

Difficulties in Interpretation

The Bill includes many vague provisions liable to varying interpretations, which are likely to lead to contentious litigation. The definition of "associates" is now so inclusive, and the circle of associates so variable, that it will not be safe for a company to deal with any person who is in any way connected with its managing agents. Even when it deals with a perfect stranger, it will always run the risk of finding that he has become an associate owing to some act of others, over which neither the company nor he has any control: in such cases changes in business relationship will become necessary. The term "persons in accordance with whose directions or instructions the directors are accustomed to act" is likely to cause difficulties in interpretation. The assumption of powers of notification by the Government, and the overall limit on remuneration on the basis of profits will create uncertainty in the minds of the managerial staff and reduce their efficiency.

The Bill will give rise to difficulties which will be cleared up, if at all, only in courts and only over a long period. It will necessitate vast organisational changes, including re-negotiation of existing contracts with the managerial staff, rearrangement of accounting methods, and perhaps a re-shuffling of inter-company loans and investments.

Encouraging Circumvention

The Bill often reflects its framers' ignorance of the implications and the inter-relations of its various clauses. While banking companies are exempt from the clause dealing with loans to directors, they are not exempt from another corresponding clause which deals with giving time to directors for repayment of loans. This incongruity will entail the adoption of tortuous methods to circumvent the law—in the above case, the grant of a new loan to directors by banks, rather than extension of time to repay the old loan—a course which law-givers hardly seek to encourage. Similarly, the provision limiting the number of companies of which a person may be managing agent, managing director, director, or manager will induce amalgamations.

These conflicting trends between policy and the means to achieve it are also noticeable in the treatment of private companies, which are required by the Bill to subject their accounts to independent audit and to file their balance-sheets with the Registrar. The accounts of private companies are more revealing owing to the smallness of their operations, and they have been able to compete successfully with industrial giants mainly because of the practice of non-disclosure of accounts allowed to them by the company laws of this and other countries. Their existence signifies the decentralisation of industry and wealth; they have also been responsible for introducing innovations, which their giant competitors in their bureaucratic zeal tend to shun. The removal of these exemptions will end these advantages without ensuring commensurate benefit to the community.

The restrictions, prohibitions and inhibitions attributable to the various influences that shaped this law have made it so cumbrous and restrictive that it is sure to make the working of the corporate sector sluggish and retard its growth. The law has become complex and rigid in content, and confusing and unworkable in practice. The unending applications for Government approval will introduce red tape, and make its working dilatory. The Government has allowed its obsession with eliminating abuses and its ideological bias to undermine the efficiency of the working of companies with unnecessary restrictions. Bureaucratic delays and involved procedure will make it difficult for the honest and the scrupulous to function. The difficulty will be particularly great for newcomers and smaller companies, who will neither have the adequate organisation nor the resources to cope with legal formalities. The complexity of the law will keep the cost of administration high, and require the diversion of energy from productive work to administrative work, thus increasing the overheads and sapping the energy of the management. It will also accentuate the tendency of companies to agglomerate in places like Bombay and Calcutta, where legal services and other facilities are available, to the neglect of the countryside, the industrialisation of which ought to be encouraged.

Need for Efficient Administration

The reason for the tightening of the law is the bad practices of some business men in the war and immediate postwar years. This was, however, part of a much larger phenomenon which engulfed other sectors of the community also. Of late, the atmosphere in business management has considerably improved. The present Act gives sufficient powers to the Government to prevent most of the abuses that took place in the war and immediate postwar period. It is my firm conviction that many of the abuses of the past could have been avoided by a vigilant administrative policy. Evidently, the Government seem to believe that concentration of powers in its hands is a fitting substitute for efficient administration.

The grant of powers to the Government will make the administration of the law a major problem, and will make the efficient functioning of companies difficult. I do not think the administration is equal to the task it has taken upon itself. It will have to grant sanctions, approval and consent, under about a hundred clauses of the Bill, and it will have to do so in the case of 30,000 companies. Under some of these clauses, and for many of these companies, it will also have to examine whether it should relax the provisions in particular cases. This will be so even in small matters like the grant of petty increments in the salaries of managers. Being burdened with the task of approving routine applications, the administration might tend to neglect, or fail to give sufficient attention to, important matters under the Bill.

Good laws work badly if their administration is lax. We can by no means say that the law as provided in the present Bill is at all good. Should a bad law be badly administered, then the resulting damage to the corporate sector can be well imagined. I would, therefore, urge that the administration be made efficient and prompt, if the law is not to cripple the corporate sector.

But the much larger problem to which the Government must address itself is the need for re-shaping the law to suit Indian conditions. Relaxation of law should not be a matter of administrative discretion but of legal policy. An amending Bill soon to follow is inevitable, but there is still time for revision before it is passed, and I hope that considerations of prestige and doctrinaire ideas will not stand in the way of revision.

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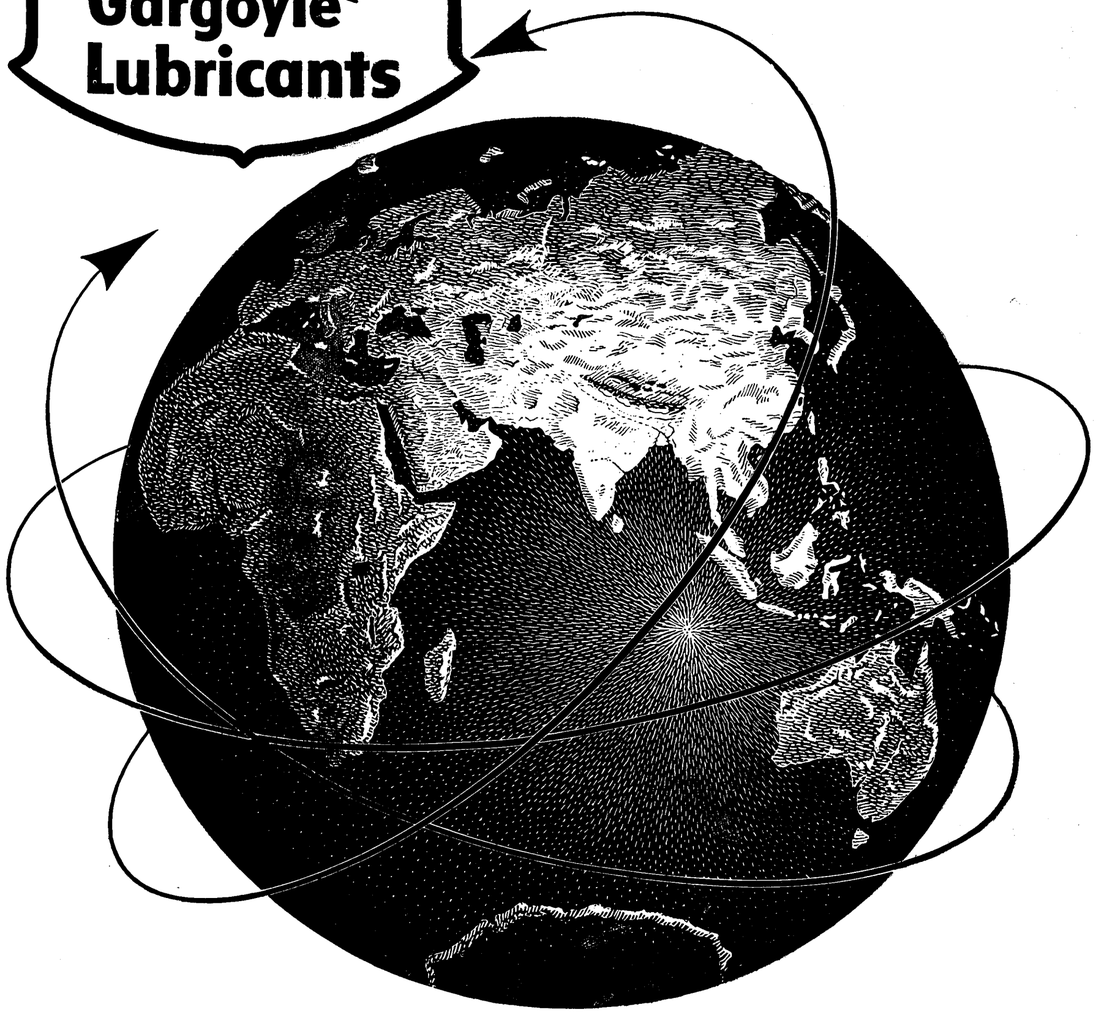
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THE FUTURE OF INDUSTRIAL ENTERPRISE IN INDIA

● By DR. N. DAS, I. C. S. ●

(*Secretary, Commerce & Industries Deptt., West Bengal*)

OF late, misgivings have been expressed in many quarters about the future of the private sector of India's industrial enterprise. The acceptance of the goal of a "socialistic pattern of society" by the Government and the consequent measures, administrative, fiscal or otherwise, adopted to secure this objective, have led to a feeling that the future of private enterprise in the sector of large-scale industry is rather dark. Three recent events, *viz.*, the passing of the Companies Law Bill, as amended by the Joint Committee of both Houses of Parliament, the Report of the Taxation Enquiry Commission and the Budget for 1955-56, have served to increase the nervousness of the business community, Indian as well as non-Indian, operating in this country.

Human memory is proverbially short. Yet, if one could recall all the misgivings which have been expressed by the business community during the past few years, one would think that private enterprise should have almost disappeared by now. Ever since the famous Industrial Policy Resolution was enunciated by the Government in 1948, we have been hearing gloomy prophecies about the future of the private sector. These fears have been expressed, not merely by businessmen and industrialists, but by responsible economists and neutral members of the public. Measures adopted to "control, regulate and direct" industry have been criticised, sometimes in violent terms, and it has even been asserted that the Government's policy would lead the country to the verge of bankruptcy. In particular, it has been stated that the assumption of greater and still greater responsibilities by the State would be too much for the administration to bear and whispers have been gleefully exchanged that one day the Government would be compelled, by the sheer logic of events and circumstances, to retrace its steps. But, today, towards the close of the first five year plan period, the Government's plans and policies stand vindicated in ample measure. Not only has there been no fall in production, but there have been spectacular rises—both in the agricultural and industrial sectors. Even in terms of productivity per wage-earner or man-hour, there has been a distinct improvement, though one might wish it could have been better still. As regards the flow of investment and enterprise in the private sector, notwithstanding the so-called irritating and irksome restrictions, arising directly out of the economic and fiscal policies pursued by the Government, there has been no diminution in activity. Even some of the Government's worst critics have at last been compelled to admit that they had made a mistake in jumping to premature conclusions and that they should have awaited results before pronouncing a verdict.

Rise in Productivity

Let us analyse the facts calmly and dispassionately. In so far as productivity is concerned, contrary to popular belief, it has risen appreciably. Apart from the fact that average productivity does not depend on the performance of labour alone (it is the function of the combined input of a number of other factors which are almost as important—equipment, resources, organisation and management), even in terms of output per man-hour or per wage-earner, there has been a rise in at least three major industries—cotton textiles, steel and cement. It has been recently calculated by the Institute of Public Opinion, New Delhi (an entirely non-official organisation), that in cotton textiles, output per man-hour moved up between 1946 and 1951 by 22.6 percent and per wage-earner by 18.7 percent. In steel, the increase was 26 percent per man-hour and 24 percent per wage-earner and in cement the increases per man-hour and per wage-earner were 80 percent and 75 percent respectively. Figures later than 1951 are not available, but the steep rise in industrial production since 1952, without a proportionate rise in the number of factory workers, leads to the presumption that the trend has been maintained. Although the real wages of labour have also moved forward, the moral, in so far as industrial enterprise as a whole is concerned, is that productivity has been on a satisfactory level.

It is sometimes stated that profits have declined and are declining, and that this would make entrepreneurship increasingly unattractive to the business community in India. Now, while it is true that gross profits (this includes managing agents' remuneration, interest charges and the provision for taxation, but excludes depreciation) have shown a decline since 1951, the estimated profits in 1954 were as high as those in 1948 and higher than the figure in 1947. According to the calculations made by the Indian Institute of Public Opinion, with 1946 base=100, the index number of industrial profits stood at 83.6 in 1947, 113.3 in 1948, and 112.2 and 113.9 respectively in 1953 and 1954. It is true that, in a few industries, profits have declined substantially, but it is also true that profits have increased considerably in others, and, taking industry as a whole, the situation is by no means as gloomy as it is generally made out. It will perhaps be said that the entrepreneur (or the investor) is not interested in gross profits, but in net profits; but even if we exclude interest charges and the provision for taxation, the position is not unsatisfactory—particularly in the context of the fact that net profits are on the decline in all countries of the world, except perhaps in the U.S.A.

Total Profits Not Down

The more important point in this connection is that total profits have not gone down, but are slightly on the increase. There has been a tremendous expansion of the market during the last few years, and, except in a few industries like paints and varnishes, jute manufactures and woollen manufactures, industrial sales were much higher in 1954 than in 1950. Thus, with 1950 base=100, we find that, in 1954, the index of industrial sales in cement was 159.4, in chemicals 161.2, in engineering 197.1, in iron and steel 111.6, in cotton textiles 113.2, in tea 155.5 and in paper 163.5. Some consumer goods industries like sewing machines, bicycles, electric lamps and fans have shown a spectacular rise in sales. In other words, the slight fall in net profits has been more than made up by increased sales. We thus see that, even in the private sector, industry is developing rapidly under two broad impulses, *viz.*, a rapidly expanding market and a gently rising level of total profits. The point to be emphasised in this connection is that industrial enterprise in India must be prepared to plough back more of its profits into industry than it has done so far. In the U.K. and the U.S.A., as also in other capitalistic countries of Europe, this has been the most important single method, in recent years, of promoting industrial enterprise. There is no reason why the same pattern should not be followed in a country where there are the additional arguments for (a) a reduction in the inequality of incomes, and (b) an increased capitalisation in the quickest possible time.

Investment

We may now consider the savings and investment position as it stands today. Has there been a diminution in the total savings and investment? As is well known, the per capita national income has increased, in real terms, from Rs. 246 in 1950-51 to Rs. 276 in 1953-54 (an increase of 12 percent). It has been estimated by the panel of economists, set up by the Planning Commission to draw up the draft of the second five year plan, that investment has been going on at the rate of 5 percent of the national income per annum during the first five year plan period, and that it would be possible to step it up to 12½ percent per annum in the second five year plan period. According to some, the above rates of investment have been underestimated: the current rate should be of the order of 7½ percent, if we take into account the increase in stocks and investment in small industries; and, similarly, we could easily plan for the second five year plan period on the basis of a capital formation rate of the order of 15 percent. The figures of Government loan floatations and small savings also point to the same trend: there has been a considerable increase in net savings and investment during the past five years and there are no reasons for thinking that the investor will behave differently in the near future.

It may be argued that a substantial portion of the increased saving and investment are flowing into the public sector and that the private sector is being left high and dry. But, here also, facts belie the popular belief. While it is not denied that the public sector is becoming increasingly important, figures show that net investment even in the private sector has increased considerably during the past few years. As *The Report on the Progress of Joint Stock Companies*, issued recently by the Department of Company Law Administration, Ministry of Finance, shows, the number of companies at the end of March, 1955, stood at 29,779 with a paid-up capital of Rs. 983.1 crores, as against 21,853 with a paid-up capital of Rs. 418.7 crores in undivided India on the eve of partition. Even of we were to exclude from the former set of figures the paid-up capital of the Government companies, the position in 1955 would still indicate a considerable advance over that in 1947. As regards the future, in the second five year plan, the allocation of additional investment (or net capital formation) would be Rs. 2,200 crores in the private sector, of which Rs. 400 crores would be in industry alone. It is true that the corresponding investments envisaged in the public sector are Rs. 3,400 crores and Rs. 1,400 crores respectively, but this does not mean that there would be no scope for the private sector. As a matter of fact, the private sector has been assigned a definite and important rôle in the second five year plan also.

Pitfalls Ahead

The above analysis does not mean that there are no pitfalls or dangers in the years ahead. There are a few factors in the situation which may give rise to legitimate misgivings. The first set of factors is inherent in the private sector itself; the second set of factors arises from the anxiety of the public sector to run before it has learnt to walk. Let us analyse these a little more closely. In so far as the private sector is concerned, a disquieting feature of recent times is the tendency towards concentration of control in a few hands. While this has been facilitated largely by the managing agency system, it would be a mistake to hold it solely responsible for the present state of affairs. As in Europe and America, the concentration of control in this country has been a direct consequence of modern industrial enterprise: industry nowadays requires huge capital, considerable enterprise and resourcefulness, plus a high degree of technical ability. These cannot be procured by the small entrepreneur. Secondly, in the competitive buyers' market which is the normal feature of modern capitalism, none but the most efficient units can survive. Efficiency, demands that the size of the business should be such as to yield the maximum production at the minimum cost. This is generally beyond the resources of the small entrepreneur.

Let us take a few instances. On the eve of World War II, 53 jute mills with a capital of Rs. 18 crores, out of a total of 100 mills with Rs. 23 crores, were controlled by 17 managing agents. Four of them controlled as many as 30 mills. Out of a total of 247 coal companies with a capital of Rs. 10 crores, 60 companies with a capital of Rs. 6¼ crores were controlled by 18 firms. Four of them controlled between them 31 companies. In tea, 117 companies were controlled by 17 firms, and five of them controlled 74 companies. A similar concentration of control existed in cement, sugar, and other industries. This control was ultimately exercised not by a few firms, but by a few individuals. According to an unofficial survey, 500 important industrial companies were managed by some 2,000 directors, and at the apex of the pyramid stood 10 men holding 300 directorships. The tendency towards concentration has further accelerated since the end of World War II. The following figures are interesting:

Number of Companies managed by six managing agents in selected industries*

	1911	1931	1951	1955
Jute	22	31	38	40
Cotton	24	27	36	39
Sugar	6	9	30	32
Tea	58	84	96	100
Engineering	6	15	21	34

* Source: *Investors' India Year Book* published by Messrs. Place, Siddons & Gough of Calcutta (relevant editions).

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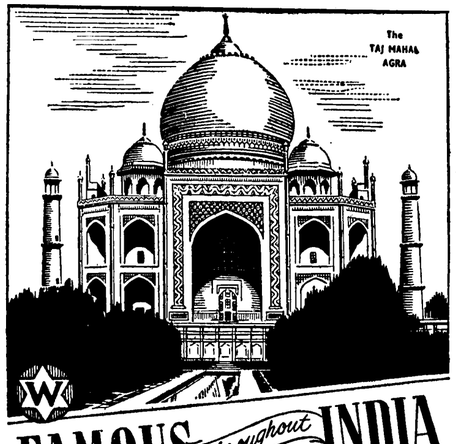
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The true extent of the concentration of control can be gauged by the number of directorships enjoyed by single individuals. An analysis of the distribution of directorships reveals that a large number of these is held by a few influential persons. In the coal industry, out of 56 companies, 51 companies with 247 directorships are now controlled by 28 persons, 7 of whom hold 64 directorships. In jute, 267 directorships are held by 130 persons, 4 of whom have 82 directorships.

Is this development in the national interest? According to some, "control is now passing into the hands of a few combines which, with their immense resources and connections, can virtually dictate policy to the Government." Can anyone blame the Government if it wants to check this tendency? It should not be forgotten that there does not exist in India today (and this state of affairs is likely to continue for a long time to come) those "countervailing powers" of a strong trade unionism or of buyers' groups which serve to regulate and moderate an economy like that of the U.S.A. It is, therefore, all the more necessary that the State should fill in the gap and act as a bulwark against the "original power" of monopolistic capitalism. The development of "countervailing power" requires a certain minimum opportunity and capacity for organisation, corporate or otherwise, amongst those who are the victims of "original power". In India, neither the shareholders nor the consumers have the requisite opportunity or capacity.[1]

We should not, however, be carried away by emotions. Let it not be forgotten that a certain degree of concentration of control is inevitable in the modern world. Leaving aside the U.S.A., the land of giant combines and trusts, do we not find the same trend in the U.K., France, Germany, Italy and even in the U.S.S.R.? In a world in which the traditional sources of power bid fair to be replaced by atomic energy, in which automation is gradually percolating into most manufacturing industries, it would be foolish to deplore the emergence of big industrial units. The really important question is whether these big units can be made to serve the interests of the common people. With a vigilant Government, clinging firmly to the objective of a socialistic pattern of society, there appears to be no doubt that this can be done: but there will be a need for constant and still greater vigilance on the part of the State.

Power in the Government's Hands

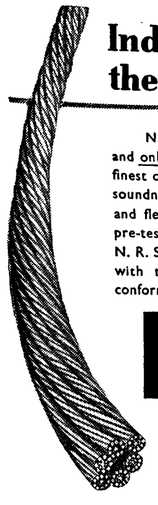
This bring us to the likelihood of "stresses and strains" arising out of the assumption of extra-large responsibilities by the State. The question here is not whether State-managed industries can be run efficiently and in the public interest: it is whether in the matter of "regulation, control and direction" of the private sector the Government will be able to rise above bureaucratic red-tape and formalism. Various controls and regulations have vested enormous powers in the hands of Government officials and the private sector and the general public are often put to needless harassment, inconvenience and delay by the "little bureaucrats" who are not always guided by the lofty motives of social purpose which animated those who conferred these powers on them.[2] Constant vigilance—of a different kind—by the Government's leading officials is required to meet this situation. The question is often asked if in the new India which is emerging the private sector will have the necessary incentives to engage in still greater efforts. The answer is both "No" and "Yes". The kind of incentives to which industrial enterprise in the private sector has been accustomed so long will perhaps decrease both in quantum and in quality. The old motive of making huge profits will have to be replaced by a new motive of serving the country and its people, with only limited profits. There should be an awareness of a social purpose in even the most private undertaking. If the mental outlook can be adjusted in this fashion, business enterprise will seize upon new kinds of incentives—the incentives of service, of promoting general welfare.

This adjustment will naturally take some time, As, however, economic development is being furthered in this country through a democratic process and not in the form of an imposition from above, there are reasons for cherishing the hope that the adjustment will ultimately take place. Echoes of this adjustment are to be found in the offer made by certain leading industrialists to serve the Government in the public sector on terms and conditions to be laid down by the latter. Even those who have not volunteered in this fashion have taken note of the new ideology and have publicly expressed their readiness to fall in line with the Government's policy. Those who have read the appeals made to business men by the Company Law Committee and the Committee on Finance for the Private Sector (Shroff Committee), requesting the latter to make adjustments in their outlook, must have noted with satisfaction that the appeals have borne fruit—at least in some sections of the business community.

It would, therefore, be a mistake to conclude that industrial enterprise in the private sector is on its last legs. Both facts and probabilities warrant the hope that the private sector, provided it can attune itself to the new outlook, will continue to play an important rôle in the economic development of the country. The fact that India has made progress should not, however, make anyone (including private enterprise) feel complacent. India continues to make progress, but she should be making and has the capacity to make, far greater progress than she has done so far.

[1] For a brilliant analysis of the concept of "countervailing power" in the economic system, the reader is referred to John Kenneth Galbraith: *American Capitalism* (New York, 1952).

[2] For a further exposition of this argument, the reader is referred to the Writer's *The Public Sector*, recently published by the Eastern Economist, Ltd., New Delhi.



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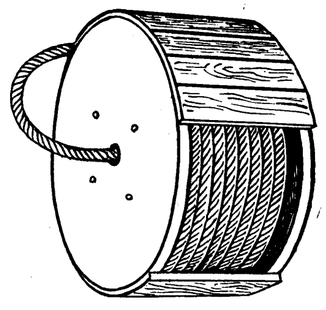
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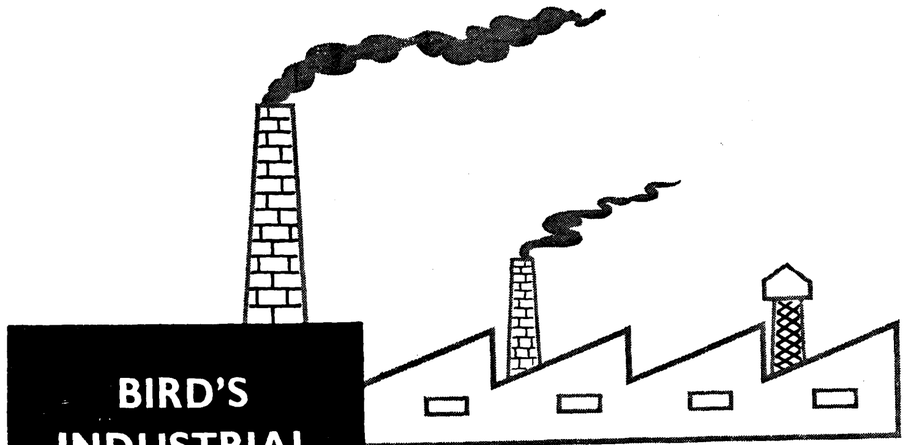
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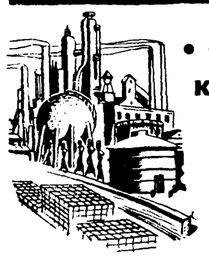
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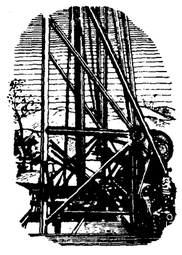
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INDIA'S FOREIGN TRADE SINCE THE WAR

NEED FOR VIGOROUS EXPORT POLICY

● By SARUP NATH ●

THE fact that the last war left the U.S. economic potential not only intact but greatly expanded, created considerable difficulties for most countries of the world. The attainment by the U.S.A. of a high degree of self-sufficiency, particularly in raw materials, combined with the rest of the world's increasing demand for American goods for reconstruction, development and current consumption, led to the emergence of the "dollar gap." In 1946, the U.S.A. and Canada had between them an export surplus of over $5 billion with the rest of the world; this rose to a post-war peak of about $9 billion in 1947.

The strengthening of U.S. economy affected India's foreign trade to a remarkable degree. Before the war, India was a net dollar earner and was, therefore, making material contribution to the gold and dollar reserves of the sterling area of which she has continued to be a member. After the war, however, her dependence on the U.S.A. as a major source of supply reversed the trend; in the post-war period, India has drawn more dollars from the central reserves than she has contributed.

The Effect of the War Years

The increased importance of the U.S.A. to India is perhaps one of the most remarkable changes brought about by the war in this country's foreign trade. In 1937-38, only 10 percent of India's exports found their way to the U.S. market, and only about seven percent of her imports came from the U.S.A. In recent years, that country has absorbed between one-sixth and one-fifth of India's exports and has supplied an even larger proportion of India's imports. The fact that our country's foreign trade has increased considerably, imparts added significance to these percentages. The following table shows how the share of the U.S.A. in India's foreign trade increased and that of other countries decreased between 1938-39 and 1948-49:—

	1938-39		1948-49	
	Exports	Imports	Exports	Imports
United Kingdom	34	31	22	24
Total Sterling Area	53	58	48	47
Other Soft Currency Areas	18	15	20	25
United States of America	8	7	15	16
Total dollar area	12	7	28	24
Others	17	20	4	4

This, however, is only a part of the story. Another way in which India's trade has been affected is that after the war she developed an unfavourable balance of trade with the rest of the world—a reversal of the traditional export surplus. This was directly attributable to the war. In wartime, the need to conserve foreign exchange for war purposes and the limited availability of goods and shipping space had acted as a check on India's imports. On the other hand, the heavy military requirements of the Allied forces in the Far Eastern theatre of war and elsewhere were met mainly from India. Her exports received a further impetus from the elimination of Japanese competition from Asian markets. The resultant export surplus made up about one-fourth of the total accumulation of sterling balances to India's credit which amounted to Rs. 1,733 crores at the beginning of April, 1946.

When the war ended, import control had to be relaxed in order to meet the pent-up war-time demand for consumer goods and arrears of replacement and repair of the industrial equipment of the country. The rising spiral of inflation was another reason for loosening the import restrictions. But while imports went up, exports diminished considerably due partly to limited domestic supplies. These factors resulted in a large import surplus, and the sterling balance dropped to Rs. 1,612 crores at the end of March, 1947, and declined still further to Rs. 1,547 crores on Independence eve when the first Sterling Balance Agreement with the U.K. Government was concluded.

Post-Partition Policy

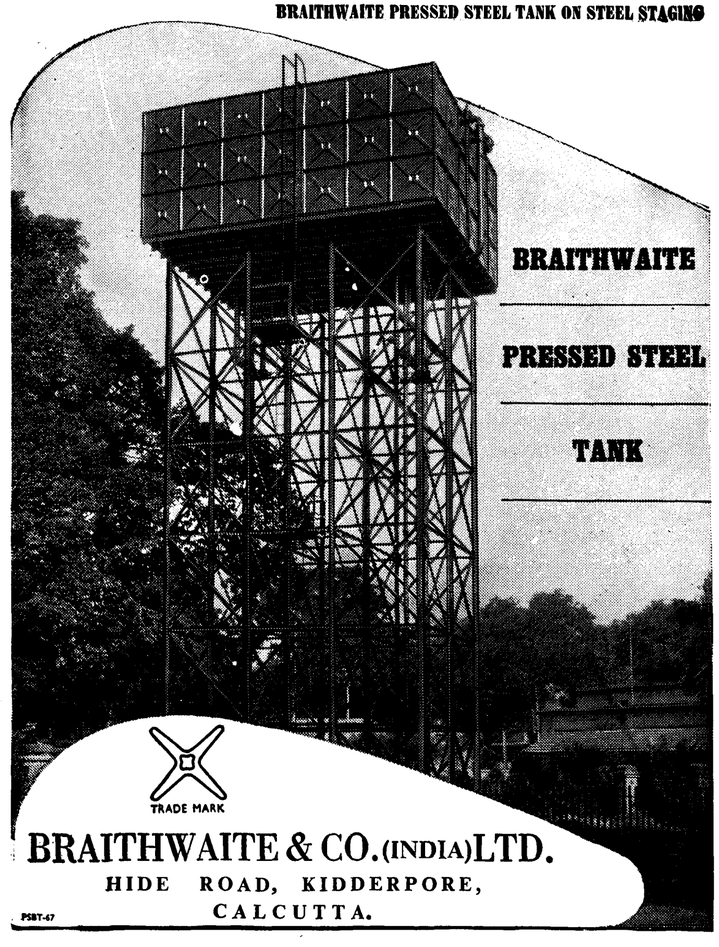
But, although India had started incurring a trade deficit even before Independence, what is known as "the big bulge" between imports and exports is directly traceable to the partition of the country. Some of the most fertile arable land, well-served by a highly developed canal system, became part of a foreign territory and deprived India of several of her internal sources of food supply. Raw jute faded out of the export picture altogether; after partition, India became a net importer of this important raw material. Raw cotton, hides and skins were relegated to a very low position in the export trade; on the other hand, raw cotton became a major import commodity. All this brought into relief the paradox that though a predominantly agricultural country, India had to devote a very considerable part of her limited foreign exchange resources to the import of such primary needs as wheat, rice, raw cotton and jute.

This change in the composition of India's foreign trade was visible in the very first post-partition year, *i.e.* 1948-49. As compared to the year 1938-39, imports of food, drink and tobacco increased from 15.8 to 24.3 percent of the total import values. The following table shows the imports and exports of the main commodity groups, as percentages of the total imports and exports of the country in 1938-39 and 1948-49 :—

	Exports		Imports	
	1938-39	1948-49	1938-39	1948-49
Food, drink & tobacco	24.0	21.0	15.8	24.3
Raw materials and articles wholly or mainly unmanufactured	45.0	23.5	21.8	30.7
Articles wholly or mainly manufactured	29.3	55.1	60.9	44.3

(Source: *The First Five-Year Plan*, Chap. XXX).

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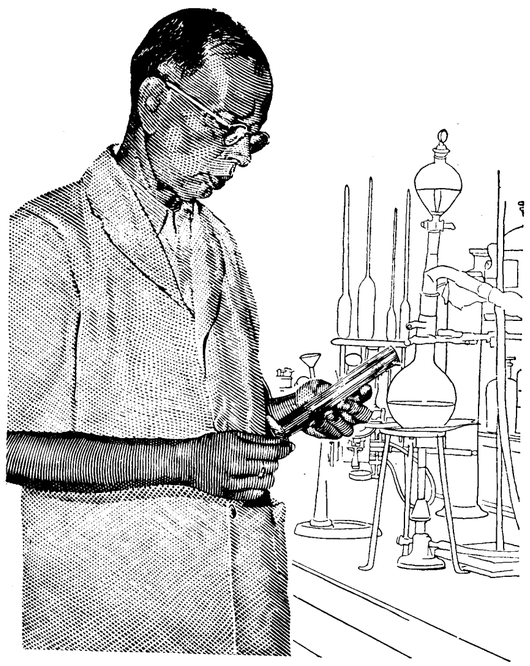


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Cotton textiles, jute manufactures and tea together accounted for 56 percent of the total exports in 1948-49 as against 35 percent in 1938-39.

In the post-partition period, the foreign trade policy of the country was dictated by certain mutually opposite considerations. Thus, food shortage and the successive bouts of inflation from which the country suffered, necessitated large imports of foodgrains and other essential consumer goods. The imports of raw materials and equipment had also to be stepped up in order to maintain and augment industrial production. On the other hand, India's foreign exchange resources were limited due to decreased export earnings and the restrictions imposed by the Sterling Balances Agreement on her right to use these balances. To be able to import more, it was, therefore, necessary to maximise exports, especially to the scarce currency areas. The main objective of the foreign trade policy was to reconcile the conflicting claims of imports and exports.

A detailed review of the various changes made in import and export trade control from time to time will show that the Government did not always succeed in that objective. Thus, import restrictions imposed about the middle of 1947 were such that only £3 million of the sterling releases had been spent between July 1947 and June 1948, leaving an unspent balance of £80 million. The inflationary impact of this policy was such that by the middle of 1948, prices had soared to unprecedented heights. In August, 1948, the Government announced the adoption of an Open General Licence (No. XI) covering a variety of consumer goods from soft currency areas. Here again, the Government was caught napping, for very large quantities of consumer goods—not all of them essential or in short supply in the country—were imported under this O.G.L. It had to be scrapped in May, 1949, but not before it had caused a considerable drain on sterling balances. By the end of June, 1949, £81 million had been over-drawn.

The Turning Point

Then the fortunes of the country turned. Devaluation of the rupee in September 1949 gave a fillip to exports and restricted imports. An eight-point economic programme was launched to counter inflationary pressures generated by devaluation, and there followed adjustments in import and export duties. When the effects of devaluation were beginning to wear off, the Korean war broke out and with it the commodity boom and the huge stockpiling programmes of the U.S.A. and other Western countries. Exports rose to hitherto unknown heights; even stocks at home were eaten into to feed the increasing export demand. Exports of mill-made cotton piecegoods were over Rs. 112 crores in 1950-51 as against around Rs. 60 crores a year earlier. The effect on exports of jute manufactures was visible only in 1951-52, when they were valued at Rs. 260 crores, as compared to Rs. 108 crores in 1950-51.

However, these were only temporary gains. The basic problem of India's foreign trade remained, and it was left to the five year plan to tackle it. The plan was conceived against the background of changes in the country's foreign trade brought about by war, Partition and subsequent economic developments at home and abroad, described above. Some of the guiding principles of commercial policy underlying the plan are:

(a) to help fulfill the production and consumption targets;

(b) to keep the balance of payments deficit within the foreign exchange resources at the disposal of the country; and

(c) to maintain a high level of exports.

It was expected that the investment and consumption targets set out in the plan would generate a domestic demand for industrial and consumer goods, which would increase the import requirements and diminish the exportable surplus of the country. On the other hand, the production targets would set in train forces which would pull in the opposite direction and reduce the pressure on foreign exchange resources, by increasing production and thereby increasing the exportable surplus and/or reducing the demand for exports. We shall now see how far these expectations have been fulfilled.

The basic objective of the plan was to increase production of food and other agricultural commodities like cotton and jute. In this main purpose, the country has achieved a considerable measure of success: the target of food production has been exceeded; that of cotton is very likely to be. The same cannot, however, be said of raw jute, the production of which, after showing promising trends up to 1952-53, again fell and is still far short of the target. This is due mainly to unfavourable weather and recurring floods. The following table shows the production of foodgrains, cotton and jute as compared to the targets fixed for 1955-56:—

	Food (million tons)	Cotton	Jute
		(100,000 bales)	
1950-51	54.0**	29.7	32.8
1951-52	52.3	31.3	46.8
1952-53	58.4	31.3	46.1
1953-54	66.0	39.6	31.3
1954-55 (estimated)	65.6	43.0	31.5
1955-56 (target)	61.4	42.0	53.7

* One cotton bale = 392 lbs.; that of jute, 400 lbs.

** Represents production in 1949-50, the base year for planning food production. The base year for other commodities is 1950-51.

(Sources : *Five Year Plan Progress Reports*, September 1954 and April 1955; and *Reserve Bank Bulletin* for September 1955).

Food imports decreased from 4.7 million tons in 1951 to 0.8 million tons in 1954. This, it is estimated, resulted in a saving of Rs. 305 crores in foreign exchange during the period 1951-54.

India's Import Policy

The trend of industrial production has been equally impressive, both in the public and private sectors. The general index (base: 1946=100) of industrial production rose from 128.9 in 1952 to 135.3 in 1953 and 146.6 in 1954. This represents an increase in output in most of the industries manufacturing capital as well as consumer goods. Thus, the index of steel output rose from 122.0 in 1952 to 130.2 in 1954; that of sulphuric acid, from 160.1 to 251.5 over the same period. Similarly, the index number of cotton textile production was 123.3 in 1954 as against 113.8 in 1952; the figures for cement were 285.1 and 229.3 respectively. The sugar and jute industries were, however, two major exceptions to the general trend.

Increased domestic output has naturally had its effect on the country's foreign trade. The import policy followed by the Union Government now is one of "selective liberalisation". This consists in liberalising imports of machinery and other industrial goods, as well as of consumer goods, the home production of which is not sufficient to meet the demand. The policy keeps in view the agricultural and industrial progress in the country and endeavours to meet any shortages that may emerge from time to time. While, for instance, liberalising the import of industrial raw materials and equipment, the policy for January-June 1954 stepped down the quotas for certain items. This policy was carried a step further in the latter half of 1954, when greater facilities for imports from hard currency countries were provided and quotas for razor blades and woollen fabrics were raised. In some cases, liberalisation of imports was accompanied by an increase in import duty, *e.g.* on motor cars, cotton fabrics and razor blades. Hard currency imports are now allowed more freely; in the case of 55 items on the Import Trade Control Schedule, dollar quotas have either been increased or portions of soft-currency licences have been validated for imports from the dollar area.

The volume index (base: 1952-53=100) of imports shows that there has been an increase in the quantum of imports from 95 in 1953-54 to 105 in 1954-55. Imports of machinery dropped from 78 to 66 and of electrical goods from 112 to 96 over the same period. But most of the other essential goods recorded varying increases. Thus, the quantum index for chemicals, drugs and medicines was 116 and 139 in 1953-54 and 1954-55 respectively; that for iron and steel, 119 and 166; and other metals, 109 and 184. Side by side with increases in the volume of imports, the quantity of exports has also increased from 99 in 1953-54 to 102 in 1954-55. The major items accounting for this were spices, tobacco, oils, oilseeds, and jute manufactures. This rise in the quantities exported was coupled with an increase in the export price index from 93 in 1953-54 to 100 in 1954-55, and a fall in the import price index from 93 to 91 over the same period. Consequently, the terms of trade improved considerably, by six points in 1953 and a further eight in 1954 in which year they were 108. Terms of trade in April 1955 were 115.

The position so far has been quite satisfactory. "The Battle of the Bulge" has been won "mainly on the fertile fields of the countryside." But the trade balance is "precariously perched". Much of the recent improvement has no doubt been due to the earlier Government investment, such as expansion of irrigation works, but it cannot be denied that extraordinarily good luck has attended us during the last two or three seasons, for there has been a succession of good crops. Apart from this, economic activity in most parts of the world has been marked by a good measure of stability and steadiness.

The Second Five Year Plan

During the first four years of the plan, foreign exchange expenditure has not caused a very heavy drain on foreign exchange resources: sterling balances dropped by only about Rs. 153 crores. But the import requirements of the second plan will be much greater; the development of heavy industries will naturally call for a larger percentage of imported raw materials and equipment. The direct import needs of the second plan are tentatively placed at between Rs. 1,000 and 1,200 crores. It is estimated that of this, Rs. 500 crores worth of machinery and equipment imports could be financed from current earnings; a further Rs. 200 crores is likely to be saved on account of increased domestic production of petrol, raw cotton, sugar and other commodities. Thus there still will be a foreign exchange gap of between Rs. 300 and 500 crores.

The need to economise in imports and promote exports will therefore be imperative. But the reducible element in imports is small: imports are already restricted to essential industrial and consumer goods. Export promotion measures, are, therefore, vitally important. The main problem of India's exports is that they lack diversity in composition and destination, with the result that a slight change in the economic situation in the main markets has a profound influence on India's export earnings. Almost 50 percent of the country's exports are accounted for by three commodities, cotton textiles, jute manufactures and tea. The following figures illustrate this :—

	Total Exports *	Cotton piecegoods **	Jute manufactures	Tea
		(In Rs. crores)		
1951-52	729	52	260	94
1952-53	573	62	102	81
1953-54	526	64	110	102
1954-55	578	62	120	147

* Excludes re-exports.

** Handloom and mill-made.

(Source : *The Journal of Industry and Trade*, August 1955, Ministry of C & I.)

Cotton piecegoods are exported mainly to the U.K., Aden, the Sudan and to other African and Asian markets. There are several threats to this commodity. Lancashire interests have been clamouring for severe action against the U.K.'s imports of Indian grey cloth. Already, there are indications of a reduced British off-take of Indian piecegoods. Again, Japan, whose textile industry has traditionally displayed exceptional competence, is fast recovering her lost potential. She has already snatched the Burmese and Pakistan markets from India. Finally, in all newly independent countries there is a perceptible shift in imports, from textiles to machinery. The first step such countries take to industrialise themselves is to erect cotton textile mills. One important outcome of this has been a shrinkage in the proportion of the world's textile production moving into foreign trade, from 25 percent before the war to under 15 percent in recent years. It is significant that Indian exports of piecegoods have so far fallen short of the target of 1,000 million yards fixed at Buxton and adopted by the Planning Commission.

The Jute Industry

Indian jute goods have likewise been subject to severe competition from Continental countries as well as from substitutes like cotton and paper bags. Pakistan is trying her best to develop her jute industry and has the advantage of starting with the latest type of machinery. The Commonwealth Economic Committee recently reported that the world now consumes less jute and jute goods than before the war. According to the report, world production of jute goods in 1934-38 was 1.9 million tons a year; by 1951-54, it had dropped to about 1.6 million tons. On the other hand, the consumption of paper bags and sacks in the U.S.A. has quadrupled over the last 15 years. Stability in paper prices, in contrast to sharp fluctuations in those of jute and cotton sacking, has helped the rise of paper. Bulk handling of foodgrains and sugar has also made much headway. The only redeeming feature is that although the high prices of jute goods have stimulated the search for substitutes, a comparable fibre at comparable prices has not yet been produced on a commercial scale. However, there is no ground for complacency, and India should do all she can to regain the lost position. The importance of this industry in her export trade is increased by the fact that burlap forms the bulk of exports to the U.S.A. A task of primary importance facing the industry today in modernisation, and the fact that the National Industrial Development Corporation has agreed to grant loans for the purpose augurs well for the future.

Export Promotion Measures

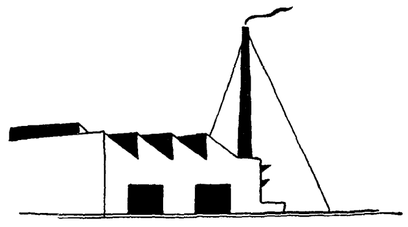
And now let us consider the tea situation. In 1937, tea formed 13 percent of India's total exports; by 1954, they had risen to 23 percent. The U.K. is the principal market for Indian tea. Although no one believes that the tea-drinking habit of the English is going to change drastically in the near future, there can be no doubt that slight changes in the British economy can and do affect tea exports and thus influence our export earnings. The recent measures introduced by Mr. Butler to curb credit and domestic spending are, for instance, likely to reduce the U.K.'s off-take of India's tea.

It is imperative that Indian exports are insulated against such influences as much as possible, and

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several important steps have been taken to diversify and increase these. Export Promotion Councils have been set up for some commodities, like cotton, rayon and silk textiles, cashew and pepper, tobacco, plastics and engineering goods. The Export Promotion Council for cotton textiles recently sponsored a trade delegation to South Asian countries with a view to exploring further export possibilities in this region. Other important markets may be visited likewise.

Another measure to promote exports is participation in trade and industrial fairs and exhibitions in foreign countries and the setting up of showrooms in important trade centres of the world. In recent months, India has taken part in fairs held at London, Toronto, Milan and Lausanne. At Cairo, our Embassy organised an exhibition of Indian handicrafts. The Indian Industries Fair, being held for the first time in New Delhi, is likely to prove of major assistance to the country's export trade.

Yet another step in the Government's policy to promote exports is the grant of a draw-back of import duty on raw materials imported for use in export industries. But the procedure for obtaining this concession, it is complained, is complicated and requires simplification. The Government is also considering an export credit guarantee scheme. An early establishment of this scheme is called for if India is not to lose some of her markets in East and West Asia and Africa. These countries would be an ideal market for Indian products, but credit facilities provided by the Japanese Export-Import Bank and the European influence on their banking and insurance systems are two great hurdles in the way of increased Indian exports to these countries. The Bandung Declaration envisages co-operation among Afro-Asian countries for setting up national and regional banks and insurance companies. Being one of the sponsors of the Bandung Conference and as the most developed country in the region, India should take the lead in the matter and provide the maximum assistance possible. Such an action would not only help Indian exports but foster intra-regional trade.

New Markets and Trade Agreements

Some measure of diversification of exports has been achieved as a result of the development of new lines of manufacture, like sewing machines, bicycles, electrical goods, handloom and other small-industry products. But much remains to be done, especially by way of improvement in quality, standardisation and market research. It is here that trade and industry have a significant rôle to play. Whatever the Government may do to promote exports, our goods will be sold only if they come up to internationally recognised standards. Not a few complaints about Indian exports in the past have been that the quality of the goods was sub-standard and not according to the buyer's specifications. Packing has also left much to be desired, and there has hardly been any sales propaganda or market research. In this connection, the remarks of Mr. Schnellbacker, leader of the U.S. Trade Mission to the Indian Industries Fair, should be noted by Indian exporters. He says: "...you should pack better and push your sales more vigorously." As regards tea exports to U.S.A. he says: "We have started drinking lots of tea although we have not yet learnt to make it well."

With a view to finding new markets and developing new lines in export trade, India has entered into trade agreements with a number of countries, and this has gone a long way towards promoting her exports. Some of the countries with which she has concluded agreements are China, U.S.S.R., Poland, Czechoslovakia, Hungary, Italy and Norway. A steep rise is reported in the Indo-Chinese trade since the signing of the trade agreement in October last year: exports from China to India have increased nine times during the one year for which the agreement has been in force. The same is true of Indian exports to China. Trade agreements with other countries have also helped Indian trade in the same way. The first five year plan envisaged a number of bilateral or zonal agreements with countries which could supply to India the capital goods and essential raw materials required for development and which were in need of goods that India could supply. These agreements have been entered into on the basis of mutual benefit and have proved to be of considerable advantage to both sides. Jute manufactures, tea and handloom and cottage industry products are some of the items appearing in the export schedules of these agreements, while capital goods and raw materials have been some of the chief imports.

But though a party to several bilateral trade pacts, India is a staunch supporter of multilateral trade and payments. As one of the original members of the General Agreement on Tariffs and Trade, she has received valuable tariff concessions from various countries in return for equivalent concessions extended by her. Some of the important countries with which she entered into tariff negotiations are the U.S.A., Canada, West Germany, France, Sweden, Australia and New Zealand. India's commercial relations with the U.K. are governed by the Indo-British Trade Agreement of 1939, and with that country she did not enter into tariff negotiations. The value of Indian imports and exports benefiting from these concessions has been as follows:—

Year	Exports	Imports
	(In Rs. crores)	
1948-49	99	90
1952-53	155	94
1953-54	135	89

The principal manufactures on which India has received concessions are jute goods, cotton piece-goods, floor coverings (carpets and rugs), coir mats and matting, tanned or dressed hides and skins, haberdashery and millinery, and pig iron. Mica, oils and oilseeds, manganese ore, raw cotton and waste and raw wool are among the Indian raw materials enjoying the concession. In the food, drink and tobacco group, tea, cashewnuts, unmanufactured tobacco and pepper are exported under concessions obtained through the G.A.T.T. Thus, about 50 percent of India's exports to G.A.T.T. countries are covered by concessions received by India.

The Value of the G.A.T.T.

As regards tariff concessions on imports, the Indian Tariff Commission recommended that the grant of such concessions should be concentrated on capital goods and essential raw materials. Important food items which enter India duty-free are rice, skimmed milk, milk foods for infants and invalids, pineapple and canned fruits. Certain acids, borax, phenol, camphor, penicillin and antibiotics, agricultural tractors and parts, wireless receivers and parts, domestic refrigerators and parts and razor blades are some of the items receiving varying types and degrees of concession on entry into India.

Quite apart from tariff concessions granted and received by India, her membership of the G.A.T.T. has been of considerable advantage to her in another way. At the ninth Review Session of the G.A.T.T., held in Geneva in 1954-55, under-developed countries at present pressing forward programmes of economic development, were able to gain valuable additional concessions by way of permission to impose quantitative restrictions on imports "to ensure a level of reserves adequate for the implementation of their programme of economic development....." and "in order to promote the establishment of a particular industry." These valuable concessions are still subject to ratification by member countries, but as soon as the requisite number of countries have agreed—of which there now seems no doubt—these new provisions will come into force. That India's leadership secured these advantages is a matter to be proud of.

Linked with the G.A.T.T. is the question of imperial preferences. The majority of people in India feel rather badly on this point, but their attitude is dictated more by sentiment than by the realities of the situation. There doubtless was a time when most of the advantage of imperial preferences accrued to the United Kingdom rather than to primary producing countries of the then British Empire. That, however, is history, and as stated by the Finance Minister in the Lok Sabha on 15th March, 1954, there are no imperial preferences that are hurting India. India's transformation into an industrial country, particularly as an exporter rather than an importer of cotton piece-goods, has shifted the balance of advantage in India's favour. She should not, however, agree to an extension of the principle except when it is distinctly advantageous to her development programme. The G.A.T.T. also looks askance at discriminatory trade practices involved in the concept of imperial preference.

A new institution, known as the Organisation for Trade Co-operation, is likely to be set up to administer the G.A.T.T. It is to be hoped that this will in fact bring about increased co-operation among the various countries in the matter of trade. Opportunities for a mutually advantageous exchange of goods are likely to increase as a result of the determination of Asian countries to raise the living standards of their peoples. It will be one of the functions of the new organisation to facilitate such an exchange by minimising the barriers to a smooth and increasing flow of international trade. This, together with the recent announcement of the U.S.A.'s readiness to negotiate tariff cuts on nearly a thousand new items, will be a welcome development for a country like India for whose economy foreign trade is vitally important.



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THE SEPARATION OF AUDIT AND ACCOUNTS

● By PROFESSOR V. G. RAMAKRISHNAN, M.A. ●

THE reports of the Public Accounts Committee as well as the debate in Parliament on State trading and the administration of public enterprises, reveal an unfortunate carelessness in the expenditure of public funds. The Public Accounts Committee has not found it possible to spare any department. Considering the enlarged scope and complexity of public spending, the strictures of the Committee cannot be treated lightly.

One of the latest reports concerns the Defence Services. The Committee has detected striking instances of over-provision and over-indenting of stores, both indigenous and foreign, which not only wasted resources but indicated lack of planning and co-ordination between different branches. Annual savings were not fully and promptly surrendered. Sometimes, supplementary grants of the order of several crores were made, even when the original grant was subsequently found to be excessive. In 1951-52, for instance, Rs. 3,18 lakhs was given as a supplementary grant for capital outlay, while the final savings on this account came to Rs. 5,98 lakhs. The Committee is strongly critical and says that the system of provisioning and inspecting stores needs a complete overhaul.

In one case, the Committee indicts a Ministry for having submitted notes without proper consideration of facts. Worse irregularities and waste were noticed in the conduct of some public enterprises, such as the Indian Airlines Corporation and the Machine Tool Prototype Factory. In the light of these revelations, the Union Minister for Commerce is right in taking the view that the expansion of the public sector into the sphere of commercial activity should be restrained.

In fact, there is an urgent need for the separation of audit and accounts as an important step in avoiding many financial irregularities and ensuring more effective control over the States' spending. In his Budget speech for 1955-56, the Central Finance Minister announced the decision of the Government of India to implement a scheme on these lines in certain Ministries. Accordingly, separate accounts and audit offices started functioning on 1st April, 1955, in the Food, Rehabilitation and Supply Ministries. This is said to be the first big scheme of separation that is being attempted although the need for it was recognised long ago.

Financial Control Paramount

The successful administration of any business, large or small, depends to a great extent on the efficiency of its financial structure. In public financial administration, the need for real and effective financial control is paramount. In the words of Professor Wilson, "without sound finance. sound Government is impossible". The important function of Parliamentary financial control is discharged by three agencies: (1) The Central Parliament and State Legislature through their respective Public Accounts Committees; (ii) the executive, through the Ministry of Finance in the Central Government and Finance Departments in State Governments; and (iii) the Indian Audit and Accounts Departments, through the constitutional and quasi-judicial authority of the Comptroller and Auditor General. The last of these is the "watch-dog" of the interests of tax-payers. The functions of the three agencies have been well summarised by Professor Hilton-Young in his well-known book *The System of National Finance*. He says: "The Auditor-General beats the bush and starts the hare; the committee runs it down, and the Treasury breaks it up". Even though the geographical conditions and constitutional structure in India are basically different from those in the U.K. the criticism levelled against the British system of financial control remains largely true in the case of Indian practice. The delayed discussion of the Audit Report on the Appropriation Accounts by the Public Accounts Committee often renders the deliberations fruitless. Sometimes the importance of irregularities brought to light in the Audit Report is lost through the lapse of time. And administrative authorities naturally tend to overlook the shortcomings of their officials. It is of little practical value to examine the regularity and propriety of expenditure after it has been incurred. Effective financial control demands an adequate pre-check of each item before money passes from the hands of the spending authorities.

The real value of audit lies in its fearlessness. This quality, in itself, constitutes a force against irregularities in spending departments. Apart from the need to subject Government transactions to the audit scrutiny of an agency independent of that charged with keeping the accounts, it is necessary to make Parliamentary control effective and thereby facilitate the optimum utilisation of money within the financial year. The broad outlines of a scheme which aims at this can be summarised as follows.

Each administrative department would have its own accounting officer. All payments would be made only after a full pre-check; and the settlement of inter-departmental and inter-Governmental transactions during the course of the financial year carried out on a cash basis through the medium of cheques and bank drafts.

Separation Commenced

The Comptroller and Auditor-General was long ago relieved of the responsibility of keeping accounts of the Railway and Defence Services transactions. The separation of the civil side has now commenced in the current financial year. Unless, however, the Comptroller and Auditor-General is also relieved of the responsibility of keeping the accounts of State Governments by an Act of Parliament to be passed under the provisions of Article 149 of the Constitution, replacing the Audit and Accounts Order, 1936, which is at present in force, the scheme of separation of audit and accounts will not be complete. The early experiment of separation carried out in the U.P. between 1924 and 1931 foundered on the rock of provincial financial stringency. The State Governments now have expanding sources of revenue and their ambitious development projects will augment their resources. The ever-widening commercial activities in the public sector are bound to be productive in the long run. Poor finance can no longer be a reason for States not undertaking the responsibility of maintaining accounts. The experience of the Indian Audit and Accounts Department is likely to be made available to State Governments in training their personnel for accounting function in the initial stages. Therefore, manpower problems need not stand in the way of this very necessary reform. Certain other broad principles need to be embodied in the scheme of separation and these are outlined below.

(i) The Secretary to each Ministry or department would be the chief accounting authority. This responsibility would be discharged by him with the assistance of the accounts officer, who would work in direct relation with him, without the interference of any other officer in the Ministry or department.

(ii) All payments relating to the Ministry or department would be centralised with the pay and accounts officer and would be subject to a full pre-check. Where payments had to be made at outstations, these would be done by bank drafts, etc. All receipts of the Ministry or the department would also be finally accounted for in his books.

(iii) One of the important duties of the accounts officer would be that as a prelude to the introduction of Exchequer control which would require a new law under Section 149 of the Constitution, he would see that no payment is made in excess of the budget allotment unless it is covered by an advance from the contingency fund.

(iv) All inter-departmental and inter-Governmental transactions, where a separate accounts officer is involved, would be settled by cheques or bank drafts. This automatically means discontinuing the mechanism of exchange and settlement accounts now in vogue.

These suggested changes are intended to make Parliamentary control over appropriations effective and to impart greater flexibility to the transfer of resources even in the course of an accounting year. Apart from the theoretical reasons why an audit authority should not maintain accounts, these considerations are of the greatest importance in bringing about the reform.

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INDIA'S UNEMPLOYMENT PROBLEM

● By PROF. S. KESAVA IYENGER ●



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PLANNING in India with a population of about 363 million is indeed a remarkable experiment in the history of democratic countries. The draft second plan will be finalised by March 1956 after eliciting public opinion. There are several riddles facing the country in this connection. But solutions are far from easy. The second five year plan has three main objectives: a 25 percent increase in the national income, provision of additional employment for about 11 million, and a substantial advance in a peaceful evolution of a socialistic pattern of society. Maximum employment is the king-pin of the second five year plan. These three objectives are not all attainable concurrently unless each is controlled at an optimum level, facilitating progress in the other two directions. For example, the substantial increase in the national income (i.e., production per man-hour) is hard to achieve with an emphasis on hand-made consumer goods. In the U.S.A., weekly hours of labour went down by 15 percent and production rose by 50 percent during the last 25 years. In India, on the other hand even factory production has a very low efficiency, as is revealed by the following figures; cottage and household production is incomparably worse for which no accurate data are available:

Labour Efficiency in Cotton Mills

Country	Number of spindles operated by an average labourer	Number of looms operated by an average labourer
U.S.A.	1500-2100	60 (automatic)
Japan	1600-2000	30-40 (automatic)
Britain	800	14-15 (ordinary) 6 (ordinary)
India	380	2 (ordinary)

Production per man-hour is very low in this country. An important factor that aggravates unemployment is the "white collar" mentality of the so-called educated class. Lastly, social traditions and prejudices are dying hard, specially among women. Superimposed on these factors is the present official policy of encouraging inefficient methods of production to increase employment in the country. Numerical intensity of labour per unit of production in household industries is no doubt high, but the question has now to be faced as to whether the teeming millions of India should remain hand workers indefinitely with their extremely low per capita productivity, or whether the labour force in the country should be trained in the modern skills of industrial technology so that a quicker means of promoting national wealth can be found.

Character of Unemployment

Unemployment means an excess of workers over jobs available. But the situation is full of paradoxes. The bottleneck of personnel for certain departments of production is to be contrasted with an abundant supply of manpower elsewhere. But, as it happens, we have no employment data relating even to a single city or a single village. Unemployment in India is not cyclical but secular. The main reasons have been the rapid increase in population and a woefully slow economic growth due to a variety of causes; the high cost structure of Indian industries; a tight monetary policy; the psychological setback to private enterprise on account of the goal of a socialistic pattern of society adopted at the Avadi Congress; the absence of specialisation in agriculture, the system of secondary and university education in vogue, and the effects of partition. Sample data collected here and there show that while production increased in organised industries, employment was practically stationary.

In this country at present, the "unemployed" include several categories. First come the able-bodied workers willing to take up gainful employment but not finding it. Next comes the bigger slab of "underemployed". These consist of two varieties. Firstly, the wage is smaller than even the minimum requirement. In the recent socio-economic survey of Hyderabad-Secunderabad city, out of 8,070 earners, 29 belonged to the no income range, 2,604 to the income range of Rs. 1-25, and 2,281 to the income range of Rs. 26-50. Secondly, wages fall far below the standard warranted by qualifications. The survey disclosed that out of 9,052 persons with an economic status, the number of persons earning Rs. 100 or less per month included:

Graduates	24
Post-graduates	2
Professional and technical (higher)	37

While 120 workers with Intermediate qualification earned more than Rs. 100 a month, 631 workers with a secondary education earned more than Rs. 100 a month, the total number being 1,753. Next in order, still bigger in numbers, is the army of "stay-at-homes" and "do-nothings" between the ages of 13 and 70, out of which a margin has to be allowed for domestic work, education and infirmity. According to the same survey, out of 19,219 persons in this age group, 10,189 "worked" at home, and 388 did not work at all. These figures put together worked out to 55 percent of the total. This may be called disguised unemployment. To make up for the voluntary idleness of such people, little boys and girls are forced to take up jobs and earn for the family, at the expense of their education and health. In the same survey it was disclosed that out of 9,052 persons with an economic status, 253 were in the age group 0-12.

Causes of Unemployment

The prevalence of a considerable number (1,096) of earning dependents was due to one or more of the following causes: (i) part-time work, (ii) cheap work, (iii) the still persisting joint family sense, (iv) insufficient qualifications for professional jobs, (v) lack of enterprise, (vi) inadequate scope for better employment, (vii) necessity of poor families to supplement their income through members taking up jobs on any terms even at the expense of education, (viii) small *mansabs*, remittances, etc. and (ix) social factors in the case of women and aristocratic families. These conditions are typical. Thus, the unemployed in this country constitute much larger numbers than ordinarily supposed, implying an incalculable waste of human capacity and talent although the manpower potential is huge. Adding up all these, the real number of unemployed can be put conservatively at 25 million, against 11 million hoped to be absorbed during the second plan period, leaving an excess of about 14 million.

Official Estimates

Even before the first five year plan period is over, the targets have been fulfilled satisfactorily, especially in the agricultural sector. It is estimated that additional employment has been provided for about 5 million, but at the end of the first plan period, rural unemployment is expected to stand at 3.8 million, and urban unemployment at 2.5 million, making a total of 6.3 million (including new entrants). Among the educated unemployed, there has been a 76 percent increase in the first four years of the first plan, as can be seen from Employment Exchange figures. Assuming that the net increase in population works out at 1.25 percent a year on the average, and 40 percent of the total population comprises the labour force, new entrants during the second five year plan period are expected to stand at 6.2 million (rural) and 3.8 million (urban), totalling 10 million. If the arrears in employment from the first five year plan period (6.3 million) are added, the total additional labour force to be provided for would stand at 16.3 million. The present plan-frame hopes to provide 2.4 million jobs in the agricultural sector and 8.6 million jobs in the non-agricultural sector, making a total of 11 million. This would leave still at least 5.3 million unemployed (wage-earners and the self-employed put together).

Labour Supply

From the viewpoint of supply, the labour force can be analysed into (1) technical and professional higher, (2) technical and professional lower, (3) non-technical educated (general) and (4) illiterate un-skilled. It is supposed in many quarters that the inadequacy of personnel obtains mostly in the first two classes. As a matter of fact, recent enquiries in Hyderabad-Secunderabad city show that



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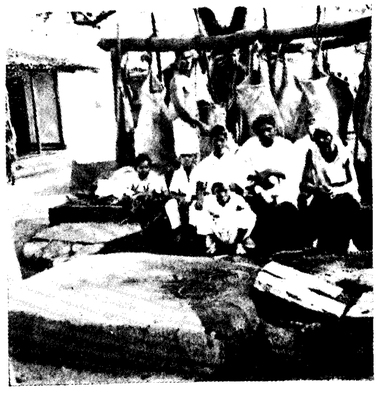
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unemployment is chronic among the first two classes. Some 24 out of 42 unemployed (samples) belonging to these categories, came under the duration of 271-365 days. There are recruitment boards, employment exchanges and Public Service Commissions in every State, but it is common knowledge that recruitment is generally not on a competitive basis, domicile, heavy application fees, long distance interviews, and other considerations coming in. This is apart from special preference shown to scheduled castes and tribes, etc. Non-competitive conditions prevail in different departments of Government service and business concerns and on grades of pay, prospects, etc. for similarly qualified personnel.

Qualification Standards

There was a time when non-matriculate Englishmen served successfully as high military and naval officers in India. Hundreds of non-graduate A.M.I.C.E.s. from England worked as executive engineers and chief engineers in this country. But at present, too high qualifications are being rigidly insisted upon for quite unnecessary reasons. For example, in recruitment to the Navy and Air Force officer ranks, difficult examinations and severe age limits are insisted on, although they cannot be justified from the view-point of their prospective duties. Beginnings have been made here and there with lower technical schools, but even today, a capable L.M.E. is debarred from taking up a degree course in engineering, and an L.M.P. from the M.B.B.S. course in many universities. Actually, the L.M.E. and the L.M.P. are respectively much better qualified for the B.E. and M.B.B.S. courses than an Intermediate (general) passed candidate. The guild mentality in universities and research institutes does not allow youth to realise its full potentialities due to artificial barriers and restrictions. Even now, Agra University does not recognise Madras University degrees and diplomas and *vice versa* and there are several educational authorities who believe that research leading to doctorates should be the monopoly of universities. In banks, factories and workshops, probationers and apprentices are few and far between, with conditions almost as inelastic as in the I.A.S.

Old Working Men

In the private sector, there are numerous cases of persons working in the age group 56-70. In the recent socio-economic survey of Hyderabad-Secunderabad city, 521 out of 8,070 were earning workers in this age group. But in Government departments, experienced and capable workers are dispensed with, only on account of "superannuation". What is more, many are retired soon after 25 years of service in the name of "unemployment"! Experience and talent, even in old men, should be utilised. Instances of premature retirements are increasing and that adds to unemployment too.

Apprentices and Probationers

It may be clear from this analysis that the disequilibrium is of our own making. The real remedy lies in democratising higher and technical education, and in rationalisation through co-operation between the public and the private sectors. At least 5 percent of apprentices and probationers should be trained by every Government department and every big concern, in each broad category, with liberal subsistence allowances. We may not introduce social credit, but we must recognise that this country is suffering from acute and chronic financial anaemia. The money supply including credit is much too small for present requirements. There are thousands and thousands of petty artisans, traders and business men who are languishing for want of adequate credit facilities. If only credit is provided up to a maximum of Rs. 2,000 per head, against satisfactory personal sureties, under-employment should go down immensely. And the Reserve Bank of India is not yet alive to the needs of urban low income groups, devoting its main attention to rural co-operative credit.

Employment Potential

As a matter of fact, so far as the employment potential of our economy is concerned, the prospect is not at all discouraging. Reference may be made to the two big avenues, namely, intensive cultivation and housing. It is common knowledge that intensive cultivation (crops like paddy, sugarcane, tobacco, fruit and vegetable gardening, plantations, etc.) pre-supposes a much larger number of labourers per acre than extensive farming. Irrigation works, big and small, will add at least 22 million acres to wet cultivation, and huge advances by rural co-operatives and the G.M.F. campaign are bound to increase employment per acre in the old areas. Hence, a minimum of 20 million additional jobs is bound to open up, provided the requisite organisational capacity is forthcoming. Rural housing is extremely unsatisfactory, urban housing not less so, in spite of the recent housing schemes of the Central Government. In the recent social-economic survey of Hyderabad-Secunderabad city, by far the largest majority of the 4,899 householders surveyed, occupied very bad houses as shown in the following table:

A class houses	73
B class houses	167
C class houses	350
D class houses	791
E class houses	1,462
F class houses	2,056

This is typical of the highly unsatisfactory condition prevailing today. The great urgency for constructing and providing modern houses for different income ranges, cannot be exaggerated. At least 10 million persons can be employed in this field, provided once again the necessary organisational ability is available. Industries, big and small, must provide at least 10 million additional jobs. In the all-round upsurge of economic activity, another 10 million workers can be expected to find employment in general services like communications, transport, trade and commerce. Thus, an additional employment potential of 50 million is quite warranted as against the provisional estimate of a 25 million man-power potential during the second five year plan period.

Basic Impediments

The basic impediment appears to be the high centralisation of finance and planning. It was announced early in 1955 that the second plan would be built up from the bottom, but the statistical plan-frame, accepted by the Government of India, is authoritarian and assumes a totalitarian set-up. The problem of employment should be handled at the village and the town level; but our village panchayats and municipal corporations are being given no chance for handling this problem. The employment potential is quite good, but how far we succeed in providing full employment depends on how far we are able to organise and rationalise. Ours is a rich country with a poor population. In an economy like ours in which production responds richly, fears of runaway or galloping inflation are quite unwarranted. It was announced recently that the Planning Commission was thinking seriously of unemployment insurance on a national scale. The prime essential in this connection is data. Let us hope that adequate effort will be put in in order to collect even approximate figures relating to several categories of employment and unemployment dealt with in this note.



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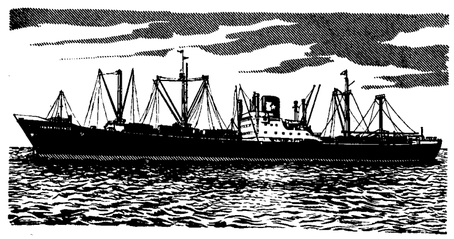
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AN employers' manifesto today might reasonably be expected to develop into a diatribe, a wail of wrath against workers for strikes, excessive wage claims, union restrictive practices, and plain bone idleness. This sentence was not written in regard to labour conditions in India; it is extracted from the sober columns of the *Spectator*, and applies to what is in danger of becoming almost a psychological problem, namely, the feeling of antipathy by labour towards employers as a class in Britain. It is applicable to conditions in India also, not so much in evidence, perhaps, in organised labour, though it exists there too, as in disorganised, undisciplined groups and coteries of individuals, and not so much antipathy as unbridled discontent. A regular perusal of the reports of cases year by year leaves one in no doubt that the feeling is increasing. One reads of savage assaults on and personal abuse of executives, libellous allegations of incitement by employers to murder, and of the bringing by them of false criminal charges, unauthorised "go slow" tactics, illegal strikes and the like. One reason for this is that, except in small individual concerns, the old personal tie between master and man based on mutual confidence and loyalty, if not altogether gone, seems on its way out; and this is because the effect of industrial legislation has been to give the workmen every sort of advantage and to leave the employer very few rights which are capable of practical enforcement. Hence the tendency in an average employer to cling tenaciously to, and enforce rigorously, such rights as he has left. Moreover, as any benevolent voluntary concession or benefit may almost automatically immediately afterwards and in perpetuity, be claimed as a legal right, the temptation is to give nothing voluntarily and to resist the demand for the concession when made.

Nevertheless a perusal of the Tribunal decisions during the past twelve months gives one the impression that there is a brighter side to the picture. In the early days of the Industrial Disputes Act the workman seemed to be in the position, *vis-a-vis* his employer, of "Heads I win, tails you lose", in that a claim, however extravagant, before a Tribunal more often than not resulted in some concession. That we began to take for granted. It is not so much so now. To the writer, it appears that the Tribunals are adopting stricter and at the same time wider standards. Not that any new principles have been laid down; but earlier principles, necessarily vaguely worded in order that they may be made to apply to the facts and circumstances of any particular case, and thereupon by their nature capable of elasticity, have been stretched so that Tribunals' decisions have been based not on expediency, or appeasement, nor only in the interests of the employers or the workman concerned in the particular dispute, but in the interests of industry as a whole, that is, the interest of the country and the average citizen.

A Sterner Attitude

This has involved a sterner attitude towards indiscipline, incompetence, disobedience, and offences, the commission of which may dislocate or hamper the actual carrying on or even the existence of the employers' business. And that is all to the good. Personal abuse leads to personal violence; and personal violence may lead to personal murder. It looks as if the Tribunal were becoming alarmed, as well they might be. At any rate there does seem to be a tendency, slight but perceptible, on the part of Tribunals in matters of discipline to uphold stern measures by employers provided that the measures are *bona fide* and are not taken arbitrarily, capriciously or for purposes of victimisation. An example of this is found in the uncompromising attitude towards "go slow" tactics. Just over two years ago, it could be, and was, seriously contended that this ruinous policy was a legitimate weapon in the armoury of labour, as much so in fact as the right to strike for the purpose of compelling employers to yield to workmen's demands.[1] At least one State Government, that of Bombay, attempted to come down heavily on the practice by refusing even to submit an otherwise *bona fide* dispute to the Industrial Tribunal for adjudication, the sole reason for the refusal being "that the workmen resorted to 'go slow' tactics during the year." It seems that the result of this "go slow" was that the national economy in this particular item of production was disrupted and the Government therefore in the words of its Assistant Secretary, "*bona fide* came to the conclusion that the employees, by reason of their conduct, namely, resort to 'go slow', did not deserve to have the dispute referred to a tribunal." In other words, "he who seeks equity must come with clean hands." This was a startling Government action and it was set aside by the Bombay High Court which issued a *mandamus* ordering the Government to arrive at a fresh decision, ignoring the fact that there was a slow-down.[2]

This decision, if one may respectfully say so, seems undoubtedly sound law, just as the Government's proposed action was sound common sense, which unhappily is not always the same thing. All the same the Government's sterner attitude, though it was in this particular case reversed, is reflected in the wider view of their responsibilities now being taken by the Tribunals. That wider view is to lay more and more stress on the interests of the country's economy than on the individual interests of the employers and workmen concerned in the dispute to be adjudicated upon. And it is about time this viewpoint was emphasised too. On 9th October, 1955, was published an award which, if it is upheld, may well prove the death blow to "go slow" strategy.[3] There had been a slowdown in the hot mills (sheet mills section) of the Indian Iron and Steel Co. Ltd., Burnpur, in 1953 and, as a result of it, there had been a loss of approximately 100,000 tons of finished and semi-finished steel to the country from this mill which had been declared a public utility concern since 1951. The Tribunal's condemnation of the "go slow" was uncompromising and in general terms: "A slow-down can never be justified under any conceivable circumstances. It is misconduct as it interferes with and pushes down production. It is an insidious process which not only does hamper production, but also acts unfairly to the employer. The workers get pay and so they are in duty bound to give production. But if they do not give that amount of production which they are normally expected to give but move slowly and sit idle, then they should not earn wages. To earn wages and not to give production can never be justified". And in answer to the question referred to it as to what was the employer's remedy in a case of slow-down, the answer was unequivocal: Dismissal.

Declaration of Lock-outs

The year produced an ingenious technical point, which is also one of practical importance, on the subject of lock-outs. A lock-out, of course, is the employers' equivalent of a strike. In a strike, the workman stays away from work; in a lock-out, the employer prevents him from doing it. Now, assume the case of an unjustified lock-out; an employer, say, acting hastily and without reasonable cause, locks out his workmen. He does not dismiss them, nor does he terminate their employment by notice; he merely says that he will not allow them to work and effectually sees to it that they cannot do so. That means, it is submitted, that the contract of service is not dissolved. The employer has not dissolved the contract; he has merely committed a breach of it. It is in full force and effect. Very well; it is the duty of a workman to report daily for work. Is he still obliged so to report day by day for work, though he has been notified by his employer that he will not be allowed to do it? The writer would have said, though with many a qualm, that he must certainly do so, if he wishes to keep the contract alive; which shows you how

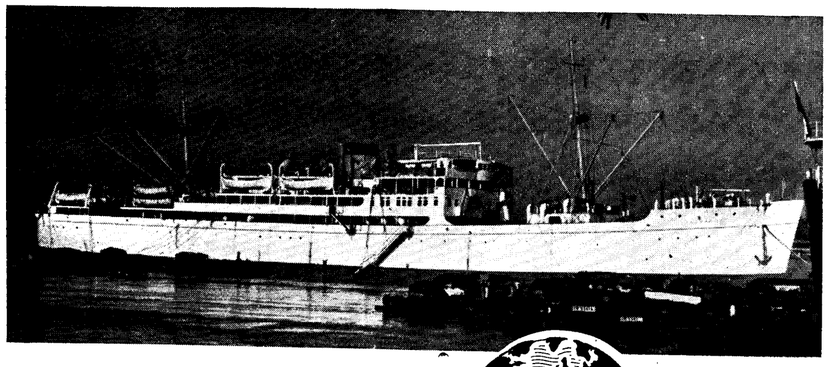
[1] *Firestone Tyre & Rubber Co.* v *Bhoja Shetty.* I.L.L.J. 1953. p. 599.
[2] *Krishnan (K.P.),* v *State of Bombay.* 1955 II. L.L.J. (Sept). 208.
[3] *Indian Iron & Steel Co. Ltd. (Burnpur) and its workmen. Statesman.* 9th October, 1955.

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(ii) Reserve Fund		Rs.	92,50,000
(iii) Deposits		Rs.	86,12,49,473
(iv) Other liabilities consisting of acceptances, endorsements, bills payable, bills for collection, etc.		Rs.	16,94,01,920
Total		Rs.	1,04,86,51,393
ASSETS			
(i) Cash and balances with Bankers		Rs.	8,05,75,142
(ii) Investments:			
(a) Investments in G.P. Notes, Municipal Loans and shares, guaranteed by the Central and State Governments	Rs. 39,92,74,144		
(b) Other investment	Rs. 1,24,87,023	Rs.	41,17,61,167
(iii) Loans and Advances		Rs.	42,30,76,802
(iv) Other Assets, including bills receivable, etc.		Rs.	13,32,38,282
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easy it is to give wrong advice. The law, as laid down by the Labour Appellate Tribunal at Gauhati, is this: "Lock-out implies that the employer will not allow the workmen concerned in the dispute to work. Thus the act of the employer in declaring a lock-out amounts to an anticipatory breach of contract on his part. The workmen thereafter must be held not to be under any obligation to present themselves for work every day during the period of the lock-out." This case concerned a tea estate, and the Industrial Tribunal had held that though the manager's action in declaring the lock-out was hasty and unjustified, the workmen were not entitled to compensation for the period of the lock-out on the ground that they did not report for work during that period. On appeal this award was reversed by the Labour Appellate Tribunal at Gauhati which held that the workmen were entitled to compensation in the shape of full wages for the whole period of the lock-out.[4]

In the case of another Assam tea garden,[5] the facts were shortly that the garden was sold as a going concern. The agreement between the vendor and purchaser provided as one of the conditions of sale that the purchaser at his option might discharge and re-employ the existing staff or might terminate their employment when the ownership of the garden changed hands. The purchaser elected to adopt the latter alternative and issued notices to the old staff to vacate the estate so that his own staff could move in and be accommodated in the staff quarters. The old staff objected to being thus thrown out of employment, and claimed reinstatement. The purchaser's argument likened the facts to the sale of a car. If X sells his car to Y, X's driver could not be heard to say that Y, the new owner of the car, must continue to employ him as Y's driver. That is undoubtedly true. But individual domestic servants are not guaranteed security by a statute, while workmen of industrial concerns are. The Industrial Tribunal at Gauhati held that, whatever the private agreement between the seller of the garden and the purchaser was, the incoming owner could not terminate the services of the old staff simply because the garden had been sold away. "Transfer of a tea estate," said the Tribunal, "by sale.....cannot be allowed to cause more unemployment leading to more unrest in society", and ordered that the dispossessed members of the old staff be reinstated, with payment in full of their salaries for the period of their forced unemployment.

Security of Locality

"Security of tenure," yes. But not necessarily security of locality. Suppose a purchaser of a going concern, wishing to staff it with fresh employees and to dispossess the old retainers, offers the latter employment of the same character far afield, say in another State, would they have to go there or lose their jobs? It seems that they would. The leading English case is so striking in the hardihood of the claim advanced by the employers that the writer has remembered it all down the years and has just looked it up again.[6] The astonishing claim was successful too, until it reached the Court of Appeal. Some 25 years ago, there was a young bank clerk employed by a bank in a branch in a peaceful town in a peaceful province in the Middle East. He wished to remain where he was, but was willing to serve anywhere else, with one exception. That one exception was Turkey, and more especially Constantinople. He had a reason for this, and you may think it was a fairly sound one. The great Kemal Pasha was the President of Turkey, and the bank clerk had been in Turkey before and had been tried and sentenced to death by hanging by Kemal in Constantinople for his opinions and activities against the "Young Turks." He had escaped from jail and from Turkey. Nonetheless, the Bank decided to transfer him to Turkey, and above all to its Constantinople branch, where he was well known. The young gentleman objected. He pointed out to his superiors that his going to Constantinople would be of no service to the bank or himself, since within a matter of days he would inevitably be arrested and hanged. The objection was not sustained and the order of transfer renewed. He refused to go and was dismissed, in consequence, for disobedience to a lawful order. Thereupon he filed his suit for damages for wrongful dismissal; and he lost it, on the ground that an order of transfer is a lawful order and one which a servant is bound to obey.

And so it is ordinarily. But the Court of Appeal, in reversing the previous decision, held that it is not a lawful order where the transfer in obedience to it would involve the servant to personal danger or disease. The Tribunal have accepted and followed the common law principle that an employee must comply with an order for transfer; but with modifications favourable to him. The transfer must not involve substantial changes in the nature and conditions of his employment to his detriment, and especially it must not be accompanied by a reduction of pay. In a Lucknow case,[7] some of the workmen employed in a particular department, on their lay-off due to slackness of work, were offered alternative jobs in other departments, but their request for an assurance that the new and different type of job offered to them would not carry lesser wages was refused by their employers. Thereupon they refused to perform the duties assigned to them. The employers, regarding this as insubordination and misconduct, proposed to dismiss them. The Appellate Tribunal at Lucknow upheld the workmen's action. "The management," said the Tribunal, "was in the wrong in not giving such an assurance. It is a well established principle now that the management has full discretion to transfer an employee from one job to another provided the job to which he is transferred is one which he can do and the transfer does not involve any reduction in wages.....The seven workmen were fully justified in asking for an assurance....." Section 25E of the Industrial Disputes Act makes the point clear. It provides that no compensation shall be paid to a workman who has been laid off if he refuses to accept alternative employment under the same employer at the same wages in the same town or village or within a radius of five miles of it.

Claim for Bonus

An instance of the new trend, referred to at the beginning of this review, towards a wider and more realistic view of what constitutes the welfare of industry as a whole was reported from Allahabad in July. It was a claim for bonus. The employers, producing their audited balance-sheet for the year in question, claimed that there had been a substantial loss. The workmen disputed this and maintained that there had been a large profit. That being the point at issue, the learned adjudicator adopted an extraordinary course. He did not decide the point at all. Said he: "There is sufficient truth in the statement of both the parties", on which remarkable observation the Appellate Tribunal later commented dryly: "It is difficult to understand the meaning of this remark when one party asserted loss and the other a profit." Having sidetracked the main issue, the adjudicator proceeded to decide the case—and award bonuses on a large scale. His reasons for so doing, enunciated, if one may respectfully say so, with rather heavy sarcasm, had they been upheld on appeal, would go a long way in support of the policy of never making voluntary presents or concessions lest they become legal rights. There had been a substantial loss in the previous year. Notwithstanding this loss, the employers had generously paid a bonus of their own accord. That fact was their undoing. The learned adjudicator said: "If they could (last year) be so generous of their own accord, I would appreciate their generosity and would deem it necessary to encourage them to remain generous if they become non-generous without any reason." And a continued dead loss being, apparently, not "any reason", the adjudicator proceeded to "encourage them to remain generous" by the imposition of a compulsory bonus. Now, a few years go, there would have been nothing remarkable about a decision like this one; the early days of the Act were days of "peace at any price." But it is refreshing to see that the Appellate Tribunal disposed of it in terms of some acerbity: "We must at once say that the approach of the learned adjudicator in this case is utterly wrong. When one party asserts that there is a loss and the other says that there is a profit, it was his duty to find out who was right.....If, in the past, this concern voluntarily gave bonus to the employees despite the fact that there was loss, that can be no reason for the award of bonus in subsequent years." The award was set aside and the case remanded back for retrial "in the light of the observations made above."

[4] *Itakhoolie Tea Estate, Tinsukia,* II L.L.J., 717.
[5] *Dahingeapar Tea Co. Ltd. and Nikhli Jute Baling Co.* II. L.L.J. 758.
[6] *Ottoman Bank* v *Chakarian.* (1930). A.C. 277.
[7] *J.K. Cotton Spg. & Wvg. Mills Co. Ltd.* 1955. (October) II. L.L.J. 393.
[8] *Obettes Ltd., Mirzapur.* 1955. II. L.L.J. (July). 25.



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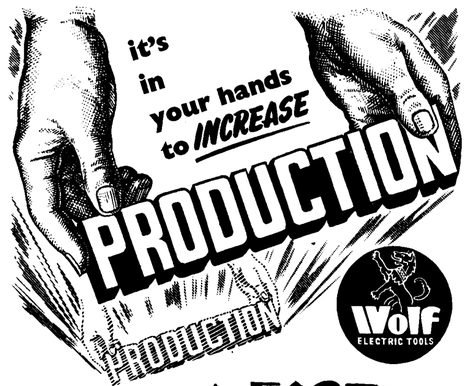
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Actually the year brought a clear and definite statement of the principle involved from the Supreme Court'. Their lordships observed: "The claim for bonus can be made by the employees only if, as a result of the joint contribution of the capital and labour, the industrial concern had earned profits. If in any particular year the working of the industrial concern has resulted in loss, there is no basis nor justification for a demand for bonus." Which is what some of us have been wearily contending for years, and on which one is duly grateful for a final and authoritative ruling by the highest court in the land.

Definition of "Workman"

During the year was reported the usual crop of attempts, often successful, to enlarge the scope of the Act by including, as coming within the meaning of the word "workman", persons who by no stretch of imagination in the dictionary or colloquial sense could be regarded as such. The main test to be applied in order to decide whether an employee is a "workman" or not is whether he is doing substantial, clerical or manual work for hire or reward. Note that word "substantially". It does not appear in the definition of "workman" in Section 2(S) of the Act, which says simply "any skilled or unskilled work" etc. and its rather belated inclusion now[10] may indicate a determination on the part of the Tribunals, not indeed to restore the dictionary meaning—things have gone much too far for that—but at any rate to prevent the word becoming mere gibberish, meaning nothing at all. For instance, you would hardly look upon a creative professional artist as a horny-handed son of toil nor as a clerk. Yet, in our last year's annual review, we had to report that that is what an artist actually is. It is a real pleasure to report now that this truly astonishing decision was the subject of an appeal by the employers and that the appeal succeeded. Two professional gentlemen, artists by occupation and working under a chief artist, had to draw pictures. They were dismissed and applied for reinstatement, each as a "workman" under the Act. They won their case and reinstatement was ordered by the Tribunal. On appeal by the employers[11] this decision was reversed by the Appellate Tribunal, which held that an artist is not a workman. "Each and every artist has undoubtedly a creative talent...and his work is mainly an expression of this creative talent .....and the pictures of any two artists on one and the same subject bear an impress of the individuality of the artists.....whose painting.....can by no means be compared with the routine work of a clerk."

Another illustration of the stricter trend, a case from Allahabad, involved the position of a sub-editor.[12] In passing, we may mention that in March, by the Working Journalists Act, 1955, all the provisions of the Industrial Disputes Act which apply to workmen were made to apply to "working journalists." The employers carried on the business of publishing books and magazines and in the latter connection employed the applicant as a sub-editor. His employment having been summarily terminated, he applied under the Act for redress. His work had been editing stories and also a certain amount of clerical work. But note again the use of that word "mainly". The Tribunal held that "he was doing mainly editing work" and therefore he was not a 'workman." Could he come in under the new Working Journalists Act? No. To qualify under that, the journalist must have been employed in a newspaper office, and an establishment publishing stories only is not a newspaper office. An interesting decision that, and one that may go further.

Artists and Doctors

The fact is that you cannot dismiss any claim as being too preposterous to deserve consideration. Look at the case of those two artists. And what, one suggests, could be more nonsensical than for a doctor, a qualified registered medical practitioner, to claim to be mainly engaged in manual or clerical work? But it is not nonsensical at all. The claim has been made several times, especially on behalf of tea garden and mills' assistant doctors. And this year saw it disposed of by the Allahabad High Court.[13] A doctor is not a workman under the Act. What is more, his compounder is not either. Perhaps this case may go further too. One feels a bit dubious about that compounder. If he had been a qualified chemist, a member, say, of the Pharmaceutical Society, one would have no doubt or very little. He is a quasi-professional man. But all a compounder has to do mainly is to mix medicines in the proportions ordered by the doctor, and surely that is merely skilled manual work? However we have now a High Court decision and know where we are, which is all to the good. And this case again illustrates the stricter trend.

Another attempt to distort the meaning of a plain word involved the Nellimarla Jute Mills Company Ltd., Madras, a company which for the benefit of the children of its employees runs several schools. Is a schoolmaster a "workman"? "Yes, he is," said the Union, "he does clerical work", and though it sounds barely believable, argued in support of this contention that teachers "have to do clerical work inasmuch as teachers have to use their hands and have to write on blackboards" etc. The Labour Appellate Tribunal disposed of this in three short sharp sentences: "Teachers' work is neither clerical nor manual. Their main duty is to teach pupils and that is entirely brain work. That being the position, teachers are not 'workmen' as defined" in the Industrial Disputes Act.[14]

A lady confidential secretary? She is a "workman", her work being mainly clerical. Rather an amusing feature in this case was that the lady secretary concerned strenuously objected to receiving the status of a "workman" and disclaimed by counsel any interest in the benefits accruing therefrom. But the Appellate Tribunal made Mrs. O'Reilly a workman willy nilly.[15] In our last year's review we referred to the fact that the Act was beginning to nibble at the professions, and cited the case of an eminent firm of chartered accountants. The nibbling has been at the word "industry" which has been so mangled as entirely to lose its ordinary commercial meaning, namely "a branch of trade or manufacture". (Oxford Dictionary). One might think that a chartered accountant carries on a profession, not an industry. This is, we now know, a wrong view. On appeal it was held that a firm of chartered accountants must be considered to be employed in "industry" within the meaning of the Act.[16]

Other Cases

But the Appellate Tribunal drew the line at accepting the contention that an assistant engineer, working as a shift engineer and having control over workmen under him and his main duties being supervisory, was a "workman";[17] and (as a further example of the tendency to a stricter view) a checking inspector of a bus company, who had to enter buses for checking and submit written reports daily to his office, was held by the Tribunal at Madurai not to be a "workman". That seems a borderline case of which one may hear more.[18] And a travelling sales representative, canvassing and securing business and submitting written reports but also making suggestions and recommendations for improving sales and securing business, was held not to be a "workman".[19] Finally, and as indicating in a striking manner the stricter view, there was the case of a gate sergeant in charge of the watch and ward department of a tannery with watchmen and jemadars under him. It had been held long before that a durwan is a workman. But the Appellate Tribunal, reversing the Adjudicator's decision to the contrary, held that a gate sergeant is not.[20] Summing it up, the essential point to be considered in all these "workman" cases is whether the employee concerned is doing "substantially clerical or manual work for hire or reward."

There were some interesting cases of retrenchment, discharge and dismissal. One case concerned a lunatic. Would you consider yourself entitled to discharge a workman in your employ if he became insane? The question is not so easy as it may sound. The writer personally knows of the case of a doctor, a specialist in cancer, who was a certified lunatic. He suffered from the delusion that all lawyers, especially solicitors, were Imps of Satan and that a confederacy of them were engaged in a conspiracy to swindle him out of his property; in all other respects, he was a kind-hearted, lovable man; and he was the author of a then recognised textbook on cancer. There was a scarcity of civilian doctors during World War I and the authorities were advised that his mental infirmity was no bar to his entering into and continuing in a contract of service and no ground for its termination if entered into. It is common sense really. The test was, could he do his work in every way satisfactorily? He could and he did.

Retrenchment for Insanity

But here again the Tribunal was—and rightly so, one submits—stricter than the common law. The workman here could not do his work satisfactorily by reason of his insanity. He was harmless and appeared to have recovered. But holding that this might be merely a lucid interval, the Appellate Tribunal gave permission to discharge him without retrenchment compensation. Conviction of a workman for a criminal offence and even a jail sentence do not necessarily entitle the employer to dismiss. Apart from any provision in the standing orders, which in any case would not be conclusive as regards the Tribunal, it is impossible to lay down a hard and fast rule. To justify dismissal, the offence must be one of "moral turpitude". But what is "moral turpitude"? A prohibition offence is not. Nor where in a domestic quarrel where a workman indulged in a stabbing affray and went to jail for it was this held to involve "moral turpitude". The test seems to be whether the crime or offence is one which will affect the faithful discharge of his duties to his employer by the workman. If the conviction is on a personal matter, taking place outside the employer's premises and having nothing to do with the relationship of master and servant, nor conflicting with the fulfilment of implied or express conditions of service, it is not a matter for dismissal. This may seem odd. A man stabs another under the above conditions. If the victim dies he will be hanged for it. But not sacked.[21] No moral turpitude. Odd, very. Nor will the employer be able to dismiss the workman for absence without leave and without explanation. He has a first-class explanation. He was in jail. "And this should be accepted by all reasonable men as having prevented him from attending to his normal duties till the expiry of the period of sentence.[22] It may be a comforting reflection to a gentleman serving, say, a life sentence that if it is commuted 20 years later he has a lien on his job. That seems the logical outcome.

Frequently, in tea estates and the like, husband and wife are both employed. What is the position with regard to the employment of the wife when the husband is rightly dismissed? Husband and wife are not one entity. They are independent of each other in their relationship with the employer. Each is employed in his or her own right. What happens if the wife, after her husband's dismissal, allows him to come and live with her in the quarters given her by the employer? Nothing. She is perfectly entitled to do so. Except that if the employer can prove—a very difficult matter—that there is reasonable apprehension of a breach of the peace, order or discipline, he can refuse to let the husband occupy the quarters. But the employer cannot dismiss the woman merely because she happens to be the wife of a man who has been dismissed for misconduct. A possible remedy suggests itself so that on the discharge of one spouse the other may be justifiably discharged automatically; and that is to make it clear in a written contract of service that it is the family that is recruited and not husband and wife as individual employees. Go one, go all.

Too Many Frivolous Cases

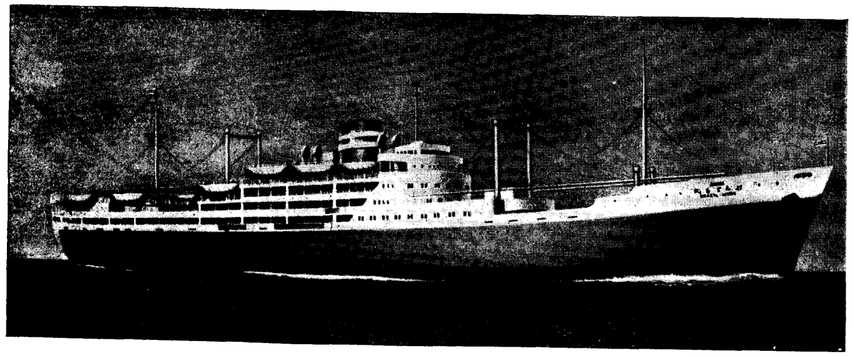
Summing up the year's cases one derives the impression that a totally disproportionate number of them are frivolous, vexatious, and brought about with the result, if not the main object, of causing loss to the employer. Take the case of the patriotic gentlemen who were so overwhelmed with sorrow at the demise of the late Mr. Stalin that they were too prostrated to work and demanded that the whole factory be closed that they might mourn for him.[24] The demand being rejected, they went on an illegal strike, and the employers having withheld privilege leave in consequence, the workmen set the machinery of the Act in motion to obtain redress. The Tribunal turned down the claim. But apart from the expense, delay and inconvenience of being compelled to defend this fantastic claim, the employers had been illegally deprived of the services of some 300 workmen. This sort of thing happens again and again; and one is forced to the conclusion that insofar as the various statutes have as their object the creation of mutual goodwill, good faith and co-operation between employers and workmen, they have not been and are not an unqualified success; with which understatement, and with the reminder that some of the above cases may be the subject of pending appeal and indeed may have been reversed, we will conclude the year's review.

[1] *Muir Mills Ltd.* v *Suti Mill Mazdoor Union.* (1955-1. L.L.J. 1).
[10] *Trichy-Srirangam Transport Co. Ltd.* 1 L.L.J. (1955, June) 608.
[11] *Advertising Corporation of India.* 1. L.L.J. (1955 October). 448.
[12] *Mitra Prakashan Ltd.* 1955 (Sept.) 11. L.L.J. 335.
[13] *Lakshmi Devi Sugar Mills Ltd.* 1955 (July) 11. L.L.J. 1.
[14] *Nellimarla Jute Mills Co. Ltd.* 1955 (Feb.) 1. L.L.J. 171.
[15] *Burmah-Shell Ltd.* 1955 (Aug.) 11 L.L.J. 155.
[16] *Price, Waterhouse, Peat & Co. (Kanpur).* 1955 (Sept.) 11. L.L.J. 273.
[17] *East Asiatic Co., (India) Ltd.* 1955 (April). 1. L.L.J. 419.
[18] *Trichy-Srirangam Transport Co. Ltd.* 1955 (June). 1. L.L.J. 608.
[19] *B.I.C. Ltd., Kanpur.* 1954 (Nov.) 11. L.L.J. 535.
[20] *Cawnpore Tannery Ltd.* 1955. (Oct.) 11. L.L.J. 459.
[21] *Binny Beach Engineering Works Ltd.* 1954 (Nov.) 11. L.L.J. 610.
[22] *Ibid*
[23] *Singampatti Group of Estates.* 1954 (Nov.) 11. L.L.J. 725.
[24] *Goodlass Wall Ltd.* Ibid. 573.

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WE often congratulate ourselves on arriving at the right answer for the wrong reasons. Is it something perverse in human nature or some instinctive atavistic worship of the goddess of chance that gives us so much satisfaction when by quite irrational processes, or by pure luck, we find that we have done the right thing? For most of us this result is far more satisfactory than to pursue the dictates of reason and common sense which, we can see long before the end, may not do us any good at all. It needs a philosopher or a zealot to set more store by the means than the end. He who does so is either blessed with exceptional integrity, or cursed with exceptional myopia. It is all very well to say that it is better to travel hopefully than to arrive, but surely it is particularly gratifying to find that you have reached your journey's end after you were quite convinced that you had lost your way; to stand on the summit after you have followed, against all reason and sound advice, a direct route beset by crevasses and avalanches rather than the patient, orthodox, circuitous approach.

These thoughts encourage me to propound two views which are so heretical for an employer and an industrialist in the private sector that they shock me as I write them down. The first is that rationalisation in industry, in the sense of increase of workload as distinct from modernisation of processes, is at present inopportune: and the second is that cottage and small-scale industries are far more worth preserving and developing than the mill industry in its present form. I would not blame any stout capitalist or colleague in industry if, having read as far as that, he were to conclude that "the man is mad", and turn on to the next more interesting article on, say, the "Redeployment of Labour" or "Automation in Industry". He would be quite right to be interested in such subjects. I believe that both redeployment of labour and efficiency and economy in industry will eventually come—I nearly said even in India, but I mean especially in India. They are the end, the goal, the summit which will be the salvation of India's economy. But they are a long way off, and the more I think of it, the more certain I am that they will not be reached by what may seem to many the obvious paths. There will be no steady march along the broad, intelligible highway of efficiency. The shortest way home (still a very long way) is, in this case, a twisting path through many obstacles, and though its end may be towards the sunset, we are now travelling along it with our faces in the opposite direction.

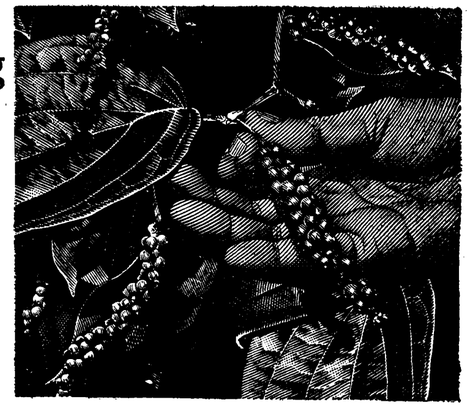
The Agricultural Industrialist

Now, I can see some of my socialist and trade union friends, patriotic Indians, ardent for the welfare of their people and the advancement of their country, eyeing me suspiciously. What is this fellow getting at? For what purpose is the devil quoting our scripture? I will answer them frankly, and though they may not immediately like my answer, I hope I may persuade them that it has something in it. India's economy is, and always will be, predominantly agricultural. Agriculture is far and away India's most important industry, and with her population increasing at the rate of over four millions a year, it is absolutely necessary for India's survival, let alone prosperity, that she devotes by far the greater part of her skill, energy and manpower to the efficient practice of agriculture. That is what I mean by redeployment of labour. Eventually I am certain it must come to pass that 90 percent of the present industrial population in India will leave the crowded, filthy cities and work on the land and in the villages. There will be nothing retrograde in this. Theirs will not be a bucolic occupation, in any contemptuous sense. They will work with the most modern tools and methods, and advancing science will place its treasures at their disposal. They will live in villages or small townships unrecognisable in their amenities by comparison with the Indian villages of today. They will not all be driving mechanical ploughs or combine harvesters, or breeding poultry or working on dairy farms. Most of them will be engaged in a veritable swarm of small industries clustering round the main centres of the agricultural industry, of which the nuclei will be great storage depots of agricultural produce, which will develop out of the State warehouse scheme that finds its first modest mention in the outline of the second five year plan. On some other occasion, I hope to expand my ideas about the place of agriculture in the public sector of industry, but the point I wish to make here is that the cottage and small scale industry of today should not be regarded as a poor, backward, mediaeval anachronism, for the artificial respiration of which the mill industry is being unreasonably held back on its march forward in the van of progress. That, at the moment, certainly appears to be the truth: but truth is as fluid as time, and, looking forward, it is possible to discern that what is an inefficient cottage industry today will tomorrow be the backbone, ribs and joints of India's body economic, of which the heart and blood vessels will be the agricultural industry. Village industry will be subsidiary to the agricultural industry in the sense that it will supply many of the goods and services required by agriculture and will in many cases be the first market for its produce, which, processed or semi-processed, will either go straight into consumption or be passed on to the mill industry for finishing.

Plea for Smaller Units

I suggested earlier that cottage or small-scale industry, by which I mean the network of village industries, satellite to agriculture, is worthy of more effort to preserve and develop than the mill industry in its present form. The present tendency is towards the development of the mill industry into larger and larger units. I believe this to be a tendency in the wrong direction. Large units may be inevitable in the heavy and engineering branches of industry, but in most consumer goods industries, I am sure that the future pattern ought to be one of small, specialised, highly efficient units. Large groups of large units become difficult to control efficiently, and, contrary to what might be expected, their overheads become disproportionately large. There is nothing wrong in groups,

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but the units are better managed when they are small. More important still, in small units there is usually closer contact, and therefore better understanding between management and labour. Labour relations, as many of us know from bitter experience, are not easy in the large, combined textile mill, where every process, from carding and spinning to dyeing and bleaching is carried on in the same premises, and where 500 discontented doffers can stop the work of 6,000 other workmen. I believe that the ultimate aim of the mill industry should not be to combine and expand, but to contract and divide into small units, linked in groups if need be, but operating independently, with the most modern machinery and with a minimum of workmen. It is worth waiting for this to happen by a spontaneous movement of labour from the mills to the land, rather than trying to force the pace and provoke resistance which might delay the process. Outright retrenchment on economic grounds is often justified; but to endeavour to get more work out of unwilling workmen usually ends in frustration. Let the workmen be attracted from the *chawls* and slums of the cities to work on the land or in the villages, and to produce the raw material or semi-processed goods to be finished by the comparatively few workmen who remain in the cities, highly skilled, well paid and having at their service the best equipment that science can provide. That, I am sure, is the true and healthy pattern of industry for a country which God has endowed with enormous space, abundant raw materials and a prolific population. The agricultural industry will feed the people and the village industries; the village industries will partly supply the people and partly feed the mill industry; and the mill industry will supply the finer end of the internal demand and the export markets.

Dangers of an Expanding Mill Industry

The time it will take to achieve such a pattern (if it can be achieved at all), and whether the transition is smooth or difficult, depends largely on the attitudes taken by the parties involved. I would not like to claim that the Planning Commission or the Government see the pattern of the future in any way like the one I have described, but some of the policies advocated, and even put into practice, are not wholly inconsistent with it. Cottage and small scale industry is to be preserved, made more efficient and encouraged to expand, in order to check the spread of unemployment or under-employment. The mill industry is to be restricted where it competes directly with cottage industry. Thus far, perhaps, there is no inconsistency with my forecast; but it seems to me that a mistake is being made by treating these two branches of industry as if they were natural enemies, and mulcting the one to subsidise the other; by placing the mill industry under statutory and fiscal handicaps not suffered by the cottage industry; and by obstructing the mill industry from modernising its plant and processes, or reducing itself in size—in fact, encouraging it to expand in certain directions. The latter policy is to prevent unemployment, but it cannot do so effectively; indeed, it increases under-employment, than which there can hardly be anything more demoralising. It also suggests a confusion of objectives. Under-employment will not be removed—not at any rate without a steep decline of economic standards—by seeking to expand the mill industry while keeping it inefficient, nor by injections of artificial life into a cottage industry awkwardly suspended between a far-from-prosperous countryside and an unsympathetic mill industry. It could be removed by a vast and determined effort to improve the basic agricultural industry, from which will flow the prosperity and expansion of satellite village industries, serving and being served by a mill industry, the latter raised in efficiency but reduced in comparative size to a plane where competition with village industry or its effect on employment has no meaning.

The mill industry itself is at present pardonably confused. In some directions, owing to the steady increase of its manufacturing expenses, it is already losing ground to cottage industries—for instance, in hosiery and footwear,—without any statutory or executive intervention. Its remedy is to "go finer", to produce better quality goods more cheaply, but the installation of more efficient machinery is vetoed in the interest of maintaining employment. The alternative is to try to get more work out of labour, but the increase of workload is strongly resisted. There remains the doubtful expedient, since labour has to be maintained and will not work harder, of working longer, with three shifts, Sunday working and the like. Greater production is the result, without improvement in quality or increase in profits. But greater production is taboo because it competes with cottage industry, and that affects employment. The circle is complete. The only apparent hope of breaking it is by getting better and more work out of labour for the wages paid: hence the insistence on rationalisation of methods rather than processes.

Labour and Rationalisation

I think it is probable that the sense of frustration among industrial employers blinds them to the probability that if they were to relax their efforts to fight against this resistance by labour; even to abandon certain positions won with much difficulty, such as four-loom working instead of two, and the equivalent in other departments and industries; if they were content for a time to accept less efficient work, and refuse to pay more for efficiency, such is the contrariness of human nature that labour would soon begin to demand what it had so far resisted, its right to be allowed to earn higher wages for more and better work. If employers showed no eagerness to rationalise, (the first effect of which, in any case, is often a fall in efficiency), rationalisation, or some less prejudicial synonym, would, before long, be in the forefront of labour's demands, and with better reason than its present opposition to it. In fact, examples of such a change of attitude have already been observed. A much healthier process, and one which might have results of incalculable benefit to industry would then be set in motion. Employers would no longer have to do battle in the labour courts in order to retrench, or have to rely on "natural wastage" to reduce their labour force. Once labour has seen the light and the demand for rationalisation and modernisation gathers force, labour itself will advocate measures to reduce its numbers, for rationalisation will not be possible without it. The idea will progress apace if it can be claimed as labour's own. The advantages in better conditions of work and higher earning power will be so apparent that the process will not end until the pattern of small, highly efficient, modernised industrial units has been achieved. If, during this process, the agricultural industry, in the widest sense, and the village industries, have been developed with energy, labour displaced from the mills will return cheerfully to land and to villages able to absorb it and to provide full, healthy and profitable employment.

I hope that, by now, my thesis that rationalisation is at present inopportune and that cottage industries are not an anachronism, but have an important future, may sound a little more reasonable to other than socialist ears. In the case of socialists, presumably, my sermon is to the con-

(Continued on page 123)



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STATE FINANCE IN INDIA

● By V. R. NATARAJAN ●

WITH the attainment of political independence the finances of India have become a matter of great and growing importance. It is no exaggeration to say that the State finances have become the linchpin of the Indian economy occupying as they do a strategic position between Central finance on the one side and local finance on the other. State finance has to be viewed not only from the point of view of the financial relations between the Centre and the States but also in terms of an analysis of the State revenue and expenditure and their effects on the well-being of the community. Such an analytical study is important especially in view of the increasing activities of the States with regard to development projects and social services. The new concept of a "welfare state" and the "socialistic pattern of society" calls for an augmentation of State revenues and expenditure. The Taxation Enquiry Commission has rightly focussed public attention upon the problem of State finances.

Certain broad facts should first be noted in any consideration of the present position and future outlook of the States of the Indian Union. Even in the case of class A States (ex-provinces) there has been considerable dislocation in the finances owing to the boundary changes which have involved the loss to Pakistan of two whole States (N.W. Frontier Province and Sind) and portions of two others (West Punjab and East Bengal). In a number of cases, small ex-Princely States have been amalgamated with the neighbouring States. It is only when boundaries of class A States are settled and ex-provincial finances take shape that they will be readily comparable from year to year.

In respect of ex-Princely States also the changes in boundaries have been considerable because of the unification of some of the small States; for instance, Saurashtra (a union of Kathiawar States) and PEPSU (Patiala and East Punjab States Union). Financially most of the States relied on the customs revenue levied on their neighbours and only one or two had income-tax earnings.

The Constitution allocates to the States a wide range of potential taxes of which the limits are set rather by the poverty of the people than by the Constitution. The most important sources of State revenue at present are sales taxes, land revenue and stamp duties, excise on liquor (being important only in certain States, West Bengal and Bihar). The most important new taxes only partially exploited are the taxes on luxuries, including entertainments, betting and gambling, taxes on vehicles and agricultural income-tax. Other potential sources of tax revenue are taxes on advertisements (except advertisements in newspapers which are on the Union list) and succession and estate duties.

Sources of Taxes

The table at the end of this article shows the recent growth of the revenues, State by State. The growth of the revenues of Bombay and Bihar is remarkable, as also those of West Bengal and East Punjab. All States are steadily expanding their finances, even if we take into account the three-fold rise in the price level. The extent to which different States have made use of the available sources of revenue has varied. Before the war, the land revenue was the mainstay of provincial finance in Bengal, U.P., Madras and the Punjab. Bengal and U.P., (following Bihar, Orissa and Assam) have introduced the agricultural income-tax but their total revenue from this source is still negligible. In Madras, U.P., Bombay and Bengal, the excise on liquor used to be a major source of revenue. But Madras and Bombay have gone dry and in U.P., which has adopted a policy of partial prohibition, excise revenue has declined by Rs. 1 crore. In West Bengal excise revenue actually rose from Rs. 3.55 crores in 1947-48 to Rs. 5.97 crores in 1949-50.

Another recent source of revenue is the sales tax. This tax was first imposed in Madras in 1939-40, to make up the loss in excise revenue and it has now spread to every class A State. The remaining considerable source of class A State revenue is the share of the income-tax (but not of the corporation tax) which is assessed and collected by the Union Government and then redistributed to the States as an unconditional block grant. This is one of the most important financial links between the Central Government and the States. The expansion of the share of income-tax in the State revenue may be seen from the tables listed at the end of this article.

In 1935 provision for the distribution of Income-tax was a 50 percent allocation to States over and above "the amount attributable to Central emoluments and Centrally administered areas". This arrangement was confirmed by the India (Provisional Constitution) Order, 1947, and has not been altered in the Constitution. For the first five years from 1947, however, only the excess of the revenue from the income-tax and the railway surplus over Rs. 13 crores was to be distributed. The initial percentages going to different States were fixed by Sir Otto Niemeyer. (*Vide* Table).

The basis of the Niemeyer award was never published but it was stated that three factors were included, weighed as follows: Population 25; collection in the province 35; general adjustment 5. With Partition, a new basis for distribution became necessary. An interim allocation was made in 1947 and in 1950 a more formal inquiry was conducted (on the basis of the evidence submitted by the States) by Mr. C. D. Deshmukh which came into force on 1st April, 1950. But this is also a transitional arrangement. The main difference between the Deshmukh award and the 1947 allocation was that the U.P., Madras and Bihar were slightly worse off and West Bengal and East Punjab slightly better off on account of their refugee problem and other Partition expenses.

From the point of view of the States, there are several disadvantages in the system of allocation of revenue from defined taxes in preference to grants from the Central revenue pool. There is uncertainty as to the amount that will be available on account of the fluctuating nature of the revenue from particular taxes and the inability of the States to control the proportion which the Central Government chooses to distribute. One of the main arguments for reserving income-taxes to the Central Government is that it can better stand the fluctuations in the revenue of a tax which is closely connected with changes in the national income. To transmit these fluctuations to the State revenues is to lose a large part of the benefit of centralising the income-tax. A grant from the central pool has none of these disadvantages.

Another complication of the system of income-tax distribution is the transitional position of the ex-Princely States which are now entitled to a share of the income-tax. The transitional arrangement requires that half the income-tax revenue collected in these States is to be allocated to the respective States and this will be set against the amount of the compensation grant allotted to them for a period of five years. As regards revenue from the jute export tax, formerly part of the revenue from the tax was re-distributed to the jute-growing provinces. This arrangement ended with Partition and the transfer to Pakistan of the most important jute-growing areas, and pending the recommendations of the Finance Commission *ad hoc* amounts are payable to West Bengal, Assam, Bihar and Orissa for a limited period in compensation for the loss of revenue, and the Neogy Commission Report has laid down the main lines on which these problems have to be tackled.

States' Powers and Duties

From the financial point of view, the most important powers and duties on the State list are the following. (Schedule 7, list II.)

Public order, police and justice, etc., except for the Supreme and High Courts; local government in all its sections; public health and sanitation, including water; intoxicating liquors: production, possession and sale; relief of the disabled and the unemployable: education, including universities except national universities; libraries, museums, etc., local communications; agriculture and pest control, including veterinary services and irrigation; improvement of livestock, etc., gas and gas works.

In addition, the following entries on the concurrent list (Schedule 7, list III) include the most relevant subjects on which the Union and State Governments have joint rights and duties: economic and social planning; social security, social insurance, employment, and unemployment; welfare and labour; vocational and technical training; relief and rehabilitation of displaced persons; mechanically propelled vehicles; electricity.

It will be seen that the social services have been almost completely allocated to the States as well as important duties in connection with agricultural development. The States have elaborate plans for industrial and general development and they administer funds supplied by the Central Government for important inter-State projects, *e.g.*, the Damodar Valley Scheme. The table below shows the growth of State expenditure. The most interesting aspect of State expenditure concerns development. State development programmes have had a chequered career. The first stage was marked by great activity during which State industries and projects involving public ownership were eagerly planned; in the second stage the programme had to be halted owing to the rapid expansion of costs, due partly to the continuous rise in world prices of materials and partly to the nature of the projects which called for increasing imports; in the third stage the Central Government had to cut loans and grants owing to balance of payments difficulties. Certain States, however, were able to continue their programmes independently, either from current revenue surpluses or by drawing from bank balances accumulated during the war.

Centre's Loans

The Central Government normally gives loans for long-term projects such as irrigation works and electrical development, and grants for social service investment and especially for increasing food output. Since in recent years Central assistance has covered more than 50 percent of a State's development expenditure, this dependence on Central help greatly influences the tempo of its development expenditure and it could be an important factor in a counter-cyclical fiscal policy. In all States the amount of development finance derived from State loans is small, perhaps owing to the current conditions in the capital market.

The States have now to bear the responsibility of meeting the cost of social services. Before World War II, for instance in 1938-39, the total revenue of all the States in India came to only Rs. 84.74 crores. Out of this grand total, the total sums spent as well as the per capita expenditure on social services in different States varied widely, as it was largely conditioned by their financial resources. The lack of funds, the appropriation of a large part of the revenue by the Central Government, and the puritanism of the old Gladstonian doctrine of a balanced budget were the main causes of the neglect of the social services. The creative role of a well-articulated policy of deficit-spending was not accepted in the past. The science of public finance has since undergone a radical transformation under the influence of the "new economics." Finance is now regarded as a servant and not as a master of society. According to the modern conception, the budget is concerned with the income and expenditure of the community as a whole, and in the words of Beveridge, it has become a "manpower budget". It is the acceptance of these new financial principles which lies at the bottom of independent India's vast projects for national reconstruction. At the same time, it is necessary to bear in mind not only the inflationary possibilities of deficit spending but also the effects on distribution of extravagant public expenditure. Public expenditure, even for productive purposes, should be defrayed as far as possible out of the proceeds of taxation and borrowing.

Borrowing Powers of the States

The States cannot issue a fresh public loan without the permission of the Government of India so long as they have outstanding obligations to it. Otherwise they are virtually in as good a position as the Central Government in respect of loan finance. Like the Central Government they are clients of the Reserve Bank. The outstanding provincial debt was consolidated into 45-year issues on the advice of Sir Otto Niemeyer as part of the provincial financial settlement in 1935. State debts are covered by real assets and are of a more productive (income-yielding) nature than those of the Government of India with certain exceptions, *e.g.*, loans of West Bengal, East Punjab and U.P., incurred for the rehabilitation of displaced persons. State (Provincial) debt is classified by the Reserve Bank into (i) Permanent (long-term); (ii) floating; (iii) loans from the Central Government; and (iv) unfunded.

The recent State loans are a real pointer to future State borrowing. All the loans floated in August last have been over-subscribed in some of the States, showing thereby the prestige of some of the States in the capital market. Madras is unique in this respect as it has adopted the strategy of making a successful appeal to small and medium investors, and other States might as well follow the example. With the right psychological approach to the small and medium investors, State

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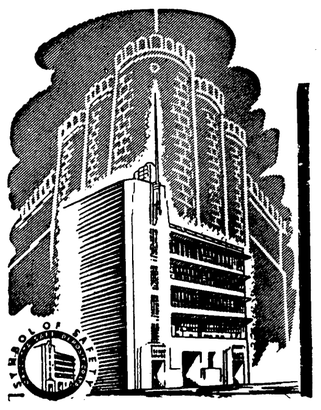
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loans in the second plan can aspire to higher and higher targets, especially in view of the snowballing funds in the hands of provident fund institutions and insurance companies.

Financial Practices of States

The revenue and capital expenditure of the Government of India and the State Governments is now shown separately, but the separation between revenue and capital items is not very precise. In some States, a part of capital outlay on industrial development, forests, irrigation, electricity schemes and civil works is financed out of the revenue. Similarly, while some States have provided the allocation to the contingency fund out of the capital budget, in Assam, West Bengal and Madhya Bharat the allocation was made by debiting the amounts to the revenue budget under the expenditure head "Miscellaneous", which is open to objection on the ground that it inflates the expenditure of the States. In the case of the ex-Princely States formerly reserves were built out of the current revenue irrespective of the general economic situation in the States and no attempt was made to utilise these funds for developmental and social services. In the new federal set-up of India there is a great need for co-ordination between the Central and State Governments. Such co-ordination is sought to be secured to some extent by Central grants-in-aid which are capable of being adjusted to counter-cyclical policy; the State plans are prepared and kept on that basis and co-ordination is also partly secured through the borrowing programmes of the State Governments and through conferences of State Finance Ministers. In India the first conference was held in the year 1948, followed by a similar conference in October 1952, with a view to securing the greatest common measure of agreement among the various States in the formulation of their financial policies and the preparation of their budgets.

Taxation Enquiry Commission

The Taxation Enquiry Commission, in Volume III of its Report, discusses at considerable length the problem of State taxes. Since the sales tax has now taken the place of the land tax as the main source of State revenue the Commission has discussed the various problems connected with the fiscal and administrative aspects of the former. As regards the future policy, the Commission has pointed out that, in essence, the sales tax must continue to be a State tax emphasising at the same time that the inter-State sales tax should be the concern of the Union Government in the interests of inter-State trade. Discussing the future pattern of the sales tax in the States, the Commission came to the following conclusion:—

"It is desirable that the sales tax, in a suitable and not unduly burdensome form should reach the lower income groups and cover a larger number of persons. For this to be possible, the rate of tax has to be low and the system a multi-point one. But this can only be one feature of the tax. For the middle and higher incomes and for dealers at a higher level of turnover, the multi-point aspect of the system should co-exist with the levy of a single-point tax". The Commission recommend, for the more efficient and effective functioning of this tax structure, (1) the constitution of sales tax advisory committees in each State for the maintenance of proper liaison of the sales tax department with trade and industry; (2) the establishment of sales tax tribunals in all States, as independent authorities to decide final appeals on sales tax disputes; (3) the setting up of an Inter-State Taxation Council, for exchange of information on sales tax administration between one State and another; and (4) the establishment of uniformity in sales tax law and procedure through the instrumentality of the proposed inter-State Council. The Commission have also discussed a number of other miscellaneous taxes and in discussing the question of land revenue, it is pointed out that owing to a variety of causes land revenue has ceased to be the main prop of State revenue and the extension of Agricultural income-tax to all States is urged so that ultimately it might be merged with the income-tax.

The Future Outlook

The success of a modern government depends in a very large measure on the financial resources which it can command for carrying out its policies. The self-rule of the Indian people, if it is to fulfil its ends, must be based on a sound financial footing. This does not necessarily mean that high taxation is a condition of the successful working of self-government. Taxes will have to be raised under the new Constitution according to people's capacity to pay. The chief merit of the financial organisation of an independent India need not lie in raising less revenue or further retrenching expenditure than at present but in raising revenue wisely and spending it productively. We shall do well to remember in this connection Gladstone's saying that "Good finance consists more in the spending than in the collection of revenue". Nothing is more naïve than the view entertained in some quarters that under a national regime the Government of the country will be less expensive or that the taxes will be lower. Economy can and must be effected in various ways. Substantial economies in existing expenditure could be brought about by a comprehensive reorganisation of the system of administration, but it would not be possible beforehand to make any definite allowance for the effect of any such reorganisation. In fact, it is a mistake to suppose that the cost of administration under the new political order will markedly fall off. In dealing with the financial foundation of the Government of new India, it is necessary to ensure that a sufficient field is made available for raising money by taxation. The field of taxation assumes a definite constitutional importance under a system of Federal Government. The autonomy of the Central and the State authorities in their respective spheres, which is the essence of federation, implies that each of these governments should have unhampered fiscal powers, that is to say, a division of the spheres of government must also mean a division of the available sources of taxation, and the problem of federal finance in India has largely been one of finding a suitable basis on which to allocate the existing or potential sources of revenue between the States and the Centre appropriate to their functions.

Future of Federal Finance

The shape of Indian federal finance in the future set-up will depend in a large measure on the changes in the Central and State finances in the years to come. Traditionally, the States in India are believed to have the primary responsibility for nation-building, and the Centre's functions are regarded as being limited chiefly to defence and external affairs. Much has happened in the past to question this rather facile assumption. The technical requirements of economic development are often found to include the need for Central co-ordination and direction and the pull towards the Centre has been felt and yielded to only too often in the past. Against this, there is at present only a feeble sentiment in favour of State autonomy. But unless this is strengthened by developments in the financial sphere which either make the States affluent or leave the Centre with a large surplus, the domination of the Centre will be irresistible. The outlook, therefore, for the future of federal finance seems to be an indefinite continuance of the present expedient of divided heads of revenue, as between the States and the Centre with the latter's predominance in the financial map of India.

Revenue from Sales Taxes

	1950-51 in lakhs of rupees	1951-52 in lakhs of rupees.	1952-53 in lakhs of rupees.	1953-54 in lakhs of rupees.	1954-55 in lakhs of rupees.
	Sales Tax Receipts				
	Part A States				Madras
Madras	1586	1559	1323	1400	950
					Andhra
					315
Assam	55	77	83	96	72
Bihar	440	422	371	372	272
Bombay	1458	1188	1069	1514	1567
Madhya Pradesh	235	232	214	195	195
Orissa	85	111	112	110	130
Punjab	178	167	172	189	215
Uttar Pradesh	493	481	446	505	526
West Bengal	519	562	524	476	457
	Part B States				
Hyderabad	73	106	187	200	200
Madhya Bharat	42	91	98	129	139
Mysore	129	142	122	120	130
Pepsu	30	46	46	48	46
Saurashtra	6	16	14	70	70
Travancore-Cochin	259	244	224	230	260
	Part C States				
Delhi	..	..	105	110	112
Vindhya Pradesh	..	..	16	18	18
Manipur	..	1.95	2.27	2.00	2.00

State Revenue (Rs. crores)

State.	1938-39	1941-42	1946-47	1948-49	1949-50	1954-55
Madras	16.13	19.55	57.00	57.04	55.75	44.60
Bombay Bengal (West from 1947)	12.45	16.86	40.18	50.94	52.86	72.38
	12.76	14.94	39.66	30.59	32.83	39.93
U.P.	12.80	16.50	32.65	49.04	55.73	77.16
Punjab (East from 1947)	11.17	15.40	29.36	14.46	15.93	22.19
Bihar	5.24	6.55	16.27	22.79	25.23	32.11
M.P.	4.27	5.31	11.88	17.27	19.00	28.83
Assam	2.58	3.28	7.19	7.95	9.10	14.12
Orissa	1.82	2.07	4.61	7.90	8.90	14.12

(Andhra State : 21.10 crores of rupees in 1954-55.)

Land Revenue (Rs. crores)

State	1938-39	1941-42	1946-47	1948-49	1949-50	1954-55
Madras	5.13	5.25	5.48	4.92	5.31	4.71
Bombay Bengal (West from 1947)	3.55	3.95	3.66	3.90	3.97	7.40
	3.24	3.54	4.04	1.79	1.79	2.15
U.P. Puniab (East from 1947)	5.82	3.97	6.82	6.78	6.78	19.22
	2.64	2.92	3.73	1.62	1.62	2.22
Bihar. C. P. & Berar (M.P.)	1.32	1.35	1.39	1.40	1.37	3.93
	2.12	2.25	2.58	2.99	3.47	5.58
Assam	1.13	1.21	1.79	1.57	1.62	2.14
Orissa	.46	.52	.51	.55	.54	1.40

(Andhra State : 3.35 crores of rupees in the year 1954-55)

Growth of State Expenditure on General Account. (Rs. crores.)

State.	1938-39	1941-42	1946-47	1948-49	1949-50	1954-55
Madras	16.10	18.67	56.99	57.04	55.66	45.18
Bombay. Bengal (West from 1947)	12.80	15.25	36.42	51.91	52.41	72.19
	12.77	15.50	42.41	30.82	32.44	53.31
U.P. Punjab (East from 1947)	12.80	16.48	32.63	48.47	55.58	81.03
	11.61	13.70	25.51	26.05	22.92	23.14
Bihar	4.93	6.01	14.39	22.80	19.17	39.73
M.P.	4.71	5.12	11.55	17.27	18.80	30.68
Assam	2.99	3.31	5.70	8.22	9.52	16.70
Orissa	1.81	1.92	4.49	9.13	8.76	14.86

Andhra State : Rs. 22.02 crores of rupees in the year 1954-55)

State share of Income-tax (Rs. crores)

States.	1938-39	1941-42	1946-47	1948-49	1949-50	1954-55
Bengal	.30	1.48	5.97	5.01	4.88	7.30
Bombay	.30	1.48	5.97	8.78	8.54	10.22
Madras	.23	1.11	4.48	7.53	7.32	5.58
U.P.	.23	1.11	4.48	7.94	7.72	9.72
Punjab	.12	.59	2.39	2.09	2.03	2.02
C.P. & Berar	.08	.37	1.49	2.51	2.44	3.12
Bihar	.15	.74	2.99	5.43	5.28	6.02
Assam	.03	.15	.60	1.25	1.22	2.01
Orissa	.03	.15	.60	1.25	1.22	2.10

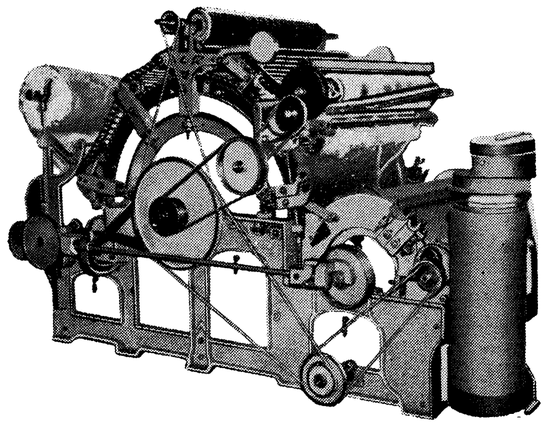
(Andhra State : Rs. 3.24 crores in the year 1954-55)

Percentage Distribution of Income-tax to the States.

State.	Niemeyer award —1936.	State.	Ad hoc award (1947)	Deshmukh award (1950)
Madras	15	Madras	18	17.5
Bombay	20	Bombay	21	21
Bengal (undivided)	20	West Bengal	12	13.5
U.P.	15	U.P.	19	18
Punjab (undivided)	8	East Punjab	5	5.5
Bihar	10	Bihar	13	12.5
C. P. & Berar	5	C.P. & Berar	6	6
Assam	2	Assam	3	3
Orissa	2	Orissa	3	3
North Western Frontier State	1			
Sind	2			

N.B.—As regards the allocation of income tax fixed percentage shares of the divisible pool have been prescribed for both Part A and Part B States in the following manner Part A States—Assam —2.25; Bihar—9.75; Bombay—17.50; :Madhya Pradesh—5.25; Madras—15.25; Orissa—3.50; Punjab—3.25; Uttar Pradesh—15.75; West Bengal—11.25; Part B States—Hyderabad—4.50; Madhya Bharat—1.75; Mysore—2.25; Pepsu—0.75; Rajasthan—3.50; Saurashtra—1.00; Travancore-Cochin—2.50.

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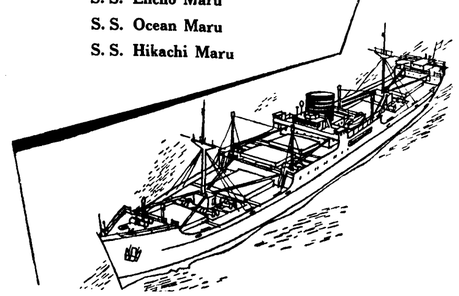
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THE PATTERN OF RETAIL TRADE IN INDIA

• By S. R. SARNA •

WHAT is the place of retail trade in an expanding economy? The retail trade, in essence, is a mechanism which registers the consumers' demands, or to be more precise their preferences, and when it has run its full cycle, is indicative of the distribution of consumer goods after they leave the producer. Therefore, the pattern of production, and also of employment, in an expanding economy, is set by, and gains motion from, the chain-action arising from the consumer's preferences and the pattern of consumer-expenditure. For, if the average income levels rise, the pattern of the consumer's choice and consequent expenditure tends to become more widely diffused and a part of his income will certainly be spent upon goods which were hitherto beyond his reach, or upon a very different category of goods from that at present in demand. When the need arises for the provision of a wider variety in increasing quantities, a series of shifts or diversifications in the present pattern of production will follow. Production cannot take place or be entered into, on an adequate scale, without resultant changes in the previous patterns of investment as well as of employment. The retail trade therefore does not only translate production into consumption, but also acts as an economic indicator of the material progress of the nation and is a sure measure of gauging any fluctuations in the standard of living.

The retail trade in India, however, has not received much attention for the purposes of economic studies, compared with that given to foreign trade or wholesale trade in the domestic sector. But, retail trade is expected to attract more interest as a result of the new approach to national planning, recommended in the plan-frame for the second five year plan. Among its objectives, is the development of heavy industries for the manufacture of producer goods to strengthen the foundations of economic independence, an increase in the production of consumer goods as much as possible through the household or hand-industries, the provision of an adequate market for the products, and the development of factory-produced consumer goods in a way not competitive with hand industries. It is explained that this programme of increasing the supply of consumer goods on account of the increasing purchasing power and consequent demand, would also quickly generate a large volume of work all over the country.

Consumer Expenditure

So far no attempt has been made to estimate the total consumer expenditure in the country, or the total volume of retail transactions which form a part of the total consumer expenditure. Therefore, in the absence of factual information, we fall back upon *ad hoc* surveys, according to which the expenditure on consumer goods per capita is about Rs. 22 a month or Rs. 264 per annum, of which about Rs. 13 a month or Rs. 156 per annum is spent in cash and about Rs. 9 a month or Rs. 108 per annum is the value of consumption of home-grown food and home-made articles. These estimates are for all classes taken together. The position of the poor sections is much worse. Half the population of India, or 185 million persons, spend less than Rs. 13 a month or Rs. 156 per annum on consumer goods, and possibly half this amount is consumed in kind or in the form of home-grown food and home-made articles.

On the basis of these estimates, by multiplying Rs. 156 spent in cash by each individual per annum with the population of 360 millions the total volume of retail trade amount to Rs. 5,616 crores per annum. This estimate of the total volume of retail trade is also corroborated by sales-tax returns. The total receipts from sales-taxes were nearly Rs. 65 crores in 1953-54. On the basis of an average rate of one anna to the rupee of goods sold, though the rates vary from State to State, the total sales transactions amount to Rs. 1,040 crores. But these receipts on sales transactions do not include (1) sales transacted on exempted goods, (2) sales transacted by unregistered dealers, (3) sales taking place in unaffected areas, (4) sales falling below the minimum level of outturn and (5) sales for which payment of sales-tax was avoided. It can be safely assumed that the volume of all these unaccounted sales may be approximately more than five times that of the accounted sales, thereby raising the total volume of retail trade to Rs. 5,200 crores.

Pattern of Retail Trade

The pattern of retail trade closely follows the budget bounded by the family shopping basket or the pattern of consumer-expenditure, for retail-trade is symptomatic of consumption, though of consumer goods only. The pattern of consumption or consumer-expenditure, in a country like India, which belongs to the group of under-developed countries with a predominantly agricultural economy, moves on pre-determined lines. On account of the increasing growth of the population, coupled with the minimum purchasing power indicated by a low national income, the shopping basket based on a family budget is a shrinking entity, which does not allow much scope for the consumer's preferences, and the need to live is the main determining factor in the consumer's expenditure. Barely subsisting, and faced with a perpetual deficit in the family budget, the majority are forced to decide on the vital priorities for various expenditure-items which make up the pattern of family budgets or consumer-expenditures. The only regular source of information, as to how people apportion their expenditure is the cost-of-living index, from which the allocation of various items such as food, housing, clothing and footwear, fuel and miscellaneous necessities can be gauged.

This weighting of the family budget or the pattern of consumer-expenditure has led to a similar shaping of the retail trade. The subsistence level of living in India has forced the people to spend nearly 50 percent of their income on food articles which accounts for the preponderance of shops dealing in foodgrains and food-products, as against cloth-shops, fuel-stores, provision-stores and shops dealing in other essential goods. By comparison, the supply of goods mainly concerned with comforts and luxuries in the sphere of retail trade is scarcely appreciable or adequate due to the lack of funds in the family budget for these requisites. Whatever trade these non-essential requisites have been able to divert can be accounted for by reducing prices through economies of mass production or by the changing fashion in consumption habits through advertisements and sales promotion techniques or by altered living standards through fluctuations in personal incomes.

This pattern of retail trade is expected to undergo a series of changes, because of an increased purchasing power, resulting from planning efforts already undertaken or proposed and because of huge investments in heavy industries and construction works which consequently are likely to generate a large demand for consumer goods. The plan-frame of the second plan visualises that the investment in consumer goods industries, both factory and non-factory, though small in amount as compared with that in the so-called heavy industries, is nevertheless designed to bring about an increase in output of about 25 percent. (20 percent in factory consumer goods and 33 percent in non-factory consumer goods) during the plan period. This increase in output, as well as in purchasing power, will naturally lead to a matching expansion in retail activities. Moreover, the shifts in the pattern of consumer-expenditure as a result of a rising level of income, may be followed by changes in consumption habits as well as in the standard of living, and throw open the market to many pent-up demands which will have to be met by a large expansion in the retail trade.

Organisational Structure

The most striking thing about the retail trade is that the natural tendency of the consumer's preference is towards variety, special services and additional conveniences which sellers are equally eager to provide. So long as customers are prepared to go to the most convenient shops, although prices may be higher, and are unwilling to travel to shops offering better bargains, it will pay to establish new retail stores wherever the demand is greatest. Therefore, the bigger the population the more opportunities exist for a widespread retail trade and highly competitive business. In this respect, India, under an expanding economy and with a population of 365 million, offers unlimited scope for the retailer.

It is a pity that there is no arrangement for a periodical census of domestic trade in India, on the model of the "Census of Distribution" in the United States of America, for no authentic information is available about the number of trading establishments, people engaged in the retail trade, the volume of consumer-credit, profit and loss accounts, the extent of inventories and the total cutturn of sales. A rough idea, however, can be formed about the population engaged in the retail trade, on the basis of the 1951 census.

Employment in Retail Trade in 1951

Nature of retail trade	Employers	Employees	Independent	Total
Foodstuffs	167,516	293,356	1,793,142	2,254,014
Fuel	19,386	42,643	130,978	193,007
Textiles	67,835	103,975	387,845	559,655
Unclassified	169,665	360,627	1,577,713	2,108,005
Eating houses	56,802	237,040	164,450	458,292

From the foregoing table, it appears that independent or self-employed retailers, usually occupying small shops, are by far the more numerous in proportion to the large store owner-employers. It is estimated that three-quarters of the total volume of the retail trade, which stands at Rs. 5,600 crores per annum, passes through the small shops. Such a widespread dispersal of trade through the medium of the lowest grade of private enterprise is indicative of an equally widespread coverage of demand-supply schedules, a quick turnover and flexibility in the chain of distribution, leading to much diversification of retailing activity. But this growth is not without its disadvantages. It leads either to excess or idle capacity in, retail undertakings, resulting from a diminishing number of 'loyal' clientèle. Another disadvantage is that the smaller units are bound to suffer in competition with big businesses because of their low stocking and campaigning power, limited range of service and small provision for convenience to customers. Credit facilities and other conveniences, if and when provided, further impinge upon the holding-power and the struggle for existence in business competition tells adversely upon the smaller units. Therefore, a rationalisation of this sector of the retail trade is urgently required, if the coming rise in consumption and the expansion of consumer-expenditure is to be met adequately.

Big Stores

Let us next consider the larger retail stores, of the owner-employer class. These big stores may be either large-scale shops, or departmental stores where various commodities are sold under the same roof but in separate departments, or chain-stores which are run under a country-wide chain of stores managed by a central undertaking such as Bata Shoe stores or Delhi Cloth Mills. All these big stores are mainly an urban growth, where the effective demand for jewellery, leather goods, pharmaceuticals, radios and gramophones, glass and china-ware, electric goods, carpets and other luxury goods is very large. Complete information about the working-results of the big stores is unfortunately lacking, but a rough idea, about the number and the annual income, can be formed from the Income-tax statistics. The following table shows the number of assessees engaged in the retail trade and their total annual income assessed to income-tax and super-tax:—

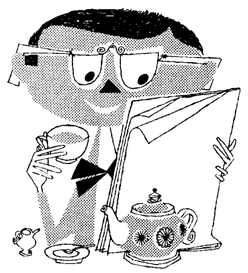
Drapers, Grocers etc.

Year	Drapers, Grocers etc.		Large Scale Concerns	
	No. of assessees	Annual Income (Rs.)	No. of assessees	Annual Income (Rs.)
1949-50	1,10,881	69,57,62,586	562	8,40,72,322
1950-51	1,07,055	69,83,99,371	733	5,76,51,317
1951-52	1,63,765	1,04,18,64,644	1,232	17,75,17,148

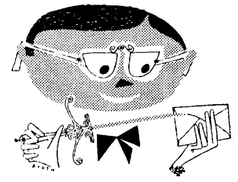
The category called large-scale concerns in the foregoing table corresponds mainly to the class called big stores, including department-stores.

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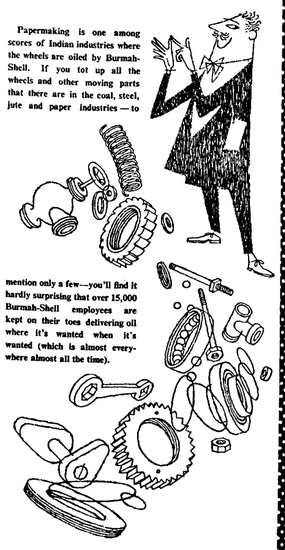
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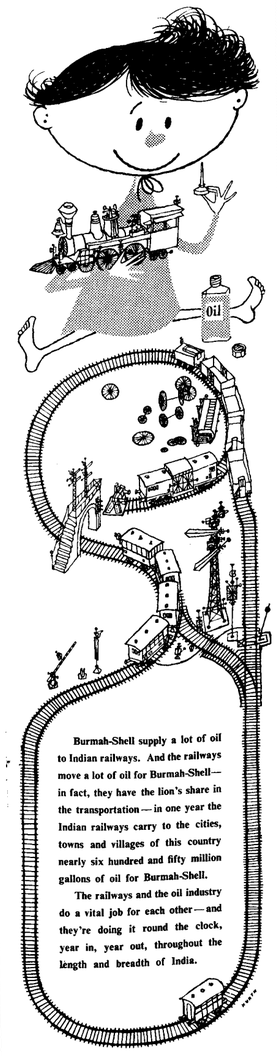
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It isn't only that oil lubricates the wheels of the engine and coaches. Those wheels have been made with the help of oil.

Oil helps to produce the coal that gets the steam up.

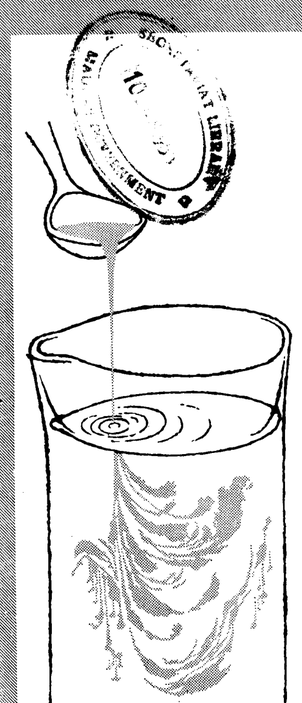
It is thanks to oil that you can sit down to a meal in the restaurant car.

And there's oil in the signal lamps all along the line.



Burmah-Shell supply a lot of oil to Indian railways. And the railways move a lot of oil for Burmah-Shell—in fact, they have the lion's share in the transportation—in one year the Indian railways carry to the cities, towns and villages of this country nearly six hundred and fifty million gallons of oil for Burmah-Shell.

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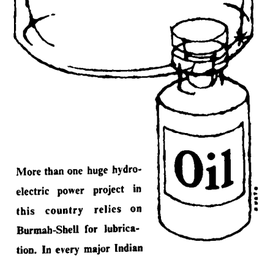
Who says oil and water don't mix?

They're very good mixers, in more ways than one.

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Go down to the sea in ships and you'll learn what a leading role oil plays on the ocean wave.

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or going country bus?

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If you take a tonga after dark there is oil (or there should be) in the lamps.

Just about the only way to travel without relying on oil is on horseback. Even then it's all Chowringhee to Colaba that some part of your kit — your breeches or spurs — was manufactured with the help of oil.

You even travel *on* oil; for bitumen, a product of refining process, is widely used for road surfacing.

When you put out to sea you'll find oil ruling the waves from the engine room.



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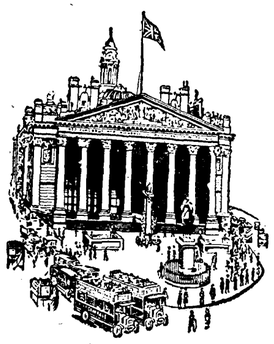
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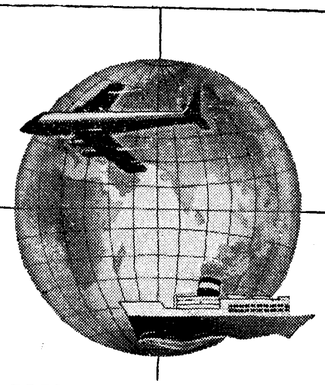
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is these big stores, rather than the more numerous small shops or stores, which have been responsible for the many improvements in retail trading. ecause of high overheads and the holding over of ocks, they are forced to maintain fixed prices, but order to ensure the maximum volume of sales, hich mainly depend upon attracting a large ientèle, they go in for *an inviting* display of oods and novel methods of window-dressing, acked by publicity campaigns to popularise their erchandise. Other measures for sales promotion, hich are based upon the experience of American nd European business practices, are reduction ales or clearance sales, gift schemes, house-delivery and sales on charge accounts and the more ecent innovation of sales on the hire-purchase ystem.

Institutional Retailing

To day, the hitherto conventional sequence of istribution seems to be breaking down. Large cale producers of consumer goods are being atracted to the retail business, whereby they can ut out the middleman and sell direct to the conumer. These institutional or factory-managed ales-depôts not only dispense with the commision charges paid to the retail agent, but also help n the promotion of branded goods, their aim being o create the belief that their products are exclusive by making them available only from their wn sales depôts. In India, this method of direct elling was originally instituted by the All-India Spinners Association, under the guidance of Mahatma Gandhi, and *Khadi Bhandars* were pened in all big towns and cities, in order to promote the sale of khadi. The record of sales in *Khadi Bhandars* is given below :—

Sales of Khadi at Bhandars

Year	Production (in Rs.)	Sales (in Rs.)
1924-25	19,03,034	33,61,061
1929-30	54,11,610	66,99,813
1934-35	32,44,105	46,90,013
1939-40	51,36,983	77,62,750
1944-45	1,34,58,069	1,67,87,970
1949-50	1,11,40,936	1,34,50,166
1950-51	1,27,45,295	1,64,98,678

This sales record, in the face of hard competition from mill-made cloth and in spite of the fact that the price of Khadi is fairly high, has sustained the contention that institutional retailing is *not a* risky business if run on proper lines. *Khadi Bhandars* have, in fact, admirably succeeded in providing succour to the impoverished rural *population.*

Taking advantage of the experience of *Khadi Bhandars*, the Government of India has appointed two independent boards (1) The All-India Khadi and Village Industries Board and (2) The All-India Handicrafts Board, to promote the production and sales of handicrafts and the products of cottage industries. In order to evolve a suitable marketing organisation for the sale of these products which are a specialised type of merchandise unfortunately fast disappearing owing to the lack of encouragement, it was found that either cooperative marketing or state marketing should be introduced. It was decided that each State should have a central emporium that would stock and sell not only its own handicraft products but also those of other States. Sales depôts in other parts of the State, particularly in district towns should also be opened. At present there are nearly 20 emporia spread all over India engaged in selling the various cottage industry products under State management.

But the most *important* factor in institutional retailing is the co-operative stores. Co-operative marketing implies that either the small producers join together and open retail stores where their products can be sold direct to the consumer, or that a co-operative society of customers should be formed in order that they may be able to buy necessities at a fair price and that the payments made to the middleman can be cut down. The abnormal shortage of essential commodities and manufactured goods during the war which forced up prices to abnormal heights gave further impetus to the co-operative store, even to the extent of entrusting to it the distribution of rations in rural communities. The following table shows the working of co-operative stores in India :—

Operations of Consumers Co-operative Stores

	1948-49	1949-50
No. of stores	8,734	8,949
Membership (000) ...	1,613	2,155
Paid-up capital (Rs. in lakhs)	307	314
Annual purchases (,, ,,)	5,004	6,745
Annual sales (,, ,,)	5,065	7,045

Although the suitability and advantages of the co-operative movement for retail distribution has, by now, come to be recognised and therefore has come to stay, the movement has lost the momentum gained during the period of shortages and controls. It has been further noticed that co-operative stores are mainly concentrated in urban areas, except in Madras State. This is not a happy state of affairs and requires regulation and encouragement towards an even distribution in all directions, especially in the rural areas. The result of a haphazard growth, lacking cohesion in providing services and facilities which were expected of the system, co-operative retailing in India stands in dire need of a well co-ordinated programme of development.

Retail Finance

Investment in India leans much more heavily towards business as compared to industry or agriculture. This may be explained by the fact that the business community which is responsible for mobilising a large amount of capital investment is conservative in its approach to enterprise and finds it more convenient or more remunerative to run a shop than to run a factory and is not prepared to take risks. This fairly high rate of preference is mainly responsible for the lop-sided progress in other sectors of the economy as a whole. The following table, based upon the group distribution of bank advances, shows the position in India, as compared to other countries.

Distribution of Bank Advances (in percentages)

Purpose	U.S.A. (Nov. 1946)	India (June 1949)	U.K. (May 1949)	Australia (June 1949)	Japan (Dec. 1949)
Industry	55.5	31.5	27.0	24.0	69.4
Commerce	35.4	47.8	21.6	25.0	23.4
Agriculture	—	3.8	9.0	25.0	3.2
Personal	3.7	8.9	30.9	18.0	2.8
Other purposes	5.4	8.1	11.5	9.0	1.4

The prevailing pattern of liquidity preference in India certainly calls for corrective action or rationalisation and it may be that the Australian pattern of distribution is worth emulating. However, if this change-over were to result only in the diversion of funds at present flowing into retail and other business undertakings, instead of pumping more into industry and agriculture, such a redistribution would spell disaster for the entire national economy, by disrupting the scale of supply and demand.

Location

The location of retail shops is governed by such factors as convenience or proximity to consumers or the creation of shopping centres or bazars at *vantage points* in the community. Shops in the vicinity of the consumer area are mainly restricted to perishable goods like sweets, milk and milk products, vegetables and fruits, groceries and fuel. This grouping of retail stores, restricted to small shops, naturally appears in suburban and residential areas and is known as a follow-on service and is inclined towards creating a loyal clientèle with semi-monopolistic trends in small retailing. Greater concentrations of retail shops or main bazars serve wider localities and form the basis of big stores and competition in retail trade. Marketing centres or markets, in modern style and with many facilities, have been established in some of the larger cities. In this group special mention may be made of Moore Market in Madras, New Market in Calcutta, Crawford Market in Bombay, Russell Market in Bangalore and Connaught Place in New Delhi. But the improvements in urban *marketing* are not being matched with similar improvements in rural areas. This aspect of retail-trading needs close consideration. The position, emerging from the 1951 census, in respect of rural and urban marketing is given below:—

Distribution of Population in Retail Trade (According to 1951 Census)

Nature of Trade	Rural Areas	Urban Areas	Total
Foodstuffs	1,008,798	1,215,225	2,254,014
Fuel	77,022	115,985	193,007
Textiles	177,530	382,125	559,655
Unclassified	937,356	1,170,649	2,108,005
Eating Houses etc.	144,661	313,631	458,292

From the above table, it appears that, while the number of people living in villages is far larger *than those living in towns*, the retail trade is comparatively heavily concentrated in urban areas. In the past, its development and scope for further expansion was gravely impeded by illiteracy, lack of purchasing power, absence of pre-requisites for making use of certain goods, and other factors contributing to the backwardness of rural communities in terms of the standard of living. But due to recent efforts towards rural development and the *resulting improvement* in rural economy, the dispersal of purchasing power in the villages is steadily widening and, therefore, should be adequately met and served by the expansion of the retail trade in the villages. This development will open up a vast hinterland for the retail market and will also help in expanding the scope of production of consumer goods.

Protection of Consumers

The retail trade, *coming at the tail-end of the* chain of distribution, is in a position to take undue advantage of the consumer because of the consumer's credit or illiteracy. This tendency becomes more pronounced when there is an excessive price fluctuation or supplies fall short of demand. It then becomes the responsibility of the State, however difficult or exacting it may be, to protect the *consumer against* these extortions and exploitations. Undesirable practices include (1) *wrong* weights and measures, (2) charging prices in excess of the ruling market prices, (3) selling adulterated or spurious goods, (4) committing frauds and other malpractices. During the war and afterwards, as a result of the abnormal shortage of foodgrains and consumer goods, hoarding, black-marketing and violation of controls were widely committed, though with the abolition of controls, these anti-social activities have disappeared. Although the protection against charging high or excessive prices, as far as the State authorities are concerned, has not been re-established after the abolition of price-controls on consumer goods, the producers are now trying to insist upon re-sale price maintenance, or fixed price schedules. Moreover, the retail trade, with the abolition of price controls is up against a buyers' market and is finding it difficult to overcome the buyer's resistance. The State authorities, under the powers of the Weights and Measures Act, though they cannot keep the grocer's thumb off the scales, can at least check that the scales will weigh correctly what is placed on them and that the weights are of the prescribed standard. There are also various legislations which are designed to protect the consumer against the sale of dangerous, or adulterated or spurious goods.

With the average annual earnings per worker rising from Rs. 737.0 in 1947 to Rs. 1,111.8 in 1953, and the index of industrial production moving up from 97.2 in 1947 to 135.3 in 1953 and 146.6 in 1954 there is more money in the pay packet to spend on shopping and there are more things to be sold at the counter. Now is the time for the retail trade to serve the consumer as well as the producer, and it will be failing in its duty if it does not take full advantage of this opportunity.

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THE PHENOMENON OF INDIANISM

A SOCIALISTIC CONSERVATIVE REVOLUTION

• By TAYA ZINKIN •

INDIA'S revolution is very special. It is socialist, (or rather Socialistic); it is also democratic. It is a revolution without violence. Yet it is one of the great revolutions of history. When it is finally finished, in a generation or two, India will be quite different. The rigid hierarchy of Manu will have given way to the flexible equality of Sweden, and the maharajahs and great zamindars to a mass of small owners, something like France. Compared with India's revolution, Russia's was barbarian and China's imported from the West. India's revolution is a blend of something old, something new, something borrowed, something Nehru. It could be called "Indianism".

Indianism is a socialist revolution in favour of the small proprietor, the peasant and artisan and petty bourgeois of Marxian ill-fame. It has no class wars or heretics. Its only victims are business men; and even they are protected from more efficient competitors. It is a revolution which waits for consent, a revolution without *émigrés*, a revolution where the will of the small intelligentsia at the top cannot take effect until the majority has been convinced that the intelligentsia is right. The weapons of Indianism are not terror or the concentration camp, but a series of unbelievably tedious legal acts. Consent takes time to get. That is why we do not see in India the spectacular leaps of Chinese women into an equal world. Instead there is a dribble of acts, bills and more acts which will in the end free the Indian woman just as effectively as the Chinese woman has been, but will avoid the disruption of the family that must have taken place in China. The Indian husband is being given time to adjust himself to his new status. He is not being forced to do his wife's washing-up straight away.

Socialism with a Difference

Indianism is socialist, but a different sort of socialist; what at Avadi was, rather oddly, called socialistic. The heart of this socialisticism (to provide a noun for the Congress's adjective) is equality, not nationalisation. The public is never allowed to forget that some people have more money than others, and that this is bad. It is less often bothered with nationalisation; indeed, in the enthusiasm of Ministers for discouraging too much nationalisation, they are on occasion inclined to suggest that all India's present industry is a mass of old junk. The preference of the socialistic is for co-operation, small landowners, independent artisans. Only when they see a business man do they reach for such hatchets as the Companies Bill, or the threat to nationalise coal; and even then they usually blunt the hatchet's edge with a *khadi* glove of assurances, so that it will not quite kill.

Yet Indianism is as devoid of communism as capitalism. Mr. Nehru is always pointing out that Marx died many years ago, that class war is as out of date as any other sort of war. The Congress is against atheism, or violence, or anything that goes against the unity of India's people. The aim is not to make the Capitalist's blood run in rivers through Dalhousie Square, but to save his soul from the original sin of profit. And the salvation has to be in proper form. India is governed by the Rule of Law. The Government does not want to be arbitrary. The Indian citizen is as protected under his Constitution as any American. Mr. Nehru is always telling his audiences that it is better to go slowly but surely. As he once asked: "What is the good of creating enthusiasm by having crises, how could one sustain that enthusiasm?"

Democracy Through Elections

Indianism is democratic. There are adult suffrage elections. Men, women, Ph.Ds, illiterates Brahmans, Harijans, Ministers, beggars, all have one vote and only one. They exercise it, and exercise it well, and at regular intervals. In the Andhra, P.E.P.S.U. and Travancore-Cochin elections a higher percentage voted than in the last United States elections; and it voted judiciously. They throw out Ministers of whom they disapprove; 28 were defeated in 1951 and experience of instability induced them to give Congress a stable majority. Indian politicians have to remember all the time that in the end their fate is in the hands of the man in the village who goes to cast his vote in the most tantalising of containers—the ballot box. To ensure democratic practice, the



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Government has tied itself hand and foot to t
Courts. When the Courts have held that childr
whose mother tongue is not English cannot be pr
vented from going to schools where English is t
medium of instruction, or that the Centre has
power to take over a badly-managed business wit
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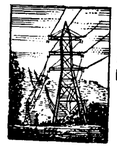
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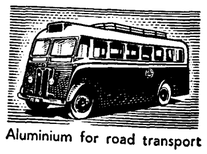


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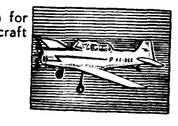


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be prohibited under Prohibition, the Government has given way or changed the Law. It has not tried to ignore the Courts, nor tried to influence them.

Where the Government thinks one way and the people another, the Government, if it fails to convince, gives in every time. If the people want to ban the slaughter of cows, they may. The centre does not like it, but it has not stopped Bills going through against cow slaughter throughout North India. Equally, now that the people have shown they want Linguistic States, they are going to get them. The fears of some at the Centre for India's unity will not stand in the way.

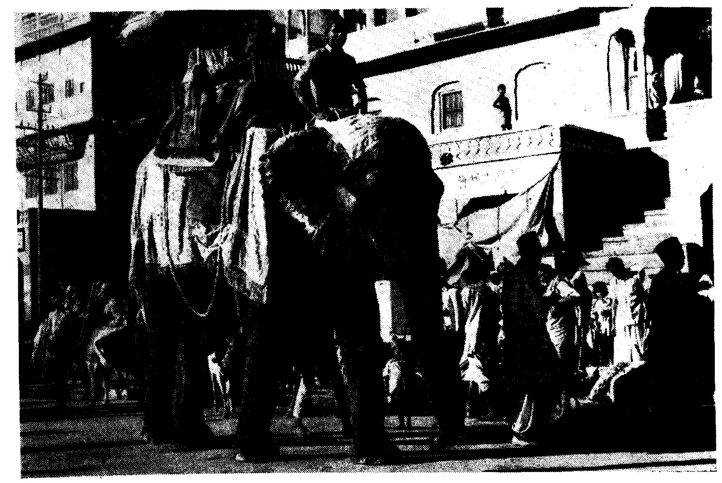
The Prime Minister, Mr. Nehru, is not the father of India's ideals; rather he, like India herself, is the product of Indian history and tradition. Indianism was not invented by Mr. Nehru, it goes back to a series of factors, some as remote as the 18th century High Courts in the Presidency towns, Macaulay's Penal Code and his Minute on Education. Above all, it goes back to Mahatma Gandhi. Gandhi had the boundless patience of the drop of water building a stalactite. He was always prepared to negotiate, haggle, bargain, wait, ask, ask, ask, and ask, until, in sheer fatigue, the enemy gave way; whether he wanted the British to go, or the people to give up violence and look upon Harijans as human.

Indianism is perhaps slower than Communism, but it is an expression of the national temperment. It finds its roots in Hinduism's reluctance to force others, in India's tradition of village and caste self-Government, of tolerance and persuasion. That India has chosen as its National Day 26th January, the day India gave itself a Constitution, and not 15th August, the day the British went, is very much in the tradition of a religion whose Calvin is the Lord Buddha. The key to Indianism is equality. The Princes and the British have gone; the landlords have nearly gone and the public servants have been—sometimes unpleasantly—brought down from their high pedestal. The landless, the handloom-weavers, the untouchables, the small farmers are being brought up, sometimes at the risk of severe strain and reduction in efficiency.

Loyalty of the Services

In all these moves towards equality, the greatest triumph has been neither the integration of the States, nor the Untouchability (Offences) Act, but the loyalty of the Services despite their loss of position and their occasional unfair treatment. This has been a triumph not of the politicians, but of the Services themselves. The Services—Army, Police and Administration—consented to the revolution through patriotism, not through fear. Yet the revolution meant for them a considerable come down; they lost power to the politician and comfort to the note printers of Nasick. Had they sulked or stinted their best, the country might have collapsed still-born. But they worked round the clock and took orders like good Indians; and the Congress politician, with exceptions, rose to the occasion, forgetting that the man he was giving orders to had once put him in jail, remembering that he had experience which could be used for the country's needs. But the credit for adaptation must go mainly to the public servant, not the politician. The politician, after all, had achieved his objective:—power; he has modest tastes and needs; he lives simply; he has gone from school to jail, from jail to the village or his law practice, and from those back to jail. It is otherwise with the soldier and the administrator who have lost both power and their way of life. They had made British standards theirs, from the suit and the school tie to the green lawns and the flower beds, from the club to spending money on books and looking forward to giving their children a western education. Today the Civil Servant is told to wear national dress, without a tie, and the cut in his real income makes it very difficult for him to continue to buy books, send his children abroad, garden or go to the club. His bungalow has shrunk with the position. The "heaven-born" has become just another man, and a heavily-taxed man at that. Yet, despite it all, no Government anywhere has got more devotion from its machine than India has. The Army's heroism in Kashmir won it Congress favour, the administrator has, over the past eight years, worked 12 hours a day. In spite of the post-war dilution, India still has the best administration between France and Japan. Planning, when there is no amateur interference, is done as well today as law and order were kept yesterday. Indianism has succeeded where all other revolutions have failed. It has kept the stanchions of the old régime and made of them the pillars of the new.

Indianism has achieved as great a *tour de force* on the social plane. Instead of goading the people ahead of themselves it has coaxed them along until they allowed themselves to be driven. Take



Elephants are not rare on Gwalior's streets

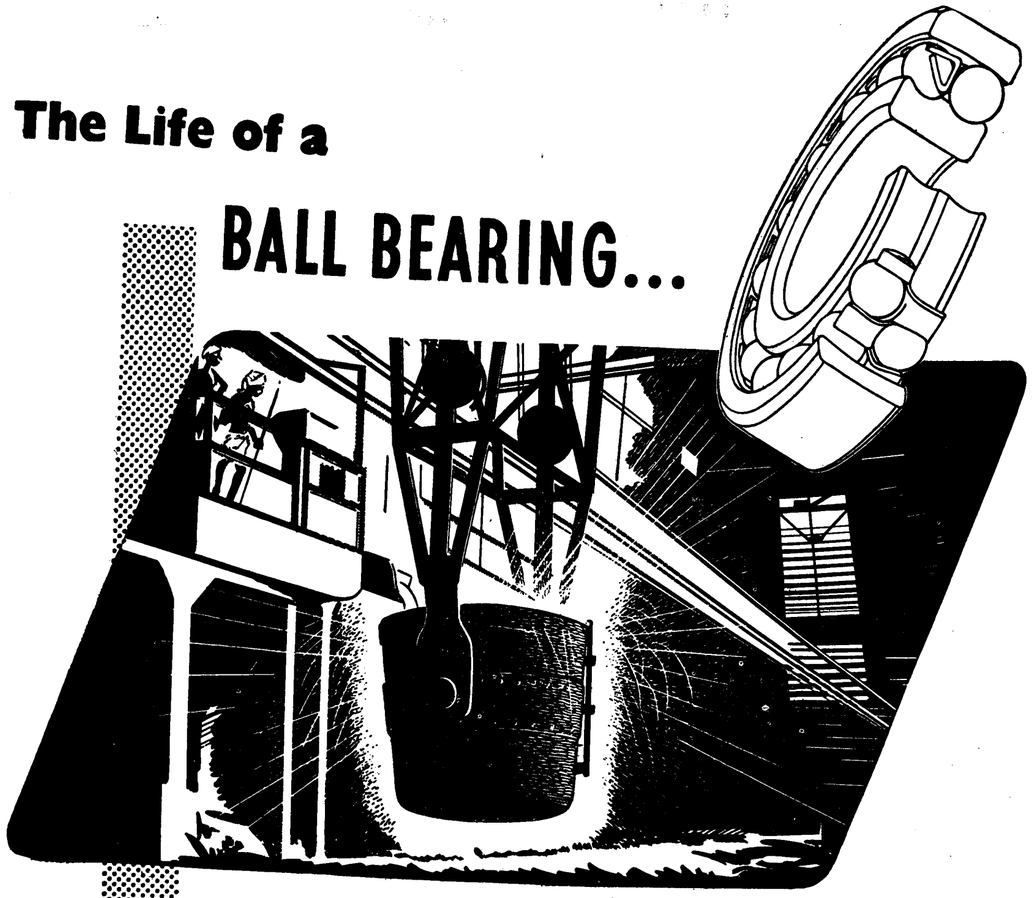


A typical street scene of Jaipur



Dusserah procession in Mysore

The Life of a BALL BEARING...



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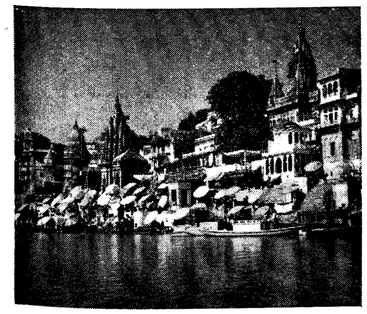
The life of a ball bearing depends mainly on the material from which it is made. To ensure the supply of raw material and obtain control over the steel production, **SKF** acquired Hofors Bruk with its mines and forests, in 1916. Under **SKF's** management this 300-year-old works has developed into a modern steel works with an annual output exceeding 150,000 tons of steel ingots. The special ball-bearing steel produced at Hofors Bruk has shown itself to be unequalled.

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The famous ghats of Banaras

the Hindu Code Bill, for example. It has been broken up until it has lost its explosiveness. Yet, if one agglomerates all the Bills and the Acts, they will achieve the object even more than the original Code. Women are becoming the equal of men in marriage and inheritance alike.

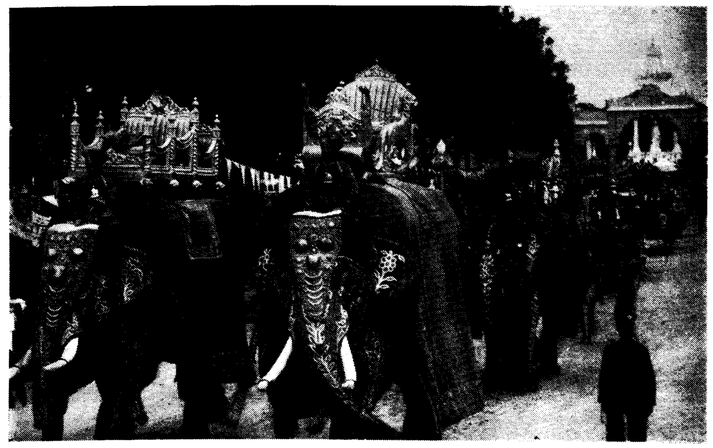
Equality for All

Indianism's insistence on equality stems from the deep-rooted belief that inequality is bad. But instead of guillotining the rich, it gnaws them down, Bill by Bill. Taxes go up and they are likely to go up still further until nobody can keep more than 30 times the minimum wage. Many people do not like it. It slows down development and reduces initiative. But nobody is prepared to fight. Nobody can make a counter-revolution on whether his net income should be 30 or 50 times that of his *chaprasi*. The same process is happening in the countryside. The rural revolution is a slow one; there have already been some 120 Acts. But in the end probably nobody will have more land than he can cultivate himself; yet no landlord will have been left a pauper. The poverty-stricken small farmer is increasingly getting credit, technical assistance, Community Projects.

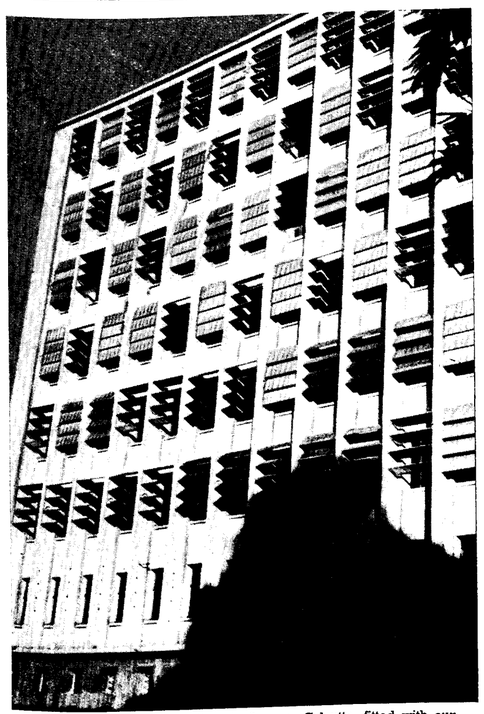
The Community Projects are revolution *par excellence*. But revolution from below. The village decides, the Project only helps to decide and implement. The economy of the countryside is not distorted as in Russia, to meet a planner's plan in the Capital; the village is allowed to grow, it is not co-opted into collectivity as is now happening in China. It carries on in the old way, but with new methods.

Socialism is never lost sight of. The pattern of tomorrow is decided by the State, not by the inter-play of *laissez-faire* and opportunity. Where Indianism differs from the other 'isms that are competing with it is that the Plan, in the end, depends on the people wanting a plan, not on the Government's forcing a plan on them regardless. Provided the elector is not a business man, the Government is always willing to listen to him. The first five year plan began as a legacy from post-war "planomania". Had it failed, there might have been no more plans for India, but success has made India plan keen. Perhaps over keen. For, if the monsoons fail, or if there are too many floods too often at the wrong time of the year, the second plan may not thrive like the first; but then, it is likely that the Government will trim its appetite to what is on its *tali* and rejoice if the national income goes up by half the planned 25 percent. The fluidity of democratic planning is such that it can adapt itself to anything.

Indianism is unique. As conservative as the French Third Republic; more radical than the England of 1945. If it succeeds, only the silliest of romantics will still look to China.



Another view of the Mysore Dusserah procession



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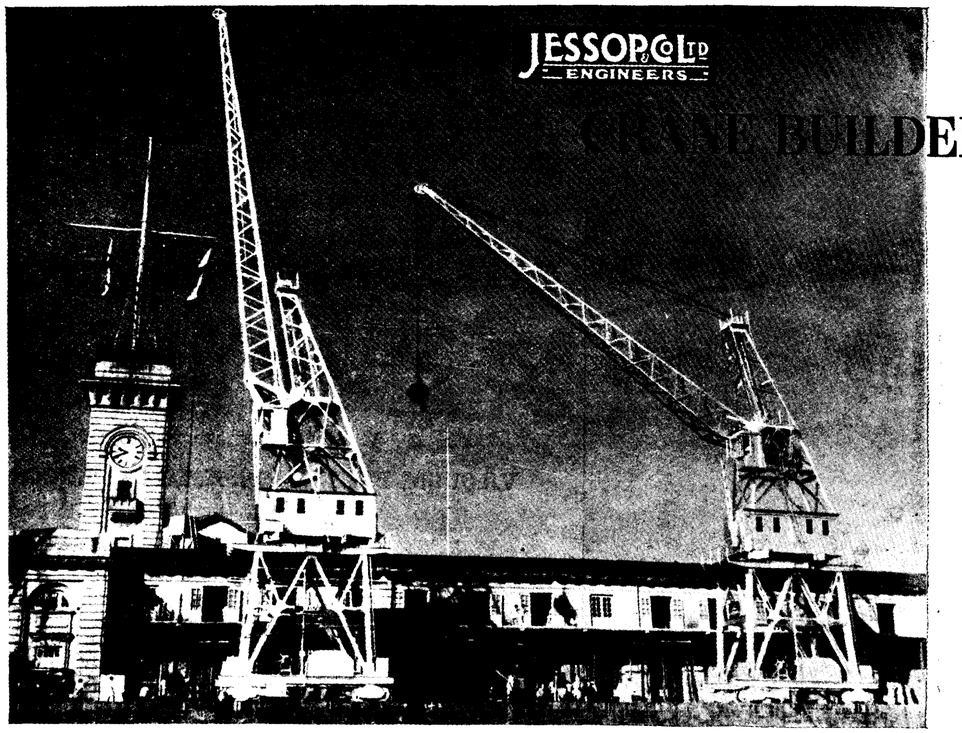
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THE BRITISH ECONOMY TODAY

THE FIGHT AGAINST INFLATION

● FROM A CORRESPONDENT IN THE U.K. ●

IT is paradoxical that a country should be riding on the crest of a wave and at the same time be facing a crisis. If one continues the analogy, however, one realises that the crest of every wave has a trough just beyond. As the wave sweeps on the ship descends into that trough, and whether the next wave carries it to another crest, or crashes down upon it so as to cause it to founder and be lost, depends on the seaworthiness of the craft and the skill of the men on the bridge who plan and guide its course. That is the situation in which Britain finds itself today. We have topped the crest of the wave after a four-year economic battle. The dark trough in which we wallowed in 1952 is all but forgotten. It comes as an even greater shock, therefore, to realise that over the past twelve months we have gradually descended into the next trough. What happens when the next wave comes along? The first six months of 1956 should furnish the answer. It is, then, an appropriate occasion to take stock of how the ship of State has moved, how the skipper and his officers have charted its course, and how we, as members of the crew, have played, or failed to play, our part in ensuring the vessel's stability.

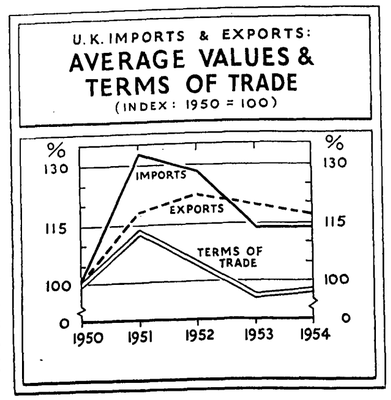
By and large, the vessel moved well, and what is perhaps even more important, in the right direction. The complete figures are available for no later than 1954, but in many respects the 1955 trend has been unchanged although actual achievements may have shown a tendency to level-off. It is apparent that the population is increasing even though the birth rate shows a decline, which suggests that the health of the nation is improving and its people are living to a greater age. At the end of last year the total population had reached a new record of 50,784,000, of whom just under half, at 23,667,000, were working, or over 98 percent of the employable total on the registers. It was unfortunate that industrial stoppages should have caused them to lose 2,480 million working days, the highest figure since 1945, but the production figure at 128.7, compared with 100 in 1948, was the best so far. Incomes totalled £14,544 million, a rise of over £800 milion, of which wages claimed £440 million, salaries £205 million and rent, dividends and interest £73 million. People spent £13,681 million, an increase of a little over £1,000 million, but £86 million more went into National Savings, while the funds of life assurance and superannuation schemes increased by £427 million; over £200 million was spent on new private housing (mainly through building societies) and £80 million went towards raising bank deposits. Against the savings, however, must be set the substantial increase in hire-purchase debts, unofficially estimated at over £100 million.

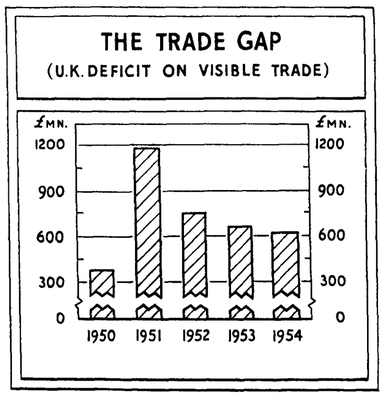
Turning from the personal to the business sphere, the overall picture of prosperity is further emphasised. Before depreciation, trading profits of companies operating in Britain are estimated to have increased to £2,560 million in 1954, compared with the figures of £1,475 million in 1946 and £690 million in 1938. The share of these profits which have gone to meet tax payments have also risen appreciably. In 1938 the figure was £92 million, but after the war it had increased to £651 million, and last year was £874 million. By contrast, ordinary share distributions have increased very modestly, the figures being £360 million in 1938 against £597 million in 1954. The retention of profits to finance replacements and expansion appears to have been the guiding principle for most companies. Including depreciation, retained profits rose from £283 million in 1939 to £607 million in 1946, and were nearly doubled to £1,184 million in 1954. Between 1948 and 1954 expenditure on new buildings, plant, machinery and transport equipment increased in volume by 30 percent. This prosperous trend has certainly continued into 1955, for on the basis of the *Financial Times'* figures, 1,886 companies declared dividends to the total value of £151 million up to the end of August to show an average rise of 21 percent above 1954.

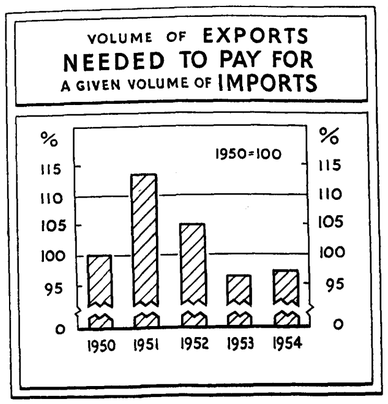
Spending Power Anomalies

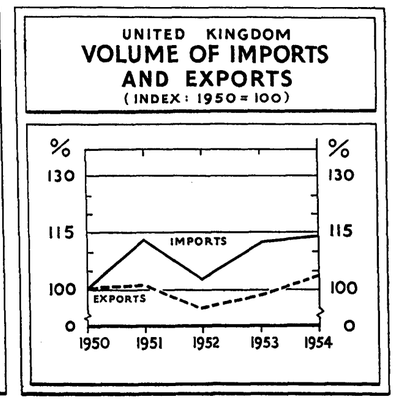
On the face of it, everything in the garden would appear to be lovely. The skipper's directive to "invest in prosperity" would seem to be paying reasonably good dividends. The overall policy of the charterers of the vessel to remove restraints and restrictions, and allow a greater freedom to the crew to show what they are made of, is proving demonstrably correct. What then is the trouble? It lies in the fact that freedom has come too rapidly to an economy which had grown accustomed to austerity and "doing without" or, even worse, "making do," for too long a period through the war and immediate post-war years. It has gone to our heads in no uncertain manner. While it is true that the nation's output over the nine post-war years up to 1954 has risen by 27 percent, the people's income rose by as much as 65 percent. The deterioration in the purchasing value of money has partly adjusted this wide disparity, but not entirely. Between 1946 and 1954 consumers' spending in real terms (that is, after allowing for price changes) has increased by 15 percent. Output has not kept pace with the increase in spending power, with the inevitable concomitant of inflation, rising prices and financial crises. This spending power, moreover, is spread much more widely. There are now only 190 people with a net income over £6,000 a year. In 1938 there were 6,600. On the other hand, people with between £250 and £500 a year have risen from 1,940,000 to 9,420,000; those with incomes between £500 and £1,000 after tax are up from 507,000 to 7,095,000, and those in the £1,000 to £5,000 group from 142,200 to 701,000. The extent to which taxation has decimated the rich is evident from the fact that net incomes of over £4,000 a year go to only 6,600 people, against 18,200 just before the war.

Not only have the bulk of the people more money to spend, but they are relieved by the welfare state of much expenditure in respect of many of their basic needs. Quite apart from health and education services and the benefits to be derived under the National Insurance scheme, which between them are responsible for Government expenditure to the extent of more than £1,400 million a year, more than two and a half million people are wholly or partly dependent upon national assistance at a cost of just over £100 million; a like amount is spent on family allowances, while subsidies of various kinds which have the effect of keeping down the cost of living by reducing rents or the price of certain foodstuffs add a further £348 million a year to the social services budget. Professors Paish and Peacock recently attempted to allocate the cost expenditure on the major social services (excluding housing and other capital investment on social services) to broad age groups and arrived at some very interesting figures. Taking the fiscal year 1952-53—and the figures will have gone up since—they found expenditure a head for the total population was just over £29 per annum, but for different age groups











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it varied greatly, being nearly £35 a head for children up to the age of 14, just over £18 a head for those of working age (men up to 64 and women to 59), while for those of retirement age it was nearly £70 a head. There is a definite trend towards an increase of those in the last of these groups, which means that merely the maintenance of the present scales of social services will involve increased expenditure as time goes on, ultimately perhaps imposing an unbearable burden on the working population.

In view of this possibility, and keeping in mind the fact that, compared with pre-war, gross wages last year were 3¼ times higher than in 1938, salaries 3½ times higher and incomes from dividends and interest 1¼ times higher, a study of the breakdown of personal expenditure is of value to ascertain where the extra money is to come from over and above any improvement in the gross national product. This is how the average man spent each £1 of his net income last year :—

	s.	d.
Food	6	6
Alcoholic drink	1	5
Tobacco	1	6
Housing, fuel, light	2	8
Household goods	1	7
Clothing	1	11
Private motoring, cycling		9
Railway and travel		9
Entertainments		4
Other	2	7

A large part of the increased spending power is undoubtedly going on food, but not only, as in earlier years, merely to meet the increase in prices, but since 1953 to cover an actual rise in consumption, especially of butter, eggs and meat. The energy value of the average diet to-day (calories per head per day) has risen four percent above the standard recommended by the British Medical Association's Committee on Nutrition. In 1952 it was one percent below the standard. Nor is there much difference in the amount spent on food by different income groups. The over £15 a week class spend about 28s. 7d. per head, the £9 to £15 about 24s. 4d., the £6 to £9 about 23s. 1d. and the under £6 about 22s. 9d. There is obviously not much scope for reduction here. In the matter of drinking and smoking there has already been some adjustment of spending habits, for between 1946 and 1954 expenditure on both these has fallen by six percent each. There is less cinema-going, spending on which has declined by 23 percent. The largest decline is shown in expenditure on domestic service, down 35 percent, though this has been dictated as much by the difficulty of finding servants as by any desire to economise. On the other hand, there have been some quite significant increases in other directions. Expenditure on private motoring and cycling, for instance, is up by 116 percent, on furniture and furnishings by 89 percent, on hardware, radio and electrical goods by 69 percent, and on clothing by 29 percent. It will be noted that the sphere in which all these increases have taken place is that in which hire-purchase functions most actively.

Government Responsibility

The figures already quoted above indicate the increasing inflationary pressure which has been exercised on the country's economy. The spending spree has been widespread and not confined to any particular sections of the community. The Government is not without its share of responsibility. It must have known, better perhaps than anyone, the dangers which faced the country. It even went so far as to warn the nation about them. It gambled, without any justification based on past experience, that the warnings would be heeded. They were not. Deeds, not words, were what was needed, but action was delayed until too late, and even when it came it was not quick-acting enough to halt the deterioration. But the Government was not alone. The industrialists were no less to blame, for the lack of realism which they displayed in taking all that the gods had to offer without sparing a thought for the future. And labour was probably most responsible of all for allowing political and class war considerations to influence it in making repeated wage claims on an ever-increasing scale so as to bring the wage-price spiral into active operation. Most serious of all, however, was the fact that even after the dangers became apparent to everyone—with the drop in the gold and dollar reserves, the adverse movement of the balance of payments, the weakness of sterling, and the other indications that we were living beyond our means and inflation was rife—no-one was prepared to inaugurate corrective policies until the Government was forced to introduce harsh measures. Right up to the time these were introduced, in Mr. Butler's Supplementary Budget on 26th October, public and personal spending was still rising, wage claims were carrying workers' earnings to new record levels, and strikes were slowing up production on the flimsiest of excuses.

The statistical position at the end of September, as outlined by Mr. Butler in his October Budget speech, is worth summarising as a guide to the value of the further corrective measures which he then announced. Industrial production was being well maintained and was running between five and six percent above that of the previous year— save in respect of coal. Exports had also been well maintained. On the other hand, the credit restriction measures introduced in February, and stepped up in July, had acted less rapidly than was expected. Bank advances were gradually falling and the trade gap becoming somewhat smaller, but the demands for labour and materials were still running at so high a level that it was necessary to import additional steel and coal and there were two vacancies for each person unemployed. Weekly wage rates, the index for which rose by five points between December and March when most of the large wage claims were settled, rose a further three points between March and June, and later by yet another point. The increase in weekly earnings had reached a new high level, the average of £11 a week being three times as much as in 1938. The rise, moreover, had outstripped the increase in the cost of living. In consequence personal spending was running at a high level, and imports were 11 percent higher in volume than in the previous year and the excess of these over exports was £250 million. The current-balance surplus was falling as a result of the wide gap in visible trade, so that the gold and dollar reserves at 30th September were down to £838 million. Investment, both in the public and private sectors, had gone much further than had been anticipated by the official encouragement given to it, with the result that the economy was becoming seriously overloaded.

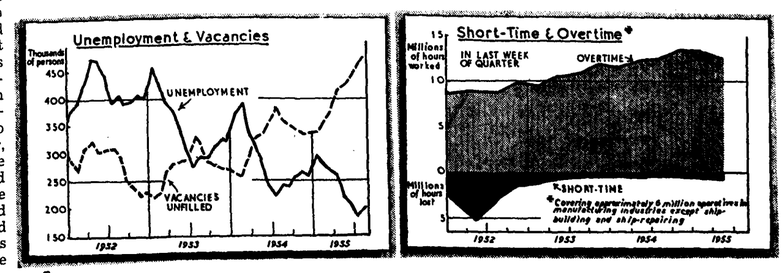
Inflationary pressure was inevitable in these circumstances. The phenomenon is not new; in one form or another it has been with Britain and many other countries since the end of the war. It has, of course, waxed and waned, but so far no means have been found to bring it to a halt. The Socialists claim that their policy of controls and restrictions succeeded, but it is significant that they ran into even greater difficulties than are being faced to-day immediately after the wage-freeze undertaking which Sir Stafford Cripps succeeded in getting from the trade unions was brought to an end. If anything, the Conservative policy of greater freedom and more incentive has done better. In 1951 the retail price index rose 14 points; in the four and a half years since then it has risen a further 20. Wage rates, on the same comparison, rose 12 points and 26 points, and earnings 13 points and 30 points. Industrial production, on the other hand, which was unchanged in the last two years of the Labour Government and actually dropped by a point in the first year of the Conservative Government, improved by 18 points by the middle of this year. Leaving taxation out of account, and it has actually fallen, the standard of living of wage earners has risen by around 15 percent between 1947 and 1954. It is only fair to point out that since 1951 the U.K. commodity prices index has fallen 92 points to 501 and for two of those years the terms of trade were in Britain's favour, but it has also marked the end of the seller's market and the appearance of increasing competition in export markets. Sir Oscar Hobson, in a recent interpretation of these figures, points out that while industrial production has risen by about 14 percent and overall production (Gross National Product taken at constant prices) by about 12 percent, the working population has increased by about three percent. Productivity per worker has thus increased by about 12 percent in industry and by nine or 10 percent overall. Wage rates, however, have risen by over 30 percent, and earnings of industrial workers by even more. The increase in productivity does not come near to matching the rise in workers' pay. Giving all weight to such contributory causes as rearmament and heavy taxation—and rejecting as statistically untenable the argument that rising profits and dividends are the motive force—he comes to the conclusion that the cause of the present inflation is excessive wage claims and nothing else.

The Nature of the Curb

That these must be curbed is more or less generally accepted, at least by all thinking people. There is less unanimity, however, on the methods to be adopted. Nationalisation as an answer has proved illusory; basic minimum wage scales are unacceptable to labour; profit-sharing as a *nostrum* has just recently returned to favour, no doubt as an outcome of post-war profit figures and the inducement it offers in a period of labour scarcity, but whether it would survive a depression is quite another matter. Holding the cost of living, or even reducing it, would prove a strong incentive to moderation, but it is by no means the only cause for claims being made and in many industries wages are automatically adjusted to movements in the index, while to achieve stability would call for subsidies which could well lead to national bankruptcy at an even faster rate. But there is a means, and a comparatively simple answer to the problem of fighting inflation. The public must be made to realise that it is well worth while making minor sacrifices now to overcome it, rather than to aggravate the situation by holding out for real and imaginary "rights" and thereby courting national disaster. The latter could well mean not only the disappearance of what is called "full employment", really over-full employment with industrialists competing with each other for labour, but emasculation of the welfare state. No-one, it is safe to say, would wish for the latter.

It was against this background that Mr. Butler's supplementary budget had to be judged. That it went a long way towards meeting the requirements of the case was evident from the fact that in opposing it—and opposition is, after all, the purpose of the Opposition in Parliament, the speakers for the Labour party were reduced to attacking Mr. Butler rather than his Budget. Not that the latter was above criticism. Adding to the cost of living by additional taxation, even though it raised the index by no more than a point, was an obvious aggravation of the wage-price spiral; for neither the trade unions nor the Labour Opposition in Parliament, and least of all perhaps the general public, could be expected to accept, let alone acknowledge, that wages are still ahead of prices and that a slight adjustment would bring much needed relief by dampening down the demands for steel and coal and thereby assisting the balance of payments by reducing imports and increasing exports. In other directions Mr. Butler displayed considerable courage; in his measures to bring the credit "squeeze" to bear on the public as well as the private sector of the economy, for example, and in reinforcing his pleas for dividend restraint by an increase in the tax on distributed profits. The difficulty in assessing all economic measures of this type is that they inevitably take some time to become effective, and therefore, to demonstrate their success or failure, and this article is of necessity being written too close to the events themselves to make judgment possible.

It is perfectly true that Britain to-day is more prosperous than it has been since before the first world war. With an economy so stretched as is ours to-day not only is a firm hand needed for its guidance, but also the willing co-operation of all sections of the community. The ready acceptance of minor sacrifices now would be a small price to pay compared with the dangers of runaway inflation and the slump which would almost inevitably follow. If the new course which has now been charted is seriously followed up, the demand for goods and services is likely to be reduced at least as much as is necessary to restore that balance to the ship of State which will ensure that it will, in fact, ride to the crest of the next wave and not be overwhelmed by it.



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PAKISTAN'S ECONOMY DURING 1955

FINANCIAL RESOURCES STILL STRAINED

• FROM A CORRESPONDENT IN PAKISTAN •

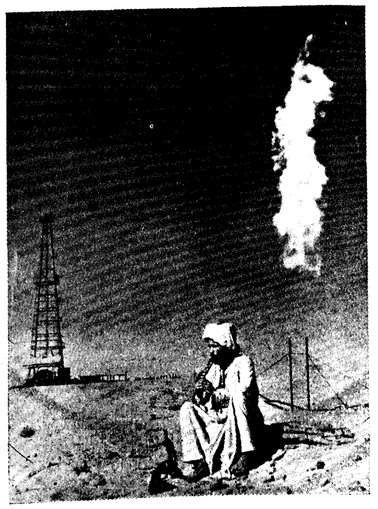
PAKISTAN is still grappling with difficulties and dangers in its endeavour to give an industrial bias to a predominantly agricultural economy. Efforts to bring about an industrial revolution within the shortest possible time were intensified during the year that is now coming to a close. The development programme, at present in the course of implementation, would have imposed a severe strain on the economy even in the days when terms of external trade were favourable to Pakistan. With a steep fall in export earnings and their progressive diminution in subsequent years, the economic situation was bound to give cause for serious alarm. In fact, it was this sudden realisation of the country's abject dependence for its needs on outside sources of supply which provided the impetus for rapid industrialisation.

Measured in terms of productive capacity, the achievement is great and in some cases even phenomenal. Especially noteworthy is the pace of expansion of the textile industry. By the end of June 1955, there were 15,65,552 spindles and 22,633 looms in the 68 factories, compared to 9,23,876 spindles and 14,484 looms in the previous year. With an annual production of 385.8 million yards of mill-made cloth plus the handloom products, the country has now become self-sufficient in coarse and medium varieties. There are now eight woollen mills, comprising 22,760 woollen and 21,832 worsted spindles. The rayon industry has considerably extended its range of manufacture of art silk fabrics. The recently established jute industry continued to make headway during the year. Of the twelve mills that had been planned, 10 are already in production and two in the last stages of completion. The target of 6250 looms originally fixed for 1957 is expected to be reached shortly. After meeting the home demand of 40,000 tons, 11 thousand tons of hessian and sacking, worth fifteen million rupees, were exported in 1954, mainly to the U.S.A. and South Africa.

Industrial Development

The gap between the demand and supply of cement is being narrowed by two cement factories with an annual capacity of 350,000 tons. The Hyderabad factory has been completed and the Daudkhel factory will start functioning in January, 1956. A sugar mill in the Thal area has recently gone into production. The addition of 25,000 tons yearly to the total production will still leave the country dependent on foreign sources of supply which have until recently been meeting nearly two-thirds of the total demand of 250,000 tons of sugar. The Karnaphuli paper mill is gradually working up to full capacity; mills for the manufacture of 30,000 tons of paper boards will shortly start production at Nowshera and Rahwali in West Pakistan. The output of cigarettes is proposed to be more than doubled in two years from 4,126 million to 10,000 million annually. Consequently, virginia tobacco is assuming an important place among the cash crops of Pakistan. Work on the ship repair yard at Karachi is nearing completion, making possible the building of small vessels of 2,500 d.w. tons. The ammonium sulphate plant at Daukhel is expected to be completed early in 1956 when the country will be in a position to produce its own chemical fertilisers at the rate of 50,000 tons a year. A 6,000-ton capacity sulphuric acid plant at Lyallpur, a DDT plant at Nowshera and two caustic soda factories have been established. The prospects for the heavy chemical industry, however, do not seem to be particularly promising and for the time being the country's needs are by and large satisfied by foreign imports.

The share of the old North West Frontier Province in the general development of the country is by no means negligible, and this area, represents a bright spot on the new industrial map of Pakistan. Starting with only two manufacturing concerns at the time of Partition, it now boasts as many as 32, of which 15 have gone into production and others are in varying stages of completion. A telephone factory, DDT, caustic soda, paper and cardboard plants, textile, sugar, woollen, cigarette and pharmaceutical industries are among the latest



Natural gas flare rises near Sui while a Bughti tribesman plays a home-made pipe

economic acquisitions of the Frontier. The future of this once neglected region is even more promising than its already encouraging present.

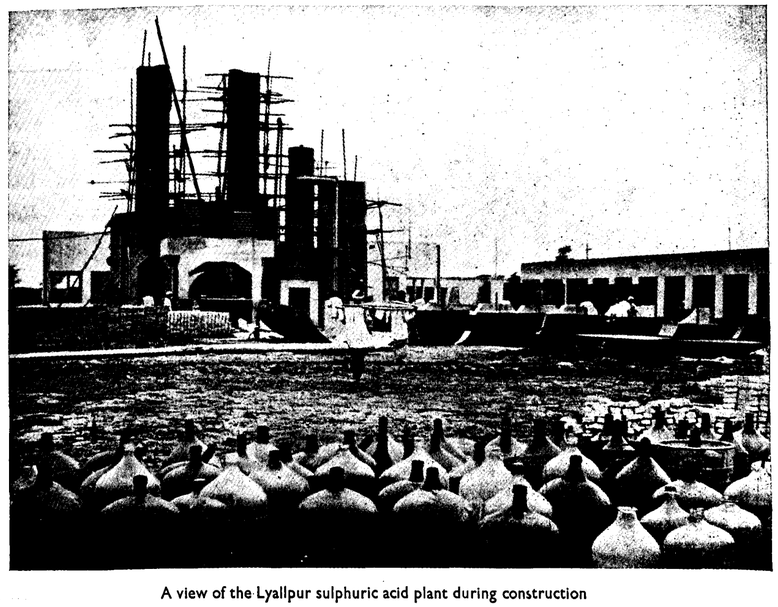
Pakistan's Power Potential

Perhaps the most remarkable development in the economic field during the year was the completion of the 330-mile pipe line from Sui to Karachi *via* Hyderabad. The fuel resources of Pakistan were grossly inadequate to provide a power base for the growing demands of industry. Nearly two million tons of coal and 665,000 tons of oil had to be imported into the country yearly, with no assurance of an uninterrupted flow of the former. Hopes were, therefore, pinned on the development of hydro-electric power by the harnessing of its rivers which could only be achieved over a long period and at tremendous cost in money and material. Of the present installed total generating capacity of 175,422 k.W., hydro-electricity accounts for only 62,700 k.W. To the acute problem of power, Sui Gas has provided a decisive answer, at least in West Pakistan. The original estimate of the reserves of 3 million cubic feet providing a heating power equivalent to 1,600,000 tons of coal annually, for sixty years, has been more than justified and the latest assessment shows the extent of the deposits to be 5 million cubic feet. With the switch-over to gas by an iron and steel foundry, a cotton mill, a woollen factory and by the Electric Supply Corporation in Karachi, the pace has been set for a gradual replacement of the traditional industrial fuel by natural gas. If relations between Pakistan and India continue to improve, there is no reason why arrangements cannot be made to transport the gas to Ahmadabad where industry is dependent on a distant and expensive source of supply of coal from Jharia.

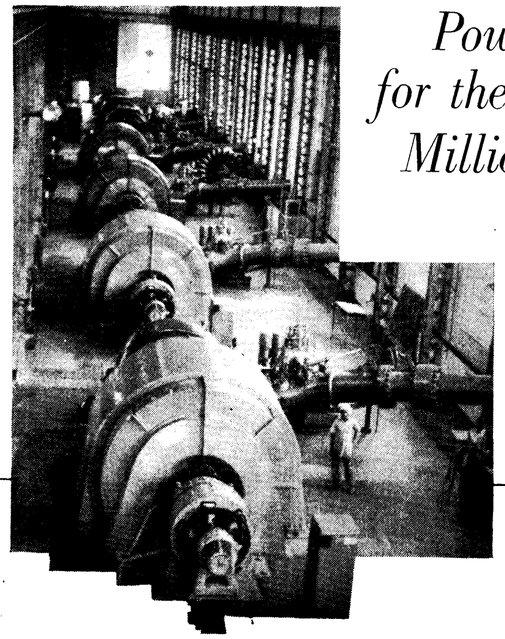
Since the Sui discovery, the search for oil has been intensified. Contracts with new oil companies have been concluded in order to explore the possibilities of increasing the oil production of the country, now in the neighbourhood of 700,000 barrels. Particularly hopeful are the prospects in Sylhet in East Bengal, in which province the insufficiency of power is one of the major hindrances to industrial progress.

Balance of Payments Account

This impressive record has not been achieved without a heavy sacrifice. The extraordinary rise in the price level is continuing to cause widespread economic distress among a population whose purchasing power is sorely limited even for the satisfaction of the primary needs of life. The greater part of the country's reduced foreign exchange resources has been diverted to the import of machinery and capital goods. Pakistan's foreign exchange earnings, which stood at Rs. 152 crores in the year of crisis 1952-53, have registered a further fall in the current year to Rs. 133.98 crores, with the result that increasing difficulties are being experienced in keeping the industrial machinery going. There is a general shortage of spare parts and an insufficiency of raw-materials for the rayon, steel-rolling and chemical indus-



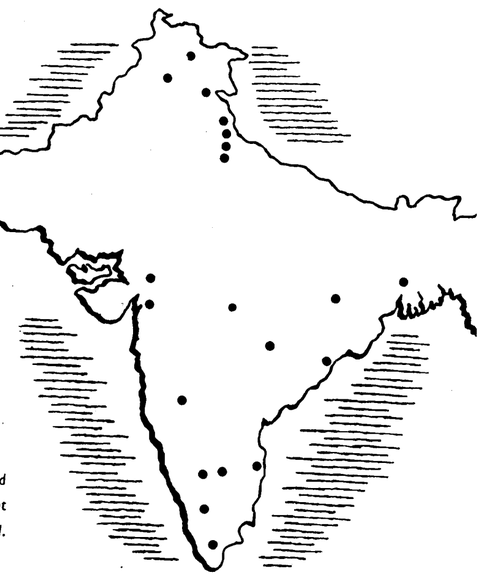
A view of the Lyallpur sulphuric acid plant during construction



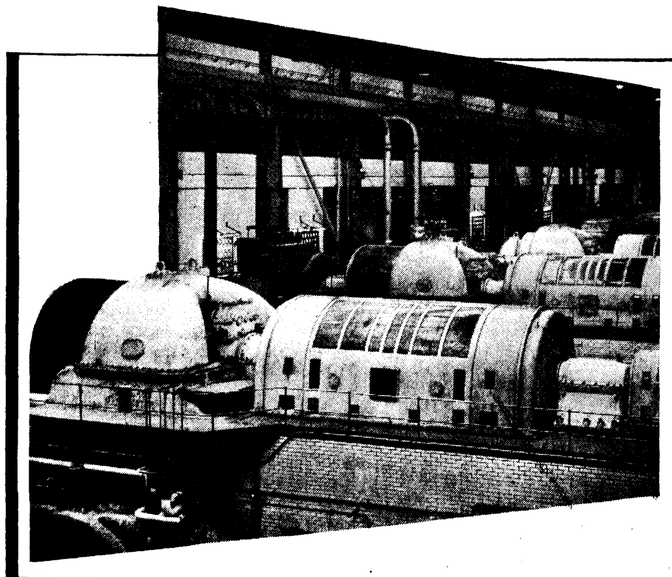
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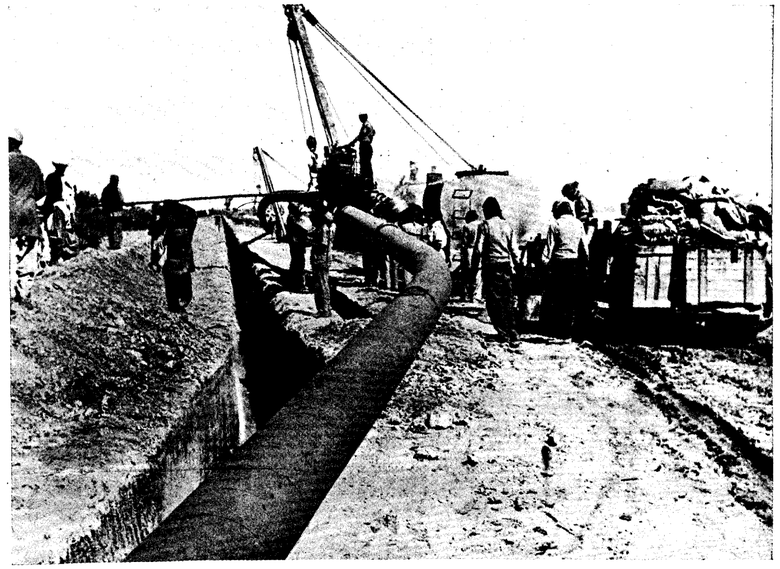
AIX 153

tries, besides several others. Some of the concerns have closed down and others cannot work to full capacity. The balance-of-payments position is, therefore, a serious problem despite the economic aid and technical assistance the country is receiving from the United States, the Colombo Plan and the specialised agencies of the United Nations. Canada, Australia and New Zealand contributed $9.30 million, £ (A) 4.66 million and £0.35 million respectively to the development programme, but the most substantial increases emanated from the United States. Keen disappointment is felt in the country over the delay in the arrival of American economic aid which would have, to a considerable extent, eased the price situation and improved the balance-of-payments account. Only $22 million worth of essential commodities was received during the year ending June 1955 and the flow of economic assistance of the order of $60 million dollars, has not yet begun. The total amount of aid promised was $110 million for the current year, comprising industrial raw materials, industrial machinery, and consumer goods.

The decision to devalue the Pakistan rupee, in August of this year, was actuated by the belief that exports of raw-materials would increase and that an outside market would be created for new manufactures, like jute and cotton piece goods. The outlook, however, is not as optimistic as an over-enthusiastic administration is inclined to believe. To the extent to which Pakistan is now able to satisfy its own requirements of cloth, from its principal buyers like Japan, which used to export large quantities of cotton piece goods, raw cotton exports will be diminished. The cost of production of Pakistan manufactures is too high to enable the home industries to compete successfully in the foreign market against industrially advanced nations like Japan, the U.K. and even India. Increases in exports of primary produce will take place mainly in the case of the less important commodities such as tea, wool, hides and skins, and to some extent of cotton as well, but it is extremely doubtful if they will offset the loss that will result from a reduction in the external value of the currency.

Improved Agricultural Productivity

Quite apart from these external considerations, there are internal factors which also contribute to the weakness of the country's nascent industry. Industrialism that is superimposed on feudalism must rest on shaky and precarious foundations, as its continuance and growth is dependent on the existence of an effective demand which again is a function of the purchasing power of the vast body of agriculturists.



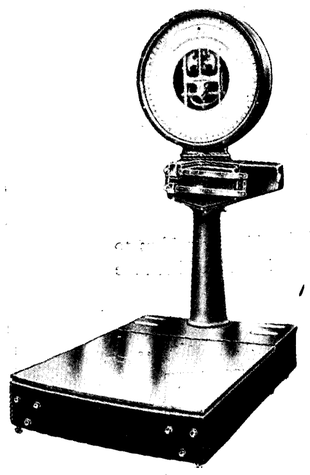
The Sui-Karachi gas transmission pipeline being wrapped with Fibreglass

While land reforms have lagged behind the movement of economy, agricultural productivity has been greatly improved by the application of scientific techniques, particularly in the field of irrigation and the use of chemical fertilisers on a large scale will be made possible when the ammonium sulphate plant goes into production in the very near future. The Kotri Barrage, the Gudu Barrage, the Taunsa and Thal projects in West Pakistan and the Ganges Kobadak Scheme in East Pakistan will immensely augment agricultural production in the country when their full impact makes itself felt on Pakistan's agricultural economy. The Grow More Cotton and Grow More Food campaigns have already yielded encouraging results. Cotton production is expected to be raised over a comparatively short period to 2.5 million bales.

Although the output of food crops was lower than in the previous year there were sufficient stocks to meet the demand. To tide over a possible emergency in the future and stabilise the prices of foodgrains, the Government has decided to maintain a national reserve of 500,000 tons of wheat and 100,000 tons of rice. The storage capacity was raised during the year from 90,000 tons to 418,100 tons, but the wheat year ended with a carry-over of only 225,000 tons instead of the expected 480,000 tons. The rice crop, on the other

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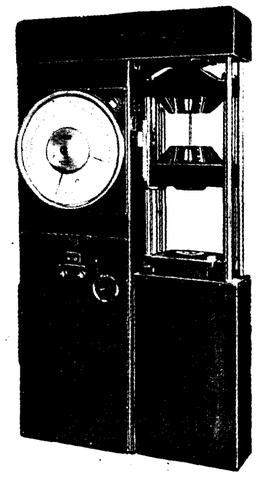


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hand, made a comparatively better showing, enabling the country to export the excess beyond the requirements of national reserve.

Budget Estimate Revisions

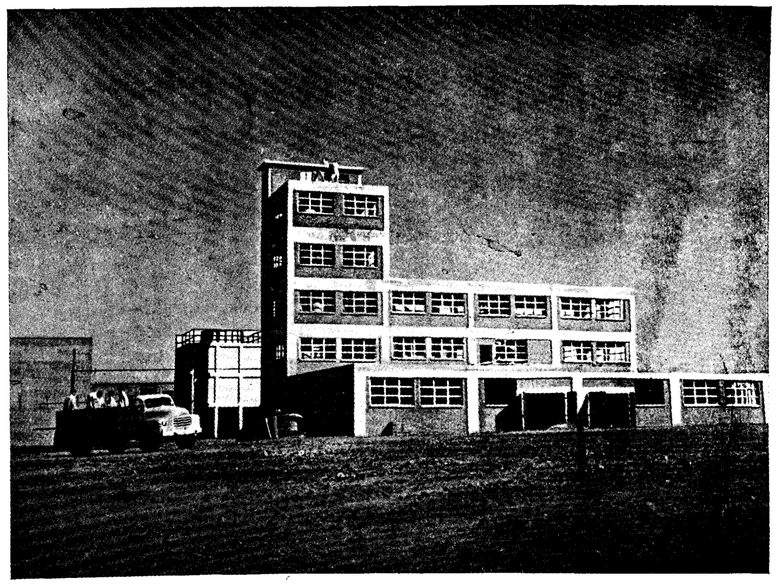
The rigid and restrictive import policy that has been relentlessly pursued by the Government, has not adversely affected the country's budgetary position. There was an inevitable fall in customs receipts but the increase in the yield from income tax, sales-tax and excise duties was even greater. For financing the agricultural and industrial development programme the Government has provided for an expenditure in its capital budget of Rs. 114.84 crores, against Rs. 70.47 crores last year. The gold, dollar and sterling reserves of the country rose from Rs. 65.4 crores to Rs. 69.59 crores in the year ending June 1955. The recent improvement in foreign exchange reserves is, however, artificial, as it represents the new conversion value of the existing assets.

The budget estimates announced in April will now have to be revised. With the devaluation of the rupee the customs receipts will have increased but the rise in government expenditure on its defence purchases and the maintenance of missions abroad will be even higher. The recent floods in West Pakistan have dealt a damaging blow to the country's agriculture. The large-scale destruction of crops and the tremendous loss of cattle will adversely affect the food situation and also the export earnings from raw cotton and hides and skins. In view of these unforeseen occurrences a re-assessment of the Government's financial resources is called for and consequently the possibility of a supplementary budget cannot be ruled out.

Private Enterprise Encouraged

While the investments of the Government in the Pakistan Industrial Development Corporation and the Industrial Bank were of the order of Rs. 15.11 crores and Rs. 3 crores respectively, its direct participation in industrial pursuits was very limited. The development of irrigation and hydro-electric projects, ports and communications were its primary objectives. The most important factor in the economic situation is the dominant rôle of private enterprise. The authorised capital of the companies approved by the Controller of Capital Issues in the period 1947-54, to the tune of over Rs. 149 crores, shows how decisive has been its function in promoting the growth of industry in the country. The Pakistan Industrial Development Corporation has also played a notable part in the industrialisation of the country. The capital outlay on its 31 projects to date, amounts to over Rs. 62 crores. That the Corporation is not designed to act as a curb in individual enterprise but to stimulate and encourage its entry into ventures from which it has up till now scrupulously remained aloof, is shown by the composition of the Directorate of which three of the five directors are big industrialists and by the policy that has been pursued. With some of its projects like the jute mills and the Sui Gas Transmission Company private enterprise has been associated from the very beginning, others like the paper board, sugar and cement factories either have been or will be transferred to the industrialists with managing agency rights; in cases like the Karnaphuli Paper Mills and the Harnai Woollen Mills, limited companies have been formed and the Corporation has so far retained the managing agency for itself.

It would however, be a mistake to imagine that Pakistan is out of the wood so long as the two sides of the economic balance sheet remain in a state of disharmony. Its agriculture has yet to be rehabilitated and industry to be consolidated before embarking on any further programme of expansion. In its present phase of development Pakistan cannot do without foreign economic aid. There is however, strong evidence that it will be made available both by America and under the Colombo Plan for some years to come.



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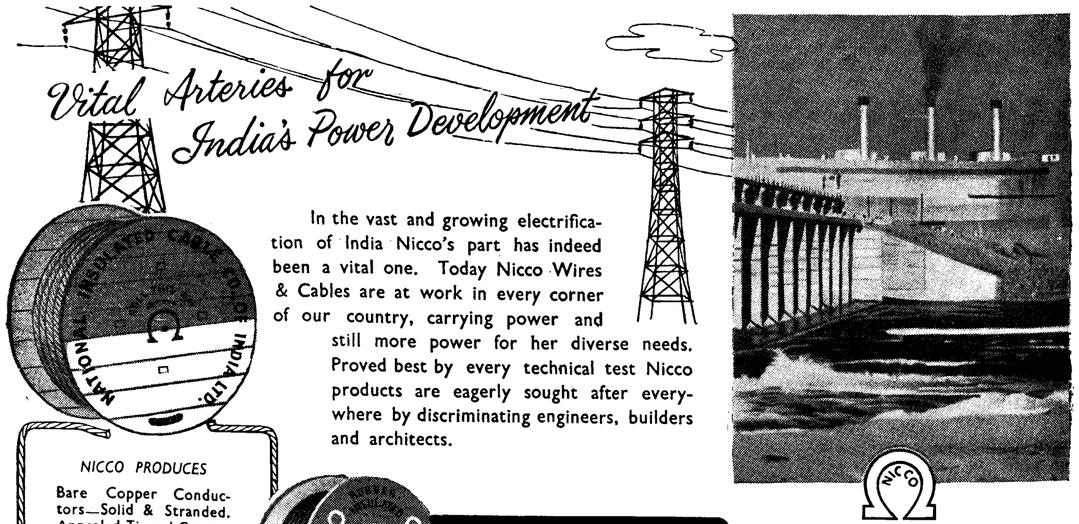
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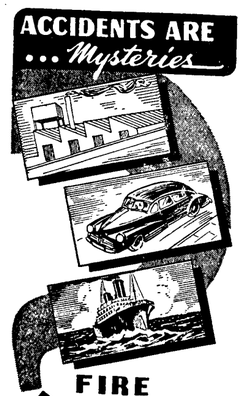
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HOUSING ASIA'S MILLIONS

• By A SPECIAL CORRESPONDENT •

HOUSING has presented a major problem to most countries in the past decade. In Europe it was aggravated by the devastation of large areas during the war. In Asia there was somewhat less damage from this cause, but the rapid growth in population and the need to improve living standards have made the demand for houses and other forms of construction no less urgent. Research and the development of new techniques in structural engineering have gone a long way towards simplifying the difficulties involved in satisfying this growing demand, but there is no ready-made solution. As the United Nations report on "Low Cost Housing in South and South-East Asia" put it:". . . . often it is believed that a single expert or agency has developed a house of such high standards and at such low cost that no further research is needed. No such magic housing formula exists." That was written in 1951, and we have moved forward in the years between, as this article will attempt to show, but the basic conclusion still holds good and will continue to do so. The experience of others can guide and stimulate the improvement of building, but painstaking effort is necessary to adapt and evolve the methods best suited to the time and place.

So far as constructional needs in tropical countries are concerned, we are indebted for innumerable detailed surveys in all parts of the world to Mr. G. Anthony Atkinson, Colonial Liaison Officer of the Building Research Station of the U.K. Department of Scientific and Industrial Research. The value of surveys was appreciated some thirty or more years ago, when Patrick Geddes, in his Indian reports, showed the way in which diagnostic surveys could be applied to tropical towns and villages. From them comes the development of policies and programmes. For the former it is essential to know what is possible and what is not possible. Only then can the latter be drawn up to make the best use of such resources as are at hand. A construction programme cannot mature successfully unless the standards it adopts are related to the economic, social and physical conditions of an area. The first requirement is to lay down certain minimum standards, not only from the health point of view, but in relation to the ways people live as determined by the social and economic conditions and the level of industrial development of the area. They should not be static, but variable so as to satisfy changing circumstances.

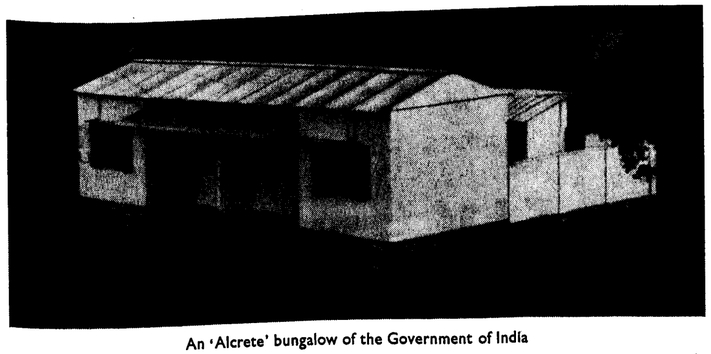
Research

Research is essential to development in three forms. Firstly, examination of existing practices and new techniques; secondly, the testing of materials, structural components and entire structures; and thirdly, the scientific study of particular problems. Until research workers from the less developed countries have gained experience in the techniques of building research, it will probably be impossible to staff adequately all the research agencies at present planned for the tropics. This means, first, that the greatest use must be made of existing knowledge, and secondly, that co-operation in research on tropical building must be real and effective. At the same time, the training of research workers must be encouraged. The development of documentation and information services is therefore most important, as is the improvement of facilities for technical training. Although many problems relating to tropical building still require study, considerable progress can be made through the application of existing knowledge and experience. Certain materials or practices may prove applicable elsewhere, or they may serve as a basis for comparison in new experiments, or they may save duplication of experiments.

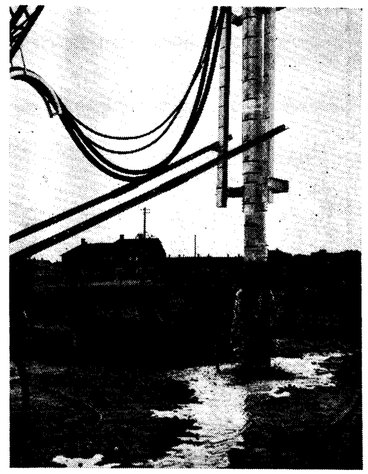
Discussing standards in an article on "Design and Construction in the Tropics," Mr. Atkinson points out that the designer of low cost housing has, first, to take into account the wide variations in tropical climates, and provide protection against the heat of the day, provide shade and air movement, and/or provide against too rapid cooling at night. He goes on to suggest certain basic needs. As a minimum standard for floor space, about 40 sq. ft. per person, including children, is widely adopted to guard against the spread of disease, but he regards this as hardly adequate for comfort in tropical countries. He feels this should be used only as a basis for assessing overcrowding and that the number and size of rooms is more important. Not more than four persons should sleep in one room and, except for husband and wife, two persons over 10 years of age and of different sex should not sleep in the same room. For a bedroom for one person, he suggests a floor area of 65 sq. ft., and for a double bedroom 110 sq. ft. The living room should be even larger, but an effective compromise adopted in the West Indies is an alcove of 64 sq. ft. which may be curtained off for sleeping from a living room space of 160 sq. ft. Adequate headroom and comfort govern ceiling heights. For the former a minimum of 7 ft. 3 ins. to 7 ft. 6 ins. would suffice, but the latter depends on the roofing material used, and in the case of a galvanised iron roof a minimum height of 10 ft. would only just suffice. In multi-storey buildings headroom is the only guide for all but the top floor, save that ground floors usually have a higher ceiling to secure better daylight in built-up areas.

Windows and Ventilation

There has been little or no research on daylighting in the tropics, and it is not possible to lay down scientific standards. Many regulations specify a minimum window area for habitable rooms, generally expressed as a percentage of the floor area. The standards specified vary widely, partly because ventilation is frequently confused with daylighting. In the absence of scientific data, a minimum of window area equivalent to 10 to 12½ percent of the floor area may serve as a reasonable figure for the humid tropics. A small percentage, perhaps as low as 5 percent, may be sufficient for the dry tropics, while in the uplands 7½ percent to 10 percent will probably serve. Lack of research also applies to ventilation, but this is even more important in tropical countries than in temperate climates. Cross ventilation is extremely important, especially in hot, humid climates, while in dry areas it is advantageous to allow a large amount of air in at night to cool the structure. Permanent ventilation (ventilators and flues) are therefore necessary, and should preferably be placed high in the wall to prevent their being blocked. Mr. Atkinson suggests ½ percent of the floor area as adequate for permanent ventilation area in upland climates, but higher figure for lowland areas with the highest for hot, humid climates, though not perhaps as high as the 4 percent which is recommended for some areas. Windows should be capable of being wholly opened and should also be taken up to the ceiling.



An 'Alcrete' bungalow of the Government of India



The Vibroflot machine at work

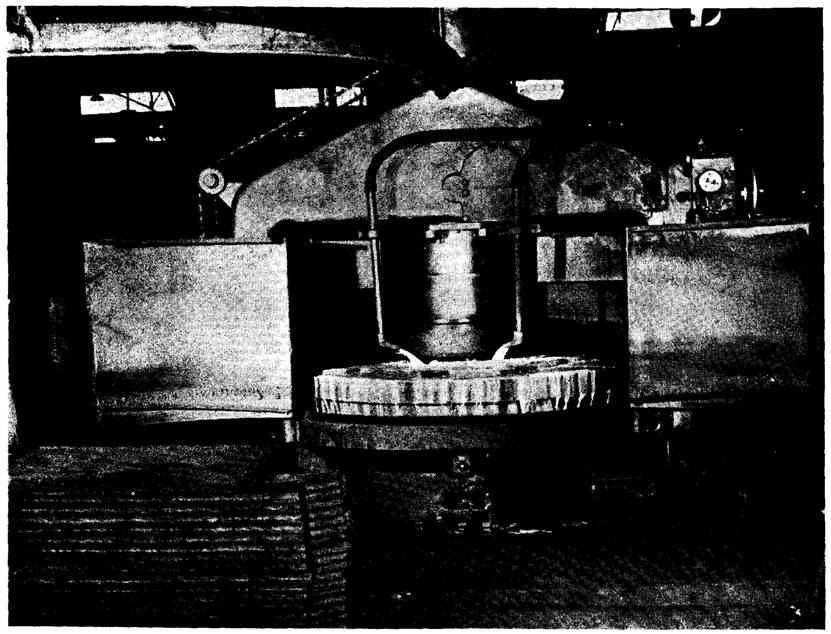
Essential to the design of a good house is the provision of adequate cooking, water supply and sanitation facilities. So far as the first is concerned, they can be supplied in five different ways, namely, communal kitchens serving several dwellings, kitchens grouped in one block with one cubicle to each house, a separate detached kitchen to each house, a small kitchen as part of the house, or a stove or cooking place in the living room. The last two of these are probably the most desirable, and provided the living room is not also used for sleeping. The recommended minimum size of kitchens varies from about 40 ft. to 80 sq. ft., with adequate equipment for food storage, cooking, storing water when there is no piped supply and for the disposal of waste liquids and solids. Daylighting should also be good. Water supply and sanitation would depend on the facilities available, the layout of the community and the type of housing adopted, and are outside the scope of this article.

Materials and Methods

From design requirements let us turn our attention to materials and methods of construction. Here, again, there must necessarily be considerable variety, depending on such factors as cost limits, the availability of materials, the technical ability of the labour employed, and many other considerations of locality, climate, social status of the occupants, etc. From the purely cost angle, the simplest form of construction, utilising local material and traditional local techniques, will certainly appeal to the widest public, especially in rural areas. Earth building comes in this category, with the wattle and daub (or *basha*) hut as its simplest example, followed by the cob, where fairly wet earth is moulded on to the walls with the hands or simple tools, and *pise*, where the slightly moist earth is rammed into a stout framework by hand or mechanically as refinements and improvements. The main disadvantage of this form of construction is that the shrinkage of the earth as it dries out may cause serious cracks. This risk can be reduced by moulding or ramming the earth in the form of bricks or blocks—hand and mechanical presses are available—and then sun-drying them so that the greater part of the shrinkage takes place before they are built into the wall. Further improvements may be expected in the technique of earth building as a result of the research which has gone into the construction of earth roads and the preparation of stabilised earth mixes, either by careful selection and blending of different soils, or the use of lime or of 5 percent to 10 percent of Portland cement by volume as stabilisers.

Before leaving the subject of earth building, a word about stabilisers may not be out of place. Cement is undoubtedly the best material, but in some cases may not prove readily available or be too expensive. Lime is used extensively, and properly burnt can be quite efficient. *Pozzolanas* occur in many places, and in India and the Middle East, for example, their use in hydraulic mortars and renderings is traditional. Nevertheless, their use could be expanded. Finally there is gypsum, which, though found in a number of places, is used only to a very limited extent. Much more could be done with local limes, *pozzolanas* and gypsum, but in the use of all local materials care should be taken to see that they are of a good standard quality.

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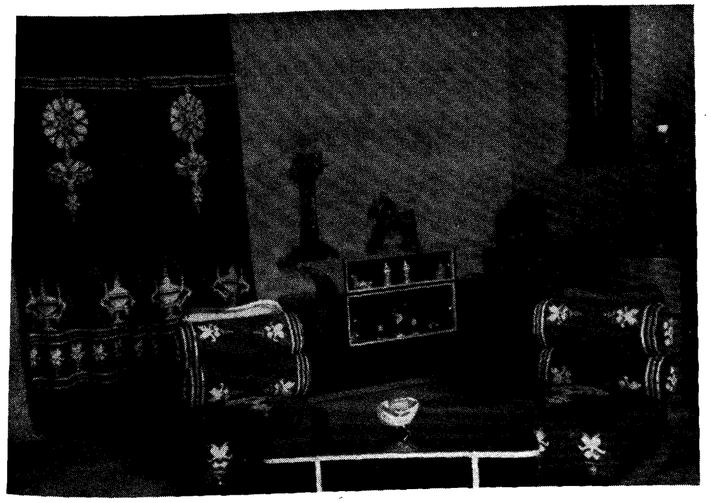
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A room in the Rashtrapati Bhavan furnished entirely with West Bengal handicrafts

The rapid development of cement factories has ılted in spreading the use of concrete and other ıent products, from the simplest form of "sand-te" block to cast-in-place concrete, usually re-orced. The varieties of materials and tech-ues available in this form of construction could possibly be dealt with in a general article of nature, but fortunately the literature on the ject is extensive and readily available. The of naturally occurring lightweight aggregates, h as pumice or properly graded crushed rocks the coral type, is worthy of investigation; where natural aggregates are available and the manu-ture of expanded clay aggregates prove uneco-mic, light-weight aerated concrete offers a solu-n. Another variation which is finding increas-application is the building of walls in no-fines ncrete which, as its name implies, is composed ely of cement and coarse aggregate, cast in ace to leave uniformly distributed voids through-t its mass and a surface which provides a good y for rendering or plastering. From the cost pect, and it is important in concrete construc-n, considerable savings can be effected by manu-cturing standard quality concrete blocks at a ntral plant and distributing them to building tes. A further refinement of this idea now being ied out in Britain is that of transporting ready-ixed concrete from a central plant to all sites ithin a 15-mile radius in lorries with rotating ums which agitate the mix and prevent it from tting.

Roofs are as important a factor in buildings as alls, and here also we have moved a long way om the traditional earth or thatched roof of arlier days, though the latter, provided suitable aterials could be developed—a task for agricul-ural and forestry departments—and satisfactory echniques of thatching developed and made ore generally known, still has a part to play in ural areas. Slate or hardwood shingles provide n alternative or, where they are available, clay r concrete tiles, but the disadvantages here are hat a high class of workmanship is essential both n manufacture as well as in laying if they are to rove weatherproof and also that a lot of timber s required for construction. The all-concrete roof is more widely used, but needs white treatment r shading in hot, dry climates and, of course, is expensive. Sheet roofing materials—asbestos ement, corrugated iron, or aluminium—probably offer the simplest solution, but their advantages would be enhanced and their disadvantages mini-mised with the provision of a ceiling or by lining with fibre board or something similar, preferably made from local raw materials on a relatively small scale.

Prefabrication

Where cost is less important than speed of erec-tion, prefabricated buildings or building compo-nents offer the best solution, either imported from more highly developed countries or made locally in central workshops, with the help of imported mate-rials and equipment, where necessary. Prefabri-cation is by no means a new development. In 1950 Messrs. Tupper & Co., of London and Birmingham, were advertising a three-roomed house for sale at £80 to £120, "constructed with either timber or iron framing.....cheap in first cost.....readily pack-ed for export.....can be erected by any ordinary workman." Today there are improvements, of course. New materials have been introduced such as aluminium, sheet materials like asbestos-cement, plywood and building board, rock-wool and other insulating materials. Better fittings and equip-ment are available. Design and production methods are much improved, largely as a result of the wartime and post-war experience of the manu-facturers.

Somewhere between these buildings comes the traditional use of burnt bricks, which can be a large cost-saver as compared, for instance, with concrete, provided cheap coal is available and the climate permits the use of clamps, Scotch or Bull Kilns. This applies to most areas of north India and Pakistan, but there is a much greater need for standardising production and many of the brick-works need re-equipment. Bricks can also help in the cheapening of prefabricated buildings by serving as the cladding for steel, aluminium or timber-frame members made and assembled in central factories.

Improved Materials and Techniques

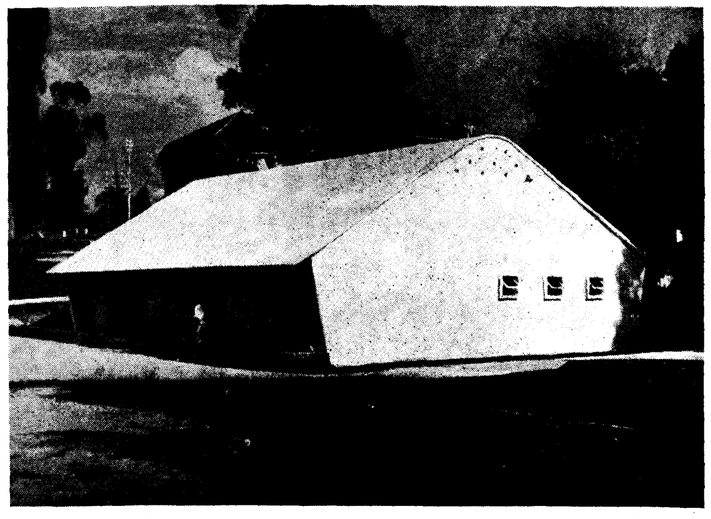
Improved building materials and techniques are being developed almost every day, and a brief sur-vey of the most recent of these may interest those who are concerned with the increasing need for better housing conditions for the millions of Asia. Techniques involving plant are not necessarily more economical where cheap labour is available, but they do help to reduce the time factor. In the building of foundations, for instance, the concrete pile driven in by dropping a hammerhead weight on to the pile, either manually or by using a don-key-engine to lift the weight, has driven us to distraction for years. Soil compaction by the Vibroflotation process is both quicker and easier, and has proved quite as effective. The Vibroflot machine, developed originally in Germany, con-sists of an electrically powered vibrator, about 6 ft. in length and 15 ins. in diameter, to which is attached a follow-up pipe and adaptor. Water is discharged from the bottom and top at the rate of 60 gallons per minute at 60 lbs. to 80 lbs. per sq. in., the whole equipment being suspended from a crane. Mechanical vibrations and the simultaneous satura-tion with water are used to move, shake and "float" the sand and soil particles into a dense state up to any desired depth below the surface and up to 10 ft. in diameter.

The mechanisation of actual building operations, again, may not save money, but saves time and generally produces a much better result. Tower cranes are a feature of most large building sites and mobile jib cranes on others. The advantages of the former are evident when the increasing use of present units is taken into consideration, espe-cially when these weigh up to 48 cwt. and represent casting units to be filled *in situ* with reinforced concrete. Additional equipment to go with these include special cages for handling more than half a ton of bricks in one movement and concrete pouring skips.

Building materials are also undergoing constant changes while traditional materials, such as steel, bricks, wood and concrete, are being produced in new, particularly lightweight, forms. It would be impossible to cover this field, but mention may be made of one or two examples which typify the general trend. Pulverised fuel ash—a waste pro-duct from thermal power stations—is now being used to replace as much as 20 percent of the cement used in concrete; to manufacture building blocks, with the addition of 15 percent clay, which the makers claim allows for quicker, cheaper, and better building, higher thermal insulation, lighter loads to transport, and easier facing and finishing; and, by a sintering process, to produce an aggregate half the weight of gravel. Cellular building mate-rials are also increasing in variety and use, one of the most recently developed being "Thermalite", which is claimed to be strong, durable, weather-resistant, light in weight, of unusual dimensional stability, and possessing a very low thermal con-ductivity. Another wall development is "Wall-span", which consists of a grid of aluminium alloys, light in weight and slim in section, which gives considerable extra floor space inside the building. In suitable installations the vertical and horizon-tal grid members can be as little as five inches thick, with solid panelling about two inches thick, compared with the eleven inches of a conventional wall. The construction is quick. The grid has only to be bolted on and fitted with sheets of glass or window frames and the wall is ready for comple-tion with a choice of panelling in different mate-rials. Attracting attention in building circles is a galvanised steel lintel which is a combined arch support and damp-course tray. It has been special-ly designed for use on the heads of openings in external cavity walls, is rust-proof, and can be fixed in one simple operation without interfering with the work of the bricklayer.

Aluminium

The use of aluminium for building has grown very rapidly during the last six years, and general acquaintance with the different alloys of alumi-nium now extends beyond the two or three pro-prietary names made deservedly famous between the wars. The characteristics of aluminium of special interest to architects and builders are durability, good appearance, and light weight over a range of ultimate tensile strengths from 3 ton/in.² (pure aluminium) to about 40 tons/in.² (structural



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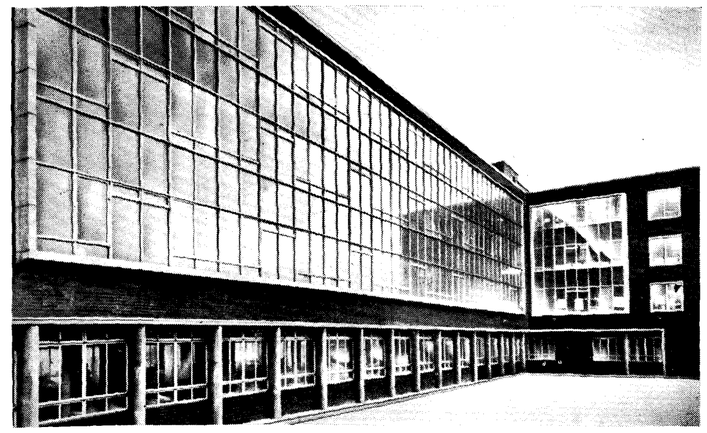
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alloys). These materials are available in a wide range of forms, of which extruded section and rolled sheet are most generally used. There are a number of alloys from which the user may select according to the mechanical properties he needs and the behaviour in service he expects for each particular application. Some examples of aluminium buildings in use in tropical countries may be of interest, especially as they also serve to illustrate the advances made in prefabrication. A more or less basic design is the Hawksley, a panel-built house of the permanent type designed for tropical and sub-tropical use on a module of 3 ft. 3 ins. The walls are assemblies of aluminium panels, those on the outside being stiffened by a ribbed aluminium outer skin and a hardboard inner lining with fibre glass between. Internal wall panels are similar aluminium frames faced on both sides with hardboard. The roof span is 24ft. and the aluminium trusses at 6 ft. 6 ins. pitch are supported at the walls only. Purlins are of aluminium and the roof covering is of aluminium-clad sheet, usually left unpainted. With that exception, the standard finish of all aluminium used is a dip in cream primer paint followed by stoving.

In another construction, aluminium is used for framework roof trusses and purlins, and aluminium or asbestos for corrugated roofing sheets. The walls are of composite wood wool insulated slabs. Overall length is 41 ft. 5½ ins., width 27 ft. 2 ins., height (to eaves) 10 ft., (to ceiling) 9 ft. 6 ins.; roof pitch is 30 deg. It is claimed that for the erection of this bungalow a screwdriver and a spanner are the only tools needed. Then there is a frameless tropical building designed to minimum standards to provide cheap but satisfactory living accommodation for workers. This is built of troughed aluminium panels on a 2 ft. 6 ins. module, assembled with bolts. The structure is self-supporting, with no framework, and all the parts of the basic 10 ft. × 20 ft. unit, and extra room units, are shipped for export in packages weighing 100-400 lb. By means of nested packing, the parts for a 20 ft. × 20 ft. × 10 ft. house can be put into a case 11 ft. × 3 ft. × 9 ins. Various arrangements and sizes of house are available. An interesting example in India is two rooms (120 sq. ft. and 100 sq. ft.), a kitchen and two open verandas; shower and w.c. are outbuildings. The house is planned on a module of 3 ft. 2 ins. The essence of this system is a panel, of aluminium extruded section framing and aluminium sheet, filled with cellular concrete; modifications of the panel are applied to floors, walls and partitions. The roof is framed in aluminium, the walls forming the main supports with a longitudinal lattice girder (in two parts) carried by the gable walls, internal partitions and cupboards. This framing is covered with 2 ft. wide aluminium 20 S.W.G. sheet having V corrugations at 6 in. centres; the same material is used for ridging and verge flashings. And finally, there is a bungalow made from aluminium sheet with a supporting framework of aluminium alloy extruded

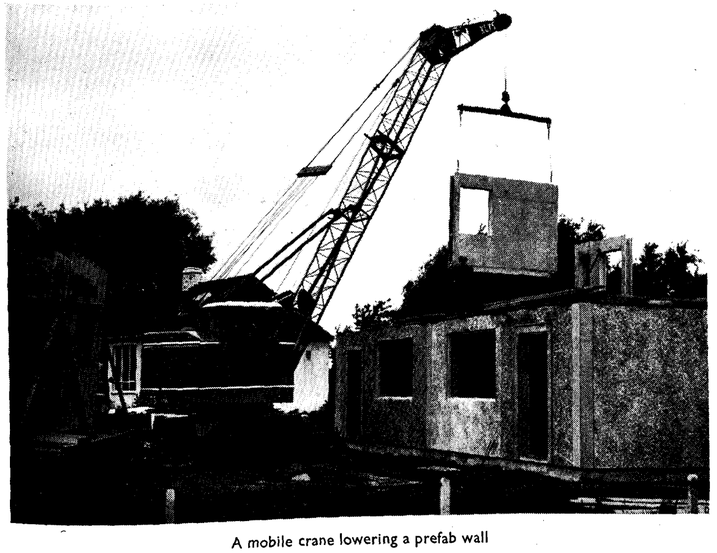


An example of "Wallspan" construction

sections which was shipped to French Equatorial Africa ready for erection by unskilled workers. Most of the sheeting used was finished an attractive pale green colour, but roof sheets were left bright so as to reflect the heat of the sun. Outer walls were lined with hardboard, the cavity being filled with a glass silk blanket, thus providing an insulation value greater than that of a normal 11-in. cavity brick wall. Partitions were of aluminium framing faced on both sides with hardboard, and the ceiling was plasterboard insulated with glass silk.

March of Prefabrication

The extent to which prefabrication has advanced, and the contribution it has made to the development of overseas territories, their industrial expansion and the raising of standards of living are exemplified in the activities of the Arcon group, which since 1948 has supplied these structures, giving a total coverage of 15 million square feet to 80 different countries, ranging from the two townships accommodating 6,000 executives and workers engaged on construction work at Kuwait in the Persian Gulf down to single portable huts. Burma has taken structures providing a total coverage of 1,500,000 square feet, including twenty power stations, storage building, schools, dispensaries, office buildings and bazaars to replace war damage, and the adaptability of this system is epitomised in the new Buddhist Prayer Hall on the slopes of the Shwedagon at Rangoon, which is to have doors, windows and the end elevations of the structure so constructed as to receive typical local architectural features to merge with the locality and the famous pagoda.



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ADVERTISING AND ECONOMIC DEVELOPMENT

• By G. H. GATES-REED, M. I. A. M. A. •

(Councillor of the Audit Bureau of Circulations, Member, Executive Committee, Indian Society of Advertisers)

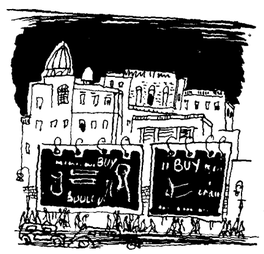
MR. NEHRU recently stated publicly that he was allergic to advertising, that he resented being told what to purchase. In fact, however exactly the opposite effect is aimed at by advertising. His attitude, is a little less usual than that signified by the rather loose "Oh, I never take any notice of advertisements". However, both attitudes presuppose recognition of the existence and power of advertising and both pose the questions: "If you do not ask for commodities by their brand names, are you prepared to accept anything your supplier offers you without question? Even more directly, how would you know anything about a product and its ability to serve your purpose but for its having been advertised in one way or another?"

In any case, the advertising influence will be there, because those at the "point-of-sale" will have been conditioned by advertising specifically directed by manufacturers at their distributors. Consciously or otherwise, and for a variety of reasons, the supplier will have formed preferences which will be passed on to the purchaser, particularly those being non-specific. Mr. Nehru's resentment is not really necessary nor is it, in fact, possible or sensible to ignore "advertising" no matter how consciously one may try. Recently, as a result of the rather unusual monsoon weather, the condition of a well-sited roadside hoarding deteriorated with distressing rapidity—the result, a number of friendly phone calls, letters, etc., to the advertiser concerned commenting on the hoarding's deplorable state. And yet there had been no apparent recognition of this advertisement before its breakdown and possibly most of those kind enough to call later would not acknowledge or have known that they must have noticed the hoarding when it was doing its job properly (sub-consciously if you wish) before it fell on evil days.

Aid to Choice

Let us, therefore, be reasonable enough to acknowledge that the primary service of good advertising, (and we are immediately considering the promotion of interest in reputable products by reputable methods), is to inform those requiring to use such products of their qualities, the services they can render, how and why. From there on, the intelligent and discriminating purchaser is able to make his own choice between alternative brands and need not be further influenced by the "tricks", the techniques of advertising, which may have captured his attention at the outset. To quote from *Advertising and Psychology* by Leslie E. Gill, Lecturer in Advertising at the College for the Distributive Trades, U.K., "advertising is akin to teaching. The teacher seeks to influence the minds of his pupils, first by stirring their attention and interest in the subject at hand, then by suggesting ways and means by which the relevant facts and figures may be impressed on the memory for later recall. Like the teacher, the advertising expert also seeks to influence his public by calling attention to his message and by concentrating their perception on the virtues and advantages of the advertised products". Incidentally, British advertisers spend something like £200 million annually (or nearly 1.7 percent of the national income) for this purpose. In fact today, despite those who resent or deny its existence, the main function of advertising as "an informing and persuasive force is accepted as a natural element in the social and business life of the nation" (Gill). To conclude this general preamble aimed at showing how "respectable" advertising has become and generally indicate why its correct use is so important to India's development at this stage, may I give advertising three good references by quoting points made by one of India's own most experienced practitioners, Mr. Jiban Mukherjee, Director of Propaganda, Tea Board, in his recent book *Advertising in India:*

> "By advertising a branded product you help to increase the sales of that product and thereby help to reduce correspondingly its manufacturing cost and, *a priori*, its retail price to the consumer".
>
> "Since advertising is based on the principle of acceptance through recognition, advertisers must offer to the consumer a *standard in quality*".



> "By fostering desire it acts as an incentive to a higher standard of living and to that extent is an elevating social factor".

Function of Advertising

To lend further authority to the above point, and to paraphrase Gill, advertising leads people to desire more thereby producing a tendency for the average honest citizen to be impelled to work harder to obtain those things he so ardently desires. And to lend authority to the opening points—Mr. Maudling, Economic Secretary, Treasury, U.K., was quoted in *The Times* (Feb. 4, 1954) as saying: "It was largely on advertising that the modern mass market, branded goods, and high standards of value, consistency, and quality had been based... Government recognised the importance of advertising in the national economy". This is not an apologia for advertising although following up on my article *Advertising in India* in *Capital's* last Annual Supplement, the aim is to establish from the outset the need for a positive, radical approach to the subject and to encourage the Government and the private sector to recognise the important and essential part, planned advertising and propaganda must be allowed to play in the successful implementation of the industrial and social development programme of India. In a general approach such as this, it is not necessary to split hairs over the differences between advertising and propaganda. Briefly, advertising is to "notify, warn, inform": "propaganda is an organised scheme for propagation of a doctrine or practice", (The Concise Oxford Dictionary). The use of both is essential to success, at this particular phase, of India's development. The deep-seated significance of the changes in the post-independence period must be made known, explained, justified, and patience engendered until the schemes fructify, in the minds of millions of semi-literate and illiterate people thinking and speaking in many tongues and influenced by widely divergement religious and traditional customs and mental attitudes.

Despite Mr. Nehru's allergy, the Government does use all forms of advertising persuasion, the Press, radio, (A.I.R.) the cinema, rural development teams and the public platform. But it is not always apparent that the approach is as deliberate, as scientifically planned as is necessary to achieve the above ends. In a democratic set-up Government propaganda and advertising require expert, in fact brilliant, presentation. Just as there is brilliance, inspiration and astuteness in many of the moves, diplomatic and economic, the Government has made—to which so much has been contributed by Mr. Nehru—so wisdom, tact, patience and an astute knowledge of the psychology of advertising should characterise the presentation to the teeming millions of the country of the promise of India's development programme. It is generally accepted that for the promotion of a mass commodity sales drive the advertising budget should be not less than 2½ percent of turnover at the very minimum. The Governments' allocation of only Rs. 147.55 lakhs, over a five year period, for publicising the plans and their objectives is obviously disproportionate to the vast amounts being spent on these plans; and yet the plans will have to be explained and justified (sold) to every one of India's 360 millions.

Again, the *Swadeshi* approach, the essentially emotional appeal of nationalism, is in itself not sufficient in the long run to keep enthusiasm high, although it is unfortunately the approach most often used. The "Little Man" is not concerned with making big history but he is responsive to facts and results immediately affecting his pocket. For instance, to take a very simple example, the cost of electricity in many rural areas has been considerably reduced as a result of the new hydro-electric schemes. That is an obviously good result affecting the day-to-day lives of shop-keepers, small manufacturers, etc., of which the propagandists and advertising experts should make capital. There are other examples in the fields of social reform, agriculture, industry, where positive beneficial results have been reached—but are they being "sold" as well as they might be? The question to be asked is whether Government advertising (Central and Provincial, in all its various forms) is as effective as it should be? It is not a question to answer immediately, but one to which those concerned with advertising's direction and those of us sufficiently literate and knowledgeable to appreciate the problems, should give thought. Dr. Johnson opined that "promise, large promise, is the soul of an advertisement"—but there must also be promise ("ground of expectation of future achievements or good results") to that promise and when realised, the achievements themselves, must be made much of.

This is not an out of hand condemnation of Government propaganda as a whole. There is no doubt that particularly in rural areas, a tremendous effort is being made to break down the conservative approach of village communities to modern methods of cultivation and cattle rearing. The Community Development Projects and the National Extension Blocks are doing invaluable work in this respect and are slowly winning over the peasantry to an understanding of the implication behind the vast irrigation and hydro-electric schemes, land reform legislations, etc. It is however, as essential that this story should be told to the urban, industrial communities, who will also benefit from these schemes as the standard of living rises as a whole. In any case, obviously, the great influx of labour into the industrial market can only have been from the land. Therefore, this need to inform and "sell" is doubly important. It is necessary to speed up interest in adult education facilities in urban areas.

Again, both Government and the private sector need to propagate more forcefully the interrelation of the two schemes. Nationalised railways, for instance, depend upon many industries in the private sector for essential supplies—lubricants, paints, batteries immediately come to mind. Are the public aware of this?

The Private Sector's Achievement

The private sector in India has a story of achievement to tell. At this important stage of development, commercial advertising should not be devoted to purely competitive ends even though competition is the mainspring of private enterprise. The more general story of the overall advances made by industrial groups must be put over not only for the reasons outlined above but to demonstrate the supremely important part the sector is playing and how its drive, investment and continued goodwill is helping the main plan to succeed.

It is interesting to note that two of the major oil companies are making efforts to fulfil this purpose. The latest Stan-Vac series "Let's Look at Progress" is doing well, a job which in fact, Government advertising itself should do, as well as collective campaigns by the industries concerned. These quizzes are excellent examples of the trend required, although of course, in the vernacular they will need to be simplified and the facts, in many cases astronomical, reduced to an understandable story of the influence upon the everyday life of the "little man," of these achievements. It is not sufficient to state that the increased output of an industry is saving foreign exchange as well as earning it, without indicating the effect that this trend will have upon the day-to-day life of the peoples of India. Burmah-Shell, who for many years have put out advertising of an educational nature are now working on a series of films on the principal industries of India, starting with agriculture. Costing over half a lakh each to produce, the return to Burmah-Shell in advertising value

is small by comparison with the value of the films as an educational documentary, as a service to the community.

Equally important is the need to sell increased output of industry, the goods previously imported but now made here, and to prove not only by fact but also by persuasion that these indigenous products are as good as foreign ones. Undoubtedly there are prejudices to overcome, such as the plastics industry discovered some time ago. Industry, whether Indian or foreign-owned, cannot justify inferior quality simply on the grounds that it is indigenous. The products must be good and the public convinced that they are so. The following official statistics adequately emphasise this need to sell hard and well:

Product	Unit	1946 Output	1954 Output	Approximate Increase
Finished Steel	(000 Tons)	890.4	1,243.2	350,000 Tons.
Hurricane lanterns	(000s)	470.4	4,987.2	4,517,000 Units.
Duplicators	(Nos.)	168	1,128	960 ,,
Diesel engines	(Nos.)	468	8,652	8,184 ,,
Power-driven pumps	(000s)	6.0 ('47)	28.8	24,000 ,,
Sewing machines	(Nos.)	6,120	80,196	74,076 ,,
Conduit pipes	(000 ft.)	17,07.6 ('48)	59,76.6	4,269,000 Ft.
Electric motors	(000 H.P.)	45.6	1,87.2	142,000 H.P.
Transformers (Power)	(000 KVA)	38.4	3,98.4	360,000 KVA.
Electric fans	(000s)	1,10.4	2,26.4	116,000 Units.
Radio receivers	(Nos.)	3,036 ('47)	58,692	55,656 ,,
House service meters	(Nos.)	34,356 ('52)	148,884	114,528 ,,
Cycles	(Comp: Nos.)	42,984	372,360	329,376 ,,

By comparison with international figures these are not spectacular, but they are indicative of a trend that will inevitably gather momentum. Particularly when selling a general consumer commodity, (soap, tea, cigarettes, etc), in India the area to be covered is so vast that it is obviously not economic to have a sales force on the same area-population *pro rata* basis as in less extensive countries—this means that advertising should be used even more intensively to keep the interest of both the dealer and consumer sustained during the rather long intervals between the visits of sales staff. It must also be acknowledged that the man-behind-the-counter in this country is not as yet a "salesman" in the Western sense of the word so that again intensive advertising must be used to offset this. Even with the private sector, which one feels should know better, one can pose the almost rhetorical question: Is industry really telling its story as forcibly, as adroitly as it might? Actually, there is a reluctance in many quarters to make a forthright approach, particularly on a long-term basis, to planned advertising. To a degree the Government is to blame, as in certain official quarters—and this does not refer to Mr. Nehru's remark—it would appear that the justifications for advertising as outlined in the opening preamble (the stimulation of mass demand to encourage more production, the necessity to reap the reward of advertising by marketing quality goods, and the need to foster the desire to improve living conditions) are not appreciated, one at times wonders whether this is deliberately ; in fact advertising is condemned as being a burden on the consumer. It is as well then that the famous industrialist and economist, Mr. A. D. Shroff, who is also President of the Indian Society of Advertisers, whose members represent the most important users of all forms of advertising media, has advocated that advertisers themselves should explain to the Government and the public through advertising, how it plays its essential part in "promoting trade and fostering economic growth". It is unfortunately a pity that so far little has been done to implement his most wise recommendation, although I.S. of A. members did run a joint scheme in Bombay to promote a cleaner city and many advertisers support Government propaganda by publicising the national schemes—proof that a concerted campaign can be undertaken and to good purpose.

Services Available

According to the Press Commission, there are 109 established advertising agencies. It was estimated that 50 percent of the business done was concentrated in the hands of only five of them. This is not difficult to understand and is in fact inevitable and not unhealthy—a point begging argument and trouble, and yet true. As pointed out in my previous article, if an agency is to give the qualified services expected of it, the advice and attention for which there is no direct charge to the advertiser, "the position is that the total of commissions received by the agency only just, and in some cases not even just, covers" the costs. A study of official enquiries into the economics of advertising agency operation related to bonus payments, etc. will show that even the largest agencies operate on a very narrow profit margin. It is considered that approximately Rs. 10 crores are spent on advertising a year in India, (only 0.1 percent of the national income) certainly this is not a spectacular figure.

The pattern of advertising expenditure is given in the following table:

Distribution of Expenditure

Category	Rs. (lakhs)	% of total
General consumer advertising ...	1,72	76.5
Specialised advertising ...	42	18.6
Government & Institutional advertising	11	4.9

General Consumer Advertising

	(in thousands)	% of total
Toilet goods	35,41	20.6
Medical goods ...	32,74	19.0
Vehicles & accessories ...	24,74	14.4
Food & drinks	19,01	11.1
Household equipment ...	12,10	7.0
Transport & travel	9,62	5.6
Watches, typewriters, furniture, etc.	7,69	4.5
Insurance & Banking ...	7,36	4.3
Cigarettes & tobacco ...	6,52	3.8
Textiles, clothing & footwear ...	5,55	3.3
Amusement	4,83	2.8
Books and stationery ...	3,80	2.2
Sundry household articles ...	2,13	1.2
Hotels, restaurants	33	0.2
Total ...	1,71,83	100.0

According to the Press Commission's estimate, 40 percent of this business is placed by the 109 agencies and of that 40 percent, 89 percent of the Press business amounting to Rs. 2.26 crores is handled by 34 agencies; only 11 percent (Rs. 52 lakhs) is left to be shared among 75 agents. It is obvious that the small agencies cannot possibly offer the full services expected of them by the client within such financial limitations. Despite this fact, there is no doubt that the larger agencies make every effort to give the best service they possibly can and have accumulated a vast amount of valuable experience, general and specific to the problems particular to advertising in India—multi-lingual campaigns, regional idiosyncrasies, etc. Certain limitations in the production services available are rapidly being overcome and the standard of studio work and visualising improves each year, as do printing standards and facilities.

Ethical Advertising

In addition, strenuous efforts are made to maintain an ethical approach to the many problems with which the industry is continually faced. Possibly, the general public are not aware that there are many associations within the advertising and newspaper worlds that constantly work towards ensuring the maintenance of high standards of ethics and service. The Audit Bureau of Circulation in India is recognised by all the international A.B.Cs. as having made phenomenal progress in a very short time (227 members) and as having shown that where there is a will on the part of those concerned to keep advertising "respectable" it can be made so. The Advertising Agencies Association of India representing the major agents and the Indian Society of Advertisers, the most recently formed group, are both working to the same ends and these and other associations (publishers, printers, display firms, etc.) have been recognised by the Government. They are at present working together on the formation of the Advertising Council (a Press Commission recommendation) on which the Government will be represented. The basic objectives of the Council will be: (1) to act as a regulating body of procedures and practices as between advertisers, advertising agencies, newspapers and magazines and other advertising media, printers, process engravers and suppliers of all forms of advertising material and all individuals and concerns engaged in the use, preparation and dissemination of advertising, (2) to adopt and enforce a code of ethics in the practice of advertising in India, (3) to act as an advisory body to the Government of India, the Governments of the States and official non-commercial institutions on matters relating to the use of advertising for projects to promote national economic and cultural welfare. (I.S.A. Bulletin).

Improvement in Standards

In the meantime the Government has passed the "Drugs and Magic Remedies (Objectionable Advertisements) Act of 1954", and all in all, the general trend is to raise standards to the same level as that of Western countries, where also once upon a time, advertising was the scapegoat of industry as it has been here in the past and is so still though to a much lesser degree. From the Government and industry a demonstration of faith is required in the ability of advertising to serve the community through promoting industrial development and sociological improvements. As the sales organisations of our industrial units must be discovering, the monopoly markets of the past no longer exist, and business has to be striven for. At the same time, in conclusion, one would like to re-emphasise that industry's greatest service to itself as well as to the community at this stage will be in informing the millions of India of the essential part played by the private sector in the realisation of the great and worthy objectives of the combined plans of both sectors.



RECENT BANKING TRENDS IN INDIA

● By R. M. MITRA ●

A NEW chapter has opened in the history of Indian banking. There is a fresh note of enthusiasm. The retarding influences which followed the emergence of unsettled political and economic conditions in 1949 seem to have been overcome. Deposits of scheduled banks, which suffered a decline from Rs. 1,042.16 crores in 1948 to Rs. 891.87 crores in 1952, started to rise in 1953 and reached Rs. 995.70 crores in 1954. Meanwhile, the first five year plan initiated in April 1951 has been in full operation; notes in circulation have expanded from Rs. 1,141.11 crores in March 1952 to Rs. 1,200.49 crores in December 1954 and to Rs. 1,277.09 crores in March 1955. Time will show whether the recent extension of banking activities represents stable growth, or is merely a phase in the upsurge of money flow under an ambitions plan.

This story of monetary expansion perhaps does not really hold a clue to the new banking epoch. Other changes of far-reaching importance have been taking place in the sphere of banking in India, and perhaps abroad. A scheme of legislative and administrative control of banking was initiated in March 1949, and the machinery of control has developed an elaborate shape. The banking structure has been subjected to a revolutionary change. The Imperial Bank of India has ceased to be a shareholders' bank in the usual sense and has been given a more suggestive name, "the State Bank of India". Co-operative banking is being reorganised so that credit for productive and "carryover" needs in rural areas may be available on a broader and more constructive basis. Geographical limitation of commercial banks' operations has been recommended by the Report on the All-India Rural Credit Survey, so that co-operative credit institutions may function in rural areas without damaging competition from commercial banks. The State Bank of India, acting in collaboration with the Reserve Bank of India and State Governments, is expected to strengthen the basis of rural credit operations of co-operative institutions, the State Bank's part in the scheme being provision of "rural-minded credit" and not exactly supply of direct finance for agricultural production.

The influence of the Reserve Bank is gradually widening, not only over the whole field of banking business but also over its organisational development. Regular inspection of banks has been undertaken to help the evolution of sound practices and methods of business, a bill market scheme has been devised to control and regulate credit and a staff college has been set up in Bombay to train executive officers of commercial banks.

These developments seem to be part of a slowly evolving scheme of a socially conscious economy. Similar trends towards a social bias in the conduct of banking are also noticeable in various other spheres. Different grades of pay and amenities have been prescribed on a uniform basis for separate classes of bank employees belonging to different groups of banks operating in different areas. Banks have been asked to explore the possibility of raising the cost of their lending services in order to be able to meet the increased establishment charges. The traditions of creditworthiness of the borrower are yielding to considerations of the social and general economic importance of his business. The force of competitive growth is diminishing in importance in the pattern of banking business that has been developing.

It is possible, therefore, that the present landmark in the career of Indian banking is not so much the new burst of activity in the form of rising deposits and advances, as the organisational and conceptual changes that are taking place, not wholly in the normal course of economic developments but largely under State direction.

Bank Money

Though the classical concept of a bank is associated with its borrowing and lending functions, the peculiarity which distinguishes a bank from other borrowing or lending agencies is the monetisation of credit (whether supported by tangible economic assets or not) that takes place in the course of banking transactions. The growth of resources in the banking system may show signs of multiplication when this process of monetisation works freely and, on the other hand, of sterility when the process is artificially checked. Monetisation through the banking system serves an economic need when the supply of legal money is inadequate to meet the demands of productive or distributive activities. Such monetisation also promotes stability of money supply because, unlike legal money, bank money exhausts itself with the fulfilment of the specific transaction it was created to serve.

This characteristic of flexibility is often illusory. A frightened banker may be too slow or too conservative in his lending operations to be able to provide timely or adequate support for credit needs. Or, a complacent banker may suddenly find himself trapped in a maze of speculative support of trade or of increased production at inflationary levels of cost. The banker may, therefore, perhaps unwittingly help in deepening a depression or inflating a boom. While a banker's vision may, therefore, occasionally have to extend beyond the immediate outlook, it can hardly stretch beyond the ascertainable capacity of the market to carry the flow of credit. There was ample reason, therefore, why the strength and character of the business of banking till recently used to be measured in terms of marketability of bank assets, composition of deposit structure, ratio of capital and reserves to deposits, liquidity and inflationary effects of advances and movements of interest rates. It is, however, a consequence of the new socio-economic changes that the market is being discarded as a measuring rod in a developing and planned economy; the significance which it had in the comparatively placid economy of the nineteenth century is fading into a pale reflection of quieter days. The recent developments in the field of banking, therefore, arouse thoughts on the question of how the technique of monetisation employed in the banking system will behave when the known frontiers of the market will perhaps no more limit the flow of bank credit.

State Bank of India

State participation in the business of commercial banking does not simply represent an organisational development but also marks the growth of new conceptions. The preamble to the State Bank of India Act, 1955, explains that the necessity for "the extension of banking facilities on a large scale, more particularly in the rural and semi-urban areas" and "diverse other public purposes" have led to the conversion of the Imperial Bank into the State Bank. The reconstituted bank commenced its functions on 1st July this year. Though the State Bank is not in the exclusive or direct ownership of the State, the Reserve Bank (an autonomous but State-owned and State-directed public corporation) is required to hold not less than 55 percent of the issued capital. There are also limitations on the rights of ownership and voting powers of the remaining 45 percent of issued capital.

In order to secure "extension of banking facilities on a large scale" it has been provided that the State Bank will open no fewer than 400 additional branches within five years of commencing its business, in accordance with a programme to be drawn up by the Central Government. To ensure proper adherence to the needs of "diverse other public purposes," the Central Board of the State Bank has been directed to consider the "public interest" though otherwise acting on "business principles". The Central Government is empowered to issue directions to the State Bank on matters of policy involving public interest, and the question whether a particular matter of policy actually involves public interest is to be finally decided by the Central Government. The control of the Central Government has also been extended to the composition of the Central Board. The Chairman and the Vice-Chairman are appointed by the Central Government, in consultation with the Reserve Bank, though provision is made to consider the recommendations of the Board itself in respect of appointments other than the first appointments. The Central Board may appoint not more than two managing directors, also not without the approval of the Central Government. Nine directors are nominated by the Central Government, of whom eight are appointed in consultation with the Reserve Bank. These eight directors are selected "to represent, as far as possible, territorial and economic interests". It is also provided that not less than two of them should "have special knowledge of the working of co-operative institutions and of the rural economy". The Board consists of 18 directors plus not more than two managing directors, if appointed. Of the remaining seven directors, one is nominated by the Reserve Bank, and six are elected by shareholders (other than the Reserve Bank) divided between separate zones. Even for these six elected directors, provision is made for nomination by the Reserve Bank of the director or directors allocated to a zone in case, three months before the date of election, shares registered in the relative branch register represent less than 2½ percent of the total issued capital.

Detailed provisions have been made relating to the business which the State Bank may undertake and which the State Bank is prohibited from transacting. Yet, closer examination shows that the field of business open to the State Bank is as wide as that of any commercial bank, and is in fact further extended by positive emphasis on its rural alignment and the objectives of "public interest" and "public purposes".

State participation in deposit banking promises to expand further with the finalisation of arrangements now being made for the introduction of cheques at postal savings banks and for "State-partnered" co-operative credit institutions. It has also been suggested that rural areas should be reserved for the operations of the State Bank and

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co-operative institutions. The State Bank of India Act contains provisions which may be utilised to reduce the number of private banks through the process of amalgamation or affiliation.

Money Market and Credit Control

The contribution that the private banking system, attenuated as it is, may yet make in its characteristic role will obviously be determined by the conditions under which competition and free enterprise are allowed to operate. Banking control has been developing under two different impulses. In its earlier phases it was concerned with building a sound banking system based on a sectional view of liquidity of bank assets. It overlooked its relation to the overall liquidity of the economy. Though the success of this method of control was not beyond question, it could claim at least one merit in that banking liquidity was allowed to be influenced by competitive economic forces. Meanwhile, two world wars and fast-changing economic ideas created a new necessity for banking control. Expediture on armaments on the one hand, and on social services on the other, led to the issue of money unrelated to its ordinary market demand for meeting productive and distributive needs. The result was inflation and an adverse balance of payments. The traditional technique of bank rates became unequal to the task. The "export point" in gold prices failed to bring about an automatic adjustment. Qualitative control of credit came to be used as a method of restraining inflationary forces and regulating foreign trade. This phase of banking control was also associated with the physical control of goods and regulation of prices. The consequence was a partial suspension of the market mechanism of competition and free enterprise. But the result of this control has not been free from uncertainty. Difficulties of balance of payments continued to be experienced in the sterling area, in spite of qualitative credit control, the American and Canadian "lines of credit", International Monetary Fund, devaluation and the European Payments Union.

The instrument of monetary control, as distinguished from qualitative control of bank advances, therefore, returned to use in 1951. But the technique of monetary control itself has undergone changes in accordance with developing ideas of social control. The rise in bank rate in November 1951, the simultaneous withdrawal of support for security prices and introduction of the bill market scheme, inaugurated the new use of the monetary mechanism in India. A purely monetary technique makes little distinction between essential and non-essential credit needs. But the present form of monetary control was not intended to operate without considering essential credit needs. The bill market scheme is in essence a recognition of the need to satisfy essential credit needs and to prevent a higher bank rate from starving these needs. The effects of the revised form of monetary control on the movement of credit are not yet sufficiently clear for a confident estimate.

Advances to Scheduled Banks

The gross total of advances taken by scheduled banks from the Reserve Bank amounted to Rs. 76.57 crores in 1951 and Rs. 336.22 crores in 1954. These totals do not disclose the amounts outstanding at any particular time, and therefore do not seem to provide a dependable guide to the efficiency of control exercised on credit through the new mechanism. But more useful figures are also available. The average borrowings of scheduled banks from the Reserve Bank outstanding as on each Friday work out at Rs. 15.79 crores in 1954 as against Rs. 4.72 crores in 1951. Similar averages of deposit and other business liabilities of scheduled banks work out at Rs. 869.44 crores in 1951 and Rs. 876.17 crores in 1954. The call loan market has also been more active. Though statistical data are incomplete because the liability of banks on account of call loans is not shown separately in published figures, the figures shown on the assets side under the head "Money at Call and Short Notice" may indicate the trends. The figures of weekly outstandings of money at call and short notice (assets) are not available for the whole of 1951. But the average of the figures of the last nine weeks of 1951 is Rs. 11.57 crores; the average for the same period of 1954 works out to Rs. 18.99 crores.

The average weekly outstandings of credit lent by scheduled banks rose by Rs. 12.69 crores (or a little above 2 percent), from Rs. 543.60 crores in 1951 to Rs. 556.29 crores in 1954. It would appear, therefore, that increased borrowings from the Reserve Bank were not utilised wholly in expanding bank credit but were partly accounted for by the reduction of inter-bank borrowings (albeit, the more active inter-bank call loans) from an average figure of Rs. 23.87 crores in 1951 to Rs. 19.1 crores in 1954. Yet, it is worth noticing that the percentage of the weekly average of bank credit to the weekly average of bank funds (excluding borrowings) was 62.5 in 1951 and 63.5 in 1954. The aggregate rise in bank credit extending over four busy seasons of the period 27th October, 1951 to 25th March, 1955, is Rs. 396.58 crores, and the aggregate fall during the four slack seasons of the period 12th May, 1951 to 15th October, 1954, is Rs. 368.89 crores, resulting in a net increase in bank credit of about Rs. 27.69 crores.

Reducing Credit Supply

If the purpose of a higher bank rate is to bring about a quantitative reduction in the supply of credit, it may be permissible to hold (at least, tentatively) that the bill market scheme has operated counter to the purpose. If, again, it is intended to use bank rate as a moderating influence on inter-bank borrowings, the above-noted figures representing inter-bank borrowings and also the fact that interest paid by the Indian scheduled banks on their borrowings rose from Rs. 69.5 lakhs in 1951 to Rs. 90.5 lakhs in 1954 seem to record contrary results. The effect of the new scheme of monetary control on the movement of interest rates also remains obscure.

Though the bank rate was raised from 3 percent only to 3½ percent in November 1951, other interest rates showed variations wider than the normal pattern would lead one to expect. The highest rate for call loans for the larger banks in Bombay was 1¼ percent and the lowest ½ percent during 1950-51; but the respective rates during 1954-55 were 3 percent and ¾ percent. Again, whereas the highest rate appeared in quotations for only three months during 1950-51, the highest for 1954-55 was included in quotations for seven months. It is interesting to observe that the rate of ½ percent in Calcutta was lower than in Bombay during 1950-51, but moved up to a maximum of 3½ percent and a minimum of 1¼ percent during 1954-55, thus rising above the level of Bombay. Though Calcutta continued to maintain a lower level of rates on deposits than Bombay, the rates for 1954-55 were between ¾ and 1½ points higher than for 1950-51 in Calcutta and between 1 and 1¼ points in Bombay. It may be that the higher spiral of call loan rates in Calcutta is the result of the lessening of the comparatively greater influence of exchange banks in the call money market. Wider fluctuations in the course of interest rates may again be a reflection of banks' demand for day-to-day money not being covered by the facilities provided by the Reserve Bank. Even so it may not be unreasonable to conclude that selective credit control has been more powerful than bank rate in the operation of the new monetary control, whether in providing a larger credit supply which a higher bank rate threatened to curtail or in generating credit movements unaffected by the restraining influence of bank rate. It would appear, therefore, that concepts of credit control have undergone such fundamental changes that it has not been possible to restore bank rate as an autonomous instrument of monetary control. Meanwhile, the bill market scheme has served to improve and intensify the procedure of bringing scheduled banks' advances under continuous examination in the course of disbursement of loans under Section 17(4)(c) of the Reserve Bank of India Act. Traditions of market influences on interest rates are also liable to weaken further in the wake of the banks' demand for increased resources consequent on their need to increase earnings to meet mounting charges.

Rigidity of Cost

The recent standardisation of salaries of bank employees represents the operation of yet another extra-market force in the banking system. The Bank Award Commission appointed in September 1954 and reconstituted in March 1955 submitted its report to the Government of India on 25th July, 1955. The recommendations contained in the report have been substantially adopted by the Government. Legislation has been enacted to give effect to the accepted recommendations.

Industrial disputes in the banking industry first received judicial recognition in 1946. Subsequent events leading to an all-India jurisdiction for bank tribunals appointed by the Government of India, the infructuous award of the Sen Tribunal, the still-born Divatia Tribunal, the award of the Sastry Tribunal revised by the Labour Appellate Tribunal and modified by the Government of India—covering the period June 1949 to August 1954—have served to streamline the concept of social justice in the relations between employers and employees in the banking industry. The Bank Award Commission has observed that "the old-world notions of absolute freedom of control" can no longer hold the field. The right of the State to formulate detailed schemes of pay, provident fund, medical amenities, overtime, leave rules, gratuity and bonus has been upheld. The Bank Award Commission agrees with the views of the Fair Wages Committee that an industry which is unable to pay a minimum wage has no right to exist, but that if the continued existence of any such industry is deemed necessary in the national interest, the State should take suitable "steps to enable the industry to pay". The Commission's examinations of the issues relating to different social standards of wages throws a lurid light on the concept of the "capacity to pay". The Commission discusses the difficulties of determining the material contents of "living wage," "fair wage" and "subsistence wage", but concludes that the decision of the problem is not "purely an economic matter" and endorses Mrs. Wootton's "social and ethical implications of the arithmetic and economics of wages".

Though the Commission has questioned the propriety of Government interference with the decision of an Industrial Tribunal, it evidently subscribes to the view that social justice consistent with economic prosperity can best be promoted by assigning to an outside body the task of settling administrative details involved in classifying areas of operations, in fixing scales of pay, increment and efficiency bars, and in framing leave rules. In this connection it is interesting to note that both the Sastry Tribunal and the Bank Award Commission considered a scheme of labour relations based on "the ratio of the working funds to the total load". The very simplicity of the scheme was perhaps considered anachronistic in these days of elaborate social control.

Similar Principles

It will be observed that the different awards and decisions have been guided by more or less the



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same principles: (a) classification of banks according to resources and areas of operation; (b) capacity of the industry to pay; (c) considerations of "physical needs" and "a modicum of comfort" for an employee; and (d) compensation for the rise in the cost of living. Yet each successive award or decision has presented an altered scheme resulting from changes in details. It will perhaps be agreed that the possibilities of changing details in any budgetary scheme (not to speak of a scheme of social engineering) are almost endless when the question is viewed by persons not charged with the task of carrying out these details or of conducting the undertaking or business which finances the carrying out of details.

The whole question may yet be usefully re-examined to ascertain whether the social aims so carefully explained would not be served better by determining the fair percentage which establishment costs should bear to the resources of the bank (and if necessary, even by apportioning this percentage between managerial, supervisory, clerical and subordinate staff) and then leaving bank managements to work out details.

The Commission feels reasonably satisfied about the capacity of the banks concerned to bear the burden of higher costs entailed in implementing its recommendations. But it is worth noticing that the Commission considers that, should it prove necessary for banks to increase earnings to meet the costs, it will be in order for them to augment their earnings by putting up interest rates on their advances. Apart from the effect of higher rates on the cost of production and general prices, the suggestion assumes an interesting reversal of current trends, if it is expected that higher lending rates will fail to be followed by higher deposit rates and call money rates.

Social Bias of Credit

The picture that emerges is one of progressive socialisation of outlook in the field of banking as in every other sphere, and the report of the Bank Award Commission has not fallen out of line with the general movement. But the picture is smudged by indecisive approaches. Banks are expected to adjust the cost and results of their business in accordance with the needs of national policy and social demands but not necessarily to change their methods of business. While exhorted to fit in with the growing supra-market social outlook, banks are also warned that they themselves must suffer if an inefficient or non-responsive market thwarts the conduct of their business . It is not necessary to consider the question whether the influence of events may not be too strong for the preservation of such a difficult state of equilibrium; consequently no attempts seem to have been made to integrate the mechanism of the market with the technique of social policy.

It may be argued that the developments taking place in India are not without parallel in the outside world. It is possible to point to a number of countries where State-sponsored banks compete with private banks in the field of commercial banking. The postal banking system has also been organised in several countries, with vast inter-country networks and Giro systems. Qualitative credit control is now almost a normal feature of central bank routine. Bank costs are rising everywhere and constitute an acute worldwide problem. Yet, the similarity is superficial. It is not the shape or form of a constituent element that alone determines its effects on the larger economy. It is the nature of cohesion of the constituent elements in the total economy that will determine its influence on the economic progress of a country.

Urge for Protection

It will perhaps be appreciated that in a community living above subsistence level, the urge for protection is a less insistent economic force than in a community struggling below this level. The competitive functioning of State-owned and privately owned banks need not present a special problem in an economically advanced community; appreciation of service may continue to operate as a strong economic motive, depositors need not feel confused and bankers need not have their judgment influenced by imitative impulses. The traditions of economic policy may also determine the usefulness of a constituent element in an economy. The success of the Australian banking system in the face of competition with the State-owned Commonwealth Bank is perhaps as much accounted for by the higher level of average incomes as by the fact that State socialism has dominated Australia for well-nigh half a century and that the entire economy of Australia has developed in a pattern of State-owned economic activities inspiring and guiding the sector of private enterprise. The aggressive social mandate to contribute to "the maintenance of full employment in Australia" may smoothly fit in with the rôle of the Commonwealth Bank of Australia. But the position in India is materially different. The development of the economy is being planned, not allowed to evolve from traditions. The chances of economic activities failing to produce the desired results are obviously greater in a shifting economy than in an evolving economy. The average income is woefully inadequate. The opportunity of State-protected deposits may, therefore, soon create uneasy feelings among the depositors of private banks.

The present growth in the business of private banks uninterrupted by the working of the State Bank need not engender a sense of complacency. The crucial test will come when the 400 odd branches are opened by the State Bank. It is then that the temptation of protection will really work. It is also then that the banker will feel uncertain about the steps he should take to provide greater attraction to depositors. He may offer higher rates of interest and await the same fate as small banks often meet with in the earlier stages of banking development. The banker may try to win popularity by being generous in his methods of lending and other services. Future developments in the policy of "rural-minded" credit of the State Bank may perhaps contribute to the shaping of new lending policies of the privately owned banks. It has been suggested in the draft plan-frame that implementation of the second five year plan may be ensured by enforcing control "through the supply of credit by the State Banks working under the general guidance of the Government in matters of policy". It is not known whether a policy comparable to that of "control by the ruble" is contemplated. But even if the State Bank of India may not follow the Gosbank in undertaking a programme of lending which comprehends the entire economy, it is not wholly clear that the demands of planned development will not lead it into a position where credit will be supplied to finance production determined not by "the expression of demand through the market need" but by predetermined goals". It is perhaps in anticipation of this development that the programme of the State Bank's "rural-minded" credit has been strengthened with the protection of the Integration and Development Fund constituted under section 36 of the State Bank of India Act. If, however, the private banking sector feels impelled to pursue any such development in the future lending policy of the State Bank in order to increase its popularity and attractiveness, there may be a repetition in India of the Japanese story of competitive generosity in lending that was enacted in the twenties when the Industrial Bank of Japan was making its influence felt. The effect of the "progressive" lending policy on the borrower's concept of his liability for repayments may also introduce an uncertain element affecting a bank's programme of liquidity.

Rising Establishment Costs

Fixed scales of progressively rising establishment costs constitute a problem of different import in an economy operating in conditions of full employment. It is possible in such an economy to promote rationalisation more than in an economy where employment is low. If the right of dismissal of surplus staff can be exercised without social or political upheaval, it may not be unpractical to expect to balance fixed scales of pay on rising curves by increasing economies through mechanisation or other forms of rationalisation.

"Moral suasion", which gradually led to the development of qualitative control of credit in the U.S.A., has been an evolutionary process. Banking in the U.S.A. is now an integrated system where individual banks' capital deficiencies are corrected through State help, where banks' sub-standard or illiquid assets are processed through State sponsored channels and where depositors are afforded protection under State auspices. And yet the mechanism of the market is accorded its proper place.

It may be instructive here to revert to the subject of the Indian bill market. A form of bill has been devised in India which will ensure qualitative control of short-term finance. "Commercial paper" in the U.S.A. also provides an example of the bill form of short-term finance. But in the U.S.A., commercial paper houses and dealers have promoted a market for transactions in these bills, whereas in India there is no market though the scheme is officially described as such. The result is that qualitative control is linked to market influences in the U.S.A., while the question of co-ordination with, and adjustment through, market has so far been neglected in the scheme of qualitative control now operating in India. It does not seem to have been sufficiently recognised in India that "qualitative control" can hardly eliminate risks which are inherent in super-imposed methods of social growth; that public policy will be best served not by bypassing the market but, if necessary, by reorganising the market, possibly with greater emphasis on risk absorption than on risk elimination. In the American system of banking, qualitative control of credit may not therefore produce those harmful repercussions which Hytten possibly had in view when be observed: "The retention of the system (qualitative control) beyond a period of emergency implies an omniscience in a central bank which it clearly cannot possess. Qualitative control is liable to introduce rigidities that may hamper healthy development in the whole economy". The course of developments in the sphere of banking in India seems, however, to expect the banker to elevate his spirit above the market place while his body may perish in the fire engulfing the market.

Sound Banking

It is a trite, if not also a tautological, proposition that the test of sound banking is the maintenance of sound money. But it will serve the purpose of a definition, if it is realised that it is not the size of the money supply but the behaviour of money that conditions its soundness. Money, like a maiden, is least embarrassing and most efficient when it is "swift to hear and slow to speak". The success of a banker depends on his skill in watching for the sources of demand for money and yet being able to determine when his credit money should be quietened into inaction. The skill of the private banker is sharpened by the awareness that if he fails to make his money behave properly and if his money is not at any time backed by adequate convertible assets, the demand for conversion of his money into a legal or more acceptable form may upset his structure and imperil his existence. This prudent use of skill is mostly absent when credit money is provided by State-sponsored agencies. The danger of political considerations superseding economic assessment shows the fundamental difference between private and State banking.

It is necessary to be able to see when credit money is required to carry an economic operation through essential productive and distributive processes. It is no less necessary to be able to observe when money released for an economic operation has fulfilled its purpose, or failed or ceased to be useful. If the controller of credit is left to be guided only by estimates based on his observation and is not compelled by forces affecting the continuance of his own operation, the risk is that in the confused state of a growingly complex economy, the controller will not infrequently feel uncertain about the correctness of his observation and proper interpretation of facts observed. A private banker, influenced by the thought of availability of legal money, will take steps at the earliest appearance of signs of misbehaviour of money. It must, of course, be admitted that a private banker will also sometimes feel confused, may fail to read the signs correctly and to take action before the situation gets more involved. But the crucial difference is that the State-banker, untroubled by the thought of availability of legal money, may allow the situation to drift for a sufficiently long while, and may only decide to take action when the overwhelming emergence of a general economic crisis renders any effective action almost impossible.

When all is said and done, however, it is useful to reiterate that the success of a particular form of institution depends on the manner of its absorption in the entire system. It is not inconceivable that the growth of an exotic institution, though productive of harmful effects in its early career, may in course of time be dovetailed into the general economy. But the disturbances created in the course of its early career are always painful, and may be destructive if subsequent adjustment fails to materialise. The questions to be decided, therefore, are whether it is necessary for the future growth of Indian economy to introduce changes which may produce painful disturbances (at least so long as harmony with the general system is not established), and secondly, whether sufficient care and proper steps have been taken to ensure that these disturbances will not prove destructive.

It is true that the future will bring clearer shape to these questions. It remains to be seen how depositors will react to the alternatives of State protection and business hazards associated with deposits in the State Bank and privately-owned banks. It is also not yet known how the average borrower's views on the sanctity of his obligation for repayment of bank loans will be influenced by the "progressive" policy enunciated for finance relating to rural or "rural-minded" credit flowing from the State Bank and in the co-operative sector.

Still it may not be too early to re-examine the position before the bankers or administrators, or both, find themselves on the ramp. They may yet find it a worthwhile venture to look into the future and find out whether any of the new developments should be prevented or restricted, or whether, while allowing these developments to take place, any special measure or measures should be devised for the protection or progressive functioning of the privately-owned banking system.

INDIAN INSURANCE IN 1955

PITFALLS OF NATIONALISATION

● By P. R. GUPTA ●

In my last year's article I referred to the far-reaching effects of premium cuts on life insurance business. The effects have been manifold but the most important is the spectacular increase in new business. The increase has been so marked that in the biggest companies it went up to more than 100 percent. In the other companies the increase has been anything between 50 percent and 75 percent. The following figures of the leading ten companies would give an idea of the increase in business, and for the purpose of comparison the figures for 1953, 1951 and 1949 have been given side by side :—

New Business Figures of the Leading Companies.
In Crores of Rupees.

	1954.	1953.	1951.	1949.
1. Oriental	47.50	23.42	22.22	19.49
2. New India	43.42	19.91	16.68	11.69
3. Hindusthan	30.30	18.89	16.28	13.25
4. National	18.18	12.00	9.55	7.60
5. Metropolitan	10.27	8.76	7.51	6.55
6. Bombay Mutual	6.82	4.40	4.25	4.01
7. Bharat	6.39	4.42	3.84	3.05
8. Lakshmi	5.65	3.52	4.28	4.52
9. United India	5.31	3.80	3.51	3.15
10. Bombay Life	5.30	4.89	4.05	2.88
	179.14	104.01	92.17	76.19

Increased Business

It will be noticed that in the case of the ten leading companies the increase of new business has been from Rs. 104.01 crores in 1953 to Rs. 179.14 crores in 1954, that is, an increase of 72 percent. This is an extraordinary achievement and it would be wrong to assume that all this increase is due to the reduction of premium rates. No doubt owing to the reduction of premium rates life insurance has become much more popular, and no doubt with the death benefit cover it is now probably the best form of investment for the average man. But only this factor cannot account for the remarkable increase. A number of other factors have contributed to the increase of business and these are as follows :

(a) This is the first complete year when the benefits of life insurance for Estate Duty cover have been fully availed of. Detailed statistics are not available but some of the larger companies have underwritten a sizeable business under Estate Duty policies and for this purpose these companies have extended exceptional facilities to this class of policy-holders in the form of special whole life schemes and extending the age limit for insurance policies to 60 or even 65 years.

(b) The increased prosperity of the country as a result of the first five year plan and the optimism caused by the prospects of further increase of prosperity under the second five year plan have had a salutary effect on the average man and business from this source has increased substantially.

(c) The intensive new business drive given by the New India Assurance Company, followed by the Oriental and other companies, has resulted in much more intensive exploitation of business than has been done hitherto. Sections of the population which never took out life insurance policies before are now coming forward and are availing themselves of the benefits of insurance.

(d) The special staff insurance schemes—with reduction of premiums of anything between 10 percent and 20 percent—which were introduced by the New India, Oriental and other companies have enabled them to insure in one block the entire staff of big commercial, banking and industrial organisations. These schemes have now, however, been banned by the Executive Committee of the Life Insurance Council.

(e) Last but not the least is the fact that much of the new business has come in through conversion of current policies into paid-up ones, and new policies being issued in lieu. This has been found to be more profitable to policy-holders in many cases in view of the substantial reduction of premiums attaching to the new policies. But this resulted in the depletion of old business and replacement of the same business at lower rates of premiums at a much higher initial cost. It is unfortunate that some companies, in their craze for new business, have advised their field force to encourage conversion of old policies into paid-up ones and replacing the same by new business.

The growth of new business which began in 1954 and has continued throughout 1955 has no doubt had some adverse effects, but it has enabled life insurance business in India to turn the corner and inaugurate a new chapter in business expansion. Remembering that the per capita and overall life insurance business in India is insignificant compared with the business in more progressive countries of the world, any move that encourages expansion of business is in the ultimate analysis beneficial to the country.

Higher Bonuses

Side by side with the race for the increase of new business there has been a tendency for the declaration of higher and higher bonuses. It is significant that in the valuations made as on 31st December 1954 most companies have declared substantially higher bonus rates. Coming on the heels of a significant reduction of premiums, this increased declaration of bonuses has been causing some concern among the more sober elements in the industry, but companies have hardly had any alternative because in a competitive market no company which wants to hold its own in the field, can afford to lag behind in the matter of granting benefits to policy-holders. There is, however, really no reason to be particularly pessimistic because, after all, there has been a significant improvement in mortality experience, interest rates and expense ratios of Indian companies in recent years which would justify increased benefits to policy-holders. Besides, on an examination of the valuation bases adopted by Indian companies for their 1954 valuations there does not appear to be any undue relaxation of standards of stringency which, it will be remembered, are always subject to the strictest scrutiny by the Controller of Insurance.

The following is a chart of the bonus rates declared by some of the leading companies which had their valuation in 1954, as compared with the results of the previous valuation :

Valuation Result.

	1951		1954	
Oriental.	W.L.	15	W.L.	22½
	End.	12	End.	18
Industrial & Prudential.	W.L.	10	W.L.	18
	End.	7½	End.	15
United India.	W.L.	12) 1952	W.L.	17
	End.	10)	End.	15
New Great	W.L.	7	W.L.	15
	End.	5	End.	14
Bombay Mutual.	W.L.	12	W.L.	21
	End.	10	End.	18
Calcutta Insurance.	W.L.	9	W.L.	17
	End.	9	End.	15
Empire of India.	W.L.	10	W.L.	18
	End.	8	End.	15

Similarly, some of the companies which had their valuations as on 31st December, 1953 have also increased their bonus rates substantially. A few examples of some of the leading companies are given below :

		1950.		1953.
Hindusthan Co-operative	W.L.	8	W.L.	17-8
	End.	8	End.	15
New India	W.L.	11	W.L.	16
	End.	9	End.	14
National	W.L.	10	W.L.	17
	End.	8	End.	15

Total business figures of insurance companies in India in the year 1954 are not yet available. From the Insurance Year Book for 1954 figures up to 1953 are available. Figures for the corrected total new business and total business in force up to 1953 showing Indian and non-Indian business separately are given below :

New and Total Life Assurance Business in India
(In crores of rupees of sums assured)
New Business

	Indian Insurers	Non-Indian Insurers	Total	Total Business in force.
1943	64.2	10.0	74.2	378
1945	123.7	12.6	136.3	557
1946 (peak year)	140.9	12.9	153.8	651
1948	121.7	12.9	134.6	724
1950	125.8	13.7	139.5	780
1952	130.3	16.4	146.7	922
1953	137.5	17.0	154.5	962

The Darker Side

While the above provides a picture of the more optimistic side of the business there are certain depressing features. It is a matter of regret, though probably inevitable under the circumstances, that there are still companies in India that are not properly run. As at the end of 1954 there were six companies that were managed by Administrators. These were (1) The East & West (2) Empire of India (3) Jupiter General (4) Servants of India (5) The Tropical and (6) The Union Life & General. Out of these, in view of their sound financial positions, the Empire of India and the Jupiter General are continuing transacting new business. Within the year 1954 the following transfers of business took place :

(a) Sylvan Star's business was transferred to Aryasthan Ins. Co.
(b) India Equitable's business was transferred to Arya Ins. Co. Ltd.
(c) National City's business was transferred to Arya Ins. Co. Ltd.
(d) Associated Insurance's business was transferred to Indian Mutual Life.
(e) Kaiser-e-Hind's business was transferred to New India Assurance.
(f) Mysore Insurance's business was transferred to Prithvi Insurance.
(g) Sunshine Insurance's business was transferred to Trust of India Insurance.
(h) Winterthur Swiss Life Insurance's business was transferred to United India Life.

The following companies went into liquidation :

(1) The Bhagya Lakshmi Insurance Co., Ltd.
(2) The North China Insurance Co. Ltd.

Insurance business in India received a rude shock by the arrest of Seth Rama Krishna Dalmia on a charge of embezzlement of the funds of the Bharat Insurance Company of over two crores of rupees. The company has been immediately put under an Administrator, Mr. M. J. Rao, and an Ordinance—The Insurance (Amendment) Ordinance—has been passed, widening the scope of Section 106 of the Insurance Act dealing with misfeasance of directors, managers etc. Under

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the Ordinance the Administrator is empowered to initiate action under Section 106 of the Insurance Act and is also enabled to safeguard the assets of a company believed to be in the hands of any undesirable person or persons.

British Companies

During the years 1954 and 1955 British Insurance companies have continued transacting life insurance business in India on a substantial scale but have not been able to participate in the large increase of new business that took place in these two years. This was primarily due to the fact that most of them have not been able to join in with the Indian companies in the reduction of premiums and even those companies that have reduced their premiums have not been able to do so to the same extent as Indian companies. As the policies of these companies are dictated by world conditions it has not been possible for them to adjust themselves to the movements and conditions in this country.

General Insurance Business

General Insurance business continued to show steady progress in all departments and the same tendencies that were noticeable last year were also noticeable this year. The official figures for 1954 are not available but the figures of five leading insurance companies transacting general insurance business show that there has been a steady though slight improvement of business. The following is the appropriate chart :

Net Premium Income

(In lakhs of rupees)

	1954	1953	1952	1951	1950
New India:					
Fire	250.30	233.32	229.28	223.32	169.73
Marine	100.70	83.97	91.14	57.70	62.41
Miscellaneous	85.52	72.34	65.51	82.70	37.62
	436.52	389.63	385.93	363.72	269.76
Ruby General :					
Fire	32.76	25.90	25.93	22.51	21.17
Marine	12.78	10.48	9.74	12.63	10.39
Miscellaneous	37.11	35.42	34.69	39.07	34.79
	82.65	71.80	70.38	74.24	66.35
Concord :					
Fire	31.24	31.59	31.38	30.01	28.65
Marine	10.31	10.65	10.68	12.18	11.95
Miscellaneous	11.36	9.76	9.59	9.36	9.10
	52.91	52.00	51.65	51.55	49.70
Jupiter General :					
Fire	15.10	15.42	18.90	28.33	27.04
Marine	4.80	4.80	4.47	4.95	6.91
Miscellaneous	18.08	15.85	14.85	15.81	15.06
	37.98	36.07	38.22	49.09	49.01
British India General :					
Fire	33.56	32.76	34.29	39.55	33.07
Marine	6.87	6.14	5.52	5.01	3.79
Miscellaneous	20.88	18.96	17.82	20.23	17.33
	61.31	57.87	57.73	64.80	54.19

The Government Year Book for 1954 gives the figures up to 1953. The chart below shows the fire, marine and miscellaneous premiums for general insurance business transacted in India for the three years 1951, 1952 and 1953; and the chart marked (A) shows the distribution between Indian and non-Indian companies of business for the year 1953.

General Insurance Business Transacted in India.
(In crores of rupees.)
Net Premiums.

	1953	1952	1951
Fire	10.59	10.44	10.82
Marine	4.38	4.72	5.07
Miscellaneous	6.36	6.06	5.90

The distribution of business in 1953 between Indian and non-Indian companies has been as follows :

Business in 1953

(In crores of rupees.)

	Indian	Non-Indian	Total	Percentage of Indian business to total
Fire	7.87	2.72	10.59	74
Marine	2.73	1.65	4.38	62
Miscellaneous	4.46	1.90	6.36	70

Proposed Reinsurance Corporation

During the year the idea of starting a Reinsurance Corporation has again come up. The Government has taken the initiative in the matter and the industry is also prepared to co-operate fully. But some difference of opinion has arisen over the composition of its share capital. The Government wants an absolute majority of share (51 percent) in the Corporation, while the industry is in favour of a Corporation with wholly or substantially private capital. The matter is still under discussion and it is hoped some solution will be arrived at in the near future.

Nationalisation

During the year one factor that has considerably disturbed the minds of the leaders of the industry is the constant threat of nationalisation. This has had a stifling effect on the industry and naturally has damped initiative and enterprise to a certain extent. The general attitude to-day is one of wait and see. The Government has made no clear pronouncements in the matter. There have been vague and general statements by men in high positions but nothing definite has been stated. The general sense of the statements made by Ministers in this regard is that "Government is actively examining the position." It is not understood why the Government has chosen to take up the question of nationalisation of insurance at this stage. With the second five year plan in the offing there is so much which the Government has to do and it can hardly afford to burden itself with the administration of a running industry.

No doubt much of the talk among the lay public has arisen from the idea that by nationalising insurance a large fund will become available for the second five year plan. But this is a big fallacy. More than half the funds of life insurance companies is already invested in Government and approved securities. The balance of the investments is in policy loans, and other forms of investments approved under Section 27A of the Insurance Act which it will not be in the national interest to dislodge. After all it was only recently that the Government appointed a committee under the chairmanship of Mr. A. D. Shroff to explore the ways and means of attracting more capital into the private sector.

Problems

Nationalisation of insurance will create manifold problems. The Government has not yet explored all the implications. If it does so, one feels sure, it would be dissuaded from nationalising the industry. The gist of the Government case seems to be contained in a statement said to have been made by the Finance Minister, Mr. C. D. Deshmukh at an informal meeting of the All-India Congress Committee. He is reported to have said: "I am not in favour of the State taking over banking. It would not add much to our resources. As far as insurance is concerned it may add 10 percent to our resources. If the State takes over insurance, expenses of management would be reduced. Actually insurance management expenses are higher in India than anywhere else. The subject is receiving our attention." During the debate on the Companies Bill the Finance Minister further said in Parliament that the Government was still trying to deal with the many abuses in the insurance industry.

Regarding increase of resources it is difficult to understand how this would be brought about. As already indicated above, only a small percentage of the funds would be available to the Government. It seems that the Finance Minister feels that by reduction of expenses more funds would be available. Personally I feel, it is very difficult to anticipate this. There might be some reduction of expenses by the Government taking over, but what assurance is there that the business would increase? Like many things taken over by the Government there might be stagnation after nationalisation. The Government would no doubt make insurance compulsory among Government servants but even that may not bring about the necessary expansion.

The case of postal insurance is an example in point. In spite of all the facilities that are available to the department there is hardly any progress in its insurance business. While postal insurance during the decade ended 1952 increased by only 16 percent from Rs. 19.9 crores to Rs. 23.2 crores, the total business of private insurance increased by 214 percent from Rs. 295 crores to Rs. 922 crores. Besides, in the year 1954 life insurance business, as has been indicated above, has shown a record increase, which it would have been impossible for insurance to achieve under nationalisation. It is significant that the postal insurance fund has not declared any bonus since 1951. This is probably due to its antiquated method of keeping accounts but the fact remains that the policy-holders have to suffer for it. It is not understood how the Government would readjust the present field organisation.

If all the existing companies are merged into one company or corporation there is bound to be widespread unemployment among officers, the office staff and field workers. And if the staff is wholly retained, the proposition would become uneconomic. On the other hand, if the existing companies are allowed to remain as they are or be integrated into a small number of organisations and the existing field organisation retained, we would be presented with the incongruous spectacle of half a dozen insurance agents of the same State insurance corporation or department competing with each other for the same business. A possible solution might be reclassification on regional basis but even that would give rise to countless problems not the least of which, would be the rehabilitation of displaced insurance personnel.

The insurance industry is about the most rigidly controlled industry in India and in the world, and it is within the means of the Government of India, even within the framework of the existing law, to control companies in a manner so as to eliminate the abuses and bring down expenses to the minimum level. It is therefore not understood why it should become necessary to nationalise the industry.

Investments

In the matter of investments the existing law is sufficiently comprehensive. Besides, the Government could always, under present conditions of private enterprise, canalise further investments of insurance funds into the Finance, Development and Housing Corporation and mop up the available funds.

Abuses

Talking of abuses in the insurance industry, I feel that too much has been made of them and for this we must largely thank some of our compatriots in the industry itself who have been in the last few years constantly approaching the Government with petty bickerings about abuses in the industry. There might be here and there a violation of the 'code of conduct' or certain other irregularities, but looking at them from the point of view of ethics they can hardly be called "abuses". These violations would not in most cases, for instance, amount to a contravention of the British Insurance Law, under which companies enjoy a refreshing freedom from onerous legislative regulations. We have chosen, out of our free will, to impose upon ourselves rigorous and irritating restrictions—a legacy of the Insurance Amendment Act 1950—many of which would themselves be considered far from ethical. Taking one instance out of many, I have never been able to understand what ethical justification there could have been in restricting the commission of the special agent to 15 percent while allowing unfettered terms to the paid inspector. If paid appointments suit one class of companies, they do not suit other classes. In this context we have only to take the instance of the Canadian Companies operating in India in the pre-1938 period to see how successfully and effectively insurance organisation could be developed by workers on purely commission basis. The workers of these companies used to be more contented and happy and enjoyed more security of tenure than most of the companies which employed salaried personnel. In a dynamic and progressive country there will be at times some undue exuberance and what is necessary in these cases is to curb this and not to nationalise the industry altogether on the score of prevailing abuses. If we trace the growth of insurance business in the United States of America we would find much greater "abuses" than we have in our country, but that did not prevent the U.S.A. from having the most highly developed insurance industry in the world.

At a time when Indian insurance is fast expanding into foreign markets and particularly in the markets of the countries of South East Asia and the Middle East, nationalisation of insurance would completely cut off the overseas business and deprive the country of a valuable item of invisible export which requires no raw material and shipping space. This is a matter of vital importance to the balance of payments position. As a matter of fact, these considerations made the late Sir Stafford Cripps definitely decide against nationalisation of British insurance during the term of the last Labour Government in Britain. A review of business in countries where the industry has been nationalised would reveal that nowhere has nationalisation proved particularly successful. In Poland, premium rates had to be increased considerably. In France where a number of companies over a certain size were nationalised the results obtained have been unsatisfactory in comparison with those of the companies that are still in private hands. It is found that new business was growing faster in the privately-owned companies while the expenses of management of nationalised companies were rising more rapidly. In the United Kingdom, after 64 years of operation, postal life assurance was closed in 1928. The same has been the fate of the State Life Assurance Department in New Zealand which also was closed after operating for 50 years.

THE FUTURE OF SMALL LIFE INSURANCE OFFICES IN INDIA

● By N. T. RAJU ●

THE period between the two world wars witnessed a phenomenal increase in the number of Indian companies registered for transacting life insurance business in the country. From a mere 50 towards the end of 1919, they rose to 213 by the middle of 1938. With the passing of the Insurance Act, 1938, and the resulting restrictions and supervision by the Government, the number gradually showed a downward trend and the decline gathered momentum with the further restrictions imposed by the Insurance (Amendment) Act, 1950. The large increase in the number of units aspiring to do life business could not have contributed to healthy competition. This increase was encouraged by the laxity of statutory control over the business, the attraction of commencing business with a small amount of capital and the allurement of control of sizeable life funds if the venture proved to be eventually successful. The business potential in the country being extremely limited on account of low incomes and literacy, the increase in the number of operating companies has naturally brought into existence several small and uneconomic units. Many of them are not self-supporting and some cannot hope ever to be. A few of them remain hobbies of wealthy men who are successful in other spheres of business and a good number are slowly and steadily advancing towards inevitable extinction.

Business Position

At the end of the year 1953, there were only 19 Indian companies whose business in force was about Rs. 10 crores or more. Though there were 154 units writing life business, these 19 companies, which are officially called big insurers accounted for four-fifths of the new business in the country in 1953 and a similar proportion of the business in force at the end of the year. The following figures relating to 1953 give some indication of the relative positions of the big and small insurers.

(In lakhs of Rupees)

	Number	New Business business.	Business in force.	Net Prem. Income.	Life Fund.
Big Insurers	19	1,23,83	7,51,12	36,39	2,14,99
Small Insurers	135	28,30	1,55,90	7,80	4,06,22

Average Sum Assured per Policy.

	New business	Business in force.	Expenses as a percentage of premium income.
Big insurers	Rs. 2,699	Rs. 2,304	26.99
Small insurers	,, 2,155	,, 1,709	28.95

The costs to the small offices are higher partly due to the lower average sum assured per new or existing policy and the consequent larger overhead charges. Besides the high costs, a small office is fundamentally at a disadvantage in relation to its bigger counterpart. The reputation of a large office and the confidence it inspires in the public are its trading assets. It is easier for insurance agents to canvas new business for well conducted and soundly established big offices. In order to attract business a small office is in general obliged to offer larger inducements to its field workers as well as its clientele. Many are ill-informed about the benefits and value of life insurance and much more so about the prospects of individual offices. They are chiefly guided by the advice of the insurance agents who are naturally interested in getting business for the offices whom they happen to represent. Within limits the choice of a life is considerably influenced by the agent who is often a friend or relative of the prospective customer, and policies are not infrequently taken out chiefly to benefit the agent, little thought if at all being given to the state of the insurance company concerned.

Difficulties

Workers representing small companies and companies of doubtful soundness have a hard time getting business and—consequently they expect larger returns on whatever business they succeed in procuring. Hence the cost to the company whether directly or indirectly is higher. Also, sometimes a person who is not a first class life and who is unable to obtain a policy at normal premium rates from a leading company may be inclined to place the business with a smaller office if the latter is prepared to accommodate him, and oftener than not it may be inclined to oblige such a client. Competition in the new business field is severe and the temptation to succumb to such practices is strong. It is therefore not unlikely that apart from the expenses of management, the cost to a small office may be higher owing to the higher mortality rate among its clientele.

Another disadvantage of the small office is in respect of reinsurance. Every company is compelled to level down its peak risks on individual lives by reinsuring part of the sum with other offices. The reinsurance portfolio of a small office cannot be large. Furthermore, its size weakens its bargaining power in demanding and obtaining adequate reciprocity. The reinsurances ceded to other offices and received from others may on balance constitute a net outgo and consequently a drain on its resources, since the costs recoverable from the reinsurers are usually much less than those incurred in procuring the business.

The position of the smaller offices when considered in the aggregate is seriously affected by the existence of a number of units which are well managed and whose financial position is quite satisfactory. Some of these units are much larger than the average small office and they account for a substantial portion of the activities of the numerous offices falling into their category. There are also a number of organisations operating within limited areas and serving specified communities. They enjoy the benefit of a regular flow of quality business and they incur reduced expenses in managing their affairs. In some such cases there are practically no expenses. They usually cater for employees in particular fields like the railways, posts and telegraphs, customs etc. Notable among them are the Bombay Postal Employees, Calcutta Customs, Calcutta Postal & R.M.S., Corporation Co-operative, Police Co-operative, Railway Employees' Co-operative, and the Western Railway Co-operative. If we exclude these and a few of the more important small offices, the rest of the companies in the category present a singularly dismal picture.

The amount of new business which each of the remaining offices succeeds in getting is often much below what would be necessary to keep it going. In the struggle for existence, it is not unnatural that they are compelled, among other things, to lower the standards of insurance underwriting. The difficulty of obtaining a regular supply of new business at a reasonable cost and the high expenses which are an obvious corollary to a meagre premium income keep many of these offices in a state of perpetual anxiety and on the borderline of solvency. A series of good years or strenuous work by honest and influential people may bring a temporary prosperity to some of them. If the prosperity endures for a sufficiently long time, some of them may find a secure footing in the business and may gradually expand into successful units. But for the majority the prospect is one of a dreary wait for dissolution or closure by liquidation.

Control on Expenditure

The passing of the Insurance (Amendment) Act 1950 has tightened the statutory control over life insurance, especially over the expenses of management. Until then a life office could spend as much as it liked provided it was proved to be solvent at the quinquennial valuation. The bonus-load collected on participating policies could conveniently be expended for running the office, as bonuses are a moral and not a legal obligation. If an office could procure participating business in good volume, it could live beyond its means at the expense of the participating policyholders and yet comply with all the provisions of the Insurance Act. Actually there have been a number of offices of that type. With the amendment of the Insurance Act in 1950 the position has radically altered. The ceiling for expenses of management has been prescribed and those defaulting twice in seven years have to submit to an actuarial investigation. Due to the increased restrictions and probably due to a closer vigilance by the Department of Insurance, the number of offices registered for life business has declined sharply from 185 in 1950 to 154 in 1954. The Insurance Year Book, 1954 discloses that within the year preceding its publication, the business of eight companies has been transferred to others and two companies have been wound up. In November 1954, six companies were being managed by Administrators and 18 were in liquidation.

Of the 52 valuations as at the end of 1953, 18 were based on a rate of interest higher than 3 percent. Of these 18 all but one were of small offices. Even with this liberal interest assumption only a third of the valuing offices could squeeze out bonuses for their policyholders. The rest were struggling to disclose smaller than actual deficits or nominal surpluses. A higher interest assumption in a valuation by capitalising the corresponding future earnings, undermines the ability of an office to absorb adverse shocks to come. If the position of the office is really bad, it only postpones the day of disclosure. Nevertheless, there will always be a faint hope that it will give time and chance for the office to pull through, but the hope as is often the case, turns out to be a dupe.

Reduction in Premium Rate

The rate-cutting early in 1954 and the subsequent declaration of high bonus rates by some of the leading offices would have added appreciably to the difficulties of the small offices. The plea put forward before the Life Insurance Council that the rate-cutting adversely affects the small offices does not appear to have any real justification. So long as the costs are high, pegging of premium rates together with a ceiling on shareholders' profits will not be much help to the small offices. The higher costs will eat into the bonus potential. The disadvantage of higher costs is fundamental. It has always been there and it is not a new development. The controversies following the rate-cutting have only given it wide publicity. It was a manoeuvre by interested persons probably to emphasise the handicaps under which they were competing with the big insurers and thus to create a favourable and sympathetic impression about the small offices. Since the cut in the rate of premium the tendency of the big insurers has been to display their financial strength and achievements to the utmost advantage with a view to attracting new business and it automatically throws the small offices into strong relief. The effect of the cut in rate and high bonuses on the fortunes of the small offices has yet to be seen. The next Insurance Year Book may give an indication of the results during 1954, but it will be some years before the full implications become evident.

Liquidation and Amalgamation

It will not be surprising if gradually more of the small offices find it impossible or inadvisable to continue. Those which have the interests of their clients at heart will take timely action to have the business transferred or to amalgamate themselves with other offices. But it is not often that transfers or amalgamations take place in time so that the policyholders may not suffer. The law ought to be stricter in this respect. While it is not argued that small offices should be closed down as far as possible on the least possible pretext, it is reasonable to expect that those whose financial position is weak and which do not appear to hold out prospects of recovery should be compelled to take steps long before they technically pass into insolvency. When an office goes into liquidation or is amalgamated with another after reduction in the value of its existing contracts, the reputation of the business of life insurance as a whole suffers some damage however small the office affected may be. It shakes confidence in other offices of similar size or in similar circumstances and thus may react unfavourably on their prospects and may disturb the equilibrium of those that are just able to maintain a delicate balance. It is therefore in the interests of all that liquidations of life offices or reduction of life contracts should be forestalled and prevented.

The existence of so many life offices and their competition for new business in a field which is not expanding sufficiently fast cannot but result in a waste of labour and technical skill. The number in relation to the scope for business far exceeds that necessary to promote healthy competetion and thereby to maintain business efficiency and initiative. Some of the smaller offices cannot afford to employ technical skill to supervise or conduct their operations and those, which can afford it, are too small to benefit by employing competent staff. There is bound to be a marked improvement if the small offices make efforts to associate themselves with bigger ones, while retaining their identity. Such association will bring about an economy in effort and will place the benefits of organisational and other skill within reach of the small offices. The big insurer may gain by obtaining new business connections through an associated office while the latter stands to benefit by the improved confidence and prestige flowing from the financial backing of the big insurer.

(Continued on page 123, col. 3)

Stocks and Shares

A MONTH BY MONTH SURVEY OF PRICE TRENDS FROM JANUARY 1955 TO OCTOBER 1955.

(Each month: H. / L., Rs.)

	January	February	March	April	May	June	July	August	September	October
CENTRAL GOVT. LOANS.										
3% 1946/86	81 7 / 80 14	81 3 / 81 0	81 2 / 80 10	80 14 / 80 6	80 15 / 80 9	80 11 / 80 6	80 10 / 80 8	80 8 / 80 5	80 9 / 80 4	80 9 / 80 [illegible]
2½% 1955	99 10	99 10	99 10	99 11 / 99 9	99 11	99 11	99 14 / 99 12	99 12	99 14 / 99 12	
2½% 1961	91 9	91 12 / 91 9	91 12	91 15 / 91 13	92 2 / 91 15	92 5 / 92 2	92 5	92 6 / 92 4	92 11 / 92 6	92 14 / 92 12
2¾% 1960	94 10 / 94 8	94 15 / 94 9	95 0 / 94 14	94 14	95 0 / 94 14	95 1 / 95 0	95 3 / 95 0	95 5 / 95 3	95 9 / 95 5	95 12 / 95 9
2¾% 1962	92 6	92 10 / 92 7	92 9	92 11 / 92 9	92 12 / 92 10	92 14 / 92 11	93 0 / 92 14	93 2 / 93 0	93 4 / 93 1	93 12 / 93 4
3% 1957	99 5 / 99 3	99 4	99 5 / 99 3	99 4	99 9 / 99 5	99 11 / 99 9	99 10	99 10 / 99 9	99 9 / 99 7	99 10 / 99 9
3½% 1961	99 10 / 99 2	99 10 / 99 8	99 8	99 10 / 99 8	100 0 / 99 10	99 14 / 99 12	99 12 / 99 10	99 11 / 99 9	99 9	99 11 / 99 10
3½% 1964	98 9 / 98 7	98 8	98 7	98 7	98 12 / 98 8	98 14 / 99 11	98 12 / 98 10	98 11 / 98 9	98 12 / 98 10	98 14 / 98 12
3% 1964	93 11 / 93 9	93 10	93 10	93 10	94 2 / 93 10	98 14 / 98 11	94 5 / 94 3	94 5 / 94 4	94 6 / 94 4	94 6
3% 1970/75	86 14	86 14	86 15	86 14	87 1 / 86 15	87 2	87 2	87 3 / 87 1	87 4 / 87 1	87 8 / 87 4
PREFERENCE SHARES.										
Anglo-India Jute (7%)	119 0 / 115 8	118 0 / 116 0	118 0	118 8 / 118 0	119 0 / 118 8	121 0 / 120 0	121 0 / 120 0	118 0 / 116 8	118 0	119 0 / 118 [illegible]
Alkali & Chemical (5%)	109 8	109 0	109 0 / 106 8	106 8	106 8	108 0 / 106 8	107 0	109 0 / 107 0	109 0 / 106 8	107 0 / 106 [illegible]
Bengal Assam Steamship (7%)	85 0	85 0 / 81 0	81 0	81 0	82 0 / 81 0	85 0 / 83 0	86 0	86 0	86 0	86 0
B.I.C. (8%)	151 0 / 150 0	152 0	143 0 / 141 0	141 0 / 138 0	138 8 / 137 0	138 0 / 137 0	138 0	138 0	138 0	136 0
Burn & Co. (7%)	139 0 / 138 0	142 0	144 0 / 142 0	144 8	145 0 / 144 8	145 0	141 8 / 141 0	142 0 / 141 0	142 0	142 0
Burn & Co. (6%)	123 0	124 0	124 0	124 0	124 0	124 0	121 0	122 8	122 8	122 8
Dunlop (6%)	128 0	128 0	128 0	128 0	128 0	128 0 / 126 0	126 0	128 0 / 126 0	128 0	128 0
Indian Iron (5%)	109 0	109 0	110 0 / 109 0	109 8 / 107 8	109 0 / 108 8	109 8	109 8 / 109 0	110 0 / 109 8	111 0 / 110 0	109 0
Kesoram Cotton (7%)	128 0	128 0	129 0	131 0 / 129 0	133 0 / 131 0	133 0	133 0	133 0	133 0	130 0
Titaghur Paper (8%)	155 0	155 0 / 151 0	153 0 / 151 0	153 0	153 0	153 0	153 0	154 0 / 153 0	154 0 / 150 0	150 0
BANKS.										
Allahabad Bank (Fully Paid)	380 0	376 0 / 364 0	364 0	364 0	364 0	360 0 / 359 0	348 0	348 0	356 0 / 348 0	368 0 / 362 8
Allahabad Bank (P. Paid)	190 0	188 0 / 182 0	182 0	182 0 / 181 0	182 0	180 0 / 174 0	171 0 / 170 0	170 0	176 8	175 0
Imperial Bank (Fully Paid)	1660 0 / 1640 0	1583 0 / 1500 0	1580 0 / 1510 0	1655 0 / 1570 0	1702 0 / 1660 0	1702 0	NATIONALIZED			
Imperial Bank (P. Paid)	402 8	388 0 / 387 12	375 0	402 8 / 382 8	418 0 / 408 0	416 0	—Do—			
United Commercial	48 0 / 42 8	46 8 / 44 12	44 8 / 43 0	45 4 / 44 4	44 12 / 43 8	43 12 / 42 8	48 0 / 43 4	49 8 / 49 0	47 8 / 47 0	52 0 / 48 [illegible]
RAILWAYS.										
Ahmadpur Katwa	62 0 / 61 0	62 0	62 0	62 0	62 0 / 60 0	60 0	60 0	59 0	61 0 / 59 0	61 12 / 61 4
Arrah Sasaram	72 8	74 0	74 0 / 73 8	74 0 / 71 0	74 0 / 72 0	74 8 / 72 0	74 0	75 12 / 75 0	76 0	76 0 / 75 [illegible]
Howrah Amta	73 0	73 0	73 0	74 0 / 72 12	72 4	72 0 / 71 0	72 0	70 8	72 0	72 0
Shahdara (Delhi)	162 8 / 162 0	162 0	163 0 / 162 0	161 4	158 8 / 151 8	152 0	150 0	148 0	152 8	152 8
ELECTRICS.										
Agra	161 0	162 0 / 161 0	161 0 / 160 0	161 0	163 0 / 161 0	166 0	165 0	159 0 / 158 0	165 8 / 162 0	167 0 / 161 [illegible]
Benares	19 8	19 14	19 10 / 19 2	19 12 / 19 6	19 10 / 19 6	19 8	19 0x.d.	19 8 / 19 4	19 8 / 19 3	19 8 / 19 [illegible]
Calcutta	15 7 / 15 0	15 4 / 14 10	15 4 / 14 12	15 11 / 14 14	15 4	15 3 / 14 13	15 8 / 14 14	15 14 / 15 4	15 14 / 15 4	15 14 / 15 [illegible]
Patna	12 11	12 12	12 15 / 12 10	13 0 / 12 13	12 14	12 14	13 4 / 13 2	13 8 / 13 0	13 2	13 1 / 12 15
Jubbulpore	14 15 / 14 10	15 8 / 15 5	16 4 / 15 12	16 5 / 15 7	15 6	14 7	14 10 / 14 2	14 8 / 14 2	15 5 / 14 6	16 0 / 15 [illegible]
U.P.	162 12 / 161 0	161 8 / 161 0	162 0	163 0 / 156 8	156 0	159 0 / 157 0	159 0	161 8 / 159 0	167 0 / 160 0	165 0 / 160 [illegible]
JUTES.										
Agarpara	15 3 / 14 14	14 13 / 13 10	15 2 / 13 14	14 10 / 14 0	14 1 / 13 5	13 14 / 13 3	14 5 / 13 10	16 6 / 14 10	14 6 / 13 13	13 14 / 13 5
Anglo India	242 0 / 229 0	226 0 / 212 0	241 0 / 215 0	228 0 / 218 0	215 0 / 210 0	223 0 / 208 0	238 0 / 220 0	258 0 / 239 8	246 0 / 231 0	230 8 / 219 0
Belvedere	225 0 / 210 0	208 0 / 204 0	222 0 / 214 0	218 0 / 216 0	207 0 / 206 0	203 0 / 200 0	220 0 / 207 0	243 0 / 224 0	206 0 / 198 8	198 8 / 197 0
Barnagore	186 0 / 177 0	174 0 / 170 0	186 0 / 176 0	188 0 / 175 0	178 0 / 169 8	184 0 / 177 0	194 0 / 184 0	222 0 / 196 0	197 0 / 182 0	183 0 / 175 0
Champdany	179 0 / 168 0	168 0 / 167 0	186 0 / 170 0	173 0 / 170 0	170 0 / 159 8	172 8 / 154 0	182 0 / 170 0	216 0 / 182 0	210 0 / 178 0	183 0 / 172 0
Dalhousie	155 0 / 128 0	137 0 / 135 0	152 12 / 150 0	149 0 / 147 0	140 0 / 137 0	144 0 / 140 0	138 0	156 8 / 154 0	156 8 / 130 8	132 0
Empire	26 8	24 8 / 23 8	25 4 / 23 15	25 12 / 25 4	25 13 / 25 1	24 2 / 23 11	25 0 / 24 0	28 0 / 25 12	24 14 / 23 14	24 8 / 23 10
Fort Gloster	480 0	475 0 / 465 0	475 0 / 455 0	470 0	460 0 / 450 0	455 0 / 452 0	482 0 / 460 0	435 0 / 398 0	405 0	480 0 / 460 0
Gourepore	328 0 / 320 0	310 0 / 307 0	342 0 / 310 0	344 0 / 336 0	336 8 / 333 0	336 8 / 330 0	333 0 / 329 0	353 0 / 333 0	324 0 / 319 0	321 0 / 319 0
Howrah	30 13 / 29 10	29 4	30 8 / 29 3	30 12 / 29 0	31 0 / 29 12	32 4 / 29 13	32 13 / 31 4	34 10 / 32 4	31 6 / 28 12	29 4 / 28 [illegible]
India	246 0 / 229 0	220 0 / 218 0	230 0 / 212 0	205 0 / 190 0	189 0 / 174 0	178 8 / 176 8	183 0 / 172 0	189 0 / 175 0	165 0	156 0 / 153 [illegible]
Kamarhatty	202 0 / 196 0	192 0 / 190 0	222 0 / 192 0	216 0 / 209 0	208 0 / 201 0	205 0 / 202 0	209 0 / 205 0	220 0 / 217 0	217 0 / 210 0	193 0 / 188 [illegible] x.d.
Megna	118 0 / 115 0	105 0	113 8 / 110 0	103 0 / 99 8	100 0 / 95 0	99 0 / 94 0	107 0 / 99 0	122 0 / 111 0	101 0	100 0 / 93 [illegible]
Northbrook	27 5 / 25 0	24 14	27 2 / 24 14	26 8 / 26 0	25 12 / 25 7	26 0 / 24 12	26 2 / 25 1	29 14 / 27 4	26 6 / 25 9	25 10 / 24 [illegible]
Nuddea	58 0 / 53 4	52 0 / 51 8	60 8 / 54 8	56 12 / 54 0	56 0 / 54 4	56 8 / 54 8	57 8 / 56 8	61 0 / 53 8	53 0 / 51 0	51 0 / 45 [illegible]
Reliance	15 9 / 14 10	14 14 / 14 8	15 11 / 14 11	15 0 / 14 3	14 12 / 14 6	14 14 / 14 6	16 2 / 14 14	17 8 / 15 12	14 10 / 13 12	13 14 / 13 [illegible]
COALS.										
Amalgamated	23 4 / 21 6	22 8 / 21 4	23 12 / 22 3	23 7	23 0 / 22 12	23 5 / 22 3	24 10 / 23 14	25 2 / 24 12	24 13 / 24 3	23 12 / 23 [illegible]
Bengal	511 0 / 498 0	516 0 / 500 0	528 0 / 517 0	520 0 / 505 0	498 0 / 493 0	520 0 / 495 0	534 0 / 520 0	556 0 / 534 0	546 0 / 520 0x.d.	520 0 / 500 [illegible]
Burrakur	12 14 / 11 4	12 7 / 11 12	12 14 / 12 2	13 11 / 12 8	13 5 / 12 5	13 15 / 12 5	15 0 / 13 14	15 4 / 14 3	15 0 / 13 14	14 13 / 13 14
Equitable	33 4 / 31 5	32 8 / 31 8	31 8 / 30 5	32 0 / 31 0	31 10 / 29 12	31 3 / 29 5	33 10 / 30 14	34 0 / 32 11	32 12 / 32 0	30 8
East Indian	29 8 / 26 4	28 4 / 27 6	29 4 / 27 10	29 10 / 28 12	29 8 / 28 12	30 4 / 28 7	32 0 / 30 12	33 14 / 32 8	32 0 / 29 12	30 6 / 30 [illegible]
Katras Jherriah	47 12 / 47 8	48 14 / 48 0	49 4 / 48 1	50 8 / 48 14	51 0 / 49 12	55 10 / 54 0	54 0 / 53 0	53 4 / 52 14	54 0 / 53 12	55 4 / 54 [illegible]
South Karanpura	11 7 / 10 4	10 8 / 10 3	10 4 / 9 14	11 12 / 10 0	11 14 / 10 8	11 15 / 11 2	13 8 / 11 12	12 13 / 12 1	12 4	11 4 / 10 12
ENGINEERINGS.										
Britannia Engineering	35 12 / 35 3	42 4 / 40 14	38 12 / 36 15	37 0 / 36 0	35 0 / 34 12	32 0	36 12 / 31 12	42 4 / 37 14	20 14 / 20 0	21 2 / 19 4
Braithwaite & Co.	24 14 / 23 15	24 9 / 24 3	24 14 / 23 14	24 10 / 23 10	24 6 / 24 0	25 0 / 24 2	26 2 / 25 12	29 5 / 25 6	28 8 / 26 13	35 8 / 26 12
Burn	250 0 / 226 0	256 0 / 243 0	274 0 / 244 0	271 0 / 262 0	270 0 / 268 0	269 0 / 265 0	283 0 / 271 0	305 0 / 282 0	301 0 / 288 0	335 0 / 295 [illegible]
Indian Galvanising	20 15 / 19 12	21 6 / 20 5	24 2 / 20 4	23 12 / 22 10	23 12 / 23 8	23 14 / 22 15	24 2 / 23 4	24 8 / 23 6	23 14	24 12 / 23 [illegible]
Indian Iron	33 15 / 32 2	34 7 / 32 7	36 2 / 33 13	35 10 / 33 12	33 11 / 33 2	34 13 / 32 9	38 13 / 35 0	41 10 / 38 5	40 7 / 37 15	39 11 / 38 [illegible]
Indian Standard Wagon	112 0 / 92 12	126 0 / 113 0	136 0 / 123 0	139 0 / 135 0	129 0	130 0 / 126 0	137 0 / 126 8	150 0 / 136 0	142 0 / 138 0	161 0 / 138 [illegible]
Jessop	37 2 / 32 8	36 8 / 32 9	36 4 / 34 13	36 10 / 34 2	36 12 / 35 10	38 8 / 35 15	48 0 / 38 12	56 8 / 46 6	55 4 / 53 2	57 0 / 54 [illegible]
Marshall	8 0 / 6 15	7 2 / 6 12	7 5 / 6 10	6 15 / 6 8	6 11 / 6 8	7 3 / 6 8	8 0 / 7 4	8 7 / 7 1	8 4 / 7 2	7 10 / 7 2
SUGAR.										
Balrampur	9 10 / 9 4	9 8	9 8	9 8 / 8 5	9 14 / 9 8	9 13	10 9 / 10 3	11 4 / 10 6	11 9 / 11 5	11 12 / 11 2
Belsund	10 8	10 10 / 10 8	11 10 / 10 9	11 9 / 10 8	10 2 / 9 14	10 8 / 9 14	11 0 / 10 8	12 10 / 10 12	12 1 / 11 9	11 8 / 11 5
Carew	11 1 / 9 0	10 12 / 9 5	13 6 / 9 9	15 12 / 11 14	12 0 / 11 12	11 14 / 11 4	13 3 / 11 9	14 0 / 12 11	13 1 / 12 7	13 0 / 12 3
Cawnpore	20 12 / 18 8	18 10 / 18 2	19 6 / 18 1	19 9 / 19 2	20 4	20 4	21 12 / 20 12	21 11	24 0 / 22 0	24 4 / 23 8
Champarun	29 8 / 29 0	29 2 / 28 8	29 0	31 5 / 28 6	31 0 / 30 12	31 0 / 30 12	31 12 / 30 14	32 10 / 31 10	32 10 / 32 4	33 4 / 33 0
Darbhanga	17 6 / 17 0	18 5 / 16 14	19 2 / 17 0	19 2 / 16 4	16 6 / 15 6	16 0 / 15 2	22 10 / 16 10	25 10 / 20 4	25 6 / 21 15	23 0 / 21 2
Ramnugger	28 14 / 28 2	28 12 / 28 0	28 10 / 28 6	28 11 / 24 8	24 0 / 23 2	24 13 / 23 4	25 4 / 24 3	28 0 / 26 4	27 0 / 26 4	26 8 / 25 15
Samastipur	13 3	14 6 / 13 0	16 0 / 15 0	15 11	15 12 / 15 0	14 2 / 13 11	15 8 / 15 2	14 12 / 14 11	16 4 / 15 9	15 12
U.P.	25 9 / 25 6	25 14	26 0 / 25 12	26 2 / 24 15	24 12	24 10 / 24 6	25 15 / 25 14	26 8	26 4 / 22 8	23 6
COTTONS.										
Cawnpore Textiles	8 13 / 8 4	8 6 / 8 4	8 5 / 8 1	9 2 / 8 5	8 14 / 8 7	8 9 / 8 5	10 5 / 8 14	9 14 / 8 8	9 13 / 8 8	10 8 / 9 4
Dunbar	215 0 / 211 0	217 0 / 216 0	220 0 / 212 0	202 0 / 199 8	208 0 / 198 8	206 0 / 202 0	241 0 / 206 0	250 0 / 240 0	249 0 / 243 0	272 0 / 250 0
Elgin	17 4 / 17 0	16 15 / 16 10	17 5 / 16 11	18 0 / 17 3	19 0 / 17 14	19 12 / 18 4	19 8 / 18 7	20 2 / 19 10	22 7 / 19 7	22 12 / 21 4
Kesoram	23 12 / 23 9	23 8 / 23 0	27 0 / 23 0	27 2 / 26 3	27 4 / 26 7	15 14 / 13 2	19 0 / 15 4	18 4 / 16 8	17 3 / 15 8	16 10 / 15 4
New Victoria	1 8 / 1 6	1 8 / 1 4	1 6	1 9 / 1 6	1 6	1 12 / 1 5	2 1 / 1 6	1 14 / 1 8	1 11 / 1 6	1 14 / 1 6
MISCELLANEOUS.										
Alkali & Chemical	17 7 / 16 15	17 2 / 14 15	16 10 / 15 2	16 6 / 16 0	15 14	17 2 / 15 3	18 8 / 17 7	20 5 / 17 8	20 8 / 19 11	22 5 / 20 2
Angelo Brothers	21 12 / 20 8	19 9 / 19 4	21 12 / 19 12	21 7 / 19 13	19 0 / 17 8	20 0 / 18 7	24 4 / 20 0	25 0 / 23 1	23 9 / 21 10	23 12 / 23 0
Bengal Paper	63 8 / 61 0	69 8 / 59 0	65 0 / 59 0	67 0 / 63 8	67 4 / 65 0	68 8 / 63 8	73 0 / 67 12	78 4 / 71 0	75 0 / 71 0	88 0 / 81 8
Balmer Lawrie	162 8 / 160 0	170 0 / 162 8	165 8 / 162 0	161 0 / 154 0	161 0	161 0 / 160 0	163 0 / 155 0	169 0 / 162 0	168 0 / 161 0	195 0 / 160 0
Britannia Biscuits	13 0x.r.	12 13	13 8 / 12 6	13 2 / 12 2	12 8	13 6 / 12 6	16 4 / 13 8	16 5 / 15 8	15 14 / 14 13	15 1 / 13 14
British India Corpn.	9 2 / 8 10	9 0 / 7 2	8 9 / 7 2	8 10 / 7 12	9 0 / 8 5	9 2 / 8 10	9 10 / 8 14	9 11 / 9 0	10 8 / 9 5	11 6 / 10 5
Calcutta Trams	14 10 / 14 4	16 3 / 14 3	15 2 / 13 15	17 10 / 15 2	16 0	15 14 / 15 4	16 4 / 15 2	19 4 / 16 4	18 14 / 17 10	18 5 / 17 11
Dunlop	36 2 / 35 10	37 8 / 34 8	37 6 / 36 6	38 4 / 35 10	35 10	38 0 / 35 8	38 4 / 37 2	41 6 / 37 6	40 4 / 37 12	38 4 / 35 1
Eastern Investments	157 2 / 155 0	161 0 / 160 0	167 0 / 160 0	170 0 / 167 0	164 0 / 162 0	168 0 / 162 0	170 0	171 0 / 168 8	171 0 / 168 0	176 0 / 170 8
India General Navigation	110 0 / 90 0	110 0 / 93 0	104 8 / 94 0	95 0 / 91 0	95 0 / 93 0	95 0 / 90 0	95 0 / 93 8	125 0 / 95 8	135 0 / 111 0	148 0 / 124 0
Indo-Burma Petroleum	133 0 / 124 8	127 0 / 126 0	129 0 / 126 0	127 0 / 122 0	150 0 / 133 0	149 8 / 131 8	165 8 / 149 0 (Pd. Rs. 10)	(Rs- 40/- Pd. up) 190 0 / 160 8	(Pd. Rs. 10/ Pd. up) 47 0 / 44 0	44 6 / 42 12
India Paper Pulp	240 0 / 237 0	252 0 / 242 0	258 0 / 245 0	259 0 / 252 0	262 0 / 248 0	274 0 / 259 0	30 8 / 29 9	29 12 / 23 12	23 12 / 20 13	24 2 / 21 0
India Steamship	8 6 / 7 11	7 15 / 7 8	8 3 / 7 10	8 0 / 7 5	7 5	7 13 / 7 2	8 0 / 7 7	8 6 / 7 9	7 13 / 7 5	8 9 / 7 6
Indian Wood Products	36 12 / 35 8	36 13 / 35 12	38 12 / 37 4	39 12 / 38 10	38 4 / 38 0	38 10 / 38 6	39 6 / 38 4	42 4 / 39 10	42 8 / 40 8	44 10 / 43 8
Indian Aluminium	182 8 / 178 8	183 12 / 181 0	179 0 / 165 8	161 0 / 150 0	153 0 / 149 0	152 0 / 150 0	192 0 / 151 0	184 0 / 182 0	180 0 / 173 0	176 0 / 174 0
Jardine Henderson	123 0 / 117 0	117 8 / 116 0	119 0 / 116 8	118 0 / 115 0	116 0	115 8 / 114 0	123 8 / 115 0	127 0 / 124 8	122 0 / 117 0	121 0 / 112 0
Martin Burn	23 10 / 23 3	23 9 / 22 12	25 2 / 23 1	23 8 / 22 12	23 7	23 14 / 22 12	25 0 / 23 4	26 6 / 24 0	26 2 / 24 13	26 4 / 24 14
Metal Box	20 8 / 20 0	20 10 / 19 13	20 13 / 19 11	20 14 / 20 8	20 11 / 20 4	23 2 / 20 11	25 11 / 23 2	28 10 / 24 8	25 4 / 23 8	23 10 / 23 8
Sone Valley	8 0 / 7 9	7 14 / 7 5	8 0 / 7 8	7 11 / 7 9	7 11	8 0 / 7 10	7 12 / 7 5	9 8 / 7 8	8 13 / 7 11	8 6 / 7 11
Titaghur Paper	42 6 / 40 4	45 2 / 41 10	44 0 / 41 14	44 4 / 43 2	44 2 / 43 12	45 5 / 43 8	47 10 / 44 15	50 6 / 46 0	48 0 / 45 2	48 9 / 46 0
MINES.										
Burma Mines	2 2 / 1 14	2 1 / 1 14	2 1 / 1 13	1 14 / 1 10	1 11	2 6 / 1 12	2 6 / 2 2	2 4 / 2 1	2 1 / 1 14	2 1 / 1 14
Chrestien Mica (Ordy.)	10 7	10 12 / 10 6	10 11 / 10 6	10 9 / 10 4	10 4	10 10 / 10 1	9 10 / 9 7	13 12 / 9 8	15 14 / 13 5	17 11 / 15 8
Indian Copper	3 9 / 3 3	3 9 / 3 6	3 11 / 3 7	3 11 / 3 7	3 12 / 3 8	4 14 / 3 9	5 4 / 4 8	6 12 / 5 1	6 4 / 5 11	6 1 / 5 12
Karanpura Development	23 8 / 17 4	20 10 / 19 10	22 0 / 20 0	19 12 / 18 8	16 8 / 16 3	16 12 / 16 0	19 14 / 18 12	19 0 / 18 12	18 8 / 18 0	17 8 / 16 0
Western Stock Holders Invest.	1 1 / -14/-	1 0 / -/14/-	1 3 / 1 0	1 2 / -/15/-	1 0	-/15/-	1 1 / -/15/-	1 2 / 1 0	1 2 / -/15/-	1 1 / -/15/-
TEA.										
Baradighi	62 0	65 0 / 62 0	66 8 / 65 0	67 0	64 8 / 64 0	66 0	67 8 / 67 4	70 0 / 68 0	61 10 / 61 8	62 4 / 61 12
Bateli	25 2 / 24 6	25 1 / 24 4	24 4	25 4 / 23 12	24 0 / 23 0	25 6 / 24 8	26 0 / 25 4	25 8 / 25 4	25 4	25 4 / 24 0
Bishnauth	50 8 / 48 14	51 4 / 47 12	51 0 / 47 0	53 6 / 48 4	44 8 / 44 0	50 4 / 45 12	50 4 / 48 4	52 4 / 48 14	54 0 / 42 10	44 12 / 42 0
Brooke Bond	18 4 / 16 15	17 12 / 16 8	18 6 / 16 14	18 5 / 16 14	15 4	18 8 / 15 10	23 15 / 17 14	29 12 / 22 0	30 8 / 27 14	29 0 / 24 8 x.d.
Dufflaghur	55 6 / 48 8	52 0 / 49 12	52 0 / 50 12	57 0 / 51 6	47 0 / 46 8	53 0 / 49 12	55 4 / 46 14	50 8 / 49 12	51 4 / 50 12	49 4 / 49 2
Dhunseri	29 0 / 23 6	29 0 / 25 2	28 12 / 27 0	29 2 / 27 8	23 12 / 23 8	37 8 / 25 8	39 0 / 34 15	37 4 / 33 8	40 0 / 35 0	35 4 / 35 0
East India	34 1 / 29 12	33 14 / 30 4	34 0 / 31 10	35 0 / 30 2	28 0 / 26 12	34 4 / 27 14	34 4 / 31 6	33 8 / 31 0	32 12 / 32 0	26 7 / 25 12
Gohpur	51 12 / 48 14	53 0 / 51 0	54 0 / 50 12	53 12 / 53 0	47 0 / 45 8	48 4 / 46 0	49 0 / 48 14	53 0 / 52 12	53 6 / 53 0	46 8
Hasimara	46 4 / 42 14	48 4 / 43 6	49 6 / 44 4	50 8 / 45 12	45 0 / 43 14	47 4 / 44 12	49 4 / 46 14	48 0 / 46 2	47 8 / 40 4x.d.	42 8 / 41 0
Jutlibari	24 10 / 20 8	25 14 / 22 8	30 8 / 24 8	30 14 / 26 7	23 4 / 22 12	28 14 / 23 6	28 0 / 25 7	32 6 / 25 10	29 10 / 28 8	28 2 / 26 10
Margaret's Hope	26 4 / 23 12	24 4 / 24 0	24 12 / 24 0	25 10 / 24 6	22 0 / 20 0	20 0	20 4 / 19 14	22 12 / 22 2	22 4 / 20 0	19 12 / 18 0
Patrakola	315 0 / 272 0	315 0 / 230 0x.r.	257 0 / 217 0	232 0 / 222 0	180 0 / 172 0	224 0 / 173 0	208 0 / 199 0	207 0 / 199 0	204 0 / 199 0	199 0 / 197 0
Tezpore	35 12 / 32 8	39 0 / 34 4	37 2 / 33 6	37 0 / 32 14	33 0 / 29 2	38 8 / 30 11	40 2 / 36 0	37 0 / 33 0	36 2 / 33 4	33 10 / 33 0

*H=Highest. L=Lowest. Figures between columns indicate that the highest and lowest quotations were the same.

THE CALCUTTA STOCK EXCHANGE IN 1955

ECONOMIC PROGRESS RESTORING CONFIDENCE AMONG INVESTORS

● FROM A SPECIAL CORRESPONDENT ●

THE significant fact about stock exchange conditions in the first ten months of 1955 is that, despite the increasingly socialist flavour of the Government's economic policy, the overall trend of share prices was upward. The all-India index of variable dividend industrial securities (base 1949-50=100) rose from 113.6 at the start of the year to 124.1 in October. The regional index for Calcutta shows a smaller rise, from 107.4 to 114.2. The difference is probably due to the difficulties of the jute and coal industries, which acted as a drag on the Calcutta index. The regional index for Bombay increased from 117.5 to 130.4. Since dividends were in many cases higher than last year, the ordinary investor has benefited doubly: through capital appreciation and through a higher rate of return on his invested capital.

Even allowing for the fact that share prices are often distorted by speculative influences, it would not be far wrong to interpret this rise as a reflection of increasing public confidence in the strength and stability of the economy and its potentialities for growth. The index of share prices is probably a better basis for such a judgment than prices of particular shares, where speculative distortions are more likely. There is undoubtedly solid ground for satisfaction at the overall performance of the economy. Agricultural production has been maintained near the all-time record attained earlier. Industrial output has increased substantially, with fuller utilisation or expansion of existing plant capacity. There has been better export offtake in certain lines. Central and State Government deficits have been rising from Rs. 65 crores in 1953-54 to Rs. 235 crores in 1954-55 and to an estimated Rs. 395 crores in 1955-56, with the resulting expansion in money supply, but there are still no signs of inflation. The index number of wholesale prices (base year ended August 1939=100) actually declined from 366.3 at the beginning of the year to 353.4 in October. It is apparent that the economic climate is still favourable for a certain amount of deficit financing, though it is doubtful whether it should be on the greatly increased scale contemplated under the draft second five year plan. As the Reserve Bank annual report says: "Deficit financing is a double-edged weapon, which might be employed within limits to help development, but might hinder it, if used to excess."

Unemployment and Food Policy

Two features of the economic situation that have continued to cause anxiety are the high level of unemployment, particularly among urban workers, and the relatively steep fall in foodgrain prices, which has necessitated price support schemes. Whatever the immediate difficulties arising from larger agricultural production, increased food supply must be counted a gain, which will cushion the inflationary pressures that may arise in the future. Unemployment remains a worry and will dominate planning for the next five years.

For the average investor, these considerations are less important than what seem to him to be almost unlimited opportunities for industrial development. At a time when some countries are facing the problem of economic maturity with a threat of stagnation resulting from declining investment opportunities, India as an almost undeveloped country is fortunate in possessing what is probably one of the largest potential fields for profitable investment in the world. The opportunity to acquire "growth" stocks where savings, wisely invested, will bring a high rate of return as well as increase in capital value is thought to be great. The phenomenal rise in the value of Tata Iron and Steel shares in the past half-century could be repeated in numerous cases in India, in a very much shorter period of time. It is this vision of an expanding economy, compressing in the next decade or two the achievement that Britain needed a century and a half to attain, that has sustained investors, when Government policy seemed at times to make the realisation of their hopes increasingly difficult.

Throughout the year, the stock market was dominated by the fears and uncertainties arising from the left-ward swing of Government policy. Already, towards the end of 1954, bullish enthusiasm had been chilled by a series of official pronouncements arising out of the uncertainties of the Industrial Policy Resolution of 1948. It became evident that the Government was committed to a vigorous expansion of the public sector and that private enterprise would have to reconcile itself to a secondary position and would have to submit to a large degree of regulation and control. Official reassurances were not entirely successful in convincing business men and investors that private enterprise still had an assured place in the economic system, and that it would be given the help and encouragement needed to enable it to play its part in its allotted sphere in bringing about the economic development of the country. The resolution on economic policy at the Avadi session of the Congress in January, accepted a "socialistic pattern of society" as the objective. The practical implications of this extremely ambiguous phrase, and the extent to which such a society could find a place for profit-seeking private enterprise, gave rise to a degree of misgiving in the minds of investors. Even before this, the rejection of the Birla project for a steel plant in the private sector and the unexpected announcement that the Imperial Bank would be nationalised, had provided an indication of the lines on which the official mind was working.

The share market reaction to Avadi was a decline in the volume of business and a halt to the bullish fervour with which the New Year began. There was no great fall in prices, and the undertone was steady, but operators were evidently unwilling to extend commitments till the outlines of the new economic policy became clearer. There was also a very understandable desire to wait and see what the Budget for 1955-56 would bring. It was known that this Budget would be influenced by the long-awaited Taxation Enquiry Commission report, the first comprehensive study of the Indian tax system in more than a quarter of a century.

Throughout February, pre-Budget caution tended to keep down prices and check any movement towards a larger volume of business. Early in the month there was some anxiety over Mr. T. T. Krishnamachari's decision to resign from the Cabinet, but confidence returned when he changed his mind and decided to stay on. The private sector, including the investor, regards Mr. Krishnamachari as one member of the Government with a realistic understanding of the importance of private enterprise and a sympathetic appreciation of its difficulties. The signing of the Indo-Russian agreement for a steel plant in the public sector left investors unmoved, though there was some shaking of heads at the growth of economic co-operation with the fountainhead of world Communism and some talk of Bhilhai developing into a red Trojan horse, from where Communist influence and money would spread. The sharp fall in commodity prices, particularly cotton and oilseeds, also induced a note of caution in share dealings.

Industrial Credit and Investment Corporation

A notable development in February was the publication of the prospectus of the Industrial Credit and Investment Corporation of India Limited inviting subscriptions from the public to the extent of Rs. 1½ crores. This venture, in which American, British and Indian private capital is co-operating with the Government of India and the World Bank for the express purpose of assisting industrial enterprise in the private sector in India, helped revive the confidence that was being undermined by the talk of socialism and fear of nationalisation. It was agreed that the Government's Rs. 7½-crore interest-free loan to the Corporation, and its guarantee of the $10 million World Bank loan were concrete proof that it was not entirely unresponsive to the needs of the private sector. The willingness of British and American private capital to participate in the new institution was welcomed by Indian investors as evidence of confidence in the strength and stability of the Indian economy. The lists opened for subscription on 3rd February and closed shortly after, heavily oversubscribed. The issue to the public, which was in the form of Rs. 100 fully paid-up ordinary shares at par, constituted 30 percent of the total, the remaining 70 percent having been reserved for institutional investors in India, the U.K. and the U.S.A. The success of the issue showed once more that there was plenty of money waiting to respond to the right type of offer. Throughout the period of this study, even when equities were at their lowest, debentures and preference shares of good companies had a sellers' market, demand greatly exceeding supply, and such scrip as came on the market were eagerly snapped up. There is evidently a substantial body of investors, institutional as well as individual, which is sceptical of the vagaries of speculators but has firm confidence in the economic set-up.

Another event that stirred market interest in February was the news that a controlling interest in the well-known British engineering firm of Jessop & Co. Ltd., had been acquired by Mr. Haridas Mundhra who already controlled F. & C. Osler, Richardson and Cruddas and, later in the year, added the old-established British agency house, the British India Corporation to his interest. His attempts to acquire control of the Assam Company however failed, causing a small sensation in the London Stock Market, where the shares first soared to 57s and later crashed to 41s 6d. In the case of Jessops, the news of the change caused an initial reaction from Rs. 34-12 to Rs. 32-8 but subsequently the price recovered to Rs. 33-8 and in the following months climbed steadily to Rs. 57 by October.

The announcement that Rallis (India) Ltd. proposed to close down their Calcutta branch came as an unpleasant surprise to investors and the shares slumped from Rs. 45-8 to Rs. 39. The decision was later rescinded, but the price in later months declined further and stood in October at Rs. 36.

The Budget

The Budget was on the whole favourably received and served to boost prices to some extent. Inevitably, initial reactions were based on a very superficial study of the new tax proposals and the full implications were not realised. There was relief at the absence of increased taxation on jute, tea, coal and steel. The development rebate of 25 percent on the cost of new plant and machinery was welcomed as a major concession which would help in implementing development programmes in the private sector. The provision for carrying forward losses indefinitely, instead of for six years only was another welcome innovation. The proposal relating to section 23A companies, that those who failed to distribute at least 60 percent of their profits as dividends would be liable to a penal rate of super-tax at the rate of 4 annas in the rupee, served naturally to raise expectations of higher dividends from such companies and hence strengthened the bullish sentiment. The market felt that on the whole the Budget was favourable to corporate economic activity.

So powerful were these considerations that they more than offset the more sombre aspects of the Budget proposals, such as the increased rates of personal income-tax on the middle and upper income groups, the reduction of the limit at which the income would be liable to super-tax and stepping up of indirect taxation with the greatly increased burden of excise duties. It is of course too much to expect from share market operators a profound or balanced assessment of the overall implications of a Budget. The tendency is to pick on some particular measure, the development rebate in this case, and to ignore others perhaps even more significant. The average dealer is concerned only to work out how each new proposal will affect the industry in which he happens to be

interested. Few stop to take a wider view, to estimate how the changes will affect the inducement to save, the size of the income cut from which saving is possible, the impact of excise duties on prices and on consumer demand and hence on industrial profitability, or the effect of the tax changes on aggregate national income and employment.

The share market appears to have paid even less attention to the monumental report of the Taxation Enquiry Commission, a document that is likely to have the most profound influence on the Government's tax policy for years to come. There was little evidence that operators were at all perturbed at the Commission's insistence on the need to widen and deepen the tax-base and to use taxation as an instrument to curb consumption. Even the proposal for a ceiling on personal incomes apparently held no terrors, though the suggested tax holiday for new industrial concerns was widely welcomed, and so was the Commission's opposition to taxation of bonus issues.

March opened on a steady note, with share prices under the influence of the market interpretations of the Budget proposals and the Taxation Enquiry Commission's report. Steel shares were steady on expectations of an increase in retention prices. Imperial Bank shares rose by about Rs. 40 on hopes of liberal compensation terms. The modification of the Budget proposals announced in the Lok Sabha by Mr. Deshmukh imparted a cheerful feeling to the market and prices moved up during the third week of the month. The more important of the concessions related to the perquisites tax, the revisions relating to section 23A companies and excise duties on cotton cloth and sewing machines. Apart from their intrinsic importance as tax reliefs, or rather as reliefs from taxes originally proposed in the Budget, operators welcomed the changes as evidence that the Government was willing to listen to reasoned objections and to modify acts which were demonstrably inequitable or harmful.

Jute Prospects

Shipping shares declined owing to fresh labour trouble in Calcutta Port and this, together with the delay in the announcement regarding steel retention prices, the weakness in the jute goods market and the heavily overbought position in Tata Iron and Steel shares led to some selling by tired bulls and the month ended on a quiet note. But sugar and engineering shares came in for good enquiry. Tea share prices too were firm and quite a few issues recorded gains on cornering operations. There was a mild enquiry for jute shares as some operators took the view that the development rebate would assist mills in their modernisation programme. But the rather sombre note of Mr. G. J. Gardner's speech at the annual general meeting of the Indian Jute Mills Association discouraged any further advance, and soon afterwards the enquiry fizzled out. During 1954, there had been an expansion in world demand for jute goods and this had made possible successive increases in working hours in July and October to 48 a week, for the first time since March 1952. Particularly gratifying was the marked recovery in exports of sacking, but Mr. Gardner warned that even the present level of production, which was well below installed capacity, was possibly in excess of world demand. Raw jute supplies were still uncertain and subject to wide price variations. There were reports of jute mills being set up in Egypt, Iraq, Iran, Burma, Thailand, the Philippines and China. Japanese competition was assuming formidable proportions, while Pakistan was the most dangerous potential competitor. "It would be a brave man," Mr. Gardner said, "who could find grounds for real optimism in the present situation."

March was also marked by growing anxiety over the proposed amendment to section 31(A) of the Constitution and the future of the managing agency system as a result of the drastic changes in the Companies Bill recommended by the Select Committee.

April began on a listless note which continued almost to the end of the month, when slightly steadier conditions returned, but the undertone remained hesitant. Apart from anxiety over the continued delay in the announcement of retention prices, the market was preoccupied with the Constitutional amendment and the draft framework of the second five year plan.

Constitutional Amendment

The Constitutional amendment which was passed by both Houses of Parliament and is now in force means, in effect, that the safeguard of the right to private property has been abolished. It empowers the Government to acquire or requisition property of any kind on any terms that it chooses and the dispossessed owner is deprived of the right of judicial remedy. The courts are precluded from considering the fairness or adequacy of the compensation which the Government may decide to pay. Very naturally shareholders were perturbed and were not wholly reassured by the solemn promise of Mr. Nehru that there was no question of expropriation without compensation. True, in the case of the nationalisation of the Imperial Bank, compensation was fair and reasonable, but shareholders, like other property owners, were not happy over an enactment which, in the hands of future Governments, might become an instrument for legalised expropriation.

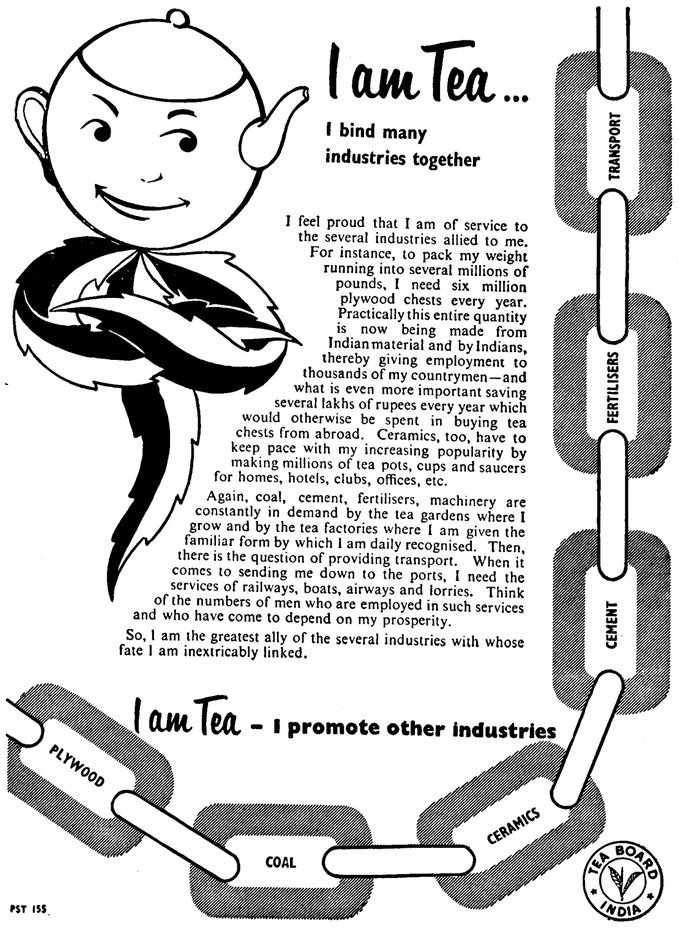
The "draft of a draft plan-frame" better known as the Mahalanobis Plan, made its appearance in March and has since been endorsed, at least in its basic approach, assumptions and aims, by the National Development Council. As far as investors are concerned, the feature of the plan-frame that is significant is its magnitude. It envisages an overall outlay of Rs. 5,600 crores in the five year period 1956-61. Whatever the figure that is finally accepted, it will certainly be big—very much bigger than the outlay of about Rs. 2,200 crores on the first plan. It aims at a 5 percent increase in national income each year, or 25 percent over the five year period, and an increase in employment of about 11 million. Whether these targets are practicable or too high for the available resources, it is certain that there will be a greatly increased scale of development expenditure in coming years.

This is welcomed, but there is less enthusiasm over the marked socialist bias in the plan-frame. The public sector is to be expanded substantially, by expenditure on basic and key industries and the new purchasing power thus generated is to be balanced by an increased output of consumer goods from "village and hand industries". Factory type consumer goods industries are to be permitted only to the extent to which they do not compete with village and hand industries which are labour-intensive. Investors are less concerned with the theoretical soundness of this approach. The general feeling seems to be that while checks to factory-type consumer goods industries are likely to reduce the profitability of such industries, there is great likelihood of a resurgence of inflationary pressure, because of the inability of small-scale handicrafts to turn out goods fast enough to absorb the increased effective demand. Traditionally, investors welcome inflation because it is associated with a sellers' market, high prices and profits, but there are some who feel that it will create an unhealthy distortion of relative prices and incomes, loss of export market, a deficit in the balance of payments and, ultimately, deflation and depression.

Companies Bill

Throughout May, the market was dull, with very little business passing. Heavy bear selling of Indian Irons resulted in the price being knocked down to Rs. 33 against a previous high in April of Rs. 35-10. The principal influence on market sentiment was the revised Companies Bill as it emerged from the Select Committee, with its drastic provisions regarding the managing agency system. With slight modifications, these proposals were incorporated in the Bill as it was finally passed. The Company Law Committee's recommendation that the system of managing agents should be mended rather than ended has been replaced by a policy which seems to aim at the progressive elimination of the system. The Government has been given the power to notify that companies engaged in industries specified by it should have no managing agents from 15th August, 1960. No managing agent would be permitted to manage more than ten companies after that date. The share of the net profit that could be paid as remuneration to managing agents was limited, in general, to 11 percent. Investors have till now assessed the worth of a company's shares largely by the standing and reputation of its managing agent. It is feared that if companies are deprived of the services of the few experienced and able agency houses, there will be a deterioration in standards of management as well as difficulties in obtaining finance. The average shareholder, who has no hesitation in entrusting his savings to a company managed by an agency house in which he has confidence, will think twice about taking up shares in concerns that will be deprived of such management.

Another blow to investors' confidence fell when left-wingers succeeded in extracting a promise from the Government that the principle adopted



by it for payment of compensation to shareholders of the Imperial Bank of India, namely the market value of the assets taken over, would not be taken as a precedent when any other undertaking or property is taken over for a public purpose. At the Berhampur session of the A.I.C.C., a strong demand for nationalisation was raised and investors were left wondering how long such pressure could be resisted, particularly in view of the general elections due in 1957. There was apprehension that the Government might feel the need to make some more or less spectacular moves in the direction of socialism as a means of stealing the thunder in the election.

Steel Retention Prices

In the third week of May, the long-awaited announcement on steel retention prices was made. As the market had already discounted the increases that were announced, there was no perceptible reaction in the value of either Indian Irons or Tata Iron and Steel shares. The main changes were:

(1) From 1st April, 1955, both I.I.S.C.O. and T.I.S.C.O. were to get uniform prices. Hitherto they had been receiving different prices, T.I.S.C.O. getting Rs. 44 a ton less than I.I.S.C.O.

(2) From 1st April, 1955, the uniform retention price was fixed at Rs. 385 a ton as against Rs. 331 a ton till then received by T.I.S.C.O. and Rs. 378 a ton by I.I.S.C.O.

(3) The above prices were provisional, subject to the findings and recommendations of the Tariff Commission which had been asked to examine the claims of these two companies.

(4) The extra profit made by these companies as a result of the increase in retention prices was to be used solely for development and expansion.

(5) The colliery block of the steel companies was to be treated as an integral part of their steel block and the companies were to be allowed to recover their actual cost of raising coal in the price of steel.

(6) The period for which the retention prices would remain in force would be decided by the Tariff Commission.

Since the profits resulting from increased retention prices could not be distributed as increased dividends, operators decided that, except from a long-term point of view, the announcement made no difference; so prices remained almost unchanged.

Towards the end of the month, a further deterioration in market sentiment occurred when Mr. Deshmukh said at Bangalore that additional taxation of about Rs. 100 crores would have to be imposed from 1956 for financing the second five year plan.

Good Company Reports

June began with the market in a subdued mood, but from the second week of the month a definite change in sentiment appeared and a recovery movement commenced, which continued steadily till September. The turning point was marked by the appearance of two excellent balance-sheets, those of the Indian Copper Corporation Ltd. and Shaw Wallace and Company Ltd. The former increased the dividend from 10 percent to 25 percent and the latter from 10 percent to 12½ percent. The first flush of tea companies' reports for 1954 had also begun to make their appearance and the generous dividends led to fresh enquiry for tea shares which had fallen by the end of May much below the levels that prevailed in February. Investors were evidently beginning to realise that the prevailing economic climate was not so unhealthy for private enterprise as had been feared. Whatever the future might hold, it was still possible for industrial concerns to make attractive profits, and as long as that was so, investors would consider it worth while to put their savings into equity capital. This contrast, between governmental measures that tended at a time to stifle private enterprise and the optimism of investors that persisted in spite of everything and refused to be discouraged, stands out as the most striking feature of the share market in 1955.

As a result of nationalisation, dealings were terminated in Imperial Bank shares. Shareholders were paid compensation at the rate of Rs. 1765-10 a fully paid share and Rs. 431-12-4 a contributory share. These figures were arrived at by taking the average market value of the shares over a period of 12 months prior to 20th December, 1954.

Finally on 24th June, the terms of the issue of a new Government loan, the second series of 3½ percent National Plan Bonds, 1965, were announced. The issue price was fixed at Rs. 98-8, carrying interest at 3½ percent and maturing in July 1965. The subscription list was to open on 1st July and closed on 5th July. Conversion facilities for the 2½ percent Loan 1955 and 4½ percent 1955-60 were offered. The loan was to the extent of Rs. 100 crores and was in keeping with market expectations.

The half-year closed with buoyant conditions prevailing in most sections of the market and a rising volume of business.

July began on a cheerful note. The second series of National Plan Bonds 1965 was quickly oversubscribed, cash subscriptions amounting to approximately Rs. 45.75 crores. The draining away of this sum of money from the capital market had no perceptible effect on equity prices which continued to improve. Much of the business was speculative. Genuine investors appeared to be waiting to see whether Mr. Nehru's Russian visit would lead to any further socialist moves by the Government of India. It soon became apparent that, except for the determination to proceed with the measures already framed and some vague talk of a scheme for workers' participation in industrial management on the Yugoslav model, no radical change was contemplated. The boundaries of the public sector still remained to be precisely demarcated and periodical references to nationalisation of the whole of commercial banking, of insurance, and later of coal, kept investors guessing.

Jute Dividends

The fairly encouraging dividends announced by the Bird-Heilgers group of jute mills for the half-year ended March 1955 failed to cause even a ripple of interest in this section. The details follow (dividends in percentages):

	Half-year ended 31-3-1955	Half-year ended 30-9-1955
Kinnison ...	7	5
Lawrence ...	5	4
Auckland ...	6	2½
Dalhousie ...	3	1½
Lansdowne ...	5	1
Union ...	5	5
Standard ...	1	1
Northbrook ...	7½	7½
Naihati ...	Nil	Nil

In the engineering section Jessop & Co. provided the outstanding feature, spurting from Rs. 38-12 to Rs. 47 on interested buying. The reduction of the Sone Valley Cement dividend to 4 annas from 6 annas in 1953 brought out sellers and the price reacted from Rs. 7-14 to Rs. 7-8. The tea section was cheered by the announcement of excellent dividends for 1954 by four companies in the Gillanders Arbuthnot group. Ananda Bagh paid 80 percent against 25 percent, Betjan 100 percent against 20 percent, Gairkhata 70 percent against 20 percent, and Jutlibari 35 percent against nil.

In mid-July, business in State Loans was at a standstill as operators were awaiting the terms of the new issues which were expected. Towards the end of the month ten States, Andhra, Bihar, Bombay, Hyderabad, Madhya Pradesh, Madras, Mysore, Saurashtra, Uttar Pradesh and West Bengal approached the market for a sum of Rs. 35.75 crores. The issue prices varied, but all the loans carried interest at 4 percent, with 1967 as the year of maturity. These issues were well-timed as there were sufficient funds available in the money market, the slack season was well-established and call rates were sagging. All the loans were a success. Again it speaks well for the strength of the market that the withdrawal of funds on such a scale had no weakening effect on share prices.

Indian Iron and Steel shares were in the firm grip of bull operators and spurted from Rs. 35-3 to Rs. 38-3 in the course of the month. The dominant rôle played by this share in moulding market sentiment led to widespread enquiry in other sections, except jute and coal, and the month ended on a buoyant note.

Pakistan Currency Devaluation

August was the best month of the year up to the time of writing. The month began with the market dominated by the two dramatic announcements that came in quick succession on 30th and 31st July—the devaluation of the Pakistan rupee and the Government of India's decision to abolish the export duties on jute goods. The devaluation was welcomed in market circles as a realistic step that would correct the anomaly that had existed ever since 1949, when Pakistan, unlike India and other sterling area countries, did not devalue her currency. The resulting official rate of exchange of Rs.(P) 100 for Rs. 144 (Indian) had become increasingly unreal with the passing of time and at the end of July, the Pakistani rupee was quoted in unofficial dealings at a substantial discount, Rs.(P) 100 for Rs. 88 (Indian). The devaluation was thus little more than an acceptance of facts which had hitherto been ignored. The more realistic exchange rate of Rs. (P) 100 for Rs. 100 (Indian) was welcomed as likely to encourage an expansion of Indo-Pakistan trade to mutual benefit.

To the Indian jute industry however, the Pakistan devaluation brought increased danger of competition from the rising jute manufacturing industry in that country. Output of jute goods had become more than sufficient for domestic requirements and the change in the exchange rate was a sign that a determined effort would now be made to find a market for the exportable surplus. It was known that the Pakistan mills had the advantage of the finest quality raw material and the most up-to-date plant and equipment and were working feverishly with double shifts to expand output at the fastest possible rate. As against this, it was hoped that Indian mills would secure the benefit of cheaper raw jute supplies from Pakistan, but these hopes were dashed when Pakistan insisted that there would be no change in the minimum prices of Pakistan jute in terms of foreign currency. Foreign buyers would have to pay the same prices as before in their currencies, but these amounts would represent more Pakistan rupees, so that the jute growers in Pakistan would benefit. The only consolation the Indian mills could find was that Continental and other jute manufacturers too would be denied any advantage from the devaluation by way of cheaper raw jute supplies.

Jute Export Duties

The Government of India's response to the Pakistan devaluation came with a promptness that put new heart into the share market. Within 24 hours, the export duties on jute goods were completely abolished. The duty on hessian was Rs. 120 a ton and on sacking Rs. 80 a ton, which worked out to Rs. 3 a 100 yards of 40in. 10oz. hessian and Rs. 8 a 100 bags of B Twills. The relief to the manufacturing industry as a result of the abolition of the duties is thus substantial and should serve, at least for the present to offset the advantage gained by the Pakistan jute manufacturing industry as a result of devaluation.

Small wonder then that the news of the removal of export duties on jute goods was hailed by the stock market and jute shares, after a long period of neglect, began to attract buyers. In fact something like a boomlet developed in this section. Anglo-India jumped from Rs. 235 to Rs. 255 and National from Rs. 35-8 to Rs. 38-8. The revival in jute shares gave an impetus to the bullish trend in other sections and Indian Irons touched a new high of Rs. 39-4. Rohtas Industries, on the announcement of a rights issue in the proportion of one for one at par, moved up to Rs. 30-10. Tea shares were an exception to the general upward movement and did not participate in the

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rise, though a few companies with gardens in Pakistan, like Dauracherra, Patrakola and New Samanbagh were marked up.

Setback in Jutes

The Goa satyagraha on 15th August and the Portuguese shooting, followed by student disturbances in Patna, introduced a feeling of caution and prices in most sections were shaded. It was soon realised, however, that the significance of these happenings was political rather than economic. The decision of the Pakistan Government to increase the export duty on raw jute by Re. 1 a maund dashed any remaining hopes of cheaper raw jute supplies from Pakistan for Indian mills and checked some of the bullish fervour generated by the abolition of export duties on jute goods. There was in consequence a setback in jute shares. Coal shares were marked down initially on talk of *impending nationalisation*, but recovered on an official declaration that nationalisation of existing collieries was not at present proposed. In the weeks that followed, these fears revived and, at least so far as investors were concerned, coal continued to be the "sick man" of Indian industry.

Indian Copper Corporation shares provided the highlight of the month and touched a new peak of Rs. 6-8 on reports of excellent working. Despite a denial by the Indian Iron and Steel Company that it was considering a rights issue in the near future, the shares continued to meet with strong bull support and soared to Rs. 40-10. Other engineering shares moved up in sympathy. The surprise decision of seven states to approach the capital market for a further Rs. 11.75 crores, brought out sellers of Government Securities throughout the list. The States concerned were U.P., Bombay, West Bengal, Andhra, Madhya Pradesh, Saurashtra and Mysore. The terms of issue were the same as before except in the case of Bombay where the issue price was four annas higher. The response was satisfactory, and in several cases the issues were oversubscribed. Once again the capital market demonstrated its ability to part with substantial sums of money without suffering a general setback.

Towards the end of the month there was a sharp reaction in the speculative counters following a warning by Mr. Deshmukh regarding possible taxation of bonus issues and the moves of the Bombay Stock Exchange authorities to curb excessive speculation. Indian Irons reacted sharply from Rs. 41-11 to Rs. 39-11 and there was a contraction in the volume of business in the coal and jute sections. Contrary to the general trend, selected miscellaneous and engineering issues were steady, particularly Alkali and Chemical, Bengal Flour, Clive Row Investments, Calcutta Trams, Imperial Tobacco, Indian Wood Products, Indo-Burma Petroleum, Indian Cables, Sone Valley Portland Cement, Jessops, Richardson & Cruddas and Textile Machinery. Tea shares too met with good investment support. The shares listed above are the type that are bought by genuine investors for holding for fairly long periods. The return on invested capital rather than quick speculative profit on account of price fluctuations is the consideration that influences purchases in such cases. It is significant that at a time when speculators were inclined to be bearish and the popular gambling counters were losing points, the shares representing genuine investment remained steady. Investors' confidence in long-term industrial prospects was unaffected by the vagaries of speculators.

Downtrend Begins

September witnessed the final fizzling out of the buying spree. Speculators who had pushed prices up to inflated levels during the previous months began taking their profits and this had a snowball effect on prices, which tumbled on a wide front. Suggestions made by some members of the Lok Sabha concerning a tax on expenditure and additional taxation in other forms to finance the second five year plan gave the bears, who had taken a severe beating in July and August, the opportunity they were waiting for and they took full advantage of the situation. Indian Irons were hammered down to Rs. 38-11 against a quotation of Rs. 41-6 a week earlier.

Two new shares, Textile Machinery and Indian Copper, were brought on to the forward list. While the former spurted on the news from Rs. 25-8 to Rs. 27-4, the latter were unchanged at Rs. 6. The solitary feature in the tea section was Brooke Bond, which encountered strong support on anticipation of a higher dividend and improved to Rs. 30-4.

As the months progressed, dull conditions continued and business shrank to small proportions. With the approach of dividend time, Indian Iron and Steel shares became sluggish and the price fluctuated narrowly round Rs. 38-12. In an otherwise dull tea section, Gielle met with interested buying and spurted from Rs. 37 to Rs. 50-8. After this ended, the shares fell back to Rs. 36 sellers. Jute and coal were languid and prices fell away. A misleading Press report, which was later denied, to the effect that the Finance Minister had made a statement that no fresh taxation would be levied for at least two years, produced a mild recovery in Indian Iron & Steel shares to Rs. 39-12; soon afterwards, the price dropped back to Rs. 38-6. The spotlight was on British India Corporation, which advanced to Rs. 10-7 on the news that a majority holding had been acquired by Mr. Haridas Mundhra. India General Navigation, on the publication of an excellent report, advanced to Rs. 133, and later to Rs. 147. Contrary to the general trend, the gilt-edged market ruled firm because of easy money conditions and widespread gains were recorded.

The month ended with the Stock Exchange still in the doldrums. Buyers disappeared from the coal section following the Estimates Committee's recommendations that the State should as far as possible take over all private collieries which were wholly or to a large extent engaged in raising metallurgical or high-grade coal. Uncertainty about nationalisation, and about compensation in the event of nationalisation, limitations on the expansion of existing coal mining concerns, the relatively small increase allotted to private collieries in the second five year plan as against the great increase provided for those in the public sector, and the long-drawn out matter of labour's demands which was still pending before an industrial tribunal, have all tended to discourage investors from venturing into this section.

Gilt-edged Strengthen

The Indian Iron & Steel dividend was still anxiously awaited and the shares fluctuated narrowly around Rs. 38. Elgin Mills and Cawnpore Textiles met with interested buying when it was confirmed that the B. I. Corporation had passed into the hands of Mr. Mundhra. Elgin rose to Rs. 22-8 and Cawnpore Textiles to Rs. 9-13. Gilt-edged securities continued strong, while tea shares were completely "off the boil."

October opened on a slightly more cheerful note as a result of bullish advices from Bombay, where textile shares, aided by bonus issues, staged a smart rally and gave encouragement to Calcutta operators. The bond market was firm with the 4 percent Saurashtra State Loan providing the outstanding feature following the publication of the States Reorganisation Commission report. The increases in the selling prices of various grades of steel had little effect on Indian Iron and Steel shares as operators realised that the company would not benefit financially. Coal and jute shares lagged well behind the rest of the market and on many occasions brokers found it difficult to execute orders. Among Miscellaneous counters, Bengal Flour, B.I. Corporation, Indian Cables and Imperial Tobacco were steady. Tea shares were dull, with sellers rather than buyers, except for Dessai and Purbuttia and Roopacherra which advanced on interested buying from Rs. 466 to Rs. 495 and Rs. 22-8 to Rs. 28 respectively.

The market ruled quietly steady during the second week of the month, with the thoughts of speculators centred on the Indian Iron and Steel dividend for the year ended 31st March, 1935. It was known that the increased profits resulting from higher retention prices would not be available for payment of dividends, but would be utilised to finance the company's expansion scheme. Furthermore, the need to service the loans from the Government of India and the World Bank made it unlikely that permission would be granted for increased distribution to shareholders in spite of the very good working results for the year. But speculators firmly believed that despite all this, *at least a token increase* in the dividend would be forthcoming. It was only such hopes that could justify a price in the neighbourhood of Rs. 39, at which the yield was only 2.5 percent.

Paper shares were strong, particularly Bengal, which rose from Rs. 75 to Rs. 88. Coal shares were inactive as usual and business in most sections began to peter out with the approach of the Puja holidays.

Jute Mill Wages

The publication of the recommendations of the Industrial Tribunal on jute mill workers' wages was a blow to the jute industry, which caused sharp falls in jute shares. It is estimated that the increases in wages, if implemented, will add about Rs. 14 a ton to manufacturing costs, which is the equivalent of an increase of about eight annas a maund in the price of raw jute. The falling prices of jute goods had already nullified to a large extent the benefits of the earlier abolition of export duties. If the wage increases recommended by the Tribunal are put into effect, the industry will find itself on balance worse off than before the export duties were lifted. Such an increase in costs at a time when the industry finds it difficult to face world competition is regarded as almost a subsidy to the rising Pakistan industry. At present Pakistan has an exportable surplus of about 80,000 tons a year. Within a year, this figure will be doubled and will constitute a formidable threat to the Indian industry. The position of Indian mills is made more difficult by the existence of a large surplus labour force who will have to be paid the higher wages recommended by the Tribunal if the award is implemented. It is said that many mills could dispense with the services of about 50 percent of their labour force and be left with a much more efficient organisation to take advantage of modern machinery. It is noted that Pakistan mills have no such surplus labour force. Since they started from scratch with the latest type of machinery, they have only the labour needed to run the mills under modern conditions. The situation at the time of writing is that the brief improvement in the outlook that followed the removal of excise duties has passed and has been replaced by one of almost unmitigated gloom. Buyers of jute shares are as hard to find as a needle in a haystack.

On 20th October, the Caltex Oil Refining (India) Limited debenture issue of Rs. 2 crores at 5¼ percent, maturing in 1966-70, opened and was quickly oversubscribed. The keen appetite of the investing public for first-class debenture stock ensured that the issue would be an outstanding success.

Indian Iron Dividend

Suspense over the Indian Iron & Steel dividend was at last removed with the announcement that the rate for the past six years, Re. 1 a share, would be maintained. The share market reaction was the kind that makes even the most hardened operator despair of being able to tell which way prices will move. The market had been keyed up to expect that the dividend would be increased. Rs. 1-4 was the least that was considered likely, though there was very little real ground for such optimism. When the announcement for the unchanged dividend came, there was general disappointment and for a short time the price receded from Rs. 38-9 to Rs. 38. But soon afterwards the price rose under the influence of covering purchases by bears and, at the close, was actually higher at Rs. 38-12 than at the opening, and later went on to Rs. 40-11. At this price, the yield is only 2.4 percent. It is difficult to find any convincing ground for the rise in the company's working results. These are admittedly excellent, with the profit of Rs. 2.70 crores, which is Rs. 97 lakhs higher than in the previous year. But no part of this is to go to shareholders, and the chances of increased dividends in the next year or two are slender. In the first place, the same considerations that dictated an unchanged dividend this year will apply then and probably with greater force. As the modernisation and expansion scheme proceeds, output might fall for a time. It is thus unlikely that next year's results will be as good as this year's. No doubt, in the very long period the outlook for the company is excellent. But there must be very few among those who deal in this essentially gambling counter who look so far ahead. Long and painful experience has taught Calcutta operators that in the case of Indian Irons, every forecast is liable to be upset. It is the one share where anything may happen. That, after all, is what makes it the undisputed leader of the Calcutta market.

Other shares as usual followed the lead of Indian Irons and the market closed for the Puja holidays with a burst of activity that carried most shares some way upwards, a contrast to the usual slackness that precedes the Puja closing.

Investment Confidence

One advantage of a survey of the stock market covering a period of this length is that broad trends are discernible and events assume their correct proportions in a way that is difficult when the observer is preoccupied with changes from day to day. Looked at in this way, 1955 emerges as a period in which the economy continued to develop and the earlier gains were consolidated. The market, like the country is in good shape, with plenty of confidence in the ability of industry to take the nation further along the road to better living standards. Investors are aware of the difficulties that have to be overcome and feel sometimes that governmental policies tend to make them even greater than they need be. But the course of share prices during the year shows plainly their belief that the difficulties can and will be overcome. The acid test of the strength and sincerity of one's convictions is the willingness to back them with money. The Indian investor has shown in 1955 that he is willing to participate in the economic development of the country. It would be a pity if the faith proved to be ill-founded.

THE JUTE INDUSTRY IN 1955

NEED FOR POSITIVE ACTION

● By A SPECIAL CORRESPONDENT ●

IT takes a bold man to predict the course of world economic developments during 1956. Though figures of trade, industrial and agricultural production and every other important economic indicator have reached heights seldom ever surpassed, it is also true that in a large number of countries it has become necessary in recent months to impose varying forms of credit or trade restrictions. Whether these will in fact be sufficient to check what now appears to be a traditional and highly advanced form of investment boom, or whether economic activity will rise to still greater heights before the onset of recession, it is hard to say. It may well be, however, that 1955 will turn out to have been one of the peak periods of national and international economic activity in the present decade, and it is of great interest therefore to see how the jute industry and trade has responded to the increased upsurge of activity which has taken place and which of course has particularly affected world trade.

In 1955 rising levels of world activity and demand at length had an appreciable effect upon the fortunes of the jute industry. At the beginning of the year total stocks of gunnies stood at the comfortable level of 70,000 tons, which is less than one month's current production and just about half of the figure in mid-1953. There appears to be every possibility that at the end of the year they will be about the same figure, and in the meantime the industry will have produced the highest outturn and exports since 1948. This will be clear from the following tables which show the production and export of jute goods during this period:—

Production of Jute Goods

(000 tons)

	Hessian	Sacking	Others	Total
1948	480	540	28	1,048
1949	329	562	32	923
1950	318	485	34	837
1951	322	520	32	874
1952	312	607	33	952
1953	389	450	30	869
1954	389	506	33	928
1955 (estimated)	400	562	46	1,008

Export of Jute Goods from India.

(000 tons)

	Hessian	Sacking	Others	Total
1948	472	451	34	957
1949	337	423	41	801
1950	294	343	41	678
1951	301	424	52	777
1952	288	419	27	734
1953	388	324	35	747
1954	370	430	43	843
1955 (estimated)	407	468	50	925

It should be borne in mind that this substantial improvement has taken place at a time when the impact of competition from Pakistan and Japan is becoming severe in important export markets, notably the United States, and when British production is running at a high level. It would seem that in 1955 the demand for the products of the jute industry had at length shown some affinity with the soaring figures of increase production in other commodities.

Supply and Demand

To make any such comparison, however, is to be brought sharply back to reality. It has so happened that during 1955 the problems of the jute industry have received rather more attention in the international field than they are accustomed to, and reports by the Organisation for European Economic Co-operation and the Commonwealth Economic Committee have, though written from widely different points of view, emphasised in an authoritative manner the economic problems of the industry in this and other countries. In each there is a recurring theme: in the first place, there is the established fact that in the case of most commodities entering into world trade there has been since the end of the war a steady increase in production which has not only equalled but in most cases far exceeded the levels achieved in the decade before 1940: in the second, jute goods manufacture and consumption have not shown a similar improvement, despite their normal association with movements in world agricultural outturn and trade; on the contrary, jute goods production, far from returning to pre-war levels, is still substantially below them. The world is now producing about 20 percent more wheat, rice and cotton than before the war and about 50 percent more fruit and sugar. Total agricultural output was 25 percent greater in 1954 than at the end of the war, and of course in some countries the increase is very much greater. In the case of jute goods, the level of world production has remained continuously under the average of the years 1934-38, and it is only in 1955 that there is some prospect of a figure which may be in the region of 90 percent to 95 percent of the pre-war figure. The inevitable result of such a situation must be the existence of over-production or, alternatively, of idle capacity. It has been estimated that the European jute industry needs to export about 18 percent of its total production to extra European markets if the mills are to be kept running.

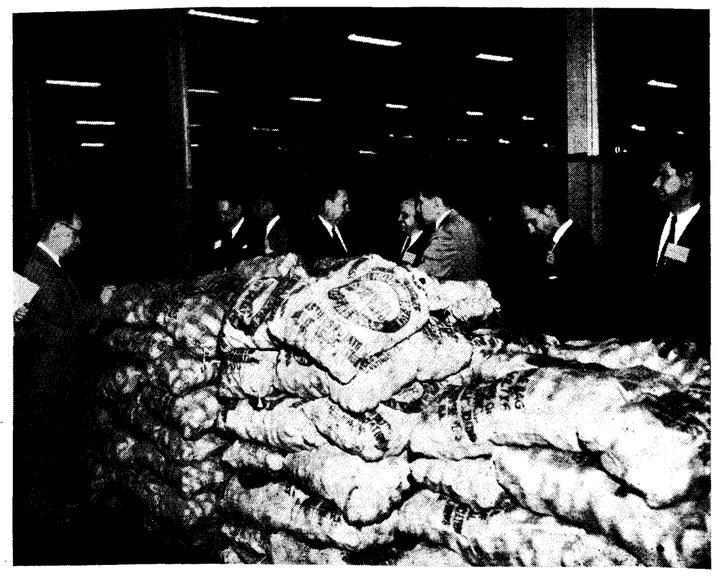
Excess Productive Capacity

The existence of idle capacity in other countries has long been known and, in the case of Britain, equilibrium has been achieved only by severe rationalisation of the industry, exports having declined by 50 percent. None of these facts are new, but while there is every reason to be grateful for the improvement in the offtake of the industry's goods which has taken place during the last 18 *months*, it is disappointing that there has not been an expansion commensurate with experience in other industries and in line with the importance of jute as one of the world's main commercial fibres. The other sobering factor is that for many years it seemed possible and indeed accurate to ascribe the industry's difficulties to entirely local and adventitious causes. Unable to meet the immense demand for jute goods in the immediate post-war years, it appeared that the industry was once more getting into its stride when the first serious disslocation caused by partition emerged. From then on the industry was racked by troubles and problems which culminated in the period of extreme shortage and disorganisation in 1952. It was widely assumed that with the return to more normal conditions of trade there would be a substantial improvement, but the last two years which have been characterised by the most favourable conditions have only led to a mild degree of recovery and not the very considerable change in the industry's fortunes which might have been anticipated. To say this is not equivalent to saying, as so many prophets of doom seem to assume, that the world jute industry is about to disintegrate. Excess productive capacity is a problem which faces many other important industries, a notable example being the cotton industry particularly in Britain. It does indicate, however, the existence of a stubborn and recalcitrant problem of demand which will need considerable application, patience and resources if it is to be overcome.



Competition from Substitutes

One lesson which is to be learnt from the experience of the last two years is that it appears unlikely that there will be in the near future any large increase in the total world demand for jute manufactures. Present levels of output seem to be sufficient for the very greatly increased post-war levels of production of agricultural crops and other commodities making use of jute bags or cloth as a packing material. At present price levels, the advance of substitutes, such as the paper bag, has probably been halted, but though here and there the ground lost to such competitors may be won back a little, it does not appear that the general pattern will change very much. Fortunately this does not imply that demand will remain static in the long run. Such change in habit and convention, as has caused the reduction in the demand for jute goods, has been mostly in the sophisticated markets of Europe and America where there have been very rapid alterations in consumers' habits and packaging techniques. Increased production of food



Potatoes bagged for shipment

and materials in other countries, such as India, Africa, China, Eastern Asia and South America is unlikely to be associated with the same course, and there are good hopes of a considerable increase in the consumption of jute manufactured goods as the national and international development plans get under way. In the long run there seems to be no reason why there should not be a great increase in the tropical world's need for jute goods and in the economic outturn of the jute manufacturing industry.

Pakistan Enters the Market

If, in the immediate future, no considerable expansion of demand can be anticipated, there has been on the other hand a steady increase in world productive capacity, and further expansion is planned in many countries. Outstanding amongst these is, of course, Pakistan, and indeed, the emergence of that country as a direct competitor as one of the natural consequences of devaluation is probably the outstanding event of 1955, so far as the jute industry is concerned. Pakistan's production is still comparatively small, but it will continue to expand as new plant comes into operation. Since manufacturing capacity was already greatly in excess of world consumption, it is probable that this extra output will have an effect on the prices of manufactured goods out of all proportion to its quantitative importance, and this in its turn will have adverse repercussions on the manufacturing industry. The first and most serious sufferers will undoubtedly be the various European jute industries which have gained nothing from devaluation and are now finding it extremely difficult to compete with the manufactured goods from India and Pakistan at present price levels. Although the various European countries have high protective duties, it is essential for them to export a considerable proportion of their manufactures. It is doubtful if, in present circumstances, they can compete and already there are reports of industrial units closing down or working on short time. It is obvious that a period of keen competition and low margins lies ahead of the jute industry.

Problem of Increased Costs

In these circumstances, it is of the highest importance that the Indian industry should be able to produce on terms which are not disadvantageous. Fortunately, the Indian mills are on the whole well prepared to meet such competition. Stocks of manufactured goods are reasonable in size and, although supplies of raw jute are lower than usual at this time of year, there is every promise of an abundant harvest to enable stocks to move up a little later in the year. Good progress is being made in modernisation and more and more mills are now benefiting from more efficient production. A continuing problem is to be found in the comparatively rigid labour costs which are enforced by developing labour legislation, and particularly with the recent Tribunal Award. The increased costs of Rs. 1¼ crores is a heavy burden on an industry which has been making low profits and which faces the likelihood of a long period of hard competition. Further, as in all other cases in India, any attempt to reduce labour costs by rationalisation, even on the basis of existing plant, causes a good deal of difficulty and often cannot be carried through with reasonable speed unless there is heavy expenditure in the form of compensation.

Another difficulty which the development of the mill industry in Pakistan accentuates is the maintenance of adequate supplies of raw jute. It is indeed fortunate that India is in a position to meet so large a portion of her requirements from jute grown in this country, but it is obvious that in a year of low production, mills overseas and in this country might well be forced to pay dearly for what remains after the Pakistan industry has taken its requirements. It is not likely that the overseas industries will accept this threat to their vital supplies of the raw material, and it seems highly probable that an indirect result of the rise of the Pakistan industry may be to stimulate the research which has been going on in various tropical countries not only to grow jute but to evolve successful processes for its mechanical harvesting and retting. So far as India is concerned, there seems a vital need for some further action to improve and stabilise the raw jute situation.



Burlap bags are tough

Fluctuation in Supplies of Raw Jute

Despite the disasters of 1950 and 1951, when the crisis in the jute industry was due more to short jute crops than to any other reason, too little consideration has been given to the dangers encountered by the Indian jute industry as a result of the erratic fluctuations in the supplies of its raw material. It is doubtful indeed if there is any other important raw material in modern industry which is so subject to the vagaries of chance and weather. If the figures of the jute crop in the subcontinent are examined during this century, it will be found that the degree of variation is very high. There has been a fluctuation of something in the region of 10 percent in most years, fluctuations of more than 25 percent have been common and there have been several instances in which the difference in production as compared with the previous year was more than 50 percent. One of the most recent and spectacular instances of this variation occurred during the last five seasons when the combined crops of Pakistan and India were estimated to be as follows:—

		(000 bales)
1950-1951	(Government estimate)	7,753
1951-1952	,,	11,009
1952-1953	,,	11,428
1953-1954	,,	5,632
1954-1955	,,	7,815
1955-1956	(trade estimate)	12,300

It may be remarked in passing that the industry had a narrow escape from extreme scarcity of raw jute during last year, and it may be considered fortunate to have got through this difficult period without the development of more critical conditions. Such a situation merely underlines the vital importance of positive action which will remove this element of instability in the jute industry's organisation.

Plea for More Uniform Crops

There has been a school of thought, fortunately more vocal than influential, which has persistently urged the need for some form of price support programme which would guarantee the ryot a uniform price for his raw jute. It is clear that not only would the cost of such a scheme be prohibitive but it would maintain the price of raw jute at levels which would finally ensure its disappearance as an article of international commerce. The Central Jute Committee, strongly supported by the industry, are on the right lines when they urge as a positive step towards more uniform crops, improvements in agricultural practices which will improve yield and quality to such an extent that the efficient cultivator is assured of a good return even if prices are low, but very little appears to have been done about it. Bearing in mind the successes which have attended the development of other agricultural crops in this and other tropical areas, there seems no reason why a determined drive through the medium of the State Agricultural Departments or, if necessary, some specialised agency, should not succeed in raising the average outturn of the Indian crop and at the same time bring about that improvement in quality which is necessary. A great deal is at stake and the issue will become of greater importance with every development of the Pakistan jute industry.

Expansion of Markets Vital

There may be a tendency in the immediate future for the industry to concentrate on meeting the impact of competition and developing the highest efficiency of production rather than on the expansion of markets. It is to be hoped that this will be avoided. An industry of world-wide importance requires the fullest information about economic and other changes in its markets and it is to be feared that one of the weaknesses of the marketing organisation before the war was that such information was either not available or, if available, was piecemeal and unco-ordinated. It will be even more important in the future to ensure that the various methods open to the industry for obtaining market information and stimulating the sale of its products are utilised to the full, expensive though this may be. In all this the Indian industry has one very great advantage, namely the steady and sympathetic support of a Government which appreciates the outstanding contribution made by the mills to the national economy and has within recent years been consistently helpful and encouraging. It is apparent from the various official pronouncements occasionally made that relations between the Government and the industry are both frank and cordial which is of the greatest assistance to everyone concerned.



Feed packed in burlap is more economical

ENCOURAGING PROSPECTS FOR INDIAN JUTE IN AMERICAN MARKETS

NEED FOR VIGOROUS PROMOTION OF A WIDER RANGE OF FABRICS

● By A CORRESPONDENT ●

THE outlook in the American market for jute goods is more favourable now than it has been at any time since the end of the war and the Calcutta industry is particularly well situated to capitalise on the position with an aggressive effort to serve its American consumers. This optimistic view of the outlook is based on a renewed interest in burlap among American consumers that stems from the favourable supply position in the commodity and the very competitive level at which jute fabrics are now selling in this market. Thus, it looks like a golden opportunity for the jute industry to recapture its leadership in heavy-duty textiles in America, provided, however, that both producers and sellers make the most positive efforts to press their advantage to the limit by following through on the promotion efforts of the Indian Jute Mills Association in North America with competitive prices, good quality merchandise and service to American buyers that will be the equal of anything offered by other suppliers.

A good start has been made by the Calcutta industry on the task of improving the competitive position of Indian jute goods in the North American market. The trade in America accepted the promotion programme launched by the Indian Jute Mills Association about three years ago as evidence of progressive thinking by the leaders of the Calcutta jute industry and it has welcomed the effort as one designed to help those in America who depend on burlap to maintain profitable operations.

There has been a notable increase in good will toward the Indian jute industry among American buyers who seem convinced of the interest of the Calcutta mills in serving the needs of their American friends. This is certainly progress from the period of misunderstanding and criticism which ensued in the years immediately following the war and Partition. The fact that American buyers of jute goods now have a source of direct contact for information and assistance from the Calcutta mills through the New York office of the Indian Jute Mills Association does a lot to maintain the good will which has been regained by the Indian mills.

Public Relations

The present position, while favourable, leaves no room for complacency, however, as future good will can only accrue to the extent that it is earned. In other words, if present good will is to endure it must be perpetuated by a continuing public relations effort that keeps the trade informed with facts on future trends and conditions in the jute industry. It is axiomatic in public relations that the uninformed soon become the misinformed when in the absence of correct information they quickly become the victims of misinformation.

It should be of interest to review some of the things which have been and are being done to increase and retain the good will of American buyers for the Indian jute industry. To begin with, this objective is being fostered constantly by the maintenance of close contacts with all branches of the trade in America by the I.J.M.A. office in New York. In this connection, the New York office has taken pains to impress those in the American market that it is always at their service for whatever assistance they might require in their dealings with Calcutta. In response to this policy the trade in America has now become accustomed to looking to the New York office for help and information whenever needed. In addition, the staff of the New York office has maintained personal contact with individual members of the trade throughout the country by personal visits and regular attendance at the various trade meetings which convene throughout the year.

An outstanding contribution to increasing the personal contact with American buyers has been made by the two trade delegations from the Indian Jute Mills Association which visited the North American market in 1952 and again in 1954. It is safe to say that American consumers were very much impressed when these delegations included the top leaders of the Calcutta industry who had travelled so far and went to such great lengths to meet with and discuss questions of mutual interest with people in the trade in every part of this vast market. It was certainly taken as tangible evidence of the keen interest of the Calcutta mills in serving the needs of their American customers by acquiring a better understanding of the problems that are of importance to both.

Appeal to Farmers for "Two-Way" Trade

The public relations efforts of the I.J.M.A. programme have also been directed to the public at large with particular emphasis on the agricultural community which constitutes such a large percentage of the ultimate consumers of burlap in agricultural packaging. The appeal to American farmers to encourage the use of burlap has been based on the theme of "two-way trade with India and U.S. Agriculture", in which it has been pointed out that the dollar exchange created by American purchases of burlap from India has contributed to sustaining a foreign market for U.S. agricultural products. It has been surprising to find that in some cases the memory of burlap shortages in the minds of farmers who have been using substitutes has left them with the idea that burlap might still be unavailable. This is a specific illustration of the importance of keeping people informed about conditions in the jute industry with all of the facts all of the time.

These public relations efforts have employed all the highly developed media of communication in the U.S. market, including the general press, the trade press, radio and television, and every opportunity is taken when newsworthy events occur to disseminate the burlap story through these channels. It has been very revealing to encounter a widespread curiosity about the background of the jute industry and burlap when burlap bags are so commonplace.

Advertising Programmes

In addition to the general public relations and trade relations activities aimed at making the Indian jute industry better known and understood in the American market, a substantial advertising programme on a national scale in both trade and consumer agricultural publications has been directed at the specific promotion of burlap packaging. Over the past year the theme and illustration of the I.J.M.A. advertisements have been greatly improved so that the appeal has been sharpened with the use of testimonials from actual burlap users and emphasised with photographic illustrations. It has been found, for example, that farmers are most impressed by the testimony of other farmers like themselves, who, in these advertisements, indicate why they prefer burlap bags over other containers because of economy, utility or the many other reasons on which their preference is based.

Advertising in America is an expensive undertaking but in relation to the size of the market and the volume of business done, the expense of the advertising effort on behalf of burlap is modest by comparison with that borne by those promoting substitute materials. Some people are inclined to regard advertising expense as an intangible and indirect method of promoting trade but experience in America is replete with cases where advertising has so established an awareness in the minds of the public that even trade names have become dictionary words. When the public become accustomed to seeing reference to a product which is consistently advertised they are almost subconsciously influenced when they make a choice of what they will buy.

Burlap Potato Bags

In addition to the advertising programme for burlap the promotion efforts of I.J.M.A. in North America have included very tangible projects wherever feasible. A case in point is the lightweight 50 lb. burlap potato bag which the Burlap Council has promoted over the past year. In recent years the potato industry which has traditionally been one of the three largest consumers of burlap bags has used an increasing amount of multiwall paper bags for shipping potatoes. As a result of the introduction of the 50 lb. multiwall bag many potato buyers regard the 50 lb. container as a "one man package" that is very much easier to handle. To meet this condition the Burlap Council with the co-operation of domestic bag manufacturers encouraged the introduction of the 50 lb. burlap potato bag and conducted an experiment with lightweight fabrics for the manufacture of a more competitively priced burlap container. The first tangible undertaking was the shipment of a railway wagon-load of potatoes packed in 600 lightweight 50 lb. burlap potato bags from Florida on a 1,000 mile journey to the New York metropolitan area. The potatoes were received by a large chain store grocery organisation and a field trip which included various potato



Burlap bags stand up well to wind and weather

buyers and bag manufacturers was made under the auspices of the Burlap Council to the warehouse of the chain store operator. The potatoes and the bags were inspected on arrival and it was found that both the bags and the potatoes stood up very well in transit and the suitability of the lightweight fabric was demonstrated for this purpose to the satisfaction of those in the potato industry who made the inspection. These facts were subsequently made known throughout the potato trade and a substantial increase in the use of the 50 lb. of burlap potato bag has followed during the year. In fact, at a recent meeting of the Textile Bag Manufacturers Association it was reported that the use of 50 lb. burlap potato bags had increased by 13 percent in the first eight months of 1955 compared to the total for all of 1954.

This practical promotion effort has since been carried further and directed at the state of Maine on the North-eastern seaboard. This is the largest potato growing area in the eastern part of the United States and over 20 million 50 lb. multiwall bags of potatoes were shipped from Maine last year. In an effort to develop the interest of potato shippers in the use of the 50 lb. burlap bag a group of over twenty potato buyers, chain store buyers and bag manufacturers from the New York metropolitan area was flown by specially chartered plane as guests of the Burlap Council for a packaging conference at Presque Isle, Maine. This conference brought together potato shippers who buy the bags and potato buyers from New York whose preference determines the type of container in which the potatoes will be shipped. On this occasion the potato buyers expressed themselves in positive terms on their preference for burlap packaging and it was evident that an impression was made on the potato shippers present which should react favourably to the use of 50 lb. burlap potato bags by the Maine potato industry during the coming season.

Returnable Feed Bags

In the feed industry a concrete effort has been made to foster the adoption of returnable burlap bag programmes by feed manufacturers. Under these arrangements the feed manufacturer ships feed to the feed user and offers to buy back the empty burlap bag from the farmer through the feed dealer for a substantial percentage of its original cost. The bag is then sent to a used bag processor and reconditioned, after which it is returned to the feed mill and repacked with feed and again shipped out to feed customers. This method is advantageous to both the feed mill and the feed user, as it enables the feed manufacturer to pass on the saving on the container, which is re-used five or six times, to the feed consumer in the form of a discount that works out to be substantial on each ton of feed. There has been a growing interest in the adoption of returnable bag programmes in the feed industry and over twenty large feed manufacturers have introduced this method in America during the past year. From the standpoint of burlap it has meant that burlap has replaced both cotton and paper for feed bags and while it may not be as desirable as when the feed manufacturer uses a new burlap bag for each shipment, it does represent a net gain for burlap and at the same time, because of the economy involved, is the best answer available to the extravagant claims which are being made for the economy of bulk handling in the feed industry.

These are some of the things which are being done to retain burlap's existing markets in the face of bitter competition from substitute materials and the constantly changing practices of modern packing. While it is a fact that the packaging market is the backbone of burlap usage in America and will probably continue to be so for some time to come, there is sound reason to believe that the development of industrial uses may be the surest way to realise any substantial increase in the volume of jute goods used in North America. At present, only about 20 percent of American burlap consumption is accounted for by industrial uses, but the growth factor in this segment of the market should be considerable if the proper steps are taken to develop the hidden potential.

Technical Research

At the outset it must be recognised that such new markets can only be uncovered after thorough technical experimentation on the end uses involved. Thus the product development efforts of the I.J.M.A. programmes in North America have so far been preoccupied with two new uses, one of which involves the development of a new covering for the raw cotton bale. The details of the experimental work on the other project cannot be disclosed at this time but should these efforts be successful in either case, the demand for jute fabrics could well be very substantial.

Independent technical consulting service has been engaged for this work, the cost of which is being financed by I.J.M.A. and in addition the domestic bag manufacturers have given their cooperation on certain phases of these projects. There are many other fields worthy of investigation in the vast and complex industrial economy of America which only time and the necessary resources will open up.

Sample Yardages

A pre-requisite to the development of industrial uses, however, is the availability of sample yardages for experimental trials by potential users who wish to test the stability of jute fabrics for industrial purposes. This means that Calcutta must be equipped and willing to supply sample yardage as small as 500 to 1,000 yards and American buyers will be entirely willing to pay premiums for samples when necessary. The prompt shipment of these is likewise important and it seems practical to use air freight for delivery of samples so that the interest of potential customers can be catered to before it wanes.

There is a very great need for an enterprising effort on the part of the jute industry in general to meet the needs of American consumers for a wider variety of jute fabrics than is now regarded as the standard range. It has been stated before that the time has long since passed when the jute industry can expect to realise its full potential in America by a mere willingness to supply standard goods which have been turned out in volume over so many years. While these fabrics continue to have a large market in agricultural packaging they cannot always satisfy the requirements of potential industrial uses. It hardly seems necessary to stress the vast outlet for industrial raw materials in the American economy and certainly industrial textiles can be considered in this category. While it may be considerably more difficult to develop industrial markets because of the exacting specifications manufacturers lay down for raw materials, it is reasonable to expect that the profit margin in industrial markets might well be greater because jute goods might compete with textiles that are considerably higher in cost.



A group of American potato buyers going to attend a packaging conference

Jute Backing for Tufted Carpets

A good example of what an industrial market can amount to exists in the sensational increase in production of tufted carpets in America between the years 1951 and 1954. In that short period of three years' time the output of tufted carpeting has increased by 500 percent, expanding from some 6 million square yards in 1951 to 29.5 million square yards in 1954 and responsible authorities in the industry estimate that the peak volume is not yet in sight. While jute backing for tufted carpeting was in great demand it was in short supply in the required widths, which run up to 12 and 15 feet and therefore much of the production in that period was turned out with the use of substitutes for the desired jute backing. It is only recently that the Calcutta mills have looked to this market and begun installing wider looms to produce the desired widths. The demand for tufted carpeting will continue to be large because the tufting process effects economies which result in a substantially lower price for tufted carpet than conventional woven carpets.

Jute Canvas in Place of Cotton Duck

Another measure of the size of possible new industrial markets for jute goods might be found in the extent to which cotton duck is used by American industry. In 1939, 113.1 million lbs. of duck were consumed. While this figure skyrocketed during the war because of military demand, a substantial increase over the 1939 volume was still reflected by the 125.9 million lbs. of cotton duck consumed in 1947. Moreover, it is interesting to note that this consumption has continued to expand, so that last year consumption totalled 153.8 million lbs. which reflected a sizeable and steady peacetime gain in the use of cotton duck for various industrial uses.

A recent analysis of the market for cotton duck shows that its use in tents, tarpaulins, and awnings accounted for 47 percent of consumption and that this usage alone had increased 57 percent over 1939 by 1954. The remaining 53 percent of the cotton duck consumed covers a wide range of uses, including industrial belting, convertible car tops, laundries, mail bags, luggage, truck covers, beach and yard umbrellas, etc. The air conditioning and heating industries are understood to consume a very great quantity and a substantial amount is used for irrigation ditch dams and liners.

While it is not contended that all of this vast cotton duck market can be captured for jute canvas, it is interesting to note that a recent announcement to the trade in America that the Calcutta mills produce jute canvas of various weights and constructions brought forth many inquiries from people to whom this was news. It seemed to indicate that the trade in America was not very familiar with jute canvas as a product, although widespread interest was expressed in the prospect of adapting it to uses for which much more expensive cotton canvas is relied upon.

Encouraging Future

The development of any potential in a market such as this, however, will call for a period of trial and error in which the Calcutta mills must be ready to encourage interest with samples of various types of jute canvas so that consumers may be given an opportunity to try the fabric and see whether or not it can be adapted to their needs.

At this juncture, the future looks very encouraging in that a new interest in jute fabrics is now evident in America as a consequence of the very competitive current price levels and the continuing promotion efforts with consumers. What is now required to capitalise on the present position is a fuller appreciation by all segments of the Calcutta industry of what lies ahead and a willingness to support the propaganda effort with individual performance.

A very tangible contribution could be made to progress if more of the leaders among the manufacturers and shippers in Calcutta make it their business to visit the American market and see for themselves what should be done to serve its needs. There is nothing like personal contact for stimulating sales and the more people in the industry who acquire first hand knowledge of what American consumers want, the easier it will be for the Indian jute industry to increase sales to America by a worthwhile margin.

THE UNCERTAIN OUTLOOK FOR RAW JUTE

SINCE partition, and especially since the devaluation of the Indian currency in 1949, doubts about the supply of raw jute have been one of the main worries of the mills. Unfortunately, that has continued to be the position in the past 12 months. To get a correct perspective of the present position, one has to go back to the middle of 1954. At that time, sowings for the 1954 crop had been completed, weather conditions during the growing period had been favourable and there appeared to be every likelihood of bumper crops in both India and Pakistan. Nature decreed otherwise, however, and just when harvesting had got into full swing, rivers in the jute districts suddenly rose to unprecedented levels, over-flowed on to the countryside and submerged huge areas of jute land. Plants which had reached maturity were standing in several feet of water, and less mature plants were submerged completely. Plants which were already in process of retting were in some cases washed away and, in others, could not be got out of the retting tanks in time, with the result that the fibre was damaged or rendered useless. The flooding commenced in Assam where the Brahmaputra and its tributaries were the cause, while the Tista flooded North Bengal, and the Kosi flooded Bihar. All these flood waters had to find their way to the sea through the delta areas of lower Bengal, which brought about disastrous flooding in the main jute-growing areas in both East and West Bengal. Thus disappeared the prospects of bumper crops which would have relieved the mills of their anxiety over raw material.

Crop Damage Raises Prices

Towards the end of the 1953-54 season, raw jute prices fell considerably. In mid-July, Upper Assam Bottoms, the standard quotation, stood at Rs. 21-8. Prices remained around that level until towards the end of August, when it began to be realised that the damage to the crop was such that, far from there being any surplus, there might be even a shortage. Prices began to rise and jute traders, who had sold forward at the prices prevailing in June, July and August in the confidence that ample supplies would force prices down, soon found themselves in the position of having to cover at serious losses. Throughout the autumn the upward tendency continued. Further complications ensued in November when the West Bengal Government doubled the raw jute tax and the East Bengal Government cancelled the trade licences of a large number of jute merchants.

The increase in the West Bengal raw jute tax was not a serious matter as it amounted to only two annas a maund but it brought about a dispute between the merchants and the mills as to whose was the liability to pay the tax on jute sold under previous contracts and still undelivered. This question has not yet been solved, as legal opinion is sharply divided on the interpretation of the relevant provision in the contract.

Cancellation of Licences in Pakistan

The cancellation of licences in East Bengal was a more serious matter. The merchants whose licences were cancelled had large commitments for deliveries to mills in India. In some cases mills agreed to take Indian jute in place of Pakistani jute, but some merchants had no buying agencies in India and were unable to take advantage of this concession. Some of them, however, fulfilled their obligations by buying jute in India; others merely pleaded frustration and did not implement their contracts. Some of the licences were ultimately temporarily revalidated by the East Bengal Government to enable contracts already entered into to be completed but all the dealers involved did not take this opportunity to meet their commitments, probably because there had meanwhile been a further rise in prices. The general effect of the cancellation of licences in East Bengal was to raise prices in India, because Indian jute was bought in place of the Pakistani jute ordered previously and because mills were chary of making further purchases of Pakistani jute in case it could not be delivered. There was, therefore, an increased demand for Indian jute.

In December 1954 and January 1955, private estimates of the raw jute position showing a serious shortage towards the end of the season began to be circulated. Even the official report of the I.J.M.A. for December estimated the total carryover in India and Pakistan at the end of the season at under 400,000 bales. This was serious as it indicated that there would not be enough jute to bridge the gap between the old crop and the arrivals of new crop. In these circumstances, prices rose sharply in January and February, the highest point being reached about the middle of February, When Upper Assam Bottoms were quoted at over Rs. 40 a maund. In January, the I.J.M.A. adopted a new basis for its estimate and the revised figures showed an expected carryover at the end of the season of nearly 1,800,000 bales. Circumstances at the end of the season showed, however, that that was over-optimistic, mainly because of an over-estimate of the carryover in Pakistan.

Large Sowings for 1955 Crop

When sowing time came round in March 1955, weather conditions were mostly very satisfactory, especially in Pakistan. In central West Bengal rain was very late in coming and sowings were delayed. In the daissee districts, too, sowings were later than usual because of lack of rain but the lateness of the season did not adversely affect the extent of the sowings. On the whole conditions were satisfactory and, with the encouragement of the high prices then prevailing and the low price of paddy, large crops were sown in both India and Pakistan. Weather conditions remained favourable throughout the period when the crop was growing and very high estimates of the outturn were generally accepted. In August, however, there was again serious flooding throughout the jute districts in India and Pakistan and the peak levels of the 1954 floods were passed in many areas. This year, however, more of the crop had been harvested before the floods came and the damage was less than in 1954. Communications were, of course, disrupted, and there was serious delay in getting fibre to the main buying stations and also in despatching jute to Calcutta.

This delay in getting supplies to Calcutta created a serious position for many mills. Godown stocks of raw jute were, in many cases, lower than they had been since 1951 and amounted to no more than two or three days' consumption. In other cases mills had ample stocks but mostly of higher qualities which made it difficult for them to make up a reasonable batch. In these circumstances there was good demand for jute for quick deliveries and substantial premiums were paid. Resort was had to bazaar purchases but stocks in Cossipur were small and, for a time, demand was in excess of arrivals so prices were high.

High Prices for Early Deliveries

Prices for early deliveries remained high until August, when a fall set in, but considerable business was done for October-December and October-March deliveries at substantial discounts. In September jute began to arrive in greater quantities and mills' immediate difficulties were removed. Though prices for early deliveries continued to drop, sellers became increasingly unwilling to sell for forward deliveries at the discounts which had previously prevailed, having memories of their losses in 1954. At the time of writing, imports into the main centres upcountry in India have been smaller than was expected, while imports into the Calcutta markets have not been more than the demand. This has given the impression that the crop is not as large as had originally been estimated.

Devaluation of Pakistani Currency

At the end of July, Pakistan devalued her currency to the same parity as Indian currency. It was at first thought that this would make it cheaper for India to buy Pakistani jute but almost immediately it was announced that the minimum prices for the export of jute from Pakistan were to be retained at the previous level. Soon afterwards Pakistan announced an increase of Rs. 1 a maund in the export duties on raw jute, excluding cuttings and habi-jabi. This had the effect of putting Pakistani jute at a further disadvantage in relation to Indian jute. Had Pakistan allowed devaluation to bring about its natural results, the price of Indian jute would have fallen more than it did, and there would have been less incentive to achieve self-sufficiency in India. Pakistan's action may, therefore, in the long run be to India's advantage by encouraging the growing of jute and achieving that independence of supplies from Pakistan which seems, in fact, not very far off.

During the year there has been a notable change in the mills' methods of buying their supplies of raw jute. To some extent this has arisen because the mills now carry much smaller stocks than formerly and their reserves are small. They must, therefore, make sure that the jute they buy is delivered at the times contracted for. Until quite recently it was the custom to buy for deliveries within the following two or three months and it was the sellers' option as to the actual time of delivery within the specified period. Unscrupulous sellers, taking advantage of the "unavoidable delay" clauses in the contract, frequently put off delivery on various pretexts in the hope that markets would move in their favour. In present circumstances this practice embarrasses mills who are holding small stocks and they have been insisting on guarantees that the jute will be delivered at specified times. This is not unreasonable but, in many cases, it operates harshly because of the erratic supply of wagons by the railway authorities. Sellers recently have often lost the profit on good contracts for this reason. It is not possible to say with certainty what will be the ultimate outcome of this new development, but it seems probable that it will result in the mills having to pay more for their jute. For more than a generation, prices in markets upcountry have been higher than those in Calcutta at the same time. Merchants have had to carry on their business by buying ahead in expectation of the market rising, or selling blank in the hope of a fall. Contracts allowing an extended delivery period were the only means by which they had a reasonable chance of making a profit. If that facility is now taken away, merchants will be less willing to sell at discounted prices and mills will have to buy at prices more in parity with those of the upcountry markets. In other words, mills will have to bear the risk of fluctuations in raw material prices which have hitherto been borne by the merchants.

Purchases in Local Markets

Another development in the past year has been the increased buying by mills in Cossipur and other local markets. This system has been resorted to partly because of the mills' need to ensure quick deliveries and partly because they believe they can secure their jute more cheaply by eliminating Calcutta brokerage. So far the main result has been to raise prices in Cossipur, where this season they have invariably been above the parity of mofussil markets. This system of buying by mills in Cossipur was common up to, say, 25 or 30 years ago, but it went out of favour because of the prevalence of malpractices and the fact that the mills had no means of protecting themselves against delivery of bad quality or wet jute. It will be interesting to see whether it continues after the present difficulties have passed. There has also been an increase in the past year or two in the practice of buying jute at the mill gates and jetties but many mills look on this with disfavour because it often leads to corrupt practices. In this case also the idea is to eliminate Calcutta brokerage, but there are doubts as to whether anything is really gained, for prices rise as soon as jetty purchases begin.

The Present Outlook

The outlook is rather obscure. In upcountry markets in India, imports did not increase just before the Pujahs as they normally do, and there

(Continued on page 111, col. 3)

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THE TEA INDUSTRY IN 1955

EFFECT OF NEW BURDENS

● FROM A SPECIAL CORRESPONDENT ●

THE tea industry started 1955 in a blaze of prosperity. The price in January on the London Auctions rose to seven shillings a pound for ordinary common tea, and to Rs. 3-12 on the Calcutta Export Auctions. The cause of these exceptionally high prices was the comparative shortage of stocks in London, and somewhat exaggerated fears among buyers there that further stocks would not be forthcoming in sufficient quantity. From February onwards, prices fell with remarkable rapidity and steepness, as shown in the accompanying graphs. By May, rock bottom had been reached with an average price in London of about 3s. 6d. Even in Calcutta, where the effect of this drop was mitigated by the fact that the worst of it fell between the end of one season and the beginning of the next, the average price was scarcely above Rs. 2. The causes of this rapid fall in prices were partly due to the fact that many buyers in England had spent so much on high prices teas at the end of the previous year that they had not sufficient finance to continue buying after the three months' "prompt" interval had elapsed; partly that consumers' resistance spread rapidly, and the British grocers were not prepared to take in stocks at such high prices as had been prevailing; partly that additional stocks arrived in the U.K., some returning from the Continent where they had been temporarily stored during the London dock strike; increased exports coming from Ceylon and Indonesia, and a considerable stock of rather poor quality end-of-season tea from Northern India which certain buyers had shipped hurriedly to London in the hope of securing in resale the high prices that had been prevailing. Psychologically also, the frank statement of Sir John Kotelawala, Prime Minister of Ceylon, that British buyers were paying far higher prices for their tea than was necessary, had a big effect in starting the downward trend.

In the new season, prices pursued an almost equally erratic course. In June and July, the prices on the Calcutta Export Auction steadily rose. First and second flush teas, particularly those of finer quality, fetched fairly good prices. In August and September, however, the prices of ordinary teas again fell steeply from Rs. 2-15 to Rs. 2-2. There is always a seasonal fall in quality, and therefore in price of teas manufactured after the onset of the heavier rains, but this season, the fall was much steeper than usual. The reasons were not only climatic on account of the excessive rains during June and July, but also due to the fact that a heavier than normal stock of common teas on the Calcutta Auctions met with a decrease in the demand from overseas buyers, who tended to hold off in the hope of even lower prices, and more particularly, of lower export duty as a result of the working of the Slab System discussed below. Meanwhile, in London, there was no particular setback to the rise in price which commenced upon the arrival of the new season's teas, in late July. By the end of September, the average price for North Indian tea was up again to 6s. 6d. a pound, and only in October did a fall occur.

Apart from these general fluctuations in price, a feature of the market this year has been the much wider difference between the prices fetched for high quality teas, and those of the common variety. This is an encouragement to good quality in plucking and manufacture, and no detriment to the industry as a whole. But the startling variations in the prices fetched for the bulk of common teas with no very great variation of quality between them, has a very upsetting effect, and makes it very difficult for producers to plan their expenditure.

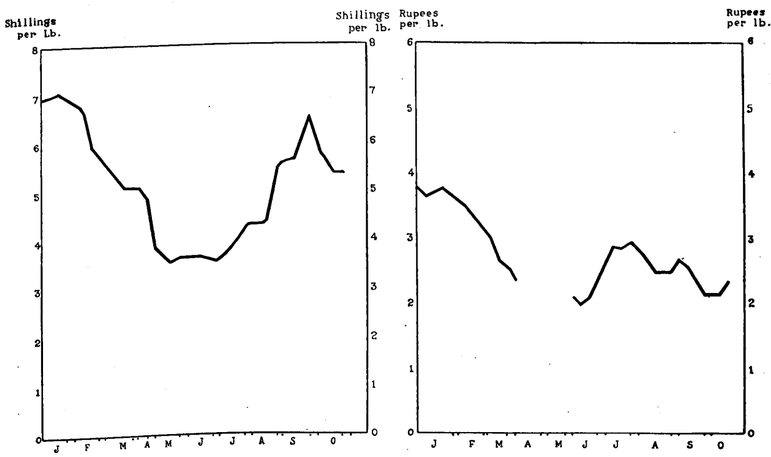
One of the reasons for the fluctuations in price in Calcutta this year, was the effect of the Government of India's policy, in order to encourage more extensive sales in Calcutta, and higher internal employment, of restricting the total quantity of tea that may be exported unsold to the London Auctions for sale there. This naturally led to an increased supply of tea on the Calcutta market and the known limitations of warehousing space in the Port made producers anxious as to the effects of a glut. Nevertheless the intention to pursue this policy was known long in advance, and the restriction was not so severe as should, according to expert opinion given to the Auction Enquiry Committee, cause excessive disturbance to market prices. It is true that the warehousing position in Calcutta was worse than it usually is at the beginning of November after the Puja holidays, and many river steamer flats laden with tea had a long time to wait for unloading. But steps are being taken to remedy this defect in the future by the provision of extensive additional warehouse facilities in the Port of Calcutta. There is undoubtedly a tendency amongst buyers to pay too much for teas in London, and too little for them in Calcutta, and this will continue so long as a lack of storage places unnecessary pressure on the producers to see without delay. The effect of the Slab System of levying export duty has also worked unfortunately this year. It is fixed in relation to the average price fetched in London in the previous month. This means that when the bulk of the rains teas, which in any case may be expected to fetch lower prices, come on the market, the export duty is still at its highest level, being related to the high quality first and second flush teas by this time selling on the London market. This results in the lower priced teas carrying the highest rate of export duty. It may well be that next season, the Government of India will revise their system to take into consideration prices fetched in India as well as in London, in fixing the duty.

As regards the future trend of prices, there is very little reason to suppose that the production and consumption of tea in the world are not in reasonable balance, or that the continual increase in consumption has been more than offset by recent increases in production. In recent years however, there has been little sign of the comparative stability in prices which the industry would like to see.

The cost of production a pound of tea in Northern India, including all costs prior to placing the tea for sale in Calcutta, is approximately Rs. 2-4 in the hill area of Darjeeling, and about Rs. 1-14 in Assam. When considering the price required to be fetched in London, about eight annas in export duty and six annas in carriage and other costs must be added to this cost of production. It may thus be seen that the profits likely to be made by the industry as a whole in 1955 are not likely to be excessive, and if this is to be regarded as a normal year, it is very doubtful whether the average garden will be able to afford the additional four to six annas a pound which are likely to be added to costs if the present Draft Rules under the Plantation Labour Act are carried out in full.

Labour and Wages

Despite the recent increases in pay, combined with a slight fall in the cost of living, and the ex-





A tea field with shade trees in.



A group of garden workers amusing themselves

pectation of further benefits to come in the shape of the provident fund, and welfare measures under the Plantation Labour Act, there have been more strikes in the Northern India tea industry in 1955 than for several years past. It is perhaps some reason for satisfaction that with the exception of the Communist-inspired violence in the Darjeeling District, and in comparatively few other instances, most of these strikes were conducted with little bitterness and a general absence of violence. The first strike of fairly widespread character occurred in Assam in June. There the employers, with the acquiescence of the Government, and originally of the unions also, introduced new piece rates for plucking. These rates had been practically agreed upon with the unions during the cold weather, with very minor points of difference, and they undoubtedly gave higher wages to the vast majority of the labour engaged in plucking. The piece rate a pound of leaf plucked was doubled and the bulk of the previous daily "conversion allowance" was absorbed with the piece rates. After their introduction, the unions rather unexpectedly opposed the continuation of the rates, mainly out of pique because the employers had not been prepared to agree to the payment of a bonus for 1953 and 1954, and partly because the rates did not always benefit the below-average plucker, who might prefer a larger quantum of fixed wage, even with a reduced piece rate. The strike on this issue was unsuccessful, and was withdrawn by the union leaders, the employers acknowledging that in some cases a more generous adjustment in the wage might be required when the leaf available for plucking was low, particularly at the commencement of the season. There are still some minor adjustments to settle, but it is hoped that the union will in general accept the new rates which have undoubtedly brought higher wages to labour this season.

The first widespread strike that Darjeeling District had known occurred in July. The grievance of the labour in that District has for long been that their wage rates are low compared with those in the plains, despite the fact that their cost of living is equally high. The wage was, in fact, fixed on the advice of the Minimum Wages Advisory Committee in 1951 at a level three and a half annas lower than the Committee might otherwise have fixed on the basis of needs, simply on the ground that the low productivity of the tea gardens on the hill slopes of Darjeeling rendered it impossible for the industry to afford a higher wage. Whereas on the plains an increase of one anna a day in the wage is equivalent to only about half an anna on the cost of production of a pound of tea, a similar rise in wage in Darjeeling increases the cost of production by practically one anna a pound. Darjeeling suffered greatly in the slump of 1952-53, and although 1954 was a prosperous year, the profits on many gardens were scarcely sufficient to make up the losses of the two previous years. In May, 1955, when the Minimum Wages Committee met again to consider the labour demand for an increase in their wages to bring them nearer the level of the Dooars, which had been increased by three annas from the beginning of the year, the employers pointed to the heavy fall in prices which had occurred in the market, but promised not only to grant a rise of one and a half annas forthwith, but to give a further one and a half annas later with retrospective effect from April, provided that prices recovered, and the situation in September indicated that the industry could afford the rise. Although the Minimum Wage Committee accepted this offer, and adjourned till September for further consideration of the situation, the union leaders decided subsequently not to wait until September, and in June launched a strike which incidentally was illegal as a dispute on almost all gardens regarding compensation for a former cloth concession was still pending before a Tribunal. The strike was characterised by gangs of ruffians, armed with knives and sticks, going round the gardens and forcing labourers, who themselves wished to continue working, to stop work. It was in resisting the concerted attack of one of these gangs on Margaret's Hope T. E. that the police had to open fire and five deaths occurred. Soon after, largely as the result of the efforts of the Deputy Labour Minister, the strike was withdrawn unconditionally on the Government promising to recall the Minimum Wages Committee before the end of July. The Committee met, but in view of the fact that prices had not yet recovered, and were indeed no better than when the Committee had met in May, the employers' representatives were unable to agree to anticipate the rise in wages to which they still promised to give their consideration in September. Finally, in August, the Government, after consideration of the conflicting views expressed on the Advisory Committee and Advisory Board, gave a decision that in addition to the one and a half annas rise already given by the employers, a further two annas should be given with effect from 1st July. As a similar decision would have been given in any event in September, labour gained nothing from the strike.

In the Dooars, a strike which was stigmatised not only by the employers, but also by the Government, as highly unnecessary, occurred at the end of August and the beginning of September, and was called off unconditionally after periods varying from a few days to over two weeks on certain gardens. A wage agreement was already in force in the Dooars, granting a three anna rise in wages from 1st January, and was binding on both employers and labour until the end of the year. The original strike demands were therefore modified to exclude demands for any immediate wage increase and were concentrated mainly on demands for bonus, provident fund and the revision of Standing Orders. The question of bonus and provident fund were already however, on the agenda for a meeting of the Industrial Committee for Plantations in Delhi, and had been put there at the request of the Unions themselves. The employers were quite ready to discuss these demands on the Industrial Committee, and it was agreed to extend the benefits of the provident fund to tea garden labour in West Bengal. (An Act had already been passed in Assam), and the question of bonus was referred to a sub-committee. As regards Standing Orders, the employers had always been willing to discuss any proposals for revision put forward, and in fact, at a subsequent conference, substantial agreement on this subject was reached. In all, the strike in the Dooars resulted in a loss of about 3½ million pounds of tea that would otherwise have been manufactured (no great loss to the industry as a whole in a market where supply was temporarily in excess of demand), and about Rs. 750,000 in wages to the labour.

Although tea garden owners in North East India have long been opposed on principle to the grant of bonus payment to labour, and have felt that much more long term benefit could be given to employees and their families by the expenditure of surplus profits when they arose, on housing, hospitals and other welfare objects contemplated in the Plantation Labour Act, it appears likely that in view of present day trends, the Government will lend its modified support to labour's demand for a lump sum payment. In the event of the Government making it clear that such is its policy, the employers have come forward with a formula under which bonus payments for 1954 and future years, might be regulated. At the time of writing, this is under discussion by a Sub-Committee of the Industrial Committee on Plantations.

Provident Fund

A provident fund for tea garden labour with contributions at the rate of one anna a rupee of wages earned from both employer and employee, has been successfully inaugurated in Assam at the instance of the Government of that State. It has been calculated that an average labourer in the course of his service in a tea estate may well earn as much as Rs. 6,000 in savings by means of this fund.

Plantation Labour Act

Many difficulties have faced the Government of India and the various State Governments in their endeavour to frame rules under the Plantation Labour Act. It is hoped however, that this will be finalised before the end of the year. The employers' chief objection to the Rules as at present drafted, is the laying on them of the responsibility for the provision of "group hospitals". These are intended to provide a very wide range of specialised treatment in medicine and surgery, far beyond what is usually expected from the medical facilities provided by an industry. It will be exceedingly difficult also, to arrange for estates with widely different types of ownership and management, to combine to build and run such hospitals, and it is felt by many that the provision of such hospitals should be the responsibility of Government, even if a cess has to be levied to subsidise the special services they might provide for the tea garden population. The employers already provide hospitals on each garden with facilities sufficient for normal requirements.

As regards the housing of labour, which has long been recognised as an employer's responsibility, there has for some years been substantial agreement on the standard of quarters to be provided, and one such is illustrated in the present article. The building of such houses on an extensive scale to cover the whole labour force will however be a very heavy financial burden on the industry, and it is hoped that the Government will come forward with subsidies such as it has already given to other industries for a similar purpose. The Government's hope as indicated in its Draft Rule, is that the re-housing of eight percent of the labour should be completed every year. Such a target may be feasible for a prosperous company in a good year, provided that building materials are available, but any recession in prosperity must inevitably set back progress. During the present and previous cold weathers, when in view of the profits of 1954 substantial progress might have been expected, there have been very great difficulties in obtaining cement for building purposes in tea garden areas. As an example, out of a demand for 20,000 tons for the fourth quarter of 1955, the industry has been offered by the Department of the Government of India concerned, 1,500 tons, or less than one thirteenth of its requirements, nor is there any great expectation that the further demand for 20,000 tons for the first quarter of 1956 will be fulfilled. One of the difficulties that besets India in fulfilling its second five year plan, is that the big Government construction schemes need so much of the raw materials available, that existing industries such as plantations, tend to be starved.

Coal

The tea industry in North East India requires about 300,000 tons of coal a year for the manufacture of the crop. Tea companies' experience in 1955 in getting supplies of coal to their gardens has been quite dramatic. Coal supplies should normally move up the rivers and railways to the tea gardens in the cold weather and subsequent months, so that the bulk of the supply is already on the gardens before the heavy impact of the monsoon occurs in June and July, when not only are breaches of communication to be expected owing to seasonal floods, but the bulk of the crop has at the same time to be manufactured. By April, 1955, under 20 percent of the supplies needed by the North Bengal gardens had been cleared by the railways, let alone reached the gardens themselves, and the companies were fully expecting breakdowns and closure of gardens for lack of fuel. The main reason for this hold up was that

the metre gauge railways of the area required so many wagons to carry material for their own purposes to repair the breaches caused by the previous year's floods, and so many more were carrying material for the Government's Kosi project, that they could not provide the wagons to carry the coal to the tea gardens. Then in April, largely at the instance of Dr. Roy, Chief Minister of West Bengal, agreement was at last reached with Pakistan on the re-opening for coal and certain other materials, of the direct rail routes through Pakistan to North Bengal. Within a few weeks, the situation had completely altered, and by the end of June, the tea companies knew that the future coal supply was secure.

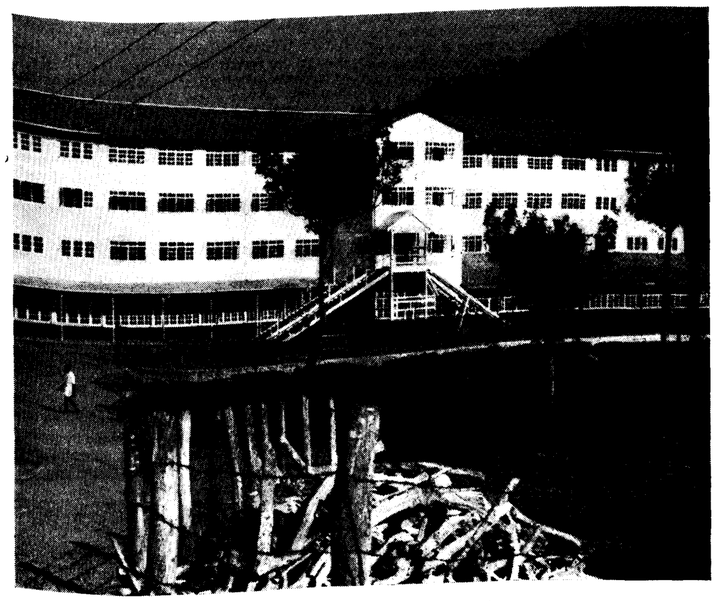
In Assam, the coal position was not so critical as in West Bengal. As in previous years, it was found that the supplies of coal from the Assam collieries were insufficient for local needs. But in Assam also, a vast amount of additional coal for haulage and wagon supply was required to cart materials for the river protection works at Dibrugarh and other sites, and the allotments to the tea industry could not be fulfilled. The Government might well have anticipated this extra demand, the necessity for which was well known, and despatched additional supplies from West Bengal and Bihar by river earlier in the season. In particular, the continued effort to feed the needs of Cachar District south of the Khasi and Naga Hills with Assam coal by rail over the hill section of the N. E. Railway proved a failure, and the provision of supplementary supplies from Calcutta during the comparatively short period in which the Surma River is navigable up to Silchar, was commenced too late. In Cachar, production has on some gardens this year, actually had to be restricted for lack of fuel. More serious is the future loss involved in the cutting of shade-giving trees for fuel, and in the premature felling of forecast coverage so necessary for the control of floods.

Many tea gardens in Assam have taken to using oil fuel for manufacture, largely because of the uncertainty of coal supplies, but the Assam Oil Company feels that Digboi can only produce a limited quantity of tea dryer or furnace oil if production of their various petroleum products is to be economically balanced, and the capacity of the Oil Company in 1955 was fully strained to meet their current demands.

Much of the difficulty in supplying not only coal and cement, but also fertilisers, tea chests, replacements of tea factory machinery, and general stores for the tea gardens, lies not so much in laying hands on the quantities required, as in the organising of their transport to the gardens. Communications with Assam and North Bengal, despite the long established steamer service, the addition of the Assam Link Railway, and the many air freighter services now in existence, is still inadequate to meet the growing demands of the area. It appears likely that the floods will become steadily more severe in future years. The effect of the earthquake of 1950 and of the subsequent floods, was to raise the level of the River Brahmaputra in the neighbourhood of Dibrugarh by several feet. Forest control in the areas of Tibet and Bhutan from which the rivers rise, is negligible, and forest protection, which is one of the main factors in regulating the pace at which the flood waters reach the plains, has been steadily deteriorating in recent years. It is therefore certain that breaches in the roads and railways will be an annually recurring event despite the strengthening of the bridges and embankments which is steadily going on. For the successful maintenance of communication with Assam and North Bengal, the prime necessities are firstly, the re-opening for all purposes of the railway routes through Pakistan, and secondly, the provision of a bridge across the Ganges. Fortunately, both these projects are now in hand.

Special Taxation

An unfortunate feature of the year for the tea industry has been the growing tendency of State Governments to levy special additional taxes on the industry. Excise and export duties on tea are under the Constitution the prerogative of the Union Government, but under the guise of a "Carriage of Goods by Roads and Inland Waterways' Tax", the Assam Government has imposed what is in effect an additional excise on tea, as it is payable at a flat rate irrespective of value or distance travelled, on all teas that are moved on any road or river in Assam, as in practice are all Assam-grown teas. This tax, which during the course of the current year has been increased to one anna a pound, falls on certain West Bengal gardens also, which are accustomed to despatch their teas via the steamer *ghat* at Dhubri. Following this example, the West Bengal Government also has recently passed an Act to levy a duty of one anna a pound on all tea entering Calcutta for sale or consumption. This also has a similar incidence to an excise or export duty and fall both on West Bengal and Assam-grown teas. The Government of India's export and excise duties are integrated under a system which allows for a rebate of the excise duty when the export duty is paid. The export duty itself, as described above, now varies in proportion to the average price fetched at the London Auctions in the previous month. Presumably when the sliding scale was fixed, the Government of India took into consideration what the industry could afford to pay, but since that scale was established, the additional Assam and West Bengal taxes have been, or are about to be imposed, with no corresponding modification of the export duty. Representatives of the tea industry therefore, faced with such a multiplicity of duties and a great degree of uncertainty as to when they will be raised and how much will have to be paid, have approached the Government of India with the fairly reasonable request that one tax only should be levied on tea of the excise/export type, that its level should be fixed by the Government of India as Parliament may decide, and that the Government of India, if so inclined, may make an additional subvention to the State Governments concerned with tea plantations, to compensate them for foregoing the levy of such taxes.



A modern tea factory.

OUTLOOK FOR RAW JUTE

(Continued from Page 107)

was obviously some resistance to a further lowering of prices. Whether this was merely a temporary phase or whether it indicated that the crop had been overestimated still remains to be seen. It is generally believed that the crop, including jute, mesta and bimli, will yield between 50 and 55 lakh bales and that India is, therefore, nearing self-sufficiency. The price trend may, therefore, depend on the quantity which mills are able to secure from Pakistan. If Pakistan insists on enforcing her present scale of minimum prices, it is obvious that India will buy as little as possible from her because, quality for quality, Pakistani jute is too dear. It is possible, therefore, that the inability of mills to procure Pakistani jute at reasonable prices will help maintain the price of Indian jute.

Quality of Indian Jute

This brings up the question of the quality of Indian jute. Everyone with experience of Indian jute over the past quarter of a century knows that there has been a great improvement in quality in all districts. In some districts much still requires to be done to instruct the growers in better methods of cultivation and preparation of the fibre, but it is obvious from the fact that it is becoming increasingly difficult to sell the higher grades of Indian jute that the supply of Indian jute of good quality is already in excess of demand. It is obvious, therefore, that research should be directed to other objectives than improving the quality of the fibre, and the chief of these is to ensure that India produces enough for her own requirements on as small an acreage as possible. Progress has been made in increasing the yield of green plant an acre, but the vital issue is to breed plants which will give a higher percentage of fibre a plant. Unfortunately this is a subject which has been neglected so far, and there is still no sign that its importance has been appreciated by the authorities. If a type of plant could be developed which would give a higher ratio of fibre to green weight, it would result in a greater output of fibre an acre, with a corresponding reduction in the grown of waste material while all the jute required by Indian mills could be produced on a smaller acreage and the surplus land devoted to food crops. The importance of this to the economy of the jute-growing districts is incalculable.

Wagon Supplies

At the time of writing prices in some districts are being depressed by the failure of the railways to provide wagons for the transport of jute to Calcutta. This is especially bad in the Purnea district where jute business is almost at a standstill for want of wagons and prices have fallen by about Rs. 3 a maund below those in districts where wagons are available. There appears to be some lack of co-ordination in the railway organisation because, before the new crop came in and there was hardly any jute available, wagons were plentiful. As soon as jute was ready to be moved, the wagon supply was curtailed. The movement of wagons gives rise to complaints also and loaded wagons take weeks to reach their destinations. Even in the daissee districts around Calcutta it frequently takes wagons two weeks of more to be moved a distance of 20 or 25 miles.

The Industrial Tribunal Award

Though the award of the Industrial Tribunal on jute mill wages mainly concerns the mills, it will not be out of place here to discuss its possible effect on raw jute prices. More than ever before the prices at which Indian mills can sell their products are dictated by world competition —competition not only from substitutes and alternatives but from jute mills established in foreign countries and most notably in Pakistan. The award involves an increase in mills' production costs of about Rs. 14 a ton. In the circumstances now prevailing, it is doubtful if that increase, or any portion of it, can be recovered from foreign consumers. It is clear therefore that, apart from the mills, there is only one other group which can shoulder a portion of the burden. That group is the raw jute growers and there seems to be little doubt that, in the face of world competition, they will have to bear a considerable portion by accepting lower prices for their jute. It is not known if the Tribunal considered this point of view but, whether they did or not, it seems to be certain that they have done something which is detrimental to jute growers and will hamper the efforts to achieve self-sufficiency in fibre.

OUTLOOK FOR PLANTATIONS

DETERRENTS TO FUTURE INVESTMENT

• By VALALE I. CHACKO •

SOME of the principal difficulties in making a comprehensive survey of the plantation industry is that unfortunately generalisations do not equally apply to both the Northern and Southern parts of the industry. The closest approximation to conditions occurs only in the case of the broader aspects of the tea industry but here again any detailed discussion would lead to increasing differences. The most important point of contrast lies in the fact that the South grows a variety of plantation crops and policies adopted without due regard to their effect on all the Southern crops would create problems with which the North is not faced. Many districts in the South grow two or more plantation crops and very often mixed crops are raised on the same holdings. A common wage level or standard of amenities laid down in general for all plantations would create disparities among the different growers and separate standards cannot be enforced on two neighbouring estates.

A survey of the plantation scene as a whole must suffer from the defects arising from the differences in crop economies and backgrounds. The problems of the South must therefore be viewed separately and 1955 has been a year in which these differences were strongly marked. One is the increasing discrepancy in the sale price of tea which has a bearing on the sliding rate of duty on export. The producers in South India have already drawn the Government's attention to the disparate weights of the uniform rate of duty when it applies to two different levels of prices. The export duty is fixed by the Government on London prices presumably for the purpose of preventing anybody "fixing" the market here for export tea. Apart from the defects of calculating duty on a price which already includes the export duty, cess and the carriage and insurance charges, there can be no question that the rate is heavier on the growth which fetches the lower price. For the sales from 1st January, 1955 up to 13th October the over-all average price realised by South India in London was a good 10.07d. a pound lower than North India. The disparity is even more marked when the latest series of sales are compared. At the sale on the 13th October the difference was very nearly 21d. a pound. None the less the South paid the same rate of duty as the North. An adjustment of duty on the basis of the level of prices fetched by the North and the South would indeed raise a wider issue because if duty is to be related to prices, should not the variations between estate and estate be taken into account? But, as long as Southern growths continue to fetch markedly lower prices, a uniform duty would be basically unfair.

Auction Prices

If the average price is noticeably lower than the Northern average, the individual variations below the average line must be even more disadvantageous relative to the duty. Given below are the auction averages for South and North Indian teas in London for September:

Sale No.	1954 S. India	1954 N. India	1954 S. India	1955 N. India
	s. d.	s. d.	s. d.	s. d.
1	5 4.5	5 11	3 11.1	5 7.2
2	5 5.6	5 10.8	3 11.2	5 7.6
3	5 7.7	6 3.0	4 0.8	6 0.5
4	5 11.0	6 5.3	3 11.9	6 5.3

The state of the Indian plantations industry during 1955 is less likely to be judged by the market factors than the portents of legislative and administrative policies. For about three years now, the industry has been in the glare of vociferously critical public attention, first because the tea industry was experiencing a slump, next because of a boom period and now because the situation does not fit into any simple classification. Any survey of the plantation industry therefore must of necessity deal with two aspects, namely the condition of the market and the conditions superimposed by the Government.

Margin of Safety

Last year at this time the trend of pressure in the tea market was still an upward one, and a genuinely apprehensive industry was wondering when prices would drop to more sustainable levels. At the end of the 1955 season the industry is even more concerned with the delicate balance barely maintained by the present level of prices. Perhaps producers in a free market should take the ups and downs of the market with more equanimity than the growers of plantation crops are doing today. The reason is that the margin of safety in all the crops has been dangerously narrowed. To say this is not to deny the prosperity which last year's high prices have brought the industry. Indeed, part of the 1955 plantation problems arise from this very fact.

During 1954 the Southern Indian tea industry produced a record crop of 128½ million pounds and exported over 78½ million pounds. Production during 1955 showed marked monthly variations but at the end of September the total was one million pounds above the crop harvested during the corresponding period of 1954. The continuous rains caused the reappearance of blister blight and an extension of infestation in some parts of Travancore State but the year may still end with a small increase over 1954, although the South's addition to the world's total supply for the year over its 1954 contribution may be negligible.

If, however, the estimated world surplus of 40 million pounds was carried into 1955 from the previous crop and the current year's world absorption is maintained at last year's level of 1,288 million pounds, the total weight of tea surplus which next season will carry provides the industry with cause for the greatest concern. It is generally believed that the surplus of 37 million pounds carried over from the 1951 crop was the cause of the 1952 slump. Total world consumption may have reached a level well above that of 1951 and a larger surplus may be absorbed. But according to recent opinion there was a carry-over of 40 million pounds from the 1954 output of 1,328 million pounds. A rise in consumption in 1955 is not expected by the trade against a probable increase in production of about 20 million pounds over 1954. The combined weight of the surplus production of the two seasons might force the price down even more sharply than earlier this year or in 1951. Against this possibility what are the industry's chances of surviving a fall in prices of the same dimensions as that of 1951?

Plantation Labour Problems

Much has happened since 1951 to narrow the safety margins of plantations. The South Indian tea industry managed to scrape through the 1952 crisis but were 1952 prices to pertain in 1956, most producers would run into serious difficulties. Many of the additional charges that have been made since 1954 are of a permanent nature and the industry cannot possibly reduce these in the event of a recession in prices. The 1954 boom has apparently succeeded in removing all reason for restraint and labour is bound to make the most of its political influence to secure and consolidate its advances irrespective of the consequences on the industry. Unlike other agricultural crops, plantation crops, with the possible exception of rubber, depend upon world markets where prices are not fixed on a "cost plus" basis. In tea 70 percent of the Indian output is still dependent upon foreign markets. With the organised opposition to mechanisation, India, among the major producers, has voluntarily placed itself under a handicap. As against this moratorium on any advance in productive efficiency there remains the present inexorable pressure to force the pace of workers' welfare and wages which imposes conditions beyond the capacity of the producers to control. None of the welfare measures contemplated against the background of an exceptionally good year will be held back, even in a bad year, unless disaster overtakes the industry.

These are some of the broader aspects of plantation problems which emerged during the year. Some of these have shown themselves in an accentuated form in the South. Although the highest minimum wage for plantation workers is paid in Travancore-Cochin State; the implementation of the Plantation Labour Act has been decided upon; the period of maternity benefit paid is four weeks longer than in any other State, but the distress arising from unemployment is claimed to be most acute in that State and there were more strikes, more complaints of indiscipline and work stoppages than in any other plantation area in the entire South.

Managements' Liabilities

Apart from the forces operating in the world market to which plantation economy is highly susceptible, it is more directly faced with the problems of a mass of mutually contending unions whose only co-operative effort takes the form of attacks on the industry. This state of affairs is likely to continue for a time until union rivalry has been overcome, meanwhile, the managerial problems it raises are formidable. In isolated estates where police supervision and protection is more difficult, it has not been possible to prevent outbreaks of violence. During the long waiting period while disputes are pending before tribunals, there begins a fall in work output which is beyond managements to handle. The cumulative effect of all this has been highly demoralising to estate managements throughout the districts.

One of the most intractable problems which is likely to figure even more prominently in future is the extent of the managements' liability towards the dependents and relatives of estate workers. The workers' children are to be cared for in crêches and when they are grown up they are to be provided with educational facilities. Medical care is extended to them as to their parents. But, with the vast improvement in estate living conditions there has been a marked rise in the inflow of relatives who overcrowd the quarters and incidentally contribute to some of the social discontent generated by idleness, congestion and the underlying revolt against dependence. In the absence of a more sympathetic study of the plantation community, the inevitable outburst of discontent is attributed to managerial causes.

It is not possible to assess the cumulative effect upon production of the mounting labour problems, which in certain important respects are beyond the competence of managements to handle. India could do with much more coffee and possibly tea than she is producing and the shortfall of rubber production has become a national question. The assured welfare of the workers themselves, apart from the new openings for employment which the industry could provide, depends on dynamic expansion.

Possible Rubber Shortage

There has been a rapid advance in the consumption of raw rubber during the past five years. It is expected that at the end of the second plan period the demand for rubber may rise to over 40,000 tons, as against the current level of about 26,500 tons. Indian production of raw rubber amounts to about 22,000 tons and it is possible that an increase may take place as the rubber replanted over the past years comes into full bearing. Any planting done now however will hardly influence the supply position by 1960, although the recent increase in price is likely to act as a powerful stimulus to fresh planting and replanting. Even then the country must expect a bigger shortage before the gap begins to narrow. Rubber is a tree crop which takes 8 to 10 years to mature and come into full economic production. A high standard of selection, cultural attention and managerial efficiency can only be introduced on sufficiently large holdings, involving a large initial outlay and comparable follow-up expenditure.

A Market for Coffee

Similarly, in coffee the scope for expansion and improvement is considerable. Coffee and rubber are entering a period of steep decline in production from the over-aged areas and which even the increased output from re-planted and newly planted areas with their higher yielding capacity may not be able to wholly offset. Against this prospect of lowered production is the steady increase in internal consumption, this year estimated at about 2000 tons above that of 1954. India's quality coffees still have a ready demand in overseas markets and an increase in output well over the amount absorbed by internal demands would not result in a surplus.

According to the plan frame of the second five-year plan, an increase of over 105 million pounds over the 1954 output of tea is expected, of which about 21 million pounds will have to be produced in the South. Considering the demand position, all the three leading plantation crops of the South are facing a future with expansive possibilities. But the will to invest and expand will depend to a very large extent on the confidence every individual investor and manager feels about his own future security.

THE COAL INDUSTRY IN 1955

TRANSPORT SHORTAGES AND THREATS OF NATIONALISATION

• By A SPECIAL CORRESPONDENT •

THE Indian coal industry has experienced many fluctuations in fortune during the 115 or more years of its existence. It has accustomed itself to meeting bad years with the philosophical hope of better times to come. But it is doubtful if it has ever gone through a more frustrating year than 1955 when even this hope has been denied to it. It is now well known that if the second five year plan with its stress on increased industrialisation is to be successfully implemented, annual coal production must be in the region of 60 million tons by 1960, an increase of some 23 million tons as compared with 1954 raisings. Private enterprise has given a confident assurance to the Government of India that, with favourable circumstances, it could raise an additional 16 million tons a year without any financial assistance whatsoever from the Government, leaving an extra 7 million tons to be raised by the State. Coal production cannot be increased overnight and a full five years or more will be required before there is any substantial output from the new mines which must be sunk if this challenge is to be met; 1955 should therefore have been a year when the industry looked to the future. It should have been distinguished by the preparation of vast development plans and the implementation in the initial stages of such of those plans as had been finalised.

Inevitably private enterprise in the industry has looked to the future, but having little control over the broad direction of its affairs and having no definite knowledge of the part which it will be allowed to play in coming years, this has been rather in the rôle of a soothsayer endeavouring to read the portents than as a practical business man weighing and deciding future plans and calculating risks on a sound basis. This has thwarted an eagerness to meet the challenge of the second five year plan and has frustrated essential plans for vastly increased production, with the result that instead of being a year of healthy and vigorous growth, outstanding in the history of the coal industry, 1955 has been a year outwardly indistinguishable from many others, in which there has been a comparatively minor advance in production. It is true that on the basis of the latest available production figures, which extend up to August 1955 only, raisings for the full year may show an ostensibly handsome increase of one million tons above 1954, but this is paltry when an extra 23 million tons will soon be required. The reasons for the unfortunate frustrations of 1955 are not far to seek. The two most important are the continued lack of transport facilities to move the coal which is at present raised, and far more important, the threat of nationalisation.

More Wagons Needed

The first of these is a clear-cut problem of providing more railway wagons to enable collieries to meet consumer demand in full. This the railways have not been able to do in recent years. While there was a welcome improvement in the wagon supply situation in 1954, in spite of the additional calls imposed by the Kumbh Mela, it is not reassuring at a time when the stress is on expansion that this improvement has not been continued into 1955 when there was no Mela; it seems unlikely that 1955 despatches will exceed the 1954 figure of 32 million tons. It is true that wagon supply was slightly better than last year in the early months of 1955, but a slight improvement is not enough and there has been a disquietening lack of the usual spare capacity for coal movement during the slack season of the monsoon months. This can only be traced to the additional demands which increased industrialisation is already making on the present facilities. Coastal shipping could provide some relief by taking away from the railways the burden of carrying coal for some areas, but unfortunately consumers are reluctant to use this means of transport because coastal freights compare so very unfavourably with rail freight rates, being in the case of despatches from West Bengal to Bombay, for example, nearly double. It is interesting to note that it costs almost as much to despatch a ton of coal by sea from Calcutta to Madras (five days' sailing) as it does to Singapore (ten days' sailing).

In circumstances where collieries cannot despatch from pithead the coal which they already raise, they will obviously gain nothing by increasing production. Their development plans are inevitably hampered as a result and may well be brought to a temporary standstill in many cases. As far as can be foreseen, this tendency might continue as future wagon prospects are no better. While sufficient wagons still cannot be found to move the existing production, nearly double the number of wagons will be required in 1960 to move the demand of 60 million tons; this vast increase is required for coal alone and is in addition to the greatly enhanced demands which may be expected from other industries, particularly the new steel plants. It seems probable, therefore, that the shortage of wagons will continue. The success of the second plan largely hinges on rail transport facilities, particularly for essential commodities such as coal. Without those facilities, the full development of the coal industry cannot be expected. The Railways are fully aware of this, and have done well to have recently set up Pilot and Depot Capacity Committees, on which the industry is represented. These Committees will plan for the present and estimated future requirements of each pilot and depot serving collieries in the West Bengal, Bihar and Central Indian coalfields. They also have in mind broader problems such as the shortage of locomotives and wagons; junctional bottlenecks at, for example, Waltair and Mogulsarai; insufficient line capacities, and inadequate marshalling and weighbridge facilities. All of these accentuate the shortage of wagons. In 1946 when annual coal raisings were 10 million tons less than today's figure, the Railways stated that their target was to achieve by June 1948, a daily loading of 3,700 wagons from the West Bengal and Bihar coalfields. Nevertheless in September 1955, the average daily allotment in these fields was still only 3,939 wagons, a shortfall of 378 wagons a day as against the target of nearly seven years ago. Meeting the wagon shortage and providing for the future is a vast problem which must be tackled with determination and vigour: it must never be regarded during the next few years as something which has already been dealt with and which can give rise to no anxieties. General economic expansion is to be so rapid that a real danger exists that there will not be enough wagons for the coal industry to meet consumer demands in full, for many years to come.

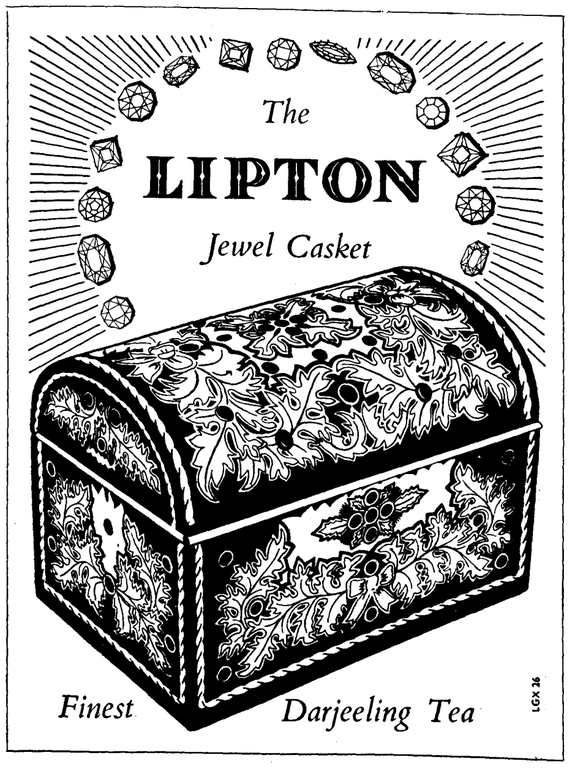
Nationalisation Threats

Apart from transport, a major factor impeding development plans is the threat of nationalisation. No clear-cut problem is involved here but it is a matter of opinion whether the private sector with its comprehensive organisation and wealth of experience should be permitted to play its full part in meeting the coal requirements of the second plan, or whether, in spite of the unfortunate experience of the nationalised coal industry in the United Kingdom, the whole industry in India should in the future be entrusted to State enterprise.

The declaration of industrial policy by the Government in 1948 contained a reference to the possible nationalisation of coal mines after ten years. The industry still awaits a final indication of the Government's intentions after this ten-year period has expired. During the past year there have been numerous conflicting rumours and suggestions emanating from immediate and complete nationalisation to the private sector being permitted to exist side by side with a rapidly expanding public sector for a further period, under conditions varying in their severity. This has only served to undermine the private sector's confidence, especially since the Constitution (Fourth Amendment) Act which amends Sections 31 and 31A of the Constitution so that the private industry no longer has any guarantee of reasonable compensation in the event of nationalisation, but can be compelled to accept compensation which would be but a fraction of the value of the assets taken over. Also in the legislative field, and presumably as part of a possible compromise between nationalisation and unrestricted private enterprise, draft rules under the Mines and Minerals (Regulation and Development) Act, 1948, which are at present under consideration, seek to cancel existing mining leases and to limit very severely both the period as well as the maximum permissible area of any leases granted in replacement. A coal company must have room to expand if it is to survive. As any return on capital invested in new development is slow in coming, it must also have reasonable security of tenure. Rules on these lines would have the effect of placing a noose round the neck of the private sector which would be drawn tighter as the years progress.

Need for Security

Faced with these uncertainties which make future planning exceedingly difficult, the industry has repeatedly endeavoured to obtain an assurance from the Government that there will be no nationalisation of coal for a reasonable period of time. This assurance has been refused and the persistence of the coal industry has drawn the criticism from some quarters that it is demanding special treatment in the matter of future security, which is not expected by other industries such as steel, which in spite of initial doubts have nevertheless embarked upon large-scale development. This accusation ignores the fact that neither the steel industry, nor any other non-mining industry, can be quoted as a strict parallel to the coal industry. It is possible to limit the output of any unit of the steel industry and yet for that unit to continue in profitable production for an indefinite period, whereas limitations imposed



on a colliery automatically limit its life. The coal industry works a wasting asset so that a coal company must be permitted to extend its area in order to replace worked out mines. Otherwise it will inevitably be condemned to a period of gradual disintegration leading to complete exhaustion. The recent amendment to the Constitution specifically refers to the mineral industries, so that other industries presumably have less reason than the coal industry to fear inadequate compensation in the event of nationalisation.

It is against this background of lack of security and inadequate transport facilities that plans are being attempted to increase coal production by 23 million tons during the next five years. Can anyone be surprised that, in spite of the urgency, progress has been slow and that 1955 production figures have given but a slight indication that there are plans for vastly increased raisings? Up to now private enterprise in the coal industry wishing to invest in the second plan must do so without knowing what areas of its present leases it will be allowed to develop; without knowing whether it will be permitted to enjoy the benefits of the investment which, with the rigid controls imposed on the industry, will at the best be slender; and with the knowledge that any capital invested may be taken from it at any time in return for a fractional compensation.

Coal Washeries

Nowhere has this unhappy state of affairs been emphasised better than in the case of washeries. Three or more years ago several coal companies were prepared to set up washeries on the basis of conditions then prevailing, but the implementation of their plans was delayed because an Expert Committee was set up by the Government of India in January, 1953 to examine and report on problems relating to the establishment of coal washeries. This Committee did not publish its final report until November, 1954 and although it included far-reaching recommendations, the Government has still not officially communicated its intentions to the industry. Nevertheless, probably on account of an anxiety to ensure adequate supplies of coking coal for the proposed new steel plants, the latter has been called upon to produce before the Government plans for installing washeries, without knowledge of such basic factors as Government policy on nationalisation, the specifications for the washed coal which will be required by the steel plants and the arrangements which will be made to dispose of the middlings which will be left after coking coal has been extracted. Not unnaturally, plans have been slow in coming forward and as a result the industry has been accused in some quarters of bad faith and lack of co-operation.

Apparently the view was even held in some official quarters that, if through a lack of response by the private sector it became necessary for the Government to establish central washeries, then collieries should be compelled to sell to those washeries only and to no one else, at a negotiated price to be fixed individually on the basis of the actual cost of production and of other relevant factors. Central washeries should be permitted to decline to purchase coal from any colliery in which the cost of production was claimed or found to be excessive, in which case that colliery would not have any other outlet for its coal. In other words, private enterprise should be offered the alternative of investing on the basis of a problematic return and no security, or of running the risk of being put out of business altogether. The position has subsequently been clarified by the Iron and Steel Ministry as far as supplies to the new steel works are concerned, because it is at least known that prices for washed coal would be negotiated on the basis of the statutory price for raw coal plus the actual cost of washing, and because general specification details are available for some proportion of the likely requirements. A washery is a major and expensive capital item, however, and it is difficult to formulate exact blueprints in the absence of knowledge about the shape of the Government's overall policy on coal.

Broader Considerations

In explaining the position in which the coal industry has been placed during 1955 with regard to future development, account has so far been taken of official pronouncements only and no allowance has been made either for any broader political and economic consideration beyond the immediate sphere of the industry, or for the level-headed and realistic appreciation of this position which is possessed by many connected with the Government of India who are dealing with the problem of future coal supplies. Possibly if these points were taken into account, a less gloomy view of the future could conceivably be justified. There have been several responsible statements in recent weeks in which a personal opinion has been expressed that should it be decided to nationalise in the future, the Government will be prepared to consider full compensation for any fresh development undertaken with its permission. This is a possible indication that theory may be giving way to realism but an assessment of its value must await the official issue of a compensation formula. Moreover, opinions expressed by individuals, however distinguished, and a personal assessment of the views and intentions of any individual, do not provide sufficient basis for increased investment when an individual may tomorrow be holding an entirely different office or appointment.

Although it was hoped that a clear policy would be enunciated by the Government at the end of November, at the last of the several conferences which it has called with coal producers during the past year, so that the private sector might know exactly what part it is expected to play in the second five year plan, this expectation was not fulfilled and the position remains far from satisfactory. It now seems that Government policy will be based on a compromise involving the rapid growth of the public sector and the slow decline and eventual elimination of the private sector. There has been much talk recently of setting targets aimed at dividing the additional production between the public and private sectors. Figures suggested for these targets have been amended several times during the year but it is now the Government's intention that of the additional 23 million tons which are needed, 15 million tons should be raised by State collieries. When it is considered that the production of the existing 11 State collieries is only 3 million tons, and that the development of new collieries at depth takes anything from three to five years, it will be appreciated that the State is setting itself a prodigious task. In these circumstances, private enterprise will be left to raise an additional 8 million tons, or only half of its potential capacity.

Target, Not Ceiling

Opinion is divided on the advantages which will accrue if the public sector raises an additional tonnage which the private sector has the capacity to produce. Doubts have been expressed regarding the ability of the former to raise its production by 400 percent. It seems that these doubts may be shared by the Government, which has hinted that 8 million tons for the private sector is a target and not a ceiling. With regard to price, the fact that eight of the 11 State collieries made a total loss of roughly Rs. 1.2 crores, or some Rs. 7 a ton, in 1953-54, a loss figure which if incurred by the private sector would soon put it out of business, and this in spite of a most favourable rail despatch figure of 98.9 percent of raisings which no private colliery can hope to enjoy, indicates that the cost of production of the public sector is likely to be much greater than that of the private sector. That will mean either that the State collieries must be subsidised by the Government, or that the price of coal must be raised beyond that which would permit the private sector to operate at a profit. It is very much a matter for consideration in these circumstances whether the capital investment of some Rs. 100 crores, which will be required by the public sector to finance the increased production visualised, could not be utilised to greater advantage in so many other spheres. Coal is an essential factor in the success of the second plan and the Government is short of money. Whatever political theories may be advanced, it is surely preferable when attempting the ultimate aim, even if only as a matter of expediency, to husband existing resources and to make full use of methods of obtaining the necessary coal which do not involve the expenditure of public money, particularly when those methods can make use of existing facilities and may well be more efficient.

The story of impediments in the way of future development does not end with transport shortcomings and nationalisation threats, gloomy though the prospect is made by these matters alone. A fair degree of Press publicity has been given to the deliberations of the All-India Industrial Tribunal (Colliery Disputes) which was set up in February 1954 to adjudicate on matters relating to the wages and conditions of service of colliery labour. The investigations of this Tribunal were initially delayed by the fact that it was reconstituted in February 1955 and had to begin its work all over again. Although there has recently been more rapid and satisfactory progress, there has still been no award and an air of uncertainty prevails in the sphere of labour relations.

Coal Prices

From the Tribunal it is an easy step to the matter of coal prices, because should the former decide to alter the *status quo* with regard to labour wages and conditions, an increase in selling prices equivalent to the extra cost of any such alteration will be essential if many units of the industry are to remain in production. The present selling prices are based on increases given in 1947 to meet the increased labour costs arising out of the Conciliation Board Award. These increases were granted on the basis of a most careful scrutiny of coal companies' books by Government cost accountants and were designed to return an average profit of Rs. 1-8 a ton. Prices were subsequently reduced in 1949 to assist the Government in counteracting inflationary pressure and the cuts, which amounted to 9 annas a ton in the case of steam coal, have never been restored. While prices have thus been reduced, expenses have risen, mainly because of the considerable increase in the cost of capital equipment and of stores and because of higher labour costs; these latter were further raised during the year as a result of the implementation of the Mines Rules, 1955, with their additional welfare provisions. The profit of Rs. 1-8 a ton, which was considered reasonable in 1947, has in consequence long since disappeared and many collieries are working at a loss. This naturally increases the difficulties experienced by coal companies in planning for the future and it is unfortunate that, in spite of repeated representations throughout 1955, the Government has not seen fit to take even the minimum necessary action of restoring the 1947 prices.

The industry has a very strong case because prices were fixed in 1947 after full investigation and that there has been no change for the better in the financial condition of companies since that time. Restoration is only a first step and it has been asked that thereafter an independent enquiry should be constituted to investigate the whole question of costs and prices and to take into account the extra cost of any concessions which may be granted to labour by the All-India Industrial Tribunal (Colliery Disputes). In spite of these requests the only price changes notified in 1955 were an increase designed to cover the cost of an increase in the rate of the employers' contribution to the Coal Mines Provident Fund Scheme, and a very recent increase of three annas a ton in the price of coking coals produced in the West Bengal and Bihar Coalfields. Before concluding this question of prices it might be mentioned that in the field of coal exports where some coal companies are able to make good to a degree the lack of a reasonable return on their colliery workings, the Government has taken no steps designed to check the falling off of this trade which has come about though international factors beyond the control of the industry, in spite of the deliberations of a Committee to advise on the measures necessary for stepping up coal exports.

Distribution Controls

Likewise, in spite of requests, the Government has done nothing to relax its rigid distribution controls. In the opinion of many, in so far as this operates as a quality control, it serves only to harass industry in general and the coal trade in particular. There is no shortage of the better grades of coal for steam-raising purposes and the industry can quite easily supply the quantities and quality required by the consumer. The only obstacle in the way of a return to normal conditions where a consumer can buy what he wants, where and when he wants it, is the lack of transport. The Railways have always exercised control over wagon placements, and in these circumstances a parallel control which is not always in step with the Railways would seem to be redundant.

The degree to which the coal industry is controlled is perhaps not generally appreciated. Apart from labour legislation, control extends through all operations from the time that a new mine is planned to the time the actual coal reaches the consumer, and it is impossible to lease mining rights, sink a mine, extend a mine, purchase capital equipment, cut coal, despatch coal, sell coal either in India or overseas and even close down a mine, without encountering some degree of Government control or legislation. The disturbing thing about this control is that in the main it is vested in the Coal Commissioner who, in addition to being Chairman of the Coal Board, is also the executive head of the State collieries, which are already and which will be to a greater degree in the future, the competitors of the private sector in various spheres such as in the allocation of wagon supplies.

To nationalisation, transport and controls can be added the inadequate Government assistance for stowing which is a very expensive operation, the frustration brought about by the present inflexible conservation policy, and the Companies Bill and Finance Act, 1955; however hard one may try, it is difficult to be optimistic that there is a bright future for the coal industry in the coming years. The extra coal must be raised and, if this is to be done, the present drift must be firmly checked by placing the industry beyond the sway of dogmas, by welcoming its participation in the giant undertakings of the future and by creating conditions in which its participation can be most effectively utilised. If the private sector has a full rôle to play, it must be given something more than the unsatisfactory compromise which is at present intended.

SLOW PROGRESS OF INDIAN SHIPPING

• By DR. SUDHIR SEN •

OVER the last few years Indian shipping has made steady progress, though at a very slow rate. There is no doubt that coastal reservation and the policy of liberalised Government loans gave it a new impetus. But today the effects of these two factors have virtually worn themselves out. In addition, the industry has come to be saddled with controls which, though no doubt intended to promote its orderly growth, have now begun to act as a drag on its progress. At a time when the second five year plan is taking final shape, it is only natural that attention should be focussed on the tonnage target for the next plan period. Yet, no matter what target may be finally adopted, the rate of actual progress in coming years will hinge largely on the ability to evolve an adequate shipping policy that steers clear of irrelevant political considerations, injects into the industry a keener business sense, frees it from needless shackles, and at the same time offers a set of new and well-conceived incentives.

Just before the war India's merchant fleet consisted of 53 ships with 126,709 gross tons, but by the end of 1945 it shrank to 42 ships with 98,286 gross tons. Thereafter the fleet underwent fairly rapid expansion until, by December 1950, it showed almost a fourfold increase. On the eve of launching the first five year plan, the fleet had 97 ships with a total of 386,229 gross tons. The target of 600,000 gross tons fixed in the plan meant that, in five years, about 215,000 gross tons were to be added to the fleet—105,000 gross tons for the coastal and 110,000 gross tons for the overseas service—after providing for approximately 60,000 gross tons to replace old and obsolete tonnage. A sum of Rs. 20.94 crores was earmarked in the plan to be used mostly as loans to shipowners. But, initially, the shipowners showed little eagerness to secure Government loans to expand their fleets. For a time progress came practically to a halt. It was only after December 1953 that a change was noticeable in their attitude, thanks to a categorical declaration made by the Transport Minister that "we are all keen that we must achieve our target fixed for the first plan period", and the liberalisation of the terms and conditions of loans as well as a more favourable psychological atmosphere created by the Korean boom.

Slow Progress

Nevertheless, the actual progress is still lagging considerably behind the target—in October last, the owned tonnage consisted of 118 ships with a total of 480,775 gross tons. It is now almost certain that we shall not exceed the 500,000 gross tons mark before the expiry of the first plan period. The shortfall from the first plan will therefore amount to something like 100,000 gross tons.

The target tentatively fixed for the second plan aims at the acquisition of 445,000 gross tons plus the shortfall under the first plan plus 90,000 gross tons by way of replacing old tonnage, or 635,000 gross tons in all, so that, by March 1961, India may reach a total of 1,045,000 gross tons. This target has at times been criticised as much too low. Such a view would no doubt be fully justified when judged in the context of the recommendations made, in January 1947, by the Reconstruction Policy Sub-Committee on Shipping, whose report at one time was hailed by the official world as well as by the public as the blue-print for the future of Indian shipping. According to this Sub-Committee, India was to build a fleet of two million gross tons within five to seven years! Assuming that the second plan target will be fully realised, even then we shall, in 15 years, have moved barely half-way towards this goal.

On the other hand, we have to face the disheartening fact that, in spite of all efforts, we shall have added, in the five years ending March next, only about 115,000 gross tons to our merchant fleet plus another 60,000 gross tons, or thereabouts, for replacements. What, then, are the chances of our being able to expand the tonnage by 545,000 gross tons after providing 90,000 gross tons for replacing old and obsolete tonnage?

First of all, there is the problem of acquiring fresh tonnage, for which conditions now are none too favourable. Prices of ships have reached new record levels; the shipbuilding industry is passing through a period of continued boom; most yards are fully booked with orders for the next two or three years; deliveries are long extending, as a rule, to 24 months or more. Second-hand tonnage, too, is scarce and disproportionately high-priced. As a barometer we may consider the market value of a Liberty-type vessel. The price of a Liberty, which had slumped almost to £100,000 by the first quarter of 1950 and then soared during the Korean freight boom to £600,000 in January 1952, came down steeply and then fluctuated downwards until, in July 1954, it again sank to the low point of £150,000; but since then it has shot up to £350,000.

Deliveries From Vizag Yard

At home deliveries of ships from the Hindustan Shipyard have been lagging far behind the original schedules. According to the first plan, the Vizag Yard was to build 100,000 gross tons of shipping during the plan period; but its actual performance has been nowhere near this level—by March next it will have built only eight ships with 40,000 gross tons approximately. The disappointing deliveries from Vizag have no doubt been the most important single cause of the shortfall under the first plan. During the next plan period the Yard is expected to build 16 ships including the carry-over from the first plan and two navy ships. It is therefore unlikely that the Yard will be able to accept more than eight or nine fresh orders from the shipping companies.

Even if tonnage were readily available, there would still remain the question of gainfully employing it. From the shipowners' angle, this is of course a decisive consideration. They are prepared to invest large sums of money only when they feel sufficiently reassured about the prospects of economically working their expanded fleets.

Hitherto there has been an all too common tendency to assume that with the coastal trade reserved for Indian nationals and the policy of granting liberal loans, everything should be all right—the expansion of tonnage should be speedy and more or less automatic. We expected these measures to produce almost a magic result, and when this did not happen, some turned round to lay the blame on the shipowners, especially on their lack of enterprise. Yet, all this only underlines two facts—the exaggerated hopes that had so long been placed on coastal reservation and Government loans, and the inadequate appreciation of the practical problems that still beset the industry.

Let us first take the question of finance for shipping. It is true that the capital market, after the short-lived postwar boom, became so tight that progress would have been practically stalled unless the Government had stepped forward with the offer of long-term loans. Nor can we cavil at the terms and conditions for such loans: normally up to 75 percent of the cost of a coastal ship is available as loan; for an overseas ship the percentage is higher, usually 85, sometimes even more; interest is charged at 4½ percent on "coastal" and at 2½ percent on "overseas" loans; repayment starts at the end of the first or of the third year, according to the borrower's option; the loan has to be repaid mostly within 12 years, or two-thirds of the residual life of the ship, whichever is less; all loans must of course be fully secured by mortgaging ships.

Terms Not Unreasonable

These terms and conditions, it is true, are not out of line with those for long-term loans in general. Besides, it is understood that a proposal is under consideration to reduce the interest on "coastal" and "overseas" loans to 2¼ percent and 1¼ percent respectively. Yet what the industry needs is risk or venture capital, which, by its very nature, carries no interest, does not need to be repaid, and only earns dividends and that, too, when the industry is in a position to distribute them. Fixed interest loans are in an entirely different category; they can never be treated as an adequate substitute for equity capital. The incidence of interest charges alone can make a big difference to the costs of operation.

The differential rates of interest charged for "coastal" and "overseas" loans have been justified on the ground that overseas trade, unlike the sheltered coastal trade, involves more hazards and would therefore call for special financial assistance. We are also told that the higher interest on coastal loans is in line with the recommendations of the Shipping Policy Sub-Committee of 1946-47. In fact, the Sub-Committee did argue that, under the licensing system recommended by it, the limit of the tonnage to ply on the coast would be determined from time to time, and once economic working of the tonnage was ensured in this way, there would be no necessity for financial assistance. This reasoning is by no means convincing. For, economic working depends on a number of other factors that determine the costs of operation, even when over-tonnaging is avoided through a licensing system. As for the extra hazards of overseas shipping, they are peculiar to the tramp rather than to the liner trade. Recent experience has shown that it is easier to adjust overseas freight rates to higher costs of operation than is the case with coastal freights, over which the Government has come to exercise an effective *de facto* control. The Sub-Committee could not foresee this development. Nor could it anticipate that the sources of equity capital for shipping would dry up so completely. The main function of Government loans today is to fill this void and find finance for tonnage expansion. Since this applies equally to coastal as well as to overseas tonnage, there is no justification for charging a higher interest on coastal loans.

Development Rebate

The 25 percent development rebate introduced through the last Budget represents a substantial help to shipping as to all other industries. Its object is to assist industrial enterprises in meeting the high replacement costs of capital assets at the inflated post-war prices. So far as shipping is concerned, the rebate will not solve even this problem more than partially because, first, prices of ships, compared with pre-war days, have gone up much more than those of plant and equipment in general; and second, the incidence of replacement is particularly high in the shipping industry—a ship may be lost or become obsolete, and when this happens, it has to be replaced *in toto*.

In view of this and other reasons, the shipowners have for some time been calling for special tax relief. Their plea that profits when ploughed back into the industry, should be exempt from tax has considerable force. Such relief will solve the problem of finding equity capital to the extent to which it will be self-generated by the industry. Besides, the present excessive dependence on Government loans for finance suffers from other serious drawbacks. Since every loan has to be fully secured, it helps the big companies grow bigger; the younger ones have to be satisfied with a slow rate of progress; while newcomers are practically ruled out. Tax exemption of profits when ploughed back into the industry could have a double advantage. It could, unlike Government loans, give a positive incentive to more efficient operation, and could also help attract fresh blood into the industry.

The coastal trade was reserved for Indian nationals with effect from 15th August, 1950. What the reservation did was to eliminate the competition from non-Indian shipping companies in the coastal trade. But there still remained a potential source of powerful competition, namely, the railways. As recent experience has shown, rail competition, unless carefully regulated, can seriously affect coastal traffic. Besides, reservation by itself could not guarantee that coastal operations would prove economic. This naturally depends on a number of other factors, such as prices of ships, availability of cargo, wages and output of stevedoring labour, port facilities for berthing ships and handling cargo, turnround of ships at ports, and of course the level of freights. In most of these respects there has been a marked deterioration on the coast in the last few years.

Growth of Fleet

The following figures will show at a glance how the coastal trade and the coastal fleet have developed during the last five years:

Coastal Fleet and Coastal Trade

	Owned			Chartered			Cargo
	No. of vessels	g.r.t. (lakh tons)	d.w.t. (lakh tons)	No. of vessels	g.r.t. (lakh tons)	d.w.t. (lakh tons)	(lakh tons)
1950 Dec.	54	2.10	3.04	10	0.62	0.97	24.00
1951 Dec.	60	2.13	3.21	2	0.07	0.10	24.11
1952 Dec.	66	2.36	3.58	10	0.50	0.82	25.85
1953 Dec.	67	2.32	3.51	4	0.20	0.32	27.69
1954 Dec.	74	2.67	4.09	9	0.40	0.62	28.48
1955 Aug.	70	2.61	3.09	—	—	—	16.90

It will be noticed that the owned tonnage has grown by 25 percent while the cargo has increased only by 19 percent. On the face of it, therefore, the owned tonnage ought to be more than able to carry the entire coastal trade. This is, however, not the whole story. There has simultaneously been a very serious slow-down in the turnround of ships, mainly due to the steep fall in the output of stevedoring labour after the introduction of the decasualisation scheme in Calcutta, Bombay and Madras. For example, an 8,000 d.w.t. coastal collier now has only about 90 steaming days in a year as against 275 days spent at ports. The ratio of steaming to port days is 1:3 whereas for satisfactory working it ought to be pretty close to 1:2. Port delays have reduced the cargo-carrying capacity of the fleet. On a broad estimate, with the present turnround, about 20 percent more tonnage should be required to carry the same amount of cargo. Besides, the cargo figures only show the quantum of cargo that was actually carried, but do not include the excess offerings of cargo, especially coal and salt, that could not be carried for want of tonnage. There is little doubt that if all the available coastal cargo were carried, the total for the current year would have comfortably exceeded the three million ton mark. In view of the slower turnround of ships and increased offerings of cargo, there would in any case have been a shortage of tonnage on the coast. This shortage has been further aggravated by the elimination of charters. Last year there were chartered ships with 40,000 gross tons operating on the coast. Their number was progressively reduced until by June last practically all of them were withdrawn.

Meanwhile the cost of operation has shown a substantial rise. It is estimated that, compared with 1952, the costs of stevedoring have gone up by at least 20 percent, of ship repairs and maintenance by 25 percent, and of bunkers by 7½ percent, while floating staff wages have increased by about 8 percent. But most serious of all has been the impact of port delays which doubly affect operational costs, because of what the ships fail to earn when they are held up at ports and the extra expenses they have to incur by way of port and other dues. An 8,000 d.w.t. vessel may lose as much as Rs. 4,000 to Rs. 5,000 for each extra day it is delayed at a port.

Higher Coastal Freights

No wonder that the shipowners should have pressed for a 10 percent rise in coastal freights to cover the increased costs of operation. The Government, however, has agreed to a 5 percent increase pending an examination of the freight question by the Rail-Sea Co-ordination Committee.

For the future of coastal shipping, proper co-ordination between rail and sea is a matter of overriding importance. Yet until recently it attracted very little attention. In fact, for a long time the problem itself was more or less in a dormant state. During the war the railways were unable to cope with the large volume of traffic; transport had to be more or less rationed; replacements and renovations were out of the question. After the war the railways were faced with an acute shortage of wagons and locomotives, while the large-scale movements of foodgrains imposed on them a further strain. As long as the volume of traffic exceeded the capacity of our transport system, there was no danger of competition between rail and sea, and whatever relief the small coastal fleet could give was most welcome to all. But as the railways acquired more and more locomotives and wagons, they began to cut into coastal traffic until, by 1954, a serious situation arose on the coast. The competition was particularly noticeable in the transport of coal, which has long been the backbone of coastal shipping and which still accounts for 40 to 45 percent of the total cargo. In 1949, there were as many as 35 to 40 shipments of coal a month from Calcutta to various ports. But by 1954 the number had come down to 10 to 11 shipments a month, although meanwhile the coastal fleet had grown appreciably in size. For a time there was considerable nervousness in shipping circles, and some even began to talk of over-tonnaging on the coast.

It was at this point that the shipowners began to press for better rail-sea co-ordination, including a long-term guarantee that a minimum of two million tons of coal would be shipped every year in coastal vessels. This ultimately led to the appointment, in June last, of the Rail-Sea Co-ordination Committee, which is now investigating this question.

The competition between rail and sea proved short-lived, as it was bound to do. For, meanwhile, production in the country, both agricultural and industrial, was showing a definite upward trend, partly because of the bountiful monsoons and partly because of the snowballing effects of the large investments already made under the first plan. As a result, the railways are once again finding it increasingly difficult to cope with the growing traffic. Already they have begun to pass on quietly more and more cargo—coal, salt and general—to the coast. It is significant that the demand for coal vessels is again on the increase—the minimum requirement for the immediate future now stands at 16 shipments a month.

Transport Bottleneck

This upward trend in traffic is bound to be accelerated as the second five year plan, with its overwhelming emphasis on basic industries, gets into its stride. The total rail traffic, which at the time of launching the first plan stood at 90 million tons, has already gone up to 100 millions. By March 1961, it is expected to rise to 180 million tons. Even this is considered by some railway experts to be a conservative estimate. How to cope with this enormous increase in traffic is going to be one of the biggest problems in the second plan period. The bottleneck in transport undoubtedly constitutes a major threat to the success of the plan itself.

Against such a background the problem of rail-sea co-ordination has assumed an entirely different complexion. The most important task today is to assess the coming load realistically and to divide it rationally between the two modes of transport. In the present context such a division would inevitably imply that as much of the load as possible should be thrown on the coast. In doing so, care should of course be taken to ensure that both rail and coastal shipping are provided with as much return traffic as possible so as to minimise the movement of empty wagons as well as the ballast voyages of ships.

There has been a good deal of controversy about the relative cost of rail and water transport. On the face of it, coastal transport is often more expensive than transport by rail. This has led some to argue that, whatever may have been the experience of other countries, in the case of India water transport will not prove cheaper than rail transport. It has also engendered a predilection in some quarters to go slow with the expansion of coastal shipping and to rely, as far as possible, on the railways. Such a thesis, however, rests on some serious misconceptions, and it would be fatal if these were to form the basis of our future transport policy.

There are two physical factors which impinge on the cost of coastal transport—the long circuitous route round the peninsula which greatly adds to the distance between the East and the West Coast, and the draft restrictions on the Hooghly which normally cannot accommodate more than an 8,000 d.w.t. vessel. In addition, a certain imbalance is inherent in our transport system, for twice as much cargo originates in the eastern region served by the Calcutta port as compared with the western ports. This means that about one-half of the west-east coast voyages have to be performed on ballast, although the lop-sided geographical distribution of traffic also affects the economics of rail transport. There are other adverse factors which at present tend to tilt the scale against coastal transport. Indian shipping, being an infant industry, has to acquire practically all its tonnage in times of exorbitant prices so that the high incidence of depreciation swells its costs. The overwhelming dependence of the industry on loan finance means a correspondingly heavy burden by way of interest charges. Smaller items, like sales tax and customs duties on ships' stores, also add to costs.

Comparison with Rail Transport

In spite of all these unfavourable factors, the cost of coastal transport compares favourably even now with that of rail transport. From the consumer's angle the picture is, however, distorted by the fact that rail freights, far more than coastal freights, are based on the principle of charging what the traffic can bear. It is well-known that, for carrying a vital commodity like coal, the rates charged by the railways do not cover even their direct costs of operation. While there may be full justification for following such a rate policy, it will be wrong to draw from it the conclusion that coastal transport is inherently more expensive.

This is not all. The cost of coastal transport can be brought down if the problem of dock labour is adequately tackled and the turnround of ships restored to its normal level, and if dock facilities are improved, especially by installing modern mechanical appliances for handling bulk cargo. There is also scope for reducing the ballast runs of ships by providing more return cargo at the west coast ports.

The question of up-to-date mechanical appliances deserves special emphasis in this context as it is second in importance only to the problem of raising the output of stevedore labour to the pre-decasualisation level. It is unfortunate that proposals for introducing such appliances are now frowned upon on the ground that they would displace labour. Yet the case for mechanisation is as simple as it is unanswerable. Essentially, it rests on the same reason for which we are switching over from country boats to modern steamships or from bullock-carts to modern railways. A ship is a highly capital-intensive asset; to hold it up at ports is as wasteful as keeping out of production a factory equipped with plant and machinery worth about a crore of rupees. This is exactly what is happening today owing to the appallingly low output of dock labour. By turning our back on mechanical appliances, we shall only help perpetuate a situation where the tail would continue to wag the dog. Besides, the keen competition in shipping makes it essential that our port handling facilities should be reasonably up-to-date, if only to avoid a serious weakening of our competitive position. Nor is there any doubt that, with mechanised loading and unloading, the port traffic will greatly expand; that it will, before long, absorb more workers; and that it will do so at a higher level of wages than they now earn. And, lastly, the port traffic, which is now on the increase, is expected to grow at a faster rate over the coming years. Without mechanical appliances we shall have little chance of breaking this growing bottleneck at our ports.

The cost of rail transport, on the other hand, is bound to show a steep rise as the railways are compelled more and more to acquire or build capital assets e.g. rails, locomotives, wagons, new lines and buildings, at the present high costs. Besides, their fuel costs, too, are likely to go up as the cost of coal under the expanded programme of production increases, and as they switch over, in accordance with the coal conservation policy, from high to low grade coal.

When all these factors are fully taken into account, our transport economy will have a great deal to gain if far greater emphasis is laid on the development of coastal shipping than has hitherto been done. The railways have asked for an allotment of Rs. 1,480 crores under the second plan, and this is supposed to be their minimum requirement if they are to cope with the vastly increased traffic. The allocation to coastal shipping still stands at Rs. 14 crores, or at one-hundredth of the amount now under consideration for the railways. It is obvious that the allocation to coastal shipping is disproportionately low.

Elimination of Coastal Charters

The unrealism that has crept into our shipping policy is illustrated even more forcefully by the decision taken for a wholesale elimination of coastal charters. "The employment of chartered tonnage on the coast," it was held by some, "is the negation of coastal reservation." The slogan sounded plausible as well as patriotic; and so the plunge was taken in November 1954 when a ban was imposed on coastal charters with effect from 1st April, subject to existing charters being allowed to continue till their expiry. Accordingly, chartered ships were returned one by one to their owners so that, since June last, there have been practically none plying on the coast. A major objective of Indian shipping was supposed to have been achieved at last.

But it soon became clear that the embargo on charters was a hasty step; that the emotional satisfaction of being 100 percent self-sufficient on the coast had been purchased at too high a price; that we had imposed new shackles that were going to impede, and not aid, the future progress of our shipping. An attempt was made to justify the step on the ground that once charters were out, shipowners would be compelled to expand their fleets, so that the tonnage on the Indian Registry would expand more rapidly. But this did not happen. The only tangible effect of the ban was to aggravate the shortage of tonnage on the coast at a time when the traffic was fast growing, with the result that it became increasingly difficult to carry cargoes like salt and coal that were being offered. It could not be otherwise. To place a ban on charters is to approach the problem from the wrong end, for it is as good as tackling a symptom rather than the root cause. Shipowners may very well decide to use charters when they are unable to acquire ships or when they feel insecure about the soundness of additional investments. What we really need to speed up the growth of the coastal fleet is a positive policy calculated to create greater confidence in the long-term prospects of economically employing the expanded tonnage. It is not difficult to pinpoint the essentials of such a policy:

1. A long-term target should be fixed for the coastal trade and efforts directed to attain it as fast as possible. Given the various targets already accepted for the second plan, it would by no means be unreasonable to aim at a coastal trade of 7.5 million tons.
2. As a first step in that direction, the target for the coastal movement of coal may be fixed at 2.0 million tons. The Rail-Sea Co-ordination Committee may be directed to base their recommendations, among other things, on such a target.
3. The Committee should also be asked to explore fully the possibility of augmenting the return cargo from the west to the east coast, such as salt, cement, raw cotton, cotton textiles and other general cargoes.
4. Adequate steps will need to be taken simultaneously to increase berthing as well as loading and unloading facilities at the ports for handling the increased trade in coal and other cargoes.
5. The recommendations of the Dock Labour Enquiry Committee, which were submitted to the Government in September last, ought to be promptly implemented, and more especially the recommendation that a piece-rate system should be adopted for stevedoring labour to give incentive to better performance.

Sufficient Incentive

An unequivocal policy declaration from the Government on these lines will go a long way to build coastal shipping. Given such a policy, shipowners will have sufficient incentive to expand their fleets; and as they do so, charters will tend to disappear automatically from the coast even in the absence of an embargo on them. In the short period, however, they may still have good reasons to rely on some charters. For example, acquisition of fresh tonnage may be difficult and is likely to take time. Besides, when the prices of ships are so high, they may, as a matter of business prudence, decide to spread out the purchase of new or second-hand vessels over a longer period. Nevertheless, once they feel confident about the prospects of economic working on the coast, they will no doubt try and build their own fleets as fast as circumstances permit, rather than take a gambling chance to charter ships from a highly fluctuating charter market. Besides, we are already faced with a race between coastal tonnage and coastal cargo with the cargo increasingly tending to outrun the tonnage. At such a time we should not needlessly handicap ourselves by continuing the ban on charters. From whichever angle we look at it, the wisest course would be to lift the ban unconditionally and to substitute in its place the positive policy outlined above. It is gratifying that responsible opinion, faced with the inexorable logic of circumstances, is now veering round to this conclusion.

The question of coastal charters has come to acquire crucial significance also because of its other far-reaching policy implications. For example, a younger shipping company may very well decide to build up a fleet of deep-sea vessels with a view to entering, at a future date, into an overseas Conference line. In the interest of the industry such a policy deserves full encouragement, and the best way of encouraging it is to allow the company to make use of the coastal trade as an initial support. Only then will the coast become a true "nursery of Indian shipping", which it is declared to be.

Ocean-going Vessels

The process of building a fleet of ocean-going units is bound to be slow, especially since tonnage can be acquired only with the help of fully-secured Government loans. In the initial stages such vessels must serve the coast since entry into Conference lines will be possible, or worthwhile, only after a sizable fleet has been built up. But to be economical a deep-sea vessel should be larger in size, around 10,000 deadweight tons, and should also have a higher speed, from 10 knots upwards, than is needed for the coastal trade. Owing to the draft restrictions in the Hooghly, the optimum size of a bulk-cargo carrier on the coast is around 8,000 deadweight tons; given the short port-to-port haul, a relatively low-speed vessel of 8 to 10 knots may prove quite economical: besides, a coal-burner or an old oil-burner can well serve the coast, the more so as the bulk cargo consists largely of dirty or corrosive cargo like coal and salt.

It follows that the deep-sea vessels, though operating with coastal licences, should be freely allowed to be employed as overseas tramps whenever the shipowner chooses to do so. From a business angle it makes no sense to tie them down permanently to the coast since this would involve a 20 to 25 percent loss of their carrying capacity.

On the other hand, coastal reservation involves a definite obligation that, at any given moment, enough tonnage should be available on the coast to carry the entire trade. It follows that the transfer of ocean-going units to the overseas service has to be subject to the substitution of other vessels, and these can only be charters. If no such substitution is allowed, the choice would be either to put up with the wasted capacity of the larger vessels that may be serving the coast or to face a shortage of tonnage that would dislocate the coastal trade. Such an unhappy choice can be avoided only if charters are brought into the picture and their employment allowed on the coast as substitutes for owned vessels.

Bulk Import and Export Cargo

Besides, India has to depend very largely on overseas charters for the carriage of bulk import and export cargo. The freights for such overseas charters are as a rule higher than those of coastal charters. This clearly points to the need for reducing, as far as possible, our dependence on overseas charters even if this means a corresponding increase in our dependence on coastal charters.

The policy of carrying 100 percent of the coastal trade in owned tonnage has another definite disadvantage at the present stage of the development of our shipping industry. For reasons already indicated, the coastal cargo is destined to undergo a rapid increase. It will be a hard task to increase the coastal tonnage at the same rate. If we insist on 100 percent self-sufficiency in the coastal trade, it will correspondingly reduce our capacity to expand in the overseas trade. In other words, although the need for a rapid increase of our participation in the overseas sector has been frequently emphasised, it will be automatically assigned a residual role.

The Shipping Policy Sub-Committee's recommendation has often been mentioned to justify the embargo on coastal charters. The Committee, it is true, did urge that the coastal trade should be carried exclusively in tonnage not only managed and controlled but also owned by India. It is, however, curious that we should continue to consider this particular recommendation in isolation from the rest, treat it as sacrosanct, and insist on giving it immediate effect, but at the same time quietly ignore other vital recommendations. The Sub-Committee set the tonnage target at two million tons, while the coastal trade was assessed at 24 lakh tons. To take care of this cargo in owned tonnage, we would have required 200,000 gross tons, maybe a little more or say, 10 to 12 percent of the 2-million gross ton target. How different is the position today! The total Indian fleet, coastal and overseas combined, consists of 480,000 gross tons. The requirement of the coastal trade alone may be estimated at 300,000 gross tons, or 62.5 percent of the present fleet. Is it a wise policy to tie down such a high percentage of our total tonnage to the coast? The simple fact that we have been ignoring is that what we could afford if we had two million gross tons of shipping, we cannot afford when we have less than one-quarter of that size.

Larger Tonnage First

The advocates of coastal self-sufficiency are apt to refer to other maritime countries which, it is held, allow no foreign-flag vessels to ply on the coast. The analogy is, however, fallacious. Almost all of them have a relatively much larger tonnage at their disposal. In fact, the leading maritime countries possess enough tonnage not only to take care of 100 percent of their coastal trade plus 100 percent of their overseas trade, but also to carry a substantial part of the trades of other countries. All this underlines the elementary truth that we must first build a much larger tonnage before we can afford to do away with coastal charters. By insisting on complete self-sufficiency on the coast when the tonnage is growing at a very slow rate, we are unwittingly putting the cart before the horse.

In the field of overseas shipping our most important requirement today is the development of the tramp trade. Strangely enough, even in our shipping world there is still a profound misconception about the role of tramps. This, I believe, is due primarily to two facts. First, the history of Indian shipping, especially in the decades preceding independence, consisted largely of attempts to secure entry into Conference lines; and this in turn has created a widespread predilection to assume that, even today, securing membership of the various Conference lines with the backing of the Government should be the be-all and end-all of our shipping policy. And second, international tramp trade, characterised as it is by wide fluctuations and keen, often cut-throat, competition, is a peculiarly hazardous business. Our infant shipping industry with its predisposition to rely heavily on State support, is unwilling to face the rough-and-tumble of tramp business and continues to look for the smooth security that can be found only in safe Conference berths. No wonder that all our shipping companies, with the sole exception of one, should turn their back on the tramp trade and treat shipping as if it were synonymous with liner business.

The total cargo in our overseas trade has been estimated at 16.7 million tons, inclusive of 3.5 million tons of oil cargo. Our participation in the tanker trade is nil, while our share in the dry cargo trade works out to 5 or 6 percent. According to some recent estimates prepared by Mr. M. A. Master, out of the 13.2 million tons of dry cargo no less than 5.68 million tons were carried by tramp steamers; in 1953-54 altogether 524 tramp ships entered the different ports of India, excluding Calcutta for which another couple of hundred tramps may be assumed; of these 524 ships, only five were Indian-flag vessels.

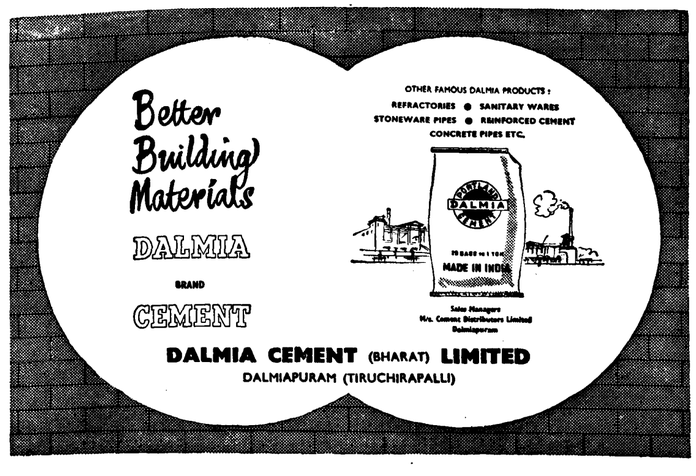
Developing Tramp Shipping

The need for developing the tramp wing of our shipping has been recognised, though still somewhat tardily. In fact, for the last year there has been talk of setting up a second Shipping Corporation with the primary object of promoting the tramp trade, but little headway has been made with the proposal so far. Apprehensions exist in some quarters that tramps will compete with liners and thereby impede the orderly growth of the industry. There is little justification for such fears. First, the nature of the two trades is radically different; the tramp functions as the bulk cargo carrier for which the liner is hardly suited. Second, India's overseas trade even now yields so much tramp cargo that this line of business can be developed without there being any competition with the liner trade for a long time to come. And third, in most other maritime countries both wings of the trade have long been flourishing side by side. There is no reason why Indian shipping should not be able to pursue a similar policy of coexistence.

Indian tramps, it has been suggested, should be restricted to carry "open" and "dispensation" cargo. There is no doubt that the tramp trade, almost as a matter of course, will be virtually confined to such cargo, whether or not such restrictions are specifically imposed. The question of dispensation is, however, a matter to be settled between a Conference line and its shippers, on whom the Conference, through the deferred rebate system, exercises a powerful hold. The tramp operator should not be under any obligation to obtain "dispensation" from a Conference line for cargoes offered to him. If, in other countries, the liner trade can get along without calling for such restrictions, there is no reason why it should be different in India.

At present there is a *de facto* ban on letting out an Indian-flag vessel on long-term charter to a non-Indian company. The reason adduced is that

(Continued on page 121, col. 1)



THE RISE IN FREIGHT RATES

PORT LABOUR PROBLEMS DEMAND NEW APPROACH

• FROM OUR FREIGHT MARKET CORRESPONDENT •

THE freight markets in 1955 have shown a steady increase in rates and the barometer appears to be set fair for 1956 and even beyond. To account for this is possibly not so difficult as many think. There are a number of contributory factors, not the least of which is the simple fact that in many countries the growth of tramp shipping has not kept pace with industrial development. In addition, there are longer hauls between loading and discharging ports in new trades which have developed owing to the realignment of countries on a political rather than a trading basis; the trade between China and East Germany exemplifies this. Then the tremendous coal movement from America to countries which formerly were amongst the foremost coal exporting nations, has created a demand that is difficult to fill. Liberty vessels which form the backbone of the tramp industry are now spending longer periods under repair and delays caused by the world-wide decline in port working all contribute to the shortage of tonnage. After the 1939-45 war, owners of tramp vessels hesitated to rebuild owing to high prices and uncertain deliveries, coupled with an unpredictable future. Many traditional tramp owners turned to specialist ships and oil tankers, and few dry cargo tramp vessels were built.

Shortage of Vital Craft

One of the trades most seriously affected was the ore-carrying business and at present no fewer than 60 tankers are undergoing conversion to ore carriers. Many new craft however, are now under construction for delivery over the next two years and the interesting point about these is that most of them are about 12,000 tons d.w. as open shelter deckers, and 14,000 tons d.w. as closed shelter deckers. There are 21 vessels of this type on order in Dutch yards for Greek owners, most of them under one control. These vessels pose their own peculiar problem to Port Authorities by virtue of their length, (about 515 ft. b.p.), and draft (about 27' 5"). The port of Calcutta in particular is not suited to such vessels and many of the ports in the U.K. are similarly placed. The logical result is likely to be a shortage of handysized vessels, a situation which will be reflected in higher freight rates to and from those ports which do not keep abreast of modern requirements.

Vasist Committee Report

The year under review has been one of the most unruly for a long time in the port of Calcutta, with a consequent deterioration in the standard of work. The port came to a complete standstill in March for five days, when the growing indiscipline mentioned last year reached a head. Work was recommenced after Government intervention and under police protection. The introduction of a third shift has certainly assisted in speeding up the turn-round of vessels but the total tonnage of three shifts is seldom more than that formerly accomplished in two shifts. In the report of the Vasist Committee now before the Government, this three shift system is recommended. One other point made by the Committee is the need for whole-time and effective superintendence from the Centre. Too often, in the past, it has been necessary to focus Central attention on port troubles. With this new machinery the Centre will be abreast of all developments and will be in a position to prevent trouble arising. Much emphasis has also been laid on the desirability of introducing piece-rate work or bonus incentives. This will require exhaustive examination and may well entail alterations to the scheme itself. It is significant that the U.K. scheme, on which this one is modelled, has failed to work satisfactorily and is now under examination by an enquiry committee. A higher degree of mechanisation is one of the answers to the problem which has received universal support.

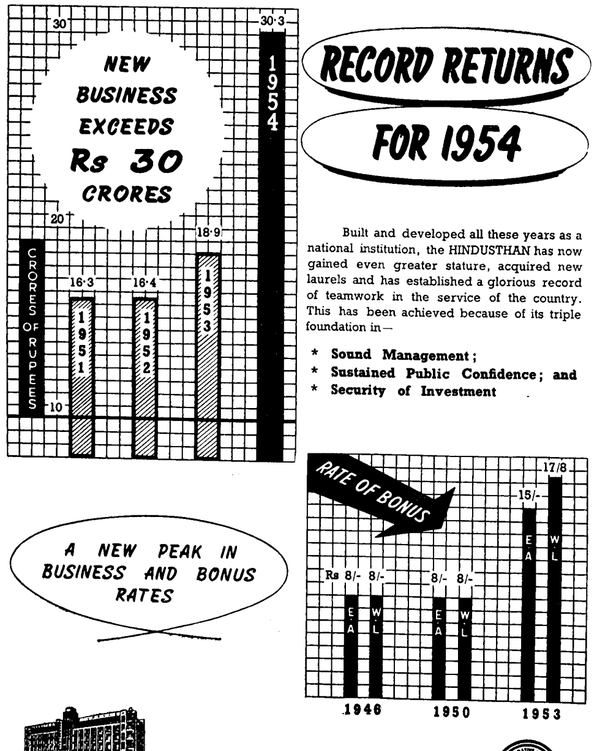
An encouraging feature of the year under review has been the growth of exports, particularly ores, through the smaller East Coast ports such as Masulipatam and Kakinada, and the availability of additional lighters at the former port promises to add considerably to its capacity. One retrogade step has been the recent decision to give preference to liners at the second ore berth at Vishakapatnam. This has caused serious delays to tramp vessels and increases the difficulties of the Indian exporter in the world's markets. The solution should surely be to arrange facilities for ore loading at a third berth.

Cost of Second Hand Tonnage

The rise in the freight markets has been reflected in the cost of second hand tonnage and some remarkable figures are being paid for Liberty type vessels. In June 1950 the price was about £1,05,000, in December 1951 about £6,00,000, in December, 1953 about £1,75,000 and today owners are asking £4,00,000. Most of these vessels are now 13 to 14 years old and it is difficult to see how they can be economical units in any fleet at today's price. They certainly bear no comparison to a newly built 12,500 d.w. oilburner with delivery before September, 1956, which has been fixed for five years' trading at $4.25 per d.w. ton. This is an imaginative fixture showing a good discount over the market rate for the first two years and taking the view that, probably by the end of that period, general costs will have risen to lessen any appreciable fall in the freight markets for which viewpoint there is every justification when reviewing the years since the last World War.

Trade	High	Low	Current
Coal			
Calcutta to Colombo	40	33/4	40
to Rangoon	33/4	26/8	33/4
to Singapore	40	35	46/8
to Alexandria	60	53	60
to Japan	57	57	66/8
Hampton Roads to Japan	84	56	84
to Continent	48	28/8	46
Ore			
Calcutta to Japan	64	50	65
East Coast India to Japan	61	50	63
Mormugao to Japan	67	52	63
Mormugao to Continent	66	51/8	66
India to Continent	70	60	70
Vizagapatam to U.S.A.	72	50	72
Grain			
East Australia to U.K.	110	63/8	110
North Pacific to U.K.	91/8	66/8	86/8
River Plate to U.K.	76/8	54/8	76/8
St. Lawrence to U.K.	60	38/4	60
Northern Range to U.K.	58/4	45	58/4
Gulf to U.K.	68	52	68

Trade	Time Charter	High	Low	Current
Indian Coast Trading	12 months Coal burner	17/4	17/4	17/4
	Oil burner	20	16/8	20
Continent/India Round	Trip Oil burner	17/8	17/8	17/8
	Motorship	25	19/12	25
General Trading	22 months Oil burner	20/8	15/8	20/8
	Motorship	25	20	25



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BRIGHT YEAR FOR INDIA'S SUGAR INDUSTRY

• By HITINDRA MALIK •

THE 1954-1955 season was the brightest ever for the Indian sugar industry. A new record was set up with the production of 1,586,000 tons which broke the previous all time high of 1,483,000 tons achieved in 1951-1952 and exceeded last year's figure by 576,000 tons. This spectacular performance was made possible by a bumper cane crop. The area under sugarcane rose from 3,446,000 acres in 1953-1954 to 3,932,000 acres last season resulting in a cane output of 55,460,000 tons of which approximately 15,900,000 tons were made available to the sugar factories. This unusually satisfactory cane supply position led to a comparatively longer crushing season. Most of the country's 136 factories functioned for 125 to 130 days as against an average of 86 days in 1953-1954. With a record output, a carryover stock of 67,000 tons from the previous season and an import of 600,000 tons, the total quantity of sugar available for distribution amounted to 2,225,000 tons as against an estimated offtake of 1,710,000 tons. This will leave a carryover stock of approximately 500,000 tons. The present comfortable position is likely to continue. Preliminary estimates indicate that the 1955-1956 cane crop will be even more abundant and sugar production will increase still further in the current season which officially began on 1st November, 1955. This has enabled the Government of India to declare the country self-sufficient in sugar and to announce that sugar imports are to be discontinued with immediate effect.

Factors Governing Cane Acreage

But this stride forward is more apparent than real. It is not based on any technological advances within the industry or on any revolutionary improvements in the quality of the cane but purely on circumstances which may well prove to be temporary. The problem is essentially agricultural. The acreage under cane cultivation depends entirely on the fixed minimum price for cane and the relation it bears to the prevailing prices of alternative crops like wheat, rice and groundnuts. For example, the minimum price of sugarcane was fixed at Rs. 1 As. 12 a maund in 1951-1952 and that year saw 4,792,000 acres under cultivation. The cane price was reduced to Rs. 1 As. 5 a maund in 1952-1953 and the acreage immediately dropped to 4,376,000 acres. In 1953-1954 the price of cane was raised to Rs. 1 As. 7 a maund. Under normal circumstances the acreage under cane should have increased correspondingly but the alternative crops were much more remunerative and the small increase in the minimum cane price was offset by larger gains in the other crops. The area under cane actually dropped still further and only 3,446,000 acres were sown. Since then, the monthly wholesale prices of rice, wheat and groundnuts have dropped appreciably with the harvesting of record grain crops. Although the minimum price for cane during the 1954-1955 season remained unchanged at Rs. 1 As. 7 a maund, the area under cane increased considerably because it was once more a remunerative crop. This disparity between the minimum price of cane and agricultural prices in general continues and so long as it exists, increasingly large areas will be brought under cane cultivation and the production of sugar will be maintained at a high level. It is this fact alone which gives the sugar industry its present opportunity of approximating production to its rated capacity.

Need for Higher Yield and Better Quality

The second five year plan envisages an annual production target of 77 million tons of sugarcane to provide for a yearly output of 2,225,000 tons of sugar. It is, however, not clear how this target is to be achieved. A progressively increasing acreage could, of course, be brought under cane cultivation but this can be done only by reducing the production of foodgrains which would be disastrous at a time when the country's population is steadily rising. Fundamentally, the solution lies in increasing yields and ensuring a higher percentage of sucrose recovery which would make it unnecessary to extend the area under cane beyond reasonable limits. In these circumstances the problem of agricultural development assumes urgent proportions. It would seem that priority must be given to improved techniques of growing cane and every effort must be made to raise the quality of the cane produced. Although the acreage under sugarcane cultivation is only about two percent of the total area under foodgrains, no other country in the world has such an extensive area under cane as India. But yields are deplorably low. The all India average yield is estimated at 10 to 14 tons an acre as against 56 tons in Java. Experiments have shown that yields can be increased considerably by proper irrigation and the judicious use of fertilisers. Government experimental farms in Uttar Pradesh have succeeded in raising 20 tons an acre as against an average yield of 12 tons for the State. Results elsewhere have been even more striking. The Deccan, for instance, has succeeded in raising 60 tons and more an acre. But conditions in this area are relatively favourable.

Irrigation Schemes and Fertilisers

While temperatures cannot be regulated, adequate irrigation facilities will help a great deal in relieving the cultivator from his dependence on the monsoon. Bihar and Uttar Pradesh are particularly unfortunate. Alternately ravaged by floods and stricken with drought, the cane crop of these two States is constantly threatened and with it the sugar industry. Steps are now being taken to solve this problem. Nearly 24 irrigation schemes were launched at an estimated cost of Rs. 45 crores, 90 lakhs under the first five year plan. In various stages of completion, they already irrigate 9,600,000 acres of all agricultural land. It is expected that within a year the area under irrigation will have increased to 10,400,000 acres. Of the proposed 2,000 tube wells, 1,900 had been sunk by 31st August, 1955. This is a step in the right direction but the extended use of the right type of fertilisers is also necessary to increase yields and to improve the quality of the cane.

The average percentage of recovery in India is the lowest for any major sugar producing country in the world and works out to an average of 10 percent as compared with 14.3 percent in Australia, 12.25 percent in Cuba and 12.93 percent in Formosa. In India, 10 maunds of cane are required to produce one maund of sugar while in Australia 6.98 maunds of cane suffice. The Cuban ratio is 8.16 maunds of cane to a maund of sugar. Translated into the monetary equivalent it means that in India the cost of cane per maund of sugar works out at Rs. 14-6 as against Rs. 7-12 in Australia and Rs. 9-2 in Cuba. Nowhere in the world are sugar factories called upon to pay so high a price for cane in terms of its sucrose content as in India. The initial experiment of "pay after the harvest loans" of fertilisers tried in Bihar, Uttar Pradesh and the Punjab has been a success. The dosage prescribed was a top dressing of two maunds of ammonium sulphate an acre for irrigated crops and one maund an acre for rain fed crops. The experiment was applicable to 220,000 acres of standing crops. It is now planned to extend the use of fertilisers and a provision of Rs. 5 crores, is being made under the second five year plan for the intensive development of the area under cane cultivation.

Premature Harvesting

It is equally important to streamline the functional aspects of cane cultivation. The cultivator must be taught to take care of the crop before and after harvesting. There is considerable room for improvement in this direction even under existing circumstances without involving any fundamental changes in agricultural methods or incurring any additional expenses. For example, the cane must be delivered to the factory for crushing immediately after it is cut, otherwise it begins to dry and loses its sucrose content very rapidly. But life in Indian villages is still in the bullock cart stage and the cut cane is left lying around to be delivered when it is convenient. Meanwhile, the already deficient cane deteriorates still further and the recovery is correspondingly reduced. The crop is often harvested prematurely before it has had an opportunity to ripen and to acquire its full sucrose content. The reason for this is that cane is a cash crop and the cultivator is anxious to collect his money as soon as possible. Since the minimum price is fixed and the sugar factories are obliged to buy at that price, there is no incentive for the cultivator to take any pains for quality. Also there is the fear that if he allows his crop to remain standing for any length of time, it may be ruined by pest or disease.

It would perhaps be wise to consider whether the minimum price for cane should now be related to the percentage of recovery rather than to be based on mere bulk. While the present system affords a protection to the cultivator, the sugar factories are compelled to pay a high price for what may be an inferior product. No effort is made to phase the harvesting so as to suit the sugar factories; nor is there adequate planning for the cultivation of the early, medium and late ripening qualities. The result is that in the latter part of the season sufficient cane is not available to enable the factories to continue to operate. The crushing season is cut short which makes production uneconomic. This is the crux of the problem. Poor recovery, low yields and the lack of a regular flow of cane supplies over the entire season are the factors which brake the progress of the industry. These problems and the key to their solution are matters of extreme urgency if the production of sugar is to be increased to keep pace with the steadily rising demand. It is estimated that the offtake of sugar will increase to 2,225,000 tons by the end of the second five year plan period. On the basis of this estimate the Government of India has granted licences for the setting up of 35 new sugar factories with an aggregate rated capacity of 330,000 tons and for the substantial expansion of 38 existing units. This represents a major investment programme, particularly at the current price level of plant, but it is doubtful whether this increase in the installed capacity, especially the setting up of new factories, can be justified in its entirety when a great deal yet remains to be done to improve the agricultural aspects of the industry. This is the starting point and unless the existing units are functioning economically, further installations undertaken indiscriminately must lead to over capitalisation within the industry.

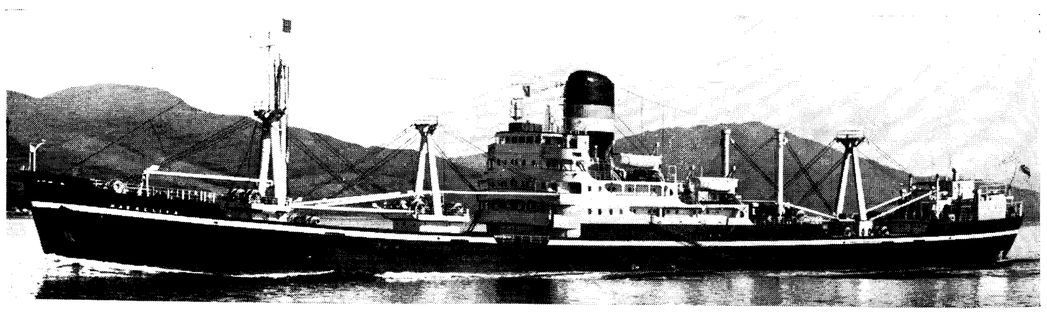
Gur Production

Closely allied to the sugar industry is the manufacture of gur which is peculiar to this country. India is the only gur consuming country in the world and nearly three times as much gur is consumed as sugar. Although it is a cottage industry, about 2,715,000 tons to 3,100,000 tons is produced each year. It is a valuable product inasmuch as it serves the needs of the poorer section of the community but there is a marginal stratum of society whose demand for gur as a substitute for sugar and *vice versa* is elastic. Its preference at any given time, based on the price factor, appreciably influences the fortunes of the sugar industry. Gur competes with sugar not only as an alternative product but also for supplies of cane.

The crushing seasons of 1951-1952 and 1952-1953 clearly illustrate the close relationship which exists between the two. In 1951-1952 there was a heavy slump in the price of gur and gur production, therefore, declined appreciably. All available supplies of cane were diverted to the sugar factories and 15,496,000 tons were crushed that year as against 11,016,000 tons in the previous year. Sugar production reached its then highest ever level of 1,483,100 tons. In the following year gur prices recovered and the gur cottage industry was once again in the market for cane. In 1952-1953 only 13,191,000 tons of cane were crushed and the production of sugar dropped to 1,316,000 tons. Because gur production fell in 1951-1952, there was comparative scarcity with a corresponding increase in price in 1952-1953. The demand for sugar therefore increased. This increased demand came at a time when sugar production was decreasing because gur was once again a lucrative commodity and drawing away cane supplies from the factories. This position led to the import of sugar from foreign sources. But gur may prove to be a point of expansion for the sugar industry. It might be worth while to investigate the feasibility of diverting surplus gur supplies to the sugar factories for refining during their off-season months. This would keep the factories employed far beyond their crushing season and enable them to increase their output of sugar. At the same time it would ensure a steady market for the gur cottage industry at a reasonable price. This altered relationship would also help to remove some of the uncertainties which now exist because of the competition for cane supplies and marginal markets.

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SLOW PROGRESS OF INDIAN SHIPPING

(Continued from page 117)

Indian tonnage is being built to carry Indian cargo, so it should not be hired out to other countries. Yet letting out ships on charter is treated as legitimate shipping business in all maritime countries; it is a well-recognised method of covering risks; it also widens the opportunities for finding gainful employment for ships. That is why some countries have vigorously pursued this policy in order to build their merchant fleets at a rapid rate. It is hard to see any reason why Indian shipowners should not be allowed the same freedom, subject to reasonable conditions that may be required to avoid dislocation in established trades.

Entering Conference Lines

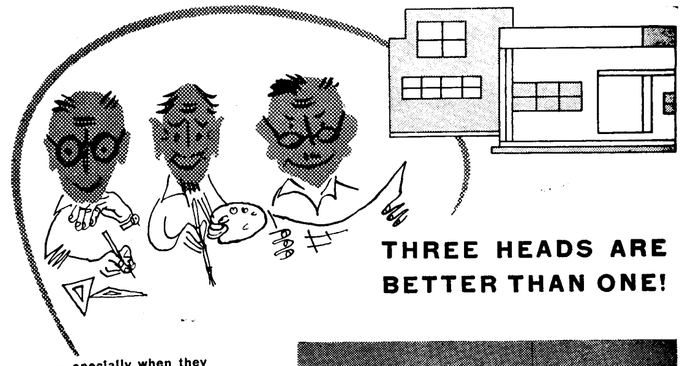
To expand in the overseas trade, it is no doubt essential to enter into various Conference lines. But to do so, the first logical step is to build the tonnage without which it will be impossible to secure Conference membership. Tonnage cannot, however, be built up in a vacuum; ships are costly assets and they must be assured of economic employment as soon as they are acquired. The great advantage of tramp shipping, including the right to let out ships on long-term charters, is that this is by far the most effective means of rapidly expanding the tonnage. If adequate attention were paid to the development of the tramp trade and the right to hire out ships were conceded, the process of adding ships to the Indian Registry would undoubtedly be accelerated.

Nor can it be denied that the present system of issuing categorised licences respectively for coastal and overseas trades needlessly narrows the elbow-room of the shipowners. The original purpose of licensing control was to ensure the allocation of necessary priorities in the movement by sea of coal, foodstuffs and other essential cargoes. Today it has outlived its necessity. A system of "global licences", subject to essential safeguards to prevent deliberate over-tonnaging or under-tonnaging on the coast, for which appropriate powers may best be invested in the Director-General of Shipping, can equally ensure the fulfilment of coastal obligations. At the same time it will give the enterprising shipowners much-needed freedom to venture out into the distant seas rather than cling to the coast.

Our shipping industry today presents a paradoxical sight. It is both under-aided and over-controlled. It needs greater assistance and also greater freedom of operation. The next decisive impulse to progress must come from clearer thinking and a reorientation of policy that will satisfy these two criteria. Only then will the high-sounding talk about future tonnage targets assume real meaning; and only then will shipping, as a private industry, be able to march ahead and ultimately deliver the goods.

How absurd it is, then, to suggest nationalisation as a cure for the ills that afflict our shipping today! This ready-made cure is based on a hasty diagnosis or, to be more accurate, on the failure to carry out any diagnosis at all; as such, it will heal nothing and, in the present circumstances, can only create fresh headaches. From what has been said above it should be abundantly clear that what our shipping suffers from today is, above all, the continued lack of a clear-cut, coherent and stable policy that will at the same time be realistic and dynamic; and until this basic weakness is remedied, any adverse verdict on the performance of the infant shipping industry will be both premature and unwarranted. Besides, we may safely predict that nationalised shipping would soon begin to develop those unhealthy symptoms which tend to characterise State-run business enterprise: divided responsibility; playing for safety, adherence to stereotyped rules, and propitiation of the audit; buck-passing, indecision, lengthening red-tape; lack of sound business judgment or inability to exercise it; inability to bear risks and cut down losses; excessive exposure to democratic politics. These dangers are by no means peculiar to India, but they are far more serious here than in other countries because, unlike the latter, we have hitherto shown a conspicuous lack of faith in the institution of autonomous public corporations that could largely steer clear of them. Even in the few instances where corporations have been established in India, they are so more in name than in reality for the simple reason that the fundamentals of a public corporation have not been respected, often not even grasped.

Meanwhile, shipping as an industry calls for a high degree of flexibility, adaptability, and ingenuity. These qualities are indispensable for success, if not survival, in a highly competitive field; and because of this the appropriate place of this industry lies in the private sector. The Industrial Policy Resolution of 1948, as we all know, earmarked shipping as a private-sector industry. It was a wise decision; and it will be no less wise today to adhere to it unwaveringly.



THREE HEADS ARE BETTER THAN ONE!

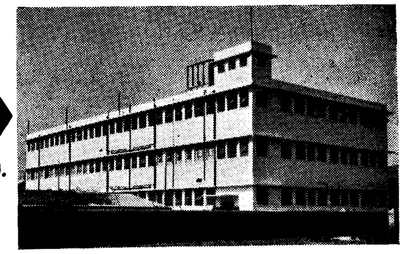
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ELECTRICITY AND PRIVATE ENTERPRISE

● FROM A SPECIAL CORRESPONDENT ●

DURING the past decade, much publicity has been given to the activities of the State in the field of electricity supply. As a result, many people have got the idea that almost the whole of the electricity industry is now in official hands. They read about and see pictures of new dams being constructed all over the country, particularly the impressive achievements of the Damodar Valley Corporation. But very little is known about the operations of the private sector. The aim of this article is to show that, in spite of discouraging setbacks and legal hindrances, this sector is still the largest supplier in this field, and that it is fully aware of its responsibilities.

Growth of Electricity Consumption

Fortunately for the industry, there exists in Simla an organisation known as the Central Water and Power Commission, one of whose activities is to provide electricity statistics. This service commenced early in the war years, but the first year which took into account the Indian Union only was 1947. It is instructive to compare the statistics published for that year with those appearing in the last issue dated August 1954, which covered the year 1953. In 1947, 4,073 million units were generated in the Indian Union as compared with 6,697 million units in 1953. This latter figure represents an increase of 64 percent, a not unsatisfactory rate of growth having regard to the difficulties of the period. Nevertheless, during these years, the number of undertakings operated by private enterprise was reduced by the acquisition of some licences by State authorities. For example, in 1947, of the total number of undertakings operating generating stations in the Union, 229 out of 340 or 67 percent were operated by private enterprise. In 1953, out of a total of 427 undertakings owning generating stations only 218 or 51 percent were owned and operated by private enterprise. Similarly, in the case of undertakings receiving bulk supply, of a total of 125 undertakings, 75 or 60 percent were operated by private enterprise in 1947, whereas in 1953 the total was 220, of which only 99 or 45 percent were operated by private enterprise. These figures show that although the acquisition by the State of private electricity supply undertakings is not proceeding apace, the private sector is hardly being encouraged to expand; in consequence, it would naturally be expected that the proportion of units generated by private enterprise during the period would show a very substantial fall. Let us now turn to the actual tables produced by the Central Water and Power Commission which show the corresponding figures for 1947 and 1953:

INSTALLED CAPACITY AND GENERATION BY OWNERSHIP 1947

Ownership	No. of undertakings owning Gen. Stns.	Installed Capacity of Generating Plant		Generation	
		As at 31-12-194	Percentage of grand total	kwh generated in 1947	Percentage of grand total
		kW.	%	Millions	%
(i) Stateowned					
(a) Government	97	487,112	35.73	1,475.944	36.23
(b) Municipalities	14	12,545	0.92	30.877	0.76
(ii) Companies	229	863,608	63.35	2,566.497	63.01
Total	340	1,363,265	100.00	4,073.318	100.00

INSTALLED CAPACITY AND GENERATION BY OWNERSHIP 1953

Ownership	No. of undertakings owning Gen. Stns.	Installed Capacity of Generating Plant		Generation	
		As at 31-12-1953	Percentage of grand total	kwh generated in 1953	Percentage of grand total
		kW.	%	Millions	%
(i) State-owned					
(a) Government	193	928,918	40.3	2,735,591	40.8
(b) Municipalities	15	25,856	1.1	40.089	0.6
(c) Power Corpn.	1	154,000	6.7	84.158	1.3]
ii) Companies	218	1,196,416	51.9	3,837.349	57.3
Total	427	2,305,190	100.9	6,697.187	100.0

The tables show that between 1947 and 1953 units generated have increased from 4,073 million to 6,697 million—an increase of 64 percent. What is surprising is that of the 1953 total, no less than 3,837 million or 57.3 percent were generated by private enterprise. In spite of the acquisition of many undertakings and the commissioning of many large hydro units by the Government, the percentage of total units generated by private enterprise has thus dropped only from 63 percent in 1947 to 57 percent in 1953—an almost negligible fall. Had private enterprise been allowed a free hand and had it been permitted to import all the new generating plant which it needed to meet its obligations, the proportion in all probability would have increased. Even so, these figures should act as a sobering influence on those who imagine that after Partition private enterprise has been sitting back and allowing the public sector to take the initiative.

Capital Expenditure

While private enterprise is providing 57.3 percent of the units generated, it has achieved this with a capital expenditure which at the end of 1952 amounted to Rs. 9,237 lakhs out of a total investment of Rs. 19,350 lakhs, or only 48 percent of the total. The actual investment in each State for the year is set out below. It will be noted that West Bengal is responsible for the largest investment, Rs. 3,963 lakhs, of which private enterprise has contributed no less than Rs. 3,926 lakhs, or 99 percent of the total:

CAPITAL EXPENDITURE 1952

Sl. No.	Name of the State	State-Owned		(Private) Companies	Total
		Government	Municipalities		
1	Assam	..	..	59	59
2	Bengal (W)	22	15	3,926	3,963
3	Bihar	46	..	311	357
4	Bombay	529	1,476	3,276	5,281
5	Centrally Admn. Areas				
	(a) Delhi	222	90	..	312
	(b) Rest	69	..	86	137
6	Hyderabad	266	..	..	266
7	Jammu & Kashmir	51	..	..	51
8	Madhya Bharat	61	2	40	103
9	Madhya Pradesh	423	..	243	666
10	Madras	2,023	53	408	2,484
11	Mysore	1,789	..	..	1,789
12	Orissa	28	..	50	78
13	P.E.P.S.U.	48	3	9	60
14	Punjab (I)	747	70	78	895
15	Rajasthan	191	..	48	239
16	Saurashtra	80	..	105	185
17	Travancore-Cochin	562	7	24	593
18	Uttar Pradesh	1,109	131	592	1,832
	Total	8,266	1,847	9,237	19,350

That private enterprise has been able to provide this very large sum is a tribute to its efficiency. In this connection, attention may be drawn to the growth of the city of Calcutta and to the fact that this growth can by no means be dissociated entirely from the phenomenally low cost of energy prevailing for industrial purposes there. The tariff available to industry in Calcutta is lower than that offered by any other all-steam generating undertaking anywhere in the free world today. Naturally, this cheap power has attracted new enterprise, which in turn has attracted more people, which in turn has necessitated the acquisition of large blocks of new plant to meet the ever-increasing demands of industry and the general public.

Capital Requirements

The capital requirements of the private sector of the electricity supply industry are naturally very large. State authorities sometimes say that this is a good reason for nationalising the industry. It is certainly true that new capital today is hard to find and the restrictive legislation which has been imposed on the private sector has not rendered the flow of new money any easier. Since the war, the cost of generating plant has increased in greater proportion than many other commodities and today it is three times or more the pre-war figure. That very large sums are involved may be gauged from the fact that a normal summer thunderstorm which darkens the city of Calcutta on summer afternoons actually results in an additional demand in excess of 30,000 kW. This requires generating plant to meet it costing about Rs. 2½ crores to install. This very high cost suggests why supply authorities all over the world are endeavouring to achieve the maximum possible utilisation of the plant at their disposal. In temperate climates, where electric heating is popular, tariffs are now operating to encourage the installation of storage plants which use electricity only during the night. In the tropics and in such cities as Calcutta, the supply authority is endeavouring to popularise the use of storage air-conditioning plants for major office blocks and similar buildings. But these tactics can only stem the tide a little; the increase in demand relentlessly pursues the supplier at the rate of about 8 percent per annum and it is planned to deal with this figure for which finance must be obtained. The Central Government, by launching such projects as the D.V.C., Hirakud, etc., is tending to reduce the general financial pressure in North-East India inasmuch as these projects will enable bulk supplies of electricity to be offered to some hard-pressed licensees and so reduce to some extent their financial requirements. But even if Governments were to provide all the electricity required by the country, this would have to be distributed to the consumer and a large part of the distribution is in the hands of private enterprise. The cost of distributing electricity is unfortunately linked rigidly with the cost of copper, which at present is grossly inflated. Extensions to distribution systems are therefore extremely expensive and it is sometimes difficult to make them economic without inflating tariffs to such an extent as to invite the application of the law of diminishing returns.

Restrictive Legislation

The authorities responsible for the development of power in the public sector are also responsible for the legislation which governs the private sector. Not unnaturally, they tend to regard the private sector as a Cinderella; though sensitive to shortcomings, they are not perhaps disposed to give sufficient credit for the very substantial progress achieved, particularly during the period of the five year plan. It is true that before the war a few small undertakings were guilty of misdemeanours which called for correction. The method adopted, however, was to apply correction to the entire industry on the assumption that all undertakings were guilty of the misdemeanours of the few. The legislation enacted was accordingly tailored to the lowest common denominator and, bearing in mind that the "guilty parties" were responsible for less than one-tenth of 1 percent of the total production, it is evident that the responsible elements in the industry have been unreasonably handicapped in their development. The aim of the new law—the Electricity (Supply) Act, 1948—was stated to be "to rationalise the production and supply of electricity in the country" through quasi-autonomous bodies to be called State Electricity Boards which were to be set up for that purpose. A secondary intention was the introduction of certain financial principles which were to be administered by State Governments and which were to control the finances of all licensees. After the Act was passed, however, State Governments managed to forget all about the primary object of the legislation and concentrated on the secondary. Years elapsed before the first State Electricity Board was constituted but only a few months elapsed before State Governments started to apply the financial principles. These financial principles, it may be explained, have the object of restricting the profit a licensee may earn. While this may appear to be laudable at first sight, it can be carried too far, and it certainly has been carried too far, with the result that today only the largest and most powerful undertakings are finding it possible to raise new capital for development.

Financial Principles

The financial principles which are laid down in the Sixth Schedule to the 1948 Act, provide that

(Continued on page 124)

SOME REFLECTIONS ON THE PLAN-FRAME

(Continued from Page 13)

(ii) Additional employment is to be provided for about 11 million persons.

(iii) The ratio to the total investment of that investment which will not contribute to output during the period of the plan will rise (heavy ind... s).

(iv) There w... be any tendency to a rise in pri... nsumption goods.

(v) The financia... oblem of additional savings will be solved by resort to excise duties and through a programme of capital allocation. Only a moderate extent of deficit financing is required, and the plan will not depend on foreign aid.

The picture is so rosy and so simple that it has misled many to believe in the achievements, particularly in regard to employment, that are foreshadowed in precise terms similar to astrological forecasts. The statistical precision given to these hopes, often repeated by politicians, has created an impression that they are easy to realise. But we venture to suggest that the reality of the economic mechanism in India is different from that which is in the mind of the so-called author of the plan-frame. It is necessary to understand how the economy works before methods are suggested to make it work better.

THE FUTURE PATTERN OF INDUSTRY

(Continued from Page 53)

verted, though they may not find my reasoning altogether acceptable. It is true that my thesis depends on the whole-hearted acceptance and implementation of a "back to the land" policy, the development of agricultural and satellite industries with all the energy and resources of the State. But although acceptance of such a policy on the scale contemplated is not yet apparent, I am convinced that it must come and that the prophetic eye can see the first signs in the planned scheme of State warehouses.

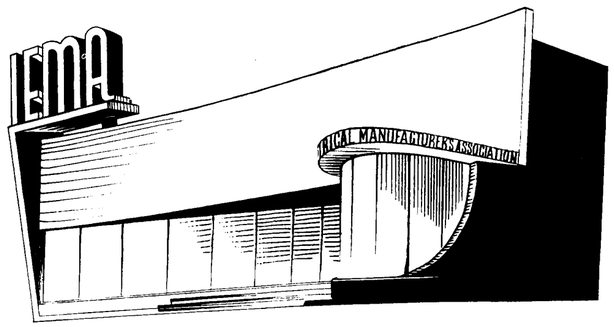
The word "pattern" is now having a vogue and seems to be replacing the ugly and overworked "set-up". There are now patterns of society and patterns of investment. Before the future pattern of industry can emerge clearly, there will no doubt be a kaleidoscopic confusion. The wise industrialist will not mistake each change or tendency for the final shape. Resistance to changes breeds resistance and frustration, and though it is sometimes justified, careful thought will often show that adaptation is the better course. To change the metaphor, the industrialist will usually find that it pays to *roll with the punch*. Much of what he is inclined to resist now may prove to be the right answer, even though apparently for the wrong reasons.

THE FUTURE OF SMALL LIFE INSURANCE OFFICES IN INDIA

(Continued from Page 97)

The United Kingdom had almost the same number of insurance companies, life as well as non-life, at the beginning of the century as at present. But 400 odd companies were in 1900 independent of one another. Now the position is entirely different. Through a process of absorption and purchase of shares a number of great insurance undertakings have emerged. Many of the former companies are still known by their names but are controlled by the senior partner in the group. The "Commercial Union" absorbed or purchased 21 companies and the "Royal" 13. The "London & Lancashire" took over 10 companies, including one which had absorbed others and part of the business of four others. There are others like the "North British", "Phoenix" and "Alliance" with a similar history. The process of association in the United Kingdom was not induced through financial weakness. It was engendered by the necessity of single-line offices to extend their insurance services to all branches and thus to meet all the insurance needs of their clients. A similar process in this country, though for a different reason and for a different purpose, is likely to do much good to the business as a whole and deserves encouragement.

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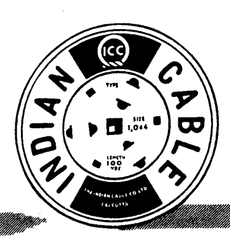


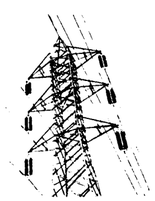
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DIVIDEND TRENDS IN INDIAN JOINT STOCK COMPANIES

(Continued from page 17)

reduce the profits of the industry in the future. A happy circumstance is that in the past 10 to 12 years the internal consumption of tea has almost doubled and is now 180 million lbs per annum. If the internal consumption of tea increases further, as may be expected, the condition of the tea industry would be stabilised.

Paper Industry

The paper industry has made satisfactory progress as is shown by the fact that the output of paper and paper board has increased from 132,000 tons in 1951 to 138,400 tons in 1953 and 155,300 tons in 1954 while the average rate of dividend has increased from 6.2 percent in 1951 and 1952 to 13.21 percent in 1953 and 12.32 percent in 1954. This result has been secured not only by working the existing paper mills more intensively but by setting up new mills. Now we have in India two paper mills with a rated capacity of 186,200 tons. The demand for paper and paper board is expected to rise considerably in the future and the prospects of the industry are bright provided the State Governments make suitable revision in their royalty and lease arrangements and the Indian railways are able to increase the supply of wagons for carrying the raw materials to factories and the finished commodities to the market.

ELECTRICITY AND PRIVATE ENTERPRISE

(Continued from page 122)

a licensee shall not earn more than 5 percent on his "net block" and this return, most business men agree, is not one which will readily attract the investor. The unfortunate licensee has thus been compelled to turn to the Central and State Financial Corporations, but here again help has been refused because these bodies have insisted on early redemption of loans and licensees have had to point out that the Act makes no provision for such redemption. Since the small licensee cannot raise money in the open market, and since both the State and Central Governments refuse to finance him, he has reluctantly but perhaps correctly come to the conclusion that he is to be virtually forced out of business. The statute under which he operates requires that he shall meet his obligations to his consumers, but obviously he cannot do this if he is unable to raise money to buy plant. If he fails to meet these obligations, the State Government is entitled to revoke his licence so that it boils down to the fact that many of these small licensees can be forced into bankruptcy and acquired by the authorities at figures much below those which would be arrived at under the existing statutory terms of purchase. This may sound very complicated but the issue is clear—there is a very definite injustice alive which can only be eradicated by allowing licensees to earn a fair return, and 5 percent today, it must be emphasised, is not a fair return.

The New Bill

A Bill has already been tabled to amend this Act and to increase the permissible return from 5 percent to 5½ percent, but this is not enough. If the Bill is enacted in its present form it may lead to a repetition of the old dictum—"too little and too late". But if the Central Government were to adopt a realistic attitude, the permissible return for small undertakings would be increased to 9 percent or 10 percent and even the largest enterprises would be entitled to a minimum of 6 percent. If the suggestion is implemented, the effect on electricity rates would be negligible, but the effect on development, particularly in the smaller towns, would be quick and impressive.

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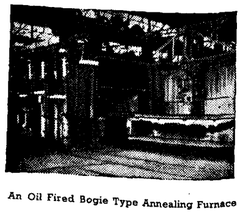
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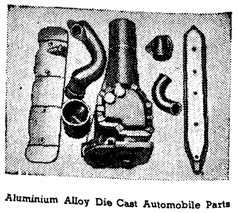
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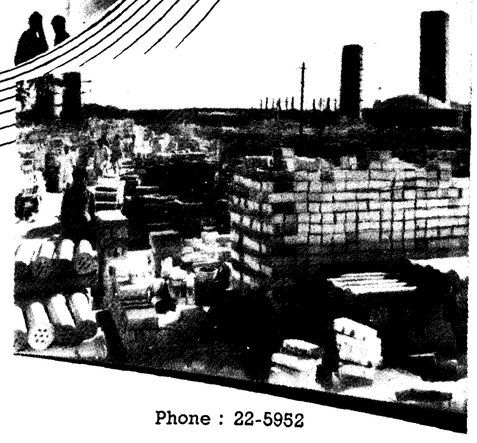
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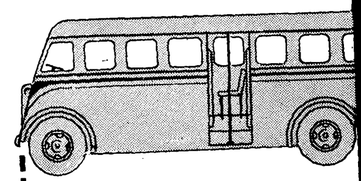
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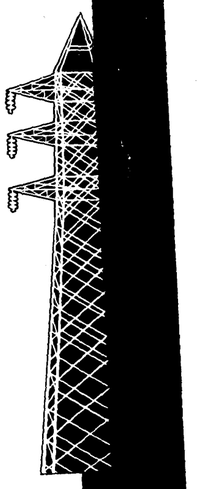
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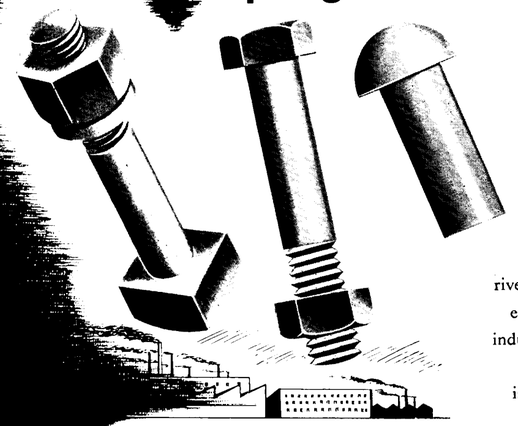
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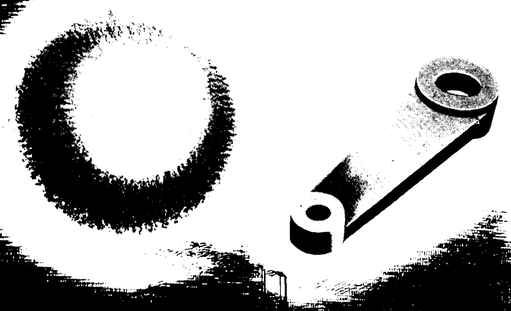
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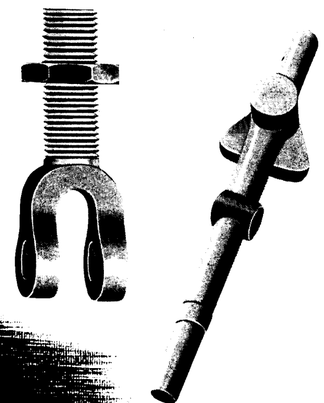


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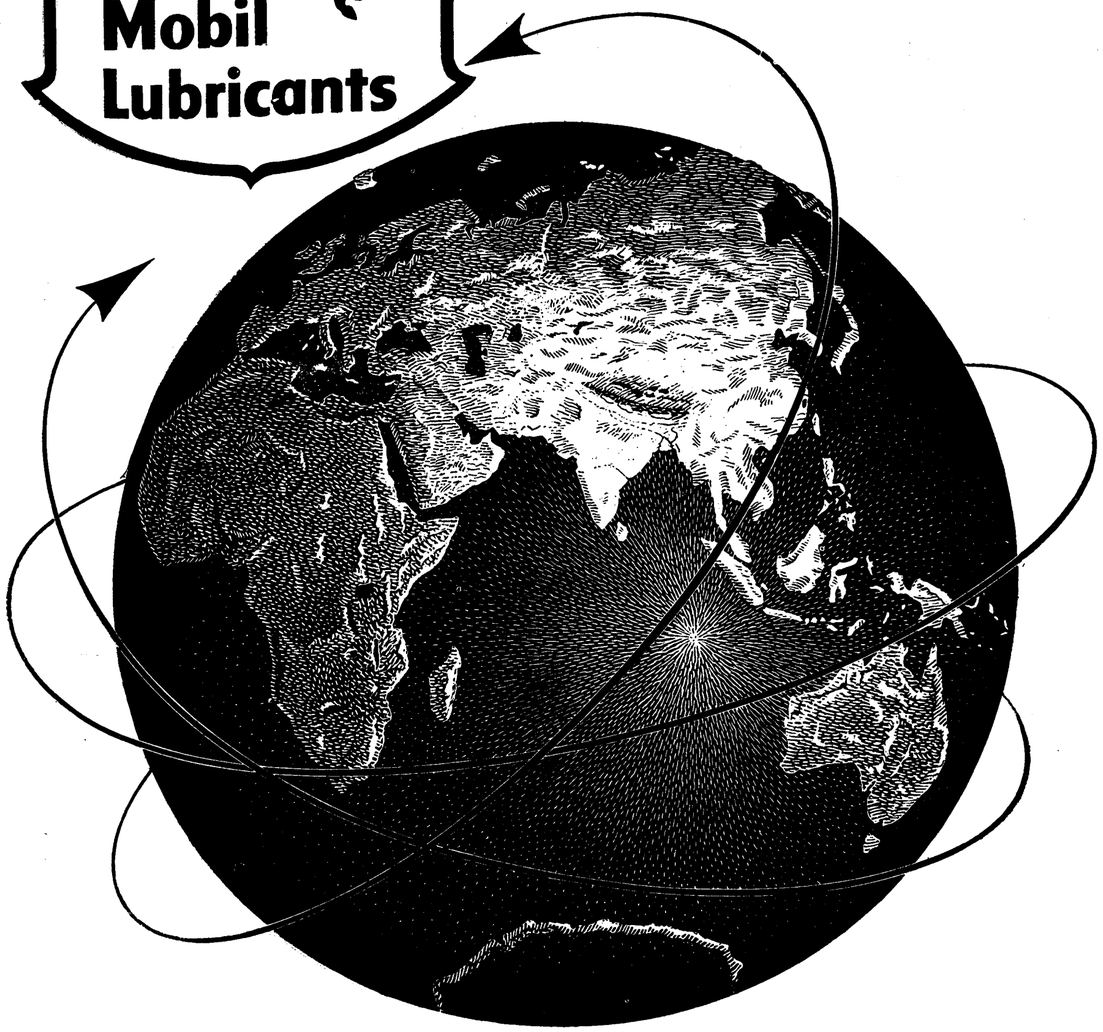
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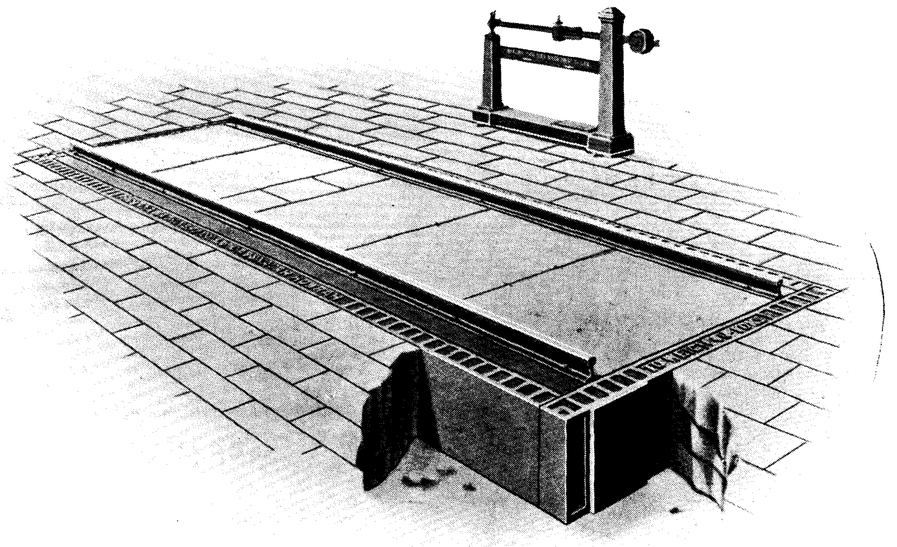
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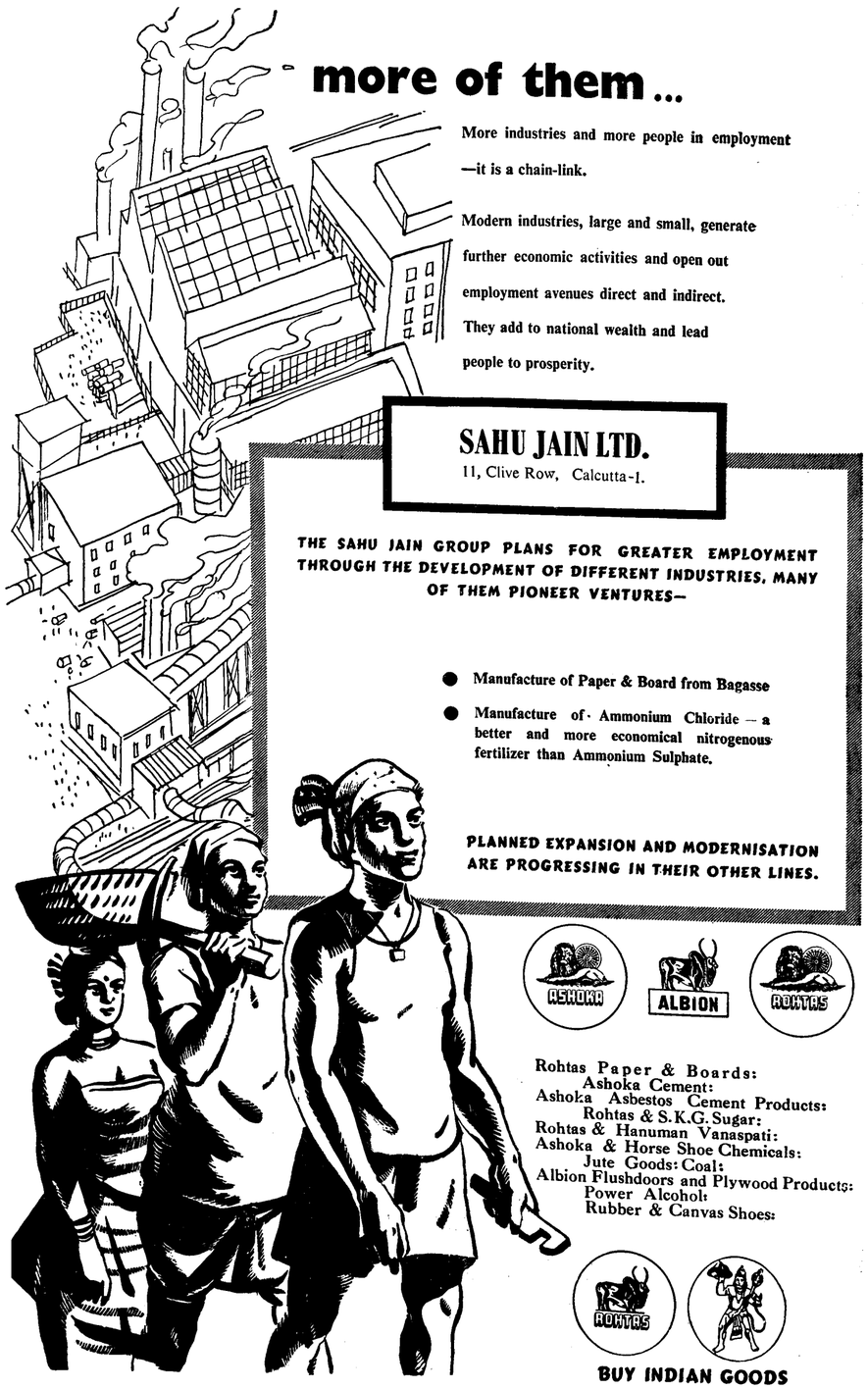
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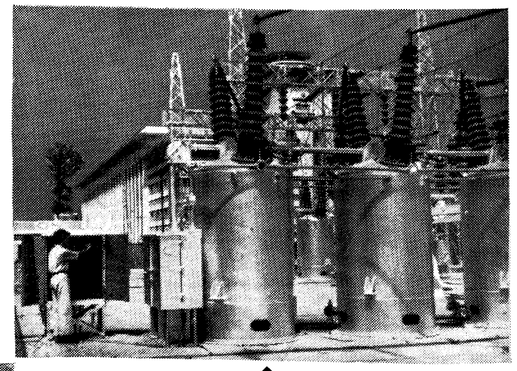
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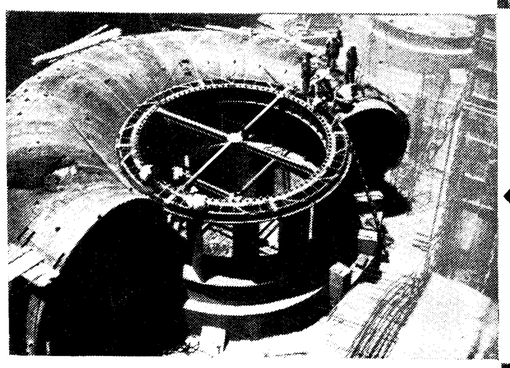
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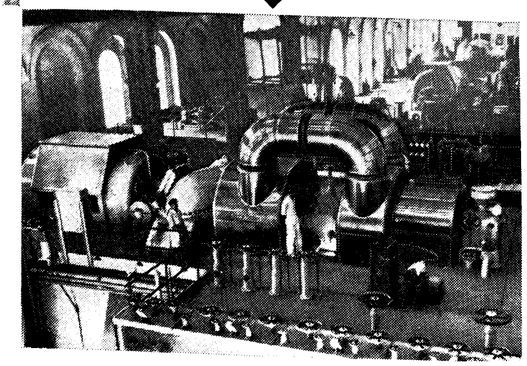


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UNEMPLOYMENT AND THE SECOND PLAN

NEED FOR INVESTING IN CORRECT TECHNIQUES

● By JOAN ROBINSON ●

(Reader in Economics, University of Cambridge)

Among the leading theoretical economists of this century, the name of Joan Robinson ranks high. No serious student of the science can afford to deny knowledge of her many published works, some of which are now accepted as standard text-books in their particular field. Her "Economics of Imperfect Competition" and her studies in employment theory and Marxian economics, are among the best known. A recent addition to the list is "The Accumulation of Capital". The influence of the late John Maynard Keynes informs a good deal of her writing. She is the wife of Professor E. A. G. Robinson, also of Cambridge. In this article, based largely no doubt on impressions gained during a period of about a year spent at the Delhi School of Economics in 1955, Mrs. Robinson discusses what is perhaps the most important feature of India's development plans—their employment potential. It is her contention that full employment, not a mere eight million new jobs, is possible, even within the short duration of the second plan.

THE final version of the second five year plan contains considerably more discussion of the problem of employment than the draft outline, but there is still something mysterious about it. The authors write: "It would be incorrect to hold out the hope that full employment could be secured by the end of the second plan" (p. 112), but they do not reveal the underlying argument which would enable us to form an opinion about why this should be so.

Let us begin by inquiring what is the object of increasing employment. This may seem a silly question, for everyone knows that unemployment is a bad thing. But there are a number of aspects of employment, and the emphasis that is placed on these various aspects may provide a clue to the bases of policy.

First of all, modern governments have accepted the responsibility for seeing that their citizens are employed. Unemployment is a reproach to them. From this point of view providing employment is a sort of wearisome necessity, like providing for defence, and failure to ensure it is excused by pointing to the magnitude and difficulty of the task. This is the kind of tone that used to be adopted by Conservative governments in Great Britain before the war, and is the obverse of the self-congratulation of Conservative governments since, at the reproach having disappeared. Secondly, where the social structure of an economy makes unemployment pay impossible, employment is an excuse for distributing purchasing power to those in need. This was the basis of public works as a vehicle for "poor relief" as we knew it in the 19th century. Thirdly, employment is a concomitant of profit. Generally speaking, when the level of employment is rising, in a private enterprise economy, the volume of profit is rising (though the converse need not be true). The production which yields profit gives employment, and expenditure of wages helps to provide the market which makes production profitable. From this point of view profit is the objective and employment a by-product. Fourthly, employment is desirable for the sake of the output produced, and incidentally for the training and improvement of economic morale that goes with productive work.

Clearly it is from this last-mentioned point of view that the planners are looking at the matter, though occasionally a turn of phrase half suggests that they have relapsed into the first or second, while the third is dominant in a great deal of the discussion that goes on around the plan.

Categories of Production

Employment for the sake of production must be divided into a number of categories: production of basic necessities—food, cloth, household goods; production of goods and services for the small part of the population that lives at a fairly comfortable standard; and production of capital goods which add to the real wealth of the economy. The latter must be subdivided again into those which provide directly for consumption—in particular housing; those which provide for an increase in productive capacity for consumption goods—say, irrigation works, looms and pottery kilns; and those which contribute to productive capacity for capital goods—say iron and steel mills. In each category investment in human capital is no less important than investment in equipment. An addition, say, to the stock of doctors contributes directly to consumption; an addition to the stock of skilled operatives, engineers, managers and community project workers, contributes to productive capacity at one remove; and an increase in the stock of those qualified to train them contributes at a second remove.

Some kinds of investment, say in power and transport facilities and in school teachers, contribute at all three layers. Production of exports may also be regarded as contributing to all categories, as the imports that they pay for may be chosen to contribute to necessities, luxuries, or to first-remove capital goods or to second-remove capital goods, each in material or in human form.

Priority of Basic Industry

Now, the plan has to make two inter-connected decisions: the total amount of production to be aimed at and its division between the categories. The main emphasis is on enlarging capacity of the capital-good producing sector. This is partly because this type of investment lends itself to large publicly-financed projects and is, therefore, the sphere over which the plan has most direct control. It is also because the philosophy of the plan is based on the conception that this investment is the most necessary for the development of the Indian economy. For a long time to come India will need investment. The plan gives (somewhat gingerly) its blessing to the family-planning campaign, but at best the population of India will go on growing rapidly for a considerable time, and growth of population without a corresponding growth in the means of production spells ever-increasing misery. Even when the population ultimately becomes stabilised (as is devoutly to be hoped) investment will continue to be necessary. If India preserves her ancient wisdom, preferring leisure to material goods, and avoids being sucked into the universal game of keeping up with the Joneses which preoccupies the western nations (including the socialist ones) driving the attainment of an "adequate" standard of life for ever into the future as the horizon recedes from a traveller, she can look forward to a time when the urge to increase production will slacken. But that time must be far distant, for, even on the most unworldly standards, her level of consumption (including health and education) is intolerably low.

Investment therefore will be desirable for a long time, and the foundation must be laid for producing investment goods. Some help can be had from foreign loans, and to some extent exports (to be used to pay for imported equipment) are a substitute for home capacity to produce equipment. But foreign assistance cannot be enough, export markets are unreliable, and the most hopeful line for exports in the long-run is capital goods (steel, machinery) for other developing countries. There is therefore a very strong case for the policy of devoting a large part of the plan to basic industry.

Investments in iron and steel, transport and power have generally to be made in large lumps and the gestation period before any useful product emerges is long. Meanwhile, the output of consumption goods has to be increased. Workers employed on the schemes require a certain real wage. In so far as they are part of the increase in population, their place as juveniles is taken by a new generation at least as large as their own, and the whole of their consumption out of wages is an addition to demand. In so far as they have been drawn from the ranks of the unemployed (open or disguised) they were consuming something already, and the whole wage bill is not an addition to demand. The wage, however, must exceed the consumption of the unemployed, both because more calories are needed by a man in work and because there must be some inducement to make effort worth while. Moreover the newly employed worker was being supported by his relations, and it is neither desirable nor possible to prevent his family from eating up at least a part of what they were formerly obliged to share with him.

More Consumer Goods

Extra employment, therefore, requires extra consumption of wages. It is generally impossible to prevent some leakage into consumption of profits (say, of contractors) also taking place. There must therefore be an additional output of necessaries and luxuries to accompany increased investment activity if a sharp rise of prices is to be avoided. This additional output in turn involves more employment (or, in the case of agriculture, higher output per head) and so some further additional consumption. This phenomenon is similar to the "multiplier" of Keynesian theory, but it is a multiplier with a difference. There is no doubt quite an appreciable amount of "Keynesian" slack in the economy—extra output which only requires a good market to bring it into being, but the slack can provide for only a small part of the necessary increase in output. To get the required quantity there must be an increase in capacity in the consumer good sector, particularly agriculture. Therefore to support any large scheme of investment with a long gestation period there must be an appropriate amount of quick-yielding investment to get the consumption sector (including food production) into the posture to meet the demand that will fall upon it. Even the quickest-yielding investment takes some time, but within five years, presumably, the job can be done.

The method of setting out the plan in terms of global figures for the whole period makes it rather hard to grasp but the statement that "the step-up in the development expenditure during the second plan period is not expected to be much larger than that achieved during the first plan period" (p. 119) may perhaps be taken to mean that in 1961 the rate of investment outlay is to exceed that of 1956 by about the same amount as that of 1956 exceeded that of 1951. Presumably the conception is that by then sufficient investment will have been made, one way and another, in the consumption sector to provide for the additional

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output required to support this rate of development without inflationary pressure of demand. This entails that there has been a sufficient expansion of productive capacity to look after the increased consumption of the investment sector and the additional consumption of those who provide for the consumption of the investment sector. A surplus yielded by the consumption sector (an excess of the value of their output over their own consumption) must then be made available to provide the consumption of the investment sector. This is to be achieved partly by taxation and partly by saving, including the accumulation of cash in hoards and in the working balances requisite for the progressive monetisation of the traditional rural economy.

Although there is not much discussion of how it is to come about, the authors of the plan, presumably, see their way to achieving this balance, but they do not see their way to achieving balance at a level which will occupy the whole available labour force. They reckon that to eliminate underemployment there should be 15 million new "job opportunities" and that the plan will in fact offer eight million. (p. 113-5). Why should not the whole labour force be occupied? This is not a rhetorical question, but a genuine puzzle.

Fear of Inflation

Perhaps the answer lies in the fear of inflation. The discussion of inflation is not to be found in the chapter on employment, but comes under the heading of finance. There it wanders off up the usual blind alley of "deficit finance", which concerns only the question of how much cash the economy can absorb and throws little light upon (indeed obscures) the question of the balance of supply and demand for consumable goods. Inflation in Indian conditions is not to be dismissed as an unreal bogy. Far from it. The menace is very serious. Inflation means, in this context, a sharp rise in the prices of consumer goods, particularly food, which would cause unrest among urban workers and drive landless labourers in the countryside into intolerable conditions. If the threat of inflation hangs over the plan it must surely mean, not that the plan is too large, but that the balance is wrong. It must mean, above all, that insufficient attention has been given to raising agricultural output.

Behind this may lie two different notions. The first is the view that it is no use increasing food output, because that would not lead to an increase in the marketable surplus. The extra product would all be eaten up in the villages. Squeezing the surplus out of an under-nourished peasantry is certainly a daunting prospect. This is the issue over which the socialist economies now admit that they made their worst mistakes (a year or two will show whether China is going to provide an exception) and one must sadly agree that the operation may be still more difficult to carry through in a democracy. But it is very hard to accept the view that this is a reason for not raising agricultural output to the utmost possible. Even as a political solution the persistence of eight million of unemployment is not a very attractive prospect. Politically, a bit of inflation might well be the lesser evil.

Technical Limit of Output

A more fundamentally pessimistic view is that the amount of attention given to agriculture in the plan is the most that would yield a return—that the technically feasible limit to output is in sight and no more can be done. Experience of the first five year plan (helped out by a run of good monsoons) was the reverse. In 1955 the generation of a food surplus had run ahead of the generation of incomes to buy it, and food prices were actually falling. It is now admitted that it was an error to allow this to occur. In future the proposal is to take advantage of any excess of supply over demand to build up a stockpile of grain. So far as market gardening and dairy products are concerned, there does not seem to be any danger of excess supplies for a long time to come. There is no need to fear over-doing it. Surely, a major objective of the plan should be to press to the limit of food production and find where that limit really lies?

If the upper limit, which it is feasible to reach in five years, is already in sight, ought not more attention to be given to the possibilities of tapping the American surplus? These are mere speculations "to start you talking". Perhaps this is all on quite the wrong track; but if so we ought to be told. If it is not fear of the unemployed eating too much when they are given work that prevents full employment from being the objective, there must be some other hidden snag which the planners are trying to steer past, and it would surely be best to find out what it is and seek for means to root it out.

An interesting addition to the new version of the plan is a discussion of the question of the choice of technique in relation to employment (p. 112 *et seq.*). The authors rightly draw a sharp distinction between the basic investments in the investment sector and the development of the consumption sector. They point out that in the case of heavy industry there is little scope for choice, and the method to be adopted is dictated purely by technological facts. In the case of irrigation works and the like there is a choice between more and less mechanised methods of work—bulldozers *versus* men. This involves balancing expenditure of foreign exchange against the problems of assembling and re-deploying armies of workers on one site after another and the problems of providing for their consumption. This is a subject of very great importance, which should be discussed in concrete terms, project by project. It is to be hoped that experience from current projects is being garnered and analysed, so that future decisions can be taken in the light of the fullest possible information.

Consumer Goods

So far as the consumer-good sector is concerned, the debate is already raging. It is unfortunately clouded by a conflict of ideology between the supporters of organised capitalist industry and the supporters of Gandhi's ideals, and on both sides there is generally a good deal of special pleading. The economics of the problem, in the narrow sense, cannot settle the issue, for, in this kind of question, the means are more important than the ends. The end is a contribution to long-run national development, but the means are everyone's daily life. It is worth while, however, to try to get the narrowly economic issues clearly set out.

Superior versus Inferior Techniques.—The argument starts off on the wrong foot when it is stated in terms of "giving employment". High employment per unit of output is the same thing as low output per man-hour, and low productivity is clearly not a merit in itself. Ideology apart, it is absurd to favour techniques which give the minimum output per man. The point is to find the techniques which give the maximum output per unit of investment.

The argument is obscured by a verbal confusion between "superior" and "more mechanised" techniques. One technique is superior to another if it yields a higher output per unit of capital invested and requires less labour to operate. The advocates of the *ambar charkha* have hard work to prove that it is not inferior, in this sense, to a modern spinning mill, and one cannot but suspect that its merits are purely ideological. If so, new investment in this method has to be justified on extra-economic grounds.

The case is not so clear when the inferior equipment is already in existence. Bullock transport may well be inferior, in the above sense, to lorry transport, but since lorries in present conditions are displacing bullocks, an investment in them can be credited only with the additional service provided, not with the whole service per unit of investment. On this basis the superiority of the lorries may well turn out to be illusory. In such a case the correct policy is to permit investment in the superior technique only to the extent that is required for additional production, leaving the inferior equipment to continue in use.

More Mechanised versus Less Mechanised Techniques:—One technique is more mechanised than another (though not necessarily superior to it) when it requires more capital per unit of output, and less labour. When labour is available and investible resources scarce, a low degree of mechanisation is indicated, even for additional output.

To some extent this works itself out through the normal price mechanism of a private enterprise economy. Low wages in terms of product make a low degree of mechanisation profitable on ordinary business principles. But looking at the matter from the point of view of the national economy it is not profit, but product, that is the criterion. The business man is looking at the excess of the expected value of output over current costs when he decides upon an investment. But if the workers whom he will employ would be unemployed if the investment were not made, the investment should be credited with the wages which it will enable him to pay, as well as with the profit that it will earn. There is therefore a strong presumption that, where private enterprise is operating in an under-employed economy, the profit motive will lead to an undesirably high degree of mechanisation being adopted. Trained economists often find this point hard to grasp, because they are used to working out theoretical problems under the assumption of full employment.

Regulating the Form of Investment

It is generally assumed (though the matter needs more investigation) that in weaving, and in many other lines, the techniques available to cottage industry are not inferior to factory industry and that (with some help in organisation, finance and marketing) investment in them can yield a higher rate of output per unit of capital (though, of course, a much smaller output per man-hour) than in the case of regular factory industry.

It is this view which justifies the present policy of restricting investment in organised industry and fostering small-scale production in the village. Against this it is often argued that, by economising labour per unit of output, organised (more mechanised) industry is economising wages, therefore economising consumption and yielding a larger future investible surplus per unit of initial investment. This argument, when it is frankly stated, is hard-headed, not to say brutal. It means that the "abstinence" which corresponds to the saving out of profits which is made available for investment has to be borne by those who, under this policy, are left in unemployment and who, on the alternative policy, would be eating the wages. It is sometimes justified by appeal to the extreme hard-headedness of socialist policy, which enforces abstinence for the sake of accumulation. This argument has been weakened by the workers of Poznan, who demonstrated how hard-headedness may over-reach itself. But in any case the socialist economies never planned for unemployment, so that the analogy with the Indian case does not hold.

Restraining new investment in mechanised equipment may be justified, but it is hard to see any rational basis for restraining production from existing plant. The correct policy, surely, is to allow the demand generated by the plan to carry existing plants to full capacity. Excess of demand over full-capacity output would raise prices to the point where cottage industry could compete and meet the excess demand. An excise on factory production is then fully justified (with a rebate for goods exported). By this means the super-profits of a seller's market can be syphoned off and become available to finance public investment under the plan. Indeed, ideally, the excise should be set so high as, first, to force the maximum possible output into the export market, and, second, to keep gross profits from the home market down to the level which will only just suffice to maintain capacity. But this is a degree of hard headedness the other way round which is too much to expect in present conditions.

It is partly a matter of timing. To limit output from existing plant may be necessary for a time as a kind of "infant industry" protection for the cottage production, until it has got organised. It might also be possible to make out a case for actual disinvestment in organised industry in the long run, for the sake of the social benefits of getting industry scattered over the countryside, but the second plan period is surely too soon to begin indulging in this kind of extravagance. For the time being, surely, existing capacity should be used to the hilt.

Output per Acre versus Output per Man:—In agriculture the distinction between investments that are profitable and those which are desirable from the national point of view is even more important than it is in manufactures. From the point of view of a farmer who employs labour outside his own family, it may well be highly profitable to invest in labour-saving equipment that adds little or nothing to total output. Investment in agriculture, at this stage, should be directed to raising output per acre and to increasing the cultivable area. Purely labour-saving investment is of no use, except in those districts where there is a genuine shortage of hands at the peak periods of the crop cycle.

The Philosophy of the Plan

As it stands at present there appears to be a deep-seated contradiction in the conception of the plan. On the one hand, strong emphasis is laid on the importance of building up capital-good industries, and on the other hand conditions of surplus labour, which indicate restraint upon the installation of the capital equipment which those industries can produce, is expected to persist. The relevant question to ask is: How many quinquennia are to pass before full employment is reached and how soon will equipment begin to be produced? By the time the basic industries are ready to produce machinery, will the surplus of labour have been digested, so that the time will be ripe to begin mechanising industry and agriculture in earnest?

This may sound somewhat carping. After all, the framing of the plan has been an heroic effort, and it may seem ungenerous to ask for more with never a word of sympathy and gratitude. But if the planners are worth their salt they must prefer criticism, provided that it is not obscurantist, to idle compliments, and the best service that critics can do is to force into the open the hidden assumptions of the plan, so that they can be attacked and defended in the light of day.

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THE INTERNATIONAL BALANCE OF ECONOMIC POWER

REORIENTATION OF COMMUNIST AND WESTERN POLICIES

● By DR. T. BALOGH ●

THE violent revulsion from Stalinism in a number of Communist satellite countries, culminating in the Hungarian fight for freedom, will no doubt bring about an equally violent reorientation of economic policy in the Soviet orbit. It is certain to have momentous repercussions on Soviet economic strength. The present moment is opportune, therefore, to have another look at the new world balance of economic power and the future ahead. Despite the weakness uncovered by the revolt against Stalinism and Communism, the outlook for the West still seems to be cheerless. There is still no sign that our dangers as well as our opportunities are clearly recognised and resolutely acted upon.

Fortunately, it is not unlikely either that a considerable part of the immense power potential of the Soviets will remain immobilised by the hangover from the thoughtless rigidity of dogma which bedevilled it in Stalin's day. It is the paradox of Communism that in its rigidly Stalinist form it creates a vast accumulation of capital, which it then refuses to use either to promote welfare as fully as it could, or to embarrass its foreign opponents. De-stalinisation, on the other hand, tends to lessen or even to dissipate this immense accumulation, but could still represent a nuisance to the West if it loosened economic policy. Of this, as yet there is no sign. If one contemplates the thousands of millions of dollars of foreign exchange and of gold lying idle in the Gosbank in Moscow, instead of being thrown on to the world markets to the unexpected and confusing embarrassment of everybody and by clever manipulation reaping immense profits to Soviet Russia, if one realises that the terrible effort which Mr. Krushchev has thrown into the ploughing and planting of Siberian wastes could have ruined Britain by producing industrial goods to be exchanged at an immense gain to Russia for Argentinian and Australian wheat—if all this is realised, the West has every reason to count its Marxist blessings. Even without deliberate economic warfare, the Russians would have been able to make life more difficult for Britain and western Europe, by concentrating on the export of industrial products in which they have reached our productivity. While they still lag far behind us in agriculture, they would have reaped an immense advantage by trade and we should have been posed an unpalatable problem.

Loans to Satellites

Nor is this all. Russia could have granted loans out of her miser's hoard to Hungary, Czechoslovakia and Poland. She could have enabled those countries to bring to a successful end the spasmodic capital expansion programme, and yet retained popularity by increasing consumption standards. If, in addition, the plans of the satellite countries had been rationally designed, had each of these countries striven to utilise to the full its natural advantages and to raise productivity by specialisation, the eventual embarrassment of the West would have further increased. They could have intensified exchange and the gains so achieved would have helped to maintain consumption standards. Their investment plans might then have been able to gain momentum—as in Russia—before the demand for more consumption had become irresistible. Poznan could easily have been avoided, and possibly even the murder in Budapest, and all this without any impairment of either Russian or their own investment.

Fortunately, the plans of the satellite countries did not strive to utilise to the full the natural advantages of each and to raise productivity by rational specialisation. They tried (as exemplified by Yugoslavia before the break with Stalin), in a hopeless imitation of Russia without the necessary basic resources, to create a self-sufficient and vast heavy industrial sector at unsuitable locations, merely to bear out Stalin's theory that heavy industry is necessary for the creation of a healthy proletarian base. (One of the biggest steel works was erected near the centre of bourgeois dissidence, Krakow, another near the scene of the chief Catholic pilgrimage, a third in the middle of nowhere in Hungary.)

The consequent impairment of productivity and penury in the end produced an explosion. The inevitable lessening of the Stalinist grip in the satellite countries will necessitate concessions to consumers. This reorientation of policy before the vast capital investment projects could have been completed will cause severe losses in productive power and give a breathing space to the West. We have indeed had a narrow escape, and might just have some more time for action, and let us be truly thankful. But when we contemplate the nightmare threat which did not materialise, we must not forget the gravity of the mistakes which the West has committed and the opportunities that it has wasted. Three times in the postwar period the non-Soviet world under America has attempted——as in 1920—to return to *laissez-faire*. The years 1947, 1949, 1951 and 1955 mark the abandonment by the West of the commonsense approach to the problem of international inequality and instability. Yet this approach was brilliantly successful whenever it was tried. It was first evolved by Mr. Roosevelt in his Lend-Lease programme. It was broadened in the concept of aid from the richer to the poorer, embodied in the United Nations Reconstruction and Rehabilitation Administration which saved Europe from starvation and revolution. It was again triumphant in the Marshall Plan, which set Europe on its feet after the premature return to convertibility threatened a collapse of sterling and recovery. It was equally effective when Mr. Truman initiated Mutual Aid, which even Republican cheese-paring could not liquidate immediately.

Empirical Triumph

All this empirical triumph was of no avail. Dogmatism reasserted itself—in the West too. The spook of nineteenth century economics could not, as it seems, be laid. Three times progress in the West was halted, and indeed rapid deterioration threatened. The countries opposed to the Soviets could easily afford to launch a co-ordinated and common attack on poverty and ignorance. Nor is there any doubt that these policies would yield immediate results. It is the stubborn refusal to learn the lesson of the past that has been, and remains, responsible for much of the discomfiture of the Western world.

The signs are disturbing, especially for Britain. Our position is threatened by both Russia and Germany, and we continue to lose ground also to America. Moreover, the failure to use the tremendous windfall gains, when our terms of trade improved, demagogic policies followed by ill-judged spasms of dear money and the credit squeeze, are likely to accelerate our decline and the disintegration of such Commonwealth economic unity as still remains. Together with the blunders in foreign policy which loosened the moral and political ties binding the Commonwealth and further endangered American aid, these policies bid fair to weaken Britain's influence and the cohesion and the strength of the non-Soviet world.

Russian manufacturing production has continued to increase at the rate of roughly 11 percent per annum, even after 1950, when it had reached the prewar level and had to go on to break new paths. Since 1950, Russian industrial output has all but doubled; the British increased by 20 percent, and the American by just over 20 percent. Recently the economic record is even worse; while Russian industrial production continues to increase at about 10-11 percent per annum, British production is now, if anything, below last year, and the American only imperceptibly above it. This has enabled Russia to increase real wages by half, yet devote a slightly increased proportion of an expanding output to investment. After Mr. Malenkov's removal, the emphasis once more shifted to investment goods. The Marxists' aversion from birth control (which they so oddly share with their most deadly enemies, the Roman Church) of course still prevents an explosive increase in their productivity as they are hampered in increasing capital intensity? However they will not be able to postpone for ever the provision of adequate housing for their own people. They must also devote a disproportionate share of their efforts to an increase in food production. The need for economic aid to the satellites and to China is an additional drain on their resources.

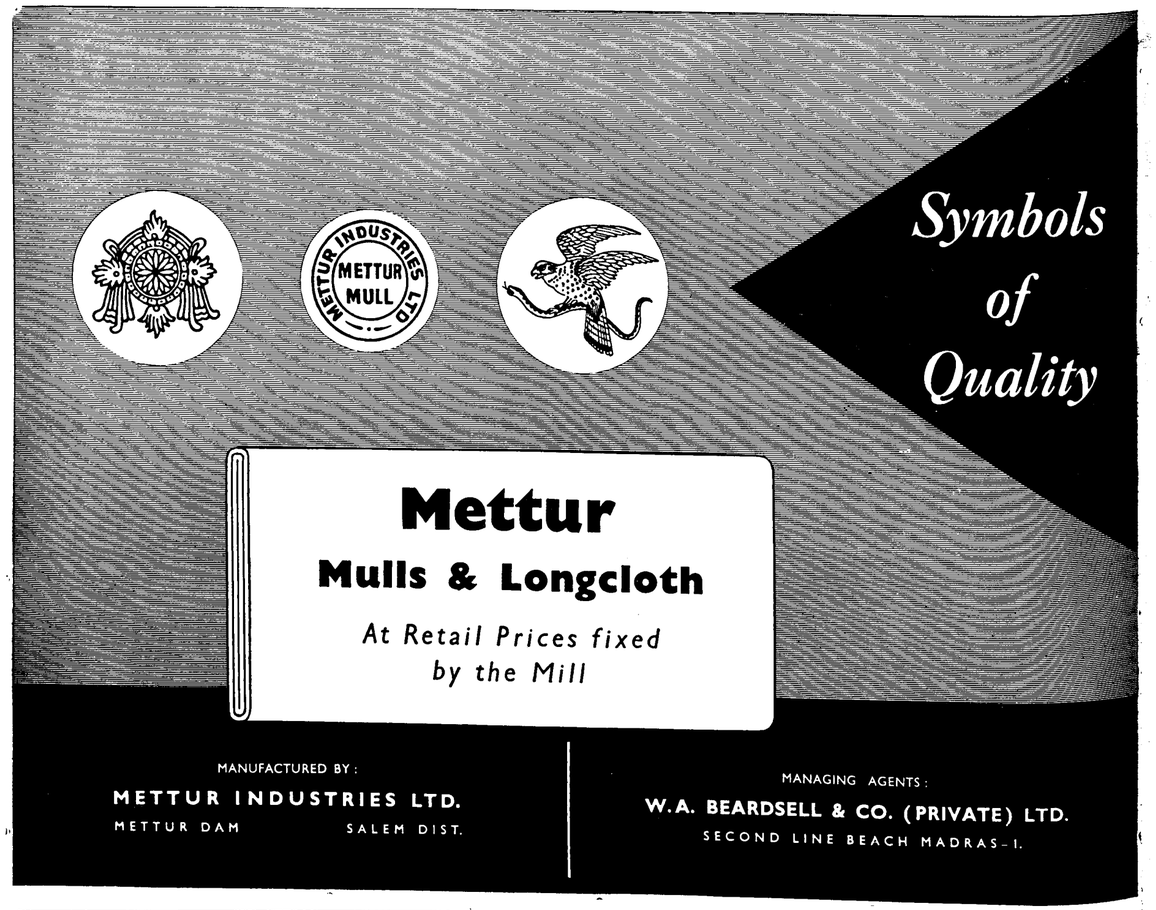
But the West seems to have forgotten what Keynes knew so well: the relentless force of compound growth. Provided investment and expansion can be kept up, the country will be able to do all this. And Britain especially must note the Russian success in increasing industrial output and failure in increasing agricultural output. The prices of metals and of their manufactures in terms of wages are hardly higher than in Britain, while food and agricultural raw materials are still about twice the British prices. And it seems that the Russians find it far less difficult to increase industrial than agricultural output. Some time or other, they will realise than they can sustain their consumption more easily if they traded their cheap manufactures for cheap food abroad. Then Britain and other industrial exporters will find themselves in real difficulty unless their industrial progress matches the Russians'.

In the Western world, only Germany has been able to show an expansive power not unlike the Russian. Her industrial output has hardly increased less than that of the Soviets since 1950, and in 1955 progress was faster. If any proof is needed of the close interrelation between investment and productivity, that proof has been forthcoming in the divergence of the triumphant German march towards higher output and increased exports with our painful attempt to maintain our balance of payments by cutting national income. West German investment increased between 1950 and 1955 from some £1,500 million to £3,500 million, while ours only rose from £1,700 million to £2,500 million. What is even more disheartening, German investment in manufacturing and mining rose from some £500 million to almost £1,200 million, while ours increased from £500 million to £800 million only. Moreover, 56 percent of the Germans' investment was concentrated on industries which have the best hopes for increased sales abroad: metals and engineering. We only devote 42 percent of a smaller total to the purpose. Their industrial investment is expected to rise another 20 percent next year. Ours at best will be maintained at its present unsatisfactory level.

Increasing Investment

Our advocates of a return to *laissez-faire* can derive little solace from this fact. Germany was sustained by a distribution of income grossly favourable to profits; and the bargaining power of her trade unions has been paralysed by a combination of violently rising productivity and an influx or refugees eager to work. Neither is politically practicable in Britain, even if it were morally admissible. It would, of course, have been possible to increase investment from 1951. Our terms of trade improved prodigiously then. We reaped a windfall of some £700 million, which also enabled us to expand domestic production by much more. Practically the whole of this or £1,200 million (at 1948 prices) was swallowed up by "liberalisation" and the consequent indiscriminate increase in consumption. Our productive investment in manufacturing industries *declined* until 1954. Even in 1955 it only rose some £70 million above its 1951 level. This policy resulted in eating into our future, and weakened our competitive position. This, in turn, led to our renewed balance of payments crisis. The imports of coal and steel, the inevitable results of our failure to invest, more than account for our deficit last year. Yet the lesson was not learnt. Instead of increasing investment at all costs, the present policy looks for salvation in cutting it. The dear money policy cannot aid our balance of payments except in that way. While this may alleviate the position temporarily, it must further undermine the position of Britain as an industrial competitor.

Nor are the effects of this policy limited to our own economic future. It necessarily undermines the cohesion of the Commonwealth, and this in two ways. In the first place, it prevents Britain from



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providing capital for the development of the overseas territories. Indeed, the colonies have in the main not been net borrowers from, but net lenders to, Britain. Moreover, their assets invested in British gilt-edged securities have steadily depreciated. In the second place, Britain has withdrawn her support for the primary producers of the Commonwealth at the precise moment when they most needed it. It terminated long-term bulk purchase agreements when primary prices began to decline. At the same time, when our relative competitive position was weakened by our domestic policies, we also undermined the very basis of our preferred position in Commonwealth markets. As the Commonwealth, and especially the erstwhile colonies, gain their independence, they will turn away from us first for capital and then for trade. A less rational policy can hardly be imagined.

Still the advocates of liberalisation and convertibility have not had enough. They now propose Britain joining a western European Free Trade Area. Now, there is much to be said for establishing the closest economic relations in western Europe. A common market stretching over 200 million or so people, and having a national income of about half of that of the United States, might offer a basis of creating a productive unit capable of meeting the United States or Soviet Russia on equal terms. Indeed, those who were opposed to the folly of indiscriminate liberalisation at the end of the war first proposed such a union because they were apprehensive of the overwhelming economic power of the United States and its impact on both industrial and primary producing countries. They were then accused of anti-Americanism and restrictionism. The very people who now tout the Free Trade Area plan then ridiculed the notion that a combination of the powerful preferential monetary system of the sterling area combined with an equally useful preferential treatment of each other's goods in Europe would create a much needed counterweight to the overwhelming weight of the United States and of the Soviet orbit.

Yet western Europe, after the devastation of the war, was an ideal place for united action. Productive power was at a low ebb. Everywhere reconstruction was being planned. A division of labour and specialisation combined with free exchanges could have stimulated the emergence of giant mass-production units fit to meet American firms on equal terms without having to cut wages. A co-ordination of investment plans would thus have benefited all without harming anyone. Moreover, by consciously channelling investment, the standard of life of the poorer areas would have been lifted towards those of the rich. Britain, in particular, could have played an outstanding rôle in moulding the new block, because she was—for the first time since about 1902—by far the most powerful economic unit in Europe. German productive power lay shattered.

Co-ordination of Investment

This was not to be. Even when the Marshall Plan was inaugurated and American help offered for a planned co-ordination of investment at O.E.E.C. in Paris, the idea was sabotaged. Now the position has changed. An unco-ordinated scrambie has made the main European countries even more competitive than they had been before the war. A passive liberalisation of trade would leave Britain and the weaker countries exposed to the blast of the expansion of German productive power. The history of the unification of Italy and Austria-Hungary tells a tale. Naples benefited as little as Zagreb from the expansion of markets. They decayed. Without the conscious co-ordination and expansion of investment plans, calculated to remould national industries to western Europe's united requirements, it is to be feared that Britain and other less dynamic countries will lose in trade. They will then have to intensify dear money and cut investment, thus further impeding their progress. We may well end as a derelict area with as much chance of recovery as Cumberland before the location of industry was controlled.

This is no argument against west European co-ordination and co-operation. It is an argument for a conscious policy of co-ordinated development. What is needed is the restoration of a European Payments Union which would prevent Germany from imposing on all other members a harsh deflation through the automatic provision of credits. (It is astonishing to recall that this system was smashed at the insistence of the Bank of England and the British Treasury. This mistake has already cost the country some £70 million, extra in gold losses.) In addition, a common European investment board should be organised, capable of providing finance for approved projects. The two organs, acting together, could provide the short- and the long-term solution of European co-ordination without the risk of the weaker or less dynamic and less socially-minded areas being devastated by the more ruthless. Negative safeguards (such as have been demanded by, e.g., the T.U.C.) do not suffice if we are to reap any benefits from a west European Union. The demand that quantitative restrictions should be retained within western Europe would make impossible any intra-European rationalisation and specialisation. Yet it is on this that an increase of Europe's competitive power relative to the Soviets or the United States depends.

Disquieting Outlook

If our own and west European economic policies are hardly calculated to buttress our own position or that of the weaker countries, the outlook for the non-Soviet world as a whole is perhaps even more disquieting. American superiority in investment is unabated and the American surplus in international payments, after a period of quiescence, once more shows signs of ominous expansion. For some time, balance was maintained only by American grants and investment. The former seem on the wane. And the latter are too profitable to provide a solution: the payment of interest and dividend swallows up the new credits.

The rift in the Atlantic alliance caused by the Egyptian adventure will hardly stimulate American sacrifice. The split between the U.S. President and the new Congress will increase the difficulties, as neither will be willing to sponsor against the other the inevitably unpopular taxation. The wonderful excuse for sensible aid policies of liquidating embarrassing surplus commodity stocks may not last for long, for despite the crying need abroad for U.S. supplies, Congress and the President are cutting down American production by granting subsidies to farmers for not producing. Loans of wheat and other vital materials, such as that given to India (which might well make the difference between the success and the failure of India's second five year plan and thus of democracy in Asia) may not be possible in future. Indeed, there are disturbing signs that the American Government is once more using its overwhelming economic power to enforce *laissez-faire* on the world.

Democracy has little, if any, meaning at starvation levels, and the setbacks which the Communists have recently suffered in eastern Europe must not blind us to their technical and economic achievements. On the wider canvas of the non-Soviet world, much the same reform seems needed as in the narrower field of west European development. Conscious action must be taken to ensure a better distribution of wealth and productive power, and therefore of income between countries. In domestic affairs, the dire prediction of Marx about growing inequality and misery could be defeated by the welfare State. Revolutionary socialism only prospered in the peripheral areas, where social integration through conscious State action was not enforced by democracy.

Disintegrating Forces

In international economics there is no such compelling political reason to curb the disintegrating forces of "free" competition. Investment must rise somewhere above 12 percent of the national income if a cumulative increase in income per head is to be achieved. Once this critical level is achieved the process becomes cumulatively easier (until, as in the United States, the doubts arise out of the insufficiency not of savings but of investment outlets). *C'est le premier pas qui coute.* But that first step—if not helped by those who are well on the way—might only be possible at the cost of stern repression.

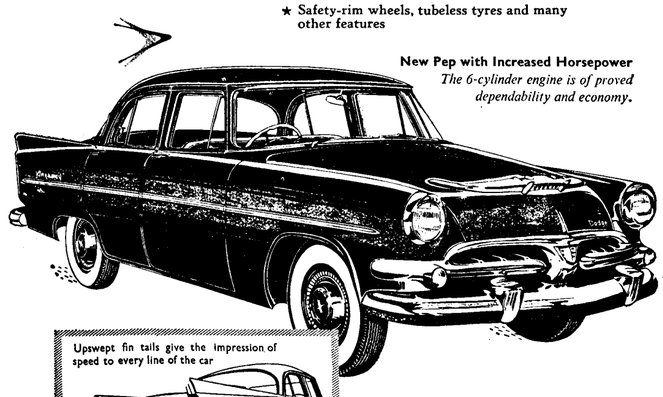
There is no time to lose. The Afro-Asian world, the scene of this titanic struggle of man against his old enemies of hunger, disease and ignorance, is looking towards China and her achievements. The ill-will created by the invasion of Egypt will intensify this tendency. If the West cannot retrieve her position by a generous and imaginative planning of economic development through aid and technical assistance, the breathing space given by the mistaken policies of the Soviets will soon be exhausted. A further and quickening deterioration of our position will then be inevitable. The attitude of the West to the second of the great Indian five year plans will be decisive. We must do our utmost to ensure that the present worsening of the outlook for economic co-operation in western Europe and America will be a passing phase.

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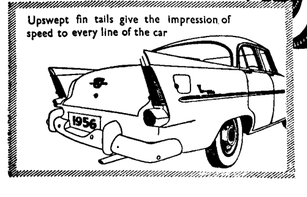
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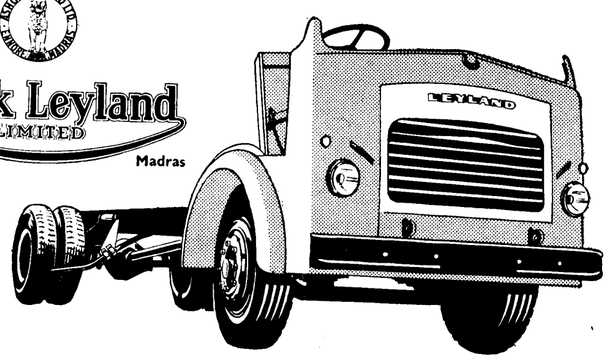
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AL. 3948

THE SECOND FIVE YEAR PLAN—ITS AIMS AND OBJECTIVES

● By V. T. KRISHNAMACHARI ●

Deputy Chairman of the Planning Commission

IN an article in the Economic Journal for March 1956, Mr. Rostow explains how "the process of economic growth can usefully be regarded as centring on a relatively brief interval of two or three decades, when the economy and the society of which it is a part transform themselves in such ways that economic growth is, subsequently, more or less automatic". This "decisive transformation" he calls the "take-off": this is defined as requiring a rise in the rate of productive investment to over 10 percent of the national income and the building up of a substantial industrial sector with the necessary institutional framework.

With the second five year plan, India enters on this "decisive" stage in economic development. The plan initiates programmes which will transform the economy, which is now largely agricultural, into a highly industrialised economy in the next 15 or 20 years. This has become possible due to the success achieved by the first five year plan. The country has now overcome the shortage of food and raw materials, improved the transport system and strengthened the "infra-structure" through the expansion of irrigation and power, besides introducing the dynamic programme of the National Extension movement over a large area. In the second plan period, an investment of 10 to 12 percent of the national income is envisaged compared with 5 to 7¾ percent in the first plan. The national income is expected to rise at the rate of 5 percent a year, compared with the annual rate of 3 percent in the first plan period, and additional employment, it is expected, will be provided for about 9 million persons as against 6 to 7 million in the first. The plan accords high priority to industrialisation, especially to the development of heavy industries, oil exploration and coal production. An equally important objective of the plan is to achieve a balance between the industrial and other sectors of the economy, by the evolution of an expanding and diversified agricultural system and of an organisation for stimulating the growth of cottage and small-scale industries, and by measures for improving transport and strengthening the export structure. These objectives are interlinked.

Agricultural Targets

I begin with the targets for agricultural production. In February, 1955, the Planning Commission placed before the country the goal of doubling production in ten years. In recent months, it has been holding discussions with State Governments for a 40 percent increase in the next five years. The following statement compares the provision in the two plans for the agricultural sector:

	First five year plan (Crores of Rs.)	Second five year plan (Crores of Rs.)
Agricultural and community development	357	568
Irrigation and flood control	401	486
	758	1,054

There are also projects for the manufacture of fertilisers for which a provision of Rs. 56 crores has been made. The production of fertilisers, it is expected, will increase from 500,000 tons in 1955-56 to 2,170,000 tons in 1960-61. During the next five years, much larger areas than at present will come under irrigation and contour-bunding and improved agricultural techniques—the use of approved seeds and of chemical fertilisers and organic and green manures, and so on. One of the far-reaching decisions in the second five year plan is to spread the National Extension movement throughout the entire country by 1960-61. The intention is, through the agency of the National Extension and Community Projects, to reach every village and to ensure that all families have plans of improvement for which they are assisted with supplies and services and credit through a widespread co-operative movement. The States realise that increased production of the order indicated is essential for the success of the plan and are organising intensive efforts to achieve this increased target.

Industrial Development

The plan allocations for the programmes of industrial development in the organised sector are shown in the following table:

		Public sector (Rs. crores)	Private sector (Rs. crores)
Organised industries and mining	1st. Plan	149	243
	2nd. Plan	690	575
Power	1st. Plan	260	16
	2nd. Plan	427	30

The projects for increasing iron and steel production are the most important of the industrial projects in the plan. The aim is an output of 4,600,000 tons of finished steel—2,300,000 tons in three new plants, Rourkela (720,000), Bhilai (770,000), Durgapur (790,000), and the remaining (2,300,000 tons) by the expansion of the existing plants. This target was proposed about June, 1954 after a careful survey of the needs and was accepted in the plan. Other industrial targets are closely related to the new steel-making capacity—coal (37 to 60 million tons), cement (about 5 to 16 million tons), iron ore, ferro-manganese, refractories, etcetera. The emphasis on heavy industry seeks to correct an existing imbalance in the country's industrial structure. The Fiscal Commission, reporting in 1950, pointed out how, under a half-hearted policy of protection, the economy had become lop-sided and basic industries had been neglected. It will be recalled that the first plan had included, provision for an iron and steel plant in the public sector and for the first stage in the expansion of the existing plants and for a heavy electrical machinery plant. These programmes, which could not be carried out by 1955-56, have become part of the second plan.

Place of Private Sector

In a mixed economy, questions always arise about the relations between the public and private sectors. The recent Industrial Policy Resolution contains an enunciation of the Government's policy on this issue. Speaking broadly, the State undertakes responsibility for basic and strategic industries for public utilities like the railways, air transport, power generation and distribution, etcetera, and for industries which call for investments beyond the capacity of private enterprise. The Resolution also leaves a large field for expansion of organised private industries: and as the process of industrialisation gathers momentum in future plans, both the public and private sectors will be called upon to assume increasing responsibilities. The Resolution emphasises that the two sectors are interlinked and serve a common social purpose—"inevitably there will be a great deal of dovetailing between the industries in the private and public sectors". The second five year plan expresses the same idea when it says: "It is appropriate to think more and more in terms of an inter-penetration of the public and private sectors rather than of two separate sectors"...The plan embodies a fairly substantial provision for granting assistance to industries in the private sector. The National Industrial Development Corporation (N.I.D.C.) has Rs. 55 crores allotted to its credit to pioneer basic industries, such as foundries and forges and structural fabrication shops, under its own management or in the private sector. Included in its programme is the grant of financial assistance to cotton and jute textile industries for their modernisation plans. Central and State industrial finance corporations also give assistance to the private sector through loans.

The requirements of the railways and other forms of transport are determined to a large extent by the programmes of industrial expansion in the plan. The allocations for the railways are Rs. 900 crores as against Rs. 260 crores in the first plan. The railway administration is giving careful attention to improvements in the efficiency of working in consultation with experts obtained from outside and efforts are being made to co-ordinate all forms of transport. The transport position is under constant review and if the need arises there will be an addition to the outlay in the later years of the plan.

Financial Resources

The size of the second plan is double that of the first, the outlay being Rs. 4,800 crores in the public sector and Rs. 2,300 crores in the private—Rs. 7,100 crores in all. The plan explains in detail the estimates of financial resources and it is not necessary to set them out here. It is recognised that there will have to be a great national effort to find the resources by additional taxation and an intensive savings movement which would reach every family. Even after all this, there will have to be deficit financing of the order of Rs. 1,200 crores. The intention is to work the plan in a flexible manner through annual plans, effecting adjustments in it from time to time in the light of increases in production and economic and financial trends. Only in this way inflationary pressures which the large development expenditures are likely to generate can be held in check. The key to the situation lies in a high level of production, especially in agriculture. The plan will also impose a great strain on foreign exchange resources. All avenues are being explored to raise the required resources abroad—loans from international agencies and institutions, private investments, negotiation of suppliers' or bankers' credits, flotation of issues in foreign markets, loans on a Government-to Government basis, and so on.

Friendly critics tell us that the plan is too big for India and that it should be reduced in size. The crucial issue in every plan is how large it should be. This is not merely a financial one. A plan is not a budget—an exercise in the allocation of visible financial resources in accordance with priorities. It is more than that. It is an act of faith. A plan should offer to the nation a programme which would arouse enthusiasm and enlist public co-operation on the widest scale. This is particularly important in a country in which living standards are among the lowest in the world. During the two years the plan was being built up in many thousands of villages, in districts and in the States in close assciation with non-official leadership at all levels, we have found everywhere a keen desire for an appreciable increase in the standard of living, and side by side with this, a determination to work for its achievement. I myself hold the view that the country had to accept the challenge involved in the plan as it has emerged. There was no other course open to it.

Unique Experiment

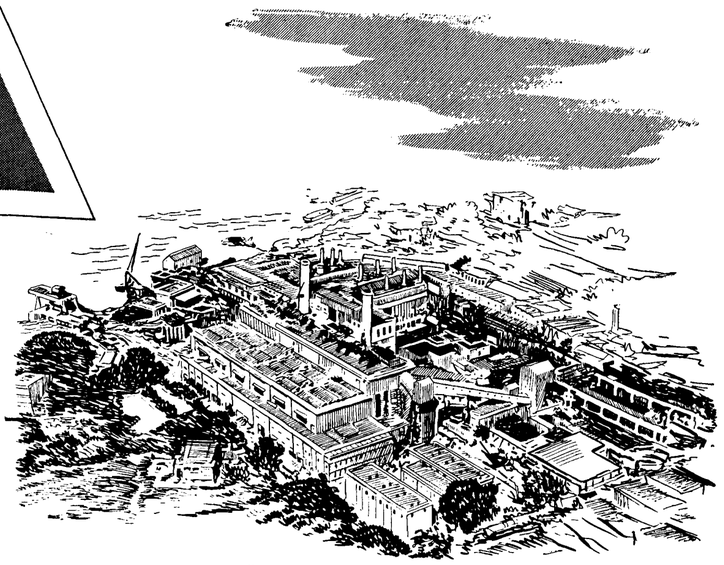
I shall conclude with two observations of a general nature. The first is this. There is no precedent in the world's history for a country like India, with large populations and limited resources, striving by democratic processes to build up a new life for itself and achieve social and economic development on a large scale. We shall have, therefore, to build up our own experience and seek our own national balance between liberty and progress, central control and private initiative, national planning and local authority. We have to advance along lines set to us by our way of life without undue dependence on the experience and social philosophy of other nations. Secondly, the success achieved in the second and third five year plans will not only decide India's future, but will also have much wider repercussions.

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EUROPEAN COMMON MARKET IDEA GAINS MOMENTUM

CHANGING PATTERN OF COMMONWEALTH TRADE

● By GEOFFREY TYSON ●

ODD as it may seem, the sombre events of the autumn have given a considerable impetus to the idea of closer European economic integration. Until the first week of November the "common market" proposals, still hotly debated and as yet a long way from taking definite shape, seemed little more than a pleasant pipe-dream of a distant ideal. Today the proposition looks much more real, if only because the countries of western Europe have shown their willingness to act together to meet the dangerous shortage of oil. The experience may well be educative; for at least it has demonstrated to the western European and Scandinavian nations that they have certain basic needs and common interests which can best be served by joint action. On the long view, the lesson will not be lost. But whereas joint action over oil is intended to meet a state of scarcity, the common market proposals are designed progressively to create a condition of plenty—less urgent perhaps, more theoretical and wide open to disputation of every kind. Let us look at some of the arguments which at this moment are passing to and fro.

First of all, what do its sponsors understand by a European common market? In short, it means that six European countries—France, Germany, Italy, the Netherlands, Belgium and tiny Luxembourg—have tentatively agreed upon the gradual creation of a full customs union. They contemplate the removal of tariffs and other trade barriers over a period of time—generally estimated at between 12 and 15 years—and the creation of a common market between themselves as a group and Britain and the Scandinavian countries if they will join. The scheme began to take shape about the middle of 1955, and for the whole of last year the U.K. Government showed no more interest in it than was necessary to send a polite *aide-mémoire* to each of the six countries setting out its objections to the plan. Britain had refused to participate in the European Coal and Steel Community and in the Euratom (atomic energy) scheme, and so her indifference to the common market and customs union proposals seemed to be merely a logical extension of her traditionally cautious and suspicious attitude to Continental Europe.

Obligations to Commonwealth

Quite suddenly, however, and well before the Suez crisis supervened to arouse a new kind of western European awareness, the British Government intimated its willingness to re-examine the common market proposals and to join in them, subject to certain reservations. No formal commitment has yet been made, but British thought is now strenuously working to discover a formula by which the U.K. can be linked to the common market and at the same time preserve those Ottawa preferences which the Comomnwealth countries wish to maintain. The task is not beyond the wit of man, particularly as it seems to be agreed that foodstuffs, drink and tobacco, which form 90 per cent of the U.K.'s imports from the Commonwealth, should in practice be excluded from the free trade area, the purpose of which is to enlarge the western European market to real Continental dimensions rather than to rehabilitate the classical doctrines of free trade. One of the reasons for America's prosperity and ever-rising industrial potential is that her enormous market ensures to her industries all the benefits of specialisation. Some day, when butter is preferred to guns in Moscow, the Russian market may offer Soviet consumer goods industries the same advantages. The area embraced by the six European common market countries has a population of roughly 161 million. With the addition of the U.K. and the Scandinavian countries, the new free trade area would rise to 240 million, a bigger market than either the United States or Russia offers today.

Many British supporters of the common market do not deny that their interest in the scheme is as much political as economic. Those who peer into the future of our precarious civilisation feel that, amidst the clash of giants, the nation States of Europe are too small to be other than pawns in the game. Western Europe, they contend, is the home of western civilisation and remains the repository of much that is good in it. It should therefore be preserved. The peoples of western Europe have a great deal in common—certainly enough common interests and qualities to modify their sovereignties and come closer together. Those who argue along these lines see the common market as a major step towards western European economic integration and its inevitable corollary, growing political co-operation. But at this stage, we need not attach too much importance to these visionary theories, and we can be quite sure they have had little influence with the back-room researchers of the Board of Trade or the Treasury, upon whom falls the responsibility for working out the practical but immensely complicated details of any plan for British participation. They, in fact, are concerned not so much with the arguments why the U.K. should go into the common market as with the reasons why it may not be able to afford to stay out.

First among these is the indisputable fact that the post-war growth of international trade has been almost entirely due to the increase in the exchange of goods among the industrial nations themselves, particularly in western Europe and north America. In this respect, the primary producer countries have lagged far behind. As a whole, though British exports have held their own in Commonwealth markets, the latter have failed to expand at anything like the same rate as other markets during the 1950s. Even in the case of Canada, where there is a low and preferential tariff on many British products, British exports have been less successful than in the United States which is, in many ways, a more difficult market. In other parts of the Commonwealth there has, it is true, been considerable economic growth—a high rate of investment, increased pro-



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ductive capacity and rising national and *per capita* incomes. But too often the policies which have promoted these desirable ends have led to balance of payments crises and thereafter to import cuts which have adversely affected British trade. It may well be that this sequence of cause and effect is inherent in the artificially stimulated "development" to which, in one form or another, so many countries have now committed themselves. In any case, it is something of which the U.K. is bound to take note; for the situation today is almost the exact opposite of that which obtained in 1932 when the slump in world trade was accelerated by restrictive and protectionist policies in western Europe. At that juncture the Commonwealth, through the Ottawa agreements, offered British exporters a preferential trading area. But in the quarter of a century that has since passed vast changes have occurred in the political status and economic aspirations of individual members of the Commonwealth, and inevitably there is much less certainty about the permanence and over-riding advantages of its preferential markets. Some preferences have disappeared altogether since 1931, and others have fallen into disuse or been considerably whittled down. In any case, G.A.T.T., to which the countries of the Commonwealth in general adhere, operates as a prohibition against the raising of tariffs and the creation of any further preferences. Thus, if the Ottawa preferences are not yet exactly a wasting asset, they almost certainly have a very doubtful growth value in the future.

Some Curious Anomalies

Roughly speaking, one-half of Britain's overseas trade is with the Commonwealth, a quarter with Europe and the remaining quarter is with non-Commonwealth, non-European countries. On the whole, the U.K. gives more preferences than she receives, and by no means all of her Commonwealth trade enjoys the protection of the now-ageing Ottawa umbrella. Some curious anomalies have developed with the passage of time; for example, Burma, which left the Commonwealth on becoming independent in 1948, continued to give and receive the preferences until 18 months ago when she cancelled them, though they have not yet been abrogated on the British side, and Burmese rice and teak (when there is any to export) enjoy preferential rates of duty in the U.K. Recent U.K.-Australian trade negotiations revealed somewhat less attachment to the preferences by both countries; wartime and postwar subsidies to British agriculture have just about halved the U.K. demand for Australian wheat in recent years. But the really serious problems which the common market raises for Britain relate to what, rightly or wrongly, have come to be known as her declining industries in contrast to those which are expanding. The latter—the expanding group—are mainly the metal-using industries and chemicals. Those two together today account for about 54 percent of Britain's total exports, against 38 percent in 1938. The declining group are to be found for the most part in coal, textiles and clothing, and the accompanying table shows their diminishing importance in the sum of British exports during the past decade and a half.

Percentage of Total U.K. Exports.

	1938	1951	1955
Coal ...	7.9	1.1	0.4
Cottons ...	10.6	8.1	3.3
Woollens ...	5.7	6.9	3.0
Apparel ...	1.9	1.8	1.6
Iron and steel ...	6.4	4.0	5.4
Non-ferrous metal manufactures ...	2.6	2.7	2.6
Chemicals ...	4.7	5.5	8.0
Electrical goods ...	2.8	3.8	6.6
Machinery ...	12.3	14.2	15.9
Vehicles, ships, aircraft ...	9.6	18.6	14.9

The British industries which have been gaining ground are those manufacturing capital and instrumental goods which only the industrially advanced countries can make cheaply and efficiently. Those which have been losing ground are, for the most part, consumer goods industries, particularly textiles, which every country aspires to make for itself. With a dwindling export trade, it is these British industries which are most likely to feel the draught if, under the common market, the home market is thrown open to unrestricted European competition. In the past couple of years, the U.K. Government has withstood considerable clamour from Lancashire demanding retaliation against heavy imports of Indian and Hongkong cotton cloth, both of which enjoy preferential entry into the U.K. We may expect the argument to reach a higher pitch of intensity if and when Lancashire is faced with the prospect of the duty-free entry into Britain of Continental cotton goods. India's hard-won footing in the U.K. market for her cotton goods will also be challenged by new entrants. In the same way, neither Dundee nor Calcutta manufacturers of jute goods can be expected to welcome the opening of the U.K. market on equal terms to Continental jute spinners. None of these things are going to happen overnight, but they are the long-term goals of policy and represent the price which Britain will have to pay for entry into the common market. Some industrial readjustment will be inevitable, particularly in high cost textile industries, both in the U.K. and in those countries for whose fabrics it provides a sheltered market.

For many, such as the protected industries and some of the protection-minded trade unions, the common market proposals look like a leap in the dark. Others are frankly cynical and say that agreement between nearly a dozen European countries will never be attained, and that in the end the scheme will come to nothing. France, which feather-beds both her agriculture and her industry, is a waverer and almost certainly neither she nor the Scandinavian countries will join unless Britain comes in to offset the preponderance which Germany would otherwise enjoy. France has also raised the question of her colonies; the permutations and combinations of argument are manifold and already a good deal of poker-faced bargaining is going on behind the scenes. No one has yet come forward with a clear proposal as to how members of the common market would deal with the balance of payments problems that would inevitably arise. Looked at from the point of view of sterling, the German mark is considerably undervalued at its present rate and the French franc much overvalued. Are the participating countries prepared to make the necessary currency adjustments to give the common market a reasonable start? And, after it has been launched, how do we maintain a reasonable equilibrium among the members? Variable exchange rates or a clearing mechanism on the lines of the E.P.U.? These and many other questions remain to be answered.

Big Developments

Yet the whole concept is gaining momentum. By the time these lines appear in print, there will probably have been a debate in which the House of Commons will have signified its approval of the broad outlines of the scheme, and early in the new year negotiations between Governments will begin and the real hurdles will reveal themselves in stark outline. Withal, there is a very real feeling that we are on the eve of big developments —the biggest since Britain's abandonment of free trade in 1931. Large prizes are at stake, and in Britain it is realised that not the least is that the common market offers an opportunity of binding Germany more closely to western Europe, as well as of participating on level terms in a market that may prove to be the seed of a closer western economic and political alliance. But by the arrangements which Britain contemplates, she will not turn her back on the Commonwealth. As the French see it, she is as usual merely trying to get the best of both worlds!



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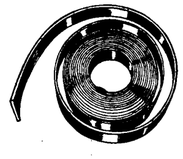
At the end of the rolling, we get coils of flat, steel strip—skelp, as the steel man calls it. The skelp is passed on to the Indian Tube Company, which welds it into tubes.

So what?

Merely that steel tubes pipe up water from deep inside the earth to parched fields, helping to grow a rich harvest. In the cities, countless homes receive a protected supply of water through these pipes.

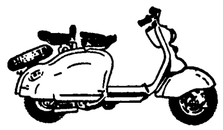
Soon, a new plant will turn out the kind of steel tubes that go into the making of bicycles. Remember also that the locomotive speeding along the track is kept going by steel tubes which hold the steam.

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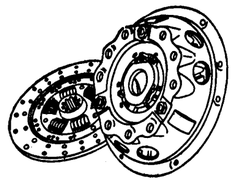
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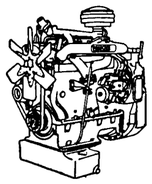
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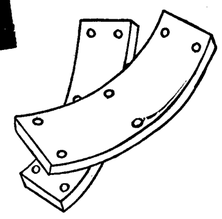
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THE SOCIAL COSTS OF ECONOMIC PROGRESS

CRIME AND CONFLICT IN AN INDUSTRIALISING SOCIETY

● By NEIL McINNES ●

IN the "backward" or under-developed countries that have lately entered on the process of planned (i.e. hurried) industrialisation, educated people at least are generally familiar with the notion that economic progress has "social costs". In other words, we accept in a general way the fact that industrialisation, urbanisation and the replacement of a subsistence economy by an exchange economy all combine to produce changes even in those parts of social living that have least to do with money and markets; further, that many of these changes are decidedly unpleasant. This is not just equivalent to the ancient philosophical maxim (nowhere more current than in India) that in getting materially richer we do not necessarily get happier. The notion of social costs goes further than that, and points out that attempts to reorganise and multiply the instruments of production inevitably cause social disturbance and mental suffering which, however they might be palliated, have to some extent to be accepted as part of the price for economic progress.

This general idea covers such facts as the following: that millions of people cannot move from rural pursuits to factory work without showing the strain of a revolution in all their habits and feelings; that new economic processes involve the break-down of age-old customs and connections; that unfamiliar work, strange surroundings and new sources of income can vastly affect a man's attitudes to his family, his religion and his neighbour. To state an example which is only an example and is not meant to be a *résumé* of the case: we cannot throw up dozens of steel and textile mills without wreaking changes in sexual relations, the structure of the family, the suicide rate, and generally in men's feelings about honesty and violence.

Many of the social changes that accompany economic progress are felt as painful just because they are *changes;* the upset of old social patterns is uncomfortable in itself, even if it leads on at once to a new stage of comfortable adjustment. Others of them long continue to be felt as painful because they leave a void that nothing in the new situation, even economic prosperity, come readily to fill—gaps in the social fabric which are felt by the individual as loneliness, insecurity or confusion. And, finally, others of them, again, produce positive evils previously almost unknown in a largely rural society, the evils peculiar to an industrial slum or to a money-obsessed middle class.

All-pervading Effects

It is essential to realise that not all, by any means, of the social costs of economic progress are borne by the working classes. There is a type of socialist sentimentalism that asserts this—and there is a type of capitalist employer who feels that if it is true, then social costs can be ignored. On the contrary, industrialisation revolutionises social behaviour in all classes. Some of its first burdens fall on those distinguished interests vested in agricultural feudalism, from princelings to *zamindars*. Some of its most tragic burdens fall on the middle class, which feels the dissolution of the family and of moral habits most keenly. And some of its heaviest costs are levied on the very people who, financially, do best out of industrial enterprise—as the hackneyed Hollywood picture of the millionaire reminds us. This fact brings to light another of equal importance: that the social disturbances of industrialisation are not the fruit simply of low wages, of economic want, of "exploitation" or "oppression". It is not merely low wages that produce slums; and it is not only in the slums that the strains of economic progress are felt. The social costs of material advance will be felt no matter at what level of wages the new working class is recruited from the old society—indeed, as certain tensions in North American society show, some social costs are precisely exacerbated by high wages and a plenitude of comforts.

But the fact remains that in India the new working classes for expanding industrialism will be recruited at very low wages. Capital is scarce and slow to fructify, while labour is plentiful. The limitation of consumption, the canalisation of investment to basic industry, the husbanding of foreign exchange, all taking place in a country where living standards are already low and where population is quickly rising, mean quite inevitably that for the working classes at least the discomforts of social change are being super-added to economic discontent. In other words, planned industrialisation entails requiring large parts of Indian society to suffer extensive social re-adjustment for the sake of material compensation that is slow to appear.

The Indian Outlook

It is not surprising, therefore, that in the ancient civilisation of Asia, the social revolution that accompanies industrial progress is often seen as a threat to the very fact of civilisation; or that what planners and progressives call social "stresses" are regarded by others as the plain dissolution of society and culture. This attitude is naturally most common in Indian, and specifically Hindu, society, which is not simply ancient and traditionalist but is founded, as the caste system illustrates, on an ideal of changelessness. It leads to a passionate rejection of material progress on the grounds that the social costs are too high: this reaction is particularly vigorous where it is perceived that "social costs" will entail grave consequences for religious practice, as they will everywhere but, especially, in the peculiar case of Hinduism. Mahatma Gandhi is, of course, the greatest exemplar of this perennial attitude to the social costs of economic progress. The Indian political party which rightly claims the closest allegiance to the Mahatma's views, in fact, repudiates his doctrine on this point, and takes the progressive line that economic progress has to be pushed forward at any cost, including any social cost; that social costs can and must be minimised, but must also be paid.

This healthy determination to meet the social costs of progress is seldom clearly confessed, for obvious political reasons. The Congress Party mostly prefers to emphasise one or other of its two alternative social policies: modified Gandhism, or socialist planning. That is to say, when conservatives or the spokesmen of some specially affected interest point to the high social costs of economic advance, the Government can offer either: modified Gandhism, which claims to be able to carry forward into the new economic situation much of the old society unchanged; or alternatively, socialist planning which claims to be able to plan the social revolution painlessly as well as the economic revolution, or more boldly to plan social costs out of existence. An instance of the first is the effort to marry the handloom and the automatic loom in one coherent textile policy. An instance of the second is Mr. Nehru's familiar conception of labour-management relations in industry.

I offer no criticism of either of these social doctrines. They are political ideologies, and thus largely beyond the reach of factual criticism. Two observations suffice. Firstly, there is this much truth in both, namely, that we do not have to be fatalistic about all social costs, some of which can indeed be mitigated by intelligent planned intervention. Secondly, it would be highly dangerous to believe in either wholly, for the fact is that no amount of socialist planning or of Gandhian palliatives is going to eliminate the painful social costs of the economic revolution that is now under way in India. This country is not going to move smoothly and painlessly forward into industrialism, either maintaining her old social structure unchanged or revolutionising it without disturbance or suffering for anyone. The desire to telescope the Industrial Revolution of Europe into a short period without paying any of the high social costs imposed, or at least tolerated, by 19th Century economic liberalism is admirable; it is the policy of bold and humane leaders. But it contains a measure of illusion. It may well be possible to avoid here some of the blackest sufferings of the Industrial Revolution in England; but Indian society, from its size and structure, will inescapably meet other difficulties just as serious.

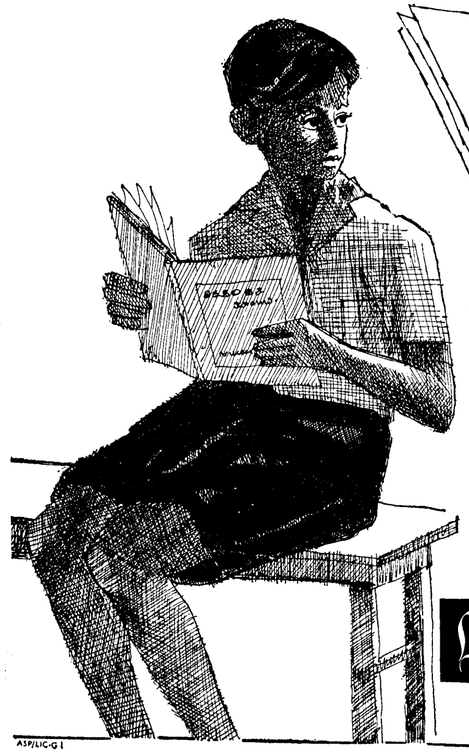
We can, without cynicism, assume that India's planners know this, and that they are more realistic than their facile optimism about having the harmonious welfare State *and* fast industrialisation both together would suggest. Any less realistic attitude would be unbecoming in a politician. The political party that is in power during an industrial revolution can never afford to lose sight of the fact that precisely in the measure that its economic policy succeeds, it will get less credit for material progress and more blame for the social upsets that material progress causes. This is attested both by the annihilation of liberalism in Western Europe and by the repudiation of Stalin in present-day Russia. The economic revolution devours its own parents. When the last five year plan is over, citizens do not say "Look at the material gains we have made"; they say "Look at the social costs we have paid". But meanwhile the pressure of economic want, of stark poverty, leaves no choice: progress towards industrialism has to be continued and hastened, and the social costs have to be suffered as they arise, mitigated where they can be.

Continued Re-adjustment

Before going on to consider in some detail the variety and magnitude of the social costs liable to be imposed by economic progress in India, two important and perhaps comforting facts must be noted. Firstly, the period of social disruption on which India has already entered is not the peculiar fate of an old and stationary society that more or less suddenly launches into industrialisation. It is not a once-for-all stage of growing pains, a sort of revolutionary nightmare after which we wake up in the harmonious welfare State. It is, on the contrary, the common and continuing condition of all modern civilised life. All advanced industrial societies live in a perpetual process of social re-adjustment. It was not just the first coalmines and the first steam engines that extracted a toll of social costs in England; every new invention, every new industry still requires that some social cost be met, even in the most advanced economy. As the bastions of the old Indian society begin to fall, as the undivided family disintegrates more quickly, as money values make their way further into the rural economy, as urbanisation increases, it may or may not be comforting but certainly is sensible to reflect that the country is not being thrown into an apocalyptic convulsion but is simply entering into the common state of all advanced economies—what in the United States has aptly been called the permanent revolution. The social upsets that will accompany the realisation of the Indian five year plans can only be regarded as pathological if one holds that all modern civilisation—capitalist, communist or socialist—is diseased. Some people, not least in India, do hold just that; but to condemn the whole course of history is an awkward posture, never maintained for long.

The second extenuating fact is that although in a period of social re-adjustment we notice more the signs of disintegration and rupture, there are continuously at work also forces tending to new forms of association and stability. We notice more vividly the break-up of the old institutions, the loosening of the old bonds of cohesion, the decline of the old morality. We see much less plainly, exactly because they are new, the emergence of new fellowships and new codes of morality. As the promiscuity, the confusion and even the depravity of urban industrial life claim a larger proportion of the population in this land of villages, it is the decay of the ancient framework

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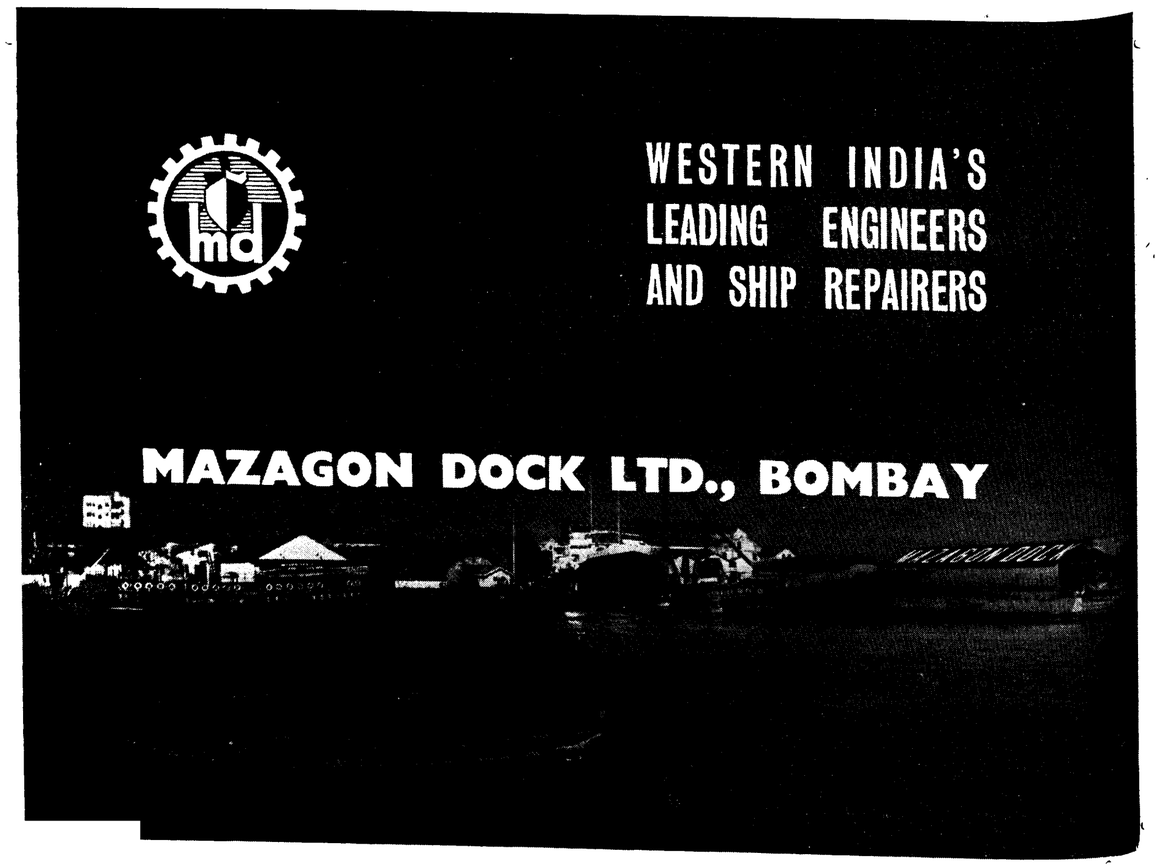
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of caste, family and religion that will be most obvious, most deplored. The forms of association that will arise in the new circumstances will attract less attention, and we cannot predict in advance what they will be. As the old Hindu family breaks up, it does not throw individuals entirely on their own but is replaced by a family unit of a new size and with a totally different economic basis. What that new family will be like we cannot predict in advance; it will probably not be the Western "natural" family but will have some extra "appendages". But it *will be* a family, a stable sort of connection, which, after the present period of break-down, will take over the family's ancient work. It is necessary to bear this constructive aspect of social change in mind when we proceed to the otherwise rather depressing enumeration of the social upsets brought on by industrialisation.

Social Maladies

All of the social disturbances of which mention will be made here are already familiar in certain parts of India, and will be recognised by those who live in Calcutta, Bombay, Ahmedabad, Kanpur and a few other industrial towns. The only originality of their presentation here is to show that they all occur together as consequences of economic progress, to show that they are being suffered in other developing countries besides India in almost identical form, and to suggest that they are destined to become more acute and more widespread as industrialisation continues under the ever-more-ambitious five year plans.

It is not very helpful to list the symptoms of "socio-cultural disequilibrium" that emerge in developing economies: abnormal sex ratios, the break-up of the family, marital instability, the commercialisation of sexual and family relationships, increased prostitution, alcoholism, increase in mental illness, violence in industrial relations, exacerbated communal, linguistic and provincialist struggles, juvenile delinquency especially in the form of children's gangs, increased adult crime, the decay of craftsmanship and professional morality and the increase of political extremism. All of these symptoms of social disruption are to be seen in the industrial slums of Shanghai and Calcutta, the shanty-towns of Algiers and Casablanca and in the industrial centres of West Africa. The important thing is to establish their common connection with growing industrialism and to discover the varying incidence and intensity of each symptom in each city.

It is difficult to separate industrialisation from urbanisation in the ætiology of these social maladies. Thus, the concentration of rural people in the sprawling cities of India has been caused as much by famine and refugee movements as by industrialisation. But it is often the hope of benefiting from industrialisation that holds these migrants in the cities, and, in any case, industrialisation produces by itself a vast migration of rural populations to the cities. So we must take both industrialisation and urbanisation as the joint causes of much social disruption. To the extent famine and refugee movements have caused concentrations in the cities, they have merely anticipated industrialisation by a few years and provided the mass of city-dwelling labour that industrial expansion needs. Moreover, after the failure of much rural resettlement in India, Governments purposely promote industrialisation in order to absorb refugees—so again the disrupting effects of both causes are super-added.

More Divisions

Industrialisation first appears in the stable societies of Asia as the work of foreigners, and this fact is of dominating social importance. It marks, right from the beginning, a cultural break between the old society and the new, the native and the foreign. This gap or hiatus between two cultures in every way exacerbates the difficulties of the transition from one type of economy to another. It should mitigate our optimism about India making a smoother transition to industrialism than England did, for in the latter country at least the advance to the new economic policy was made within one language and culture, under the sign of one native law. Not only that, but this fact suggests a fatal weakness in attempts to promote industrialisation under the regime of political imperialism, for this doubles the already considerable gap that has to be bridged between the old culture and the new. Foreign industry will prosper best not only under a regime of political independence but when surrounded, and as it were insulated, by a protective layer of native or domestic industrial enterprise.

Even then, however, industrialism erupts into the old society as somethng essentially foreign. Domestic industry under an independent political regime is still designed on a foreign model, uses to some extent a foreign language (here English), and has to enforce a foreign law—commercial law or the law of master and servant. For the village masses Harrison Road is scarcely less "foreign" than Clive Street. Even in a developing country like Mexico, where the colonial past is distant and politically forgotten, industrial enterprise, be it private or public, is to the masses foreign, and works under a system of law different from that followed by the majority of the people.

New Surroundings

Further, the necessary concentration of commerce and much industry in cities or at least in industrial townships adds to their foreignness in the eyes of the rural people, for whom the cities, even in Moghul days, were another world. The antagonism between city and country, between urban and rural life, has always been keener in Indian agricultural society than in Europe where cities were a more "natural" growth. (A thousand years ago London and Paris were already just where they are today, but Calcutta and Bombay were nothing even 300 years ago.)

Now the net result of these circumstances is that when a working man is recruited from a Bihari village to an Indian industry he is as it were projected into a totally new world, where not only is he required to do quite new work and to accept payment in unfamiliar sums of money, but where the authorities, even if they are Indian, speak a different language and enforce a different law. All the old bonds and supports of family, caste and village democracy drop from him and he is offered in return, outside of his purely formal status in labour law, nothing more secure than a supposed "trade union" whose leaders are hardly less foreign to him than his employers, and whose aims are political and hence, to him, quite mysterious. One does not have to show great psychological subtlety to follow out the connections between this position of insecurity and anxiety, and the symptoms of maladjustment, which can range from the innocent Bihari noisiness of night-long musical performances in the heart of a sleeping city to the drunkenness common before prohibition in the Bombay cotton mills, and even to the savage violence of workers who throw overseers into pots of molten metal. One sees in these reactions the effort to pretend that the industrial city does not exist, or to forget that it exists, or to annihilate those apparently responsible for its existence.

It might be useful to observe at this stage, in parenthesis, that this projection of the country-dweller into the unfamiliar and unhingeing atmosphere of the factory has been going on in India for almost a century, and with especial rapidity since the last war, and that the present industrial plans propose to multiply the movement a hundredfold. It is consciously, and properly, intended by the planners to move millions of Indians under these or similar conditions from agricultural employments into industrial life.

Oscillation between Cultures

The situation of the new recruit to industry would be bad enough if he were thrown into this environment to stay, as he was in England where the enclosure of agricultural lands prevented his return to the countryside. But in India where so large a part of industry is seasonal and where workers move back and forth from factory to village, the worker is required to perform the feat of oscillating from one culture to another, and this is a further cause of tension and instability. In this, admittedly, he is not alone; the Bengali or Gujerati clerk who works in a modern firm oscillates from one world to another every day. But this only suggests that similar disturbing causes are at work among the educated middle classes.

Next, the age and sex structure of Indian industrial centres is highly curious and quite opposed to elaboration of new and stable social patterns. Industry attracts, first, men and mostly active young men who must live for long periods without women. It is not denied that the old Indian society provided powerful training in sexual abstinence which makes this segregation of the sexes more bearable, but the amusements and the revenues of city life tend in the opposite direction. Moreover, the separation from the civilising influence of mothers and women relatives has a deteriorating effect on behaviour generally. The results of this condition are not only the obvious sexual ones of greatly increased prostitution, the commercialisation of all sexual relations, an aggressive anti-feminism (this is often notable among isolated Bengali youth) and a morbid glorification of film stars, but also apparently unconnected demonstrations of impatience, unreasonableness and violence among working men and city youth. In India an older civilised tradition has so far at least offered protection from some of the worse consequences of this condition, which are to be seen in the industrial centres of West Africa where the aggressive competition for women has become openly pathological.

Another result of the break-down of the old sexual morality is not at all to be deplored: this is the new status women acquire in the villages and within stable urban households. The greater independence that women can more easily claim in a time of moral stress does admittedly for a time produce new troubles, but ultimately issues in a healthier and freer position. One can expect to see the present movement toward greater rights for women, both as regards property and social status, gather strength with the progress of industrialisation and social reorganisation.

Age and the Family System

The age structure of Indian society as a whole is naturally unbalanced by the fact of increasing population, which lowers the average age of the whole population. Industrialisation accentuates this by tending to concentrate certain age groups, just as it concentrates one sex, in the centres of greatest activity. The result is that cities like Calcutta and Algiers are essentially very young cities, which no doubt accounts for the immaturity, not to say, puerility of many political demonstrations and the tendency for political action precisely in the centres of greatest political importance to degenerate into adolescent escapades. The concentration of students in the same centres assists this process.

But it is the decay of the old undivided family, with its roots in an ancient agricultural communism, that is most noted and most painfully felt in those parts of society affected by industrialism and the monetary economy. It is easier to share a grain harvest than to share a fortnightly paycheck. Further, the factory and the office reward members of a family in accordance with new standards of skill and training, which have nothing to do with the old hierarchy of authority within a land-based family. Younger sons who may be earning twice or three times as much as an elder brother, see less grounds for his authority, and their wives see even less for the feminine hierarchy. The relative of yesterday becomes the parasite, the bully or the miser of today. Moreover, the price inflation that goes with industrial expansion means that with the best will in the world the old revenues will no longer support the whole family, and idle members are driven out on to the labour market, to produce the odd phenomenon of inflation directly causing an increase in visible unemployment. But if disguised under-employment and parasitism are uncovered within many families, the migration to the cities of hopeful workers who have to wait for a job produces a new form of parasitism when they attach themselves to relatives or mere fellow-villagers who already have work.

Effects on Children

The decline of family authority and the transfer of populations to the cities remove many of the old restraints over children, who perhaps suffer most in the movement away from the countryside. In England during the Industrial Revolution this was overcome by what we now regard as the inhumane method of taking the children to work in the factories and mines with their parents. The anxiety of parents to have their children safely at work, especially in cities that provided no compulsory education, explains the fact of child labour in 19th century England more than the greedy heartlessness of employers, which is why Shaftesbury's reforms were opposed by the working people. At all events, this apparently cruel abuse avoided the other evil of children running wild in cities, forming gangs and falling into juvenile crime. Delhi has so far suffered more from this than perhaps any other Indian city, but it is to be found if one cares to look in any industrial slum. (Incidentally Cyprus, which quite apart from its political troubles is suffering the transition to the new economy, shows this increase in juvenile delinquency quite clearly; so does Nigeria.)

The inadequate upbringing of children in the new or growing industrial centres has progressively bad consequences, for the discontented youth of today are the parents of tomorrow, and will be so much the less able to provide the parental authority and domestic stability that they lost themselves. The unhappiness and moral confusion of the youth of present-day Calcutta, which is notoriously already a subject for anxiety, will bear further consequences in the next generation. The part that such defective home training plays in the growth of criminality is by now a commonplace.

The disruption of the family and the resultant disorientation of children are widely noticed in India because of the peculiar stability of the old undivided family system. But this effect of economic expansion is by no means limited to this country. It affects also the Muslim family in North Africa and the African family in the Congo, where

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populations drift to the industrial centres. And of course it is still going on in that immensely mobile society of the United States where the movement of population during and after the last war has been greater than is commonly realised, and is connected directly with juvenile delinquency, from the vicious children's gangs of Brooklyn to the Rock and Roll outbursts of their elders.

Population Movement

Quite apart from all other causes, the sheer numerical growth of the major cities in developing economies must generate a host of problems. Bombay, Calcutta and Dakar have doubled their populations in ten years; in the same period Leopoldville has quadrupled its inhabitants. In Morocco and the Belgian Congo one-fifth of the total population has drifted into a few cities. In many places these vast movements of population can strip parts of the countryside of all its active elements, so that the old society, which has its roots in the villages, dies of inanition even before the city-culture makes a direct attack on it. Within the cities, quite obviously, no proper reception awaits this migration: inadequate housing and public health services; often, as in Calcutta, an insufficient water supply; to say nothing of the virtual absence of social facilities to answer the non-material needs of the uprooted. The population of such cities is shifting and unstable; men move from place to place and from job to job often at no profit to themselves but just in order to stay alive, and without the time to acquire any single professional training or any civic bonds.

The prevalence of crime in these circumstances is difficult to establish exactly, because the migrants are moving from one legal code, that of the countryside, to another, that of the cities. Many types of behaviour that are immoral or even illegal in the cities are not so in the villages, and *vice versa;* the enforcement of the laws varies widely in the two situations. So generalisations must be made cautiously. Some of the outcries about an increase in criminality in industrial centres are quite mistaken. On the whole it seems that criminality in developing countries such as India has not yet reached the proportions of the highly industrialised societies.

Discords

What certainly does increase is the amount of conflict, often violent conflict, between members of different communities, religions, castes and provincial types. This happens naturally because hostile or unfamiliar groups are thrown together in the enforced promiscuity of the city or the factory. Communal animosity which used in India to have its main centres in certain backward agricultural areas is nowadays more commonly displayed in industrial towns, for example, Howrah and several towns in Uttar Pradesh. Provincial conflict is transferred from small border districts to big industrial factories, such as an Indian steelworks or an East Pakistani paper mill; while every major Indian employer knows that silent provincialism extracts a constant toll of inefficiency in office and workshop. Conflict is often only avoided by segregation of special groups, such as the Bengali colonies in the industrial towns of Assam and Bihar and in Delhi. These forms of isolation delay the emergence of new stable social patterns in the growing industrial centres and impose a social cost on many forms of economic progress.

Within the enterprise that the new workers join they must pay further social costs in the form of the discontent produced by poor industrial relations. The old intermediaries or jobbers (the *mukadams)* who recruit labour from country districts were intended to, and once did, alleviate the psychological hardships of the passage to new work. But just as often nowadays they abuse their authority, demand regular payments from the men whom they have placed in employment and generally hinder their adaptation to the new environment. This system is dying out in its open form in some industries (as in the tea gardens) but lives on in disguised form in many others. The trade unions, which should play a major role in adjusting workers to their new conditions, are usually too far split into shop unions and too much under political influence to attend to their social function. Some of the best help is nowadays coming from the employers' own labour staff, but this type of service is still limited to leading firms. It needs to be extended, and especially to be convinced of the fact that the technical adjustment of the new worker to his job is usually much easier and less important than his social adjustment to the whole atmosphere of city life in the industrial economy.

This enumeration of the multifarious social ills produced by industrialisation and urbanisation must be closed with the reminder that they are being undergone by men who are receiving very low wages and who thus must live in conditions that would be distressing even if they were familiar and stable, which they are not.

Mental Cases

It is to be expected that this combination of circumstances would submit many people to mental strain which in a proportion of cases leads to frank mental break-down. We quite lack figures on this subject in India but observation shows that the incidence of mental illness is already much in excess of the public facilities to treat it. Most employers will have had the distressing experience of having to turn out a neurotic or even simply mad employee with the knowledge that almost nothing will be done for him. The village idiot and the wandering city lunatic are a familiar spectacle in India and show that even the old society was quite without the means to deal with a type of illness that must be expected to increase exactly with the progress of industrialisation.

Price must be Paid

This list of the social costs that must be paid for economic progress is, as I promised earlier, depressing. But for all that it seems enormous when thus isolated as here under a special heading, we have a right to persist in the faith that it is worth paying for the economic, and eventually social, benefits that will be drawn from industrial progress. Secondly, even the worst forms of conflict often cover without totally concealing the emergence of new forms of unity, as the provincialist and communal tension of the industrial towns covers the birth of a new type of Indian, the man who is an Indian before he is a Gujerati or a Jain. This unity could not be forged without the tension of city life; hundreds of years of the old subsistence economy did nothing to reduce such differences. Thirdly, some at least of the social disruptions caused by industrialism are purely temporary, and we cannot judge the process by its early stages but only by its later. For all that, it remains true that economic progress releases solvents whose action will continue for centuries, to judge from Western experience.

The Right Attitude

What practical attitude can we take to the social costs required by industrialisation, what can be done about them? Leaving aside the pretentious ideologies referred to before which claim to be able to operate the economic revolution without tears, we would do well by beginning with the admission that we cannot do nearly as much about them as we might wish. Economic advance is going to be socially painful. The notion of global planning, which might have some place in the economic sphere (though not as large a place as it is sometimes assigned) has very little application to the field of social relationships. We can plan to produce steel and cement, but it is much more difficult to plan to make men like producing steel and cement—and, of course, the real problem is to make a whole society like a new way of living, which admits of no planning even by a dictator. Still we do not have to adopt the fatalistic attitude (which the tough old liberal shares with the tougher Communist) that nothing can be done to reduce social costs. The first requirement is to know what social ills are being produced by economic change, and this at once calls for more sociological research than is now going on in India. As particular difficulties arise, remedies may suggest themselves. In general we can say that in Indian planning more consideration should be shown to the proposals of education ministries and other social service departments, not of course when they come up with grandiose schemes to distribute welfare benefits that have not yet been earned, but when they devise ways to alleviate distress directly caused by the process of industrialisation. But fundamentally social costs are not an economic problem at all. The term "social costs", which I have used throughout because it is the current coin, is in fact an economist's barbarism, invented to designate cultural and political difficulties that arise outside the economic sphere but under the influence of economic changes. Social costs are a political problem, and like all such problems will be solved not by planning but by political pressure, calculation and compromise.

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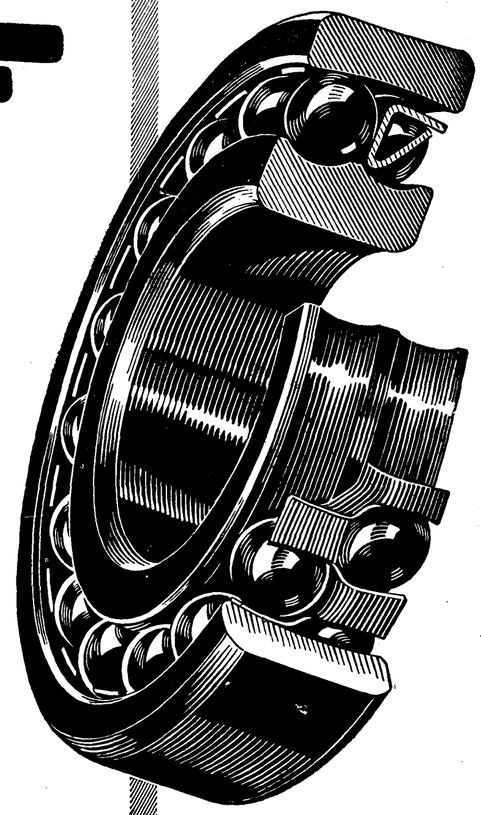
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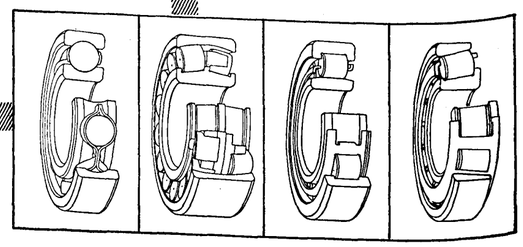
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FOREIGN EXCHANGE NEEDS OF THE SECOND FIVE YEAR PLAN

• By DR. V. K. R. V. RAO •

(*Director, Delhi School of Economics*)

THE second five year plan envisages a total expenditure of Rs. 7,200 crores during the five-year period 1956-61, of which Rs. 4,800 crores represents expenditure in the public sector and Rs. 2,400 crores in the private sector. The recent speech of the Finance Minister in Parliament has revealed that the planned public expenditure has to be further increased by Rs. 400 to Rs. 500 crores, partly because of the errors and omissions in the previous estimate, and partly because of higher domestic or external prices. No indication has been given of any corresponding revision of the estimates for outlay in the private sector. Assuming that the same rate of increase holds good in the latter as well, the revised figure of expenditure under the plan will now be Rs. 7,800 to Rs. 7,950 crores. It will not be unreasonable to take for purposes of this discussion a total of Rs. 8,000 crores of which Rs. 5,400 crores belongs to the public sector and Rs. 2,600 crores to the private sector.

Insufficient public attention has been paid to the problem of external finance involved in the character of this huge outlay. Expenditure envisaged under the plan, whether in the public or the private sector, inevitably includes items, both goods and services, which will have to be obtained from abroad. Account must also be taken of the increased demand for imported consumer goods and services that may arise from the increase in the national income following the increased investment outlay, unless of course special steps are taken to check the increase in consumption. Financing the plan, therefore, does not mean merely collecting enough rupees; foreign exchange has also got to be found to the extent required, and its effects on the national consumption of imports will also have to be fully realised.

Estimated Imports

The following table shows the estimated level of imports required during the plan period:

Items	(Crores of rupees)
Machinery and vehicles	1,500
Iron and steel	430
Other metals	220
Grains, pulses and flour	240
Sugar	35
Oils	410
Chemicals, drugs and medicines	160
Dyes and colours	85
Paper and paste board and stationery	55
Cutlery, hardware, electrical goods and apparatus	145
Raw cotton	270
Raw jute	90
Others	700
Total	4,340

If we take the annual average of anticipated imports during this period and compare it with the figures of actual imports in 1955, we find an increase of Rs. 213 crores, or nearly 33 percent. Details are given below:

Items	1955	Annual average of 1956-61	Difference	% Difference
Machinery and vehicles	159	300	+ 141	+ 88.6
Iron and Steel	50	86	+ 36	+ 72.0
Other metals	25	44	+ 19	+ 76.0
Grains, pulses and flour	35	48	+ 13	+ 37.2
Sugar	20	7	− 13	− 65.0
Oils	63	82	+ 19	+ 30.2
Chemicals, drugs and medicines	34	32	− 2	− 6.0
Dyes and colours	18	17	− 1	− 5.6
Paper, pasteboard and stationery	14	11	− 3	− 21.4
Cutlery, hardware, electrical goods and apparatus	36	29	− 7	− 19.4
Raw cotton	54	54	—	—
Raw jute	17	18	+ 1	+ 6.0
Others	130	140	+ 10	+ 7.7

It will be seen that the major items of increase are ... and steel, other metals, foodgrains, and oils. All these items except foodgrains reveal the important effect that industrialisation will have on the country's demand for external currency. The absence of any rise and, in fact, the anticipation of a small fall, in the other items shows that credit is being taken for a successful policy of preventing any rise in imports of consumer goods and raw materials in spite of the anticipated increase in the national income during the period.

Estimated Exports

On the export side, the following figures are given of the estimated level of exports during the plan period:

Items	(Crores of Rupees)
Tea	635
Jute yarn and manufactures	610
Cotton yarn and manufactures	375
Oils	110
Tobacco	75
Hides, skins and leather	140
Cotton, raw and waste	110
Metallic ore and scrap iron and steel	115
Coal and coke	25
Chemicals, drugs and medicines	25
Cutlery, hardware, electrical goods and apparatus and machinery	20
Others	725
Total	2,965

If we take the annual average of anticipated exports during the period and compare it with the figures of actual exports in 1955, we find a small fall of Rs. 3 crores or 0.5 percent. Details are given as follows:

Items	1955	Annual average of 1956-61	Difference	% Difference
Tea	112	127	+ 15	+ 13.4
Jute yarn and manufactures	126	122	− 4	− 3.2
Cotton yarn and manufactures	63	75	+ 12	+ 19.0
Oils	39	22	− 17	− 43.6
Tobacco	11	15	+ 4	+ 36.3
Hides, skins and leather	27	28	+ 1	+ 3.7
Cotton, raw and waste	35	22	− 13	− 37.1
Metallic ore and scrap iron	20	23	+ 3	+ 15.0
Coal and coke	4	5	+ 1	+ 25.0
Chemicals, drugs and medicines	4	5	+ 1	+ 25.0
Cutlery, hardware, vehicles, electrical goods and apparatus and machinery	4	4	—	—
Others	151	145	− 6	− 4.0

It will be seen that in absolute terms, the major anticipated increases are only in two commodities, namely, tea and cotton yarn and manufactures, and even in these, the percentage increase is below 20: while there are major decreases in two commodities, viz., oils (other than mineral oils) and raw cotton, in both of which the percentage decrease is above 36. The comparatively small increase in absolute terms in the other items shows the rather melastic character of our export economy.

Invisible Earnings

In addition to commodity trade, there is also the trade in services or what is caled the invisible account. On this, there was a surplus of Rs. 72 crores in 1955. It is expected that this will fall during the plan period, the annual average being expected to be Rs. 51 crores or nearly 30 percent less than that in 1955. It is stated that compared with 1954-55, net payments of investment income

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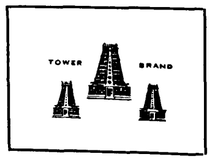
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are estimated to be higher by an average of about Rs. 20 crores a year, while no significant change is expected on other items such as foreign travel, transportation and private donations.

Thus, the anticipated receipts and payments on current account of our foreign trade during the plan period is expected to be Rs. 3,220 and Rs. 4,340 crores respectively, leaving a deficit of Rs. 1,120 crores, or on an average, of Rs. 224 crores a year. It is proposed to raise the amount in the following manner:

	Rs. crores.
Withdrawal from sterling balances	200
Expected net inflow of private capital	100
External finance to be raised by the Government	800

Of the second item, Rs. 22 crores is already available as the undisbursed portion of loans made by the International Bank to the private sector in India, leaving still a balance of Rs. 88 crores. Of the first item, Rs. 170 crores is already available, consisting of Rs. 94 crores of the undisbursed portion of past authorisations, Rs. 43 crores of net credit from Soviet Russia for the Bhilai steel plant, and Rs. 33 crores from the British Government and a consortium of British bankers for the Durgapur steel plant. The balance still to be found on items 2 and 3, therefore, totals Rs. 718 crores. It must be added that these figures are on the basis of a total planned expenditure of Rs. 7,200 crores during the current quinquennium. We have seen that on the basis of more recent data, this figure is likely to increase by Rs. 800 crores or about 11 percent. If we assume that the requirements of external finance will increase in the same proportion and if we make the moderate assumption that this will apply only to the deficit of Rs. 1,120 crors, it means an additional requirement of Rs. 123 crores. That means that the balance of external finance required will be Rs. 841 crores, and not Rs. 718 crores as visualised in the Report on the second five year plan.

Gravity of the Problem

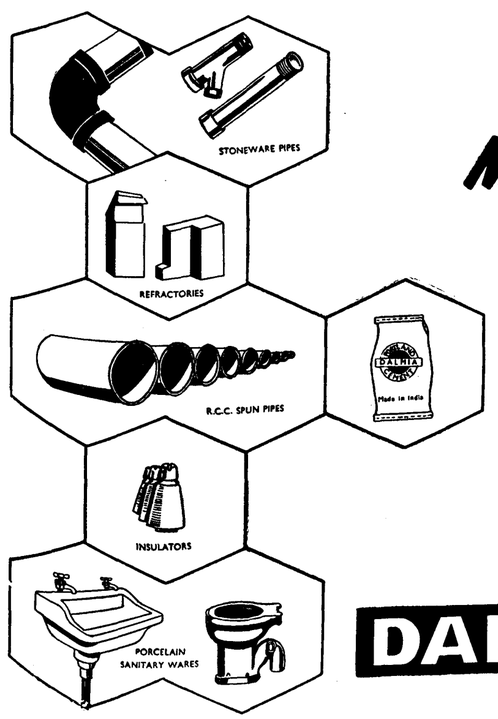
This bare recital of facts should be sufficient to show the gravity of the foreign exchange problem. Against an export of goods and net services to the tune of Rs. 628 crores in 1955, we have still to find an additional annual average of Rs. 168 crores during the plan period or an increase of about 27 percent a year, compared with 1955. The Plan lists the following possible sources for obtaining this amount: (1) floating public issues in foreign money markets; (2) arranging for bankers' credits and export credits for the supply of foreign goods; (3) borrowing from the International Bank and the International Financial Corporation; (4) loans and grants from other international institutions such as the United Nations, T.C.A. or the proposed United Nations Fund for Economic Development; (5) private foreign investment and (6) loans and grants from friendly foreign governments.

It is fairly obvious that items 1 and 4 will be somewhat negligible in amount. Item 2 is also not likely to be very significant over and above what has already been secured so far. As regards item 3, it must be remembered that loans from the International Bank to the Government totalled only Rs. 12 crores during the first plan period, and while a much larger amount is likely to be available during the second plan period, it is not likely to be significantly large in the context of the plan's need for Rs. 841 crores. Item 5 is also not likely to be materially large; for quite apart from the constant foreign queries about the absence of a proper investment climate for foreign private capital in India, the scope for participation for external private investment during the second plan period is limited to the fields of organised industry and mining which account for a total of only Rs. 575 crores, against the total plan outlay of Rs. 7,200 crores. That is why the Planning Commission itself has put its estimate of the net inflow of private foreign capital at only Rs. 100 crores. Under the circumstances, it is on item 6, i.e., loans and grants from friendly foreign governments, that major reliance will have to be placed for securing the balance of external finance required to implement the second five year plan.

Unsatisfactory Position

This is not a satisfactory position. If we make a rough guess and estimate the amount still to be found under item 6 at not less than Rs. 600 crores. it will equal, in terms of dollar loans and grants, $1.2 billion. It will be very unrealistic to expect that this amount could be obtained through any normal Indo-U.S. aid programmes, such as we have had during the last five years. During the first plan period, Indo-U.S. aid programmes amounted to an authorisation of Rs. 142 crores, in addition to which there was the special wheat loan of Rs. 90 crores. We have already secured a special commodity loan of wheat, cotton and tobacco; but this will at best meet the additional import requirements resulting from our investment outlay, over and above what has already been estimated in the plan. If this assumption is granted, then Indo-U.S. aid programmes will have to be stepped up to more than four times the amount obtained during the first plan period, which is most unlikely if it is to be a part of the normal authorisation for foreign aid that the U.S. Congress is likely to make in the next few years, as it would mean giving India a major share in U.S. global economic aid. The only way in which this could be done is for India to obtain a special development loan of about $1 billion or so, like the special reconstruction loans that the U.K. and France received from the United States at the end of the second world war; and this will have to be in addition to India getting a normal share in the annual U.S. authorisations for foreign economic aid.

All this is in the realm of conjecture. And the success of the second plan depends too much upon external finance for the matter to be left largely to this realm. The country has not sufficiently and clearly comprehended the gravity of the problem. There has been so much concentration on deficit finance that rupee finance looms large before the public eye; not so external finance. Foreign commentators have been talking about it, but not enough impact of the problem seems to have been made either on the collective mind of the Indian Government or on the mind of the Indian people. Our sterling resources have been drawn down by Rs. 200 crores during the first seven months of the second plan period, thus exhausting only in seven months what was supposed to be spent in five years. What is now needed is a carefully thought out and vigorous policy of maximising our external earnings. The public has to be made as much export-conscious as the British public were during the early years of the postwar period; and the balance of payments problem has to be made as much a part of popular consciousness as it is in the U.K. Every attempt has to be made to maximise our export earnings and keep down the import requirements to the possible minimum. All items of public and private expenditure, both in the plan and outside the plan, should be scrutinised and reassessed from the point of view of their foreign exchange component, and priorities assigned accordingly. It is foolish to embark on large schemes for public or private buildings if they are going to involve the import of cement or iron and steel; yet this is what is being done by producing new buildings for the Reserve Bank of India and for Central Ministries or State Secretariats. Similarly, it will be odd in this period of a foreign exchange crisis liberally to allow foreign exchange allowances for travel abroad for private citizens or public officials. There is a good deal that we can learn from the U.K. as to how to deal with our external finance problem. I am not suggesting that nothing is being done in this matter. All that I am urging is the need for more consistent and vigorous action on the part of the Government, and for much wider popular consciousness of the gravity of this problem.



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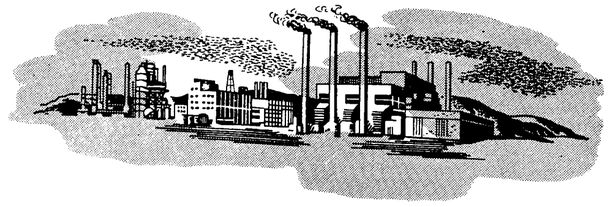
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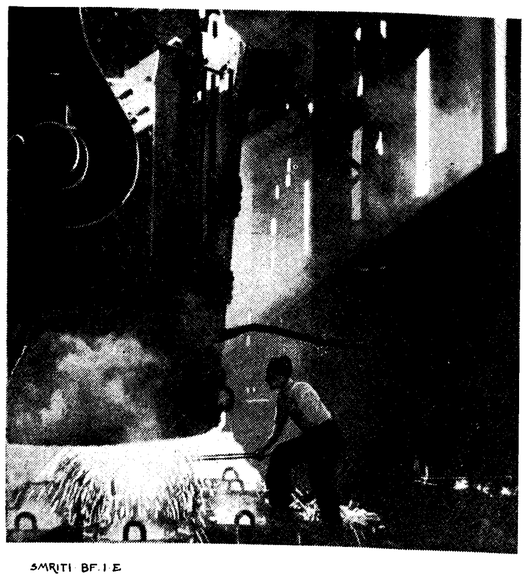
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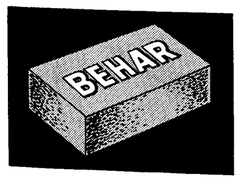
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A CASE FOR REVISING THE SECOND PLAN

MORE EMPHASIS ON CONSUMPTION GOODS URGED

• By P. R. BRAHMANANDA •

IT is nearly nine months since the second five year plan was inaugurated. One of its main objectives is to double the rate of growth of national income. Strong emphasis is laid on the rapid development of heavy industries. It is hoped that the resources which are required will be available as the need for them arises, and that the planning period will be characterised by a certain degree of stability in prices, wages and costs. The economy, it is believed, can sustain a considerable amount of deficit financing without it upsetting the equilibrium. That is why an expansion in money supply of more than Rs. 300 crores has been proposed for the year 1956-57. The need for foreign exchange is great, but hopes prevail that it will be possible somehow to get it. The general atmosphere of optimism has been tempered to some extent by the fact that the plan will provide employment only for the annual accretions to the labour force. Not much relief can therefore be expected in unemployment. It is in this context that the development of small-scale and cottage industries has been considered desirable. It may be interesting to study briefly the broad course of economic events since the commencement of the second plan. Do the trends justify the assumptions underlying it? Is there any reason to believe that the economy has followed the course chalked out for it? Or does the situation, as it has developed and as it is expected to develop on the basis of current trends, demand a reconsideration of the underlying ideas?

Annual Plans

The experience of the last few months does not support confidence in the soundness of the ideas and strategy of the plan. Official spokesmen have tended to drift away from the policies which were embodied in it. More emphasis is now being laid on increasing its flexibility and on the annual plans. In other words, there appears to be a reaction away from comprehensive planning towards *ad hoc* measures and a system of piecemeal planning. There are a number of reasons for this. Prices, of food and of several other basic goods, have been moving up. Since during the last few months there has actually been a reduction in the amount of money in circulation, it appears that the rise in prices may have been due to the increase in money supply during the last year of the first plan. The uptrend in prices has been halted temporarily, as it has been possible to draw heavily on reserves now that supplies of wheat have been promised by the United States. The rise in prices has led to a rise in the cost of living, so there have been demands from several workers for wage increases. A large addition to the money supply under these circumstances would bring inflation. The Finance Minister's optimistic assessment of the economic environment for deficit financing thus seems to have been unrealistic.

The rise in prices would have been accelerated had there not been heavy and rapid withdrawals from the sterling balances. The raising of external resources for the plan now seems to depend substantially on India's ability to attract foreign capital. There appears to have been an error of judgment in assessing the rate at which the economy would use foreign exchange resources. Commitments may have to be met to a substantial extent by curtailing imports of less essential commodities, but this could make many middle-class necessities scarce. It is even conceivable that import controls may have to be supplemented by the rationing of selected goods, or some revision of the pattern of investment may become inevitable.

Taxation and Borrowing

The Planning Commission's hopes of raising additional resources through taxation and borrowing does not appear to have been wholly fulfilled. There is talk of drastically overhauling the taxation system; but even if it succeeds, the results would show only after a period of time and the transitional pressures would not be alleviated. The idea of increasing indirect taxation on commodities in a period of shortages would meet with the same opposition as would rising prices resulting from deficit financing. In any case, it would then be difficult to prevent an increase in money wages. It appears, therefore, that the second plan has not taken into account the need for initiating a cumulative process of steadily raising the community's ability to save. The plan involves efforts which, if successful, would tend to increase output only after a relatively long time. In other words, the investment would not tend to raise substantially the economy's ability to save during the period of the plan. Therefore, its successful implementation depends on the Government's ability to enforce savings. The most conspicuous form in which this would manifest itself would be a rise in the price level. In a relatively free economy, there would be distortions in the price structure and the burden of forced savings would be distributed in a haphazard manner. Sections of the economy which would be least capable of bearing the additional burdens would be most severely hit. Naturally, such circumstances would soon bring controls and/or a slowing down of development efforts. Yet another feature would be that the price level would be rising at a time of substantial unemployment. The expansion of small-scale and cottage industries in order to provide a superficial solution to the unemployment problem would again create investment difficulties, and the volume of forced savings required to maintain a given tempo of investment would tend to increase.

Higher Agricultural Targets

It does not appear that the Government is fully alive to the implications of the second plan. Officials have been surprised by the economic trends of the past few months. Their reaction has been to initiate a number of *ad hoc* measures. In view of the rise in food prices, the agricultural targets under the plan have been revised somewhat radically. The cloth policy has also been modified. The shortage of foreign exchange has led to stricter control over imports. There has been a growing awareness of the need for foreign capital. The Government has thus become slowly and painfully conscious of the limited guidance that it can get from the assumptions and estimates of the second plan. Actually, the stipulated expansion in money supply has not taken place, and one might even hazard the guess that at the end of 1956-57, the aggregate expenditure on the plan will be substantially lower that what has been estimated. The Government's reluctance to resort to deficit financing will have other implications, as a number of calculations will have to be modified. It does not appear that the economy has reached a fair degree of stability at the new level of prices, as wage trends give reason for anxiety. Nor can one afford to be complacent about developments during the busy season, since there do appear to be some elements of incipient inflation. The reasonable scope for deficit financing appears to be small. Thus, the general prospects for the second plan—if there is no substantial inflow of foreign assistance—are not encouraging. This might lead, as stated earlier, to a curtailment of the plan, or to an elaborate system of controls. The prospects of the latter seem to be bleak. So there is reason to believe that the Government may resort to *ad hoc* measures. This would imply a substantial reduction in development efforts; the rise in the standard of living and in employment would be slower.

A Third Course

The question arises whether there is a third course. It may not be necessary, after all, to curtail the size of the plan. Its ideas are based on the supposed superiority of a system of unbalanced growth, implying strong emphasis on heavy industries. It was believed until recently that the success of Soviet Russia was due to this, but now it is a matter of grave doubt whether it has brought her system much stability. It is noteworthy that most of the eastern European countries—and China—appear to be laying greater emphasis on the need to expand the output of consumer goods. Much can be gained by adjusting methods to the different conditions in each country. India suffers from serious unemployment, much of it "concealed." Over a period of 50 years, the ratio of employment to total population has been falling. If the disguised unemployed could be absorbed in productive ventures, there would be a great acceleration in the rate of growth. The main trouble is that once new forms of organisation are introduced in agriculture and the surplus labour is thrown off the farms, its employment would depend upon the ability to procure more wage-goods ((food and other commodities). It is the inability to obtain from within the system the required additional supplies of wage-goods that makes the economy settle down to a state of unemployment equilibrium. Big investments which do not provide for a quick rise in the supply of wage-goods would be inflationary. It would be possible to obtain some surplus of wage-goods from various producers through voluntary or forced measures. If the economy could provide employment to all the additions to the labour force emerging as a result of population growth, and adequate mobilisation and other measures are taken, it would be possible to siphon off the disguised unemployed into other productive channels. The primary need then would be for more wage-goods, particularly food. Hence, the possibility emerges of initiating a high rate of growth by quickly expanding wage-goods output.

Full Employment

Until a state of full employment (connoting the disappearance of disguised unemployment) is reached, it is necessary to concentrate on rapid agricultural development. Once the disguised unemployed are taken away from the farms, agricultural productivity will rise with the improvements in organisation and techniques. The primary emphasis in planning, for a particular period, will thus necessarily have to be on a rapid expansion of wage-goods output, because such expansion could enable the utilisation of the potentialities of the consumption-goods multiplier.* If a disguised unemployed person has been consuming, say, Rs. 200 worth of goods, and the minimum wage is Rs. 400, Rs. 200 worth of additional wage-goods should be enough to procure for the economy labour effort worth at least Rs. 400. (This statement is obviously based on certain assumptions).

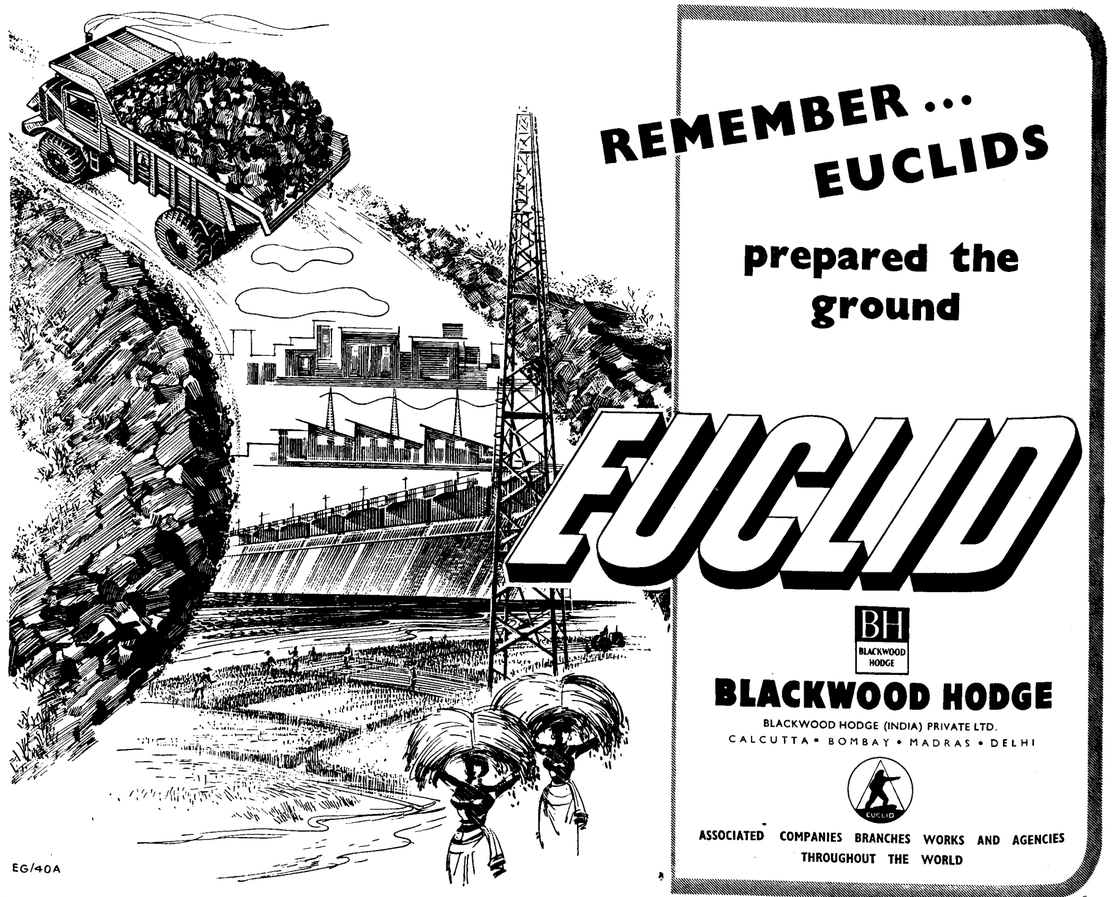
Such a course of action would have far-reaching effects. It would help political and economic stability. The friction and dissatisfaction created by shortages of consumer goods would be avoided. Much of the economy would remain relatively "free." The process of growth which is visualised is somewhat "unbalanced", in that the rate of growth of consumption goods output would tend to outstrip the rate of growth of population. The current fashion for unbalanced growth emphasises the need for a higher rate of growth of investment goods in relation to other commodities. But the first alternative would lead to a higher rate of growth in countries where there is much disguised unemployment. New situations demand new thinking and there is no reason why India should not set an example by formulating her plans in such a way that a quick rate of expansion is achieved at the same time as the economy is enjoying a high degree of freedom, political as well as economic.

* cf. *Planning for an Expanding Economy.* By Vakil and Brahmananda (Vora and Co., Bombay).

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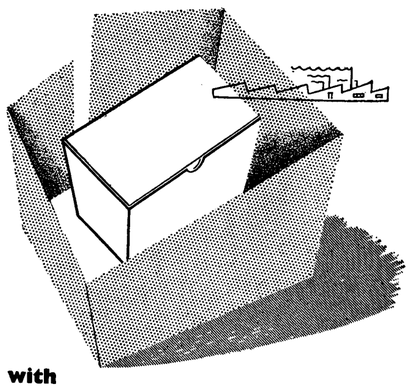
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PRACTICAL CONSIDERATIONS IN DEMOCRATIC PLANNING

DANGERS OF BUREAUCRATIC POWER

● By TULSIDAS KILACHAND, M. P. ●

IN a democracy, planning has to be by consent, not coercion. Any prudent Government intent on keeping its head above water would obtain popular approval for its plans before implementing them. For obvious reasons, human beings are averse to the Government's acquiring more authority over themselves, or squeezing out of them through taxes and other means more resources than is justified by its obligations. Experience will teach them that the more they expect the Government to look after them, the more they will have to submit to authority and exactions. Eventually, they will prefer to rely more on themselves and their voluntary organisations, leaving only the residuary functions to Governmental organisations. The education and persuasion necessary to obtain the consent of the people before they can be made to submit to more authority and heavier imposts, which is imperative in a democratic society, naturally make for a smaller proportion of social functions becoming Governmental obligations, and a slower pace of development of the State sector, than in a dictatorial society, which can afford to dispense with popular consent. This observation is borne out by the fact that no democratic society has allowed itself to go Communist, and the Governments of Soviet Russia, China and other Communist countries have come to acquire and continue to maintain totalitarian powers not by popular consent but through violent revolutions and repression. Total planning is, therefore, not practical in a democratic society in which the people and their organisations come to play a vital rôle, and the Government, the residuary, complementary rôle. Dictatorial methods might have certain advantages to begin with, but ultimately democratic methods prove economically more potent, because they give the fullest scope to spontaneous growth and call for a smaller diversion of resources for security measures. This is evident from the better performance of the West German economy compared with the East German. Besides, the experience of West Germany, the U.K., France and Italy indicates that in a democracy trade and industry fare better under popular initiative and enterprise than under State enterprise. It is now realised that the nationalisation programme of the British Labour Party has not yielded any net social advantage. Accordingly, the clamour for more nationalisation does not find popular support in that country.

Bureaucratic Power

Even in a democracy, the Government does have a central rôle to play in planning. It has to collect, collate and disseminate information; co-ordinate, regulate, aid and direct the activity of different sections; and undertake direct responsibility for providing social services—such as education, training and research, housing, health and sanitation, mineralogical and scientific surveys—as well as investing in social overheads, such as roads, irrigation and other public works and public utility services. It may even have to undertake investment in those industries which non-Government agencies are unable or unwilling to develop. This task, which no other agency would ordinarily undertake, is the legitimate function of Government organisations. Because of the neglect of these obligations during the nineteenth and twentieth centuries, the country's social services and overhead investment have fallen woefully behind. The limited resources of the Government in men and money would, therefore, best be concentrated on eliminating this lag. Their diversion to other purposes would be inadvisable if reliable non-Government organisations are prepared to look after them. The Government would be wasting scarce resources if, instead of utilising existing well-proven organisations of the people, it duplicated their effort by creating State organisations to supplant them. Moreover, Government organisations cannot be expected to excel in all fields, especially commerce and industry, in which other highly specialised forms have been evolved, whose superiority has been proved by thousands of years of human experience.

Nevertheless, the responsibility for development lies primarily with the Government. The commensurate authority to carry out such development should also lie with it. It is understandable that a Government assuming responsibility in any new field should be over-enthusiastic about its fresh obligations and over-confident of the capacity of its civil service to fulfil them. What is to be guarded against is the presumption of omniscience and omnipotence so common in a tyro. Undaunted by the realities of experience, he is inclined to think that somehow he is better fitted to do a particular job than even those with proven merit. This tendency, if unchecked, would lead to the misallocation of jobs and loss of developmental potential. Such danger now exists in the field of trade and industry.

State Monopolies

The planners are committed to a pragmatic approach, that is, to proceed on the basis of experience. Yet, somehow, there is a tendency to disregard the lessons of the past. Non-Governmental organisations fulfilled the investment targets prescribed for them in the first plan, whereas Government organisations lagged behind by as much as 40 percent. The State sector of industry totally failed to establish the iron and steel and heavy electrical equipment industries scheduled for it in the first plan. It has also fared badly in certain important projects, such as machine tools. Yet this experience has been set aside, and in the second plan, a relatively larger share of industrial investment has been allotted to the State sector. The danger of extending the sphere of State enterprise is that Government organisations have a tendency to establish monopolies in their lines, as has happened in the case of civil aviation, aircraft manufacture, shipbuilding, gold mining, life insurance, cement distribution, heavy chemicals import, and manganese and iron ore export. The elimination of non-Government organisations removes the useful criterion of comparability. Also, State enterprises shun public control and public accountability on the pretext of autonomy. This may be illustrated by the recent controversy about exempting State enterprises from Parliamentary control, the Auditor-General's scrutiny, the application of the provisions of the Companies Act and other regulatory enactments. Moreover, the indiscriminate extension of State enterprise would encourage the Government to make a clean sweep of the country's finances, thus starving other sections of society of vital resources.

Egalitarianism in Practice

It is sought to justify State monopolies on the ground of prevailing inequalities of income and concentration of economic power. The fallacy of this argument is quite clear. Existing rates of taxes are high enough to reduce income inequalities to socially tolerable levels. There is a regular scramble among top-ranking bureaucrats to get themselves appointed to managerial posts in State enterprises. Cases of preferential treatment in matters of recruitment and in awarding contracts and other dispensations are coming to light in increasing numbers. A new privileged class is rising, comprising bureaucrats and politicians, who are openly making use of political and administrative power as a lever for appropriating economic power for themselves. Human nature being what it is, in any society some people would have to be trusted with more power than others. But Government organisations are highly concentrated, and it would be better to distribute the power of patronage among a large number of entrepreneurs than concentrate it in the hands of those few who control Government organisations. Moreover, the error of one of many non-Government units in an industry would not cause such widespread damage as the error of a single monopolistic Government unit would.

As for the proposal for a ceiling on income favoured by certain extremist political elements, it would be well to remember that an absolute ceiling does not exist in any country, and that the prevailing rates of direct taxation applicable to incomes in the high brackets are high enough to serve as an indirect ceiling. The real income, net of tax, earned by the managers of State enterprises compares favourably with that of managers drawn from the entrepreneurial class. But there is a distinct advantage in preferring the latter, because their personal stake in the enterprise drives them to a more intensive effort than salaried officials would be inclined to put up, and the placing of managerial control in the same hands that bear the financial risk automatically makes for a greater degree of responsibility. Yet there is some political prejudice against even the greatly reduced inequalities that now prevail, especially those arising out of entrepreneurial profits. There could be no economic objection to eliminating even the existing income differentials were it not for the fact that they act as incentives to work, save and invest. There is nothing wrong in outlawing individual gains or profits where they harm the social cause. But where the pursuit of individual profits lead to social benefit, it would be unwise to neutralise them. The planners have rightly chosen "social benefit" rather than "individual gain" as the criterion of public policy. But this criterion should not be mixed up with the motive force of economic action. Most individuals work for personal gain, which is the only known potent driving force of economic action. The correct policy would be to harness individual action in pursuit of economic gain to socially beneficial purposes through a suitable system of incentives. The ideal distribution policy would be to try to afford a minimum income to all with provision for functional differentials, that is, differentials intended to act as incentives to greater effort.

Social Consciousness of Entrepreneurs

Another reason which, it was recently reported, has been adduced by the Prime Minister in support of State monopolies is that non-State organisations do not look at a problem from the point of view of the country as a whole. This criticism is inappropriate inasmuch as no single organisation, whether State or non-State, can be expected to look at a problem from the broad viewpoint of the country. Even State Governments have failed in this respect, which may be illustrated by the narrow rivalry shown by certain State Governments in the scramble for the location of steel plants and fertiliser factories, and the resistance of the U.P. and Bihar Governments to the migration of the sugar industry to better locations in the south. Matters of broad policy are always decided by the central co-ordinating authority, and not at the individual enterprise level. The view that the entrepreneurial class as a whole is incapable of taking a broad national view is belied by facts. Despite the lack of Government sympathy, before as well as after independence, it has placed India on the industrial map of the world, played a decisive rôle in the struggle for freedom, and contributed more than any other class to schemes of social welfare. The first treatise on planning was published by one of them—Sir M. Visvesvaraya. The country's first tentative plan—the Bombay plan—was their creation. One of the authors of the Bombay plan was the first Minister for Planning. The excellent "Panel Reports", which were the basis of planning targets, were predominantly their work. This class has also contributed three of the four Finance Ministers of independent India. The facts show that the entrepreneurial class is second to none in objectivity and in social consciousness, and is more useful than any other class when it comes to giving national policies a practical and realistic bent.

Government Trust

The bureaucratic ego has now reached the limit. It has caused resentment even among politicians. Civil servants are not as infallible as they claim to be, and the people and their organisations certainly deserve greater trust and confidence than the planners are inclined to concede. The first plan was an overall success despite a 15 percent shortfall in the targets of State projects. The national income has increased by 18 percent, as against 11 percent expected in the plan. The rate of investment has also been in excess of the estimates. The resounding success of the overall targets of the first plan in the background of a shortfall in Government effort demonstrates the excellent part played by the people. The success of the Community Development Projects illustrates the scope for self-help and mutual co-operation. It would be better to rely more on the initiative of the people and their instinct for doing good to themselves and their fellow-beings, than depend too much on the capacity of bureaucrats. In a democracy, the people can only be persuaded to put in their best efforts; they cannot be forced to do so all the time. In matters of socio-economic development greater reliance on people's organisations, including business organisations, would make for more spontaniety, which is the essence of democratic progress.

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THE JEALOUSIES OF PUBLIC AND PRIVATE ENTERPRISE

NEED FOR CLOSER COLLABORATION

• By NAVAL H. TATA •

OF late, I have noticed a growing tendency of resentment, in some quarters, at all attempts made by advocates of "free enterprise" to propagate their age-old philosophy through articles, organised talks and statistics on the achievements of the private sector. Supporters of this school of thought need not be susceptible and sensitive to such resentment, since, in their own camp, glorification of the public sector and the achievements of socialised industries undoubtedly cause corresponding irritation and annoyance. This mood of mutual suspicion, discord and mistrust makes an intriguing subject for study. At a time when both sectors should work hand in hand, with complete understanding and in an accommodating spirit, it is regrettable to find them behaving in a step-brotherly way. With a minimum of understanding between our policy-makers and representatives of trade and business, a reorientation of outlook and aspirations of both the sectors can be brought about in the interests of the national economy. In pursuance of this objective, let us analyse the causes responsible for the unwarranted and unnecessary controversy between the two sectors.

A growing body of informed opinion has begun to call the attention of the Government of India to the need for liberalising its attitude towards free enterprise. The latest to enter this plea is the President of the World Bank whose loans are of great value in financing some of our important development projects. Nobody, however, suggests that free enterprise in this country is in imminent danger of dissolution. We have the testimony of no less a person than the Prime Minister that it has a very useful rôle to play in the country's progress. In one of his many observations on the subject, he has declared: "I think there is much scope for it and where you allow private enterprise, you should give scope, freedom and encouragement to it to develop". The Planning Commission is also convinced that "private enterprise is capable of making an important contribution to the development of the country". But the point for consideration is whether, even after conceding its necessity, the private sector is being given a fair deal in order that it might grow to its full stature. The task of liberating India from the nightmare of poverty, disease and ignorance is a gigantic one; neither the State nor free enterprise can deal with it single-handed. The magnitude of the undertaking is best illustrated by the fact that, even after the successful working of the first five year plan, the average intake of food in this country is still below the accepted nutritional standards. Similarly, the *per capita* consumption of cloth is much less than in many advanced countries, despite the fact that India is the world's second biggest producer of cotton textiles.

It is precisely because the problem of national reconstruction is so difficult and yet so urgent that the planners have, after mature consideration, adopted the principle of a mixed economy as State policy. This policy has been wholeheartedly accepted by private enterprise because it rests on the salutary principle of co-existence and co-operative endeavour. It also provides the most effective safeguard against the State's acquisition of authoritarian control over the political and economic life of the nation. Since a "mixed economy" is based on the division of responsibility between public and private enterprise, there is no dispute over the need for the State's participation in development. Both on account of the vastness of the scope for development and the relatively larger resources at the disposal of the Government, the ratio of public outlay to gross national product is bound to increase in years to come. This, indeed, is the prevailing trend in all modern countries.

Sheer vastness of scope and larger resources of the public sector need not be looked upon as an achievement in itself, nor should there be an attempt at assessing the comparative superiority or infericrity of either sector. One can hardly question the precedence the public sector takes because of its size and scope over the private sector, yet there should not be a tendency on the part of our policy-makers to extol public enterprise as something so perfect and sacrosanct that it cannot be a subject of criticism. Conversely, the advocates of free enterprise need not be so sensitive to attacks from responsible quarters questioning its existence, nor can they be oblivious of the doubtful actions of some industrialists who, by their narrow and short-term outlook on industrialisation, have offended the very philosophy of free enterprise, which we are today endeavouring to support on its past achievements and good record. In short, there should be give and take on either side, since there is ample room for both in a genuine mixed economy. To my mind, there is no basic incompatibility between the public and the private sector. It is readily conceded that, in a vast joint enterprise, a certain amount of overlapping between the two sectors is inevitable and unavoidable, but there is little justification for a policy which permits the growth and development of one at the expense of the other. Nor should there

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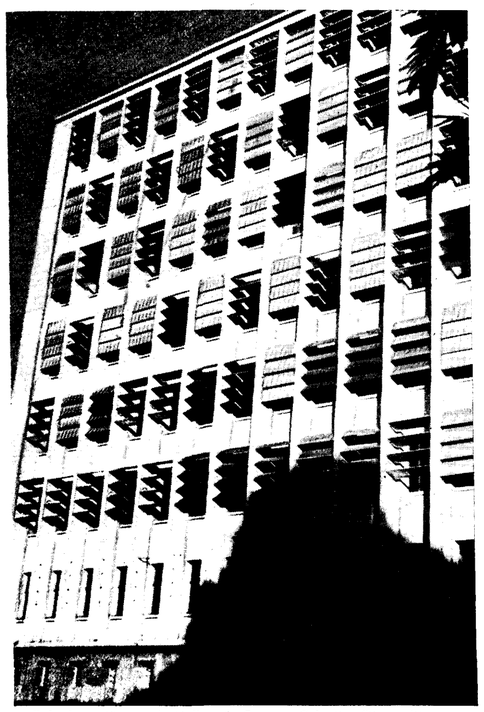
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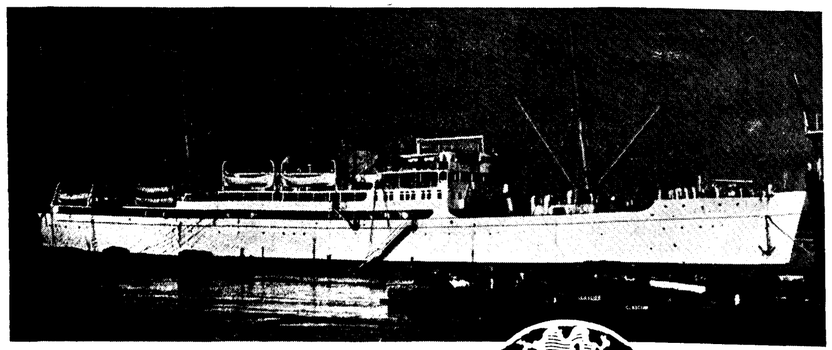
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be disparity in control, operation, taxation, labour, wages and working conditions which may give one an undue advantage over the other, since it will destroy the basis for comparative costs and statistics.

The second five year plan asserts that "the public sector must grow not only absolutely but also relatively to the private sector" in order to ensure the "attainment of the larger social ends in view". These ends have been defined by it as the raising of living standards, the enlargement of opportunities for all, the promotion of enterprise among all classes of people suffering from inequality of opportunity, and the creation of a sense of partnership among all sections of the community. Frankly speaking, there need not be insistence on the "absolute" growth of the public sector to achieve these laudable objectives, so long as the domains of the two sectors are clearly defined and the complementary nature of the two is recognised. Evidently, the bias in favour of State ownership arises from the mistaken notion that free enterprise is restricted to the narrow confines of "big business" and its sole motivating force is alleged to be profit. Nothing could be more misconceived. The spirit of free enterprise permeates well beyond the so-called "big business" barrier, and is the propelling force behind thousands of enterprises too small to come under the category of "big business" and too big to receive the benign and benevolent protection of the *Gram Udyog* banner. Between the two, they represent a substantial portion of national effort in its widely diversified variety. Although "profit" serves as an important catalytic agent, it would be wrcng to say that private enterprise is animated by no other motive. With so many restrictive measures in operation and with an over-zealous executive keeping an eagle-eyed watch over the working of private undertakings, I wonder whether it can any longer be called "private". In fact, under the new Companies Act, it has been brought under greater scrutiny of the public, viz., even ncn-shareholders, than the so-called public sector whose balance-sheets and annual reports are not so readily available to the general public.

Healthy Collaboration

This being the case, there is no justification whatsoever for looking upon free enterprise any longer with suspicion or for treating it as a thcrn in the side of the public sector. There is ample room for healthy collaboration between the two, as exemplified by the original set-up of Air-India International as outlined by Mr. J. R. D. Tata, wherein there was a partnership between the Gcvernment and the private sector. The Government, under the original agreement, held 49 percent of Air-India International's total capital and private investors held the remaining 51 percent, with the proviso that the Government had the right of securing, at any time if it so desired, a further 2 percent, and thus also getting the controlling voice in management. It is a great pity that this promising partnership, so well fostered, was abruptly terminated on the plea of nationalisation of air transport. In my opinion, it is still not too late to revive a similar set-up for a number of new basic and subsidiary industries which the Government proposes to set up. At a time when its hands are full with thousands of projects for the welfare of the nation, involving the full-time attention of hard-pressed Government officials and secretariats, it could be of immense value, both to the Government and to the nation, to man all new industrial projects under the joint stewardship of representatives of the Government and free enterprise under the public scrutiny of Parliamentarians and public shareholders in such joint ventures. Of course, certain strategic industries cannot easily lend themselves to this treatment, but there are scores of other public sector enterprises where a healthy partnership between the two can usher in an era where "private enterprise" will not be treated as a foreign "cell" in the body politic. Psychologically, there cannot be a better form of co-operation for fulfilment of the second five year plan than such joint ventures by the Government and the private sector.

I must admit that the Government's present industrial policy, in some respects, is more progressive than the one it has replaced. For instance, it recognises that it is desirable to allow industrial undertakings in the private sector "to develop with as much freedom as possible, consistent with the targets and objectives of the national plan". It also pledges itself to give "fair and non-discriminatory treatment" to the undertakings in both sectors. But what the Government has lost on the swings, it has gained on the roundabouts, for the new Industrial Policy Resolution has greatly expanded the scope of the public sector by reserving to the State exclusive responsibility for a formidable list of new undertakings comprising heterogeneous industries. By inference, and as a natural consequence, the scope for free enterprise has been severely restricted.

Creating Confidence

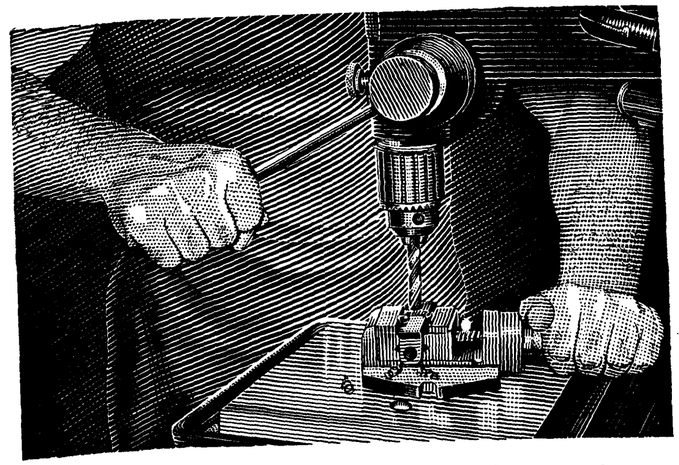
There is no doubt that free enterprise is capable of playing its proper part both in investment and production in the second plan and in the ones that follow. It is, however, essential that a proper climate of confidence should be created, so that the entrepreneur may venture into new fields of development, for which, in a country of retarded growth like ours, there is immense scope. As a prerequisite to the creation of such favourable conditions, a review of the various restrictive and regulatory measures passed in recent years should be made with a view to withdrawing those that have curbed initiative and hampered progress. Again, a convention should be established whereby the spokesmen of the business community are consulted before any major decision affecting free enterprise in taken. The absence of such an understanding is unnecessarily widening the gulf between the two, causing an avoidable conflict of viewpoint and uncalled-for friction.

What is even more distressing is the growing tendency on the part of the Government to thrust its oars into what have so long been the home waters of free enterprise. The nationalisation of air transport, the Imperial Bank of India and life insurance, and the growing incursions of the State into private trade, as exemplified by the activities of the newly-established State Trading Corporation, have naturally caused profound disquiet in the minds of those, big and small, who represent the private sector, at a time when many nations and Governments have had second thoughts on extending State enterprise in its scope and activity. Even in Britain, which has unedrgone a fairly long period of apprenticeship with a Socialist Government, ideas abcut the usefulness of nationalisation have begun to change. "We have to admit", says Mr. Hugh Gaitskell, leader of the Labour Party, "that *the simple*, direct and unique relationship between wholesale nationalisation and the ultimate ideals of socialism which early theorists took for granted, cannot be *assumed* in the new circumstances today. This is an open question on which we need to and shall think afresh". The author of a recent book on the future of Socialism writes thus: "A higher working-class standard of living, more effective joint consultations, better labour relations, a proper use of economic resources, a wider diffusion of power, a greater degree of co-operation or more social and economic equality—none of these now primarily require a large-scale change of ownership for their fulfilment".

It is ncteworthy that no less a body than the Asian Socialist Conference, which met in Bombay in November this year, holds refreshingly realistic views on questions like private enterprise and the tax system. For instance, the Economic Committee of the Conference says that "for rapid progress in development of the countries, private enterprises and fcreign capital should be permitted to operate with such restrictions as may be found necessary in national interest". As for the tax system, the Committee holds that it should not be such as to become an "obstacle to incentives to invest and to work". There were high dignitaries from neighbouring countries who attended the Conference—a fact which lends greater weight to its deliberations. Lastly, even in Soviet Russia, which is stated to be basically Socialist, there exist deeply entrenched hierarchical and authoritarian characteristics which may pave the way for the eventual establishment of class privilege and class rule in that country.

Need for Re-thinking

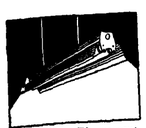
When the world has thus begun to have second thoughts on the nationalisation and socialisation of industries and other extreme forms of Socialism, there can be no harm in reconsidering our original thoughts in our own mind in the context of the changes taking place in other ccuntries. We need not jettison our basic faith in the Socialist pattern of society. We need not depart from our objectives. Yet, our own second thoughts, without undue influence and interference from others, may turn cut to be infinitely more beneficial. Without sacrificing our belief in the Gandhian philosophy, we can still evolve a pattern of our own which would enhance the international reputation which India enjoys today, and, at the same time, do credit to those who wish to serve the nation under the banner cf free enterprise just as honestly and sincerely as their antagonists, who choose to treat all standing for economic freedom as sheer parasites deserving political extermination.



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IMPORTANCE OF BETTER INDUSTRIAL RELATIONS

DEFECTS OF THE 1956 ACT

● By P. C. JAIN ●

(*Reader in Economics, University of Allahabad*)

THERE has been a steady detericration in industrial relations in India during the past few years. In 1956, the number of industrial disputes, the number of workers involved nd the number of man-days lost are expected to be 611, 970,000 and 6.7 million respectively, as against ne corresponding figures of 772, 470,000 and 3.4 illion in 1953. This would have been disquieting n any circumstances, but with the second five year lan laying heavy emphasis on industrial develop- ent, it is all the more so. The success of the plan, nd the capability of the State and the private ctors to increase output and set up new indus- ial units, will to a large extent depend on the aintenance of industrial peace.

Year	Number of Disputes	Number of Workers Involved	Number of Man-days lost
1953	772	466,607	3,382,608
1954	840	477,138	3,372,630
1955	1,166	527,767	5,697,848
1956*	1,611	970,450	6,709,962

stimated on the basis of seven months' provisional igures.

The labour situation has become more difficult an in most other countries of the same industrial atus as India. This is due partly to the illiteracy nd apathy of workers, and partly to the unrealistic titude of the Central and State Governments. ne result is that political parties and private ad- nturers have found a fertile field for agitation. ne situation would have improved if, in spite of e difficulties, a stable trade union movement had me into existence. But the indifference of indus- ial workers to their real interests has prevented is. Only a stable and strong trade union can lp labour and improve industrial relations. It unfortunate that many employers in India, and so in other parts of the world, have in the early ages of development been averse to recognising ade unions. The unions, however, remain the st agency for collective bargaining and for ensur- g that a bargain once reached is honoured. It s been suggested that under Indian conditions e best course would be to have a single trade ion for each industry in each locality. By pre- nting the mushrooming of unions, the chances of aintaining industrial peace would increase. But is is a long process.

Industrial Truce

In the immediate future, industrial relations uld be effectively improved if (a) as in the past, nployers and employees negotiated an industrial ace; and (b) the Government ceased to make periments and allowed industrial legislation to t stabilised. Industrial relations have been teriorating for the past few years, but the condi- n is not yet as bad as it has been at times in the st. The peak number of disputes, number of rkers involved and the number of man-days lost, 1,811, 1.8 million and 16.8 million respectively, s experienced in 1947. It was as a result of the dustrial Truce Agreement of December 1947 that bsequently the situation improved. There is a onger case for an industrial truce now with the roduction of the second plan. In spite of many ndicaps, employers and workers possess the good se and the desire to work smoothly, provided political agitators do not create unrest in their nks.

But more important, perhaps, than an industrial ce is the need to induce legislators and the Go- rnment to give up their utopian ideas and become alistic. In a desire to improve matters quickly d to imitate conditions in other countries, labour islation here has become highly involved and nplicated. This is in the interests neither of ployers nor of workers. In a desire to achieve ck results, the situation has been made worse the Industrial Disputes (Amendment and Miscellaneous Provisions) Act, 1956. It is not always that an industrial dispute is due to genuine grievances. The object of industrial legislation is to prevent vague grievances and vague demands from taking the shape of a dispute and to help the parties solve their genuine disputes in a peaceful manner. Central and State measures to some extent succeeded in stabilising the machinery for settling disputes and it was expected that gradually collective bargaining would become more popular, with the emphasis on voluntary conciliation and arbitration. But with the passing of the 1956 Act, an entirely new twist has been given to the matter. One of the most objectionable things the Act does is to give power to the Government to modify an industrial award. This puts arbitrary powers in the hands of the Government and, as such, employers and trade unions cannot be expected to put all the cards on the table. There will always be the hope of getting the award modified in one's own interest after it has been given by the labour court or industrial tribunal. It does not improve matters if the order of modification passed by the Government has to be placed before Parliament for a fortnight before it is enforced. This might limit the Government's arbitrary action, but it does not lend the frankness to conciliation proceedings which alone can lead to a lasting agreement.

Standing Orders

In the past, employers were responsible for the standing orders and they alone could propose changes in them. This was a correct procedure. The employer has the right to indicate the conditions of service and the employees accept them when they take service. Under the Act, the certifying authority and other officers have been given the right to consider the fair and reasonable nature of the standing orders before certifying them. This will harden the attitude of the employers and will to that extent make the conciliation proceedings more difficult. Another change which may have precisely the same effect is the widening of the definition of "workman" under the 1956 Act. According to the new definition, technical staff and supervisory personnel drawing a salary of up to Rs. 500 a month, except a person who "exercises, either by the nature of the duties attached to the office or by reasons of the powers vested in him, functions mainly of a managerial nature" would come into the category of workman. Such a provision will undermine discipline in the factory by bringing ordinary workmen, technicians and supervisory personnel into the same category. The provision in the Act that such supervisory staff will not be called workmen if they discharge functions mainly of a managerial nature creates an unnecessary vagueness and tends to increase, rather than reduce, the scope for litigation.

The worst feature of the 1956 Act is the abolition of the Labour Appellate Tribunals and the replacement of the conciliation and arbitration machinery by a three-tier system of labour courts, industrial tribunals and national tribunals. These three bodies will deal with different kinds of problems: each will consist of one person and there will be no appeal against their awards. The Act prescribes detailed qualifications for persons who are eligible to constitute such bodies, and this ensures that justice is done both to employers and employees. But industrial disputes are not like ordinary disputes in which the only consideration is that justice should be done to both parties. The real problem in the case of industrial disputes is that both the parties should feel satisfied and reconciled to the award. If justice is done but one of the parties, either the employer or the employee, harbours a feeling that his claim has not been properly considered, the award is not likely to ensure industrial peace for long. If there is a provision for appeal from the award of the first court or tribunal which hears the case, there are greater chances of each party being satisfied, although it might take a longer time.

Appellate Tribunals

The real issue is not the time or cost of such proceedings, but the lasting value of the award which ultimately results from their deliberations. The Labour Appellate Tribunals provided useful machinery for appeal and many an award became more lasting due to its efforts. In a country of such vast dimensions as India, there are bound to be great differences in economic conditions in the different parts. But since the market for the output of most factories extends to the entire country, it is necessary to have some kind of uniformity in cost conditions. The different courts and tribunals, however, consider the problem in its narrow regional or local perspective. The Labour Appellate Tribunals took a broader view and succeeded in evolving a case law for the guidance of local courts and tribunals. They prevented injustice in many cases. With the abolition of the Appellate Tribunals, the same chaotic conditions will again prevail as did before 1950. The work of the Appellate Tribunals was costly and took more time. An effort should have been made to expedite the work by increasing their personnel and the cost to the parties could also have been reduced. The Government has preferred to cut off the diseased limb instead of trying to cure it.

It has been a great mistake to enact the Industrial Disputes (Amendment and Miscellaneous Provisions) Act, 1956, at this stage of industrial development. The law and machinery for the settlement of industrial disputes had become quite stabilised, and there was no justification for changing the existing conditions in such a drastic manner. When he was Labour Minister in the Government of India, Mr. V. V. Giri suggested that, instead of the present system based upon compulsory arbitration, we should have in India a system based on conciliation and voluntary arbitration. This suggestion was not accepted by the Government on the plea that it might increase industrial unrest. But the 1956 Act will not help improve industrial relations in India as it creates new complications. One should not forget the basic fact that the condition of labour cannot improve faster and to a greater extent than the existing industrial conditions justify. It is not possible to hasten the pace of improvement by passing legislation which is out of accord with the prevailing conditions.

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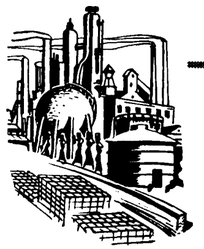
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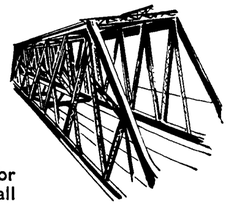


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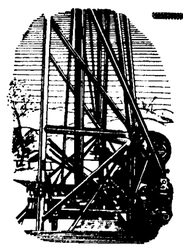
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PROSPECTS AND PORTENTS FOR SECOND FIVE YEAR PLAN

THE INDISPENSABLE NEED FOR FOREIGN AID

● By PROFESSOR B. R. SHENOY ●

"THE central objective of public policy and national endeavour in India since Independence", observes the second five year plan Report, "has been the promotion of rapid and balanced economic development". As the first step in that direction, the achievements of the first plan, which terminates on 31st March, 1956, have been striking. In physical terms, these achievements are represented by an all-round increase in output. Foodgrains production rose by 20 percent to 65 million tons, cotton by 45 percent to 4,200,000 bales, oilseeds by 8 percent to 5,500,000 tons, and so on; land under irrigation, through major and minor works, rose by 31 percent to 67 million acres and the output of chemical fertilisers by 395 percent to 500,000 tons; the installed capacity of electricity, the consumption of which is an index of productive activity, rose by 48 percent to 3,400,000 kW., and the output of cement and steel, which are indices of the progress of investment, rose by 59 percent to 4,300,000 tons and by 18 percent to 1,300,000 tons, respectively.

Agricultural and industrial production indices rose during the first plan by nearly 28 percent each, the former from 94 in 1950-51 to 120 in 1955-56 (the three years ending 1938-39=100), and the latter from 100 in 1951 to 128 in 1955-56 The expansion in output in money terms and at 1952-53 prices, showed an estimated increase in the national income by 14.9 percent—from Rs. 8,960 crores in 1950-51 to Rs. 10,290 crores in 1954-55 (C.S.O. series), or an annual rate of 3.7 percent. The Planning Commission thinks it "reasonable" to expect an increase of about 18 percent during the full five year period of the first plan. Agricultural production, which accounts for about one-half of the Indian national income, declined in 1955-56 by 2 points, relative to 1954-55, and industrial production, which accounts for 16—19 percent of the national product, rose by 6 percent during the same period. In 1954-55, when agricultural production rose by 2 points and industrial production by 9 points, relative to the preceding year, the national income went up by 1.3 percent. It seems doubtful, therefore, that national income has risen by over 3 percent in 1955-56 to reach the expected figure of 18 percent for the first-plan period.

Per Capita Income

Assuming an 18 percent rise in the national income, as the population of the country rose during the first-plan period by nearly 7 percent (from 359 million to 384 million), the rise in per capita income would amount to 10 percent, from Rs. 256 in 1950-51 to Rs. 281 in 1955-56, or from Rs. 21-5-4 to Rs. 23-6-8 a month (Table I).

TABLE I

NATIONAL AND PER CAPITA INCOMES DURING THE FIRST AND THE SECOND PLANS (AT 1952-53 PRICES)

At the end of the period	Actuals 1950-51	Estimates: First Plan 1951-56	Estimates: Second Plan 1956-61	% increase of 2 over 1	% increase of 3 over 2	% increase of 3 over 1
	1	2	3	4	5	6
1. National Income (Crores of Rs.) ..	9,190	10,800	13,480	17.5	24.8	46.7
2. Population (in millions) ..	359	384	408	7.0	6.3	13.6
3. Per Capita Income (Rs.) ..	256	281	330	9.8	17.4	28.9
4. Income per family of 5 per month (Rs.) ..	106-10-8	117-1-3	137-8-0	9.8	17.4	28.9
5. Per Capita Income per month (Rs.) ..	21-5-4	23-6-8	27-8-0	9.8	17.4	28.9

Per capita consumption did not rise in proportion to the rise in the per capita income, as part of the extra income was saved. Per capita consumption rose (on the assumption of an 18 percent rise in the national income) by 8.5 percent, from Rs. 20-7-6 in 1950-51 to Rs. 21-12-9 in 1955-56. The rest of the rise in the national income was saved and invested. Since the rate of increase in income was faster than that in consumption, this meant a rise in savings from 5 percent to 7 percent of the national income.

The above rate of economic development compares very well with those of the democracies in Table II. It was only in the U.S.A., during the heyday of its development in the 19th century, and in Japan, between 1914 and the second world war that this rate was exceeded. The Indian rate is higher than that of Canada, Switzerland, and Germany, and of Japan before 1913.

TABLE II

COMPARATIVE GROWTH OF NATIONAL INCOMES

Country	Period	Rate of growth (annual average in percent)
U.S.A.	1869-78-1904-13	4.5
	1869-78-1929	4.0
	1899-1908-1929	3.2
	1929-1950	3.0
Canada	1903-29	2.6
Switzerland	1890-1929	2.7
Germany	1876-1913	2.8
Japan	1887-1913	3.0
	1914-1930	6.7
	1914-1937	6.7
Australia	1901-03-1928-29	3.2
	1901-03-1947-48	2.5
Soviet Union	1928-37 (Official)	16
	1949-53 ,,	16
Poland	1947-53 ,,	14.5
Czechoslovakia	1948-53 ,,	12
Hungary	1952-53 ,,	12
Bulgaria	1952-53 ,,	16

The more rapid development in the U.S.A. and Japan during the periods in question may be attributed to exceptional circumstances. The U.S.A. had vast and rich virgin land, and other natural resources, awaiting exploitation. The Japanese development was assisted by a large market which absorbed its increasing output, due particularly to the absence of competition from the industrial nations of the west which were then engaged in the first world war. The comparatively low standard of living of the Japanese workers, coupled with the rise in their productivity which resulted from the adoption of western techniques, was the prime factor behind the ploughing back into investment of larger proportions of the national output. But the first plan progress in India must be viewed against the background of an overpopulated country, with about the world's lowest per capita income and savings, and of the basis for a speedy establishment of a welfare State, the accent of which has been on increased consumption rather than on increased savings. The incomparably more rapid pace of development in Soviet Russia and in its satellites (assuming that the statistics of the two groups of countries are comparable) should emphasise the fact that only a totalitarian regime can force those levels of savings and investment.

Success of First Plan

Not the whole of the progress achieved in India, however, should be attributed to the first plan. First, a growing child must grow, whether it is in a hostel, a reformatory, or under the loving care of its parents. So also an underdeveloped economy, given the necessary political and monetary stability, and a sympathetic and intelligent administration, will anyhow make some progress. Mr. Eugene Black, President of the world Bank, in his address to the annual Bank-Fund conference in Washington last September, referred to the myth, which is current in some countries, that governments alone are capable of directing speedy economic development, especially in underdeveloped economies. While this may be largely true of public utility undertakings and certain basic and heavy industries, where the returns on investments may be both slow and small, the development potential of free enterprise, especially in other spheres, should not be underrated. Underdeveloped economies offer so much scope for development that there is no need for the public sector to stray into the fields where the capacity of the private sector has been well established. As it is difficult to make an allowance for this factor, it is not possible to pin-point the precise contribution of the first plan to the economic progress during the period. Secondly, the first plan was favoured by an exceptional succession of good harvests. Agricultural production had for long been stagnant, its index rarely going above 100. As a result of favourable weather conditions and the plan effort including the drive to increase the use of fertilisers extensively, the index of agricultural production shot up in the second year of the plan to 105 from 95 in the first. It jumped to 120 in 1953-54, and with the favourable factors abiding, has remained at about this level since. Thirdly, in the industrial sector, there was considerable unutilised capacity in a number of lines when the first plan began to be operated. So production in them could be stepped up with complementary resources, which means a large increase in output was possible with proportionately a small increase in outlay.

Second Plan Targets

Encouraged by the rate of progress in the first plan, the second plan aims at an increase in the national income by 25 percent in five years. This is the first of its four objectives, the other three being, rapid industrialisation, a large expansion of employment opportunities, some reduction of inequalities in income and wealth in the pursuit of a "socialist pattern of society". The targets to be attained in several lines of production have been set by reference to the income target of the plan. Thus the target for foodgrains output is 75 million tons a year, or an improvement of 15 percent over the level achieved in the first plan. In view of the recent rise in prices, with a pronounced bulge in foodgrains prices, this target has been since stepped up to 80,400,000 tons (a rise of 25 percent over the first plan achievement); the targets for certain other agricultural commodities also have been raised in varying measures. The output of raw cotton will now rise by 56 percent, of oilseeds by 37 percent (against 31 percent and 27 percent. respectively, in the original plan document), of cement by 202 percent to 13 million tons, of steel by 231 percent to 4,300,000 tons, and so on. The area irrigated will rise by 31 percent to 88 million acres, and the output of fertilisers will move up by 334 percent to 2,170,000 tons. The output of fertilisers in 1950-51 was a mere 101,000 tons. The installed capacity of electricity will rise by 103 percent to 6,900,000 kW.

As the Indian population will have risen, in the meanwhile, to 408 million, the per capita national income will rise, by the close of the second plan, to Rs. 330 (Rs. 27-8 a month), an improvement of about 17 percent. To implement a larger plan, the rate of savings must obviously be higher. The second plan envisages an increase in per capita consumption by 14 percent to Rs. 24-13-9. The rest of the rise in the national income, Rs. 1,310 crores in 1960-61, thus will be saved and invested. But the targets of production will be a mere list of aspirations if the overall size of the plan is unrelated to the availability of real resources. For, nothing can make a development plan which is bigger or bolder than the men, materials and equipment that the economy is be able to put together either from its own possessions, or by borrowing from overseas or from both sources,







work successfully. To plan a programme of development beyond the economy's capacity for resources is a negation of planning, and to attempt to implement such a plan is to invite disaster. It causes a general scramble for resources, socially unbalanced and wasteful investment, and lesser economic progress than could have been achieved under a more realistic plan. The first essential of a successful plan is a correct assessment of the available savings, which is a sum of the current domestic savings, the available part of the past savings held in the form of currency reserves, and the savings of the economies overseas placed at our disposal through loans, grants and other aid. The availability of real resources is the obverse of the amount of savings as thus computed.

Over-ambitious Plan

How does the second plan stand this test? The relevant facts which have come to light through the long discussion on the subject during the past two years or so render an answer comparatively easy. The plan is far too big. Considering that the increased income during the first plan was achieved with the help of certain fortuitous factors and favourable weather conditions, in the latter case of which we should be prepared for a cyclical reverse, a 20 percent increase in the national income by the close of the second plan should be an achievement. More than the income target, that of savings is excessively high. The plan calculations are based on a rise in domestic savings from 7 percent of the national income, at the beginning of the plan, to 10 percent at the close of it. Judging from the trends in the recent past, it would be unrealistic to expect a higher rate than 8 percent. Current domestic savings during the plan period may be, then, about 4,600 crores. Placing foreign aid at Rs. 800 crores, and withdrawals from the currency reserves at Rs. 200 crores, as has been done by the plan, the aggregate real resources which may be available for investment during the second plan would, then, amount to Rs. 5,600 crores (at 1952-53 prices). This will include the public and the private sectors and also the non-monetised part of the latter. The total investment outlay contemplated in the second plan (including withdrawals from currency reserves) is Rs. 7,400 crores. This excludes the non-monetised part of the private sector. It is, therefore, about Rs. 2,000 crores too high.

The wrong calculation of real resources on a scale required for the implementation of the second plan, is reflected, firstly, in the inflated figures of the estimates of receipts under several heads of finance, and, secondly, in the resort to deficit financing on a huge scale—at Rs. 1,200 crores. Until recently, the majority opinion was that this amount of created money was a "safe" limit in the sense that it may not cause uncontrollable inflation. But it is the minority which, it seems, has been proved right by the prevailing rise in prices, and the Government would seem to have been forced to recognise the danger of created money on so large a scale. It has now retreated to Mr. N. Kaldor's figure of Rs. 750 crores as the "safe limit". The formula on which this is based is not known. But it is still Rs. 100 crores more than the total amount of the increase in money supply which will be justified, even on the basis of a rise of 25 percent. The inflationary potential of Mr. Kaldor's figure is much larger than this relationship might suggest as account will have to be taken of the secondary expansion of money. In any case, there is little sense in talking of the appropriate magnitude of credit creation in an inflationary background, where the scope for non-inflationary deficit financing is zero.

Employment Potential

The achievements of the first plan in the sphere of employment are not so recognisable and the prospects of it in the second plan are not clear. Speaking of employment trends, the Planning Commission has observed that the inadequacy of data has rendered "even the formulation of the problem difficult". On the basis of a labour force of 40 percent of the population, the natural growth in the labour force for a population increase of 25 million during the first plan was about 10 million. Some have placed it at 9 million. The "additional direct employment" resulting from the first plan is placed at 4,500,000. There is thus a carry-forward of unemployment, so to speak, which can be placed at 5,300,000, from the first into the second plan. Adding to this the new entrants to the labour force (10 million), the total number to seek employment during the second plan will be 15 million. The employment potential of the second plan is reckoned at 9.6 million. From certain irrigation schemes and the schemes under the village and small industries programmes, which are not included in this estimate, some relief is expected in rural underemployment. It would seem, therefore, that, at the end of the second plan, the statistical position of full-time unemployment inherited from the first plan would have to be carried forward to the third plan with, probably,

TABLE III
UNEMPLOYMENT PROBLEM OF THE SECOND PLAN

	(In millions)		
	Urban	Rural	Total
1. New entrants to the Labour Force ...	3.8	6.2	10.0
2. Backlog of Unemployment	2.5	2.8	5.3
Total ...	6.3	9.0	15.3

some addition to it. The massive rural unemployment would continue largely unchanged. Even with the caution we have observed in the matter, these statistics are somewhat puzzling. They seem to suggest that the demographic rate of investment in India, i.e. an investment rate sufficient to absorb into employment the new entrants to the labour market, is higher than the average of 5 to 11 percent of the national income, the range of investment of the two plans. If the formula suggested by Mr. Colin Clark should be roughly applicable to India, the demographic rate of investment should be about 5 percent, our population growth being 1.25 percent a year. This would seem to underline the care with which the statistics of unemployment and of the employment potential of the two plans must be treated.

Be that as it may, the number of jobs a plan can create is strictly dependent upon the available real resources (that is, savings as defined already). There is no short cut to the Indian unemployment problem, of which the massive rural underemployment is an integral part. It is the accumulated legacy of a continued shortfall in savings and investment below the demographic rate. It may take more than one five year plan to solve the problem of unemployment, and probably, several plans to eradicate underemployment. But we are on the right way. If progress must be accelerated quicker than the pace our domestic resources permit, development by inflation is not the way to do it. Consistent with the preservation of individual liberty and democratic institutions, the only method of speeding up employment opportunities is to secure a larger measure of foreign aid.

Money Supply and Price Trends

The total investment of the first plan period, covering both the public and the private sectors, has been estimated at approximately Rs. 3,100 crores. The annual rate of investment rose from Rs. 450 crores in 1950-51 to Rs. 790 crores in 1955-56. "This stepping up of investment", observes the Planning Commission, "has not been accompanied by inflationary pressures". It continues: "Prices at the end of the first plan were lower by 13 percent than when the plan started; in fact, they were slightly below the level on the eve of the Korean war. The all-India cost of living index in 1955 was at an average level of 96 as compared with 100 in 1949. Money supply in the hands of the public at the close of the fiscal year 1955-56 was about Rs. 208 crores above the level in early 1951—an increase of a little over 10 percent as compared with the estimated increase of some 18 percent in the national income" (p. 5).

Although a closer analysis of the price trends during the first plan suggests an amendment to the above observation in its application to the last year of the plan when money supply, prices and the cost of living began to move up sharply, the absence of inflationary pressures during the plan, when viewed as a whole, illustrates that, when investment is limited to the available resources, price stability may be maintained. Domestic savings in 1950-51 have been estimated at 4.98 percent of the national income and in 1955-56 at 7 percent. It may be assumed that the average savings during the first plan period were 6 percent of the total national income, namely, Rs. 50,030 crores. The total domestic savings of the period may be, then, placed at Rs. 3,000 crores. Adding to this foreign aid Rs. 204 crores, and withdrawals from the currency reserves, Rs. 138 crores, the total available resources amount to Rs. 3,342 crores. Part of it, about Rs. 162 crores, was devoted to the purchase of smuggled gold, so that the balance available for investment was Rs. 3,180 crores. Allowing for errors and omissions, inevitable in such estimates, the order of magnitude of investment during the first plan does not seem to have been far different from that of total savings (current, past and imported). The distribution of investment as a ratio of the national income during the five years of the plan, 1951-52 to 1955-56, was 7 percent, 5 percent, 5 percent, 6-6.5 percent, and 7.3 percent, respectively. During the first four years of the plan period, except for the first year, the rate of investment roughly approximated to the available domestic savings plus the external resources. In 1955-56, the last year of the plan, the rate of investment was distinctly in excess of voluntary savings. The domestic savings of the year are estimated at 7 percent of the national income (which together with the foreign aid were equal to the total investment of the year), but as the monetary circulation exceeded the rate of increase in real national output, this estimate seems to include an element of monetarily imposed forced saving.

The money supply and price trends of the first plan thus conform to the normal effects of the relationship between investment and savings. From the standpoint of money supply and price trends, the first plan period falls into four more or less distinct phases. The first year, 1951-52, comprises the first phase; the following period up to August, 1953, when prices and money supply remained more or less stable at a lower level, comprises the second phase; the period from August, 1953 to to May, 1955, when prices fell down an inclined plane, comprises the third phase; and the period following May, 1955, when inflationary pressures reappeared, comprises the fourth. The rise in prices in 1951-52 marks the culmination of the post-Korean war price rise, which ensued from a general scramble for commodities for stock-piling. The high rate of investment, which was in excess of savings, during the year, also contributed to it, though, in part, it was itself a reflection of the price rise. In 1952-53 and part of the following year, until August, 1953 (the second phase), investment, money supply and prices seemed to have settled down to a norm at a lower level after the liquidation of the post-Korean war boom. During the third phase (1953-54 and 1954-55), although investment was tending upward in the latter part of it, production and the real national income continued to expand. Agricultural production rose by 14 percent in 1953-54 and by a further 2 percent in the following year. Industrial production rose, during the same interval, by 2 percent and 7 percent, respectively. But the rate of increase in money supply lagged behind output, so prices declined. The rise in prices during the fourth phase was universal, although different commodity groups moved up in different degrees. Since May, 1955, and as at August 1956, the general index rose at an annual rate of 17 percent and the food articles index by 33 percent. The price of gold, industrial equities, and the (all-India) working class cost of living index rose, respectively, at the annual rate of 8 percent, 10 percent and 11 percent. Manufactured articles, which had remained steady for about 4 years previously, joined the general upward movement, and rose at an annual rate of 3 percent.

Monetary Phenomenon

The rise in prices was mainly a monetary phenomenon. In 1954-55, the index of national income in real terms was at 108 (1952-53=100). During 1955-56 and after money supply outpaced the increase in output, the index of the real national income was 113, while the index of money supply reached 124 (1952-54-100). During the quarter ended June 1956, money supply rose by a further 2 points to 126. The monetary inflation in the first year of the second plan, in contrast to the absence of inflationary pressures over the larger part of the first plan, gives the second plan an inauspicious start. The expansion in the money supply is the combined result of deficit financing beyond the available savings, an increase in the permanent debt holdings of the banking system (including the Reserve Bank), and expansion of scheduled bank deposits. During five months (April to August) of the current financial year (1956-57), the total of these three factors amounted to Rs. 110.52 crores. This makes an annual rate of Rs. 245 crores, or about 31 percent more than the corresponding annual average (Rs. 187 crores) of the two years ended March, 1956. During this five-month period the general index of prices has risen by 8.8 percent to 421, in spite of the fact that the currency reserves of the country declined by Rs. 110.55 crores, and almost exactly neutralised the "money" effect of the other factors, so that the amount of the money supply with the public (Rs. 2,138 crores) at the end of the period differed little from that at the beginning of it (Rs. 2,184 crores).

With a reserve ratio (including gold) of about 47 percent of the note issue, which is so close to the statutory minimum reserves of 40 percent of the note issue, we should not allow a further depletion of the reserves. Any inflationary finance hereafter is likely, therefore, to produce its full impact upon prices. The loss of reserves being itself a consequence of inflationary pressures, a restrictive monetary and fiscal policy (i.e. a curtailment of the investment outlay to correspond to the available savings and foreign aid) is imperative, both for checking the price rise and for protecting the reserves. If prices must be prevented from rising, price and allocation controls are not the way to achieve it. Fair price shops can only touch the fringe of the problem. The official price index may respond to price controls. But, so long as inflation continues, free market prices may not. And it is the latter that are of real significance. If market prices must be restrained, the programme of investment under the second plan must be revised downward so as to prevent further deficit financing. Alternatively, foreign aid must be stepped up to match the gap in real resources.

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THE PAKISTANI ECONOMY IN 1956

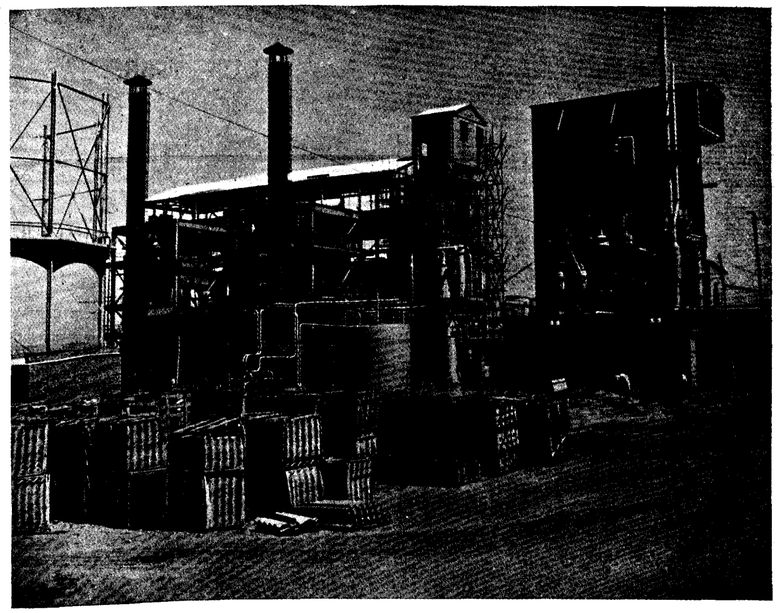
MANY-SIDED PROGRESS, BUT DEVELOPMENT LACKS BALANCE

• FROM A CORRESPONDENT IN PAKISTAN •

THE tempo of industrialisation during the year was high in spite of a tight balance of payments position. The output of almost all the major industries rose, bringing the country nearer the stage of self-sufficiency in many of its requirements, and in quite a few others, its dependence on outside supplies was reduced. The economic balance sheet at the beginning of the year was more hopeful and promising than in any previous year since the crisis of 1952. The food situation was satisfactory and the prospects of foreign trade looked bright with the devaluation of the Pakistani rupee.

The rapid growth of the textile industry is illustrated by the fact that imports of cloth which used to cost Rs. 40 crores a year have now dwindled to Rs. 3 crores, and even less. Already self-sufficient in medium and coarse varieties, the industry is fast taking to the manufacture of finer qualities, for which raw cotton and yarn are being imported under the American aid programme. The spindleage and loomage which stood at 1,713,108 and 25,730 respectively in January, 1956 have since then further increased, raising the production of cloth above 450 million yards a year. The jute industry though comparatively of recent origin, continued to make spectacular progress. Equipped with 7,750 looms, it is capable of producing 225,000 tons of goods valued at Rs. 27 crores. The exports of jute manufactures by the close of the year is expected to amount to Rs. 10 crores as against Rs. 1.73 crores in 1953-54, when Pakistani jute goods for the first time made their appearance in the world market. If the schedules are maintained, by 1960, the country should be in a position to meet nearly 34 percent of the total world demand.

The gap between the output and requirement of cement has been narrowed after the giant Beal-Pak and Maple Leaf factories went into production, their combined contribution alone being equal to the total capacity in 1948. Against the domestic demand of 1 million tons, the country is now in a position to produce 7 lakh tons of cement a year. The progress of the sugar industry has not been equally impressive, but imports have been reduced by 80,000 tons a year. After the decision to locate the factories in the neighbourhood of the cane-growing areas in East Pakistan, the industry is likely to develop faster in the future than it has been possible for it in the past. Pakistan is now self-sufficient in almost all varieties of paper except newsprint, for which also a plant is being set up in Khulna in East Pakistan. Its proposed annual capacity of 33,000 tons will leave the country with a sizeable surplus over its own yearly requirements of nearly 13,000 tons. The prospects of establishing new fertiliser factories in East Pakistan are being explored in addition to the plant in Daud Khel.



A section of the Pak-American fertiliser factory in Daud Khel

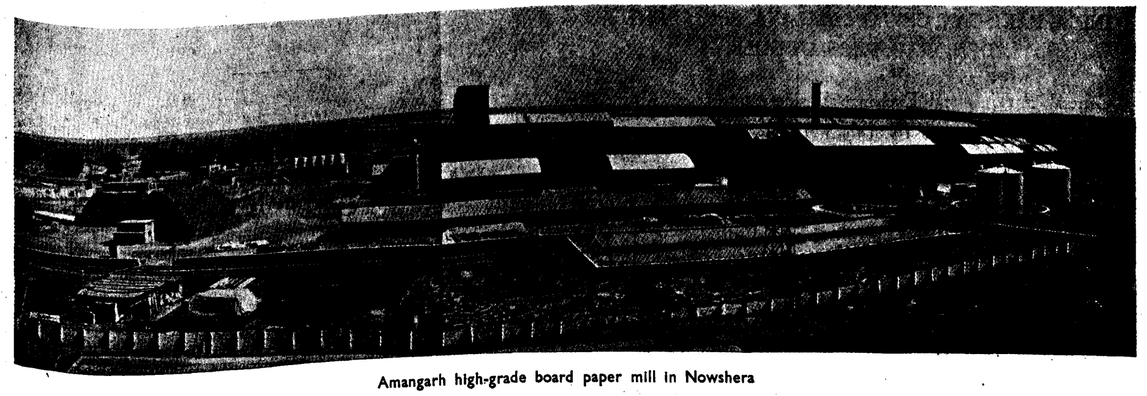
Power Output

The country's power base has been further strengthened by the discovery of new fields of natural gas of almost equal dimensions in Uchh, providing Pakistan with a total reserve that will last for more than 150 years at the rate of 5 million cubic feet a year, roughly equivalent to 2 million tons of coal. New oil companies have started their operations in both wings of the country and the old ones have intensified their search. Pakistan might well become an important oil producing and exporting country in the world, if oil is struck on the Makran coast where the Hunt International is engaged in prospecting and exploring the country's hidden wealth of "liquid gold." Should the efforts now being made all over the country succeed, the problem of foreign exchange might be permanently solved. But until then the key to the country's economic recovery lies in stepping up the exports to a point where they can pay for the imports.

The export trade which had been hit hard by the crisis of 1952 was already on the road to recovery in 1955, when its value rose to Rs. 150 crores against Rs. 118 crores in 1954. It continued to show the improvement in 1956, exports for the first six months being valued at Rs. 96 crores. The real increase was, however, smaller because of the change in the rate of exchange following the devaluation of the Pakistan currency in July, 1955. The new value of the rupee has unquestionably provided a powerful stimulus to the export trade, from which all the old major primary products as well as some of the newly manufactured commodities have benefited. The volume of exports of raw jute increased from 5,139,000 bales in 1954-55 to 5,682,000 bales in 1955-56, and of raw cotton from 7,230,000 bales to 9,480,000 bales, and the value rose from Rs. 52.82 crores to Rs. 82.87 crores in the case of jute and from Rs. 29.7 crores to Rs. 46.21 crores in the case of cotton over the same period. A significant feature of the foreign trade was the export of manufactured goods from this country, specially cotton yarn and cloth and jute manufactures.

Jute Goods Exports

The value of the exports of jute goods during the year has reached a figure of Rs. 10 crores from Rs. 1.73 crores in 1953-54, when they first entered the world market. If the productive capacity continues to expand as planned, Pakistan by 1960 will provide 308,000 tons out of the total world consumption of 900,000 tons, earning for the country a substantial amount of foreign exchange. The future of the jute industry is intimately linked with



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the export trade and, therefore, it must look more to the external than to internal demand. But even the cotton industry is slowly but surely beginning to build up a foreign market. Already nearly Rs. 6 crores worth of yarn and cloth have been exported to a number of countries including the United Kingdom, the United States and even Malaya and parts of Africa. Substantial as these gains are, they have not minimised the importance of the export drive. The export promotion scheme was consequently modified and improved by the addition of new commodities, enabling exporters in certain cases to use nearly 40 percent of the foreign exchange earnings for their own imports.

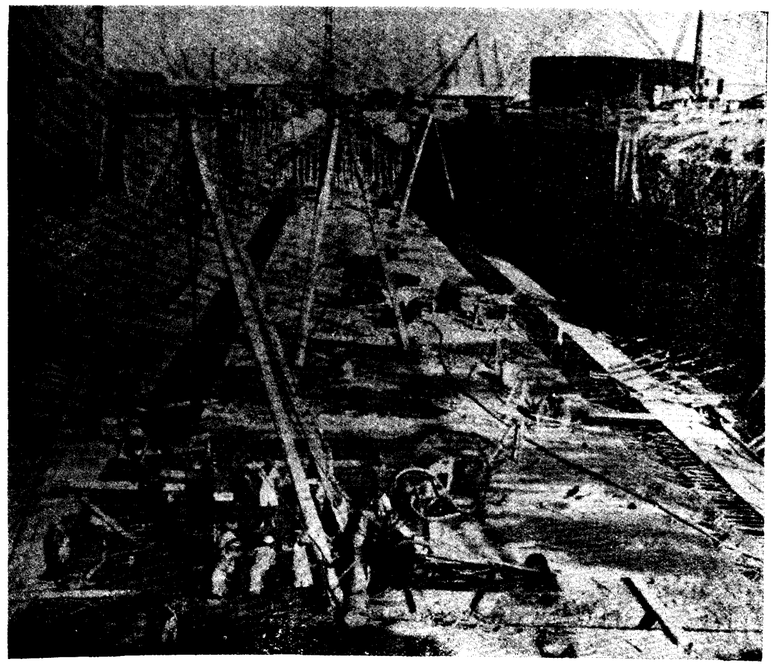
To preserve and develop the foreign markets for exports, a number of trade agreements were concluded with countries such as Ceylon, India, France, Poland, Italy and Japan. Of special significance is the trade agreement with Russia. Although the value and volume of the export and imports were not fixed, the provision for payment in the Pakistani currency would inevitably tend to increase the quantum of trade between the two countries. Great importance is also being attached to the negotiations about to start in Karachi for a trade agreement with China. China at one time was the second largest buyer of Pakistani raw cotton, and now she has become a valuable alternative source of coal for East Pakistan, where there is a grave shortage of industrial fuel for the power requirements of its fast growing industry.

While there was a steady expansion of exports, there was no corresponding improvement in imports. The value of imports in the past fell from Rs. 115 crores in 1954 to Rs. 106 crores in 1955. The decline in real terms was even sharper after the devaluation of the Pakistani rupee. With a policy of export incentives and import restrictions the balance of payments was bound to improve. There was a surplus of Rs. 17.11 crores in the first six months, the receipts during the period being Rs. 110.99 crores and payments Rs. 93.88 crores. Even this favourable balance achieved after several years of austerity, was soon wiped out by the large-scale imports of food.

Heavy Food Imports

The food situation is perhaps the worst that Pakistan has had to face since its inception. More than a million tons of foodgrains had to be imported into the country, nearly 888,000 tons for East Pakistan and a third of that quantity for West Pakistan at a total cost of Rs. 78 crores. Even though the Government did not have to meet the entire expenditure of foreign exchange out of its own earnings, the purchases made by it on its own account had absorbed almost the entire savings. "The economy of the country", the Finance Ministry warned the nation during the debate in the National Assembly, "could not afford this huge drain from year to year and the country passing through the development stage would not be able to proceed with the execution of the five year plan." The recurring food deficits indicate the existence of a continuing crisis in agriculture, whose repercussions are felt on practically every sector of the economy. Natural calamities alone cannot explain the paradox of rapid progress in the industrial sphere and a progressive deterioration in agriculture.

The Punjab floods in 1949 were more devastating than any that have since occurred in West Pakistan, and yet, the years 1950 and 1951 were completely free from anxiety. But after the crisis of 1952, the country has not been put on the road to normalcy. While the importance of fertilisers in augmenting production has been established on experimental stations, new varieties of crops and fresh strains have been evolved on the seed multiplication farms and new implements and tools have been fashioned in Agricultural Workshops, these have made little impact on the agricultural economy. This is largely attributable to the failure of the Agricultural Departments, both at the provincial and national levels, to carry the results of the experiments to the farms and the fields. The methods of production can change only if the agriculturist can be assured that he will benefit from their introduction The present system of ownership of land, especially in West Pakistan, does not provide the necessary incentive to the cultivator. Absentee landlordism acts perhaps as the most powerful brake on the progress of the economy.

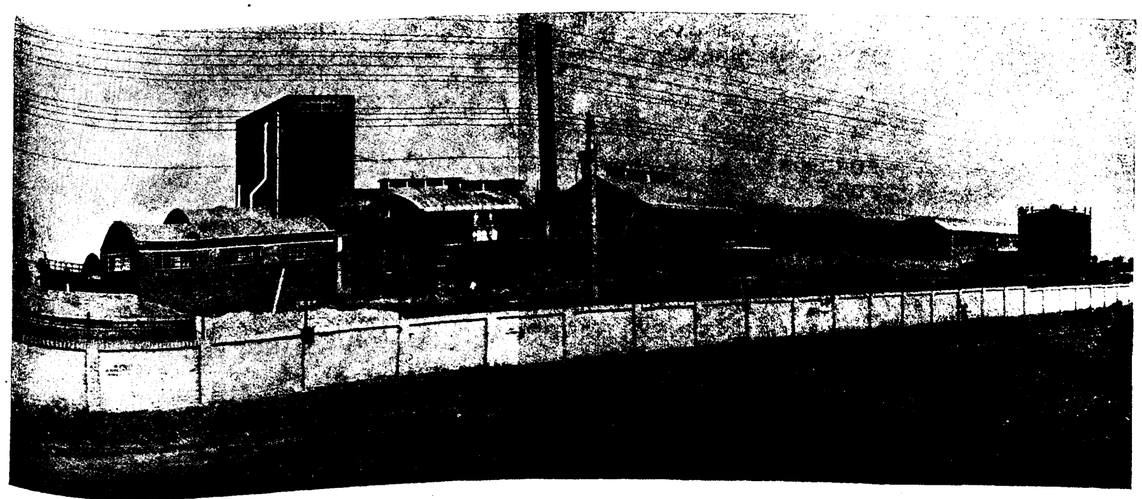


Dry dock under construction in the Karachi shipyard

Unbalanced Development

Progress in one sector of the economy and deterioration in another shows the lop-sided nature of the development that has taken place due largely to a lack of co-ordination of the resources. No systematic attempt has yet been made at planned production and distribution. With the formulation of the five year plan has ended the earlier phase of uncertainty and drift, from which have flowed many of the difficulties with which the country is presently grappling. For the first time has the interdependence of the different sectors of the economy been recognised as also the need for their integrated development. In the past, the interests of agriculture had been sacrificed at the altar of industry without realising that agriculture forms the base for the industrial edifice. By placing agriculture in the centre of the scheme the five year plan has tried to redress the balance that had been heavily tilted in favour of industry. Only such industries will in future be promoted as will save or earn foreign exchange so that industry, instead of becoming a drag on the balance of payments, becomes an asset and a source of strength.

The plan is not free from shortcomings and defects as no plan can be perfect. The financial provisions for education, health and social welfare are grossly inadequate; the 2 million job opportunities will be wholly insufficient to ease the grave problem of unemployment in the country; the estimate of private savings of Rs. 590 crores might prove over-optimistic or the external finance to the tune of Rs. 420 crores might not be forthcoming in its entirety. Nevertheless, by its balanced approach to the varied problems of the country, its emphasis on the public sector and its reliance on unorthodox methods of finance, the plan has introduced a freshness into economic thinking and practice which augurs well for the future.



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SCOPE FOR BRITISH CO-OPERATION IN INDIAN ECONOMIC PLANS

● FROM A SPECIAL CORRESPONDENT ●

ASIA in the last few years has undergone a transformation which it is difficult for her own people to understand, so it is hardly surprising that the change should be almost incomprehensible to all but the most astute of foreigners, and least of all to those who have been brought up against the background of Kipling's adage that "East is East, and West is West, and never the twain shall meet." Though it appears at first sight to have been a sudden revolution, a little consideration goes to show that the overnight revolution has actually been taking place gradually over several decades and really stems from the after-effects of two world wars. In the first of these, Asia's participation, though valuable, was less active than it was in the second, when Japan's hope of creating an Asian empire brought the horrors of war to large areas of the "co-prosperity area" which figured so prominently in her war propaganda. These events had surprising repercussions. Economically, they led to many countries in Asia developing resources and skills which had hitherto lain dormant or been utilised only to the extent which the entrepreneurs of the west considered desirable. Politically, they gave rise to a new sense of nationalism which overcame the handicaps of age-old tradition and a blind acceptance of fate. A new dynamism was created, replacing the long-established Oriental fatalism, epitomised in the word *Kismet* (fate).

New Outlook on Life

With the coming of freedom this new outlook on life of the Asian masses represents a change from the old negative rôle of fighting against colonialism to that of building up new nations. Nationalism has acquired a constructive, and therefore respectable, connotation. The task is a tremendous one aggravated by the overriding problems of illiteracy and poverty, and not made any easier by the seemingly ineradicable bitternesses of the past; but at least it is being tackled wholeheartedly, and, on any assessment of the limited achievements of the past few years, with a measure of success which even the most optimistic of planners and well-wishers could hardly have anticipated being realised, whatever may have been the extent of their hopes. Can this progress be maintained? The consensus of opinion is that it can, but whether its rate is fast or slow will depend on the amount of assistance the underdeveloped countries will receive—and, quite as important, be willing to receive—from the more advanced countries of the west. Widespread co-operation is essential, but before this can be established on a firm and lasting basis there will need to be a considerable reorientation of ideas, both in the west as well as the east. These adjustments are not going to be made easily, and the purpose of this article is to outline the main points of difference, the new approach that is needed in finding a solution, and the ultimate benefits which can be expected to accrue to both sides as a result. The problem as a whole applies to practically all the countries in south-east Asia, but in dealing with it here, India's case is handled specifically for several reasons, namely, that the author's experience is mainly of that country, that it has made what is probably a more promising start towards finding a solution than have the others, and that potentially she will prove in the end to offer an example which the others will be obliged to follow by virtue of the fact that her resources will enable her to play the lead in establishing an economic balance between east and west, with all that it implies in the raising of the living standards of millions of the world's population and the expansion of world trade.

The full scope of India's development plans will be disclosed as each successive five year programme is drawn up and made public. The first of these, aimed mainly at agricultural development, has just concluded. This was a realistic approach, for the Government's greatest problem at that stage was to feed a rapidly increasing population without imposing too great a strain on the country's foreign exchange resources. Agriculture and community development projects absorbed 20 percent of the total expenditure of Rs. 2,356 crores, with the essential ancillaries of irrigation and flood control claiming a further 18 percent, and transport facilities by rail and road just over 17 percent. In the first plan, industry and mining was allocated the insignificant proportion of 7.6 percent and power development 16.3 percent. The targets set by the Planning Commission were high, and in point of fact were not achieved, but with three good monsoons in succession after failures in earlier years, the agricultural part of the plan converted the country from a large importer of foodstuffs to a position of self-sufficiency and it was able to start building a reserve against the inevitable danger of a bad monsoon. The permanent achievement is considerable. Some 17 million extra acres were brought under irrigation during the first five year plan; the yield of foodgrains rose from 50 million tons in 1950-51 to 65.8 million tons in 1954-55, which exceeds the 1955-56 target set in the first five year plan by 4.2 million tons. Food imports have been reduced from 4,700,000 tons in 1950-51 to 770,000 tons in 1955. Output of commercial crops has also risen; raw cotton for instance from 2,900,000 bales in 1950-51 to 4,300,000 bales in 1954-55. Oilseeds similarly have exceeded the prescribed target, and sugar attained a record figure in 1954-55.

In the first plan, industry occupied a secondary place, but even so, considerable advance was recorded over a wide front. The official index of production, aided no doubt by the increase in the generation of electric power from 2,300,000 kW to 3,400,000 kW, improved by as much as 55 percent, with such important new industrial plants as the Sindri Fertiliser Factory, the Chittaranjan Locomotive Works, the Indian Telephone Industries factory in Bangalore, the Integral Coach Factory in Perambur, the two oil refineries near Bombay and factories for the manufacture of penicillin, D.D.T. and newsprint all going into production. The second five year plan switches the emphasis to industry. Total expenditure on the second plan is roughly double that on the first at Rs. 4,800 crores, of which only 21.9 percent goes to agriculture and irrigation, whereas industries and mining are to get 18.5 percent and transport by road and rail gets 24.3 percent and power production 8.9 percent. Once again the Planning Commission's targets provide the picture of what it is planned, or perhaps "hoped" would be a better word, to achieve. Steel production is to be expanded from just under 2 million tons at present to 6 million ingot tons, coal from about 38 million to 60 million tons and cement from 4 million tons to 12 million tons. Altogether, the total output of producer goods is expected to go up by 150 percent over the plan period.

The Plans Compared

The second Indian five year plan can be seen at a glance in its relation to first plan in the following table:

Rs. crores

	First Plan		Second Plan	
	Total Provision	Percent	Total Provision	Percent
1. Agriculture and community development	357	15.1	568	11.8
2. Irrigation and flood control	401	17.0	486	10.1
3. Power	260	11.1	427	8.9
4. Industries and minerals	179	7.6	890	18.5
5. Transport and communications	557	23.6	1,385	28.9
6. Social services	533	22.6	945	19.7
7. Miscellaneous	69	3.0	99	2.1
Total	2,356	100	4,800	100

All these are at present paper figures, but they show something of what India is aiming at. It is a very moot question indeed whether it will be possible to fulfil the plan within five years. The financial resources are not really there at present. In the public sector, as it is called, the total expenditure is Rs. 4,800 crores; but the actual resources seen at present are only half that figure, exactly Rs. 2,400 crores. India wants to raise another Rs. 2,400 crores and proposes to do that, as to 50 percent, by deficit financing. That will give rise to a serious danger of inflation which has hitherto been successfully avoided, and it is good to know that the danger is fully appreciated and measures are already being taken to meet any such development. At the same time, it has been announced that the plan will be examined from year to year. Apart from the financial aspect, the second plan has also come under criticism as being, unlike the first, too closely integrated so that failure to achieve a target in one direction—and the expansion of rail transport is a case in point—could well imperil success in other spheres and of the plan as a whole. The official explanation for what are regarded as over-ambitious and unrealistically high targets for industrialisation is the urgent need to provide employment for a population growing at the rate of about 5 million each year, since in spite of the agricultural development which is going on, there is already a shortage of land, and holdings now are too small to provide for subsistence. What does not appear to have been fully appreciated, however, is that industrial employment implies technical knowledge and ability, and in both respects there is a serious shortage.

Payments Deficit

The second five year plan involves a deficit in the Indian balance of payments on current account of Rs. 1,100 crores over the period. This it is proposed to meet by drawing down the sterling balances by Rs. 200 crores. Private foreign investment is expected to yield Rs. 100 crores, or very little more, if any, than the net inflow of the past five years. The gap of Rs. 800 crores which thus remains must be mainly covered by external assistance on a Government-to-Government basis and by the International Bank. Against this must be set the fact that India received foreign aid to the total of some Rs. 300 crores during the period of the first plan, mostly from the United States, but including Rs. 50 crores under the Colombo Plan; and that the International Bank's loans to India so far total about Rs. 95 crores, and it has recently been extremely outspoken in its views on the technique and character of Indian planning. It looks as though ways and means would have to be sought to attract private foreign investment on a much larger scale than has hitherto been regarded as desirable, or to revise future plans so that they are much more realistic and less speculative. If the World Bank has doubts about the second plan's feasibility as an economic proposition, with the achievements of the last five years as a guide, it may be taken for granted that financiers elsewhere will be no less cautious unless they are to be adequately recompensed for any risks they may be taking. It must be remembered that the Indian Government is looking even further ahead than the second plan. In its own words: "Conditions in India are especially favourable for producing iron and steel at a relatively low cost. Heavy engineering and machine industries are a natural corollary of iron and steel and provide the base for large-scale industrialisation. It is intended that during the third five year plan, India should be able to build the essential requirements of steel plants comprising coke-ovens, blast furnace and steel melting shops and machinery for power generating stations in addition to manufacturing in her own workshops the bulk of the machinery and capital equipment needed in different industries. The establishment of the heavy machine building industry which will ensure supplies of industrial plant and equipment from indigenous sources calls for action at several points. In addition to the expansion of steel and aluminium production, which has been already taken in hand, a plan for developing the machine building industry would include the manufacture of ferrous and non-ferrous alloys, tool steel and stainless steel and of specialised rolling facilities. An integrated programme of development would also have to provide for the establishment of heavy foundry, forge and structural shops and gear cutting shops and for the production of a wide range of machine tools."

In the face of developments as far-reaching as these, it is natural for those who can supply the means by which these plans can be realised to visualise a considerable expansion in trade, firstly, in capital goods; and secondly, when these have served their purpose and raised the country's standard of living, in those consumer goods which will improve the lot of the masses and which the

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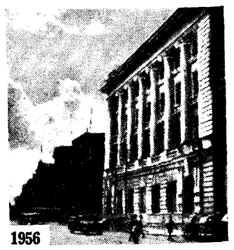
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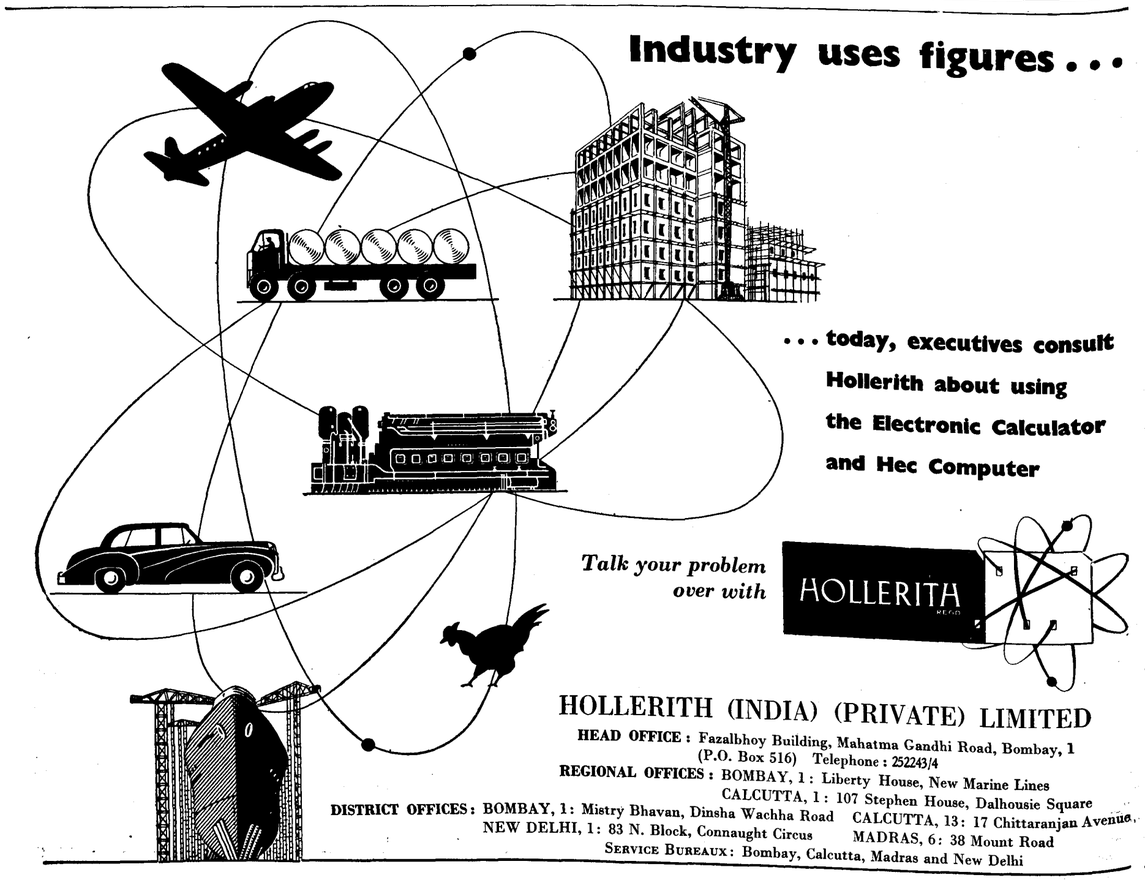
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country itself, for one reason or other, is not in a position to produce. In seeking this trade, however, there is keen competition. Because of past association the British exporter has a slight advantage, but this is not such as to offset the even more important factors of price, delivery and quality, or overcome what some other foreign suppliers can offer in the way of active salesmanship, better service, barter deals and extended credit terms. So far as the foreigner is concerned it is an open market, and one in which Western Germany, Japan and America have been displaying considerable interest for some years and more recently it has invited the attention of Eastern Germany, Poland, Czechoslovakia, Hungary and Soviet Russia. The essential points which must be kept in mind in assessing the scope for foreign co-operation in India's development plans may be summarised briefly as follows :

(1) Help, and especially financial help, must be free of "strings" and it must be given quickly. It will be welcome from any source.

(2) State control of both trade (by licensing all imports) and industry [by the operation of the Industries (Development and Regulation) Act and the Control of Capital Issues] is virtually complete and must be accepted as inevitable for a variety of reasons in support of which adequate justification can be claimed.

(3) On the positive side, as opposed to the negative function of control, the Government supports several corporations formed with the purpose of providing financial aid to industrial growth over a wide sphere, even to the initiation of new projects by private industry, both large and small, so long as they are regarded as of importance to the country's general economy and fit into the overall picture.

(4) Local resources, both of materials and manpower, must be utilised as far as is practicable, and Indian technicians must be trained to replace foreign personnel as rapidly as possible.

We now come to the question of the adjustments in attitude that are necessary to the creation of the co-operation which is so essential to the success of these plans, and, since the part played by the Government of India is so important a one, let us consider first what might be done in that quarter to smooth out the obstacles which now exist. The greatest need is undoubtedly that of finance, but the only help of this nature which can honestly be regarded as being completely free of "strings" would be an outright gift—yet not so long ago an Indian Minister was reported as having greeted the offer of surplus foodstuffs from the U.S.A. with the remark that India would never accept charity. In favour is the Government-to-Government loan or accommodation by such international organisations as the World Bank or the proposed S.U.N.F.E.D., but in the case of the former, Indian suspicion is almost an obsession. The S.U.N.F.E.D. idea has not yet reached a practical stage, and the World Bank obviously requires a lot of satisfaction as to the feasibility of the projects upon which its loans are spent. So far as loans of this nature are concerned, India must expect the attachment of some "strings," though these be no more than precautions to see that they are put to good use and not frittered away for lack of proper control or an excess of enthusiasm on the part of the spenders. The Government must shed this fetish that an offer of help will necessarily involve it in other commitments. Indeed, its suspicions should be aroused in the case of offers untrammelled by "strings" unless it is prepared to accept what could only be charity, for any Government or international agency making large loans without some restrictions on their use—or being imbued with the hope of a "return" in some form, either in prestige, trade possibilities, or even something more ulterior —would soon find itself in serious trouble.

Foreign Private Capital

On the participation of foreign private capital in Indian development, the Government's policy was outlined soon after the country acquired its independence, and was reaffirmed by Mr. Nehru in a parliamentary statement on 6th April, 1949, exactly a year later. The broad lines governing all assistance, as outlined above, apply here also, but in addition, the Government undertook there would be no discrimination between foreign and Indian enterprise; that the earning and remittance of profits would be unhampered within the limits of foreign exchange resources, and this would also apply to the withdrawal of capital investments; foreign enterprises compulsorily acquired would be paid compensation on a fair and equitable basis; so far as possible ownership and control should be mainly in Indian hands, but foreign control for a period would be accepted if it was found essential and non-Indians could be employed in posts requiring technical skill and experience until Indians could be trained to replace them. Existing foreign investment in India, of which 80 per-

cent (estimated value, £300 million) is British, has been assured that it is welcome so long as it is willing to co-operate constructively with the working out of the national plan. Hitherto, experience has gone to show that by and large, the Government has carried out this policy meticulously, and in certain cases where special considerations applied has been even more generous than it need have been. Where fears arise is in the varying interpretations which the Government's Parliamentary supporters apply to the concept of a "socialist pattern of society." This is not peculiar to India by any means—it is equally apparent even in some advanced western countries --but when one finds economic thinking dominated by the belief that anything done by the State is right and for the good of the country while almost all the actions of private enterprise are wrong and calculated to do harm, it is hardly surprising that business men, both Indian and foreign, are alarmed at what *could* happen in the future even though there may be few indications at present that it would.

Better Publicity

There is scope here for the Government of India to undertake a large-scale programme of "education" to meet both these fears as well as the criticism of its industrialisation policy on the ground that it has not only reserved to itself too large a sphere of activity but has taken steps to acquire complete ownership or at least a restrictive control of spheres successfully developed by private enterprise in the past or which provide room for considerable expansion in the future. The unbiassed observer of Indian developments since 1947 will admit that the Government can make out a reasonably good case for all that it has done, but it has overlooked the necessity to make this widely known. Mr. Maurice Zinkin, in his recently published *Development of Free Asia,* furnishes an interesting example of the pre-eminent rôle which the State must play if there is to be any development at all. He points out how the State, because of the poverty and illiteracy of the bulk of the population, has always been obliged to take the initiative—in providing such utilities as ports and railways, and the irrigation projects without which the peasants would face disaster whenever a monsoon failed. The Government of India inherited the *ma-bap* rôle which its predecessor occupied, and very wisely is proposing to continue as the mother and father of its people, and this is particularly important in the economic field where the knowledge and experience of the people are severely limited. Such nationalisation as has already taken place was dictated by special considerations not adequately publicised, but the doubts to which these moves have given rise could surely be dissipated if the Government was less didactic about treating each case on its merits and was prepared to go so far as to indicate the type of projects for which it is willing to give specific undertakings on the lines that it has done in the case of the oil refineries.

Finally, and perhaps most important of all, the Government must revise its ideas in the matter of taxation and labour legislation. It is appreciated that revenue must be increased if the Government's plans are to be realised, but the disparity between the rural and urban sections of the community in providing it is the cause of much heart-burning. Business needs incentive, not handicaps, but as things are at present this is certainly not the case. Taxation of companies is heavy, and taxation of individuals is an even more serious problem for foreign firms operating in India at present. The Government of India accepts the principle that where there is foreign investment the investor is entitled to have a foreign element in the management, but if the taxation is so heavy that no foreigner is prepared to go to India or to stay in India, the acceptance of the principle does not get one very far. Here again, it is understood the Government is thinking about ways and means of overcoming the difficulty. So far as the technician who visits India for two or three years is concerned there is no problem. Legislation provides that a technician who goes to India with the approval of the Government of India is free of income tax for three years. But the position of the man who wishes to join a firm and spend the greater part of his working life in India is not yet settled. It looks as though such perquisites as free passages, rent-free living quarters, educational allowances for children and personal transport, at least, will need to be excluded from consideration as taxable remuneration if foreign technicians—of which there is a shortage almost everywhere—are to be attracted to the underdeveloped countries. To take an overall figure for taxation per head in a country in which only half a million out of 360 million inhabitants are assessed to income tax as proving that the level is low by comparison with other countries when it is, in fact, relatively much higher, will hardly meet the criticism. Labour legislation—however necessary it may be, and few will deny that it is—has grown in volume and complexity to such an extent that it has now become a serious disincentive to business expansion. There is room here for co-ordination as between the States and the Centre, and also simplification to clarify the country's policy on labour matters as a whole. Once again this is a problem not peculiar to India alone, but she is starting on a course in which good employer-employee relationship can be of invaluable assistance to progress and lack of it a major setback, and it would be sensible to learn from the mistakes of others.

Having detailed some of the main criticisms applicable to the Government of India's development plans and the adjustments which are necessary to obviate the fears of foreign participants, it is necessary to add one further overriding need —that the tendency of Indians to make a fetish of nationalism in its many forms must be resisted. So far, as Mr. Stephen Garvin points out in the recent survey he prepared on the initiative of the Federation of British Industries, against all criticism must be set the fact that India "is prepared to welcome foreign investment on terms which are not unreasonable, have been conscientiously adhered to and compare well with those enforced by other underdeveloped countries. These are set out in the Prime Minister's policy statement, which has recently been reaffirmed. India has a good record as far as it concerns capital repatriation and remittance of profits. There is no rigid insistence on a majority Indian holding in foreign-initiated enterprises; some one hundred percent subsidiaries of British firms have been welcomed. The employment of Indian personnel in all possible positions is insisted upon, but not at the expense of managerial experience or technical skill, which it is well understood necessarily accompany foreign capital." This qualification, however, is the outcome of a welcome display of realism on the part of the Government. Popular enthusiasm could lead to an alteration of that attitude—Abadan and the Suez Canal are not inappropriate reminders-- and it is desirable in the long-term interests of the country that the possibility should be counteracted by the creation of a public opinion which is both informed and free of extremism.

Expanding Market

Whatever may be India's success in attracting foreign investment to aid the implementation of her plans, it is certain that they will go forward, even though it may not be as speedily as their initiators might hope. In the process, India will represent an expanding market for imports of all capital goods which she is not in a position to produce herself until such time as she has built up her basic industries. To a lesser extent that also applies to consumer goods, for with industrialisation the standard of living must rise, and the requirements of the foreign technicians and administrators whom the country will also need will have to be satisfied. During the period of the second five year plan, it is estimated that imports of engineering goods, iron and steel and similar manufactures alone will involve an expenditure of something like Rs. 1,400 crores, or rather more than £1,000 million. The British exporter has a special interest inasmuch as Rs. 200 crores of this expenditure is to be financed by running down India's sterling balances, and if Britain cannot supply what India needs she may well have to release dollars or gold to other foreign countries which can. In the interests of the sterling area's

India Cycle

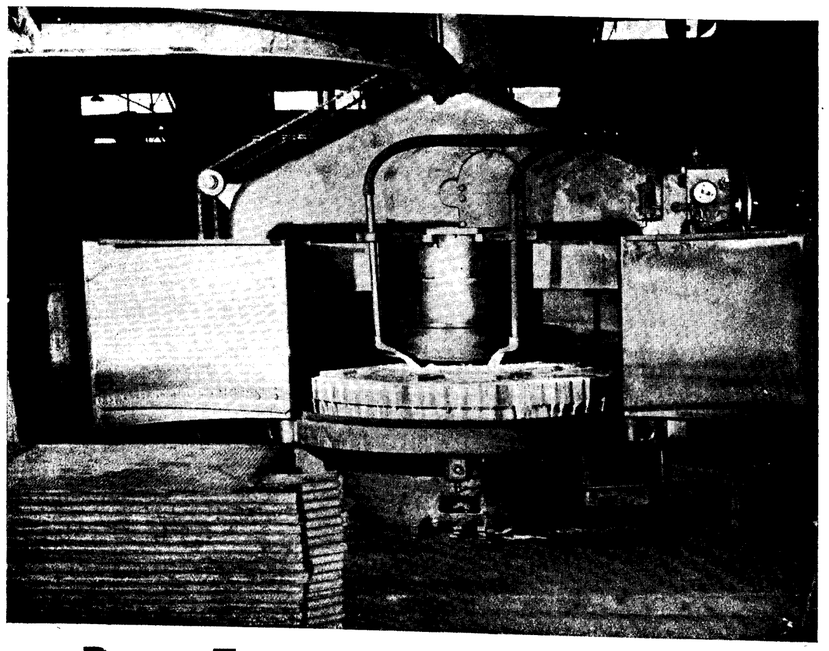
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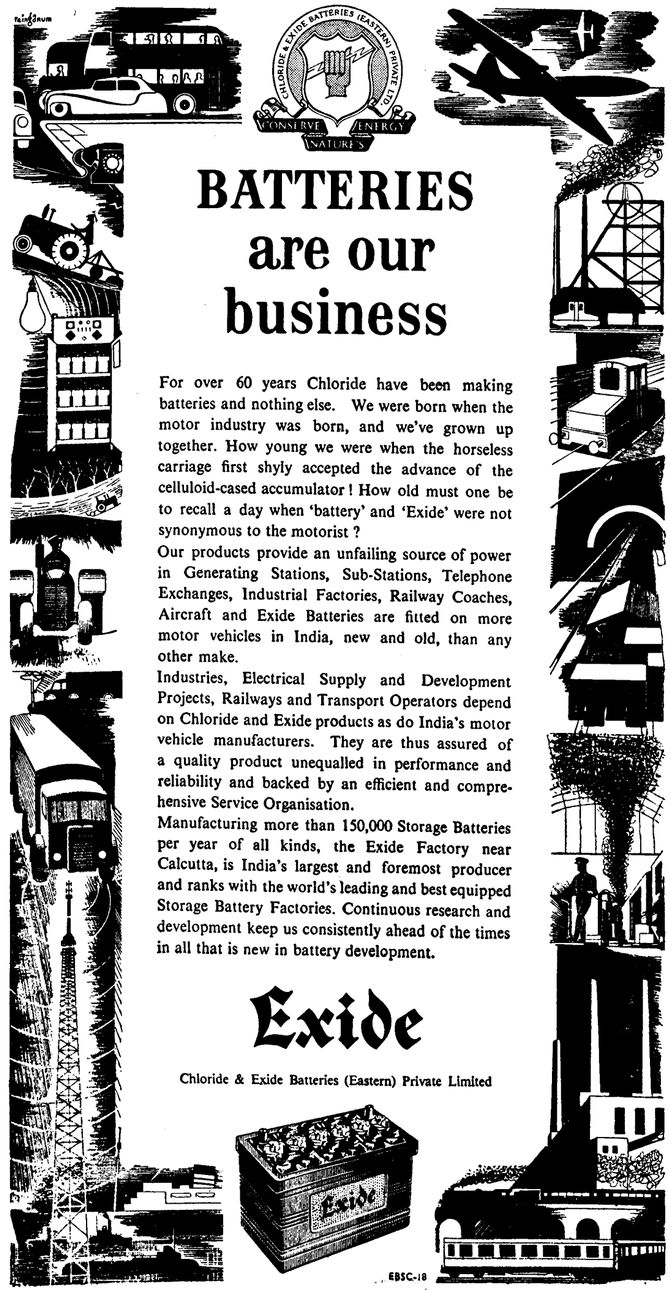
resources that is a point which should influence both sides, but especially the British Government and exporter. Another factor worth keeping in mind is that between Britain and India—for all the bitterness which preceded the granting of independence, which has in part been sustained against the large mercantile interests by the difficulties imposed on them by the new Companies Act and much of the labour legislation—there is a large measure of goodwill in appreciation of the fact that but for what Britain and the British did for India in years gone by the latter would not be quite as favourably placed as she is today to take advantage of the opportunities which lie before her. It was British initiative which gave India her transport and communication systems, her irrigation and power projects, her major export industries in jute, tea and minerals, and, perhaps most important of all, the nucleus of Indian administrative officers of the I.C.S. without whom the transition to independence might well have resulted in complete chaos instead of furnishing, as it did, a breathing space in which others could be trained to replace the foreigners who left in 1947. And finally, of course, it must not be forgotten that although there must inevitably be wide variations in the "way of life" of the two countries, and though many Indians would like to have them wider still, the basic ideals and the machinery through which these work, are substantially the same. In that perhaps, more than in anything else, lies the answer to what is probably the biggest question mark facing the foreigner's approach to India as a good risk for the future—will India go Communist?

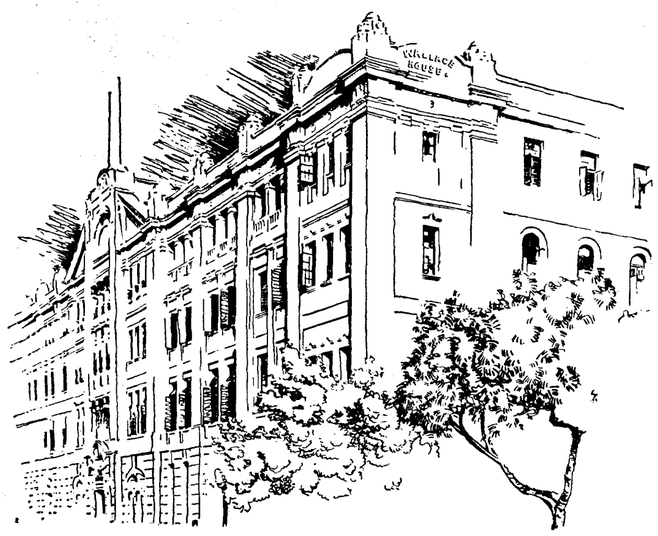
That Britain should have a part in implementing India's development plans is desirable for many reasons. Quite apart from the long Indo-British association to which reference has been made earlier, it is worth remembering that Britain is still the source of 25 percent of India's total imports and the market for over 30 percent of her exports, that of all foreign investment in India the British contribution of about £300 milion represents some 40 percent, and though much of this is covered by the activities of the long established British mercantile community in India, since 1948 the figure has risen by as much as £100 million, of which no less than £40 million represents direct participation of U.K. firms, either on their own account or in association with Indian concerns in the manufacturing sectors. These figures are by no means negligible in view of the difficulties—Britain's own economic troubles, for instance—which have beset U.K. firms and the doubts to which conditions in India and in the international sphere have given rise. Nevertheless, they could and, indeed, should, have been improved upon had there been some readjustment of the British approach to India's changing circumstances. It is apparent that the British mercantile community in India laid too much store by the fact that India remained in the Commonwealth, and accorded too little importance to her oft-repeated claims for complete freedom of action if and when this was considered necessary. As a result many disappointments have been suffered and not a few disillusionments. Though painful, the process of readjustment here has proceeded, and on the whole satisfactorily, so that the future outlook for closer co-operation is less unhopeful than it was a decade ago. The established British enterprise in India —as opposed to new ventures—must accept a subsidiary rôle, but within the inevitable limitations which that status must impose, can still survive and make a valuable contribution to the country's economy.

Opportunity for Britain

The situation which faces British enterprise from overseas is rather different, and, given a willingness to meet keen competition, on the whole less difficult. It must be accepted that the advantages enjoyed in the past are no longer effective. The British exporter must study his market and do after the business, as for instance his competitors from Germany and Japan and the Iron Curtain countries are doing most effectively, he must quote an attractive price, give a quality product, and deliver it on the promised date; and, not least important, having delivered the goods he must give adequate after-sales service, preferably through agents specially trained for the purpose. Where goods come up against import licensing difficulties the way out apears to be the creation of manufacturing facilities within the country itself, preferably in association with Indian business men. It is foolish to imagine, as some still do, that the setting up of such factories cuts exports and profit margins. Other countries may not think along the same lines, and Indians have made it quite plain that they are prepared to accept help from any source so long as it is advantageous to India. Other things being equal, however, it can be taken as reasonably certain that most Indians will deal more willingly with Britons, because they are well acquainted with British business methods as demonstrated by the enterprises operating in India and by past experience. In the private sector it is fairly safe to say that of the many joint foreign-Indian manufacturing agreements concluded in recent years the majority have been with British firms, and in this sphere it is good to find that established British concerns in India are finding a place—one they have certainly earned not only for all their pioneer activities in developing industry in the country but because of the way they built up a market for British exports and their knowledge and experience of the country and its people.

In the public sector, the Government of India has spread its net much wider, but here also there is at least some evidence that British co-operation will prove more than welcome. In the creation of a heavy electrical industry, for instance, an agreement, which will probably represent the standard to be followed in future, was concluded with Associated Electrical Industries, a British group. This demonstrates that financial participation—which often proves an insuperable obstacle in view of the risks referred to earlier in this article—is regarded as being less important, especially in State enterprises, than the provision of technical know-how, the design of products, planning the factory, placing orders for equipment and training labour. No one at this stage is likely to be categorical about the element of risk involved in investment in India's development plans, or those of other countries in south-east Asia. It is certain, or as certain as such things can be since the march of progress cannot be restricted, that within the next 15 to 20 years, the area will be considerably industrialised, with India occupying the major position hitherto enjoyed by Japan. Communist China, assisted by Soviet Russia, is a competitor for the lead, and both politically and economically it is essential that the democratic countries of the west should demonstrate that free enterprise can meet totalitarian competition. So far as India is concerned, Britain has both a special responsibility and a wonderful opportunity.





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THE SUEZ CANAL CRISIS—AND ITS CONSEQUENCES

• By HUBERT E. WOUTERS •

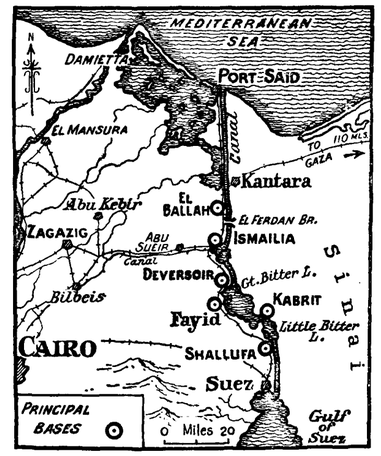
THROUGHOUT the long-drawn-out discussions and negotiations over the nationalisation of the Suez Canal by Egypt, the political implications have dominated the economic ones with the unfortunate result that the firm stand taken up by the western powers, and more especially the British and French Governments, has been misunderstood by many observers of the international scene who ought to have approached the whole question more objectively. In seeking a solution, India—through Mr. Krishna Menon, her roving Ambassador-at-large—has played a not inconsiderable part, urged on no doubt by two considerations, the importance of maintaining free transit of the Canal for the imports and exports which are so essential to the realisation, on schedule and within the financial estimates, of her extensive development plans; and in furtherance of the rôle which she has adopted increasingly of late, as an independent mediator between the west and the east when the attitudes or ideologies of the two have come into conflict on international issues. Nevertheless, even in India there has been a measure of misunderstanding of the Suez "crisis" situation which an historical and economic survey of the question should do much to dispel.

The advantages and the rich trading possibilities of a navigable waterway across the Isthmus of Suez were first realised so many centuries ago that the date of the earliest canal can only be conjectured as about the 13th century B.C. This, and later waterways, however, did not follow the route of the present Canal. Instead, they cut a passage from the Red Sea westward to the Nile, so that vessels might bring merchandise to and from the rich cities in the interior of Egypt. A Nile-Red Sea canal is known to have been in use at intervals until near the end of the 8th century A.D., by which time commerce between east and west *via* Egypt had begun to decline. From the 16th century onwards, one or other of the European powers at intervals became interested in the idea of either re-opening the old Nile-Red Sea canal or cutting a new one from the Mediterranean. Yet none of the schemes materialised. Even Napoleon I, who after his conquest of Egypt had become deeply interested in a canal project, allowed himself to be put off by a report from surveyors and engineers that the scheme was impracticable since the waters of the Red Sea were higher by more than 30 feet than the level of the Mediterranean. Later surveys showed that this was a miscalculation but, although practical obstacles seemed to be removed, political stumbling blocks and national rivalries remained in the way; and neither the Viceroy of Egypt nor his nominal overlord, the Sultan of Turkey—aware as they were of the international implications of the scheme and beset both by its advocates and by its opponents—was prepared to allow any concrete proposal to go forward.

Realisation of an Idea

It was not until towards the middle of the 19th century that the Suez Canal was translated from an idea into reality. Ferdinand de Lesseps, son of a diplomat and himself a member of the French Consular Service, first became interested in the Suez Canal scheme while he was Vice-Consul in Alexandria in the 1830s. In 1854 he had the opportunity of personally discussing the project with the new Viceroy of Egypt, Said Pasha, whom he had known in his youth and who was already well disposed towards him. Said Pasha approved the scheme on the spot and granted de Lesseps a concession, to run for 99 years from the date of the canal's opening, authorising him to form an international company for the purpose of constructing a navigable waterway. This original concession, which was very broad in its terms, was replaced by a more formal one two years later.

Before forming his company, de Lesseps was determined to produce convincing evidence that the canal was a practical proposition. Accordingly, he organised an international engineering commission, including some of the best engineers in Europe, to survey and report. The Commission submitted its finding to the Viceroy in 1856 and stated, among other things: "The direct canal from Suez to the Gulf of Pelusium (in the Mediterranean east of Port Said) is.....the sole solution of the problem for joining the Red Sea to the



The Suez Canal, the map showing the principal military and air bases

Mediterranean: the execution of the work is easy and the success assured." de Lesseps no longer hesitated. The Statutes of the *Compagnie Universelle du Canal Maritime de Suez* were drawn up, capital was raised, and in the spring of 1859, in spite of active opposition from several directions, the work of construction was put in hand.

Since the region through which the Canal was to be cut was desert and almost waterless, the first task was the construction of a sweet water canal from the Nile to Lake Timsah, about half way between the two seas, and from there to the new Mediterranean harbour of Port Said, in order to provide drinking water for the thousands of men engaged in the work. Then the great engineering operation of constructing the maritime canal was begun. The first part was completed on 18th October, 1862, when the waters of the Mediterranean entered Lake Timsah. Political difficulties once more intervened and the Sultan, who had not so far ratified the Company's concession, threatened that unless certain conditions concerning the use of forced labour and the ownership of land were complied with, the whole project would have to be abandoned. Negotiations dragged on for a time, but the matter was eventually settled by the Company's agreeing to discontinue the use of forced labour and to restore to Egypt all the land it had acquired under the concession, with the exception of a narrow strip on either side of the Canal.

The Sultan gave his sanction on 19th March, 1866; there were no further obstacles; and on 17th November, 1869, amid scenes of splendid pageantry, the Suez Canal was officially opened. For three days a procession of 67 vessels, headed by the French Imperial yacht *Aigle*, with the Empress Eugénie and de Lesseps on board, passed slowly along the Canal from Port Said to Suez. The total cost of the work, up to the end of 1869, was £16,632,953, the difference between that sum and the original capital of 200 million francs (£8 million) being met out of loan proceeds and out of compensation paid to the Company by the Khedive for the return of land to Egypt and for giving up the right to employ forced labour.

British Interest

In Britain, the official attitude towards the proposed Suez Canal was for long one of opposition—an attitude conditioned by the fact that the early Napoleonic efforts to establish this route to the East were frankly aimed at capturing the rich India trade from Britain. Britain was not, however, blind to the advantages of more rapid communication with India than was afforded by the Cape route. In 1830 a certain Lieutenant Waghorn—to whom de Lesseps later paid tribute as the "originator and pioneer of the great Egyptian maritime commerce completed by the canal of the two seas"—had pioneered the overland route to India *via* Egypt and the Red Sea, and as a result of his enterprise, the U.K. Government in 1837 instituted the regular carriage of mails to Alexandria, and overland to Suez, from where the ships of the East India Company took them on the last stage of their journey to Bombay.

The success of the overland route probably influenced the U.K. Government to view with favour a scheme put forward as an alternative to the Canal, for building a railway through Egypt. They pursued this objective with such determination that the consent of the Viceroy was obtained and a railway was actually completed between Alexandria and Cairo in 1854. This achievement was soon eclipsed, however, by de Lesseps's success in obtaining the Canal concession from the new Viceroy in the same year. In 1855 de Lesseps, anxious to secure Britain's co-operation in his enterprise, paid a personal visit to England and called on Lord Palmerston, the Prime Minister. But the statesman was not to be won over and made no secret of his apprehensions that the Canal, by being open to the shipping of all nations, might deprive Britain of some of the trading advantages she already possessed.

Until 1866—the year in which the Sultan's approval of the Canal concession finally ended the long diplomatic struggle—the opposition of the British Government remained almost unabated, although British commercial and mercantile interests were quick to realise the benefits to trade of the new route. When it grew apparent that, in spite of delays and disputes, the Canal was to become an accomplished fact, the Peninsular and Oriental Shipping Company began to make preparations for transferring their shipping to the Canal route, and the Admiralty in 1863 took steps to increase the harbour and docking facilities in Malta. Opinion was veering strongly in favour of the project. The death of Palmerston in 1865 saw virtually the end of Britain's opposition. When the Canal was opened in 1869, Queen Victoria conferred upon de Lesseps the Grand Cross of the Star of India and he was made a Freeman of the City of London.

From the start British ships predominated in the Canal. But it was not until 1875 that Britain acquired an interest in the Suez Canal Company itself. In that year Disraeli, then Prime Minister, bought from the Egyptian Khedive the latter's entire holding of nearly half (176,602) the Company's shares at a price of £3.976,582. In spite of its having acquired the largest single holding of shares, Britain at first took little part in the direction of the Company's affairs, having only three seats out of 24 on the board. Only after the Egyptian revolt of 1882, when the Khedive called on British troops to protect the Canal from destruction by rioters, did Britain assume a share in the administration of the Canal commensurate with its financial and commercial interest in it. It was then allotted ten directors out of an increased total of 32. More important than its actual representation on the Board, however, was the changed political situation in which Britain was tacitly recognised as the custodian of the Canal, exercising on behalf of Egypt the guardianship of the Isthmus of Suez.

While anxious to preserve the right to defend the Canal against aggression, Britain wished to enter into guarantees with other Powers to preserve the freedom of the Canal for the passage of all ships. Negotiations designed to secure this object proved difficult and protracted, but eventually, in October 1888, an international Convention was signed, providing the framework within which the Canal was operated and administered until Colonel Nasser decided, for political reasons, to nationalise the international waterway.

The 1888 Convention

The 1888 Convention was signed in Constantinople by representatives of Great Britain, Germany, Austria-Hungary, Spain, France, Italy, the Netherlands, Russia and Turkey. The first of its 17 Articles, which defines broadly the scope and purpose of the Convention, and establishes the international status of the Canal, reads:

> "The Suez Maritime Canal shall always be free and open, in time of war as in time of peace, to every vessel of commerce or of war, without distinction of flag. Consequently, the High Contracting Parties agree not in any way to

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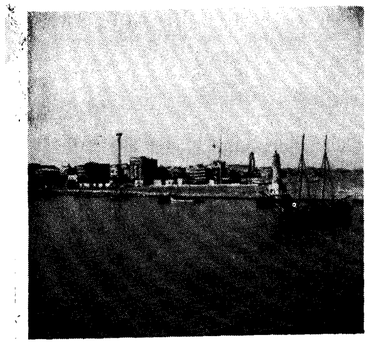
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The Port Said end of the Canal

interfere with the free use of the Canal in time of war as in time of peace. The Canal shall never be subjected to the exercise of the right of blockade."

Other key Articles are 2, 3 and 14, under which the High Contracting Parties "undertake not to interfere in any way with the security of the Fresh-Water Canal and its branches, the working of which shall not be exposed to any attempt at obstruction" (following upon the agreement between the Khedive and the Suez Canal Company); "undertake to respect the plant, establishments, buildings, and works of the Maritime Canal and of the Fresh-Water Canal"; and "agree that the engagements resulting from the present Treaty shall not be limited by the duration of the Acts of Concession of the Universal Suez Canal Company".

In spite of a number of critical periods, particularly during the first and second world wars, it proved possible to adhere to the spirit of the 1888 Convention and to maintain even in the most difficult circumstances the international character of the Canal as a shipping route open without restriction to the vessels of all countries. In the original Convention, the Ottoman Empire was named as guarantor, in the event of Egypt's requiring assistance to enforce the terms of the Convention. After the 1914-18 war this was changed, with the agreement of the other contracting Powers, and Turkey was replaced by Great Britain as guarantor. Herein lies the explanation for Britain's former Suez Canal bases and the maintenance of other bases in the Middle East.

The *Companie Universelle du Canal Maritime de Suez* was registered in Egypt. As already mentioned, it owed its existence to the Act of Concession granted by the Egyptian Viceroy, Mohammed Said, to Ferdinand de Lesseps on 30th November, 1854, and again on 5th January, 1856, ratified by the Sultan of Turkey on 19th March, 1866, and due to expire on 17th November, 1968, when the Canal and works were to become the property of the Egyptian Government. The functions of the Company were carried out by three main departments: the Administrative Department, the Transit Department and the Works Department. Administration of the Canal was in the hands of a Board of 32 directors, of whom 16 are French, ten British (three representing the U.K. Government and seven representing shipowing interests), four Egyptian, one American and one Dutch. Directors were appointed by a general meeting of shareholders for a period of eight years but, since retiring Directors were eligible for re-election, it usually happened that appointments were for life. Each director had to hold 25 shares, which were deposited with the Company during his term of office. The directors appointed each year a president and vice-presidents, and the board was required to meet at least once a month. Among the duties of the directors were the appointment and dismissal of higher officials; consideration of schemes for carrying out work on the Canal; placing of contracts; acquisition and sale of property; approval of the annual budget; and the consideration of matters affecting tariffs and rights under the Concession and of matters affecting shares and bonds.

Although the Company was registered in Egypt, its main legal and administrative offices were and are in Paris, and there is also an agency in London. Contact with the Egyptian Government was maintained through the *Agent Supérieur*, who was the Company's chief representative in Egypt. The Egyptian Government appointed a Commissioner, who had the right to scrutinise all the Company's dealings.

The capital of the Company was fixed at 200 million francs (£8 million), divided into 400,000 shares of 500 francs each. When the Company was formed, blocks of shares were reserved for each of the countries which might be considered to have an interest in the Canal, but in the event some of these were not taken up, including the blocks reserved for Great Britain, Austria, Russia and the United States. The French allotment was fully subscribed and the Viceroy of Egypt personally subscribed 60 million francs. The rest of the shares were purchased, mainly in relatively small amounts, by investors in Spain, Holland, Tunis, Switzerland, Belgium, Italy, Prussia, Denmark and Portugal. Thus from the start the international character of the undertaking was established. Disraeli's purchase of the Khedive's shares in 1875 made the British Government the largest single shareholder.

The Company's principal source of income was the dues payable by ships passing through the Canal; but it also derived some profit from leasing out land and buildings in the harbour of Port Said. In addition, there was and is a small revenue from investments. Distribution of net profits was made in the following ratio: 71 percent to shareholders; 15 percent to the Egyptian Government; 10 percent to founders of the Company; 2 percent to directors; and 2 percent to employees for pensions, etcetera. In fact, the share of the Egyptian Government was transferred, in part satisfaction of debt, to the *Crédit Foncier de France* in 1880, and was sold by them to a French *Société Civile* administered by the Comptoir National d'Escompte. But, by an agreement made between the Company and the Egyptian Government on 7th March, 1949, the latter —which had been receiving an annual sum of £E300,000—was again associated with the results of the enterprise by being given a 7 percent share in the gross profits with a minimum of £E350,000. This agreement also provided that Egyptian representation on the Board be gradually increased from two to seven and that the proportion of Egyptian personnel employed on the Canal in a technical and administrative capacity should be increased. The Company had, in fact, decided that Egyptians would be given four out of five technical vacancies and nine out of ten administrative vacancies.

Shipping Dues and Charges

The Suez Canal Company's Concession gave it the right to levy tolls on vessels and on passengers passing through the Canal, but stipulated that the rate charged should be measured *"par tonneau de capacité des navires et par tête de passager"*. This at first led to more confusion than might appear, for no uniform international system of measuring tonnage existed, and in the early years disputes were many over the rates and how they should be calculated. Only after an International Commission had met to examine the matter in 1873 was a method evolved, which employs a special Suez Canal measurement, based on the British system of measuring gross tonnage capacity, and allowing certain specified deductions for space not available for cargo. A special tariff is allowed for local traffic between Port Said and Ismailia, and half rates are allowed for shipping using only half the length of the Canal. Berthing dues are charged in the ports of the Canal for a stay longer than 24 hours, and pilotage dues in Port Said harbour for ships which are not making the transit of the Canal. A small towage due is paid if a ship has to be towed or convoyed. All dues and charges had to be paid in advance in Egypt, Paris or London, and Suez Canal Certificates were issued by the authority in each of those countries whose function is to measure ships for tonnage. In Great Britain the appropriate authority was the Ministry of Transport, Marine Division.

The rate at which dues are charged has varied considerably during the Company's history. Under the Concession a maximum of 10 francs a ton was stipulated, but it was found necessary in the early years to add a surtax at a rate which varied according to the total tonnage of shipping using the Canal. As the affairs of the Canal prospered, it was found possible to lower the tonnage dues. From 1935 onwards they have been expressed in terms of the Egyptian currency, the maximum permissible rate being 63 Egyptian piastres. The present rate is well below the maximum, being 34 Egyptian piastres for loaded ships and 15½ piastres a ton for ships in ballast, having been progressively reduced, as the Company prospered, from 36½ and 17 piastres a ton in September, 1951. In 1950, it was decided to abolish altogether the dues payable for passengers making the transit of the Canal.

Navigation

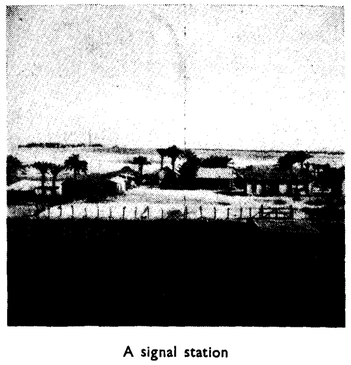
The Transit Department of the Company was responsible for the passage of vessels through the Canal. It came into action as soon as captains notified their agents by wireless at the Canal ports of the name and nationality of vessel, the probable hour of arrival, whether they intended to go through the Canal or only to stop at the port, and whether they were carrying a dangerous cargo. Navigation of the Canal was controlled by the central office in Ismailia, which received by telephone from Port Said or Suez details of the ships which had arrived and which intended to pass through the Canal, and the times of their arrival. Control was facilitated by the use of special charts and the course of every vessel was plotted so that at any moment the authorities knew the position of each ship. Until traffic became too heavy, it was possible for ships to traverse the Canal individually, making fast at the stations when it was necessary to allow oncoming vessels to pass. Today the Canal works on a convoy system and the convoys pass each other in the natural lakes and in a new by-pass canal, opened in 1951. The aim of the controlling authority is to pass through the maximum number of vessels in the minimum period of time.

Special care has to be taken in navigating very large vessels, although recent improvements have greatly facilitated their transit. Every vessel over 500 gross tons had to take on board three successive pilots, one for Port Said roads, one for the section of the Canal from Port Said to Ismailia, and one for the section from Ismailia to Suez.

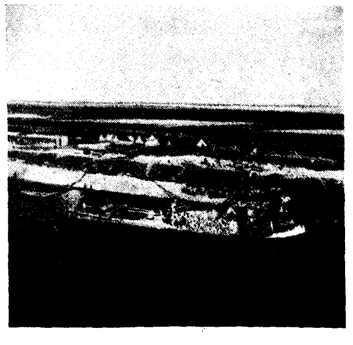
Maintenance and Improvements

When the Suez Canal was completed in 1869, it had a width of 72 feet and a depth of 26 feet. There were eight passing stations, where the channel was widened to 89 feet. Ships could also pass in Lake Timsah and in the Great Bitter Lake. Over the years the Works Department of the Company carried out many improvements to adapt the Canal to the needs of larger and faster vessels, and to increase the efficiency of operation. Plans for improvement were submitted to the International Consultative Technical Commission, comprising 12 experts from a number of different countries, which met every year in Paris.

Under the first works programme, put in hand in 1885, the Canal was widened over its entire length to 121 feet and deepened to 29 feet, and more room was provided at passing stations. This proved to be only one of a continuous series of works programmes, of which the latest, begun in 1949, is the seventh, and has almost been completed. It has included the cutting of the Ballah by-pass canal, seven and a half miles long, half way between Port Said and the Bitter Lakes, which is used by vessels travelling north, while south-bound convoys use the main canal. The rest of the seventh programme is concerned chiefly with deepening the channel by 20 inches over its whole length, to allow the passage of the latest tankers with a draught of 35 feet—an operation which, it is estimated, involves the removal of 8 million cubic yards of soil by dredging and of 800,000 cubic yards of rock. Other engineering operations included the deepening of the tanker



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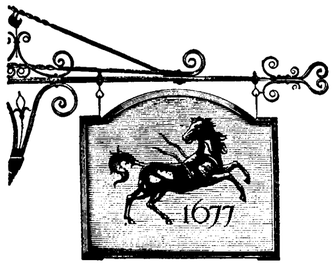
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oring station at Lake Timsah and the enlarge-ent of one of the basins of Port Said harbour as to allow anchorage facilities for 18 ships of 0 feet length as against its previous capacity of e ships 330 feet long. An eighth programme, volving the deepening of the Canal to 36 feet the facilitating of the rapid passage of ships building two new by-passes, was launched just ore the crisis arose.

In addition to these relatively long-term im-vements, maintenance work on the Canal has be carried out continuously. Constant dredg-g is required over long stretches of the channel here sand from the desert is blown into the water. very year from three to four million cubic yards material is dredged in this way and is either ken out to sea or pumped on to the banks. Wash vessels in time destroys the pitching on embank-ents, and new types of construction are tried out eriodically. Much repair work is also under-ken by the Engineering Department, and for purpose there are repair shops in Ismailia l Port Tewfik as well as a main workshop in rt Fuad equipped with plant for carrying out ajor repairs.

The improvements due directly or indirectly the Suez Canal Company were not by any means mited to work on the Canal itself, but extended a wide area of surrounding country and influ-ced the lives of all the inhabitants of the Canal one. At the time when de Lesseps obtained e original concession from the Viceroy, the region nsisted of a virtually waterless desert with a inge of swamp at the Mediterranean end. To-y it presents a very different picture, with culti-ed land, modern well-planned towns and cellent road and rail communications. Where, the Red Sea end, there was only the little port Suez, there are now several flourishing up-to-towns. At the Mediterranean end are the n ports of Port Said and Port Fuad, the former nding on ground reclaimed entirely from the a and the swamps of Lake Menzaleh by deposits om the excavations and dredging. Half way own the Canal, on the banks of Lake Timsah, is e beautiful garden city of Ismailia, which was n entirely by the Canal Company which pro-ided all its amenities, including electric power, ater supply and drainage. In all these towns ourishing businesses, stores, works, hotels and actories have been built up, which have nothing do with the Canal Company, but which the xistence of the Company has made possible.

Traffic Using the Canal

Although the number of ships using the Suez anal was disappointing in the first few years after s opening, once the channel had been widened nd deepened to permit of the passage of larger essels, and the dues charged had begun to be educed, the route came into its own as the most conomic and speedy line of communication etween Europe and the Far East for mails, assengers and merchandise. From the first, ritish ships predominated in numbers and ton-ge over those of all other nations, although the ual proportion has fallen, from about two-rds of the total in 1870 to about one-third. ance, Holland, Italy and Norway have always en among the principal users, and before the r Germany came high on the list. In recent rs, tonnage of ships flying U.S. and Panamanian gs has increased greatly.

Traditionally, cargoes of vessels passing through e Canal from north to south have consisted efly of machinery and manufactured articles, ile those going from south to north were mainly odstuffs and raw materials. Although this dis-ction to some extent remains, cargoes of all er kinds have been greatly overshadowed in ostwar years by the large increase in transport oil through the Canal. In fact, the striking se in tonnage of shipping after 1947 can be attri-buted almost entirely to oil tankers, which of late have represented over 60 percent of the total tonnage using the Canal. The net tonnage of vessels passing through the Canal has risen from 30,700,000 tons in 1933 to 34,400,000 in 1938, 36,600,000 in 1947 and 115,800,000 tons in 1955, and Britain's share of the total, which was 54.5 percent in 1933, is still 28.2 percent, with 43 countries sharing the othed 71.8 percent, headed by Liberian-flag shipping contributing 12.1 percent, French 9.4 percent, Italian 8 percent, Panamanian 7 percent, Netherlands 4.1 percent, Swedish 3.3 percent, American 2.7 percent, Danish 2.5 percent, German 2.1 percent, Greek 1.2 percent and a further 33 countries each with less than one percent. The increased tonnage of cargoes (26,900,000 tons in 1933 to 107,500,000 tons last year) has been due to a marked rise in the totals carried in both directions, the north to south tonnage having risen from 7,800,000 tons in 1947 to 20 million tons in 1955, of which less than 2 million tons were petroleum and its products and the rest mainly essential goods for developing countries east of Suez, including over 4 million tons of metal manufactures, machinery and railway material. In the opposite direction, the 22,800,000 tons carried in 1947 rose to 87,400,000 tons last year, of which almost 70 million tons were oil (mainly crude), but shipments of minerals and metals, from India and Australia in particular, to Europe are also rising. The origins and destinations of these cargoes are not without interest. Of those east of Suez, the Persian Gulf accounts for 62 percent, south-east Asia 18 percent, China and Japan 7 percent and Australia and New Zealand 5 percent, while west of Seuz, Europe accounts for 85 percent and the United States of America 11 percent.

The importance of the Canal in international trade is evident from the figures quoted above, and is further emphasised by comparison with the other main international waterway, the Panama Canal. Against the 28,700,000 net tons of shipping passing through the Panama Canal in 1953, and the 36 million tons of cargo the vessels carried, the Suez Canal passed 92,900,000 net tons and 90 million tons. The vital role which the Suez Canal plays in the economies of the Middle Eastern countries and those of Europe is also apparent. The United Kingdom obtains about 70 percent of its total crude oil imports by this route and France about 40 percent, with Italy and the Netherlands among other European countries obtaining considerable and increasing supplies. From the Middle East oil wells comes about one-fifth of the world's oil and as much as 80 percent of the oil imports of western Europe. It would be idle, in face of such facts, to minimise the danger to world economy and, in particular, to that of Britain and western Europe, of any closure of the Canal.

Widespread Repercussions

No-one appears to have been able to pin-point exactly why Colonel Nasser decided to nationalise the Canal when he did. He himself gave several contradictory reasons—to rouse Arab nationalism, to finance the Aswan Dam project from the anticipated profits, and others—and there has been no lack of possible reasons from other sources, including pique at the U.S.A. and Britain withdrawing their promised aid for the Aswan Dam, a move to secure sympathy and further arms from behind the Iron Curtain, sheer exuberance as a sequel to the success of his acquisition of the Suez bases by agreement with Britain, and the inevitable need of a dictator to maintain his position by a succession of coups to impress his supporters. Whatever the reason, he could not have anticipated the repercussions—and they have not yet been exhausted.

Not a little criticism centred on the delay in taking the question to the United Nations, though the western powers acted strictly within the terms of the U.N. Charter in seeking a negotiated settlement through the London Conference and the Menzies Mission to Cairo. So far as the British Government was concerned, criticism on this count came mainly from the Laoour Opposition, and it is significant that the answer came from Sir Hartley Shawcross. This is what he said to the Grotious Society at the Inner Temple: "When people urge that this legal problem or that should be submitted to the United Nations, many of them have some vague idea that it will go to the International Court with the eventual consequences wnich might follow from court action in this country. Referring legal problems to the United Nations is at best to invite a political solution for them and more often, because of the veto power, to secure no solution at all save possibly a negotiated compromise."

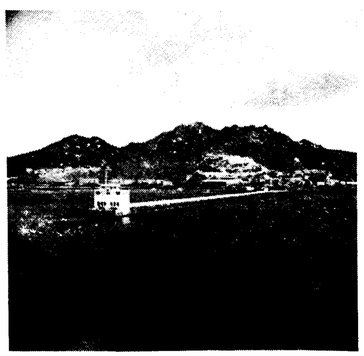
Colonel Nasser overlooked the effect his precipitate action might have on the efforts of underdeveloped countries to attract foreign investments. As Sir Hartley pointed out, the practice of repudiating international contracts and concessions was in danger of growing. "What happens in Egypt today, if not successfully challenged, will happen elsewhere tomorrow." Capital investment in foreign countries could hardly be expected to go on unless the Governments concerned took steps to ensure that such investments were given the maximum protection afforded by international law. "It is clear that those who invest in foreign States must be protected. It is not enough to say that international law recognises the sanctity of contract. We need more, and clear, inter-State contracts to recognise the sanctity of international law. Governments should give urgent consideration, before the rot has set in, to facilitating and protecting foreign investment by entering into arrangements, either *ad hoc* or by way of general trade agreements with particular countries, which ensure that investments for the development of foreign countries, for the provision of international waterways, pipelines, aerodromes, and so forth, are not at the whim and mercy of the local legislature, but are governed by the principles of international law and brought within the compulsory jurisdiction of the International Court."

Finances of Egypt

One final point—and it is one which has received the least consideration of all: what happens to the Suez Canal Company and to its shareholders? With the taking over of its principal assets by the Egyptian Government, though it continued in being and even collected some dues, pending the functioning of the new Suez Canal Users' Association, it has become little more than an investment company. The Company's income in 1955 was £35 million, of which all but £2.5 million came from canal dues. Running expenses amounted to £15 million, and other expenses—including taxes paid in Egypt—to another £3 million. After adding a small carry-over from the previous year, this left a profit of £16.3 million. Of this, £10.7 million was distributed, £3 million set aside for improvement works, £1.5 million for insurance and contingencies, £500,000 for depreciation and £500,000 for special reserve. The balance sheet at the end of last year was:

Assets	Francs	Liabilities	Francs
Buildings, plant and equipment	22,370,958,588	Reserves and depreciation	53,083,019,498
Cash and investments	39,068,637,262	Creditors	19,762,477,654
Other	9,208,108,768	1955 Distribution*	10,704,225,352
Debtors	13,019,827,538	Carry-forward	117,809,652
	92,667,532,156		83,667,532,156

The Egyptians offered as compensation the market value of the shares immediately before nationalisation, which would amount to £70 million, though where the money was to come from was not disclosed. The Company has claimed that just compensation should include an indemnity to take into account the 12 years which the concession still had to run. On any basis of calculation, this would require a large sum of money. It has been estimated that the loss of earnings amounts to some £16.5 million a year. What capital value 12 years of this income represents entirely depends on what rate of interest is used. At 10 percent £110 million would suffice, but at 3 percent £160 million would be needed. Can Egypt find these sums, besides what she needs for the Aswan Dam (£400 million), her defence programme, her plans for industrial expansion, vehicle factories, dockyards, and the like? If the Suez Canal is to finance all these, plus the cost of its own maintenance and development, Egypt is going to be a long time realising Colonel Nasser's grandiose promises.



The Suez end of the Canal

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FORUM OF FREE ENTERPRISE: WHY IT HAS BEEN FORMED

IN THE CAUSE OF ECONOMIC DEMOCRACY

● By DR. S. G. PANANDIKAR ●

A FEW months ago, the Forum of Free Enterprise was formed in Bombay. It has received so much support from the public that it is proposed to establish its offices in several other centres in the country. The statements made in certain quarters, which are not favourable to free enterprise, that the Forum has been sponsored by business men to protect and promote their vested interests, is not correct. The truth is that the Forum is sponsored and supported by those persons, belonging to different walks of life—lawyers, engineers, doctors, professors, economists, social workers, etcetera, besides business men—who have faith in free enterprise, understood in its wide sense. It is not merely the industrialist building up or managing an industry or the merchant managing a commercial concern, who is a free enterpriser. The small trader, the artisan, the shopkeeper, the salesman, the manager, the worker, the doctor and the lawyer are equally free enterprisers.

Supporters of the Forum believe that the most vital necessities of the Indian nation today are two—first, to increase the production of wealth as rapidly as possible in order to raise the present low standard of life of the people; and second, to preserve the political democracy which the nation achieved a few years ago by combining it with economic democracy and freedom. They believe that these two fundamental objectives cannot be achieved if free enterprise is not given its proper scope. At the same time they do not support *laissez-faire* or any out-moded concept of capitalism. They believe in planned development of the country for establishing a welfare State. They realise that this development involves a good deal of regulation and control of the economic activities of the citizens. But they urge that the regulation and control must be consistent with democratic values and the democratic set-up of the country and must not be such as to destroy the initiative and spirit of free enterprise.

Part in the Plan

It is now well known that, although the Prime Minister has emphasised on some occasions the importance of the rôle of free enterprise in the economic development of the country, the system has not been given an adequate rôle in the second five year plan, owing to the ideologies which are being harboured by some of those who are responsible for its framing and execution. While in the industrial part of the first five year plan, organised free enterprise was given more than double the rôle of public enterprise, in the second plan it has been given an increase of only 40 percent over the target achieved by it in the first plan, as against an increase of 900 percent to public enterprise over what the latter was able to achieve in the first plan. An independent, impartial and expert body like the mission sent to India by the International Bank for Reconstruction and Development a few months ago, has stated in its report that "the importance of private enterprise has not been sufficiently recognised and publicised" and that "it is vital that the private sector be given adequate incentives and resources to enable it to make its requisite contribution." Again, Mr. Eugene R. Black, the President of the same Bank, in a letter sent to the Finance Minister of the Government of India, stated that "I have the distinct impression that the potentialities of private enterprise are commonly underestimated in India and that its operations are subjected to unnecessary restrictions there", and that "in a country which is short of capital and with limited resources of managerial and administrative talent, it is important that the rôles of public and private enterprise should be fixed entirely on a basis which will ensure the most effective contribution of each to economic development, and not on any theoretical concept of the rôle that each should play".

The supporters of the Forum feel that public enterprise will not be able to fulfil in the second plan the unduly large rôle assigned to it for ideological reasons. There is an admitted shortage of financial resources and superior technical, managerial and administrative talent available to the Government. Free enterprise will suffer from frustration and inaction, owing to the unduly small rôle assigned to it, again for ideological reasons, in the second plan and the unduly severe restrictions upon its operations. It is, therefore, felt that the realisation of the first of the two fundamental objectives of the nation, mentioned above, namely, increasing the production of wealth as rapidly as possible, will be affected very adversely. One of the important objects of the Forum, as stated in the Manifesto, is to educate the public in the country to realise the great harm that is being done to the nation by the ideological approach implicit in the second plan. Supporters of the Forum feel confident that if the public is properly educated in this vital matter and if it makes its voice heard in different parts of the country, the Government will have to take notice of it and to modify the second plan so as to give a proper rôle to free enterprise in it, without unduly strict regulation.

Campaign Against Free Enterprise

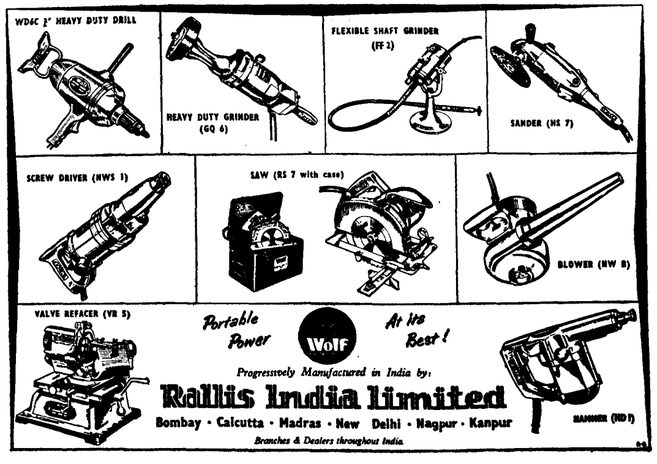
To mislead the public into believing that the radical reversal in the rôles of free and public enterprises in the planned industrial development of the country, mentioned above, is justified, certain politicians and Ministers have been saying in their public speeches that free enterprise did not contribute its full share to the national economy by fulfilling the production targets assigned to it in the first plan; that free enterprise has shown lack of initiative and enterprise in industrial development; and that free enterprise involves concentration of economic power. The Forum is endeavouring to remove the misconception which is being created in the minds of the public in this manner. The Planning Commission itself has observed in its report entitled *Progress of Industrial Development 1956-61*, that, while the actual investment in the public sector during the first plan was only Rs. 57 crores against the provision of Rs. 94 crores in the plan, the investment in the private sector came up fully to the provision of Rs. 233 crores made for it. The report of the World Bank Mission has further testified to the fact that during the last five years, in the organised sector of manufacturing and mining, private enterprise has contributed 90 percent of the increase in net output.

About the charge that free enterprise has shown a lack of initiative and enterprise in promoting new industries, the Forum is pointing out to the public the following truths. In spite of many handicaps and disabilities in the past, private enterprise established efficient textile, steel, sugar, cement, hydro-electric, shipping, banking and insurance industries before the second world war and not only placed India on the industrial map of the world, but also gave her the eighth place among the foremost industrial nations of the world. During and after the second world war, the basic trend of private enterprise was to explore about 40 new lines of industrial development, of which shipbuilding, automobiles, bicycles, non-ferrous alloys, machine and small tools, grinding wheels, chemicals, belting, abrasives, ball-bearings, industrial boilers, typewriters, textile mill machinery, road rollers, electric and water meters and piston rings were the important ones. The programme for industrial development in the first plan consisted mostly of accepting some of the above schemes and putting them together. Had it not been for the brake applied by the plan to free and spontaneous industrial development, the uncertainties created by the Industrial Policy Resolution published by the Government in 1948 and by the pronouncements of some Ministers, the threat of nationalisation of industries, the severe restrictions imposed by the Industrial (Development and Regulation) Act of 1951 and other Acts, restrictions on returns to investors and heavy incidence of taxation, private enterprise would have displayed even greater initiative and enterprise. In spite of all these limitations and handicaps, the number of joint-stock companies registered and in operation increased from 22,675 in 1947-48 to 29,779 in 1954-55. During 1952-55, under the Industries Act mentioned above, out of 1,440 applications made to the Government for licences to erect factories, 1,142 were granted, out of which 363 licences were for new schemes. The World Bank Mission has stated that "Private enterprise in India is definitely expansion-minded" and that "a substantial increase in investment in it is currently taking place".

Concentration of Economic Power

About the third charge against free enterprise, namely that it involves concentration of economic power, reference can be made to an objective study contained in an article entitled "Some Structural Aspects of Industry" appearing in the April-July, 1956 issue of *Tata Quarterly*. After making a survey of the facts relating to the industrial pattern, e.g., the establishment of several new chemical and engineering industries in which the number of units is small, recent capacity and production trends, the extent of unutilised capacity, the working of the licensing system and the charactedistics of the price trends, the article comes to the conclusion that there is no tendency towards monopoly conditions in industries in the private sector in India. On the other hand, as will be explained later, certain dangerous trends are now in operation in the public sector tending to establish monopoly conditions and concentration of economic power in the hands of the officials and the Ministers.

In the Manifesto issued to the public a few months ago, the Forum has made it clear that free enterprise must and can operate only within the framework of values and principles of a demo-



cratic society. Within this framework, it moves as a well-balanced wheel satisfying the needs of the consumer, the worker and the investor. The consumer has the freedom to buy or not to buy as he pleases and requires better and cheaper goods. Under this system, only those goods and services can be provided, which the consumer is prepared to accept. Free enterprise has, therefore, to be competitive and to carry on constant research to win a widening circle of consumers by providing better and cheaper goods and services. The worker has the right to demand higher wages, to change his job or to deny his labour. The investor has the freedom to invest his money where and when he pleases, and having his savings to start and to develop industries, has the right to ensure that these industries are run efficiently and give him a fair return. Management, to do its work and survive, must take risks and try to meet all the above three demands by using experience, enterprise and efficiency. Through the exercise of the above freedoms, self-interest is turned into public interest. Free enterprise is thus economic democracy in action. Unless it is allowed to play its part, the entire fabric of democratic society would be jeopardised.

The Forum believes that in spite of our present basic democratic character, some very dangerous trends are now in operation, endangering this character. The first trend is the rapid extension of the public sector, not only by giving it a predominant place in the second plan, which itself, as stated by the World Bank Mission, is overambitious, but also by nationalising several important concerns and activities which hitherto were run by free enterprise. The second trend is the enlargement of the powers of the officials and Ministers, by reducing the control of Parliament and Auditor-General over them, on the plea of the necessity of inducing the former to assume greater responsibility and to make quicker decisions in the running of public enterprises. The third is the displacement of normal trade channels by the intrusion of State trading. This will deprive the country's individual traders, large and small, of their livelihood and concentrate a dangerous amount of power and patronage in the hands of the Ministers and officials.

If the operation of the law of the market, that is, of supply and demand, is eliminated through the gradual establishment of a State monopoly of industry and trade, the consumer, worker and investor would lose their freedom of choice, mentioned above. In the name of national welfare, the officials and Ministers will tell the consumer what he must purchase and at what price, the worker, what work he must do and at what wages, and the investor, where he must invest his savings and at what return. There are definite indications that the control of Parliament over the industrial and trading activities of the officials and Ministers is already weakening and will weaken much further in the immediate future. The great danger, therefore, is that economic power will be concentrated in the hands of those who have already the political power and that this double concentration will increase rapidly with the rapid economic development of the country. It has been the experience of the countries of Eastern Europe, widened now by the recent events in Poland and Hungary, that the effort to establish State capitalism has inevitably sounded the deathknell of democracy and of individual liberty. Such a danger is equally great for a country possessing an undeveloped economy and an infant democracy, such as India.

The task before the Forum of Free Enterprise, therefore, is to educate the Indian public into realising the above dangers to which the Indian nation is exposed at present. It is also its task to make the public realise that the mixed economy which was the basis of the first plan, is the best for the country. Such education of the public involves making it realise the supreme importance of free enterprise, which is not unduly fettered, to the nation, by telling it what free enterprise is, what it has done for the nation so far and what it is capable of doing in future for the economic development of the country and the raising of the standard of living of the people. At the same time, it is the task of the Forum to eliminate the blemishes from which free enterprise, like all other activities of the nation, suffers at present, to evolve a code of ethics for it and to set in motion forces which will promote and maintain an enlightened free enterprise. In the words of the Manifesto, "Free Enterprise is the lifebreath of a free society and all those who cherish freedom must safeguard it".

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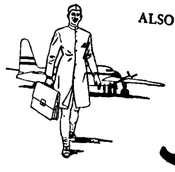
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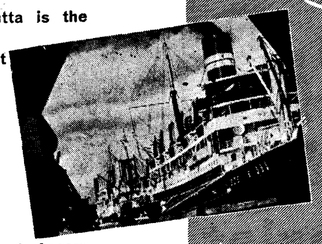


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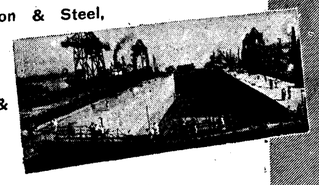
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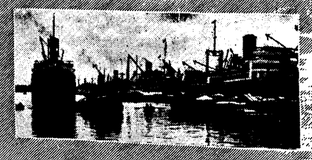
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TRENDS OF POPULATION AND INCOME GROWTH IN ASIAN COUNTRIES

NEED FOR QUICKER CAPITAL ACCUMULATION

● By P. C. MAHANTI ●

THE population of Asia, as the latest U.N. *Demographic Year Book* shows, at present is around 1,451 million, or 55 percent of the world population of 2,652 million. But Asia's share of world income is only 10.5 percent, which also indicates the proportion of the world productive resources it commands. Asia at the moment is over-populated, taking the term in its most widely accepted sense; and it is quite useless for practical purposes to discuss what should be the optimum population, or whether that point has been passed. The population increase in the continent has been quite fast, at the rate of 21 million a year in the 1950-54 period. But even so, it is below the rate in some Latin American countries, one of which, incidentally, has the highest birth rate in the world. But it is not the population aspect alone, important though that in itself is to the future course of economic development, that should cause all the worry. A far more basic factor is the low rate of saving and capital formation in Asia which already has the lowest average *per capita* income in the world—$50.5, compared with $170 in Latin America, $380 in Europe and $1,100 in North America.

TABLE I
POPULATION INCREASES IN SOME SELECTED ASIAN COUNTRIES

	(in thousands) 1945	1955
Japan	75,800	88,900
Pakistan	71,000	80,000
Philippines	18,083	21,440
Thailand	16,737	20,300
Turkey	18,790	24,110
Burma	17,564	19,242
Ceylon	6,496	8,588
China	453,615	583,000
India	332,466	377,000
Indonesia	72,000	82,000

Source: U.N. Demographic Year Book, 1955

The answer lies in action in two fields—quick accumulation of capital from domestic as well as foreign sources, and positive measures to check further population growth. Asian countries are agreed on the first, and barring Communist China, also on the second. The predominant objective of economic policy (excepting only a few countries) in the postwar decade has been the better use of their material and human resources. To a certain extent, they have been encouraged by the prevailing international opinion on the matter. The United Nations collectively, and the United States individually, have played significant rôles in postwar years in propagating the idea of development in underdeveloped countries. The U.N. has provided useful technical help and ensured a flow of valuable economic information that the developing countries require. The U.S.A. is about the only country in the world with an adequate capital surplus that can help the backward economies, particularly those which have chosen democracy as their way of life, and this it has been doing. Although the propriety of the manner and the adequacy of scale in which U.S. aid has been given are subject to widespread controversy, there is no doubt that the aid sums add up to a generous figure.

What has been particularly objectionable from the point of view of the aid-receiving countries is the terms on which U.S. aid is being generally given, and the political conditions which even institutional capital lays down. The example of the World Bank President commenting unfavourably on the public policy relating to the Indian second five year plan is the most recent one. Mr. Black did nothing what he as President of the World Bank was not expected to do. It should be remembered that the Articles of Agreement of the Bank have it as an objective "to promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors, and when private capital is not available on reasonable terms, to supplement private investment." This, as an authority has pointed out, reflects the attitude of the private U.S. investors (from whom the Bank borrows money to lend to others) towards making decisions to invest their capital abroad.

State in Underdeveloped Economies

The U.S. private investor, of course, is not bothered by the fact that in order to quicken the process of economic growth, the State in underdeveloped countries must play an extensive and fundamental part. As it happens, most Governments have taken upon themselves a positive rôle, which is reflected by the fact that most Asian Governments aim at establishing a welfare State in their territories without there being the necessary wealth to sustain the welfare measures that the creation of such a State would require. Yet political conditions in Asia are such that this is the only public policy open to them. There are two very strong reasons why the Governments have to pursue, at present, these incompatible aims of economic growth and social welfare including full employment. Firstly, it is a promise from the days of political agitation for national freedom which will have to be fulfilled, and secondly, there is the strong challenge of communism in China, which, to all appearances, has been making quicker economic progress. The method the latter employs is fundamentally different from that of non-Communist countries. The democracies want to avoid it, but in doing so, they have to prove that their way of planning is as good a means of promoting quick economic progress as that of Communist China, and certainly, socially more just and human. It is this situation which the U.S.A. has fully to appreciate, and which the private U.S. investor does not show the capacity to understand.

The U.K. appreciates the problems, but unfortunately, it has now lost its old position of an exporter of capital on a big scale. It has been responsible for the formulation and the working of the Colombo Plan, which has promoted Commonwealth co-operation in economic development, and equally important, if not more, a spirit of self-help. Besides, it has been supplying much-needed technical assistance, and also financial help to a limited extent, to the Colombo Plan countries, particularly those belonging to the Commonwealth. Soviet Russia has been a late-comer in the field; it has offered aid to India, and, of course, to China on a very much bigger scale. To the extent that it will promote competition in international aid-giving, the development is to be welcomed.

Foreign Capital

The need for foreign capital in underdeveloped countries cannot be overstressed. Without it, they will not be able to sustain a dynamic rate of economic growth, population increases and natural vagaries in the region being what they are. It has been estimated by one authority that a minimum of 12 percent of the national income will have to be invested for achieving a self-accumulating process of growth. It certainly looks a reasonable proportion. At present, only a few countries of Asia, as the accompanying table will show, are able to command that level of savings and capital formation. The majority will not be able to do so in the near future at any rate. Hence the paramount need for foreign capital which their Governments will have to do everything in their power to encourage, if sustained economic progress is to be achieved. But this is not necessarily minimising the importance of the country's own efforts for planned economic growth which is also a social process in the sense that the community willingly makes the sacrifice required of it by way of abstaining from consumption to provide the surplus for investment in development.

The survey of the Economic Commission for Asia and the Far East, 1955, as well as the latest U.N. survey of the world economy, throw some revealing light on the problem. Both the surveys maintain that there has been some progress in Asia during the past decade. Industrial production has continued to increase, so has overall food production. There has been a rise in the *per capita* income in monetary and real terms, inflationary pressure having almost disappeared from all the countries (barring India which has entered upon a new phase of inflation), and also a rise in savings and capital formation. There has been a steady rise in the national income and, what is significant, an increase in *per capita* consumption expenditure. The greater proportion of Government expenditure has been devoted to development, with a consequent increase in the region's capital goods imports. All these add up to economic progress, though that progress can at best be described as limited. Table III shows the annual rates of increase in industrial and agricultural production and those of savings and capital formation in the countries of the E.C.A.F.E. region.

Inequality in the Middle East

The economic progress of the Middle East countries, judged from the aggregate increases in national incomes, is apparently satisfactory. But nowhere can statistical averages of the *per capita* income be more misleading than in this region, especially in the Arab countries. Increasing oil royalties do no doubt swell the national income figures, but there is no evidence that these enormous sums ever pass beyond the ruling cliques. A telling example is that of the little Sheikhdom of Kuwait. The Sheikh has been receiving an annual income of $150 million a year as royalty from oil (and Kuwait, it is said, floats on a sea of oil). That will give a *per capita* income of $800 for its population of 170,000. The figure is higher than Oceania's $560 and Europe's $380! The following table gives the latest available *per capita* income figures of the Middle East (west Asia) region which, it will be seen, are in most cases higher than the average for Asia.

TABLE II

Country	(Per capita) Income In U.S. Dollars
Egypt	100
Iran	85
Israel	390
Jordan	60
Lebanon	140
Saudi Arabia	60
Syria	100
Turkey	125
Yemen	40

A writer has commented on the economic problems of the Arab countries as follows: "It should be noted that the figures of *per capita* income, being average figures, give no indication of the wide disparity in the standards of living of the different classes of the population. The equality of incomes is perhaps greater in some parts of the Middle East than it is anywhere else in the world. The overwhelming majority of the people are extremely poor, while the small minority live in abundance and luxury. In most of the countries of the Middle East, the gap between the rich and the poor is not bridged by a middle class as it is in Europe and North America. Where it does exist, the middle class is small, and stands nearer to the poor classes than to the rich minority. The basic causes of the poverty and underdevelopment of the countries of the Middle East relate partly to the limitation of natural resources but mainly to the defective semi-feudal agrarian structure."

Israeli Economy

It is significant that Israel, which the Arab countries seek to destroy, has a modern economy, and is functioning as a full-fledged democracy. It has a *per capita* income which is even higher than the Russian figure of $310. If the Arab nations which between them are fortunate to have about half the known reserves of oil in the world, and account for about one-fifth of the total world oil production, use the fat royalties they receive from the producers in developing their economic resources, they will sooner gain the respect of Israel and the world than by the present tactics of a permanent sniping war against a small State in their midst, which, in its own right, is already an established fact.

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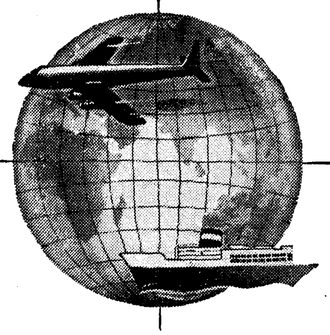
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On this side of Asia, the social scene has been changing rapidly, and in some cases, in a revolutionary way. This is proved by the events in the two biggest countries of Asia—China and India—which are also the world's most populous countries, having between them a population of over 1,000 million. In both, a systematic attempt is being made to rebuild the economic and social fabric on entirely new foundations though their methods are fundamentally different. In China, as well as in India, gigantic five year plans are being worked, involving magnitudes of investments unknown to these countries in the past, in fact to any country in the world in a similar stage in economic growth. Both have certain similar features in eccnomic planning, such as the accent on heavy and basic industries.

According to the U.N. *World Economic Survey, 1955*, the targets of production and investment are more or less being fulfilled under the Chinese five year plan, particularly in the sphere of heavy industries. The rate of investment a year has passed 10 percent of the national income level. The following table shows Communist China's performance:

TABLE IV

PLANNED AND ACTUAL RATES OF GROWTH IN CERTAIN SECTORS IN CHINA *

Item	(1952=100) 1955 Planned	1955 Actual	1957 Planned
Agricultural Production ...	113	113	123
Food Crops ...	110	111	118
Raw Cotton ...	114	115	125
Industrial Production ...	151	164	198
Producer Goods ...	163	187	227
Consumer Goods ...	142	150	180
National Income ...	128	131	151
Average Savings ...	119	114	133
Retail Turnover ...	142	152	180

*Source : China's First Five Year Plan.

The planned figures in this table are calculated on the basis of the planned average annual rate of increase between 1953 and 1957. The national income figures represent the value of production in agriculture and in industry, and the average earnings stand for money wages and salaries in State and joint State-private sectors, excluding social insurance benefits. The indices of real wages, maintained by the U.N., show that there has been an increase of 2 points to 105 in 1955 from 103 in 1954, and this despite the fact that by far the greater proportion of investment in fixed capital (58 percent) is being devoted to industry. The Chinese population of 584 million, according to the authorities, is rising by 2 percent a year as population growth is being encouraged. This should partly explain the sudden hurry in China to collectivise agriculture, although the Chinese will not admit it.

In India, where planning is being done strictly according to democratic principles, economic progress has been quicker than expected. The rates of growth in the national income and investment have been of the order of 2.5 percent net and 6 to 7 percent respectively a year. The second five year plan proposes further to accelerate the growth by aiming at an annual national income increase of 5 percent a year and 10 to 12 percent of that bigger income as annual investment in the economy. It must be added that the second five year plan has not had an auspicious start. A perceptible inflationary pressure has caused serious worry right from the very beginning due to the prospects of large-scale deficit spending which is to be almost one-fifth of the total plan outlay. The country's capacity to import has been seriously impaired with her foreign exchange resources having been rapidly run down and the prospect of her increased exports having become very uncertain with the current Suez crisis.

Overall Increase in Industrial Production

Industrial production increases in India and China now average to 5 to 8 percent a year. This is also the rate maintained by Japan. These are the three countries where Asia's industry is largely concentrated. These countries also have plans to expand their capital goods industries. The E.C.A.F.E. survey states that significant developments are taking place in the industrial sphere as also "in the improvement of the infra-structure of the economies in the E.C.A.F.E. region." The foundation for industrial development has also been laid in many other countries. Pakistan has started working a five year plan, and the process of her industrialisation has made substantial headway, with jute and textiles in the lead. The discovery of Sui gas will considerably aid the process. Other countries striving to industrialise themselves are Ceylon, Indonesia and the Philippines.

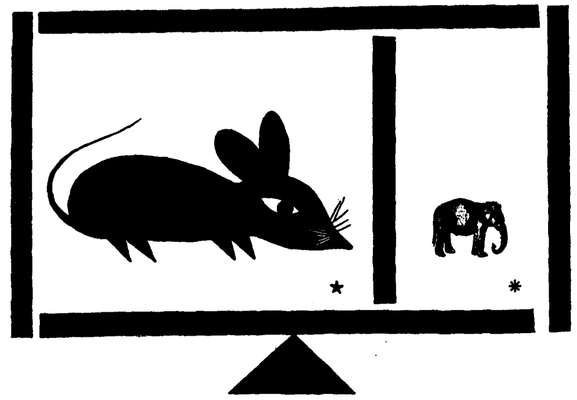
It is not possible to go into the economic record of each country individually. But it needs gene-

TABLE III

ANNUAL RATE OF INCREASE OF AGRICULTURAL AND INDUSTRIAL PRODUCTION IN POSTWAR YEARS.

	Agricultural production index 1946/47-1954/55	Agricultural production index 1948/49-1954/55	Industrial production index (1948-54)	Period	(percent) Gross domestic product: Rate of increase during period	Gross domestic product: Rate of increase from 1948 to final year
Burma	3.7	1.6	...	1947-54	4.6	2.6
Ceylon	3.5	3.9	...	1947-53	8.6	8.6
China :						
Taiwan	10.9	6.8	22.0	1946-54	13.4	12.0
Mainland	4.9	3.4	18.4	...	...	...
India	2.1	3.2	5.2	1948-53	2.8	2.8
Indonesia	8.2	7.3	10.3	...	...	...
Japan	5.5	4.6	18.6	1946-54	9.8	8.5
Korea (South)	4.6	0.2	...	1949-54	— 1.3	— 1.3
Malaya	4.9	— 1.2	...	1949-53	3.6	3.6
Pakistan	0.6	0.8	29.9	1949-53	0.6	0.6
Philippines	6.1	6.7	12.7	1946-54	14.5	7.6
Thailand	4.5	1.4	...	1946-53	11.1	6.3

Source : E.C.A.F.E. Economic Survey, 1955.



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rally to be pointed out that all countries of Asia excepting South Korea have increased their production since 1948—some at a higher rate than others. Of particular significance is the rise in electricity, cement and steel production in the region as a whole. Steel and cement, as the E.C.A.F.E. survey observes, are better indicators of capital formation than total domestic products. "Electricity is perhaps best conceived as a key prerequisite of the infra-structure type," and its production has shown a notable trend. Industrial employment statistics for all countries are not available, except those of Japan and India. Employment in mining and manufacturing increased 2.8 percent a year in Japan against a population increase rate of 1.6 percent, while in India it increased by 1.1 percent against the population increase of 1.3 percent a year.

The increasing pace of development expenditure in Asian countries promises to mitigate unemployment, if not immediately, at least in the foreseeable future. The E.C.A.F.E. survey, which upholds the current policy of encouraging small industries as a means of minimising underemployment and unemployment as the most sound social policy, makes the following comment on the future outlook: "A review of the development expenditures in countries of the E.C.A.F.E. region affords ground for the hope that much preparatory work has been achieved during the last few years. There have been significant improvements in the infra-structure of the economy, skills have been developed, the institutional structure, especially in respect of financing has been built up; the organisational and administrative machinery has been refined and strengthened. All this points to a much surer rate of progress in the coming years."

Consumption and Capital Formation

The important fact about economic development in Asia is, as was pointed out earlier, not the population growth, but the low rates of savings and investment. Table V with this article shows the rate of savings and capital formation in some countries. The countries which show the highest figures are Japan and Burma, followed by Ceylon and Malaya. The Japanese rate is natural. But the Burmese, Malayan and Ceylonese figures show wide fluctuations due to the fact that their economies are export-oriented, and vulnerable to changes in the world demand for their products. So it is not possible to say whether these countries will be able to sustain a steady rate of progress without some kind of stand-by external help. As against these, India's figure shows a steady increase, and as such the future course is predictable. The E.C.A.F.E. statistics show consumption at a steady level for most countries, with only Malaya showing a decline. In some, there has been an increase.

TABLE V

GROSS DOMESTIC CAPITAL FORMATION, GROSS SAVINGS AND DEVELOPMENT EXPENDITURE AS A PERCENTAGE OF GROSS NATIONAL PRODUCT

	Burma	Ceylon	India	Indonesia	Japan	South Korea	Malaya	Philippines
				(A) CAPITAL FORMATION				
1938	13.0	5.9	...	...	25.9	...	...	...
1947	16.2	5.3	...	...	26.4	...	...	11.4
1948	17.0	6.3	8.3	...	28.2	...	...	12.1
1949	8.1	9.1	9.1	...	24.6	9.6	11.1	10.5
1950	10.2	10.7	9.3	...	24.9	...	5.1	8.3
1951	12.9	11.9	9.8	4.7	30.3	...	6.7	7.3
1952	18.2	13.6	10.0	5.3	26.8	5.4	12.3	7.5
1953	19.0	12.1	9.8	...	27.5	11.4	10.5	8.2
1954	21.8	10.0	...	...	23.0	7.9	...	8.4
				(B) SAVINGS				
1938	25.1	9.0	...	...	23.3	...	...	...
1947	6.2	— 0.2	...	...	22.3	...	...	4.9
1948	10.6	7.0	5.7	...	24.1	...	...	9.0
1949	16.0	7.3	8.5	...	21.4	3.4	12.1	1.5
1950	15.2	14.6	9.7	...	27.6	...	33.1	9.0
1951	18.9	15.2	8.2	6.0	34.2	...	29.9	6.0
1952	23.5	6.4	10.9	0.4	28.3	— 6.1	17.1	6.0
1953	25.2	7.7	10.2	...	27.5	— 14.8	11.2	7.0
1954	19.5	16.3	...	...	25.2	— 5.8	...	6.5
				(C) DEVELOPMENT EXPENDITURE				
1949	...	...	...	...	...	...	...	13.3
1950	11.7	17.7	...	...	...	...	6.1	10.9
1951	14.7	18.9	11.3	6.6	...	..	7.8	9.6
1952	20.3	21.7	11.5	8.3	...	...	15.7	9.8
1953	21.4	20.0	11.8	...	...	...	14.6	11.0
1954	25.0	17.3	...	...	...	...	...	11.4

Source: E.C.A.F.E Economic Survey, 1955.

It is unlikely that consumption standards will appreciably increase in the near future, desirable though that is. The countries will have to concentrate more on accumulation than on consumption and it is the extent of the former that is going to determine the rate of economic progress. As the U.N. survey points out, economic progress in Asia has been neither adequate nor substantial. Neither is there the assurance of sustained growth. Another serious factor is the lag in agricultural production for the region as a whole, which has yet to reach its prewar level. Considering the place which agriculture occupies in development, the countries will have to pay greater attention to it. The Indian Planning Commission's belated revision of agricultural targets is a step in the right direction. Pakistan cannot ignore agriculture without risking a popular explosion at some stage.

External Aid

The economies have been preparing the industrial base for rapid growth, which the U.N. experts also recognise, but without external assistance on a substantial scale, they will not be able to pull themselves up by their bootstraps. An expert has calculated that for increasing the *per capita* income in Asian countries by $1 a head, capital investments have to start at the rate of 20 percent of the national income a year which, of course, will gradually decline to 14 percent, because an increase of $1 a year in the *per capita* income means a slower rate of increase, due partly to the change in the structure of investments from transport and power to less capital intensive sectors. Similarly, the capital requirements a year for absorbing the entire increase in working force and transferring 2 million workers a year from industry to agriculture will be 43 percent of the national income, which will gradually decline to 21.3 percent a year. It is clear that none of the countries, including India and China, are in a position to invest on this scale.

There is a strong reason why the advanced countries must aid their less developed counterparts on a larger scale than they have so far done. The external aid to the E.C.A.F.E. region is unlikely to have so far exceeded $700 million in the aggregate by the end of this year, and not more than $800 million for the whole of Asia, Communist China excluded. As things are at pesent, the disparity in incomes on the international level continues to widen due to the rapid productivity increase in the developed economies, while it is very slow and stagnant in backward economies. Higher industrial activity in the former does create better export prospects for the latter, but it does not necessarily increase the importing capacity of the less developed countries, when such a large proportion of their imports has to go to capital goods. As the latest statistics show, the E.C.A.F.E. countries, including Japan, have been having a continuous payments deficit since 1952 against the rest of the world, especially against the developed economies. This position has inspired some egalitarian thinking on the international plane and the case for larger aid to the underdeveloped world is being made out, and quite convincingly. One should think that in their own enlightened self-interest (political and economic), the developed countries should help the economically backward ones on a more generous scale, which may build a cushion against recurring and disastrous trade cycles.



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MANAGERIAL AUTONOMY IN PUBLIC ENTERPRISES

● By DR. N. DAS ●

THE number and variety of the tasks which the Government of India, as well as the State Governments, have assumed, particularly in the field of industrial and commercial enterprise, have raised big problems of organisation and management. Compared with an investment of Rs. 75.8 crores at the end of the first five year plan, the second plan provides for an investment of Rs. 510.7 crores in the public sector's industrial projects. Investment is, however, only the beginning of the process of economic development—the goal is efficient production, i.e., production of the right type of goods and services at the least possible cost. The community, on whose behalf and for whose benefit the State is assuming the new responsibility, may rightly demand that public undertakings should be able "to deliver the goods" as efficiently as, if not more efficiently than, those in the private sector. The aim of the second plan, to raise national income by at least 25 percent at the end of 1960-61, makes it all the more imperative that production should proceed "according to plan".

The projects to be implemented as State enterprises during the second quinquennium cover a wide field. They range from the exploration and exploitation of mineral resources and the production of iron and steel to the manufacture of engineering equipment, machine tools, fertilisers, heavy chemicals and even newsprint. The responsibility assumed by the State is a formidable one. If this responsibility is to be discharged properly, not only must there be a suitable organisation for each undertaking, but the relationship between that organisation and the various sections of a government should also be defined in fairly precise and unambiguous terms.

Let us consider the organisational pattern first. A recent study conducted by the E.C.A.F.E. shows that, while there is no standardised organisational pattern for public enterprises, certain general trends are discernible throughout the world. Thus, State undertakings are no longer administered on the same basis as other government departments, mainly because an enterprise subjected to the budget, accounting and audit controls applicable to the normal activities of a government, does not possess the flexibility essential for effective operation. Instead, the modern tendency is to set up either public corporations or mixed-ownership corporations. This device enables a government to create an agency which can act in its own name rather than that of the State.

Two Kinds of Organisation

Of the above two types of organisation, the public corporation is generally created by, or pursuant to, a special law defining its powers, duties and immunities and prescribing the form of management and its relationship with other organs or departments of government. As a body corporate, it is a separate entity for legal purposes and can sue and be sued, enter into contracts and acquire property of its own. It is owned wholly by the State and is usually independently financed, obtaining its funds from borrowing, either from the government or the public, and from revenues derived from the sale of goods and services, and is generally exempted from the regulatory and prohibitory statutes applicable to the expenditure of public funds. In the majority of cases, employees of public corporations are not civil servants, and are recruited and remunerated under terms and conditions determined by the corporation itself.

A mixed-ownership corporation, on the other hand, is not created by any special law. It functions within the ordinary company law of the country and is, in essence, a joint-stock company. The only special feature is that the capital is shared between the State and private interests. The State, however, is always the major partner. Not infrequently, an entirely government-financed enterprise is set up as a limited company. The device of the mixed-ownership corporation has the advantage that it is free even from the limited restrictions imposed by statute upon public corporations; it can operate within the framework of the ordinary company law.

In India, State undertakings have been organised both as public corporations created by special statute and as mixed-ownership corporations or ordinary joint-stock companies. Examples of the former are the Damodar Valley Corporation set up under a statute of 1947 and the Indian Airlines Corporation set up under the Indian Air Corporation Act of 1953. In recent years, however, the joint-stock company pattern under the Indian Companies Act has been increasingly replacing the traditional statutory corporations. "While this has obviated the need for special legislation and thereby reduced avoidable administrative and legislative work, the new extension of the frontiers of the Companies Act has also thrown up new problems of exchequer control, of the delimitation of the respective fields of executive and legislative responsibility and of parliamentary accountability."

Regulation and Control

Although the joint-stock form of organisation is now the rule rather than the exception in the public sector in India, it would be a mistake to suppose that these State undertakings are subject to the same kind of regulation and control by the Department of Company Law Administration as ordinary joint-stock companies. In the new Companies Act, government companies (these have been defined as companies in which the Central and State Governments alone or together hold at least 51 percent of the share capital) have been assigned a special position, the Government having retained the power to determine which provisions of the Act should apply to them. This has been criticised in certain quarters as having placed government companies outside the pale of proper accountability; some have even described it as a "fraud on the Constitution". But the intention of the Government is not to exclude such undertakings from control, but to exercise control through a different set of rules and practices.

The most controversial point about the management of State undertakings is the precise nature and extent of the automony to be granted to the latter. That policy should be laid down by government is admitted by everybody; it is in the implementation of policy that difficulties arise. Who is to ensure that policy directives are faithfully implemented and that the operations of a State enterprise do not go against the basic objectives laid down by a government? Is co-ordination to be achieved by issuing detailed directives on specific operational matters, or is this to be left to the management of the undertaking, government remaining content with only a periodic appraisal of its performance? Whatever be the organisational pattern, whether it is a statutory public corporation or a mixed-ownership corporation set up under the Companies Act, the answer is not simple.

Responsibility for Control

To answer this question, let us get some basic ideas clarified first. What is a business undertaking in the public sector expected to do? To put it simply, it is expected to complete a project by a target date, to make the most efficient and economic use of available resources and to produce the appropriate goods or services to the best advantage of the community. Whatever measures promote these objectives should, therefore, be adopted. It is obvious that these cannot be attained by centralising control in the department of a government or in a nominee thereof. The managing board of a public undertaking must have the freedom to apply operating revenues to operating expenses as it deems fit. It must be able to make its purchases and contracts with the greatest expedition and in the most favourable market. It must have complete control over its personnel. Mistakes would perhaps be made on some occasions, but what counts in business is the overall result. As has been aptly pointed out by Professor J. K. Galbraith, the industrial history of many countries is replete with monuments to misguided investment; why should not our people be able to tolerate a few mistakes in the public sector?

To put it in another way, a distinction should be drawn between planning and laying down the targets and objectives on the one hand and operational activities on the other. The former should be the responsibility of government; the latter should be the sole concern of the undertaking. Governments may specify the tasks and also lay down rules and procedure, but the operating authority must have freedom of decision within these rules. For example, it should not be required to submit its decisions to a higher authority for prior approval, and it must have freedom to delegate its powers to a body subordinate to itself.

It is sometimes argued that the granting of autonomy of this kind to the Board of a State undertaking is not consistent with the principle of democracy. State undertakings are intended to function as instruments of democratic socialised planning; should government sit back and permit absolute operational autonomy to them? Is it not very difficult in practice to draw the dividing line between the execution of a total plan and the operations of an undertaking which is a part of the plan? Those who argue in this manner would do well to turn to the experience of the U.K. in the management of public undertakings. In that country, the autonomous boards of the public corporations loyally carry out the policies of the democratically-elected Government, without the latter having to issue detailed directives. The very facts that (a) each autonomous board has to report periodically to its "parent" Ministry and (b), in the last resort, the Minister has got full powers to dismiss the chairman and all other members of a

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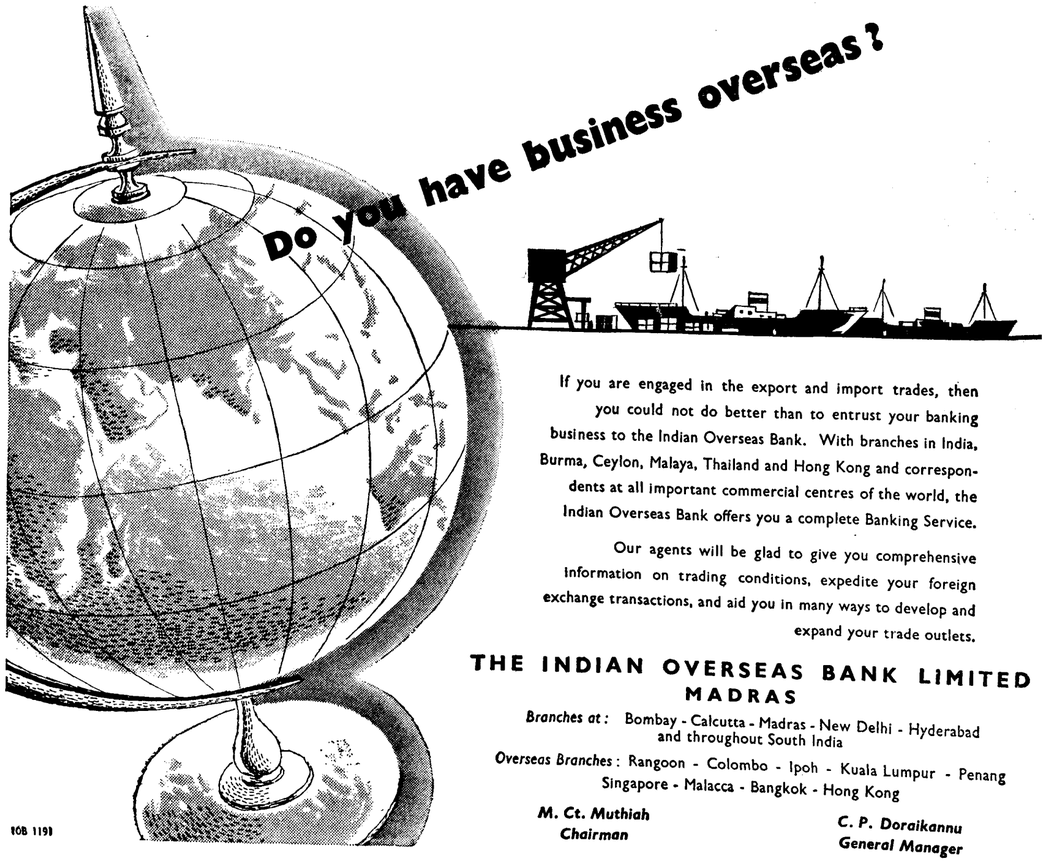
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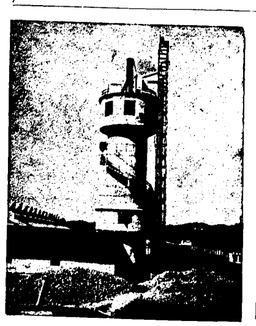
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board and to appoint anyone else he chooses, imposes a certain amount of restraint on the latter. Notwithstanding statutory provisions under each nationalisation act, empowering the Minister to issue "general" as well as "specific" directives, it is significant that very few occasions have arisen in Britain for the issue of "specific" directives by a Minister or for the use of "the power to hire and fire".

Parliamentary Control

It would be a mistake, however, to push the case for "autonomy" to the extent of denying Parliamentary control altogether. In recent months, two distinguished American consultants (Professor J. K. Galbraith and Dr. Paul H. Appleby) have put forward eloquent pleas for putting a brake on parliamentary criticism of State undertakings in this country. "The tradition of close Treasury control over public finances casts its shadow over public undertakings also.....government should seriously consider whether it would not be wise to limit the scope of parliamentary questions on details of business practice and decisions taken by the public enterprises", says Professor Galbraith. "An inquisitional Parliament would make public corporations more cautious and less action-minded", warns Dr. Appleby.

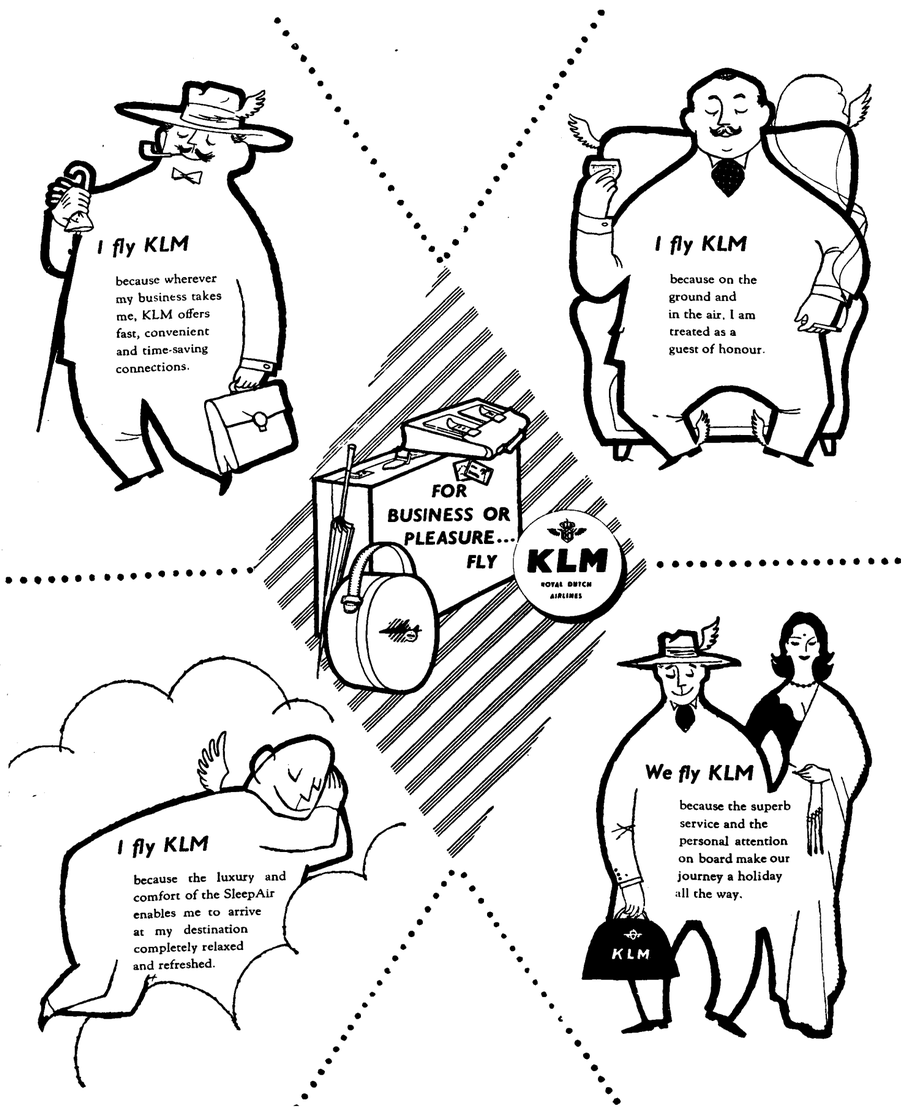
While it is true that initiative, drive and enthusiasm for action are likely to be damped by too much interference, whether it comes from the Ministry or from Parliament, it should not be forgotten that, unlike private enterprises, public undertakings have a public purpose to fulfil. In this sense, the board of a public undertaking has much greater responsibility than the board of a private company. The directors of the latter are essentially representatives of the shareholders and their primary duty is to maximise profits for them. The board of a public undertaking, on the other hand, is expected to look to the interests of the entire nation. Hence, neither the Ministry nor Parliament should be blamed if they sometimes find it necessary to "probe" into its affairs.

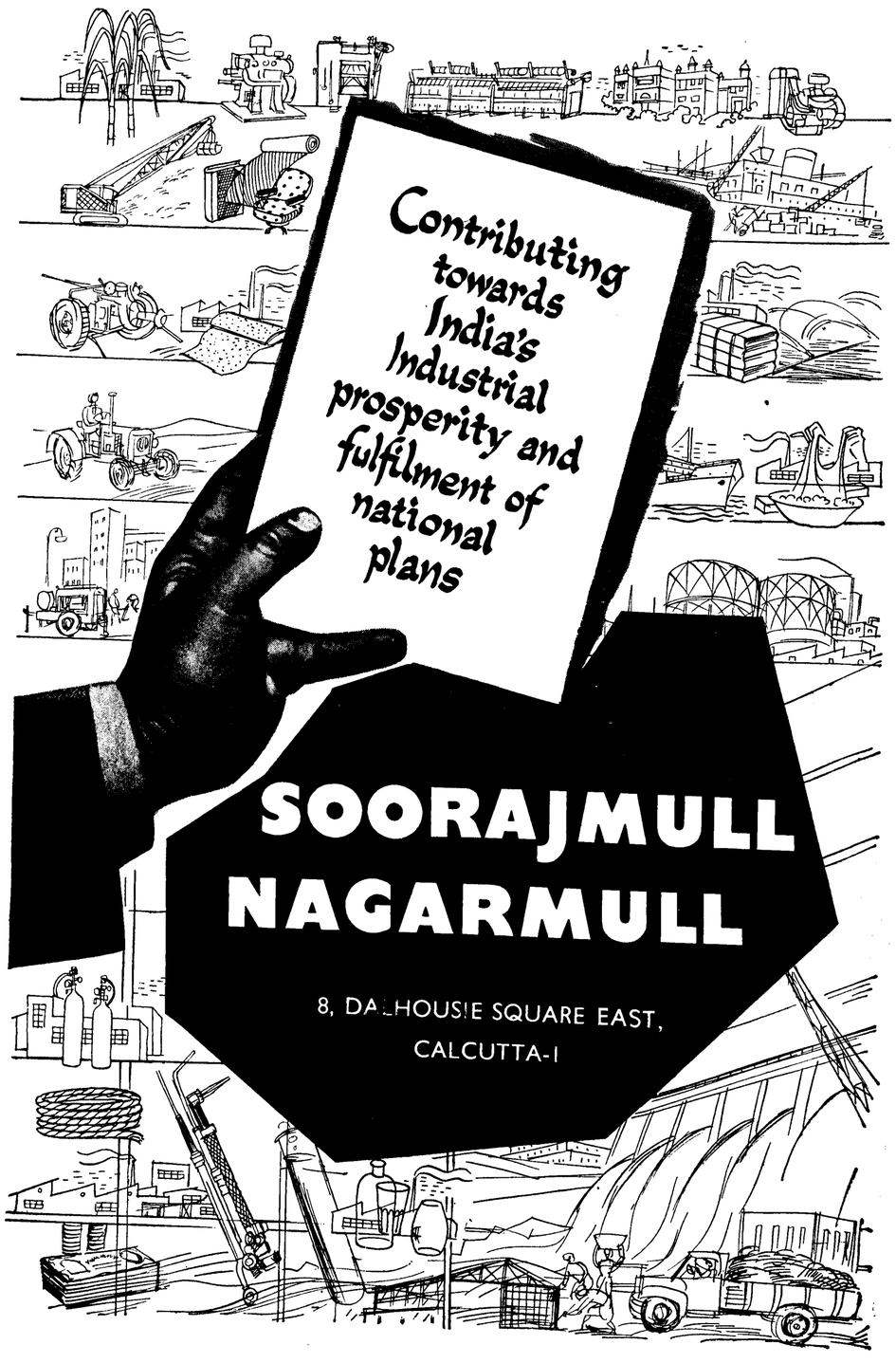
We thus see that the basic dilemma in the management of a State undertaking is how to reconcile the conflicting claims of public accountability and consistency in public policy with those of operating and financial flexibility required for the successful conduct of such an enterprise. Attempts to resolve this dilemma have taken many different forms in different countries and met with varying degrees of success. Even within a single country, one finds substantial differences among the various enterprises in organisational and legal status, operational authority, and financial independence. So far as India is concerned, the experiment in public enterprises is a very recent one. Prior to 1947, there were virtually no industrial undertakings in the public sector except perhaps the ordnance and aircraft factories. India embarked on this new adventure only a few years ago, with little previous experience of her own. It is only natural, therefore, that some time should be taken to evolve a suitable pattern of management and to establish a proper relationship between the operating authority and the various organs of government.

Fortunately, the latest trend has been towards upholding the autonomy of the board of management in all public undertakings. It is difficult to say whether this has been the result of the outspoken criticisms made by the two American consultants referred to above or whether it has been forced upon the Government by the logic of other facts and circumstances. The trend, however, is unmistakable and coincides with a new level of efficiency displayed by most of the undertakings operating in the public sector today.

The proper balancing of managerial autonomy and public accountability is, ultimately, a matter of political practice and tradition. No written law can ever satisfactorily solve this problem. Britain, with her far greater experience in the field of nationalisation, has solved the problem largely by the device of informal consultations between the appropriate Minister and the board. In spite of the fact that no serving civil servants are ordinarily members or even chairmen of the board of these public undertakings, no serious conflict has arisen between them and the "parent" Ministry. In view of the increasing appreciation, both by the Government and Parliament, of the need for managerial autonomy, the chances of conflict should be even less in our country, because, unlike in Britain, most of the managers or managing directors of our public enterprises are serving civil servants, and so also are the chairmen and a sizeable proportion of members of the boards.

Managerial autonomy would not, however, resolve the basic problem of *social* accountability. In fact, it may even accentuate it. It is not often realised that public ownership of business undertakings is only a means to an end; the end is to promote the rights of man both as producer and as consumer. There is a danger that autonomy may make managers concentrate on questions of efficiency and productivity only and overlook the basic objectives of socialisation. It is for this reason, more than any other, that the Government may sometimes have to intrude even into the strictly "excluded" sphere of managerial operations.





TECHNOLOGICAL IMPROVEMENT IN INDIAN AGRICULTURE

● By S. R. SARNA ●

THE scope of agricultural technology, vast though it is, is difficult to define. One definition has described it as a science, an art and an invention. "It is tractors, combines, corn pickers. It is the testing and breeding of animals, and the conquest of disease. It is hybrid corn, new kinds of wheat, soybeans and lespedeza. It is the way to feed cows, plants and men. It is road-building and rural-electrification. It is contour-ploughing, conservation of soil, management of forests, protection of wildlife. It is marketing and distribution. It is the race between the insects and pests, and ways to kill them. Technology is workshop, barn grove, field and home." This definition covers a fairly comprehensive range, but it is not exhaustive, and many other techniques developed or to be developed as a result of agricultural research will have to be added to it. These are mixed-farming, weed-spraying, feeding anti-biotics to livestock for checking or destroying various diseases, aerial-fertilising, desert reclamation, irrigation engineering, synthetic fertilisers, chemical analysis and treatment of soils, and now the possibilities of applying atomic energy to agricultural production and food preservation.

While agricultural technology aids attempts at more and more production through better utilisation of labour and capital and through improvements in soil conservation, irrigation engineering and agricultural methodology, it is increasingly summoned by agricultural economics to help in the achievement of efficient farming and bring down the costs of production so as to avoid the inherent tendency of agriculture to move towards diminishing returns. These efficiencies and economies can be achieved by taking recourse to those methods whereby (1) production is increased (2) cost is reduced or rationalised and (3) other economies are rendered possible. This technological change in agriculture, if it has to succeed in its objectives, must co-relate land reforms with an efficient and progressive system of farm management, whether under labour-intensive or capital-intensive techniques of production, and then seek to press into service the various achievements and developments of agricultural science viz, rationalisation of farm lay-out and crop-pattern, soil treatment and soil conservation, the application of farm manures and chemical fertilisers, regulated and secured water supply, plant-breeding, the use of pesticides and insecticides, farm mechanisation and quick transport of harvested produce to godowns and markets. These measures, when supplemented by an adequate provision of agricultural finance, price supports or guaranteed prices, and organised marketing facilities, turn agriculture from a sweating and unremunerative industry into a prosperous undertaking.

India which has still a predominantly agricultural economy, cannot afford to ignore technology. The pattern of its agricultural economy is characterised by subsistence farming, arising from a heavy pressure of population on land which is reflected in the very low man-land ratio it has. The pressure has resulted in an outmoded land tenure system, chronic under-employment of the agricultural labourer and a continuous fragmentation of holdings. The absence of an adequate system of irrigation has led to heavy dependence upon the monsoon and the uncertainties of rainfall have turned agriculture into a gamble with the rain god. Soil erosion has made it worse. A large cattle population is another headache, causing fodder famines and poor animal husbandry. The lack of mixed farming and subsidiary employments has also impeded the growth of capital formation in the rural economy and obstructed the flow of agricultural finance into scientific farming and other allied improvements. All these factors have combined to make agriculture an occupation devoid of all hope. The urgent need for technological changes is thus underlined by the low level of efficiency, shown by the static conditions of the average yield an acre.

This state of affairs demands a radical change and justifies the large emphasis of the Planning Commission on agricultural improvement. Increase in agricultural production has been accorded the highest priority in the planning for a welfare State in India and also for the benefit it will bring to the entire national economy. The operations of agricultural economy will however, have to be diversified and brought to a much higher level of efficiency.

Chinese Agriculture

Recently, an official delegation, sent by the Union Ministry of Food and Agriculture visited China to study agricultural development in that country. It has returned with the impression that although the progress of China during the past few years might have been only a little better than India's, the former has created conditions for future progress which are much more promising than what India has done. The Planning Commission's plea for a 40 percent increase in India's agricultural production during the second-plan period, is based in part on the argument that China has been able to achieve as much.

According to an interim report submitted by Mr. P. N. Thapar, Secretary, Ministry of Agriculture, the factors that have produced better results in China are:

(1). The most important reason for the higher yields in China is the superior cultivation practices and the harder work put in by Chinese peasants. Tractors and other farm machinery are not encouraged. The cattle wealth, however, is poorer than India's. Most of the work is done manually and the drudgery of farming is much worse than here. The intensive use of night soil and green manure is a distinguishing feature. Artificial manure, both nitrogen and phosphate, is also used. There is a large programme for suplying materials like fertilisers and implements to the peasants. For instance, the supply of chemical fertilisers has been increased from 300,000 tons in 1952 to 1,730,000 tons in 1956, as compared with 800,000 tons in India.

(2). There is a very large investment in agriculture in China—Rs. 1,680 crores during 1952-56 as against Rs. 758 crores during 1951-56 in India. In addition to this the State investment, co-operative farming societies and the Chinese peasants themselves will invest about Rs. 2,000 crores. Credit is available to the Chinese peasant on a much larger scale and he can get loans without any difficulty or delay.

(3). The Chinese have got a very large programme of irrigation. Fourteen million acres were brought under irrigation between 1949 and 1955. Another 27 million acres are to be irrigated in 1956. The major and medium projects are undertaken by the State, and minor projects by the co-operative farms, with the help of loans and technical assistance from the State.

(4). In China, agriculture has received a substantial impetus from the fact that both prices and markets for agricultural products have been guaranteed by the State. The State purchases all the surplus of agriculturists at pre-determined prices. These prices and ratios between competing crops are revised from year to year, according to changes in the economic conditions of different areas, and the incentives considered necessary for the attainment of plan targets.

(5). There is a very large staff working in China for the development of agriculture. In spite of the increasing number of co-operative farms, which make the work of "extension" of "technique-popularisation" easier, and in spite of the Chinese peasantry being definitely superior in agricultural practices, the technically qualified extension staff in the field, in China, is at least three times the number of village level workers in India.

(6). The keystone of agricultural development in China is, however, the co-operative movement. The farmers are organised in three types of co-operatives, viz., agricultural credit co-operatives supply and marketing co-operatives, and agricultural co-operative farms. "In India," Mr. Thapar's report adds, "where social and political conditions are different, where the Government works through persuasion and not force, and where the small peasant has not been prepared for such a change, it would be a mistake to press them on the people on a large scale. On the other hand, it would be equally unwise to turn our back on them." India has, in its own way, taken up the challenge—the plans for introducing technological changes in agriculture and to bring about a diversification of the rural economy are making steady progress. The first five year plan had a marked agricultural bias. The second five year plan has attempted to rationalise and carry the work further. The financial provisions for agriculture, during the first and the second plans, covering various sectors of the rural economy, are given below:

PLANS FOR AGRICULTURAL DEVELOPMENT

Programmes	Under First Plan (Rs. crores)	Under Second Plan (Rs. crores)
1. Agriculture		
Agricultural programmes	197.0	169.6
Animal Husbandry	22.0	56.0
Forests	10.0	46.7
Fisheries	4.0	11.8
Co-operation	7.0	47.1
Miscellaneous	1.0	9.4
2. National Extension and Community Projects	90.0	200.0
3. Other Rural Programmes		
Village Panchayats	11.0	12.1
Local Development Works	15.0	15.0
4. Irrigation and Power		
Irrigation	384.0	381.0
Power	260.0	426.8
Flood control, etc.	17.0	105.0
5. Village and Small Industries	30.0	200.0
6. Roads and Road Transport	142.0	262.6
7. Welfare of backward classes	32.0	90.5

Agrarian Reforms

The agrarian reforms have as their objective the betterment of the exploited tiller of the soil, but they are not considered to be an end in themselves. They are expected also to be the means of promoting technology in agriculture and scientific farming. Scientific farming is desirable not only for the sake of improving and modernising the methodology of agricultural production, but also for the

AVERAGE YIELDS OF CROPS IN INDIA

(per acre, in lbs.)

Crops	1945-46	1946-47	1947-48	1948-49	1949-50	1950-51	1951-52	1952-53	1953-54	1954-55
Rice	722	750	739	698	688	596	637	682	805	729
Jowar	322	313	369	305	338	316	340	374	406	469
Bajra	277	282	303	246	273	257	220	264	333	291
Maize	619	606	640	251	559	488	560	710	701	707
Ragi	533	639	633	613	625	579	535	532	717	693
Small millets	418	418	418	344	375	339	359	341	389	397
Wheat	547	445	599	566	584	592	582	681	670	713
Barley	713	768	781	641	631	681	669	805	746	780
Gram	440	475	522	496	401	430	443	517	542	547
Sugarcane	3,185	3,119	3,213	2,907	3,052	2,983	2,836	2,632	2,843	3,159
Tobacco	726	716	634	711	688	652	647	603	658	646
Groundnuts	756	783	758	709	770	691	579	545	724	677
Castor seed	193	195	187	175	196	165	165	172	171	197
Sesamum	212	194	198	162	191	180	168	177	195	205
Rape and Mustard	372	411	391	355	372	328	350	363	347	380
Linseed	242	225	243	252	245	233	216	244	247	264
Cotton	75	73	80	61	85	78	76	80	90	92
Jute	1,090	983	1,017	986	1,062	931	959	1,013	1,007	991

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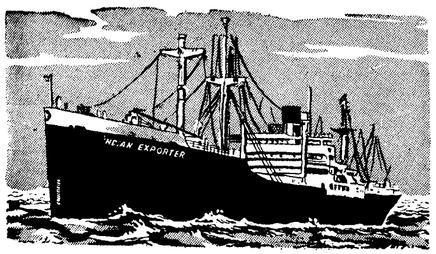
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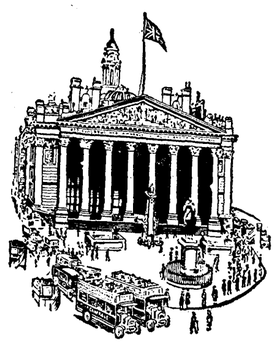
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ake of increasing output (1) by stepping up the roductivity per unit of land (2) by raising the ut-turn per unit of labour and (3) by other econo-nies in the input-output ratios. Productivity per *nit of land* can be enhanced by *improvements in* lant-breeding and the use of better seeds, by weed nd pest control, by the application for farm nanure, chemical fertilisers and green-manuring, y crop rotation, and by secured irrigation. Pro-luction per unit of labour can be increased by sing better farm implements, by labour saving levices, by mechanised farming, by rural electrifi-ation and by co-operative farming. Other econo-mies can be secured by the improvement of animal husbandry, by mixed farming, by soil conservation, by quicker transport, by saving wastages in the field and the godowns, by agricultural credit and better marketing. And all these measures require the technological change, the elasticity of substitu-tion between different factors of production, and finally the force of mobility, which is, at present, lacking very badly in the static structure of India's agricultural economy.

The elasticity of substitution between different factors of production and the technological change, in India, is practically beyond the means of small farmers. Indian agriculture, which has become a way of life rather than a way of business enter-prise, is wedded to immobility because of subsis-tence farming. This immobility, and the resulting poverty and insecurity arises from the fact that by far the largest proportion of food production is intended or earmarked for consumption at the site of production, and, therefore, there is no appreci-able agricultural surplus for sale in the market. Thus, for these small land holdings, there is vir-tually no possibility of building up assets (when their owners are heavily in debt) and, therefore, there is no provision for improvements, labour-saving devices, irrigation and fertilisers, and many other modern applications and appliances.

Role of the State

It is difficult, in these circumstances, to take advantage of or to expect good results from ordi-nary price incentives. To overcome these difficul-ties and to reduce the inherent immobility in the more or less stagnant conditions of the agricultural economy, the State has to intervene and accept the responsibility for inducing changes through posi-tive programmes. These programmes, providing for a dynamic element of social uplift, should aim at an appreciable increase in the physical output per acre of land, less input per unit of product, and a higher yield per unit of labour. The programmes should take several forms, especially the following: (1) the creation of social capital, through the ex-tension of irrigation and power, the reclamation of virgin or barren lands, the improvement in and expansion of the means of transport, (2) the organ-isation and wider application of agricultural re-search and scientific farming, *(3) the provision for* improved technology, plant breeding, improvement of livestock, weed and pest control, (4) the distri-bution of improved implements, seeds, fertilisers and manners, (5) the encouragement of farm-mechanisation through State tractorisation services as in the U.K., and now in West Bengal, or on a co-operative basis as in the Scandinavian countries, (6) an adequate provision of rural credit, (7) the organisation of warehousing, grading of farm pro-duce and agricultural marketing, (8) education and health services in rural areas, uplift of the back-ward classes and assistance to the under-privileged sections of the rural communities, (9) agricultural extension service to promote self-help and mutual co-operation and to guide or spread the knowledge of better farming techniques and (10) afforestation and soil conservation.

It is the rate of investment in social capital and the promotion or expansion of scientific farming that can engender the speed of technological change in agriculture, so as to provide fuller employment in farm occupations, to diversify the rural economy and to rationalise the input-output ratios in produc-tion. This poses a problem of development budget-ing, or financing the agricultural programmes, be-cause Indian agriculture has suffered from insuffi-cient investment, or virtually no investment in the past, and to provide ample investment for future progress. And it is heartening to find that the Government of India has been taking the neces-sary action.

Agricultural Revolution

Agricultural improvements in the west were spread over a comparatively long period, and main-ly in two phases. The first phase of this improve-ment, sometimes characterised as "agricultural revolution, was achieved in England by about 1815, but did not start in other European countries *until late in the nineteenth century. In England* itself, it continued at a slow pace until the middle of the century. The main changes, which took place during this phase, were the abolition of serf-dom, reform in land-tenure systems including the consolidation of holdings, and the adoption of im-proved methods of arable farming such as the aboli-tion of fallowing, better rotation of crops, the cul-tivation of roots and grasses, the introduction of drainage, improved breeding of cattle, and the introduction of improved agricultural implements and machinery. These changes and improvements led to farming for the markets, otherwise called commercial farming, and paved the way for scien-tific farming. The second phase, or the phase of scientific farming, began in Europe after 1870, prompted by the competition from the cheap agri-cultural production of America, which had then begun to flood the markets of Europe. Scientific research and experimentation were vigorously pur-sued and an agricultural policy, which attempted to change agriculture into an industry, was devised and prosecuted.

India is making a unique attempt to compress the two phases into one or take them together, avoiding, at the same time, the leisurely pace of the European countries through commercial farming, or the quicker method of Russia and China through collective farming. India is working towards the technological change in agriculture through per-suasion and democratic planning. This programme of technological improvement and scientific farm-ing for the achievement of agricultural revolution, must start from the first phase of land reforms, radical changes in land policy and improvements in the structure of agrarian relationships. The Indian land reform programme aims at (1) the abolition of absentee landlordism and intermedia-ries, popularly called the abolition of *zamindaris* and *jagirdaris*, (2) *tenancy reforms*, (3) ceilings on land holdings and the distribution of surplus land and (4) the re-organisation of agriculture. The cam-paign for the abolition of the *zamindari system has* gone apace and almost in all States, legislation has been enacted for the abolition of all types of inter-mediaries, compensation for which amounts to Rs. 370 crores. As a result of this, intermediary tenures which prevailed in nearly 43 percent of the culti-vated area are being affected and reformed so as to bring into effect a countrywide ryotwari system of land holdings. Ample progress has been achiev-ed in tenancy reforms, ensuring the security of tenure for the actual tiller, by the regulation of rents, the restoration of the wrongfully ejected tenants and the re-adjustment of the malafide transfers of land.

Ceilings on Land Holdings

Ceilings on existing landholdings and future acquisitions of land have been approved. The Planning Commission has undertaken a country wide census of landholdings and definite recom-mendations are expected to be made on the basis of this census. Meanwhile, Acharya Vinoba Bhave has launched his "*Bhoodan* Movement", aimed at reducing the glaring disparities in landowning by voluntary efforts. Some 4,300,000 acres were col-lected as Bhoodan gifts in 23 States up to Septem-ber, 1956. Out of this, more than 4,100,000 acres have been distributed among landless persons. Another redeeming feature of the *Bhoodan* move-ment is the donation of 11,000 villages to "*bhoodan*". Redistribution of the land obtained through the imposition of ceilings and the abolition of *zamin-daris*, distribution of land gifts received through the *Bhoodan* movement, and the settlement of the landless and other groups on reclaimed lands is *expected to satisfy* the land hunger of the land-less of the poorer of the agricultural population. Agricultural reorganisation through the consolida-tion of holdings and better land management, is also being carried out. The land reforms are bound to reach a stage, in the dertermination of a land policy at which the future pattern of land management has to be decided. The present trends of land policy are veering towards small farms and individual peasant proprietorships to satisfy the land hunger in rural communities. This land policy does not meet the demands of economic efficiency. But, from the standpoint of agricultural economies and working efficiencies, small farms have got their disadvantages also. Small farms tend to move towards subsistence-farming, cannot attain the technical efficiency of large farms, and cannot avail of other economies. Large farms can be mechanised more economically and more conveniently because their outturn is large enough to afford expensive machinery and equipment, and such machinery is expected to be used more continuously, and therefore, gainfully.

Co-operative Farming

Better land management, therefore, must move towards and take the form of largescale farms, and perhaps with these considerations in view, the *Planning Commission has recommended that* "while determining the general ceilings on agri-cultural holdings in a State, it will be necessary to consider the categories of farms to which the ceilings will not apply". The exemptions from ceilings, it is proposed, will be made in the cases of (1) tea, coffee and rubber plantations (2) orchards, where they constitute reasonably com-pact areas (3) specialised farms, engaged in cattle-breeding, dairying, woolraising etc. (4) sugar cane farms operated by sugar factories and (5) efficient-ly managed farms, which consist of compact blocks, on which heavy investment or permanent structural improvements have been made, and whose break-up is likely to lead to a fall in pro-duction. But these large farms, howsoever effi-cient and profitable they may be, are symptomatic of commercial farming of the capitalistic type, which will not be in keeping with a socialist pattern of society. Therefore, the future pattern of land management will, of necessity, be represented by co-operative farming so as to make available to small farms the working efficiencies and other economies of large farms, without their disadvant-ages. In addition to this, it is difficult to visualise crop planning for millions of small farms, whereas production programmes can be conveniently *planned and executed in the case of co-operative* farms.

The Chinese are reported to have achieved re-markable results by the promotion of agricultural co-operatives, after their land reforms were com-pleted. Seventyfive percent of the Chinese peasant families are reported to be organised into agricul-tural producers' co-operatives. According to Mr. Thapar's report, the number of agricultural credit co-operative societies, in China, has increased from 103 in 1950 to 159,000 in 1955. Supply and marketing co-operatives, however, declined from 39,436 in 1950 to 30,576, because of several amalgamations to make the operational unit bigger and more econo-mic. The number of co-operative farms increased *from only 19 in 1950 to 634,000 in 1955, and has* risen above 1,000,000 in May 1956.

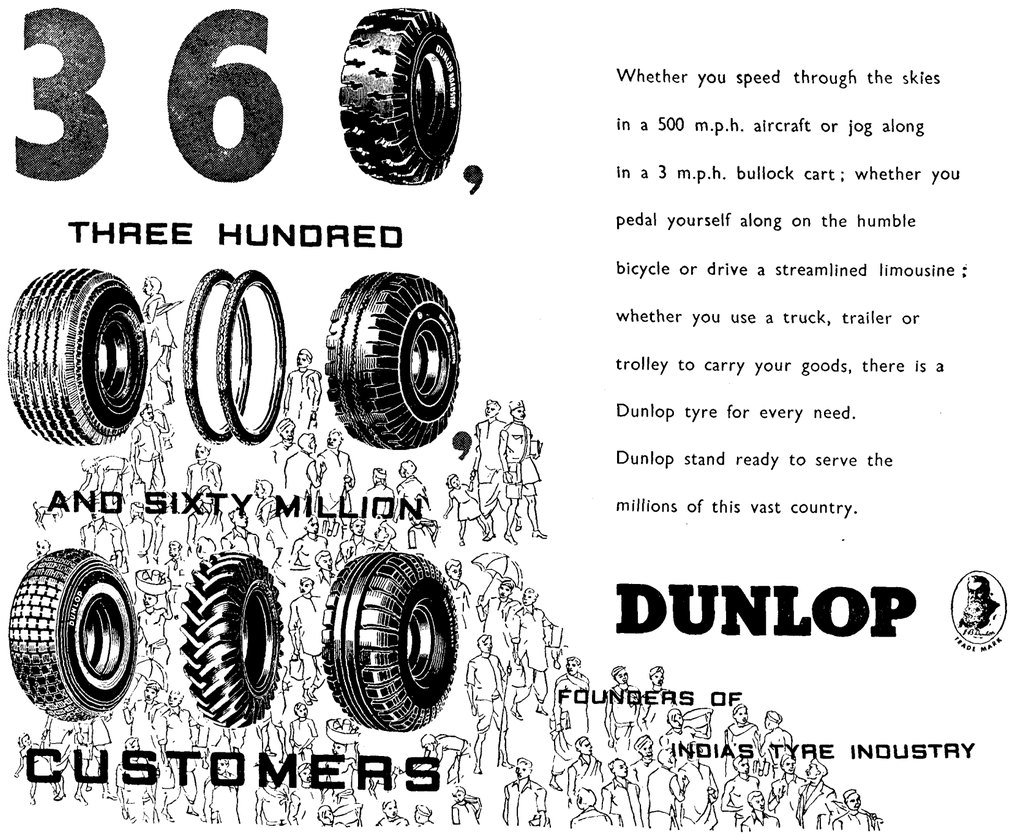
The pace of agricultural co-operation in India is not as spectacular as in China. Mr. A. P. Jain, Union Minister of Food and Agriculture, told the Lok Sabha on 30th August that there are at pre-sent 1,247 co-operative farms working in India, with 342 in Bombay, 180 in Punjab, 163 in U.P., 90 in Assam, 76 in Rajasthan, 75 in West Bengal, 58 in P.E.P.S.U., 56 in Madhya Bharat, 34 in Vin-dhya Pradesh and 173 in other States. He further told that, as a result of a survey of some farms, it had been found that some farms were doing badly, while others were experiencing difficulties and a few were doing quite well. He told the all-India conference of State Ministers of Co-operation, held in Mussorie early this year, that "it is doubtful whether such a large number of co-operative societies (in China), depending for their establish-ment and growth on the voluntary efforts of

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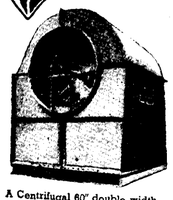
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illiterate and uninformed peasants, can be set up under a democratic constitution, in such a short time. It cannot be overlooked that the political and administrative pattern of China is very different from that of India. At the same time, there are certain important features like large agricultural populations and small holdings common to both India and China." He suggested that, in India, "the co-operative method of farming can be tried on lands which are under cultivation, particularly in national extension blocks. Lands newly reclaimed or cultivated can also be brought under co-operative farming. Favourable conditions for initiating these experiments obtain in many villages given for the Bhoodan. We should, however, be prepared for some wastages and failures in the process of experimentation."

Rural Credit

Following the recommendations of the All-India Rural credit Survey, the National Agricultural Credit (Long-term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund have been constituted by the Reserve Bank of India in 1956. Apex co-operative banks have been established in all States to provide the necessary credit to agricultural credit societies. The second plan targets for co-operative agricultural credit have been fixed at Rs. 225 crores, providing for Rs. 150 crores as short-term loans, Rs. 50 crores as medium-term loans, and Rs. 25 crores as long-term loans. Under the Agricultural Produce (Development and Warehousing Co-operative) Act, passed in 1956, a National Co-operative Development and Warehousing Board is being constituted. Central and States warehousing corporations, established by this Board, will operate warehouses at 350 important trade centres, having a storage capacity of 2,500,000 to 3 million tons. This organisation will not only promote co-operative marketing so as to avoid "distress sales" at harvest times, but will also promote the activities of co-operative processing. But the swing towards co-operative land management should not stop there. It should proceed further to bring the entire village community in its fold under the co-operative village management. Once the movement of better land management reaches or attains the stage of co-operative village management, the distinction, between those who have got land and those who have not, will lose its meaning and its present significance. Adequate and fuller work opportunities will be provided to all those who can work; diversification of the agricultural economy will become possible to achieve, and resources of land, labour and capital will be fully mobilised as well as rationalised to yield better results. Social welfare will be promoted.

The Indian land reforms are aimed at relieving the farming population of the shackles which, in many ways, have been responsible for preventing the best use being made of farm lands and for the absence of technological progress in agriculture which can be seen from the trends of "the area sown more than once". Area sown more than once can be defined as that part of the cultivated area, which is sown again and again after harvesting the first crop instead of remaining fallow or uncultivated. This double or more cropping is, in a way, indicative of the better use of farm land and, therefore, of technological improvement. The extent of the area sown more than once, in India, is given below :

CULTIVATED AREA IN INDIA

(in million acres)

Year	Gross cultivated Area	Net sown Area	Area Sown more than once
1943-44	279.7	246.3	33.4
1944-45	279.8	245.7	34.1
1945-56	276.4	241.9	34.5
1946-47	276.5	242.8	33.7
1947-48	278.1	245.5	32.6
1948-49	276.6	243.2	33.4
1949-50	321.3	283.2	38.1
1950-51	325.9	293.4	32.5
1951-52	329.2	295.0	34.2
1952-53	339.6	304.7	35.8
1953-54	351.7	313.1	38.6
1954-55	352.4	314.9	37.5

The sharp rise in the area sown more than once, from 1943-44 to 1949-50, may have been partly due to the expansion of cultivated area as a result of reclamation and extensive cultivation, and partly by agricultural technology. Therefore, when we find that there is not much difference between the levels of 1949-50 and 1954-55, it suggests that there is much scope for expansion of area sown more than once through all possible avenues of agricultural technology. The yield per acre, it may be added here, can be increased through better land use measures, viz., by crop rotation, by improvements in fallowing (nearly 10 percent of the cultivated area in India is annually left fallow, in spite of the urgent need for not only the main crops but also for fodder crops which could be easily and profitably grown on these fallow lands), by ridge cultivation (it is claimed that ridge cultivation helps in increasing the yield by 55 to 60 percent) by shallow hoeing (it increases the yield by 25 percent) and by double-cropping where secured irrigation is available. The technological changes, introduced successfully in Japanese agriculture, place much emphasis upon the improvement of soil fertility through better crop rotation, soil conservation, and better cultural operations.

Progress of Irrigation

By far the most important factor, contributing to agriculture in India, is irrigation which can provide a regulated supply of water to farm lands, vitally necessary for plant life and vegetative growth. The traditional sources of water supply in India have been rainfall, storage tanks and wells, which are liable to fail or fall into disuse. The technological change in irrigational methodology came with the introduction of secured irrigation through canals, tube wells and water pumps run by diesel or electric power. The total quantity of the river water flow in India were computed, a few years ago, at 1,356 million acre feet, out of which approximately 450 million acre feet can be utilised for beneficial use, that is, irrigation. But, only about 76,000,000 acre feet, or 5.6 percent of the river flow, had been utilised up to 1951. Additional supplies will be made by the projects, taken up in the first plan, as a result of which the percentage of utilised water flow will rise to 10 in 1956. The area irrigated from all sources in 1950-51 was 51,500,000 acres which constituted about 17.5 percent of the total cultivated area. Additional irrigation, amounting to about 6,300,000 acres, it was planned to make available by 1956 from major and medium irrigation projects, taken up during the first plan, although on full development, these works are expected to irrigate about 22 million acres. Another additional 10 million acres is expected in the irrigated area from minor irrigation works, taken up during the first plan. Some areas, which were previously irrigated by minor works like wells and tanks, will now be served by large irrigation works giving more secured irrigation. Thus, the total addition to irrigated area may be taken at 15 million acres. During the second plan, an additional area of 21 million acres it is proposed to bring under irrigation, 12 million acres from large and medium projects and 9 million acres from minor works. It has been roughly estimated that nearly 75 million acres can eventually be irrigated by multipurpose, large and medium irrigation projects, and possibly an equal area of 75 million acres can be irrigated by other irrigation works, thus making a total of about 150 million acres.

As a result of the technological progress in tube-well engineering, the possibilities of utilising the underground water resources for irrigation have appreciably increased. A programme for drilling 350 deep exploratory tube-wells for assessing the possibilities of exploiting ground water resources for irrigation was begun during the first plan. Explorations have been completed at 22 sites and, it is expected, those will be continued further in the second plan. There were about 2,500 tube wells in India prior to 1951. The first plan provided for the construction of 2,650 tube-wells under the Indo-U.S. Technical Co-operation Programme,

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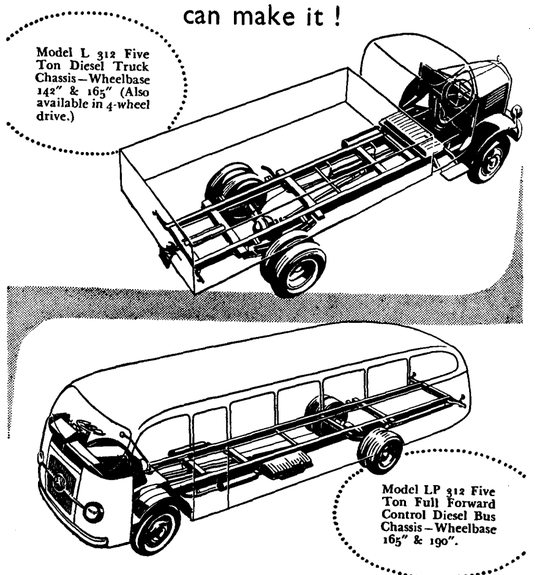
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700 tube-wells under the G.M.F. programme, and 2,480 tube-wells under the development plans of the States. The total number of tube-wells completed up to the end of 1955 is 4,422. The additional area irrigated by these tube-wells will be about 2,000,000 acres on full development. The programme for the second plan aims at the construction of 3,581 tube-wells. The total capital outlay on these tube-wells will be approximately Rs. 20 crores, which is expected to benefit an area of 916,000 acres for secured irrigation.

Benefits of Irrigation

The Government is spending huge amounts of money on irrigation works, expecting a full-fledged agricultural revolution from secured water-supply in the dry and semi-arid regions. But it has to be seen whether the optimum use is being made of the available water supply through irrigation works, in the irrigated areas. An indication of the real benefits derived from the irrigation system is provided by the extent of irrigated area which is sown more than once, as irrigated area has got extra convenience for and opportunities of double-cropping by the proper utilisation of water. The following table shows the progress of the irrigated area and area sown more than once in the irrigated area:

IRRIGATED AREA IN INDIA

(in million acres)

Year	Net area sown	Net area irrigated	Irrigated area sown more than once
1944-45	245.7	47.1	4.6
1945-46	241.9	48.1	4.0
1946-47	242.8	48.5	4.1
1947-48	245.5	46.6	3.5
1948-49	243.2	46.9	3.1
1949-50	283.2	49.8	3.9
1950-51	293.4	51.5	4.3
1951-52	295.0	52.0	5.3
1952-53	304.7	52.4	5.3
1953-54	313.1	53.7	6.1
1954-55	314.9	54.4	6.3

The statement shows that while the irrigated area has been increasing steadfastly, the irrigated area sown more than once has not been increasing proportionately; and therefore, the matter requires more attention. The agricultural aspects of irrigation, which are technologically as important as irrigation engineering, yields better results, if proper attention is given to the water requirements of crops in relation to the system of irrigation, frequency of watering, method of cultivation and cultural operations, the application of fertilisers, and soil conservation. It has been found that larger areas can be irrigated from the existing supplies of water by reducing absorption losses on canals and their distributaries, and economy in use of water can be obtained by the proper alignment of water courses. Better use of water will not only help in reaping two or more crops and thus increasing the outturn of land, but also help in providing more fodder, and thereby improving cattle breeding, and giving fuller employment to agricultural labour. Higher yields are not possible without irrigation. Moreover, for getting higher yields, irrigation is also to be supplemented with, if not dependent upon, better varieties of seeds, larger use of fertilisers and finally, weed control. Higher yields also require adequate processing and marketing facilities. Therefore, irrigation is the king-pin of better farming.

Mechanised Farming

It is inevitable that technical progress in industry and transport should be extended to agriculture, where farming operations are mostly done by manual labour and draught power. Better use of land and better use of water have, of course, helped in increasing the yields, but the rapid growth of population has progressively increased the demand for foodgrains and has in turn stimulated greater efficiency in production. This has led to the introduction of farm machinery and labour-saving devices. The invention of the internal combustion engine finally opened the way for powerful and fast-operating equipments such as tractors and combine harvesters. Japan has given the lead in using improved types of small tools such as ploughs, hoes, harrows, weeders, sprayers, dusters, harvesting and threshing implements to be worked by human and animal power, and small power-driven machines such as tractors and harvesters of 3 to 5 h.p., suitable for small farms. The U.S.A. where soil and topography lend themselves to the use of large machinery, and where land is abundant while labour is in short supply, has outpaced the rest of the world in farm mechanisation. In the collective farms of Central Asia, in Soviet Russia, bigger tractors, sowing and harvesting machines, irrigation and drainage equipment and other farm machinery has been introduced. In Uzbekistan, 98 percent of ploughing operations have been mechanised, giant electric tractors are being used, the spraying of chemicals and the use of fertilisers are done either by aeroplanes or by large field-sprinkler equipment.

Farm mechanisation in India is a difficult problem. In areas where subsistence farming is in vogue, draught animals are kept not only for work in the farm but also for transport and for many other purposes, including fuel from dung. Farm machinery is bound to replace the working cattle, and thereby create more worries. Similarly, mechanical power and labour-saving devices are bound to replace the agricultural labourer. When there are few other work opportunities, the introduction of machinery into agriculture will add considerably to the underemployment problem. Before farm mechanisation is started a solution must be found to the problem of fragmentation also, because small-sized farms are entirely unsuitable for the purpose.

Community Projects

All these changes are important. But the entire programme of improvement in agricultural technology depends not only upon the "know-how", but also on taking it to the village and reaching down to the fields, so as to provide the farmers with the results of agricultural research and guide them to better farming. Therefore, perhaps the most significant feature of agricultural planning, under the first five year plan, was the emphasis placed upon and the introduction of Community Development and National Extension Programme. Community development was described, by the Planning Commission, as the method, and rural extension as the agency, through which the process of transformation of the social and economic life of the village communities was to be initiated. Launched on 2nd October, 1952 (the birthday of Mahatma Gandhi) the community development programme was initially introduced in 55 projects spread over various States. By 2nd October, 1956, there were 557 Community Development blocks and 603 National Extension Service blocks embracing 157,347 villages with a population of nearly 90 million, covering one-fourth of the country's population. Another 311 N.E.S. blocks started functioning on 2nd October, 1956, which will embrace 31,000 villages with a population of 20 million. Physical achievements (till March 1956) amounted to the distribution of 91,59,000 maunds of fertilisers and 4,826,000 maunds of improved seeds; 1,282,000 demonstrations of better agricultural techniques were held; more than 2 million acres of additional area was brought under irrigation; and 1,100,000 acres have been reclaimed. According to sample surveys conducted in the project areas, the average yield of principal crops in these project areas is 25 percent more than the overall average yield in the whole country. Encouraged by the results, an ambitious programme of expansion has been chalked under the second plan and it is expected that by 1961, the entire country will have been covered by the National Extension Service. The recent elevation of the Community Projects Administration to a full-fledged ministry is aimed at providing an impetus to this programme of rural uplift.

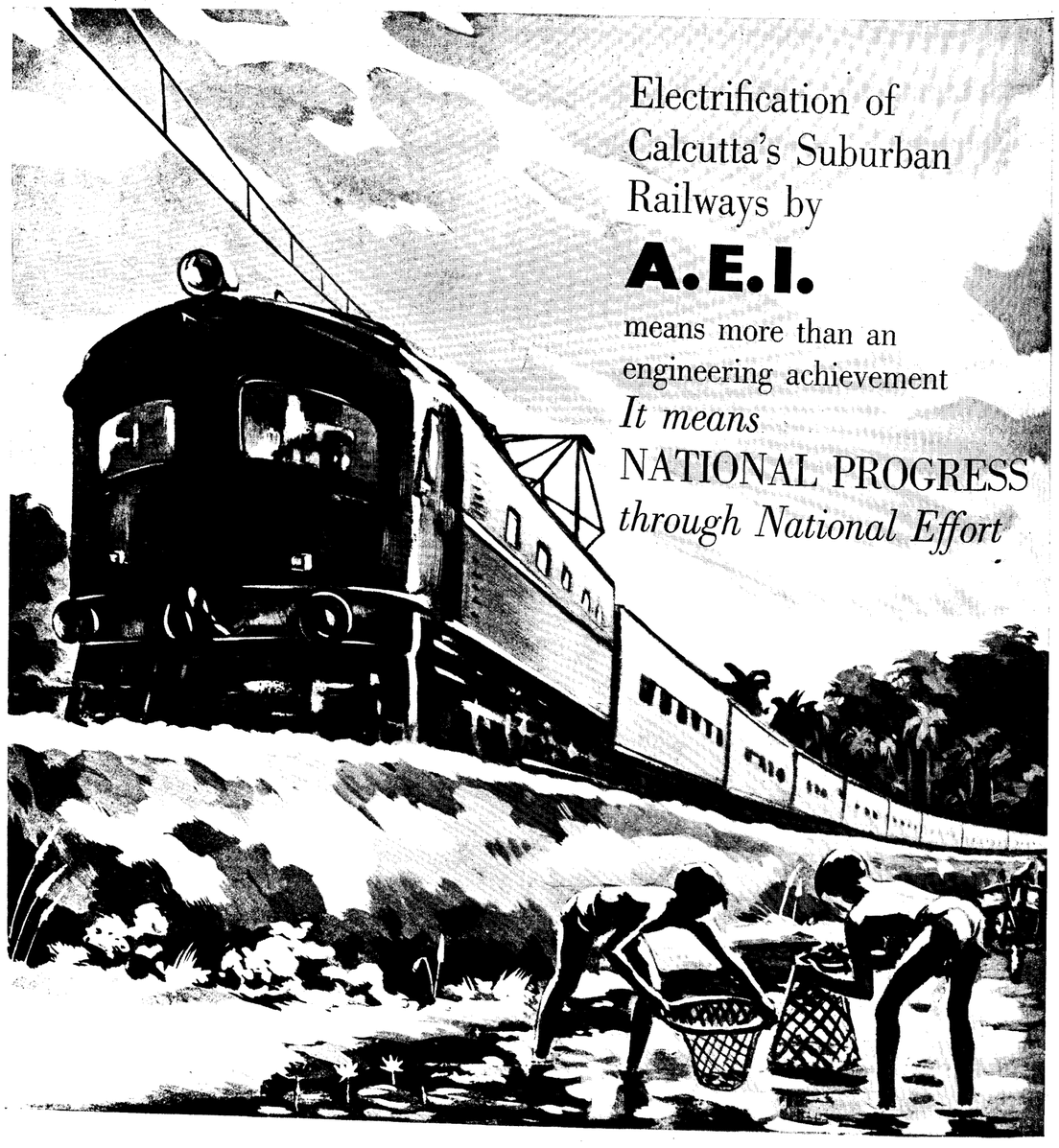
Many other changes are taking place in the agricultural technology, as well as in the agricultural economy. Rural electrification is making its appearance in the villages. With the opening of the Sindri fertiliser factory, artificial fertilisers are being increasingly applied. The use of small diesel and electric pumps for minor irrigation is becoming widely popular. A special service for soil conservation has been recently set up. A countrywide soil testing survey is in progress. Many well-equipped research institutes have been established where extensive research is being conducted on plant breeding and cattle breeding. The Japanese method of cultivation, which is a complex of better use of water, seeds and fertilisers, has been widely adopted. Extensive research is in progress on plant protection, and on protection from insects pests and weeds, and the results are being carried to the farmers.



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NEED FOR PLANNED DEVELOPMENT OF FOREST WEALTH

ITS IMPORTANCE TO THE ECONOMY

● By V. R. NATARAJAN ●

"MEN find forests—and leave deserts", a Frenchman once wrote. The statement seems truer of India than of any other country. Her magnificent forest wealth has suffered heavy devastation, with the result that she is now left with 207,770 square miles, or 130 million acres, of forest, representing 19.2 percent of the total land area in the country. This is an extremely low percentage for a tropical country where, according to experts, one-third of the area should be under forests to preserve climatic conditions. Even this area is not evenly distributed over different parts of the country. In Punjab, only 11 percent of the total area is under forests, in Uttar Pradesh 16 percent and in Bihar 14 percent. In those States, forests are confined mostly to the Himalayan regions, the rest of the area being bare. Of the total forest area, 55.3 percent is merchantable and 44.7 percent unprofitable. On the other hand, Assam has 38 percent of the area under forests, which is more than her needs. Coorg has about one-third of its area under forests. In advanced countries, such as the U.S.A. and Russia the area under forests is about a third of the total land area. Having regard to these considerations, especially the lower productive capacity of natural tropical forests, the National Forest Policy Resolution of 1952 proposed that the area under forests should be raised steadily to 33 percent of the total, the proportion to be aimed at being 60 percent in the hilly regions and 20 percent in the plains.

If we are poor in the quality of our forests, we are rich in their variety. Every advance in industrialisation will be reflected in an increased demand for their products. Several industries make use of wood directly as a material, but even where this is not the case, timber is needed not only initially in the construction of factories but also regularly for the packaging of manufactured products. Forests will have to provide cellulosic raw materials in an increasing measure for the production of paper needed for the educational and other programmes. It is not an accident that the most advanced countries in the world are those with the highest *per capita* consumption of wood. India's *per capita* consumption of round wood is 1.4 cubic feet, as compared with 58 cubic feet in the U.S.A. The consumption of pulp products is 1.6 lbs, as against 78 lbs in the U.K. The *per capita* forest area is 1.8 and 3.5 hectares in the U.S.A. and U.S.S.R. respectively, while in India the figure is 0.2 hectare. These figures indicate the leeway that has to be made up in order to attain a comparable standard of living.

Raw Materials for Industry

The advantages that India gets from forests are direct as well as indirect. Forests supply raw materials for many industries like paper, matches, furniture and building, and grass and fodder for cattle. Several valuable herbs are obtained from forests and they have long supplied many medicinal needs. It is not necessary to discuss the indirect advantages that accrue from a national forest policy in the form of controlling the flow of water in the rivers, stopping floods and preventing destruction of soil by *chos* and waterlogging. Forests are a valuable national asset capable of yielding under proper scientific management not only a steady annual income but also a variety of products essential for human welfare. In India, we have reached a stage where forestry should no longer be regarded as a handmaid of agriculture but as a necessary complement to it. It is from this angle that we must approach the problem of conservation and development of all forests in India.

Since forests influence farming in many ways, in a predominantly agricultural country like India a good forest policy forms an integral part of any agricultural development policy. One of the facts that brighten the record of British rule is that a policy of forest conservancy was inaugurated in the middle of the nineteenth century by the Government of India, which was persistently advocated by a number of Secretaries of State. How Lord Dalhousie initiated the policy of forest conservation, organised the Indian Forest Department and created a very good system of training forest officers are all well-known historical facts. For the training of forest rangers, a forest school was started in Dehra Dun in 1878, but by the close of the century, the Forest Department had made very little progress in acquiring knowledge about Indian forests. At the end of nearly half a century's work, it knew little of the silviculture of even its principal trees. Too great stress was laid on the financial side of operations, to the detriment of progress in work of a professional nature, which would have resulted in a quicker enhancement of revenue. To remedy this deficiency, a Forest Research Institute, the first of its kind in the British Commonwealth, was started in Dehra Dun in 1906. Its activities were extended in 1918. Research is being carried on in five main branches —sylviculture, forest botany, forest economic products, entomology and chemistry. Unfortunately, the Department remained aloof from other departments, like the Agricultural and Co-operative Departments, that were in direct touch with the agriculturist and were working for his betterment. A closer touch with the needs of the agriculturist would have been a great advantage.

The Government of India has appointed an expert committee, with Professor H. G. Champion, Professor of Forestry, to review the working of the Forest Research Institute and Colleges, Dehra Dun. According to its terms of reference, the committee will review the progress of research done during the past five years, study the organisation of the Institute and suggest improvements in the quality of research. It will also advise on steps for ensuring efficiency in the conduct of investigations, establishing liaison with other research institutions and securing quicker publication of the results of research. The other members of the committee are Prof. M. S. Thacker, Additional Secretary, Ministry of Natural Resources and Scientific Research, Mr. M. D. Chaturvedi, former Inspector-General of Forests, Dr. B. P. Pal, Director of the Indian Agricultural Research Institute, and Mr. C. R. Ranganathan, Inspector-General of Forests. The committee has already begun its work.

The first Indian Forests Act, passed in 1865, authorised the promulgation of local rules for forest conservancy. But its defect was that it made no distinction between forests which had to be closely reserved and others which needed only some measure of State control over private working. The Act of 1878 made this distinction, and by 1890 there were 56,000 square miles of reserved and about 20,000 square miles of protected forests. By the end of the century, the area of reserved forests increased to 81,400 square miles and that of protected forests had shrunk to 8,800 square miles.

Criticism of Administration

Forest administration in the nineteenth century was severely criticized by Mr. Gokhale in his evidence before the Welby Commission. He pointed out that the administrative charge of the Forest Department was excessive and that the Department imposed severe restrictions on the grazing of cattle and the cutting of wood. The authorities sometimes relaxed the restrictions on the grazing privileges of the people. In the present century, the management of the smaller reserves was entrusted to *panchayats* with the object of alleviating discontent. Later, forests became a provincial subject and the provinces' expenditure on them was not adequate. In 1950, the Government of India established a Central Board of Forestry whose main functions are to co-ordinate the policies of State Governments, to regulate and develop forests in inter-State river valleys, to co-ordinate research, and to maintain good standards in training officers. Forestry now is no longer the Cinderella of the Agriculture Ministry. The Forest Research Institute has been reorganised in the light of improved methods in advanced countries. A beginning has been made in setting up village fuel forests in order to save cow-dung which is valuable as manure. The Government has also begun to exploit the forest wealth of the Andamans and expects to get Rs. 50 lakhs annually from this source. Moreover, the *Vana Mahotsavas* have now become an annual event to encourage the planting of trees.

The Forest Department has divided forests into three main categories: reserved, protected and unclassified. The first category is reserved for Government use and no entry is allowed to any member of the public. The protected forests are under the control of the Department. but contracts for their exploitation are given and the public is allowed to make use of them within the terms of the contract. The unclassified forests consist of the shrubs and trees in villages. They are not under the control of the Department. The Department has succeeded remarkably well in checking the further deforestation of the country and in the plantation of new areas under forests. It has also directed its attention to research into the use of forest products and to forest education.

Consistent Policy

The important rôle played by forests has come to be recognised only in recent times. A consistent forest policy was adopted by the Government of India from 1894. Before that, there was reckless destruction of forests, thereby increasing the incidence of drought, flood and soil erosion. But the old forest policy was defective on the ground that it looked upon forests mainly as an important source of revenue, though it recognised that the retention of sufficient forests is of primary importance for the preservation of climatic and physical conditions. Forest policy has to be directed, on the one hand, to securing the long-range development of forest resources and, on the other, to meeting the increasing demands for timber in the immediate future. The extension of the area under forests and their transformation so as to increase their yield potential necessarily takes a long time. It is, therefore, essential to resort to short-term measures which will not at the same time injure the prospects of long-term development. The question has been raised whether forestry should not be made a Central subject for ensuring a comprehensive policy and effective administration, but this is not a practical proposition at present.

STATEMENT I.

Area of Forest Lands. (1948-49)

States	Total Area under Forest Dept. (square miles)	Proportion of forests to area of States
Part A States		
Assam	20,929	24.6
Bihar	2,473	3.5
Bombay	15,347	13.8
Madhya Pradesh ..	19,414	14.9
Madras	17,504	13.7
Orissa	2,874	4.8
Punjab	4,873	13.0
Uttar Pradesh	10,743	9.5
West Bengal	2,680	8.7
Part B States		
Hyderabad	9,455	11.5
Madhya Bharat	..	..
Mysore	4,448	1.5
P.E.P.S.U.	332	8.3
Rajasthan	12,782	9.8
Saurashtra	631	2.9
Travancore-Cochin ..	3,065	33.5

Under the Constitution, the jurisdiction over forests vests in the States (Item No. 19, List II of the Seventh Schedule.) The revenue from them is derived from the sale of timber, fuel, bamboo, fodder grass and other minor products, such as lac, tanning materials, gums, resins, medicinal herbs, etcetera. It also includes fees for grazing and the proceeds of the sale of confiscated drift and waif wood. Expenditure on the management and collection of forest revenue is debited to the expenditure head "Forest". The expenditure on management includes expenditure on conservancy and works and the establishment maintained for the preservation of forests. The Forest Depart-

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STATEMENT II.
Area of Forest in India. Year 1950-51. In Sq. Miles.

States	Area by ownership State forest	Private forest	Total forest area	Area by legal status Reserved	Protected	Unclassed	Proportion of forest area to area of State
Part "A" States							
Assam ..	22,919	975	23,894	6,564	105	22,225	33.99
Bihar ..	2,331	12,709	15.040	1,437	1,227	12,376	21.38
Bombay ..	18,622	1,283	19,905	13,797	1,300	4,808	17.92
M.P. ..	39,057	27,905	66,962	26,137	10,256	30,569	51.40
Madras ..	18,919	—	18,919	18,827	92	—	14.80
Orissa ..	18,360	2,257	20,617	10,919	9,698	—	34.28
Punjab ..	5,003	—	5,003	177	4,572	254	13.38
U.P. ..	11,579	1,831	13,410	9,922	1,842	1,646	11.82
West Bengal ..	3,898	1,275	5,173	2,699	1	2,473	16.80
Part "B" States.							
Hyderabad ..	12,729	—	12,729	8,416	1,114	3,139	15.50
Jammu and Kashmir ..	11,058	—	11,058	10,171	754	133	20.01
Madhya Bharat ..	11,411	—	11,411	7,382	3,457	572	24.52
Mysore ..	4,704	—	4,704	3,890	814	—	15.95
P.E.P.S.U. ..	167	125	292	103	65	124	2.91
Rajasthan ..	12,929	—	12,929	—	—	—	9.93
Saurashtra ..	997	—	997	565	—	432	4.67
T.C. ..	3,051	—	3,051	2,974	77	—	33.37
Part "C" States.							
Andamans ..	2,500	—	2,300	1,498	555	447	77.76

ment is treated as a commercial department and the interest on capital outlay is debited to it. Most of the capital expenditure is, however, met out of current revenue. Between 1964 and 1899, the proportion of surplus to gross revenue from forests rose from 36 percent to 45 percent. Between 1915 and 1929, the net revenue from forests was nearly doubled. But in 1930-31, it fell by slightly more than one-half (it was about Re. 1 crore). The total capital outlay, outside the revenue account, up to 1946-47 was Rs. 8.69 lakhs in Punjab, Rs. 7.66 lakhs in Bombay, Rs. 5.69 lakhs in U.P., Rs. 5.02 lakhs in Madhya Pradesh and Rs. 14,000 in Bengal. In no other State had any capital expenditure been financed outside the revenue account. In 1946-47, the Government of India incurred for the first time a capital outlay of Rs. 3.16 lakhs on forests in Centrally administered areas. Since Independence they have incurred a further capital outlay of Rs. 143 lakhs. Except for Punjab which incurred a capital outlay of Rs. 83,000 in 1950-51, no other State has incurred any capital outlay on forests outside the revenue account in the post-Independence period. The capital expenditure on forests is incurred on communications and buildings, livestock, tools and plants, railways and tramways. Forests not only yield revenue to the State but their conservation and improvement are also essential for checking soil erosion and increasing rainfall in the area. Statement I and II at the end of this article shows the distribution of forest area in the Union of India.

Total Area

In 1948-49, the total forest area in Part A and Part B States was 96,837 and 30,713 square miles respectively. Besides these, there are private forests in *zamindari*, *jagirdari* or *istmrardari* areas. About 40 million acres of *zamindari* forests are vested in State Governments. Forest resources have not been fully exploited and it is necessary to develop industries which will ensure the fuller utilisation of forest products.

During the last decade, the revenue from forests has considerably increased, as can be seen from Statement III at the end of this article. In Part A States, the revenue from forests increased from Rs. 261.97 lakhs in 1938-39 to Rs. 1,099.14 lakhs in 1946-47. It declined thereafter due to partition, and was Rs. 1,094.53 lakhs in 1948-49. It has since increased to Rs. 1,487.07 lakhs in 1954-55 (Budget). In 1948-49, the revenue from forests formed 4.2 percent of the total revenue of Part A States. This percentage increased to 4.8 in 1952-53 (Budget). In 1952-53, the revenue at Rs. 352.88 lakhs was highest in U.P., forming 5.8 percent of its total revenue, but the proportionate contribution of forest revenue to total revenue was highest in Madhya Pradesh. In 1952-53, the forest revenue in that State was estimated at Rs. 319.71 lakhs, forming 15.2 percent of its total revenue. The forest revenue in 1952-53 was estimated at Rs. 352.70 lakhs in Bombay and Rs. 200 lakhs in Madras, forming 5.4 percent and 3.2 percent, respectively, of their total revenue. After allowing an expenditure of Rs. 449.43 lakhs, the net revenue in Part A States was Rs. 649.71 lakhs in 1946-47. The total expenditure on forests in Part A States in 1948-49 was Rs. 508.70 lakhs and hence the net revenue from forests was Rs. 585.83 lakhs. In 1952-53, the expenditure was estimated to increase to Rs. 698.96 lakhs but since revenue from forests increased more rapidly the net revenue rose to Rs. 851.45 lakhs. The net revenue in U.P. has increased from Rs. 143.06 lakhs in 1948-49 to Rs. 214.97 lakhs in 1952-53 (Budget). During the same period the net revenue has increased from Rs. 143.44 lakhs to Rs. 193.44 lakhs in Madhya Pradesh, and from Rs. 80.47 lakhs to Rs. 115.52 lakhs in Madras, while it has declined from Rs. 134.13 lakhs to Rs. 127.85 lakhs in Bombay. In Assam, a net deficit of Rs. 3.60 lakhs on forests was estimated in 1952-53, though up to 1950-51 forests yielded a net revenue, it being Rs. 19.25 lakhs in that year. In Orissa, the net revenue from forests has increased from Rs. 6.79 lakhs in 1948-49 to Rs. 59.20 lakhs in 1952-53 (Budget).

Revenue Trends

The total revenue from forests in Part B States increased from Rs. 407.78 lakhs in 1950-51 to Rs. 464.44 lakhs in 1952-53 (Budget), or by 13.9 percent. Its proportion to total revenue during the same period, however, declined slightly from 4.4 percent to 4.3 percent. The net revenue, after deducting Rs. 216.23 lakhs expenditure on forests, was estimated at Rs. 248.21 lakhs in 1952-53. The revenue from forests in 1952-53 (Budget) formed 9.8 percent and 3.4 percent of the total revenue in Travancore-Cochin and Hyderabad, respectively. The net revenue from forests in 1952-53 was estimated at Rs. 92.31 lakhs in Travancore-Cochin, Rs. 57.44 lakhs in Hyderabad, Rs. 41.46 lakhs in Mysore and Rs. 17.90 lakhs in Rajasthan. A net deficit of Rs. 2.80 lakhs and Rs. 2.34 lakhs was estimated in P.E.P.S.U. and Saurashtra, respectively, though in both the States forests yielded a net revenue of Rs. 2.66 lakhs and Rs. 1.62 lakhs respectively in 1951-52 (Revised). With the fuller development of forests and better utilisation of forest products, the revenue from forests is likely to expand in the future.

Planning Commission and Forests

The Planning Commission has recommended the following forest policy for the country:

1. In the areas in which there is a deficiency of forests (viz., Punjab, U.P. and Bihar), there should be a ban on any further encroachment on the forest areas unless an equal area is newly brought under forests.

2. The area under forests should be increased by planned afforestation.

2. The Central Board of Forestry should clearly indicate in the case of each State, the area that must be under forests.

4. Where the area under forests is more than the proportion laid down by the Board, deforestation may be allowed in consultation with the Forest Department.

The Central Board of Forestry has been reconstituted and Ministers in charge of forests in the States have been taken on it. The Board will ensure an integrated and co-ordinated forest policy throughout the Union. It will suggest legislation for private forests. The long-term goals include adoption of measures for soil conservation, maximum utilisation of forests, introduction of integrated plans for the better use of land, regulation of the development of forests in inter-State river valleys and enforcement of high standards of training among officers. A scheme for checking the spread of the Rajasthan desert by means of planting trees on the present boundaries has already been drawn up. Mr. K. M. Munshi, the then Food and Agriculture Minister, launched in July 1950 a campaign for planting new trees, *Vana Mahotsava*. It has become an annual national festival and has given a great fillip to afforestation. The target was ten million trees by the end of 1951. But more important than the planting of new trees is to make the country forest-minded. The All-India Jawahar Shield was presented to the village of Settimadamangla in Mysore State which planted 60,000 trees during the 1950 *Vana Mahotsava*. We must develop and utilise better our existing forest resources. Industrial products such as bamboo, pulp, lac, rubber and rosin should be better tapped and their production should be increased. The Forest Department should adopt a more liberal attitude towards the public and should help it in understanding the uses of various products and starting industries connected with them. The Department should send some of its officers for short courses in agricultural colleges. Similarly, agricultural officers should get some knowledge of forests.

The main principles governing the management of forest resources and their continued develop-

STATEMENT III.
Revenue from Forests.

(Lakhs of rupees.)

States.	1938—39	1942—43	1946—47	1947—48	1948—49	1949—50	1950—51	1951—52 (Revised)	1952—53 (Budget)	1953—54 (Budget)	1954—55 (Budget)
Andhra ..										24.77	39.91
Assam ..	16.69	37.37	68.38	61.79	63.43	65.12	56.77	43.43	40.18	53.66	52.27
Bihar ..	7.73	14.22	26.89	32.30	42.95	54.91	66.85	68.70	71.61	70.86	67.75
Bombay ..	40.60	113.10	269.62	215.41	231.43	327.54	374.53	375.84	352.70	321.24	282.82
Madhya Pradesh ..	48.68	142.75	188.73	151.81	231.43	272.46	290.70	430.17	319.71	321.61	333.60
Madras ..	45.63	71.89	161.39	182.81	159.57	165.70	188.56	208.04	200.00	59.73	110.40
Orissa ..	6.37	13.19	17.70	21.89	19.96	73.11	99.82	100.98	100.81	105.74	138.30
Punjab ..	23.03	63.88	122.35	27.57	61.89	41.63	50.22	52.95	54.49	56.23	50.73
Uttar Pradesh ..	50.83	113.40	181.73	182.84	222.30	275.07	331.43	336.50	352.88	311.16	351.61
West Bengal ..	22.41	38.38	62.35	36.89	61.57	60.67	53.68	58.79	58.03	53.62	59.5
Total Part "A" States. ..	261.97	608.18	1099.14	931.31	1094.53	1336.21	1512.56	1675.40	1550.41	1378.62	1487.0
Hyderabad ..							86.82	90.00	91.00	90.00	91.0
Madhya Bharat ..							55.44	65.00	70.00	75.00	72.1
Mysore ..							58.48	95.21	80.19	75.21	81.2
P.E.P.S.U. ..							5.96	6.85	6.39	6.12	6.4
Rajasthan ..							40.01	41.05	45.70	40.00	36.5
Saurashtra ..							6.85	6.01	6.16	4.15	4.5
Travancore-Cochin ..							154.22	165.00	165.00	165.00	178.5
Total. Part "B" States ..							407.78	469.12	464.44	455.48	470.3

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ment were laid down by the Forest Policy Resolution, 1952. The Resolution stressed the need for:

(1) Evolving a system of balanced and complementary land use, under which each type of land is allotted to that form of use under which it would produce most and deteriorate least.

(2) Checking:

(a) denudation in mountainous regions on which depends the perennial water supply of the river systems whose basins constitute the fertile core of the country;

(b) the erosion progressing in space along the tree-less banks of the great rivers leading to marine formation, and on vast stretches of undulating waste lands, depriving the adjoining fields of their fertility;

(c) the invasion of sea-sands on coastal tracts, and the shifting of sand dunes, particularly the Rajputana deserts;

(3) Establishing tree lands, wherever possible, for the amelioration of physical and climatic conditions and promoting the general well-being of the people.

(4) Ensuring progressively increasing supplies of grazing, small wood for agricultural implements, and in particular, of firewood to release cattle-dung for manure to step up food production.

(5) Sustained supply of timber and other forest produce required for defence, communications and industry.

(6) The realisation of the maximum annual revenue in perpetuity consistent with the fulfilment of the needs.

In order to implement these directives and develop the country's forest resources effectively and usefully, measures will be necessary (i) to extend and improve areas under forests; (ii) to meet the increased demand for timber and forest produce in the immediate future; and (iii) to plan for the long-range development of forest resources.

First Plan Progress

The first five year plan provided Rs. 9.6 crores for forest development. During the plan period, State Governments carried out a number of schemes relating to afforestation, development of forest communications, strengthening of forest administration and formation of village and small-scale plantations. On an area exceeding 75,000 acres, the vegetative cover was restored by afforestation or planting. Over 3,000 miles of forest roads were constructed or improved. A considerable area (over 20 million acres) of forest land under private ownership or management was brought under State control, and the administrative set-up was strengthened to deal with this additional responsibility. The preparation of working plans was speeded up and additional areas were brought under new working plans.

The Central Government sponsored a scheme for matchwood plantations, and towards the end of the plan period, such plantations were being raised in the States at the rate of about 3,000 acres a year. The principal schemes of the Central Government related to forest research, forestry education and the preservation of wild life. New fields of investigation in forest research included studies in the introduction of Malayan cane into India, protection of timbers against marine organisms, and preservative treatment of green bamboos. Work was initiated in revising and bringing up to date important and standard works connected with forestry and forest utilisation. Additional accommodation and equipment have been provided in Dehra Dun to meet the increased requirements of forest education. The Indian Board for Wild Life was constituted in 1952 and has done useful work in the cause of preservation of wild life. Preliminary steps have also been taken to establish a modern zoological-cum-botanical park in Delhi.

Besides continuing, wherever necessary, work on the schemes initiated during the first plan, the programme of the second plan includes proposals or measures for: (i) afforestation and improvement of poorer areas in the forests and extension forestry; (ii) formation of plantations of species of commercial and industrial value; (iii) promotion of methods for increased production and availability of timber and other forest produce in the immediate future; (iv) conservation of wild life; (v) amelioration of the conditions of staff and labour in the forests; (vi) increased tempo of forest research; (vii) increased provision of technical personnel; and (viii) central co-ordination and guidance in the implementation of forest development schemes all over the country.

Forest programmes have been drawn up by different States on a fairly uniform and systematic basis, consistent with local requirements. The total provision for forest development in the second plan is about Rs. 27 crores. The Centre will directly incur an expenditure of nearly Rs. 2½ crores in

STATEMENT IV.
Outturn of Forest Produce in India. **Year 1950—51.**

States.	Major produce.				Minor produce				
	Total Value (Lakhs of Rs.)	Timber (Quantity in '000 cu. ft.)	Fire wood	Charcoal	Others	Bamboo & canes	Fodder grasses	Gums & Resins	Lac	Drug and spices
Part "A" States.										
Assam ..	36.68	4753	8404		186					
Bihar ..	54.01	3505	7955							
Bombay ..	436.50	16123	66214							
M.P. ..	291.07	28762	131369							
Madras ..	137.97	3421	19666							
Orissa ..	61.77	10467	19666							
Punjab ..	36.67									
U.P. ..	273.57	9644	13976							
West Bengal ..	84.45	4613	39102	3505						
Part "B" States.										
Hyderabad ..	54.47									
Jammu & Kashmir ..	38.17	4682	2692	626	—					
M. Bharat ..	33.31	650	3750	4000	1200					
Mysore ..	38.13	702	17336	—	493					
Pepsu ..	1.98	71	496	—	4					
Rajastan ..	—	—	—	—	—					
Saurastra ..	18.62	304	—	—	—					
T.C. ..	144.62	4232	11781	—	—					
Part "C" States.										
Ajmer ..	1.32	—	438	—	—					
Bhopal ..	5.51	737	1955	—	—					
Bilaspur ..	0.33	134	90	—	—					
Coorg ..	27.52	1372	338	15	48					
Delhi ..	—	—	—	—	—					
Himachal Pradesh ..	63.41	7546	11781	1103	10536					
Kutch ..	0.10	—	—	—	—					
Manipur ..	0.66	122	816	—	—					
Tripura ..	10.04	—	—	—	—					
Vindhya Pradesh ..	11.84	1312	10500	3000	2					
Andamans ..	28.45	2101	59	—	—					

STATEMENT V.
Employment in Forestry and Forest Industries. 1950—51.
(Average number of persons employed per day)

States.	Forestry Management and protection.	Extraction.	Forest Industries.	Employment Total.
Assam ..	14,820	187,352	89457	291629
Bihar ..	59,586	358,513	94685	512844
Bombay ..	42,113	216,912	69073	328098
M.P. ..	—	—	—	—
Madras ..	3,336	629,23	898	67157
Orissa ..	2,737	13,515	3,782	20034
Punjab ..	—	—	—	—
U.P. ..	—	—	—	—
W. Bengal ..	19,041	38,932	17396	75369
Hyderabad ..	480	658	313	1451
Jammu and Kashmir ..	—	—	152	152
M. Bharat ..	3,084	28,166	20462	51712
Mysore ..	—	—	—	—
Pepsu ..	—	—	—	—
Rajasthan ..	6	120	85	21
Saurashtra ..	—	—	—	—
T.C. ..	450	7000	3800	11250
Ajmer ..	3	855	—	858
Bhopal ..	67	417	20125	20609
Bilaspur ..	10	310	—	380
Coorg ..	453	422	—	875
Delhi ..	—	—	—	—
Himachal Pradesh ..	902	10,238	770	11910
Kutch ..	—	—	—	—
Manipur ..	—	—	—	—
Tripura ..	20	98	—	118
Vindhya Pradesh ..	—	—	—	—
Andamans ..	915	1,093	1028	3036

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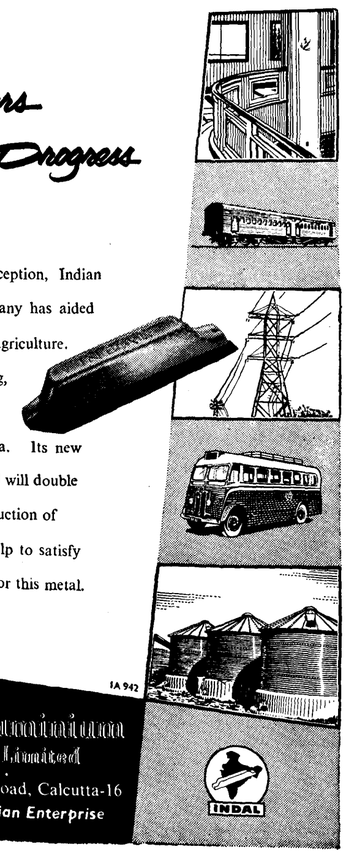
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forest research, education and demonstration centres for upgrading secondary timbers. Another Rs. 2½ crores will go to the States to finance schemes not immediately remunerative. Loans of Rs. 10 crores will be advanced for the implementation of other forest projects. The States will contribute about Rs. 9 crores to complete the financial provision for such schemes, as also for the schemes which they will undertake entirely on their own.

A large area of degraded forests has come under the control of the State. Frequently these forest lands are not demarcated on the ground or indicated on maps. They will have to be defined on the ground and suitably notified under the Forest Act as early as possible if they are to be saved from further indiscriminate cutting and denudation. The first task of State Forest Departments will, therefore, be to undertake surveys of such areas, with a view to arranging for their efficient management. At the same time, many of the degraded or derelict areas are urgently in need of rehabilitation. During the second plan, it is proposed that about 50,000 acres of forest land will be planted anew with commercially important species like teak. Matchwood plantations will be formed on a larger scale than during the first plan and it is proposed that about 50,000 acres will be added to such plantations during the next five years. Progress at this rate for a further period of five years may bring self-sufficiency when the plantations begin to mature. A further 13,000 acres will be planted with species like wattie and blue gums which are of value to the tanning, paper and rayon industries.

Short-term Measures

These schemes are in the nature of long-term measures of forest improvement in the second plan. Short-term measures which will help increase output in the immediate future include better techniques for timber extraction, the development of forest communications and the increased use of preservative and seasoning processes, besides the use of plywood, composite wood and chip-boards. The plan provides for the adoption of improved "logging" methods, particularly with reference to the use of efficient tools for felling and extraction. The adoption of simple wire ropes for extraction in hilly areas and other similar inexpensive measures will help in the better utilisation of resources in relatively less accessible areas to a greater extent than previously. Such improved operations may prove of special value in the hill forests of Punjab, Himachal Pradesh, Jammu, Kashmir, Uttar Pradesh, West Bengal, parts of Bihar, Madras and Mysore. Along with improved logging, attention will also have to be given to the large-scale development of forest communications. Under the plan, it is proposed to construct or improve 7,400 miles of forest roads. Side by side with the increased production of commercially valuable timbers, effective use of all the timbers readily available in the forests should be made. The second plan provides for the establishment of three or four demonstration timber treating and seasoning plants by the Centre, and also some 10 small-scale treating and seasoning plants in the States with a view to upgrading secondary timbers and utilising them fully.

Much difficulty has been felt in the planning and development of forest resources due to lack of statistical information. Resource surveys, particularly timber trend surveys, are to be undertaken (in conjunction with the F.A.O. of the United Nations) for the study of timber production, utilisation, and future trends in consumption.

Minor Products

India's forests are known to be rich in minor products such as bamboo, cane, resin-yielding trees, plants yielding essential oils, medicinal plants and grasses. While such well-known items as bamboo and lac are being cultivated and utilised on a fairly satisfactory scale, better methods of rearing, collection, extraction and marketing should be possible with adequate supplies. In the case of some items such as medicinal plants, intensive cultivation under controlled conditions needs to be developed as speedily as possible. It is proposed to put about 2,000 acres of land under each plantation during the second plan. Again, the improvement of pastures and forest grazing also will receive attention and about 500,000 acres are likely to be dealt with in the period. The conservation of wild life is an integral part of forest management. Such animals as the lion and the rhinoceros are in danger of extinction. To serve the cause of wild life, forestry programmes in the second plan include the establishment of 18 national parks and game sanctuaries, besides a modern zoological park in Delhi.

Development work on the scale proposed calls for an increased tempo of forest research. The research programme initiated during the first plan at the Forest Research Institute, Dehra Dun, will be further expanded during the second plan. Besides studies in logging methods, it will include timber engineering, plant introduction, genetical

STATEMENT VI.

Progress of Forest Regeneration and Afforestation. 1950-51 (Area in sq. miles.)

States.		Under natural regeneration	Regenerated by coppice.	By artifical regeneration.	Afforestation.	Total area re-generated	Area under sanctioned working plans.	Total cost of regenerating operations (Rs. 000).
Assam	..	30	—	5	—	35	4772	—
Bihar	..	29	104	—	—	133	1826	530
Bombay	..	856	120	37	3	1016	11045	263
M.P.	..	135	171	1	—	307	20867	224
Madras	..	3	57	5	3	68	15288	415
Orissa	..	11	49	3	—	63	8530	53
Punjab	..	1	20	—	11	32	2028	305
U.P.	..	510	16	6	2	534	8612	909
W. Bengal	..	2	—	5	1	8	2648	607
Hyderabad	..	18	68	—	6	92	4775	89
Jammu & Kashmir	..	224	1	—	—	225	6280	63
M. Bharat	..	—	—	—	39	39	5500	40
Mysore	..	—	40	3	1	44	2057	211
P.E.P.S.U.	..	12	1	1	—	14	154	10
Rajasthan	..	—	—	—	—	—	—	—
Saurashtra	..	—	14	—	—	14	422	196
T.C.	..	1178	—	2	—	1180	819	131
Ajmer	..	—	1	—	—	1	73	1
Bhopal	..	—	—	—	—	—	—	—
Bilaspur	..	—	—	1	—	—	49	1
Himachal Pradesh	..	52	—	3	—	55	1526	45
Kutch	..	—	—	—	—	—	—	—
Manipur	..	—	—	—	—	—	—	—
Tripura	..	—	—	—	—	—	—	8
Vindhya Pradesh	..	—	80	180	—	260	3	3
Andamans	..	28	—	—	—	28	1498	—

STATEMENT VII.

Protection of Forests. Results of Protection from Fire and Cattle. Year 1950—51. (Area in Sq. miles).

States.		Total area of forests under Forest Dept.	Protection from fire			Protection from Cattle throughout the year.	
			Area attempted.	Area protected	Percentage of forests under fire protection to total area of all forests.	Area closed to all animals.	Area open to grazing of non-browsers only.
Part "A" States.							
Assam	..	6699	48	46	0.7	4375	6
Bihar	..	2331	1747	1366	74.9	399	1074
Bombay	..	18622	16431	15864	88.1	1277	8774
M. P.	..	36393	23202	21157	63.8	2085	21429
Madras	..	18750	18096	17331	96.5	1745	1142
Orissa	..	17651	9742	8865	55.2	2718	7214
Punjab	..	5003	1453	1443	29.0	711	57
U.P.	..	9545	7845	7649	88.2	1432	1061
W. Bengal	..	2680	457	451	17.1	2514	166
Part "B" States.							
Hyderabad	..	12729	723	718	5.7	634	7125
Jammu and Kashmir	..	11058	10511	10159	91.9	634	1885
M. Bharat	..	11411	8114	8019	71.1	591	—
Mysore	..	4704	3890	3890	82.7	—	—
P.E.P.S.U.	..	167	23	23	13.8	51	—
Rajasthan	..	12927	—	—	—	—	—
Saumsthra	..	925	565	556	61.1	43	504
T.C.	..	3051	2140	2140	70.1	203	—
Part "C" States.							
Ajmer	..	135	135	135	100.0	67	2
Bhopal	..	1254	670	630	53.4	71	—
Bilaspur	..	200	200	200	53.4	—	—
Himachal Pradesh	..	3387	1454	1448	62.9	38	—
Kutch	..	197	—	—	42.9	156	71
Manipur	..	857	23	23	—	—	15
Tripura	..	3458	—	—	—	—	—
Vindhya Pradesh	..	7714	2676	2583	34.6	1110	30459
Andamans	..	2500	—	—	—	—	—

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research and problems connected with the timber utilisation industries. Units to investigate biological and silvicultural problems will be located in conjunction with the Southern Forest Ranger College in Coimbatore and units dealing with forest products research will be established in Bangalore, utilising the Mysore Government's Forest Research Laboratory as a nucleus. The States will undertake research schemes relating to local and regional problems particularly in the field of silviculture.

Regional Research Centre

The Government recently decided to set up a Regional Centre for Forest Research in South India. The Centre will consist of two units—one in Bangalore and the other in Coimbatore. The Bangalore unit will be started by taking over and converting the existing Mysore State Government's Forest Research Laboratory. The unit in Coimbatore will be started by expanding the scope of the Southern Forest Rangers' College situated there. Each unit will be complementary to the other and provision for this purpose has been made in the second plan. It is proposed that the Bangalore unit will be devoted to research on forest utilisation, with special emphasis on the diseases of sandal wood. The Coimbatore unit will be devoted to the biological aspects of forestry problems.

The requirements of forest personnel during the second plan have also been worked out. About 250 forest officers are required, as against the normal likely output of the Forest College, Dehra Dun, of about 150. It is, therefore, proposed to increase annual admissions from 40 to 80. The number of Forest Rangers required is estimated at about 700, compared with the present output capacity of 600 from the Colleges in Dehra Dun and Coimbatore. The number of admissions in Coimbatore is to be raised by 40. About 2,000 foresters will be needed for the various programmes included in the second plan, and arrangements for training them are being made. The requirements of research personnel other than those trained in forestry will be met by recruitment from other sources.

So far as Madras State is concerned, only 14 percent of the soil is under forest while the minimum requirement as prescribed by the Central Government is 33 percent. The percentage was reduced further when the reorganisation of States took place. The *Vana Mahotsava* is, therefore, of more than ordinary significance to this State. With the forest area less than half the minimum required, t may easily be imagined what incalculable harm s being done by the indiscriminate cutting down of trees in the forests and one of the main tasks of the forest officers would be to prevent such vandalism. Another instance of thoughtless deforestation is the practice of cutting down eucalyptus trees in the Nilgiris in South India in order to utilise the land thus gained for potatoes.

The Outlook

In order to plan the development of forest resources all over the country, co-ordination of the activities of the States and the Centre is desirable. The Central Board of Forestry concerns itself with the various problems arising in India's forests and provides overall guidance. It is necessary that development work as well as working plan preparation and forest management should be co-ordinated on a comprehensive scale under a whole-time organisation. It is, therefore, essential to set up and maintain a well-organised service for technical advice and assistance at the Centre. Such an organisation could also make itself responsible for improved forest statistics, market studies and statistical information, for the standardisation of grading work with reference to timber and other forest produce and for the technical efficiency of forestry practices.

In any scheme of future development, attention must be given in particular to the paramount need for livestock grazing since the absence of the grazing facilities forms the most important cause of the poor stamina of the Indian cattle. It is necessary to try the experiment of local *panchayats* being entrusted with unclassed forest areas for cultivation as sources of fuel supply so that the villagers might obtain their firewood from those local regions and thereby stop the habit of using cowdung in place of firewood. Forests, moreover, under an improving economy have been found to be a chief source of paper supply. From 80 percent to 90 percent of the world's paper today is made from wood fibre. Chemists say that the future will be an age of cellulose in which forests may play a dominant part, so we might do well to remember that something could be done in this direction in India also.

So far as South India is concerned, the problems of future development have to be approached in three ways: firstly, by the rehabilitation of existing forests; secondly, by afforestation on a large scale; and thirdly, by the extensive adoption of farm forestry methods, by which each *ryot's* farm or holding will become self-sufficient in fuel and small timber, besides deriving the indirect benefits of tree growth. As for rehabilitation, artificial regeneration methods, which adopt moisture conservation practices like *rab* regeneration and trench and ridge sowings, have given very good results. Reserved forests which require to be regenerated have to be carefully examined and plans drawn up for their speedy rehabilitation. As for the second method of approach, by afforestation on a large scale on lands at the disposal of the Government, such lands should be brought under correct management after a land capability survey. Lands which have to be under permanent tree growth, according to that survey, should be speedily afforestated. Such a step will not only increase the area under forests, but also conserve soil and moisture in the tract. As for the third method of approach, namely, farm forestry, the *ryot* in his holding should be encouraged to raise suitable trees as a wind-break, not only to protect his valuable fields from wind erosion, but to provide him with fuel and small timber as well. Farm forestry methods have the manifold advantages of making each farm self-sufficient in wood, preserving reserved forests from fellings, and further conserving moisture and soil in the farm, so that if such a practice were to catch the imagination of the *ryots* residing in famine tracts, famine conditions will not recur and there will be considerable saving of expenditure on famine relief works.

Bamboo Exploitation

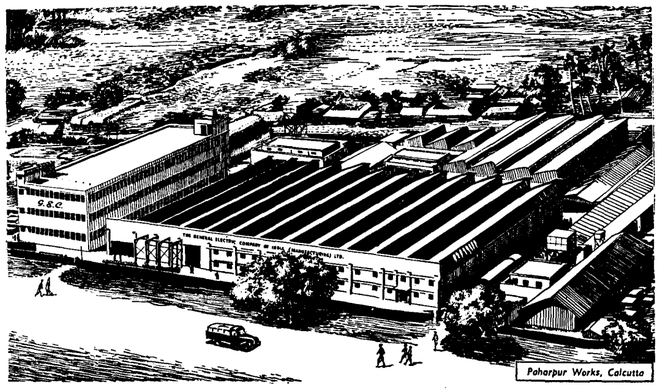
For the exploitation of forest wealth in south India, some areas such as the agency forests and the Nallamalais in Andhra Pradesh, contain enormous quantities of bamboo. If these are exploited and treated, a plentiful supply of the "poor man's timber" would be available to the public at economic rates, besides additional quantities being available for starting paper factories. Until now it has been the popular view that forests should depend only a natural rainfall for their development, but in recent years this has been changing and the public do not mind watering casuarina plantations during summer until the casuarina growth gets established. There are in existence or under construction many irrigation projects in south India with their network of canals. The possibility of allotting some water from these projects for raising irrigated plantations of bamboo, teak and other timber species need to be seriously explored. One cusec for eight months worked on 120 acres will mean an equivalent of about 48 inches of rainfall. So, localities in the project areas where an excess of moisture will be available on account of seepage could be utilised for growing species of timber useful for wood-based industries. In fact, all that is now necessary is to map out and organise such work on a planned basis.

It is hoped that the Forestry Commission which has been set up under the chairmanship of Dr. Punjabrao Deshmukh, Union Minister for Agriculture, will go fully into these matters and make recommendations for evolving a well co-ordinated policy of forest development and management. The paramount need for a Forest Commission at the Centre has now been recognised and one can hope that the proposals of the Government of India in this matter will soon take tangible form. It is necessary that greater attention be given to forest administration. Major legislative reform is believed by many to be necessary to correct certain maladjustments that have been undermining the preservation and development of forest wealth.

Development Plans

Development plans for the future should aim at the preservation and extension of the area under forests; the formation of plantations of valuable species that would add to forest resources; and an improvement in the methods of tapping and using forest wealth. The gap between existing forest resources and national requirements is so wide that the development plans to be taken in hand should endeavour to bridge this gap. Annual celebrations like *Vana Mahotsavas* which have been going on for the past few years can only be regarded as touching the mere fringe of this great problem. In conclusion, in planning a forest policy, it is necessary to remember the cardinal fact that forestry makes its claims on land resources, since, without a reasonable proportion of land under forests, climate, rainfall and other environmental conditions will become increasingly adverse for Indian agriculture. The correct apportionment of land between competing uses is the major task of the planning authorities.

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GROWING OPPORTUNITIES FOR INDIAN EXPORTS IN EAST AFRICA

• By R. P. S. VERMA •

BRITISH East Africa comprising Kenya, Tanganyika and Uganda has an area of nearly 679,000 square miles and a population of 20 million—19,500,000 Africans, 300,000 Indians and Goans and the rest Europeans and Arabs. The currency in circulation is the shilling and is divided into 100 cents (£1=20 shillings East African and Rs. 100=67½ shillings E.A.). Agriculture is the main industry and is likely to remain so for many years to come. The major agricultural crops are cotton, coffee and sisal which also constitute over two-thirds of the entire exports. Wheat, maize, barley, oats, tobacco, potatoes, cashewnuts, pyrethrum, sugar, tea and seeds are the other crops worth mentioning. The principal industries are still connected with the primary processing of agricultural crops such as the ginning of cotton, the decortication and preparation of sisal, the curing of coffee, the preparation of tea and the refining of sugar, and so on. The sugar industry is of much importance to East Africa as a whole.

The export trade of British East Africa is highly vulnerable to international factors as coffee, sisal and cotton form the bulk of its exports and the region's trade position depends on the prices of such products in outside markets. She imports mostly manufactured and capital goods and lubricants. In view of the development plans, imports have been increasing at a faster rate than exports and she is having deficit trade balances in recent times. In 1955, a new record at £257 million, or £39 million more than that of last year, was set in her foreign trade, surpassing the previous record of £246 million in 1952. Imports at £149 million, or £32 million over last year, were the highest ever recorded and exports at £108 million, or £6 million more than the 1954 figure, were only lower than the levels attained in 1951 and 1952. The trade deficit reached the peak figure of £41 million which was £25 million more than that of last year.

Of the total British East African imports in 1955, machinery and transport equipment, manufactured goods classified chiefly by materials, mineral fuels, lubricants and related materials and miscellaneous manufactured goods accounted for over 30 percent. The major individual items of imports in order of importance (figures in £ million) were: industrial and commercial machinery (10.6), railway track material and rolling stock (10.2), cotton textiles (9.0), base metals other than iron and steel and their manufactures (8.4), buses, trucks, lorries, vans and chassis (7.3), gas, diesel and other fuel oils (5.4), passenger road vehicles and chassis excluding buses (5.2), electrical and other machinery (5.0), fabrics of synthetic fibre (4.9), corrugated galvanised iron sheets (4.0), motor spirit (3.5), rubber tyres and tubes (3.5), cement excluding clinker (2.9), ingots, plates, joists, girders and other primary forms of iron and steel (2.6), clothing (2.6), and paper and paper board and stationery (2.2). Taking 1950 as 100, the import volume index was 177 in 1955, compared with 148 a year ago, while the export volume index was 143 and 122 respectively.

Diversifying Exports

Of late, the export trade of the region is becoming more diversified as the percentage shares of cotton, sisal and coffee taken together fell from 72 percent in 1952 to 70 percent in the following two years and was 66 percent in 1955. The importance of sisal has declined both in Kenya and Tanganyika, while that of raw cotton has increased. The export of maize from Kenya has also declined. In Uganda, the change has taken place from cotton to coffee. Cotton which occupied the top position in 1952 was replaced by coffee in the subsequent three years in spite of the lower quantity exported. On the basis of 1950 = 100, the export volume index of coffee was lower by 19 percent in 1953 and 24 percent in 1954 compared with 1952, while the unit export value index of the same item rose by 17 percent to 51 percent respectively. In 1955, however, the volume index increased by 45 percent mainly as a result of the larger export especially from Uganda (from 700,000 tons in 1954 to 1,500,000 tons in 1955), while the unit value index was up by only 8 percent over 1952. In the case of cotton, while the quantity exported was nominally [illegible] fall in value unit was noticeable. More severe was the fall in the export unit price index for sisal as, in spite of the increasing quantity exported, the value fell more than half. The other East African exports are maize, wattle bark extract, tea, sodium carbonate, hides and skins, meal and flour of wheat, oilseeds and nuts, pyrethrum, timber, diamonds, beans, peas and pulses, meat and meat preparations, cashewnuts, base metals, animal feeding stuffs, wolfram ore, ivory etcetera.

Trade With Commonwealth

The bulk of the region's foreign trade has been with the Commonwealth countries and other countries in the sterling area due to the historical link. Imports from the dollar area are still restricted. With the liberalisation in import policy, the share of Commonwealth countries both in import and export registered a moderate decline from 65 percent in 1954 to 61 percent in 1955 of the former and from 59 percent to 56 percent of the latter. The U.K. has been the best supplier with 44 percent of the total imports in 1954 and 1955, and the best customer with 31 percent and 28 percent of the export respectively. The share of the U.K. in the export trade fell mainly due to a fall in the exports of cotton by nearly £3 million. India and Western Germany retained their positions of being second and third best suppliers. Imports from the latter increased from £6 million in 1954 to £9 million in 1955 or an increase of 43 percent while that of the former declined by 17 percent from £11 million to £9 million. There was a big increase in imports from Japan (from less than £1 million in 1954 to £6.6 million in 1955) and nearly £4 million of this increase was in textiles, corrugated iron and miscellaneous articles by Tanganyika. The other major sources of imports in order of importance were Belgium, Bahrein Islands, France, the U.S.A., South Africa and Italy.

With the exception of India, all the countries mentioned above along with Aden and the Netherlands made increased exports to East Africa in 1955 as compared with 1954. India maintained her second position in the offtake of East African exports which increased by £3 million to £16 million mainly due to an increased offtake of cotton by £2 million over the previous year, while Western Germany reduced her offtake nominally and yielded her third position to the U.S.A. which increased her offtake by over £3 million. Other important destinations for exports were the Netherlands, South Africa, Belgium, Japan and Australia. The following statistics show the change in the positions of the major partners in East Africa's foreign trade in 1955, compared with 1954:

Figures in £ Millions.

Countries	Imports Into			Exports From		
			Change in 1955 over 1954			Change in 1955 over 1954
	1954	1955		1954	1955	
U.K.	52.0	65.0	+ 13.0	29.9	29.3	− 0.6
India	10.9	9.3	− 1.6	12.8	15.6	+ 2.8
W. Germany	5.8	8.4	+ 2.6	11.0	10.7	− 0.3
Japan	0.9	6.6	+ 5.7	1.9	2.5	+ 0.6
Belgium	3.6	5.6	+ 2.0	1.7	3.0	+ 1.3
U.S.A.	3.5	4.9	+ 1.4	9.5	12.5	+ 3.0
South Africa	4.0	4.7	+ 0.7	3.6	3.1	− 0.5
Italy	3.8	3.9	+ 0.1	4.4	5.2	+ 0.8

Trade relations betwee India and British East African countries (Kenya, Uganda, Tanganyika and Zanzibar and Pemba) are very old indeed, and are of much importance. Nearly 70 to 80 percent of the foreign trade and the bulk of the wholesale and retail trade continues to be handled by the Indians residing in these territories. The persistent deficit trade balance against India, jute and cotton manufactures dominating exports and raw cotton predominating imports, and the bulk of the trade with Kenya alone are some of the striking characteristics of Indo-East African trade since the prewar years. Just before the war, the volume of trade between India and these countries averaged nearly Rs. 6 crores a year, imports alone being Rs. 5 crores. Out of a total import of Rs. 5.49 lakhs in 1938-39, import of raw cotton amounted to Rs. 5.04 lakhs (60,000 tons). The second most important item was cloves valued at Rs. 21 lakhs (37,000 tons), followed at a considerable distance by unmanufactured ivory, sodium carbonate, potatoes and gums and resins of nearly Rs. 5 lakhs each in the same year. On the export side, jute manufactures (Rs. 20 lakhs), grain, pulses and flour (Rs. 15 lakhs) and cotton manufactures (Rs. 13 lakhs) together accounted for nearly 60 percent of the entire exports. India also exported hardware and cutlery, instruments and apparatus, leather and spices worth more than Rs. 1 lakh each.

During the war years, with the exception of the first two years, both imports from and exports to East Africa increased and the total trade stood at Rs. 19 crores during 1945-46, of which nearly Rs. 12 crores were imports consisting of Rs. 10 crores worth of raw cotton (45,000 tons) and nearly Rs. 1 crore worth of cloves (137,000 cwts.), although other items, namely, sodium carbonate, potatoes, cashew kernels, dyeing and tanning substances, metals, grain, pulses and flour and raw hemp were also imported. Thus, India from an exporter of grain, pulses and flour to East Africa during prewar years became an importer of these items from this source, consequent upon the deterioration in India's internal food supply. The import of potatoes declined. Out of the approximate exports of Rs. 7 crores, exports of cotton textiles amounted to Rs. 5 crores as a result of the disappearance of Japan from the market and the lack of supply from other major supplying countries. Exports of jute manufactures were over Rs. 53 lakhs. Besides, India also exported new items (over Rs. 1 lakh) such as apparel, building and engineering goods, coir manufactures, glass and glassware, provisions and oilman's stores, tobacco, boots and shoes.

Decline in Trade

In the immediate postwar period, 1946-47 and 1947-48, India's total trade with British East Africa declined and stood at Rs. 16 crores; out of which imports amounted to Rs. 11 crores consisting of raw cotton worth Rs. 8 crores (35,000 tons), sodium carbonate (Rs. 78 lakhs), grain, pulses and flour (Rs. 59 lakhs), cloves (Rs. 39 lakhs), raw hemp (Rs. 30 lakhs) and dyeing and tanning substances (Rs. 28 lakhs). Besides, unmanufactured ivory, raw hides and skins, gums and resins, cashewnut and metals (over Rs. 1 lakh each) were also imported. With the partition of India which resulted in the shortage of long-staple cotton, imports from this region increased by nearly Rs. 3 crores to Rs. 5 crores in 1948-49 and 1949-50, outstripping the increased exports. The adverse trade balance increased from Rs. 6 crores (the recorded figure since prewar) to Rs. 13 crores in 1949-50 and the volume of trade stood at Rs. 31 crores (Rs. 22 crores being imports).

During 1950-51 and 1951-52, imports from and exports to this region recorded moderate increases. On an average, the volume of trade stood at Rs. 36 crores (imports being Rs. 24 crores) and the trade deficit remained at Rs. 13 crores. In 1953-54, however, the volume of trade shrank to Rs. 31 crores, mainly as a result of a fall in imports by Rs. 4 crores to Rs. 20 crores. Consequently, the adverse trade balance stood at Rs. 9 crores. In the follow-

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ing year, however, both imports from and exports to this territory recovered and total trade amounted to Rs. 35 crores (imports Rs. 23 crores) and there was a rise of Rs. 1 crore to Rs. 10 crores in the adverse trade balance of India. In 1955-56, however, imports reached a new record figure of Rs. 27 crores, while exports actually fell by Rs. 1 crore to Rs. 12 crores, making the total trade at Rs. 38 crores. Thus the adverse trade balance stood at Rs. 15 crores—the highest so far achieved in Indo-East African trade.

In recent years also, the composition of trade between India and the territory has not changed materially. Raw cotton remains the principal item of import while cotton manufactures and jute manufactures continue to dominate the exports.

It is gratifying to note that the Indo-East African trade is becoming more diversified. The percentage share of the major items entering Indo-East African trade has shown a declining trend. The share of raw cotton, in spite of the increased quantity imported, fell from 83 percent in 1952-53 to 70 percent in 1955-56 and those for cotton manufactures and jute manufactures fell from 73 percent to 64 percent during the same period as shown below :

INDO-EAST AFRICAN TRADE

(Value in Crores of Rupees)

	Imports				Exports			
	Quantity ('000 tons)	Value	Total including others	Percentage of raw cotton in total imports	Cotton	Jute	Total including others	Percentage of cotton and jute in total exports
April-March								
1952-53 ...	32	20	24	83	7	1	11	73
1953-54 ...	36	15	20	75	6	1	11	64
1954-55 ...	40	17	23	74	6	3	12	75
1955-56 ...	44	19	27	70	5	2	11	64

Besides raw cotton, India, during 1955-56, imported cloves and cashewnuts (Rs. 1.41 lakhs each), sodium carbonate (Rs. 1.02 lakhs), dyeing and tanning substances (Rs. 79 lakhs), raw hemp (Rs. 31 lakhs), gums and resins (Rs. 29 lakhs), unmanufactured ivory (Rs. 19 lakhs), hides and skins (Rs. 3 lakhs) and metals (Rs. 1 lakh). Imports of metals (Rs. 16 lakhs in 1952-53 and Rs. 12 lakhs in 1954-55) declined. Instead of being an importer of grain, pulses and flour (Rs. 19 lakhs) in 1947-48, India with a comfortable supply position, became an exporter of these commodities in 1955-56 valued at Rs. 9 lakhs. Imports of sodium carbonate, unmanufactured ivory, dyeing and tanning substances have lagged behind in recent years. The import of potatoes which were quite large in the prewar years have totally stopped in last few years. The imports, however, of cloves, gums and resins and, to some extent, of cashewnuts and raw hemp show a rising trend. Similarly, in addition to the traditional items of India's exports, she has in the recent past exported a large variety of manufactured goods; to mention only a few; items which have been exported (above Rs. 1 lakh), haberdashery and millinery (Rs. 1.03 lakhs in 1953-54), apparel (Rs. 44 lakhs in 1953-54), books, and publications (Rs. 3 lakhs in 1953-54), chemicals, drugs and medicines (Rs. 5 lakhs in 1955-56), hardware, cutlery and instruments (Rs. 24 lakhs in 1955-56), dyes and colours (Rs. 1 lakh), electrical goods and apparatus (Rs. 5 lakhs in 1955-56), furniture and cabinetware of wood and timber (Rs. 3 lakhs in 1955-56), hides and skins tanned or dressed or leather (Rs. 9 lakhs in 1953-54), machinery (Rs. 8 lakhs in 1955-56), metals (Rs. 12 lakhs out of which iron and steel manufactures amounted to Rs. 9 lakhs in 1955-56), paper, pasteboard and stationery (Rs. 2 lakhs in 1955-56), vehicles (Rs. 1 lakh), woollen manufactures (Rs. 3 lakhs in 1953-54) and glass and glassware (Rs. 1 lakh in 1955-56). It may, however, be pointed out that the exports of haberdashery and millinery, apparel and leather were lower in recent years while those of hardware, cutlery, instruments and implements, chemicals, drugs and medicines, electrical goods and apparatus, machinery, iron and steel manufactures, paper and paste-board moved up—a sign of India's rapid industrialisation and her capacity to increase exports of such goods at a competitive price. East Africa has also imported soap, perfumery and cosmetics, imitation jewellery, household utensils, hurricane lanterns, sewing machines, footwear, candles, and umbrellas from India.

Expansion Prospects

Although the economic development of British East Africa may affect, in the future, the market for certain Indian imported goods, she will for many years remain dependent upon foreign sources for the supply of the bulk of her requirements of manufactured goods of all descriptions. Great opportunities, therefore, exist for Indian manufacturers and exporters who can provide attractive well-made goods at competitive prices. Quality, finish and low price are the important factors in meeting all classes of demand, and it is in these that India has to maintain her reputation. At present, India does not meet all the tests, particularly that of quality, so the local people show a nostalgic longing for Japanese goods. It will, therefore, behove Indian manufacturers not only to maintain but to improve to the highest standards of quality and finish at a cheap price. Indian manufacturers would also be well advised to keep in mind the usual complaints of bad packing, defective standard length of piece, unpopular colours, lack of uniformity, delay in deliveries, negligence about small orders and not conforming to the samples supplied, besides many others. Such complaints, in reality, do much harm to trade. Since India is increasing her exports of manufactured items, it is all the more necessary for her to conduct a vigorous publicity drive and expert canvassing for such items.

The share of this region in India's total trade during 1955-56 was nearly 3 percent; 4 percent in imports and nearly 2 percent in exports. Although India retained her second position both in British East African imports and exports, her percentage share in the former declined from nearly 10 percent in 1954 to 6 percent in 1955, while in the latter, it rose from 14 percent to 15 percent. The following lines may prove useful for promoting the export of certain items.

Textiles

Cotton textiles continue to be the leading item of India's export trade with this region. Japan has entered these markets since 1955. There has been a decline in the value of total imports in 1955, while some others increased their exports to these countries. Imports from India into this region fell from Rs. 7 crores in 1954-55 to Rs. 5 crores in the following year. India, however, maintained her first position as a supplier of cotton textiles. The total fall in imports of cotton piecegoods by nearly £2.1 million was due to lower imports—from India by £1.5 million and from the U.K. by £0.4 million, whereas from Japan, they rose from £0.3 million to £1.5 million during the same period. Imports from Japan increased mainly in printed Khangas and India is not a major supplier of this item. India's competitive position in the major varieties of cotton piecegoods imports *vis-à-vis* Japan and the U.K. along with other major competing countries during 1954 and 1955, has not perceptibly increased.

In other cotton manufactures, a big drop of £24,000 from India in ready-made shirts was registered in 1955. This fall was, however, in conformity with the overall drop in the imports of shirts from £1.4 million in 1954 to £0.9 million in 1955, as a result of the reimposition of import duty in 1955. Import duties were also imposed on cotton blankets, cardigans, jerseys and pullovers, socks and stockings and khaki drill. In the increased total of imports of cotton blankets and travelling rugs in 1955, those from India and Italy —two major sources—fell while those from Holland increased. Exports of this item from India can be pushed up. India supplied nearly 11 percent of the total "absorbent cotton and wadding" imports. This can be increased considerably if in quality and price India can compete with the U.K. which supplies the bulk of the requirements. India supplied almost the entire imports of cotton yarn and thread grey (unbleached) not mercerised. Her share in the imports of cotton yarn and thread bleached, dyed or mercerised was negligible; there seems to be good scope for further increasing the exports of these, provided the supply position permits and Indian varieties are competitive with those from the U.K. India continues to hold more

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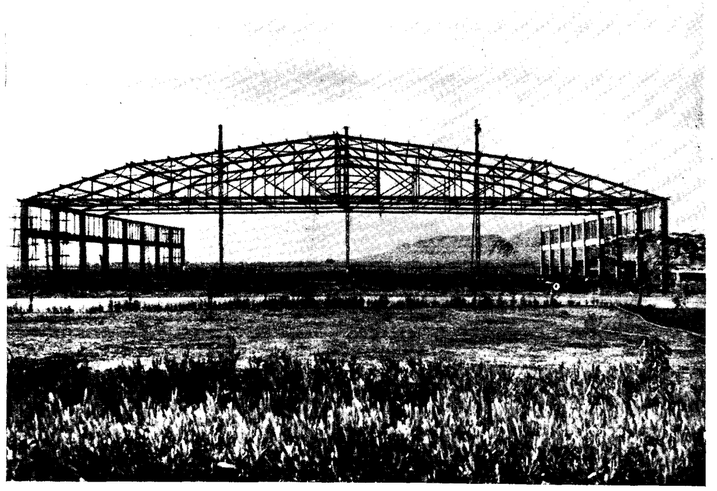
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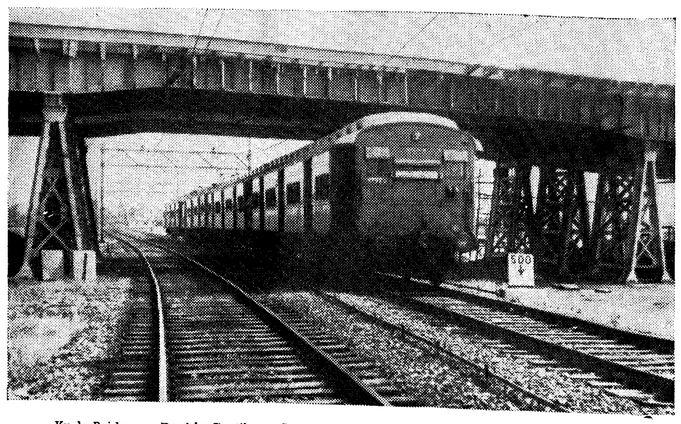
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or less a semi-monopolistic position in the supply of bed linen, table linen, toilet linen, etcetera. Endeavour should be made towards consolidation. The export of tarpaulins, tents and others made of canvas goods, needs to be pushed.

Jute manufactures are the second most important item in India's exports to East Africa. In 1953 and 1954, India supplied almost the entire quantity of jute bags; the U.K. was a nominal supplier. In 1955, India supplied such goods worth £1.8 million in the total imports of £1.9 million. Pakistan supplies were worth £62,000. India has to guard against two contingencies, bags made of domestic sisal, especially in view of the heavy fall in sisal prices and the intensification of Pakistan's effort to increase her jute goods exports. As such, this market needs to be carefully studied from time to time. It is, however, gratifying to note that the import of this item has increased from £0.5 million in 1953 to £1.8 million in 1954 and £1.9 million in 1955, and it is hoped that with the economic development specially in the agricultural field, the demand for bags is likely to increase. India should try to improve her position by toning up quality. In jute sackings, twine and jute fabrics, bagging in piece, India has a monopolist hold in these markets up till now.

Woollen Goods

There are wide possibilities of increasing India's exports of woollen blankets and travelling rugs. India's share in 1955 was almost nil in the total imports of £546,000 of which the U.K. was responsible for £205,000 and Italy for £338,000. In the imports of carpets and floor rugs of wool and fine hair, India supplied over one-fifth of East African requirements. The U.K. still offers competition along with Pakistan and Iran. In spite of a total increase by £0.2 million to £4.9 million in 1955 in the import of synthetic fibre fabrics, including art silk, India's share was negligible. Japan with £2.1 million was the major supplier. Italy, the U.K., Hongkong and Holland were the other important sources for her supply. This particular field offers the best line for India's exports to develop. The U.K. which supplied nearly half the requirements of cordage, cables and ropes other than sisal and cotton in 1955, offers a stiff competition to India. India continues to hold its monopolistic position in the supply of blankets and travelling rugs made of substances other than cotton and wool. India is also a major supplier of leather and machine leather belting, other suppliers being the U.K. and Sweden. There is also a good market for rubber tyres and tubes for cycles, etcetera. In 1955, an import duty has been imposed on these items. Of the other miscellaneous articles, *viz.*, hand-bags, mosquito nets, canvas and oil cloth, wallets, purses, etcetera, stocking and hose, vests and singlets, shirts of knitted fabrics, underwear and night wear, shirts, hats and caps, and handkerchief, ties, shawls, exports need to be pushed up to a large extent of which India at present is a minor supplier. India has to face competition primarily from Hongkong and to a lesser extent from Japan, Germany, Holland and Italy. India is also a major supplier of cardigans, jerseys, pullovers, and here again, she has to compete with the U.K., Hongkong and Japan.

India was the major supplier, closely followed by Malaya, of slippers and house footwear (not rubber) while her share in other varieties was negligible. Mention may, however, be made that Holland, the U.K. and Hongkong are the major competitors in leather footwear; Malaya, Hongkong and Czechoslovakia in textile footwear and Malaya, Hongkong and the U.K. in rubber footwear in these markets. The Indian prices of such goods are quite competitive, and with a vigorous publicity campaign and expert canvassing, exports can be stepped up.

In the group of food, drink and tobacco, India holds a monopoly or is the largest single supplier in betelnuts, beans, peas, lentils and other pulses, preserved vegetables (not in airtight containers), jaggery, and spices. Exports, however, can further be promoted in fish (salted, dried or smoked) prepared breakfast food, miscellaneous dried fruits, preserved vegetables in airtight containers, sugar confectionary, onions, garlic, tea, pepper and pimento, miscellaneous food preparations and unmanufactured tobacco. Aden is a major competitor in the supply of fish, Ceylon in tea, Malaya in pepper and pimento, and the U.S.A. and Rhodesia in unmanufactured tobacco. In 1955, an import duty has been imposed on unmanufactured tobacco.

Iron and Steel Goods

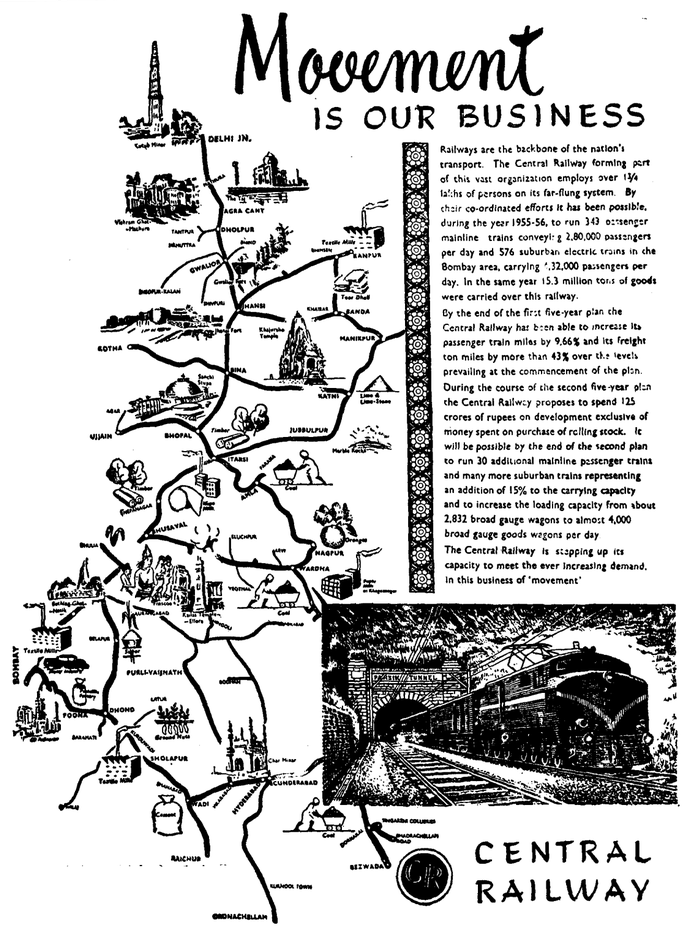
In the group of oils, India is already an important source for kerosene oil, linseed oil, castor oil and other oils from seeds, and nuts. Exports, however, of motor spirit and hydrogenated oils and fats can further be raised; Middle East countries in the former and Holland in the latter at present supply the bulk of the requirements. India's share in the imports of iron and steel manufactures is at present, no doubt, negligible. Exports from India of iron and steel manufactures increased from Rs. 6 lakhs in 1954-55 to Rs. 9 lakhs in the following year. The countries offer a potential market for the future when India will be in a position to export increasing quantities of such manufactures. The main varieties of imports at present are, joists, girders, angles, bars, pipes and fittings, iron castings and forgings, bolts, nuts, rivets, artisan tools, and implements, and household utensils of iron and steel. The main sources of supply are the U.K., Western Germany, Belgium, Hongkong and South Africa. It is, however, gratifying to note that India has figured in imports of each of the varieties and as such, the markets are already familiar with her products.

The same is true of other metal manufactures such as aluminium household utensils, table and kitchen knives, forks, spoons, hardware, locks, safety bolts, fittings for doors and windows, stoves and furnaces, earthpans, miscellaneous metal manufactures, skins, wash-basins and sanitary fittings of metals, metal furniture and fixtures. The U.K. and Western Germany supply a large part of the East African requirements. India, however, remains almost the sole supplier of household utensils of copper, brass and bronze. East Africa has imported from India nominal quantities of machine tools, printing and book binding machinery, cotton ginning machinery, meal and flour making machinery, machine parts and accessories, and there is every possibility that with the economic development of this area, demand for such goods will appreciably expand and India's industrialisation under the second five year plan is likely to help in increasing the export of machinery to these countries. The U.K. and Western Germany generally dominate the markets.

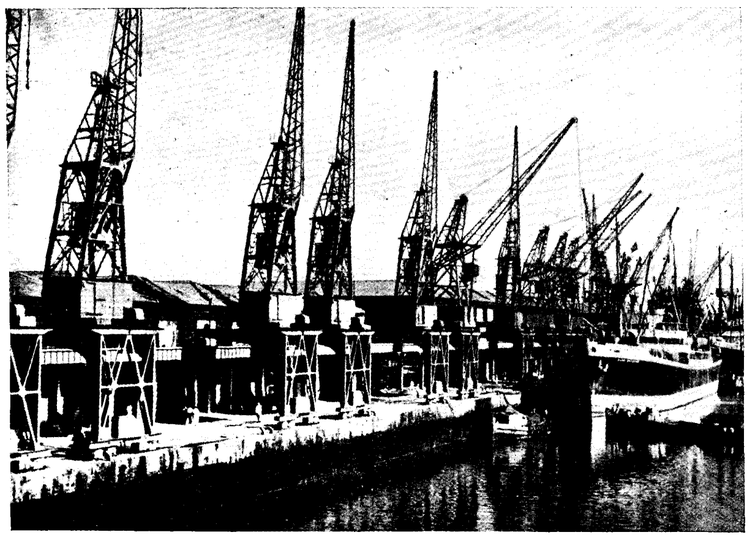
Possibilities of increasing the exports of cycles, weighing machines and balances, electrical machinery, and machinery for working metals, wood and glass exist in these markets. The present offers the best opportunity to increase the exports of sewing machines, vegetable oil extracting machinery, hurricane lanterns, accumulators, appliances for cycles, motors, vehicles, electrical lamps, bulbs, tubes for lighting, light fixtures and fittings. The U.K. and Western Germany have monopolised the market for sewing machines, while Hongkong is a major supplier of hurricane lanterns. India can export more of paints and colours, drugs and medicines, flavouring essences, dentifrices, perfumery, cosmetics, toilet soap, glass bottles, flasks and stoppers, imitation jewellery, measuring, controlling and scientific instruments, gramophone parts, musical instruments, printed material, plastic articles, brooms and brushes (not for painting), sports goods, toys and fountain pens and propelling pencils. India at present is only a minor supplier of these items. The major suppliers generally of such articles are the U.K., Western Germany, Japan, Hongkong and South Africa. India is either holding a monopoly or is a major supplier of books and publications, candles, tapers and other articles of inflammable material, umbrellas, fancy carved articles, tiles, coir mattings, snuffs, handloom piecegoods, picture frames and cinematographic films, besides a few others.

Food Exports

Not only do the possibilities of increasing exports exist in these markets, there is also a wide scope for increasing imports from these territories. With the agricultural development in the region, surpluses in her main export items will increase, while the implementation of India's second five year plan will necessitate increased imports of such items. In 1955, India took as much as 57 percent of East African raw cotton exports. India took practically the whole of East African cashewnut exports, wattle bark, and gums (arabic). Almost the entire Indian imports of wattle bark extracts came from this source, which constituted about one-fourth of East African exports. India's imports of cloves also came entirely from this source. India took more than one-third of the soda ash exports in 1955, which met the country's total import requirements. She took more than one-fourth of the ivory exports, that is more than one-third of India's total imports of these goods. India's share in the East African exports of hides and skins was negligible. East Africa supplied nearly 20 percent of gums and resins, 63 percent of raw hemp, 6 percent of seeds and only a fraction of fruits and vegetables of India's imports in these lines. Besides, there are possibilities of increasing the exports of diamonds, maize, and animal feeding stuffs to India.



CRANES FOR INDIA'S PORTS

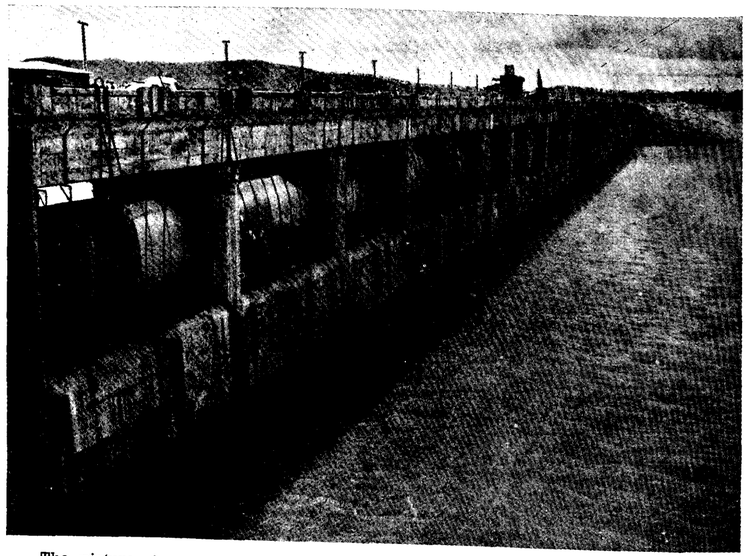


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TRENDS IN INDIAN PUBLIC EXPENDITURE

• By PROFESSOR V. G. RAMAKRISHNA AIYAR •

TO attempt to analyse the growth and distribution of public expenditure in the Indian Union at the present time is to face great difficulties. The lack of continuity between the periods before and after 1947 adds to the analyst's problem, complicated as it is by all sorts of abnormal and largely unforeseeable expenses, such as the cost of separating the administration consequent on Partition, the large and unexpected expenditure on the refugees and other displaced persons, and the cost of mergers of the princely States with the Indian Union.

With independence, there has been a change of policy. Independence has led to an expansion of the social services in line with those in western countries, and to the development of natural resources at a rate much faster than anything attempted previously. It is perhaps too early to form a real picture of the true trends of public expenditure. The costs of partition were mainly temporary, but it would be several years before the refugees are successfully rehabilitated into the economy. Moreover, the period which has elapsed since independence is too short to give anything but the roughest result.

The way the expenditure figures are presented in the Indian budgets does not make the task of analysis easier. For, the general Budget expenditure is classed under more than 90 heads, based on the demands for grants, to which however they do not entirely correspond. A further difficulty is that items which appear on both sides of the Budget are shown gross on each side (for instance, the opium monopoly or the somewhat mysterious head "forest"); these must be netted as seems most appropriate in each case before a true account of expenditure can be obtained. The estimates as presented in the Budget are accompanied by short explanatory notes, but these provide an inadequate guide to the content of the various demands or even to the explanation of discrepancies between the Budget and revised estimates. The administrative expenses of a ministry and the cost of the services which it administers are shown separately, but there is no indication of the allocation of costs between the two. Detailed figures for State expenditure have to be collected from individual State budgets. No comparison or abstract of State Budgets is published, but a useful summary of State finances is to be found in the *Annual Reports on Currency and Finance* of the Reserve Bank of India. In time, the Office of the Auditor-General carries out a thorough audit of State as well as of Union expenditures, but little help can be obtained from this source.

Bearing on Fiscal Policy

The character and distribution of public expenditure have an important bearing on fiscal policy at the present time, as both the Central and State Governments in India are spending large sums of money in the implementation of five year plans. It is necessary to see that the moneys are spent for promoting the country's welfare and development. As India is now passing through a phase of intensive development, with targets fixed in terms of expenditure, there is the need for utmost restraint on the growth of non-development expenditure and for economy and avoidance of waste.

The general principle of public expenditure is that it should aim at securing the maximum social advantage. In India where the Constitution is of a federal type, the maximisation of benefit to the community is obtained when Central expenditure is complementary and supplementary to the schemes of State expenditure, i.e., it removes the disparity between States *inter se* and it increases the social benefit by increasing expenditure on functions other than those performed by the States. The concept of a welfare State means higher expenditures on social services which have now been organised in India on a State basis. The disparities between different States are being removed by a system of grants.

An integrated picture of India's public expenditures as well as public revenues on a comparable basis it has been possible to draw only since 1950-51 with the complete financial integration of part B States, the working of the new Constitution, and the beginning of the first five year plan. All the same, it would be useful to survey the changes in the character of public expenditure in India during the last few decades.

The following table shows the expenditure on revenue account of the Central Government and nine (Part A) States/Provinces in selected years during the period since 1921-22.

Table 1

(EXPENDITURE ON REVENUE ACCOUNT OF CENTRAL AND STATE GOVERNMENTS IN SELECTED YEARS SINCE 1921-22.)

Crores of rupees.

	1921-22	1936-37	1938-39	1950-51	1953-54	1954-55
Centre	109.93	80.92	82.03	335.87	388.78	418.35
Provinces or Part A States	70.12	76.69	80.53	293.08	380.54	400.89
Part B States	...	...	...	91.53	115.85	127.65

During the period 1921-22 to 1936-37, when the Government of India Act (1919) was in force, the contraction in Central expenditure stood in contrast to the moderate expansion of provincial public expenditure. During the war and early postwar period (1939-40 to 1950-51), both Central and provincial expenditures expanded rapidly, by about four times. During the last few years there has been a larger expansion in the expenditure of State Governments than of the Central Government, and this is due largely to the transfer by the Centre of a good part of its revenues to the resources of the States.

The following table shows the broad trends in the composition of public expenditure of the Central and State Governments during the same period, i.e., since 1921-22.

Table 2

EXPENDITURE OF THE CENTRE ON REVENUE ACCOUNT.

Crores of Rupees.

	1921-22	**1936-37**	**1938-39**	**1950-51**	**1953-54**
Non-development	104.03	74.94	76.02	295.02	331.78
Social Services	2.31	1.74	1.62	14.62	21.21
Economic Development	3.59	4.23	4.39	26.23	35.79
Total*	109.93	80.91	82.03	335.87	388.78
Of which Debt services	16.12	12.64	14.19	37.37	38.85
Defence	69.81	45.45	46.18	164.14	199.69

* Excludes the main grants to Provinces/States.

EXPENDITURE OF PROVINCES/STATE GOVERNMENTS ON REVENUE ACCOUNT.

Crores of Rupees.

	1921-22	**1936-37**	**1938-39**	**1950-51**		**1953-54 (R.E.)**	
				Part A States	**Part B States**	**Part A States**	**Part B States**
Non-development	42.09	47.43	49.25	144.59	48.39	188.68	52.43
Social Services	12.00	16.40	17.27	73.85	23.99	92.70	28.12
Economic Development	16.03	12.86	14.01	74.64	19.15	99.16	35.30
Total	7012	76.69	80.53	293.08	91.53	380.54	115.85
Of which Debt services	3.65	7.55	6.56	9.34	4.83	15.42	6.90
Police	10.34	9.94	10.12	40.12	11.93	40.60	12.03

It may be noted that during 1921-22 to 1936-37, there was a marked reduction in the Central expenditures mostly on account of the decline in defence expenditure; there was also some increase in provincial expenditure *mainly* on account of debt services.

On the other hand, during the period, 1938-39 to 1953-54, the changeover from unproductive to productive expenditure is significant, both by the Central Government as well as the States. Thus, expenditure on defence has dropped from 54 percent in 1938-39 to 48 percent in 1953-54. Expenditure on debt services has fallen from 17 percent in 1938-39 to 9 percent in 1953-54 while the expenditure on social services and on development services has risen from 2 percent and 5 percent in 1938-39 to 5 percent and 9 percent respectively in 1953-54. At the same time, grants-in-aid to States for developmental purposes have gone up from 4 percent in 1938-39 to 6 percent in 1953-54. In fact, productive expenditure as a whole, including that on social services, development services and grants-in-aid to the States, has gone up from 11 percent in 1938-39 to 20 percent in 1953-54, thus showing the change that has taken place in the character and composition of Central Government expenditure in the Indian economy.

In the States, non-development expenditure (excluding debt services) fell from 53 percent in 1938-39 to 45.5 percent in 1953-54. Expenditure on social services increased from 21.5 percent in 1938-39 to 24 percent in 1953-54, while that on development services increased from 17 percent in 1938-39 to 26 percent in 1953-54. In fact, development expenditure as a whole, including that on social services and the major part of grants-in-aid to local bodies, has increased from 39 percent in 1938-39 to 50 percent in 1953-54, indicating thereby the importance of the change that has occurred in the nature and composition of public expenditure of Part A States.

Distribution of Expenditure

A broad picture of the current public expenditure of all Governments in India for the year 1953-54, may be taken for purposes of illustration. Table 3 below shows how a rupee of the total revenue expenditure of all Governments was spent.

Table 3

EXPENDITURE OF ALL GOVERNMENTS ON REVENU ACCOUNT (1953-54.)

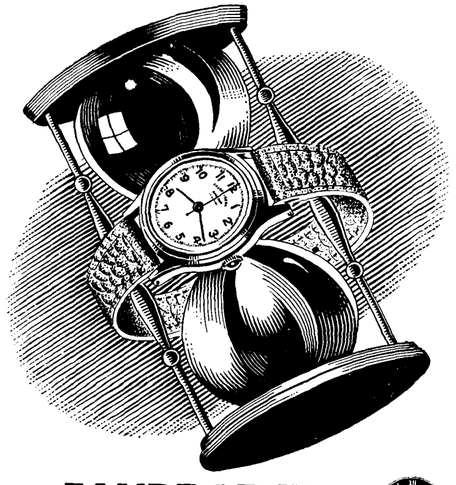
	Rs.	a.	p.
1. Non-Development.			
Direct Demands on Revenue ...	0	0	9
Interest on Debt and other obligations ...	0	0	10
Debt Retirement	0	0	3
National Defence (Net) ...	0	3	5
General Government :			
External Affairs	0	0	1
General Administration ...	0	1	0
Administration of Justice ...	0	0	2
Jails and Convict Settlements	0	0	2
Police	0	1	0
Others	0	0	1
Miscellaneous	0	1	2
Sub-total Group I ...	0	9	0
II. Social Services.			
Education	0	1	1
Public Health	0	0	2
Others	0	0	1
Sub-total Group II ...	0	3	3

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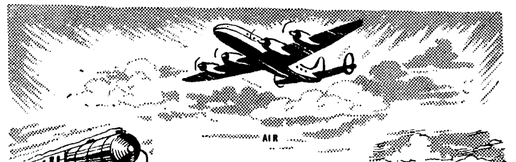
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III. Economic Development			
Agriculture	0	0	6
Veterinary	0	0	1
Co-operative	0	0	1
Community Development Projects	0	0	2
Irrigation and Forests ...	0	0	5
Industries and Supplies ...	0	0	5
Civil Works	0	1	5
Others	0	0	2
Sub-total Group III ...	0	3	4

It will be seen that about 60 percent was incurred on non-development functions, namely defence, administrative items, debt services and collection charges; less than 20 percent on social services and 21 percent on economic development. National defence alone is responsible for a little over one-fifth of the total expenditure and general administration came second with 19.5 percent. Of the expenditure on social services, education accounted for 8.8 percent followed by medical and public health. Of the outlay on development services, a substantial part went to civil works (roads, bridges and buildings) followed by agriculture and forests and industries and supplies. The expenditure on police exceeded that on any single item in the social services and economic development categories, except education and civil works. In fact, in the pattern of public expenditure of the States, police and jails (about Rs. 62 crores) formed 12 percent of the total expenditure of all States, and figures as the largest item of their expenditure; education accounted for 11.5 percent, civil works 9.9 percent, agriculture and veterinary for 5.7 percent. Agriculture, co-operation and veterinary were comparatively small heads accounting for only Rs. 38 crores in a total revenue expenditure of Rs. 927 crores.

So far, the State Governments have been treated as a whole, and it would be instructive to consider separately the details of public expenditure in Part A, B, and C States. The following table gives the *per capita* expenditure in 1953-54.

	Part A States Rs. a. p.	Part B States Rs. a. p.	Part C States Rs. a. p.
Non-Development ...	6 12 4	7 11 2	8 9 5
Social Services ...	3 5 2	4 2 0	7 3 7
Economic Development	3 8 10	5 2 11	7 13 5
Total ...	13 10 4	17 0 1	23 10 5

Per Capita Expenditure in States

Total *per capita* expenditure is higher in Part B States than in Part A States and is the highest in Part C States and the disparity in expenditure is to be explained partly in terms of population density. There are also marked differences in *per capita* expenditure among individual Part A and B States. Mysore has the highest *per capita* expenditure with Rs. 24-3-6, followed by Saurashtra, P.E.P.S.U., West Bengal and Bombay. The lowest in the scale are Bihar (Rs. 8-12-9) and Orissa (Rs. 10-0-9). On non-development heads, the largest proportion of expenditure, i.e., between 55 to 60 percent was incurred in Uttar Pradesh, the Punjab and Hyderabad. On social services, Bombay and Mysore show the highest, Rs. 5-12-8 and Rs. 5-8-5 respectively, while Bihar and Orissa have a low figure of Rs. 1-15-8 and Rs. 21-8, respectively. Education took the first place in as many as 10 Part A and Part B States except in the Punjab, Rajasthan, West Bengal, Assam, P.E.P.S.U., Orissa and Saurashtra, and in the last four, civil works account for large expenditures because of the urgent need for communication facilities. West Bengal spent relatively more on medical and health services (10 percent) than any other State, compared with 5 to 6 percent spent in Madras, Uttar Pradesh and Madhya Pradesh.

Capital Expenditure

Expenditures on capital account have assumed great importance with the development programmes of five year plans. The total capital expenditure in 1938-39 was Rs. 13.4 crores only of which the share of the Central Government was Rs. 9 crores, mostly incurred on the railways and Posts and Telegraphs, and the remaining Rs. 4 crores represented the share of the provinces, mainly under irrigation, electricity schemes and civil works. In 1945-46, defence was the main item, with over Rs. 35 crores out of a total of a little over Rs. 39 crores. It is obvious that the small size of capital outlay and its distribution in prewar and war years are indicative of the restricted rôle of the Government in economic development in those years. In 1950-51, the Central Government and States together spent over Rs. 166 crores on capital account and in 1951-52, the figure was Rs. 243 crores. In 1954-55, the total capital outlay was placed at about Rs. 320 crores. In the first three years of the plan, total capital expenditure was of the order of Rs. 657 crores, of which Rs. 503 crores, i.e., about 71 percent was spent on development schemes. Out of the Rs. 503 crores representing development outlay in 1953-54, the share of the States was Rs. 357 crores and of the Centre Rs. 164 crores, a large portion of the expenditure on State schemes being financed from Central loans. During the three years 1951-52 to 1953-54, Central loans and advances to States totalled Rs. 271 crores.

The combined expenditure (on revenue and capital accounts) of the Central Government, the States and local authorities amounted to Rs. 1,170 crores in 1953-54 and formed 11 percent of the national income. So far, the extent to which Indian public expenditure brings about a reduction in economic inequalities has been modest, partly because of the fact that the total volume of public expenditure forms a small proportion of the total national income and also because of the fact that the expenditure on social services and welfare or subsidies by way of transfers to the lower income groups has been of little significance. Apart from food subsidies and the expenditure connected with relief and rehabilitation of displaced persons, industrial housing and the amelioration of scheduled and backward classes, there are hardly any other directly redistributive expenditures of importance in the Indian budget.

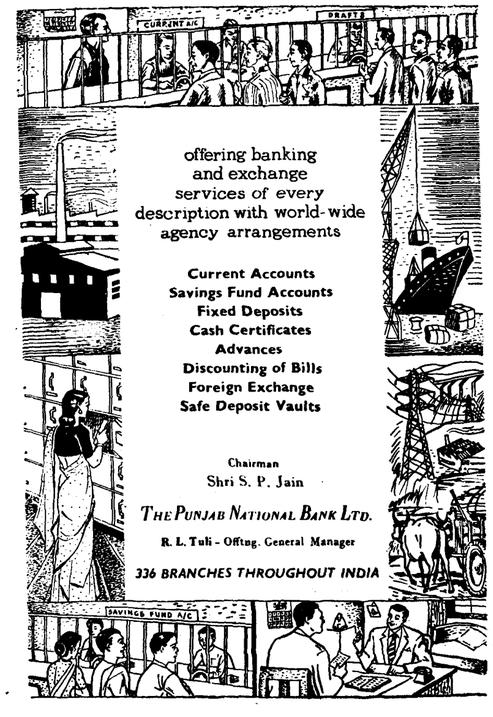
Redistributive Measures

The re-distributive process takes place both directly through the redistribution of Central expenditure regionally and indirectly through the division of shared taxes on the basis of population and by way of larger grants-in-aid to the more backward or financially weaker States. As a matter of fact, the large proportion of total public revenues raised and spent by the Union Government is a good measure of the redistributive process, because Central revenues are raised under uniform tax laws without regard to their higher tax incidence on larger regional incomes, and the distribution of Central expenditure is always determined in terms of broad national requirements. For example, the multipurpose river valley projects, which will raise the productive capacity and income levels of comparatively backward areas, are being financed out of Central resources which are to a large extent raised by taxation and borrowing from the more prosperous parts and affluent sections of the community. Similarly, grants-in-aid to "backward States" and the importance given to the population basis in the scheme of distribution of divisible revenues also have a redistributive effect.

The redistributive aspect of Indian public expenditure in recent years operates not only on the national plane in lessening inter-State disparities of resources, but also within the States themselves by reducing the disparities between the resources and needs of rural and urban areas. This fact is brought out in a striking manner in the Finance Commission's Report which gives a statement showing the collections and expenditure respectively in the three cities of Bombay, Calcutta and Madras showing the large contributions of these cities to the tax resources of their respective States, and thereby indicating the manner in which redistribution is taking place at the State level. This process of redistribution is being transmitted by the State Governments to their local bodies in the form of grants-in-aid. Finally, the increasing rôle which is being assigned to expenditure on social services serves to diminish the unpopularity of the tax system, while the increasing importance given to developmental expenditure will tend, in the long run, to increase the taxable capacity of the people. The character of Indian public expenditure in recent years also tends to bring about a moderate reduction in inequalities in both the economic and social life. It must, however, be pointed out the redistributive effect of the Indian fiscal operations can be substantial, only with an increase in the ratios of public revenues and expenditure to the national income.

Huge Defence Expenditure

An examination of the main heads of Union expenditure shows that the most conspicuous aspect of annual expenditures is the large percentage assigned to defence. This is nearly half the Central expenditure, but it should be emphasised that, taking the States into account, it does not amount to more than 25 percent to 29 percent of the total public outlay. Certain considerations, however, have to be mentioned in explaining this apparently large outlay. First, the figure on the General Budget covers nearly the whole of defence expenditure; a much smaller proportion is accredited to the Capital Budget than in most countries in south-east Asia. Secondly, there appears to have been no reorganisation of the duties of the Army since independence. Thirdly, considerable temporary expenses are inevitably incurred in the administration of the armies of the ex-princely States and their integration into the forces of the Indian Union, but eventually very considerable economies should be possible under this head. In fact, even after making allowances for all these mitigating factors, it must be admitted that the heavy charge for defence is unfortunate in so far as it is directly competitive with the claims of economic and social advancement. According to Mr. Tyagi, Minister for Defence Organisation, the expenditure on defence services has been under constant review and economy measures are effected as and when possible. For instance, certain economies have been made in movements, communications, works services, foodstuffs and petrol, oil and lubricants, equipment and stores and by the reduction of scales; the lowering of ordnance stores and the finding of an alternative use for surplus items in stock, the improvements in packing and preservation of stores and equipment also



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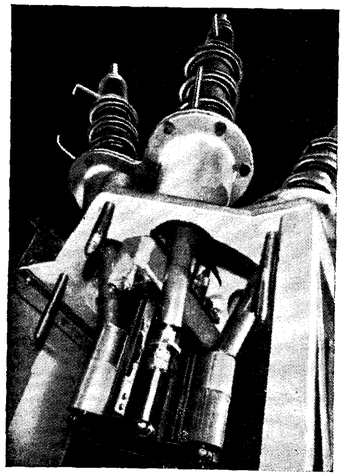
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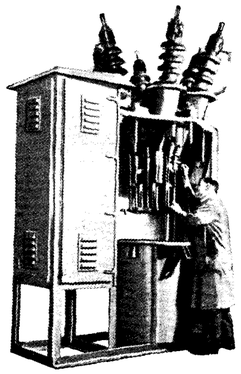
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have contributed to economy. But, unfortunately, an exact idea of the financial effect of these measures has not yet been given.

Of significance in a very different way, is the large and growing cost of general administration including tax collection (7 percent of Union current expenditure in 1948-49 which has risen to 10 percent in 1951-52), and the increase in the cost of general administration is due largely to administrative expansion which is an inevitable accompaniment of political independence. In strong contrast to these relatively large expenditures are the very meagre outlays on the essential social services of public health, medical services and education. Here it is necessary to take State expenditure into consideration, since the States conduct most of the operations, the Central Government being mainly a grant-giving body. It may, however, be noted that the expenditure on these services has been continuously increasing.

Expenditure on Railways

Of the capital schemes, by far the most important aspect of development is concerned with the railways. A complete reorganisation and integration of the railway system has been planned, but it will naturally take a long time to complete the whole programme. For the first time it is now possible to plan the whole system as a unity, which means eventually very important economies can be achieved. Details of the capital outlay are contained in the Railway Budget. The general picture of railway development is undoubtedly one of good management and increasing efficiency; every year the revised estimate has shown an improvement on the first estimate.

The remaining capital outlay of the Union Government may be grouped under three heads: (i) industrial development; (ii) civil works; and (iii) irrigation, power, etcetera. The amounts devoted to these items are shown in the capital account of the Budget statement, but no explanations of these are available. In the explanatory memorandum of the Budget, a separate statement is devoted to development, divided according to whether charged against the capital or the current Budget, and some explanation is given, but in this account, only estimates are available. In many ways, the most important aspect of the development expenditure in India is the multi-purpose river projects. Although many of these development schemes formulated in the first years of independence were over-optimistic, and there has been far too little co-ordination of programmes, there is no doubt that the emphasis on development is unquestionably correct. For it is only by real development, in the sense of projects which will raise the country's capacity for saving and investment, can it be hoped to raise the standard of living of the people and finally to overcome the mass poverty of the country.

The lack of funds, the appropriation of a large part of the revenue by the Central Government, Governmental indifference, and the puritanism of the old Gladstonian finance with the balanced budget doctrine were the causes of the neglect of social services in the country. The creative rôle of a well-articulated policy of deficit spending was not recognised in the past. The science of public finance has now undergone a radical transformation under the influence of Keynesian Economics. Finance is now regarded as a servant and not a master of society. According to the modern conception, the Budget is concerned with the expenditure and income of the community as a whole, and in the words of Lord Beveridge, it has become a "Manpower Budget". It is the acceptance of these new financial principles which lies at the basis of India's vast projects for national reconstruction. At the same time, it is necessary to bear in mind not only the inflationary possibilities of deficit spending, but also the effects on distribution of extravagant public expenditure. Public expenditure, even for productive purposes, should be met as far as possible by taxation and voluntary borrowing, even if it is employed as a means of promoting economic expansion.

STATEMENT I

FINANCE FOR THE FIRST PLAN.

Centre and States	(Crores of Rupees) Original	Revised
Outlay on the Plan ...	2068.7	2248.9
(a) Revenue Account ...	...	...
(b) Capital Account ...	...	...
Budgetary Resources ...	1257.5	1260.5
Savings of Public Authorities		
(a) from current revenues ...	569.7	572.7
(b) from railways ...	170.0	170.0
Private savings absorbed through		
(a) loans from the public	115.0	115.0
(b) small savings and unfunded debt (excluding floating debt)	270.0	270.0
(c) deposits, funds and other miscellaneous sources	132.8	132.8
Gap in Resources ...	811.2	988.4
External Assistance	...	...
Grants	...	...
Loans	...	...

STATEMENT II

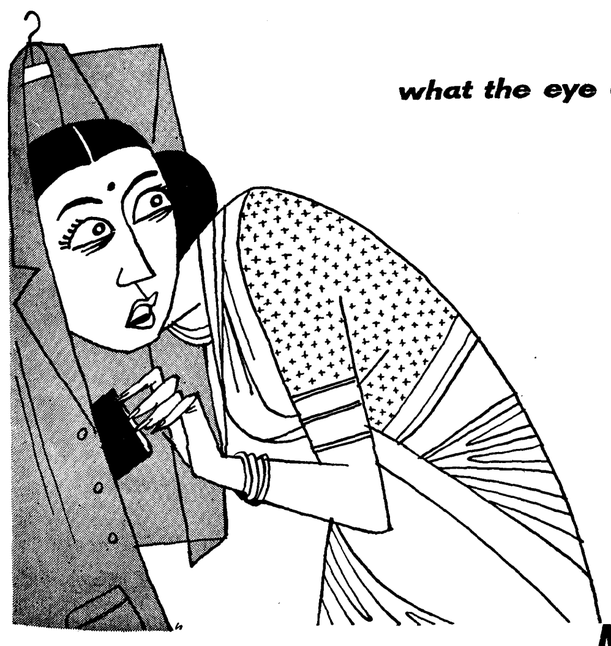
PLAN EXPENDITURE OF STATES.

States	Percentage of Total plan expenditure incurred in 1951-54	Gap in Resources (Crores of rupees)
Andhra	32	— 0.2
Assam	32	1.2
Bihar	50	11.8
Bombay	55	1.1
Madhya Pradesh ...	44	— 6.3
Madras	50	51.5
Orissa	44	— 2.3
Punjab	36	15.6
Uttar Pradesh ...	51	5.5
West Bengal	51	9.5
Hyderabad	46	6.8
Madhya Bharat ...	35	0.4
Mysore	45	3.9
P.E.P.S.U.	39	— 0.4
Rajasthan	33	4.7
Saurashtra	46	3.7
Travancore-Cochin. ...	43	2.8
Jammu and Kashmir ...	32	— 0.8
Total		106.3

STATEMENT III

DISTRIBUTION OF PLAN OUTLAY UNDER MAJOR HEADS OF DEVELOPMENT.

	First Five Year Plan		Second Five Year Plan	
(1)	Total Provision Rs. Crores (2)	Percent (3)	Total provision Rs. Crores (4)	Percent (5)
(I) Agriculture and Community Development ...	357	15.1	568	11.8
(II) Irrigation and Power ...	661	28.1	913	19.0
(III) Industry and Mining ...	179	7.6	890	18.5
(IV) Transport and Communications ...	557	23.6	1385	28.9
(V) Social Services	533	22.6	945	19.7
(VI) Miscellaneous ...	69	3.0	99	2.1
Total ...	2356	100.0	4800	100.0



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THE control of credit is the main function of a central bank. The regulation of currency through the right of note issue is linked up with the control of credit in the laws of central banks. During the days of the gold standard, the traditional objective of credit control was that of maintaining stability in the exchange rates through the medium of a monometallic or bimetallic standard. In recent times, with the worldwide abandonment of the gold standard, the objective of credit control has been shifted towards stabilising the price level. With the establishment of the International Monetary Fund, the official objective of monetary policy is being directed towards the maintenance of international exchange stability in conjunction with the promotion of high levels of employment and real income in the domestic spheres. With that end in view, the methods of credit control by a central bank have attained much greater importance. Modern money is predominantly credit money, and as such regulation and control are the more imperative.

The principal methods of credit control are broadly classified into two categories—general and selective. The former includes the traditional methods of open market operations, discount rate policy and the variation in the reserve ratios. The selective methods of credit control include the rationing of credit, direct action, margin requirements, control of consumer credit, moral suasion and publicity. Both these types are important in regulating the monetary policy of a central bank and they should be made to work in combination. It is essential that to secure prompt and effective control of credit, the central bank should have direct or indirect access to all forms of created bank credit, such as bills of exchange, promissory notes, book credits, mortgage bonds and fixed-interest bearing securities. The central bank can have direct control over bank credit; but bank credit is not the only form of credit. There is another form of credit known as "capital credit" which is derived directly from capital, and which plays an important part in the financing of trade, industry, agriculture, construction activities, commodity and security markets. The types of non-bank credit increase the effective purchasing power of the community and they have the same effect on prices and the volume of production as bank credit has. The central bank's control over such non-bank credit is mostly indirect.

General Methods of Credit Control

Bank rate is the rate at which the central bank is prepared to rediscount first-class trade bills. In the heyday of the gold standard, it played a predominant part in regulating the inflow and outflow of gold. It is also called the discount rate in some countries. The machinery of Bank rate operations was a pecular feature of the London money market when the gold standard ruled the world and London ruled the gold standard. In conditions of falling gold holdings, Bank rate was raised to attract an inflow so as to maintain the monetary equilibrium. Conversely, to check an excessive inflow of gold, it was lowered. In course of time, the Bank of England has come to play the rôle of lender of last resort and the bank of rediscount. Although today there is no gold standard, still Bank rate plays an important part in controlling the London money market. In the face of large-scale credit expansion, it is raised so as to force the "market into the Bank." In Britain, the money market is well organised and compact, so the Bank of England can wield much power through Bank rate. In recent years, however, its effectiveness has become marginal because the growth of "capital" credit eludes the grasp of the Bank of England in many cases.

Because of the unorganised character of the Indian money market, Bank rate until recently was hardly effective. Banks in this country went more to the Imperial Bank (now the State Bank) for accommodation than to the Reserve Bank. Bank rate is hardly ever directed towards regulating the movement of gold either way, as the Indian money market is marked by its insularity. The paucity of trade bills and the Reserve Bank's conservative attitude together combined to nullify the influence of Bank rate. As a result, the Imperial Bank's *hundi* rate or the bill discounting rate was more effective in determining conditions of bank credit. The lack of popularity of bills in India seems to be due to the less expensive character and more convenient form of borrowing by overdrafts or cash credits. As time bills of exchange and promissory notes are not in vogue in this country there has been little or no occasion for the Reserve Bank to grant financial accommodation to scheduled and State co-operative banks under Section 17(2) of the Reserve Bank of India Act on any appreciable scale.

In the domestic sphere, the central bank's rôle as lender of the last resort by way of rediscounting trade bills is the most formidable one in controlling the money market. The rediscounting involves the conversion of bank credit into central bank credit and this is inevitable in conditions of monetary stringency. In England, Bank rate is generally penal, being higher than the market rate. In India, it is merely a rate of accommodation and in practice it is lower than the market rate. The State Bank of India's *hundi* rate determines short-term money rates. The exchange banks hitherto borrowed from their overseas principals, so the Reserve Bank had little or no occasion to force its decision over an influential section of the money market. The Indian joint-stock banks approached the Reserve Bank for accommodation under Section 17(4)(a) against Government securities. During recent years scheduled banks have normally provided themselves with funds for meeting their seasonal requirements either by the sale of securities to the Reserve Bank or by borrowing from it against Government securities under Section 17(4)(a) of the Reserve Bank Act. Under this section, the Reserve Bank can give scheduled banks loans and advances repayable on demand or on the expiry of fixed periods not exceeding 90 days against the security of stocks, funds and securities (other than immovable property) in which a trustee is authorised to invest trust money by any act of Parliament of the U.K. or by any law for the time being in force in India.

Bill Market Scheme

This system has obvious limitations and it was suggested that a bill market be developed in India with a view to imparting greater liquidity and flexibility to the Indian money market and also to increase the Reserve Bank's control over it. Accordingly, the bill market scheme was introduced in February 1952 and the Reserve Bank announced that thenceforth during the busy seasons it would refrain from buying Government securities to meet the requirements of the scheduled banks, but would make loans and advances at the prevailing Bank rate against securities specified in Section 17(4)(a) of the Reserve Bank Act. Since February 1952, it has been making advances against usance bills under Section 17(4)(c) of the Act, in accordance with the scheme for the development of a bill market. Under this scheme, the Reserve Bank practically lends against the promissory notes of the scheduled banks supported by the promissory notes of their customers with 90 days' standing. Bank rate was also raised from 3 percent to 3½ percent in November 1951. The lending operations of the Reserve Bank under the bill market scheme are akin to lending in the last resort. The bill market scheme is becoming popular both with the Indian and the exchange banks. The reliance on the use of central bank credit when conditions of stringency develop in the money market has not only made the flow of credit even but has assured trade and industry of supplies of funds without an undue rise in lending rates. Banks obtain financial accommodation from the Reserve Bank either (a) against Government securities; or (b) against usance bills under the bill market scheme; or (c) through the rediscount of Treasury bills. Since 1955, the exchange banks have been making greater use of borrowings under the bill market scheme. This is a sign of the increased self-sufficiency and autonomy of the Indian money market. Hitherto the inflow of short-term capital from abroad was a fairly common occurrence in the busy season in particular, but the higher borrowing rates abroad and the facilities available locally in the form of central bank credit combined to bring about this result.

The influence of Bank rate in controlling credit has become marginal. The recent inflationary tendencies generated in this country reflect its ineffectiveness, used alone, in checking the rise in prices. While selective credit controls are being used to a greater degree, it needs to be raised so as to make the cost of bank credit dearer. Low money rates may have a favourable effect on domestic business, but they may at the same time stimulate speculation in securities, commodities or real estate. High money rates, on the other hand, may exert a moderating influence on speculation, although at the same time they may result in a higher cost of credit to business.

The Reserve Ratios

The device of reserve requirements regulates the volume of credit and money supply in the economy. Hitherto India had fixed reserve ratios, the scheduled banks being required to maintain with the Reserve Bank 5 percent of their demand liabilities and 2 percent of their time liabilities. The notion that reserve ratios are something set aside, not to be used, is deeply ingrained in American banking thought. The fixed reserve ratios in India, however, served no purpose. They were regarded by banking circles as dead balances, not being available in time of need, nor did they guarantee the deposits of the public. Recently the Reserve Bank of India Act has been amended to provide for variable reserve ratios. The Reserve Bank is now empowered to vary the reserve requirements of scheduled banks between 5 percent and 20 percent for demand liabilities, and 2 percent and 8 percent for time liabilities. In order to facilitate the flexible operation of the system of variable reserves, it has the power to ask scheduled banks to maintain with it additional cash reserves, computed with reference to the excess of demand and time liabilities over the level of such liabilities on a date to be specified by the Reserve Bank. This is, however, subject to the condition that the overall cash reserves which will have to be maintained by the scheduled banks must not exceed at any time 20 percent of their demand liabilities and 8 percent of their time liabilities.

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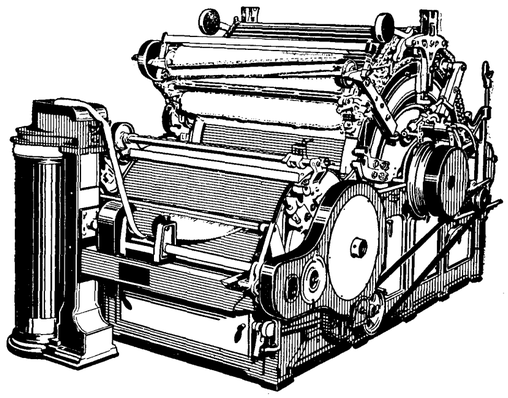
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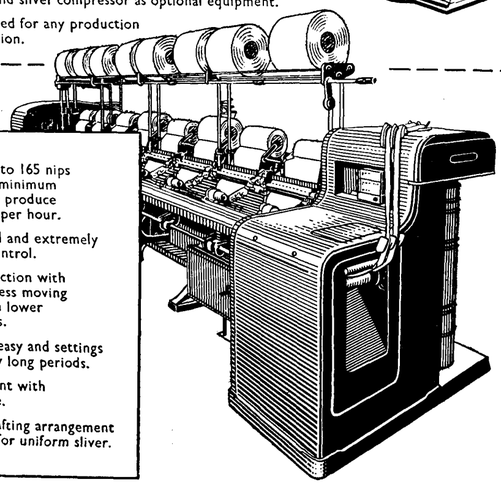
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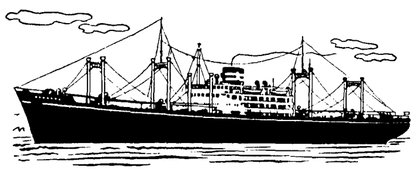
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abilities in India. In computing the said amount, ıe reserve requirements maintained as such shall ə deemed to be cash maintained. Section 42(1) ı the Reserve Bank Act and Section 24(1) of the anking Companies Act in some ways overlap and onfuse. The two main functions of the legal equirements for member banks' reserves are, rst, to help create sound credit conditions, and, econd, to provide the Reserve Bank with sufficient power to enable it to pursue an effective anking and credit policy. Since the volume of ıember-bank credit needed to meet the legitimate eeds of trade and industry depends on the rate at hich credit is being used as well as on the ggregate amount, it is essential for the exercise f sound control that legal requirements differenıate in operation between highly active deposits nd deposits of a less active character. The reuirements for reserves should also be equitable n their incidence, simple in administration and ıot susceptible of abuse.

Open Market Operations

Under Section 17(8) of the Reserve Bank Act, he Reserve Bank is authorised to undertake open narket operations. It can purchase and sell ecurities of the Central Government or State Governments of any maturity, or such securities ıf a local authority as may be specified by the Central Government. There is now no restriction ın the amount or maturity of such securities. Open market operations by the Reserve Bank inolve the outright purchase or sale of Government ecurities or specified securities of local authorities. Bankers' acceptances or trade bills are not involved. Open market operations tend to increase or decrease the supply of bank cash. They were conducted judiciously to sustain the capital market after the slump which started towards the end of 1946. In the busy season of 1948-49, when an adverse trade balance brought acute stringency in the money market, open market purchases of securities helped ease the situation. But in the prevailing conditions of the Indian money market, the open market transactions of the Reserve Bank have limited significance.

Government securities are mostly held in this country by institutional investors and as such an approach to the people through open market operations does not in any effective way bring changes in the member banks' cash balances. Open market operations of the Reserve Bank, undertaken to maintain orderly conditions in the money market as well as to support the official interest rate policy, although discriminating from the start, had in recent years tended to facilitate credit expansion and augment the money supply in the absence of a full-fledged bill market. The customary mechanism of purchasing Government securities in the busy season to relieve the temporary stringency, and of selling them in the slack season when the funds started returning, worked reasonably well as long as the factors influencing money market conditions were purely or mainly seasonal. Some time ago, open market operations tended to stop the inflationary rise in prices of foodgrains and other consumer goods the rise being mainly due to speculative deals made with the help of bank credit. The recent Central and State loan flotations, however, have not in any way put a check on the expansion of bank credit. The issue of Treasury bills generates a condition of inflation and it has been a proper step in the right direction to stop temporarily the issue of such bills. The only way to make open market operations effective in India is to bring about the largest distribution of holdings of Government securities among the people.

Selective Methods of Credit Control

Selective instruments of credit policy are distinguished from general instruments by the fact that the primary and principal impact of selective credit control is not on the total amount of credit but on the amount used in a particular sector of the economy. Since the war, greater recourse has been had to the selective methods because they can be directed towards a specific sector with greater precision and effectiveness than is possible under the general methods of credit control. A prerequisite to the development of a selective mechanism is that the field in which the given instrument is to apply shall be capable of determination in precise terms. Section 21 of the Banking Companies Act, 1949, empowers the Reserve Bank to determine the selective methods of credit policy in relation to advances to be followed by banking companies generally or by any banking company in particular, where it is satisfied that it is necessary or expedient in the public interest to do so. The Reserve Bank is also authorised to give directions to banking companies, in particular, as to the purpose for which advances may or may not be made, the margins to be maintained on secured advances and the rates of interest to be charged on advances. Section 20(1) of the Act prohibits a banking company from granting (a) loans on the security of its own shares; or (b) unsecured loans or advances to any of its directors or to firms or private companies in which it or any of its directors is interested as partner or managing agents or to any individuals, firms or private companies in cases where any of the directors is a guarantor.

Regulating Margin Requirements

In India, the regulation of margin requirements in connection with the purchases of stock exchange securities has not been used much by the Reserve Bank. Commercial banks as a rule maintain nearly 50 percent margin in their advances for the purpose of speculation on stock exchange securities. However, the margin requirement is an instrument for exercising some direct control over the volume of credit used in the security markets. The system of consumer credit or instalment credit is marked by its absence in the Indian money market. The rationing of credit and direct action are the two most important instruments which have been in use in this country, ever since the Banking Companies Act came into force, for controlling the credit structure. The rationing of credit is an alternative or an addition to raising discount and interest rates. The rationing of credit is a quantitative measure of credit control, while direct action may exercise control either by quantitative or qualitative measures. Direct action is taken either in the form of coercive measures against any offending bank or in the form of directives to banks generally concerning their lending and investment operations with a view to controlling the quantity of credit as well as securing their better qualitative distribution.

Fearing that the devaluation of the rupee might give rise to speculative activities, in September 1949 the Reserve Bank issued a circular letter asking all scheduled banks to submit a daily return of fresh limits for advances of Rs. 1 lakh and over in a specified form. A scrutiny of the returns showed that a few banking companies were lending liberally against silver. As advances of this type were likely to encourage speculation, the banking companies concerned were advised to make careful enquiries before making such advances and to ensure that these were not utilised for speculative deals. One banking company did not act on this advice, so it was prohibited by the Reserve Bank under Section 36(1)(a) of the Banking Companies Act from making advances for a period of six months exceeding Rs. 1 lakh against the security of silver to any person either solely or jointly with others, without the prior permission, in writing, of the Reserve Bank. In March 1950, all scheduled banks were directed to submit monthly returns showing the amount of their advances against commodities and bullion in order to enable the Reserve Bank to keep under observation the accommodation granted by banking companies for financing trade in some essential commodities and bullion and to watch periodical trends. In April 1950, scheduled banks operating in the Calcutta area were directed to recall, within a specified period, the advances made against raw jute to parties other than mills and balers and to refrain from making fresh advances for the purchase of raw jute to parties other than those mentioned above until the prospects for the supply of raw jute became normal. In view of the prevailing shortage of jute supplies, there was a danger of stocks of raw jute going underground, and the issue of these instructions was necessary in order to assist the Government in its efforts to ensure regular supplies of raw jute to the mills. These are instances of direct action by the Reserve Bank.

Wider Scope

In recent months the scope of selective credit control has been widened. In May 1956, the Reserve Bank issued a directive to all scheduled banks and two State-associated non-scheduled banks to restrict their advances against paddy and rice. By two directives, issued in September, this policy of selective credit control was extended to bank credit against other foodgrains, gram and pulses, and cotton textiles. Under these directives, the banks were required: (a) not to increase any credit limit on advances against the security of wheat, *jowar*, *bajra*, maize, barley, *ragi*, gram and all other grains and pulses in cases where the credit limit together with a such an increase would exceed Rs. 50,000; or (b) not to sanction any fresh credit limit in excess of Rs. 50,000 for advances against such securities. They were required to increase the existing margins for limits and advances against the security of commodities referred to in (a) above and also against cotton textiles, including yarn, by an amount not less than 10 percent of the value of the commodities. These restrictions were not applicable to demand documentary bills connected with the internal movement of these commodities. Banks were requested to reduce their advances against commodities mentioned in item (a) to a level which, by the end of October 1956, would not remain substantially higher than that prevailing at the end of October 1955. These are some of the latest instances of direct action by the Reserve Bank.

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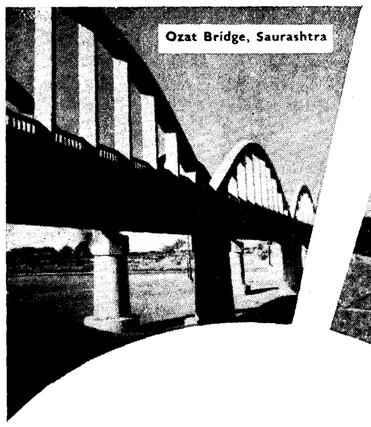
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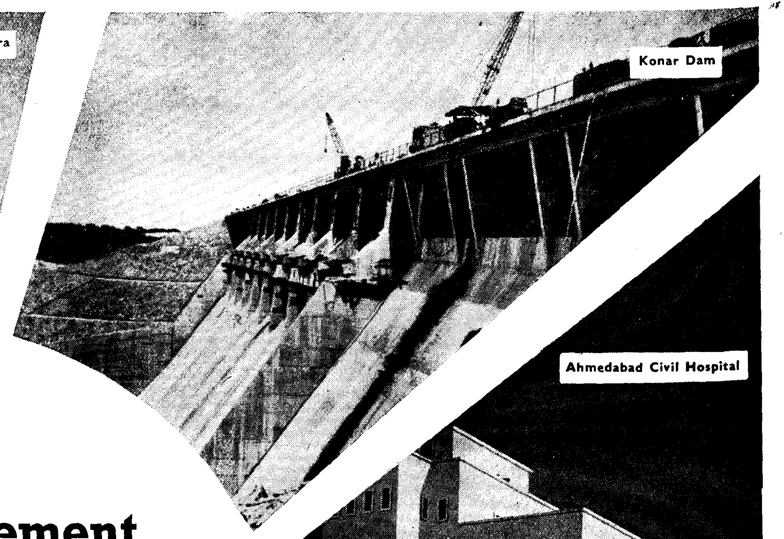
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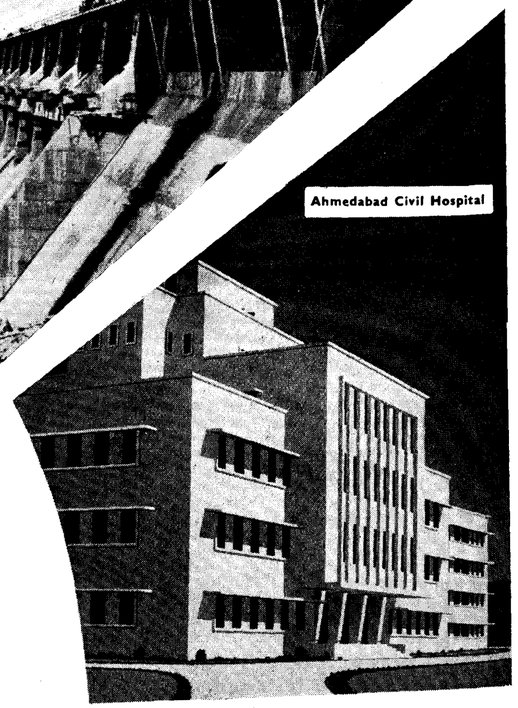


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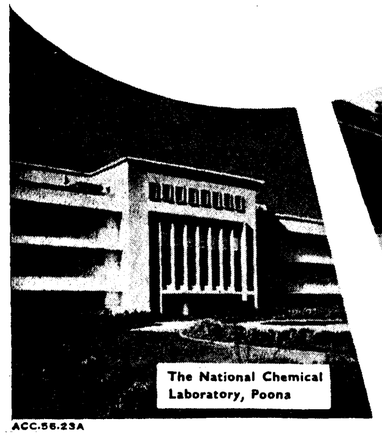
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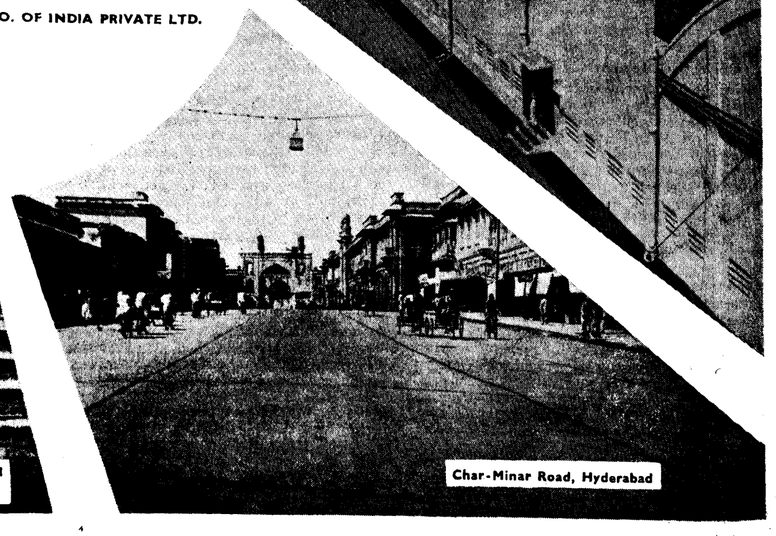
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THE NEED FOR GREATER EMPHASIS ON BANKING STABILITY

RELEVANCE TO INDIAN ECONOMIC CHANGES

• By R. M. MITRA •

THE world economy has been experiencing a fair degree of prosperity. Production, money supply and incomes are rising. India is sharing in the prosperity. During the first five year plan, industrial production has shown a rise of 30 percent, agricultural production of 20 percent (in spite of a fall of about 2 percent in 1955-56 over 1954-55), money supply of 10 percent, deposits of scheduled banks of 16 percent, national product of 18 percent and *per capita* income of 10 percent. The debate over heavy industry, on the one hand, and small-scale and cottage industry, on the other, is not yet over. Differences of opinion still persist about the economic effects, and the tolerable level, of deficit financing. Doubts have been expressed about the volume of employment created under the first plan; estimates of employment likely to be provided under the second plan seem to be subject to progressive reduction.

There is a certain lack of unanimity in assessing the significance of recent trends in prices which, after maintaining stability until June 1955, have been tending upwards. Some say that the rise represents a corrective to the fall, especially in foodgrain prices, experienced in the first half of 1955. Others hold that rising prices are a natural consequence of the rise in money supply occasioned by increasing developmental expenditure. An important body of opinion maintains that speculative forces are at work, and hoarding is widespread—rising bank credit being regarded as a positive indication. It has also been suggested that the decline in agricultural production during 1955-56 has helped inflationary forces. The fall in external reserves has caused serious anxiety and it has been questioned whether it will be possible to import sufficient capital goods and raw materials to ensure the success of the second plan. The authorities, however, are aware of the situation, so their powers of control and regulation are being enlarged.

Deficit Financing and Credit Control

It may seem strange that Bank rate has not been increased since November 1951, although the Reserve Bank's holdings of foreign assets have declined from Rs. 884.18 crores in March 1951 to Rs. 746.13 crores in March 1956 and Rs. 615.07 crores in September 1956. It may also appear odd that scheduled banks' borrowings from the Reserve Bank have not been discouraged, in spite of a rise in their advances from Rs. 581.39 crores in December 1951 to Rs. 647.01 crores in December 1955 and Rs. 754.43 crores in September 1956. The Reserve Bank, however, claims that it is following a policy "of encouraging the flow of funds for genuine trade and industrial purposes and avoiding any marked speculative tendencies." Three directives have recently been issued to all scheduled and two State-associated non-scheduled banks in pursuance of this policy. Under Section 21 of the Banking Companies Act, banks have been asked not to increase the individual limits of advances (except in the case of advances below Rs. 50,000) existing around 17th May, 1956, for rice and paddy,* and around 13th September, 1956, for other specified foodgrains (including wheat), cotton cloth and yarn. Restrictions have been imposed on the limits of sanction of advances after the dates respectively specified, and directions have been given on the margins to be maintained on the value of security.

The Reserve Bank of India Act has been amended in order to deal with the shrinkage of foreign securities and the rising tempo of deficit financing. Section 33 of the Reserve Bank of India Act formerly required that for every Rs. 100 of notes issued by the Reserve Bank, it must hold gold coin, gold bullion and foreign securities of an aggregate value of Rs. 40. It was also provided that gold coin and bullion, valued at 8.47512 grains of fine gold a rupee, should not at any time fall below Rs. 40 crores. The Reserve Bank's holding of foreign securities has for some time been falling. The Bank held about Rs. 632 crores of foreign securities and gold valued at Rs. 40 crores as on 31st August, 1956. This level of holding of gold and external reserves would not allow the total note issue to exceed Rs. 1,680 crores if the provisions of the Act were to be applied in their unamended form.

Notes in circulation in March 1956 were returned at Rs. 1,466.64 crores, while the second five year plan expects deficit financing of the order of Rs. 1,200 crores, of which about Rs. 1,000 crores are to take the form of fiduciary issue of notes. It appears, therefore, that notes issued by the Reserve Bank may reach a total of Rs. 2,466 crores by the end of the second plan. On the basis of the present level of gold and external resources (without allowing for the contemplated utilisation of Rs. 200 crores of foreign securities in deficit financing), the required note issue would exceed the statutory maximum by Rs. 786 crores. But it will no longer be necessary under the new law to relate note issue to a percentage of the Reserve Bank's holdings of gold and foreign securities. The legal obstacle in the way of development finance has now been removed by severing the percentage relationship between note issue and gold and external resources. It is true that the amending law requires a minimum holding of gold coin and bullion of Rs. 115 crores valued at 2.88 grains of fine gold a rupee, and a minimum holding of external resources of Rs. 400 crores. But the minimum holdings are expressed in absolute terms and not required to rise with rising note issue. Moreover, the apparent increase in the gold component of the reserve *is only notional* and is fully provided for by the revised basis of valuation of gold. It may also be pointed out that the statutory holding of Rs. 400 crores of external reserves is a little above the value of seven months' imports and should, therefore, be regarded as the irreducible requirement for carrying out external transactions.

Underlying Principle

The principle underlying the new provisions seems to be that the basis of the note issue is the credit of the Government and the soundness of the economy—not the availability of foreign funds whose function in the *monetary system is to facilitate* foreign exchange transactions. The amended provisions seek to remove impediments in the way of note issue necessary to finance the second plan, and at the same time to ensure the smooth conduct of business with *foreign countries*. The future will show, however, whether the prescribed minimum of Rs. 400 crores of external reserves will be adequate for the purpose of bridging temporary or seasonal gaps between foreign receipts and payments. It seems, however, that a more rational procedure would have been to bring about a complete separation between foreign securities and internal note issue; foreign securities might suitably be transferred to a separate fund to be administered by an appropriate foreign exchange authority, as is the case in the United Kingdom.

It is worth noticing that the amending legislation does not ignore the possibility of the expanded money supply leading to a state of credit inflation. Section 42 of the Reserve Bank of India Act has, accordingly, been amended to enable the Reserve Bank to vary the requirements of cash reserves to be held by scheduled banks between 5 percent and 20 percent of demand liabilities and 2 percent and 8 percent of time liabilities. A provision is also made for additional reserves to the extent of the whole of the increase in liabilities over those on a date to be specified for the purpose. Unlike the U.S.A., which first adopted the mechanism of variable reserve ratios, the reserve requirements are to be calculated on the basis of the entire outside liabilities and not deposits only. The additional provision designed to immobilise the whole of the increase in liabilities also differs materially from the Australian system of "special accounts" inasmuch as the total cash reserve to be maintained by a scheduled bank shall not in any case be required to exceed 20 percent of total demand liabilities and 8 percent of total time liabilities. The "additional" requirement seems, therefore, only to be an alternative method of achieving the same statutory minima of 8 percent and 20 percent. Further, the same ratios will apply to all scheduled banks and it will not be in order to prescribe different ratios for different banks as in Australia, or for banks in different regions as in the U.S.A.

It may be interesting to note that the new provision introduces important procedural changes. The previous law required the minimum cash reserve to be maintained on every day of the week, but the new provision makes it sufficient for a scheduled bank to maintain the minimum on an average of the balances held during the seven-day period of Saturday to the following Friday. Under the amended provisions, therefore, a deficiency in the minimum balance on any particular day will not attract the consequences of default, provided the average balance is adequate. Again, in future, the week will start on Saturday and not on Friday; the minimum requirement will, therefore, be computed on the basis of the position as on the last day of the preceding week and not on the first day of the current week, as was the practice under the amended law.

A Comprehensive Economic Policy

The economic and industrial policy of the Government formulated in April 1948 has been replaced by the Industrial Policy Resolution presented to the Lok Sabha in April 1956. The Resolution is said to be in line with the Directive Principles of the Constitution, which state "that the ownership and control of the material resources of the community" should be "so distributed as best to subserve the common good" and "that the operation of the economic system" shall not "result in the concentration of wealth and means of production to the common detriment." The Industries (Development and Regulation Act) has been extended to a larger number of industries. The Constitution has been amended to facilitate the elimination of private ownership of *economic* enterprises, if and when this is considered necessary. Meanwhile, measures to control and regulate private enterprises are being intensified.

The objective of socialism which is embodied in the new Resolution has been moulding State policy in the field of money and credit also. Life insurance has been nationalised and transferred as from 1st September, 1956, to the statutorily created Life Insurance Corporation, which is wholly owned by the Government. The State Bank of India, in which the Reserve Bank holds not less than 55 percent of the shares, was set up in July 1955. It is now reported to have undertaken an immediate programme of opening 100 new branches, being part of the legislative stipulation to open 400 branches by June 1960. A co-ordinated scheme of credit for village and small industries, it is reported, has been prepared by the State Bank, and "pilot" projects for selected industries in some centres are expected to be in operation shortly. The Reserve Bank is also taking energetic steps to promote the supply of rural credit and to improve the organisation of State-partnered co-operative banking. The National Agricultural Credit (Long-term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund have been created out of appropriations from the Reserve Bank's revenue income, and credit facilities are being provided by the Reserve Bank to co-operative banks on liberal terms of interest. As a result of the Reserve Bank's encouragement and help, the deposits of co-operative banks with paid-up capital and reserves of Rs. 1 lakh and above, have increased from Rs. 100.99 crores to Rs. 144.95 crores during the period March 1951 to March 1955, as against a small increase from Rs. 69.99 crores to Rs. 72.26 crores for all non-scheduled banks during the period December 1951 to December 1955.

While schemes for State or State-sponsored participation in credit activities are taking clearer shape, the policy of control and regulation of credit and banking activities in the private sector is being steadily pursued. It has already been noted that the operational control of credit activities has been strengthened by the recent amendment of the

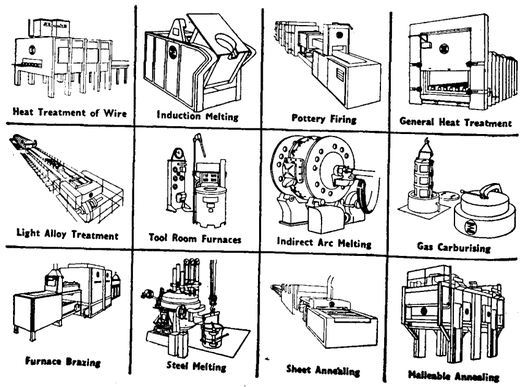
* The order for rice and paddy was withdrawn on 14th November, 1956.

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Reserve Bank of India Act. The organisational aspect has also received renewed attention.

Company Law

The Companies Act which came into force on 1st April, 1956, seeks to regularise and improve the conditions of finance in the form of share capital of joint-stock companies. The Act largely follows the U.K. company law of 1948 and provides for the adequate disclosure of facts concerning the affairs of a company in connection with its formation and in the course of its subsequent career. The power and remuneration of the management have been restricted; and the responsibility and accountability of the directors have been specified.

It seems unfortunate, however, that the drafting of several provisions of the Act, especially as they affect banking companies, tends to create difficulties of administration. Section 292 prescribes the manner and extent of delegating directors' powers of granting or receiving loans. It requires that the terms of delegation will specify: (a) the total amount up to which loans may be made; (b) the purposes for which loans may be made; (c) and the maximum amount of loan that may be made for each "purpose in individual cases." The Section also prohibits a branch manager from borrowing monies beyond the limit of the total amount specified in the resolution of the board of directors conferring the powers on the manager. The banker, in implementing this Section, will no doubt face difficulties in interpreting the expressions "total", "purpose" and "borrowing." Section 295 seems to make it unlawful for a company to maintain deposits with a banking company, if the directors of the depositor-company happen to control 25 percent of the shares of the banking company or if such directors, or any of them, purport to guide the policy of the banking company. Section 293 prohibits the directors of a public company, or a private company which is a subsidiary of a public company, from borrowing monies, except with the permission of the company in general meeting, if the total borrowings exceed the aggregate of the paid-up capital and free reserves of the company. It has been provided, however, that temporary loans obtained from the company's bankers in the ordinary course of business will not be affected by the provisions of this Section. But no attempt has been made to explain what constitutes a temporary loan, whether it relates to duration (and, if so, the length of time) or to the characteristics of realisability, and whether the fact of a loan being "temporary" or the mere contractual recital of its being temporary, will satisfy the requirements of the Section.

It may be assumed that the language of the Act will in due course undergo the necessary revision. The spirit in which it will be administered will, however, depend on the social atmosphere, administrative training and outlook, and, perhaps, even political expediency. Nevertheless, it is to be hoped that the crusade against dishonest managements will not prevent a realistic reconsideration of the position of the directors. As early as 1878, Jessel, M. R. in Re Forest of Dean, etcetera, Co. observed: "Directors have sometimes been called trustees, or commercial trustees, and sometimes they have been called managing partners; it does not much matter what you call them so long as you understand what their true position is, which is that they are really commercial men managing a trading concern for the benefit of themselves and of all the other shareholders in it." The legislative and executive measures designed to control and regulate operations in the private sector show an increasing distrust of managements. Yet it is necessary to realise that an act of commercial misjudgment does not necessarily prove dishonest intention, and that it is idle to expect a business concern to secure the services of competent directors if their remunerations are not commensurate with responsibility. Enforcement of responsibility and restriction of remuneration may not always fit in well."

Theoretical Approach in Banking

The Government's economic policy sometimes seems unpractical. It is true that the actual measures of control, management or ownership so far evolved in India do not constitute innovations, but are based mostly on the precedents provided by other countries. However, the danger does not lie in the contents of a theory, but in the bias which obsession with it may generate. The emphasis on the "socialist pattern" and the division of the economy into the public and private sectors seems to have fashioned an adverse attitude to private enterprise.

It is the Government's avowed policy to enter into partnership with co-operative banks and so to develop and extend the system that all rural and semi-urban areas may be covered by it. The policy is already bearing fruit. The number of co-operative banks with paid-up capital and reserves of Rs. 1 lakh and above shows an increase from 417 to 572 during the period March 1951 to March 1955; their deposits have risen from Rs. 100.99 crores to Rs. 144.95 crores and advances from Rs. 73.65 crores to Rs. 107.74 crores. The impact of intensifying activity in the State-partnered banking system, on the smaller banks in the private system, is bringing about a gradual decline in the activities of non-scheduled banks whose number (in the category of paid-up capital and reserves of Rs. 1 lakh and above) fell from 256 to 254 during the period December 1951 to December 1955, and whose deposits at Rs. 69.54 crores and advances at Rs. 41.35 crores in 1955 were about 48 percent and 38 percent respectively of the comparable figures for co-operative banks, as against about 64 percent and 59 percent in 1951. The progress of the smaller scheduled banks is also being similarly retarded. It is true that the burden of illiquid assets and incompetent management have contributed greatly to the malaise. But, as the All-India Rural Credit Survey Committee pointed out, the condition of the co-operative banks was, if anything, still worse. Yet the Government has not considered it improper to reorganise these banks, and even to pump new money in these ventures only because they will now belong to a quasi-public sector.

The attitude to smaller private banks presents a strange contrast. It appears that the authorities should have taken a decision either to eliminate these institutions or to create conditions favourable for their growth, as in the case of State-partnered co-operative banks. These conditions need not necessarily have taken the form of direct financial participation. If these institutions are unwanted, the depositors should forthwith be advised accordingly, so that they may not risk more of their money in such banks. On the other hand, if it is intended to allow these banks to play their part in the economy, steps should be taken to reorganise them in the light of the prevailing situation. It is obvious that the presence of State-partnered co-operative banks, penetration of the overshadowing State Bank and reorientation of postal savings banks, will make it increasingly difficult for smaller private banks to command the necessary confidence. It might follow, therefore, that a process of integration and absorption will be necessary to enable these banks to create confidence and also to rationalise their existing assets. It is disheartening, therefore, to note that it is a hardy annual for the Reserve Bank's annual reports on *The Trend and Progress of Banking in India*, to observe that "initiative in this respect has, however, to come from the banks themselves."

Queer Logic

It seems queer logic which supports official control, regulation, admonition, and even, forcible closure of private banks, but deems it improper for the authorities to take initiative in matters calculated to improve the conditions of their working and otherwise to promote soundness. If it is considered that Section 36(1) of the Banking Companies Act contains inadequate powers for the Reserve Bank to take the initiative, it is inexplicable why suitable powers are not given to the Reserve Bank, especially when provisions have been introduced in the Companies Act to enable the Government to initiate schemes of merger for non-banking companies. The smaller banks may appear to account for an insignificant portion of the banking services, but their uncertain future may hamper the development of the economy. It also needs to be observed that the progress of the co-operative movement does not reflect the progress of banking in the proper sense of the term, especially in rural and semi-urban areas. Firstly, the figures of deposits do not show the true position because of the presence of a large percentage of inter-bank deposits. Secondly, the primary credit sccieties in the rural areas are still very deficient in deposit resources which amount to less than Rs. 350 a society, and constitute hardly 8 percent of their total funds, while borrowings provide 52 percent of these funds. Although the primary societies in the urban areas present a comparatively better picture, their deposit resources are still as small as about Rs. 50,000 a society; they hardly exceed 60 percent of the total working funds which, again, stand at an apparently uneconomic level of a little above Rs. 80,000 a society.

Nevertheless, if the smaller banks are excluded, Indian joint-stock banking seems to present a picture of overall soundness and confidence. It has been rightly observed on more than one occasion that the Reserve Bank's powers of control and surveillance have had wholesome effects. The Indian deposits of Indian scheduled banks fell from Rs. 795.71 crores on 31st December, 1947, to Rs. 654.73 crores on 31st December, 1952, while foreign banks showed a small rise in their Indian deposits from Rs. 173.53 crores to Rs. 176.50 crores. The declining trend now appears to have been reversed. The Indian deposits of Indian scheduled banks stood at Rs. 823.49 crores on 31st December, 1955, showing a rise of more than 25 percent over the level of 1952. The deposits of foreign banks in India also showed a rise of about 11 percent from Rs. 176.50 crores to Rs. 195.13 crores during the same period.

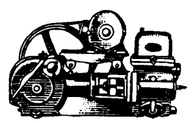
It may be argued that the rise in deposits does not reflect increased confidence, but is attributable to the general uptrend in economic activity, and in particular to the rising note issue as a sequel to deficit financing. But the measures taken by the Reserve Bank have had a significant influence in reducing distrust of the Indian banks. The comparative rise in deposits among the Indian and foreign banks perhaps represents an adjustment of the previously upset balance of confidence. The importance of confidence in banking business is beyond dispute. The question gains added importance in India, with a relatively ill-educated depositing public, when it is noted that personal deposits and other deposits of a personal character account for about 55 percent of total deposits. The Reserve Bank has a distinct part to play in promoting confidence.

Liquidity Position

It may be urged that the liquidity position of the banks is being over-strained; loans and advances in India of the Indian scheduled banks have increased from Rs. 350.85 crores in 1952 to Rs. 473.34 crores in 1955, a rise which accounts for about 73 percent of the increase in deposits. Though an over-extended loan portfolio may suggest an unbalanced position, rising bank credit is a feature of present-day banking almost all over the world. Growing economic activity and increasing monetisation of the economy will also involve greater resort to banks for credit facilities. In fact, the total loans and advances of banks in the U.S.A. represent 25 percent of the gross national product, whereas in India the ratio does not exceed 7 percent. The apparently disproportionate size of bank advances in India is really a reflection of the comparatively low position of bank deposits in the scheme of money supply. More serious attention will perhaps have to be given to the question of channelling money through the banking system in order to ensure an adequate increase in deposit resources. The banking system will need to spread over wider areas and confidence will have to be generated before banking resources can increase sufficiently to meet credit demands without straining liquidity ratios. Even then, the Indian banking system may have to prepare for credit expansion beyond the conventional ratio of 50 percent. The experience of foreign banks in India (whose advances amount to about 89 percent of their deposits in India), and that of banks in Germany and Japan, where advances have risen as high as 88 percent of deposits, appears to emphasise the inevitability of a higher advances ratio to support the needs of economic development. The issue before the Indian banking system may, therefore, be not simply that of correcting the ratio of advances to deposits, but also of evolving new techniques of liquidity.

This leads on to the question of the State's attitude to private enterprise. It should not be sufficient for the Reserve Bank to discharge the functions of a watchman, or even to cry the American huntsman's "tally-ho." The need for it to assume the role of a leader with imagination and boldness should be evident in a growing economy. It has to be brought home that the economy is an integrated whole. The authorities can hardly afford to think that their duty is discharged by instituting measures of regulation for the private sector, and expecting the entire community (including the private sector) to bear the losses in the public sector, while leaving losses in the private sector to impinge on the limited area

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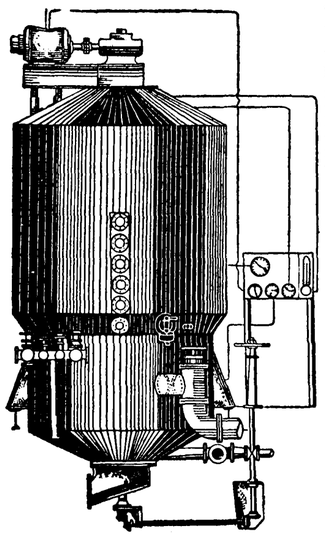
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of operations of the individual units concerned. The All-India Rural Credit Survey Committee, whose report seems to have profoundly influenced the policy of the Government, appeared to have a glimpse of the integrated economy. Unfortunately, however, predisposition towards the public sector made it lose sight of the necessity of evolving methods of stability and dispersal of losses in the private sector on lines similar to those it has suggested for the public sector. It did not occur to the Committee that if the public sector requires stabilising and strengthening devices like the National Agricultural Credit (Long-term Operations) Funds, National Agricultural Credit (Stabilisation) Fund and Integration and Development Fund, the need for such devices in the private sector should be equally important.

Changing Monetary Behaviour

It is necessary to recognise that the traditional economic forces have ceased to follow expected lines. The modern economy is in need of new stablising techniques, whether operating in the public sector or in the private sector. Germany's external reserves have been rapidly rising, yet she has found it necessary to raise her Bank rate from 3 percent to 5½ percent* within the short period of ten months (August 1955 to May 1956). On the other hand, India's balance of payments is showing signs of considerable strain, yet no change in Bank rate has taken place since November 1951. It is generally accepted that increased bank credit leads to increased money potential in the form of rising deposits, and *vice versa*. But, in Britain, bank advances fell from £2,186 million in June 1955 to £1,851 million in December 1955. Yet deposits rose from £6,510 million to £6,612 million; while a rise in advances from £1,851 million to £1,975 million during December 1955 to June 1956, was accompanied with a fall in deposits from £6,612 million to £6,283 million. Though India has been experiencing increases in both advances and deposits, the significance of their correlation is confused by the disproportionate influence of the note issue; still, as has already been noted, deposits are not rising in proportion to advances in spite of the additional impetus of note supply.

The shape of the economy has been changing in a manner not yet capable of reduction to economic formulae. The money market in India is gradually assuming a new aspect. The old division between the busy season and the slack season seems to be losing its significance. The flow-back of money supply during the traditional slack season has been diminishing from Rs. 128 crores in 1953 to Rs. 77 crores in 1954 and only Rs. 3 crores in 1955, though the expansion during the busy season has been maintaining its rising curve from Rs. 172 crores during 1953-54 to Rs. 222 crores during 1954-55 and Rs. 264 crores during 1955-56. Again, the busy season in 1955-56 started later than usual. The pattern of interest rates is showing irregular trends. While, in spite of a rising money supply, interest rates are moving up, on the one hand, the relationship between different types of rates is being reversed, on the other. Formerly, the call money rate ranged between 1 percent and 2½ percent lower than Bank rate, but recently it is steadying at the level of Bank rate itself. The spread between Bank rate and other rates is not maintaining the pre-1952 pace. The difference between long-term and short-term rates has been narrowing. Though yields on long-term securities are still higher than on short-term securities in India, it is interesting to observe that in the U.S.A. yields on intermediate-term securities rose above those on long-term securities during mid-April to mid-June this year. Other market rates are also not showing uniform movements. The index number of yields on variable dividend securities in India did not rise above the base (1949-50) until February 1956, when it stood at 98.4, in spite of Bank rate having been raised in November 1951. But the index number of yields on preference shares in February 1956 recorded a rise of 16 percent over the base year 1949-50. The subsequent course of these rates has been showing a reverse movement, and in July 1956, the yield on variable dividend securities rose to 106.1 while the yield on preference shares fell to 113.7. The constancy of India's Bank rate in the face of falling external reserves and worldwide increases in Bank rates has already been noted.

Law of Negotiable Instruments

The authorities are taking various steps to adjust the financial, legislative and administrative apparatus to the changing conditions of the economy. The Law Commission has taken the opportunity to examine the suitability of the provisions of the Negotiable Instruments Act of 1881, to the present conditions of commerce and banking. It has addressed a questionnaire on the subject to various representative bodies. It is trying to ascertain how far mercantile usages based on the law should be codified in statue, and also whether the Act of 1881 calls for other amendments calculated to improve the negotiability of the customary instruments of money without prejudicing the rights of the lawful owners of the instruments.

Section I of the Act provides that local usages relating to instruments written in an oriental language will override the provisions of the Act. The Act also allows wide scope for usages to enlarge its specific provisions applying to instruments other than those written in oriental languages. It may be interesting to recall that the Select Committee of 1879, which examined the Bill resulting in the Act of 1881, held that the local usages were entitled to a period of adjustment, but observed that the exemption allowed to tide over the period of adjustment should not become a permanent feature of the law. It will not perhaps be too much to suggest that the period of 75 years that has elapsed since ought to be a sufficiently long period of adjustment. It has been argued that the trader and the financier who deal with instruments written in oriental languages will find it difficult to acquaint themselves with the intricacies of the written law, and also may not find it easy to abandon the practices built on usages.

But it seems too late in the day to plead for exemption from the written law in favour of any section of the modern community. On the other hand, the complex variety of local usages hampers trade and the remittance of funds between distant parts of the country. Surely, a uniform law and mutually known practices will be more conducive to confident transactions between, say, a place in West Bengal and a place in Gujerat, than if the distant traders are expected to be acquainted with the respective local usages. It seems fair to ask all to know one law which applies throughout the land than to expect one to learn numerous laws applying in different parts of the country.

Local Usages

The larger question relating to usages is, however, one that concerns the instruments to which local usages are not intended to apply under the Act. It is one of the basic assumptions of the common law that unauthorised or unlawful dealing with an article does not create or convey valid title to the article. Nevertheless, it is recognised that commercial transactions will be seriously impeded if the prevailing instruments of exchange which are transferred by delivery or endorsement followed by delivery, do not carry any title for those who receive them in good faith, without negligence, for valuable consideration, without notice of dishonour and before the instrument is overdue. The Act contains, therefore, various provisions purporting to protect the interests of a "holder in due course" of a negotiable instrument as well as those of a banker collecting or paying a cheque.

It has long been felt, however, that these protective provisions are mostly based on the observance of meaningless rituals involving unnecessary clerical labour and administrative expenses on the part of commercial and banking houses, and also that the Act relies too heaviiy on usages and practices to be of much practical help. It has indeed become necessary for banking and other commercial houses to refer to various judicial interpretations, expert opinions, and authoritative comments for guidance on the correct forms of endorsement and for clarification of the undefined or ill-defined statutory expressions like "good faith," "without negligence" and "material alteration." As much of the work involved in endorsing and collecting or paying cheques and other bills of exchange is attended to by routine clerks, the necessity for a simple, unambiguous and comprehensive law should be obvious, especially when non-observance of a supposedly lawful, but by no means, intelligible condition or requirement may involve a party in considerable losses. The question of endorsements is engaging attention in Britain. A movement led by Graham Page is afoot to render the endorsement of cheques unnecessary in certain properly defined cases. It seems clear, however, that early steps should be taken in India to simplify, and give precise content to, the rules relating to negotiable instruments, especially those concerning details which do not contribute to creating or strengthening protection for a rightful owner. In the absence of simple monetary instruments being available, the monetisation of the economy in rural and semi-urban areas is likely to produce undesirable results, and will fail to promote the channelling of money through organised financial agencies.

New Monetary Conception

But the question remains whether the needs of the changing economic situation will be met adequately without a new outlook on the problem of market stability. Improved methods of regulation and thoughtfully revised business practices are no doubt important for the efficient and smooth conduct of business operations. But the shifting frontiers of the economy seem to call for more throughgoing action. Nor will the fundamentals of the problem be solved by merely adjusting the relative importance of the two sectors. Changing economic dimensions call for new measures of economic stability, new methods of dealing with the failure of economic enterprises and an amended conception of liquidity and marketability of economic assets. It is conceivable that official planning may be so directed as to reach the desired level of production, to create necessary employment and to distribute income according to predetermined principles of social justice. Yet the fruits of planning may go waste. The development of new techniques of production may render the existing productive equipment obsolescent before adequate provision has been made for depreciation. The erratic behaviour of consumers may run counter to the planned schedule of production. National programmes of production may also be frustrated by the lack of internationally co-ordinated production and/or supply. Expectations relating to returns on investments, ideas about the necessity of holding liquid resources and other intractable psychological forces may disturb the system. As long as an alternative to the money economy fails to be devised, the unexpected behaviour of money may throw the entire economy into chaos in spite of all the efforts on production and distribution.

The present behaviour of interest rates illustrates the possibilities of the irrational course which money may take in changing economic conditions. It was a commonplace of traditional monetary behaviour that an increasing money supply was accompanied by a diminishing rate of interest. It was, of course, understood that this monetary principle would work only if "other things remained equal." But the traditionalist hardly imagined that the tail would grow heavier than the body, that the main economic proposition would be submerged by the importance of the "other things." Daltonian cheap money is now completely out of date. Paradoxically, however, the era of hardening money rates is not being ushered in with a phase of shrinking money supply.

Professor Hansen of Harvard University, in his *A Guide to Keynes* has observed that Keynes's analysis of the wage-employment relationship "leads to an agnostic position." The perplexed common man may feel tempted to generalise Hansen's observation and conclude that we are living in an economy straggling in confusion, unregulated by any deep principle of cause and effect. Yet it will not behove the economist to gaze helplessly at the picture of an apparent maze, even if long-established economic doctrines may seem to appear in inverted shape. It may yet be his opportunity to carry on the task of his predecessor, to arrive at a definition of the "other things," and to present a new version of the old economic truths.

The writing on the wall, however, seems clear enough. Unless monetary techniques and methods of market stability are properly reorientated, the economic planner and the social reformer may find the ground cut from under their feet in the midst of a grand venture. In the course of an address to the members of the Madras Rotary Club on 18th October, Earl Attlee, it is reported, recorded his impression that India has been maintaining the "right kind of balance between heavy and light industries, between industry and agriculture between industry and social service and between production and spending." It is respectfully submitted, however, that the carefully held scales will be tipped if the lever of money (and money cos of production and investment) fails to move *smoothly on the fulcrum of the market.*

* It was reduced to 5 percent in September, 1956.



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THE RESPONSIBILITIES OF INDUSTRIAL TRIBUNALS

CONDITIONS IN WHICH MANAGERIAL DECISIONS MAY BE REVISED

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IT is proposed in this article to consider the general principles on which an industrial tribunal can substitute its own judgment for that of the management, with particular reference to what we may term punitive decisions of the latter body, and especially those relating to summary dismissals and discharges. Until the famous *Buckingham and Carnatic Mills* case[1], it had come to be almost generally assumed that tribunals had a virtually unfettered right to sit in judgment over the action of managements in dismissing employees, however scrupulously the former had observed the ordinary law of master and servant, complied with standing orders, "charge-sheeted" the employees, and taken their explanations. The result was chaos rapidly developing. The *Buckingham and Carnatic* case called a peremptory halt to that state of *things*, and the principle now accepted is that, provided the punishment inflicted is in accordance with the common law of the land, then ordinarily the management, acting *bona fide* and with the knowledge and experience of the problems which confront it, ought to be considered best qualified to judge what the appropriate punishment should be; and the punishment given by the management shall stand, provided that the punishment is not unduly excessive, *and, even in the latter event*, unless the excessive nature of it is so flagrant as to shock the conscience, the tribunal should not substitute its own judgment for the judgment of the management, unless it is apparent that the requirements of discipline and good conduct would not be prejudiced if a lesser punishment was awarded (Madras Electric Tramways Ltd., and see B. & C. Ltd.)[2]

This principle has been qualified, or rather elaborated, by subsequent decisions, which we will consider later, but as the essential and primary requisite is compliance with the common law of the land, we must first advert shortly to that. The broad principle always justifying at common law *the summary dismissal of a servant* is either such incapacity as prevents the servant from fulfilling his contract, or conduct on his part incompatible with the faithful discharge of *his duty*; and applying the principle to particular facts, habitual absence without leave, dishonesty, wilful disobedience of orders, drunkenness such as to impair efficiency, immorality such as to bring discredit on the master's business or the master himself (e.g., a pregnant unmarried housemaid), serious negligence, insolence, habitual unpunctuality, all or any of these justify at common law instant dismissal. But it must be borne in mind that even by the ordinary law of the land, and much more so when the tribunals may come into the picture, dismissal, being in its very nature the most drastic method of determining a contract of service, cannot be justified save for a serious cause, since the maxim *de minimis lex non curat* directly applies; and it is not every fault, be it of omission or commission, which will entitle a master to dismiss for incompetence.[3]

Common Law

So the management, before, in my contemplated action, it looks ahead at the supervisory powers of the industrial tribunals, must first satisfy itself that what it proposes to do is justified at common law, as, if it is not so justified, not only will the tribunal reverse or amend its decision, but the employers may be faced with a civil suit for damages for wrongful dismissal.

This is, of course, by no means equivalent to saying that if the employers' action is justified by the ordinary law of the land, the tribunal must or will support it. *All that is meant* is that if the employer's action cannot be supported on legal grounds, it is virtually certain that it will not be supported by the tribunal; not that the tribunal is necessarily bound not to support such a decision. It has been held in unmistakable terms, and it is far too late in the industrial legal day to attempt to argue *to the contrary, that an industrial* tribunal is not fettered by the limitations of ordinary law, and its function is not merely to interpret the terms of contract of employment between an employer and employee. Adjudication by an industrial tribunal does not mean adjudication according to the strict law of master and servant. The award of the industrial tribunal *may contain provisions* for the settlement of a dispute which no court could order, fettered as it would be by ordinary law, but the industrial tribunal is not bound in any way by this limitation. The Supreme Court of India, while holding[4] "that the limited concept of what an industry meant in early times must now yield place to an enormously wider concept, so that disputes arising in connection with industry may be settled quickly, without much dislocation and disorganisation of *the needs of society, and in a manner more adapt*ed to conciliation and settlement than a determination of the rights and disabilities according to strict legal procedure and principles," have laid down *that the conflicts between* capital and labour have now to be determinaed more from the standpoint of status than of contract.[5]

No Unqualified Right

Whether this ideal embodied in the substitution for the plain, certain principles of the law of benevolent but new equitable principles has been realised by speedy settlements, less dislocation *and disorganisation* and a more conciliatory *and amicable* attitude as between master and man, is a question on which a glance at the Labour Law Reports and the daily newspaper may throw a good deal of light. But it is irrelevant for the purposes of this article. What is certain is that the unqualified "right to hire and fire" is gone for ever.

In its stead, we have this position. The management, with its expert specialised knowledge of *how to run a business concern in its* day-to-day working, is presumed to be the best judge as to what action to take and what punishment to impose. But its decision is not sacrosanct. The tribunal, acting on certain defined principles, can, if the management's decision conflicts or does not comply with those principles, revise that decision. The function of the management is subjective. It views the problem solely from the point of view of employer and employee in a specific business. The function of the tribunal is mainly objective in the interests of industry as a whole for the purpose of bringing about harmony between capital and labour in general as well as solving the particular problem with which it is faced. The object of the management is to secure the efficient working of one particular concern; that of the tribunals, to secure industrial peace throughout the country. *It is with* the latter object in view that a set of principles has been evolved under which the tribunals have a limited right to interfere with the normally final and conclusive decision of the management.

Grounds for Interference

The tribunal will interfere if (a) there is a want of *bona fides;* (b) it is a case of victimisation or unfair labour practice or violation of principles of natural justice; (c) there is a basic error of facts; and (d) there has been a perverse finding on the materials. The trouble about these *exemplary principles* is their essential vagueness. How are you going to define *bona fide*. It means of course, "in good faith," "honestly," "in accordance with fair play." But try to apply the principle to a specific case. I own a machine. It breaks down, causing me great loss. My servicing engineer reports that the breakdown was caused, in his opinion, by the deliberate sabotage of by operator X. X., on the other hand, says *that* the breakdown was accidental, through a screw becoming loose and the oil bath going completely out of action. I know both men well, and from my knowledge of them, I believe my engineer and disbelieve X, whom I accordingly dismiss. Can my decision be reversed by the tribunal on the ground of want of *bona fides* on my part? Again, in the whole of Wharton's Law Lexicon, there is probably no vaguer expression or one responsible for more legal muddle and judicial confusion than "natural justice." How difficult, indeed almost impossible, it is for an employer, in any given case of an action, otherwise perfectly legal and taken in complete good faith, to say whether it complies with the unwritten rules of natural justice. Y is my cashier in sole authorised charge of the till. He has robbed the till on a previous occasion, admitted it and and I have forgiven him. Now money is missing from the till again, and I give him a month's pay, and pack him off. Is my action contrary to natural justice? Legally, in the courts of law sense, pro-

[1](1952. *L.A.C.* 490).

[2]*Digest of Labour Law Cases* (V. B. Kher). p. 609.

[3]*Barwell and Kar on Master and Servant.* Vol. I. p.365-383.

[4]*Budge Budge Municipality* v *Sri P. R. Mukherjee.* L.L.J. 1953. Vol. I, 195.

[5]*Lipton Ltd. and their workmen.* L.L.J. 1956. Vol. I. 319

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bably not; but in the tribunal's supervisory sense, probably "yes." And "perverse" in (d)—another vague term. It means "obstinately wrong," "pig-headed." Who is to say when a management's decision ceases to be merely wrong and becomes perverse? The answer is what the tribunal is to say if appealed to; and as to what it will say in a majority of the cases which come before it on such expressions as the foregoing, no one can have any definite idea. Hence the insensate mass of quasi-litigation.

Opportunity to Explain

Nevertheless, the tribunals, and especially the Labour Appellate Tribunal and the High and Supreme Courts, have given us some valuable and informative guidance on the practical working out of the above four general principles, on commonsense lines. In spite of a constitutional aversion to Latin tags, nearly all of which are misleading, the writer presents one which, in ordinary life as in the law, is the embodiment of practical wisdom. *Audi alteram partem.* That is an absolute essential in all cases of proposed punitive measures. A management's decision cannot prevail when the workman is not given an opportunity of explanation, or when that explanation is not taken into account, or when no enquiry has been made. "The object of any enquiry that is required to be made before any steps are taken by way of punishment, or otherwise affecting the service conditions of workmen, is not that it might be offered merely as a shield to protect the employer from the allegation that the principles of natural justice have been violated, but the inquiry must be of such a nature that if it happens to be examined by a tribunal, it will have to come to the conclusion that the authorities considered the charges, the explanation offered and the evidence taken, if any, in such manner that there can be no room for doubt that they acted *bona fide.*"

In *Atherton West Company* v *Sutt Mill Mazdoor Union*, the Supreme Court observed that the authority which is to give permission for discharge or dismissal must "institute an enquiry and come to the conclusion whether there was a *prima facie* case made out for the discharge or dismissal of the workman, and the employer, his agent or manager was not actuated by any improper motives, or did not resort to any unfair practice or victimisation in the matter of the proposed discharge or dismissal of the workman." A reference to the decisions of recent years shows beyond doubt that it is the right and duty of the tribunal to scrutinise the action of the management, in order to satisfy itself whether in fact such action is valid and not opposed to the principles of natural justice. All this is extremely vague, and must necessarily be so when once you subbstitute general elastic moral principles, however benevolent in intention for the plain age-old rules of the common law. But the substitution has been made by the legislature. It has come to stay, and now every employer has to face the fact that to dismiss a workman is to indulge in a gamble—a toss of a coin which, if it falls the wrong side up, may bring his whole business to a standstill.

Severity of Punishment

You have, let us say, an employee whose conduct is generally unsatisfactory. He is a fomenter of labour trouble among his fellow workmen, quietly insolent in his manner, though capable, honest and efficient. You would like to get rid of him, but he has not been guilty of any conduct which would legally justify dismissal. At last you catch him out. He is detected in an act—and you can prove it— of such wilful disobedience to orders as would justify you at common law in instantly dismissing him; altenatively, you are entitled at common law in your discretion to impose a lesser penalty; and, in fact, in the similar case of another workman, a quiet, respectful, well-behaved fellow, you did impose a more lenient punishment, though the offence in both cases was substantially the same. You propose to dismiss the first man. Will the tribunal support your action? We doubt it. The very fact of the unsatisfactory nature of his conduct in the past, far from being an added justification for your dismissing him, as it would be at common law, will be the workman's sheet anchor. His union will contend that you have victimised him and made him a scapegoat; that you have made his offence a shield behind which you have gratified your grudge against him and your desire to violate the principles of natural justice; that you are really punishing him for his union activities as is evidenced by your more humane treatment in a similar case of an offender who indulged in no such activities.

You may know the Industrial Disputes Act backwards and be able to recite it by heart but you won't find specific guidance as to what your rights are in any single clause of it; and not much specific guidance in the reported decisions either. For what is the use or practical value of the *Buckingham and Carnatic* case telling us that the management, with its knowledge and experience, is best qualified to judge what the appropriate punishment shall be when the Labour Law Reports are simply cluttered up month by month with decisions where the managerial judgment is stultified and set aside?

"Natural justice." The tribunals, and especially the Labour Appellate Tribunal, have done their best to elucidate for the benefit of employers the meaning of the expression to which, by reason of its essential vagueness and looseness, no precise meaning can be given. A case reported this year gives us some useful general guidance.[7] "So far as the principles of natural justice are concerned, the authority dealing with the workmen should not be guilty of adopting unfair means, and must not only act in good faith, but also fairly and reasonably and without violating the principle of *audi alteram partem.* The authority in question must give the party an opportunity of being heard before him and stating his case. He must act honestly and impartially and not on the dictation of some other person or persons. There would be no decision in accordance with the principles of natural justice if there were anything done contrary to the essence of justice."

Guarantee of Impartiality

Stopping there for a moment, it would surely be difficult to find a better instance of a truism and a platitude than that last sentence. It is simply saying with solemnity "Justice is not injustice". The report proceeds to say: "The fundamentals of fair play have to be observed by any person or authority whose determination touches the rights of the subjects. There must be a desire to reach an honest conclusion after hearing what was urged on both sides, and a resolve not to make up their minds beforehand on personal guilt, however firmly they held their opinion as to union policy and however strongly they did share any previous adverse criticism of the respondent's conduct. In other words, whatever act is done must be in good faith, and a conclusion must be reached after fairly listening to both sides, for that is the duty lying upon everyone who decides anything. Another well-established principle is that no one can be a judge in his own cause. If there are circumstances so affecting a person acting in a judicial capacity as to create in the mind of a reasonable man a suspicion of that person's impartiality, those circumstances are themselves sufficient to disqualify, though it may be that no bias in fact exists." Closely allied to this principle is another, namely, that it is of fundamental importance that justice should not only be done, but manifestly and undoubtedly seem to be done.

Ideas of Social Welfare

It may appear from the foregoing that before he can venture to exercise any punitive disciplinary authority, the manager, say, of a mill, a tea garden or a factory would require the knowledge, training and mental capacity of a judge of the High Court on the Equity side. It is, however, not as bad as that. The *Buckingham and Carnatic* case, notwithstanding ingenious and pertinacious efforts month by month to whittle it down, still holds the field, and one of the principal decisions reported this year[8] afforded the following salutary guidance. "It has however to be remembered that the primary motives with which industries are run are normally the motive of economic gain and not of philanthropy or the advancement of social welfare..... In consequence, when an industrial tribunal is called upon to interfere with a perfectly lawful and *bona fide* act, which on the part of the employer has been primarily dictated by economic motives and which cannot be challenged under the circumstances as vicious, arbitrary or manifestly unjust, the tribunal should not allow any vague ideas as to what it considers to be good for the advancement of social welfare to influence it ....."[9]

Sound commonsense this, from the Labour Appellate Tribunal of India; and if the advice tendered thereby were digested and followed by the tribunals generally it would cut down the mass of industrial litigation by probably one-fourth at least. But unfortunately there is still a tendency among some of the tribunals to look upon themselves as a sort of *deus ex machina,* divinely appointed to emerge therefrom and settle everything on vague, unspecified grounds of general benevolence and humanity. Thus, in one case of this year,[9] a tribunal, though satisfied as to the serious misconduct of five workmen, substituted temporary suspension for the management's punishment of dismissal, saying that "the management should act with foresight and human feelings. After all the management is dealing with human beings." On these pious grounds, a coach-and-four was driven through the *Buckingham and Carnatic* case. Fortunately, on appeal the punishment of discharge was imposed. Nevertheless, the wholesome and eminently sensible decision in the *Buckingham and Carnatic* case has now been confirmed, and more than confirmed, by the highest court in the land, and we now know exactly where we stand in relation to the quantum of punishment on the authority of the Supreme Court.[10]

Dismissal of Driver

Caltex Ltd. had applied to the industrial tribunal for permission to dismiss Mr. Eugene Fernandez, a driver at Santa Cruz airport, Bombay, for smoking in close proximity to an aircraft which was being refuelled at the service station. Now, it is obvious that an offence of this kind, if proved, is about as grave an instance of serious and wilful misconduct as is possible to happen. It may endanger the aircraft, the service station and everything in it, and human life. The full report of the case has not at the time of writing been published, and the newspaper summary to which we are indebted does not state the grounds —doubtless humane and benevolent ones—on which the industrial tribunal refused to grant permission to dismiss Mr. Fernandez, beyond saying that it considered the punishment of dismissal excessive. The case proceeded via the Labour Appellate Tribunal, a single judge of the High Court, a Division Bench of the latter, to the Supreme Court; an expensive and dilatory procedure in undertaking which, if one may say so, Caltex (India) Ltd. performed a public service, for if the decision of the Decision Bench, upholding the refusal of permission to dismiss, was upheld by the Supreme Court, it would become almost impossible for any employer to exercise the punishment of dismissal at all. It was not upheld. Four judges of the Supreme Court reversed it. And Bhagwati J., presiding, made the case a landmark in industrial legislation by saying: "The industrial tribunal has no jurisdiction, while entertaining an application under Section 33 of the Industrial Disputes Act, to consider whether the punishment sought to be meted out by the employer to the workman is harsh or excessive. The measure of punishment to be meted out is within the sole discretion of the employer, who is to judge for himself what is the punishment commensurate with the offence which has been proved against the workman." The Supreme Court held that in going into the question of the measure of punishment to be given to the workman for any misconduct the Industrial Tribunal was exercising a jurisdiction which was not vested in it.

[4] *Great Eastern Hotel.* (1953. II. L.L.J. 321).

[7] *Janata Pictures and Theatres Ltd.* 1956. II. L.L.J. 67.

[8] *Boots Pure Drug Co. (India) Ltd. 1956.* I. L.L.J. 300 and 293.

[9] *Malayalam Plantations, Ltd. 1956.* I. L.L.J. 105.

[10] *Caltex (India) Ltd. and Eugene Fernandez. The Statesman.* 1st November, 1956.

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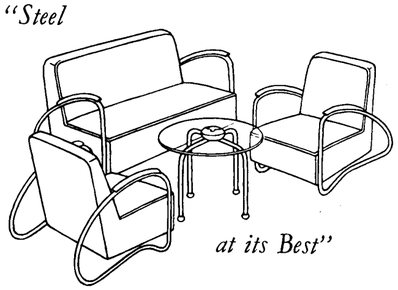
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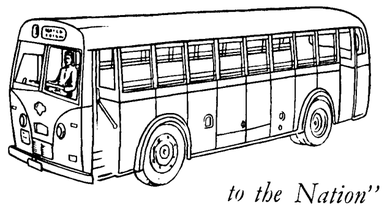
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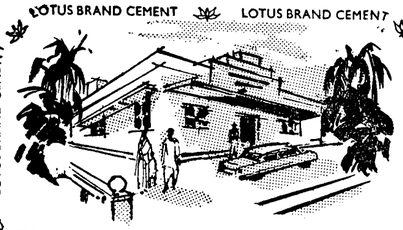
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WORKING OF LIFE INSURANCE IN INDIA

PROSPECTS AFTER NATIONALISATION

● By N. T. RAJU ●

THE past year has been an epoch-making one in the history of life insurance as it has witnessed the first major experiment of running this business as a monopoly under the aegis of the State. It has brought to an unceremonious end the eventful career of the private sector in an important segment of the economy. As the venture is a unique one, its progress and achievements will be watched with considerable interest. Private enterprise deserves credit for developing the life insurance business and for attaining a fair level of efficiency in running the leading offices.

During the years 1945 to 1953, the annual new life business in the country varied between Rs. 135 crores and Rs. 155 crores, but it spurted to Rs. 230 crores in 1954. The much-discussed and much-criticised rate-cut—which later received official blessing when nationalised insurance adopted the premium structure of the Oriental with a further reduction—, inevitably followed by the re-writing of old policies, was no doubt the main reason for this sudden and abnormal increase. The coming into force of the Estate Duty Act in the latter part of 1953 added to the tempo of new business operations. Further, the intense activity of life offices in writing business under the notorious staff insurance schemes—devices for issuing policies at lower than the standard rates—was also a contributing factor. The new business and total business in force in India during the last ten years have been as follows:

Year	New Business	Business in force (crores of rupees)
1945	136	557
1946	154	651
1947	140	706
1948	135	724
1949	142	765
1950	140	780
1951	148	873
1952	147	922
1953	155	966
1954	230	1059

The rapid rise in business was a mixed blessing. It was accompanied by a colossal waste by way of abortive business. The premature termination of life policies was disquietingly frequent. The craze for new business with insufficient consideration for the cost involved and the gearing of the field staff including branch managers for the purpose by fixing new business procured as the major criterion of success, naturally tended to push up the rate at which policies lapsed soon after they were issued. The smallness of the rise in the business in force, as compared with the annual new business, by itself indicates this adverse and undesirable characteristic. Actually in 1954, policies assuring a sum of Rs. 92 crores were forfeited or lapsed, and sums assured to the tune of Rs. 21 crores were reduced under some policies, the waste thus aggregating Rs. 113 crores, which is practically three-quarters of the annual new business prior to 1954.

High Costs

The proportion of the premiums received which was expended by the Indian life offices towards management of the business has all along been high. Part of the cost may be due to the large volume of new business relative to the business in force. In the U.K., the U.S.A. and Switzerland where new business bears a similar ratio to the total business, the expenses are at least one-third lower. The disparity may be attributed in part to the low average sum assured a policy in India, so that an Indian office is obliged to handle a far larger number of policies for the same sum assured, and, secondly, to the high lapse rates, which in general bring losses to the life offices. Also, the business is less densely distributed over the population in India, thus increasing the costs of procurement and diminishing the quality of servicing after sales. The expenses of Indian life offices, expressed as a percentage of the premium income, were as follows:

1945	32.2	1950	28.9
1946	31.2	1951	27.2
1947	30.4	1952	27.2
1948	29.0	1953	27.4
1949	29.2	1954	29.3

The substantial fall in the ratio in 1951 and its continuance at the new level is occasioned not by any reformation in the business, but by the expense limitations imposed by the 1950 Insurance Amendment Act and the statutory reduction of 5 percent in the maximum new commission payable to agents. The Finance Minister, in the course of the Lok Sabha debates, attributed the high expenses to extravagance in the field. The Code of Conduct framed to arrest the race for business was got round by the industry in no time. He said that the premium-rates were the highest to be found in any advanced country in the world and that the experts linked them to high management costs.

Investments and Yields

The rate of interest realised on the life funds continues to be satisfactory and is rising. A rise in the rate of interest, though followed by capital depreciation, is beneficial to life insurance on balance. The initial depreciation is gradually recovered from higher yields, and new money can be invested on attractive terms. The benefits are already reflected in the increasing bonus rates declared by numerous offices, in spite of a drastic reduction in premium rates. The rate of interest earned by Indian life offices on their mean life funds was as follows:

1945	3.48	1950	3.16
1946	3.20	1951	3.33
1947	3.03	1952	3.43
1948	3.02	1953	3.50
1949	3.05	1954	3.51

In the near future, conditions are likely to be favourable and policyholders can look forward to the continued declaration of good rates of bonus for some time to come. The importance of life insurance lies in the large funds which it accumulates, and this characteristic has been responsible for the interest which every State takes in the development and healthy management of the business. Wherever major regulatory measures had to be enacted, the trouble spots could be traced to the handling of the investments or the accumulated funds. The Finance Minister stated in the Lok Sabha that the picture of investments, when detailed returns were obtained for the first time in 1951, was appalling. Bad investments and high expenses resulted, in 1944-54, in the liquidation of 25 offices and in the transfer to other offices of the business of 25 other offices, in most cases with a cut in the policy contracts, and 75 offices were unable to declare bonuses at their last valuation.

With the nationalisation of life insurance, there were widespread apprehensions that the resources of the business may be diverted by the State to its own development plans and that the flow of funds into the private sector may be narrowed down. The Finance Minister assured the private sector that investments would not be diverted to the public sector. He was confident that rapid expansion of the business would provide enough funds for both sectors. At the end of 1954, about 16 percent of life funds were invested in shares and debentures and that proportion would be maintained. Life office investments in company shares and debentures are low because of a high proportion of compulsory holdings in gilt-edged securities. Aid to the private sector from the funds should depend upon requirements and available resources, and not on the artificial state of affairs prevailing on a particular date. In this connection, the dispersal of investments in the U.K. and the U.S.A. gives an interesting idea of how life funds have been used for the State in times of war and for industry when it had to be rehabilitated and re-converted to peace-time needs.

Bonuses on Old Policies

Life offices differed from one another in their premium structure, strength of policy reserves, efficiency of management and bonus declarations. With nationalisation, the business will be automatically on a uniform standard, but the application of a common standard for pre-nationalisation business will be unfair to the with-profit policyholders of the better managed companies. It is therefore intended to group all old policies suitably on the basis of the reserves they bring to the Life Insurance Corporation and each group will get bonuses in future appropriate to its reserve strength. All policies issued after nationalisation will, however, get a uniform rate of bonus. A strict application of the principle implies that the policy contracts of insolvent companies will have to be suitably reduced before they can be taken over by the Corporation. But, as far as possible, reduction is avoided by valuing such business on a fairly liberal basis.

Life Insurance Corporation

The Life Insurance Corporation came into existence at the beginning of September, 1956 as a successor to the former life insurance companies. It has a monopoly to write life policies in India. The country has been divided into five semi-autonomous zones and each zone into a number of divisions. The division is the administrative unit of the Corporation, and has under it a number of branches to procure new business and to render service to policyholders. The Government did not originally intend to run the foreign life business of the nationalised life offices. It was proposed to transfer such business to some of the companies which could handle it economically and efficiently. Ultimately, however, the proposal did not materialise. The Corporation has taken over the entire staff, both field and administrative, of all the former companies. In doing so, it might have avoided the unpleasant task of having to retrench surplus personnel. The load is bound to be uneconomic, at least for the time being. It has proved to be a boon for the employees of the insurers which were about to be wound up and others which were surely and steadily heading towards insolvency.

Because of the existence of a large number of life offices formerly and the competition prevailing among them, elaborate field organisations were built up. After the amalgamation of all the offices, it is natural that the field organisation has become overcrowded. As the Government plans to extend life insurance activities into the rural areas, suitable employment opportunities may be created for some of these redundant field workers. Under monopoly conditions, the terms of service for salesmen cannot be as generous as before and in the transition to the new set-up,

DISTRIBUTION OF LIFE INSURANCE ASSETS

	Year	Currency	Total assets	Percentage of: Govt. & Semi-Govt. securities	Shares & Debentures	Mortgages
Life Offices in U.S.A.	1940	Millions of dollars	30,802	27.5	30.1	19.7
	1945	do.	44,797	50.3	24.7	14.8
	1950	do.	64,020	25.1	39.7	25.1
	1954	do.	84,486	14.3	44.4	30.7
Life Offices in U.K.	1937	Millions of £	1,745	33.3	34.1	11.0
	1945	do.	2,374	50.2	26.4	6.3
	1950	do.	3,134	47.3	29.5	8.2
	1953	do.	3,782	41.0	31.5	10.3
Indian Life Offices.	1940	Crores of Rs.	76	62.6	6.9	2.9
	1945	do.	138	69.9	9.5	1.0
	1950	do.	226	58.6	14.7	3.3
	1954	do.	301	55.8	16.1	5.0
Indian Life Offices, excluding Oriental.	1940	do.	47	48.6	10.7	4.6
	1945	do.	96	62.5	12.9	1.4
	1950	do.	160	50.0	18.1	4.6
	1954	do.	219	48.5	18.7	6.4


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some have necessarily to fall by the wayside. The nature of the service it is expected to get from the salaried insurance salesman of the future, and his training, have to be different from what they have been hitherto. The salesman has to impress on his clients the need for insurance. He must be able to explain to them the various aspects of a life policy and also render them service after sales. It is therefore not unlikely that in the near future there will be seen the first signs of the emergence of the typical life insurance salesman, well conversant with insurance practice and with a sales record which may be considered very high by present standards. With the same effort, sales may be higher in future with the elimination of incompetent and superfluous salaried field workers. Also the more stringent conditions now imposed on life insurance agencies will reduce their number. Those continuing will have better chances of increasing their outturn and consequently their earnings and conditions will be more favourable for a life insurance agency to be taken up as a whole-time avocation. A reduction in the scales of remuneration based on sales may appear to be unjust, but may not be actually so when considered in the context of the monopoly conditions prevailing and the probable increase in individual turnover without a corresponding increase in effort. Such a reduction is warranted when monopoly is ensured. Those affected may feel aggrieved but results in course of time may indicate that their feelings were unjustified.

Future of Life Insurance

The sharp rise in new life business in 1954 was due to extraordinary circumstances to which we have already referred. The initial attraction of a rate-cut wears off with the passage of time. The declaration of high rates of bonus in 1954 and 1955 would have acted as a prop in 1955 to the waning influence of lower premium rates in keeping up life policy sales. But it is unlikely that these forces should have continued to have the same effect in the current year. In addition, nationalisation has caused a certain amount of temporary dislocation in the normal working of the insurance organisation. It should therefore not be surprising if there is a setback in new business in 1956. Life insurance business has so far hardly touched the fringe of the insurance needs of the country. Literacy and economic betterment will gradually enlarge the scope for it. The development plans of the country may hasten their pace. The increased employment envisaged in the plans will provide an added impetus to insurance business. So far, life insurance in India has been mainly looked upon as a medium of savings and investment. The overwhelming majority of policies which are under the endowment assurance plan, and that too on a participating basis, testify to this characteristic. The rising rate of interest, declining mortality and a prospective reduction in expenses would enable life insurance to be gradually made more and more attractive from the investment point of view. The growth of the life insurance business will be considerably aided by the appeal it will have as a channel for investment.

Even among the educated classes in India there is an insufficient appreciation of the value and need for life insurance cover as such. Policies which provide a high degree of insurance cover at a low recurring cost are far from popular. The family income policies which are most suited to the needs of married young men with small children were hardly known in the country a few years ago. Even now they are not very familiar. The whole life assurance without profits which provides the largest amount of insurance for a given premium is ideal for the person who has just started life, whose earnings are modest but not so his responsibilities. He, however, generally chooses an endowment assurance plan for a smaller sum assured, thus unintentionally whittling down the protection to his dependants, or else he postpones altogether the idea for better times. The proportion of endowment assurance policies would probably be three-quarters in the Indian business. In the United States, where insurance habits are fairly well developed, the analysis of 1955 business has shown that family income policies accounted for nearly a third of the new purchases and whole life policies for nearly a similar proportion. The former showed a two or three-fold increase during the last ten years while the latter were maintaining their position. On the other hand, limited payment and endowment policies have declined from a third of the new purchases a decade ago to a quarter in 1955.

Provident Funds and Insurance

The underdeveloped state of life insurance in India is also evident from the almost total absence of life annuity and group insurance business and from the general apathy of the average Indian employee towards a pension scheme and his almost universal preference for a provident fund. The serious disadvantages of a provident fund scheme for employees are easy to understand, but they are seldom appreciated and alternative methods are thought of still less. Accumulations in the provident fund are low in the beginning and are insufficient to provide for dependants in case of an early death. The lump sum available on retirement may in some cases suffice only for immediate needs and one may be left without adequate means late in life. Only life insurance can satisfactorily overcome both these shortcomings. A life policy will ensure a much larger sum on early death than what the amount paid as premiums could otherwise accumulate to, and a life annuity will provide a dependable and stable income throughout life which a lump sum cannot do, however invested. Probably a judicious combination of the provident fund scheme with insurance would be ideal for employees' benefits. An appreciation of the underlying situation is bound to come sooner or later but it can come only gradually. The efforts of the Life Insurance Corporation may bring it a little sooner and with it will open a vast field for a steep rise in life insurance ownership. The change may amount to no more than a partial diversion of provident funds towards insurance schemes and no net increase in personal savings may result thereby. But the changed outlook will bring in large volumes of insurance and annuity business from those not covered or not adequately covered by employees' benefits.

Inflation and Taxation

The prospects for new life business depend to a considerable extent on the levels of prices and taxes, as these will determine the margin of savings. Inflation may render the existing insurance cover inadequate or the tax structure may offer attractive facilities for reducing tax liability through insurance. The phenomenal increases in insurance ownership during the last decade in India and elsewhere can partly be attributed to a fall in the value of money. The fall in the value of money has also brought more persons into the taxable income groups, and for them, especially those in the higher brackets, the tax rebate allowed on insurance premiums has always been an attraction. Another probable attraction to the surtax payer is the total exemption of the excess of the sum insured received over the premiums paid from tax.

The Estate Duty Act, 1953, has added further to the utility of life insurance to the taxpayer. Policy monies up to Rs. 50,000 earmarked for payment of estate duty, though included in the estate of the deceased, are assessable at a reduced rate. Apart from a saving in the estate duty, life insurance will provide against a constant annual charge the lump sum necessary to pay duty at death, whenever it may occur. Also life policies taken under the Married Womens' Property Act are treated as separate estates for purposes of estate duty and are consequently exempt from duty up to Rs. 1 lakh. In the case of large estates, it is usually not possible to meet the estate duty liability out of income which is itself subjected to heavy rates of income and supertax. It is therefore very likely that life insurance will be used more and more both for the payment of estate duty and for avoiding it through the Married Women's Property Act policies. As the disintegrating effects of estate duty on estates are demonstrated in practice, those likely to be affected will be inclined to fall back on insurance to preserve their estates to the extent possible by paying premiums even out of capital. The necessity to do so will become more pressing as estate duty rates are gradually stepped up. New life business from this source, although coming from a limited clientèle, will not be small.



MODERN DESIGNS for the Tea Industry

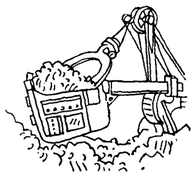
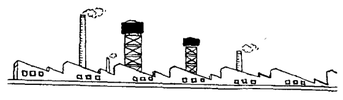
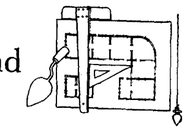
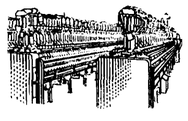
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THE CALCUTTA STOCK EXCHANGE IN 1956

● FROM A SPECIAL CORRESPONDENT ●

THE record of the Indian stock exchange activity during 1956 would furnish material for a study of the relation between psychology and economics. The prevailing sentiment, for the best part of the year, was one of hesitation and uncertainty. The robust optimism which was a striking feature of the previous year's trading was absent. Then, the market was able to take in its stride, the declaration that a socialistic pattern of society was going to be the objective of the Congress Government's economic policy, as well as the measures that followed that declaration. But in the year under review the mood has been different. Anxious thought is devoted to the vagaries of the Government's policy, of which the periodic utterances of ministers make nonsense. Confidence has been lacking throughout and operators seem to live in a state of nervous apprehension, ready to take fright at even imaginary dangers and eager to snatch at every opportunity for quick speculative deals by which to book profits and get out while the going is good. There has been little evidence of that widening of private investment which is to be expected in a developing economy.

The accompanying table, giving month by month, the highest and lowest prices of a representative list of shares quoted on the Calcutta Stock Exchange, shows that, from the beginning of the year, the overall trend has been downward. With a few exceptions, prices at the end of October were lower than in January. The All-India index number of variable dividend industrial securities stood at 128.9 at the end of December, 1955. By the end of February, 1956, it had dropped to 120.1. Then started a recovery which carried the index to 128.6 by the end of September. This was followed by another decline and the end of October saw the index down at 123.9. November brought a further fall in share prices. There seems little hope of recovery for some months, not until the uncertainties over the Budget for 1957-58 and the coming general elections are over.

Thus 1956 has been a bad year for the investor. If one, having read the glowing accounts of the progress of the first five year plan and of the vast scope for industrial development it promises, and inspired by a combination of patriotism and enlightened self-interest, in January bought shares of some industrial concerns, by November he would have been sadly disillusioned, because contrary to all expectations of capital appreciation, he found, in all probability, that not only had his capital failed to grow, but it had actually depreciated. His confidence in the country's economic soundness had been rewarded only by the loss of a part of his savings. With taxes and the cost of living at the level they now are, savings, for most people, can only be made by hard sacrifice. Who then can blame the investor if, after this experience, he decides to give equities a wide berth? The stock exchange is an essential part of the system of private enterprise, as well as the private sector in a mixed economy; it provides the inducement to save and serves to channel those savings into investment. If the experience of the Indian stock exchanges in 1956 is any guide, they have not so functioned. New investments in shares and savings can scarcely be stimulated by the gradual erosion of past savings, through the depreciation of share values. Risk capital is already scarce in this country and if the private sector is to carry out its allotted share of the second five year plan, a lot more of it will be needed. The authorities would be well advised to study the causes of the present malaise of the stock exchanges, and its implications for economic development.

Economic Indicators

The trouble however is mainly psychological. The state of the economy is sound. The principal economic indicators are favourable. The tempo of development expenditure is being maintained, and under its influence, the national income has been rising. Industrial production is increasing steadily, money supply is expanding, the external payments position is broadly in balance, and there are signs of the emergence of a measure of price inflation. So far as the last of these is concerned, however undesirable inflation may be for the economy as a whole, stock market economic reasoning has always tended to regard it as a favourable factor. Industries, for the most part, are doing fairly well and expect to do very much better in the future. As Mr. K. G. Milne said in his address to the Bombay Chamber of Commerce, the second five year plan would throw up a wealth of opportunity for private business expansion in progressively wider measure and over expanding fields.

Perhaps the most important single influence on the course of the stock market activity during the year, was the dramatic nationalisation of life insurance in January. Apart from the blow to confidence and the spate of conjecture it set off, about the impending nationalisation of banking, shipping, coal and a host of other activities, the nationalisation of private life insurance companies has removed one of the principal supports of the investment market. Since the disappearance, from the investment scene, of princes and *zamindars*, and with the gradual impoverishment of the middle class, life insurance companies had come to occupy a key position in the share market. Their vast resources were invested in a wide range of equities and they served as a stabilising influence on share prices. Their operations accounted for a substantial part of the market turnover and, as a matter of policy, they were ready to absorb any large offering of reputed shares, so as to maintain the level of share prices. There were occasions, when such operations served to prevent stock market debacles.

The situation was transformed overnight, as it were, by the nationalisation ordinance. The market lost its chief support, so prices in February broke sharply. Mr. Deshmukh at the time gave an assurance that the nationalisation of life insurance would not deprive the private sector of its share of the resources, but the fact is that the State-owned Life Insurance Corporation has not been supporting the investment market on anything like the scale of the private concerns. Such purchases of shares as the Corporation has made, have been comparatively small and spasmodic, and, since the head office of the Corporation is situated in Bombay, the Calcutta share market has received only a small share of these orders. Small wonder then that the volume of business has suffered a sharp contraction and that prices have generally weakened.

Price Floors

To the shock of life insurance nationalisation in January, were added the uncertainties created by the strike of bank employees in Calcutta and the Bombay disturbances over States' re-organisation. Prices fell steeply, and the Calcutta Stock Exchange Committee found it necessary to fix minimum prices for shares on the clearing list. By the time the market had extricated itself from the settlement crisis early in February, anxiety over the forthcoming Budget became general and checked the tendency towards a recovery. There had been so much talk about taxation as a means to reduce economic inequality and about the need to raise tax revenue to finance the second five year plan, that operators had braced themselves for some quite extraordinary tax increases.

When the Budget proposals became known, the reaction was one of relief, and even thankfulness, that the tax burdens imposed were not as they had feared. There was no ceiling on personal incomes, nor an annual tax on wealth, on capital gains nor on expenditure. Not that the proposals could be regarded as favourable for investment. That description could hardly be applied to a Budget which included a dividends tax, a tax on bonus issues, on registered partnerships and increases in the rates of supertax. Particularly, the tax on dividends and on bonus issues could depress share prices, for both these levies affect the class of shareholders. It is significant of the state of mind of the private investor, that measures which, in the normal course of things would have produced something like a debacle in share markets, were welcomed with gratitude, if only for the reason that they were not as bad as it had been feared they would be. Private enterprise has apparently reconciled itself to the fact that it can expect nothing from the Government but increasing burdens and restrictions and is grateful when these are not such as to crush it out of existence. Thus the Budget proposals were hailed in the share market which experienced a spell of rising prices and increasing activity. That lasted, with minor ups and downs, till September.

New Company Laws

The beginning of April saw the coming into force of the comprehensive Companies Act of 1956. This massive piece of legislation, with its 658 sections and 12 schedules, is ostensibly designed to protect the interests of investors and to safeguard them against the machinations of unscrupulous managing agents, directors and promoters. In market circles, this aspect of the new measure was duly appreciated, but there was some fear that the various cramping restrictions imposed by the Act on the working of companies, might impair their efficiency. In particular, the clauses relating to managing agencies were viewed with concern. It was feared that the vast power conferred by the Act, in irresponsible hands, may deprive companies of the services of tried, experienced, able managing agents. Here again, the situation is one in which enormous power over the private sector is concentrated in the Government and investors are left to hope that the authorities will exercise such powers with restraint and moderation. It may be that those at the helm of affairs at present, will use the power wisely though some actions, even of the present Government, appear to be inspired by an ideology which is opposed to the philosophy of private enterprise. The present Government will soon have to obtain a mandate from the people at the polls. Even granting that the Congress is returned to office for another five-year term, the longer-period outlook is viewed with concern. At some time, it is possible that another party, with a more extreme ideological bias, will gain power, which will find the Companies Act and the numerous other enactments conferring powers over economic activities on the Government serving as a ready-made armoury of weapons to be used against private enterprise.

Industrial Policy Statement

The next major development occurred at the end of April, when the long-awaited statement on the Government's industrial policy was made. For a long time, investors had been disturbed by the fear of sudden nationalisation of industries, which the case of life insurance companies had served to increase. There must have been many investors who wondered whether they would not be opening their newspaper, some fine morning, to learn that the concern in which they had invested their savings had passed overnight into the public sector. The uncertainty over this matter was not lessened by the tendency of some Ministers to indulge in public speculation about the intentions of the Government as to which industries would be nationalised next. The industrial policy statement, when it appeared, did little to dispel this uncertainty. It provided for a big expansion in the public sector, by specifying 17 industries, the future development of which are to be the exclusive responsibility of the State and 12 others, which are to be progressively State-owned and in which the State would increasingly establish new undertakings. Besides this extension of the public sector, the statement stressed the need for the reduction of economic inequality, the breaking up of concentration of economic power, the development of small-scale and cottage industries and the extension of co-operative activity. It speaks volumes for the state of mind of the investor that this statement was welcomed and the share market responded to it by a lively spurt in prices. Here again, as in the Budget, the explanation is that the market had expected something very much more drastic and expressed its relief and thankfulness that things were not worse. Operators drew comfort from the thought that the new formulation of policy did not rigidly demarcate the two sectors and that private enterprise was expressly debarred from only a few activities. It is true that there is still plenty of scope for private investment, provided it can adjust itself to a subordinate rôle to the public sector, in a socialist pattern of society.

Second Five Year Plan

In May, the important development of investment interest was the appearance of the final version of the second five year plan. The broad outlines of the plan were already common knowledge, so there was no notable market reaction. For investors, the importance of the plan lay in the promise of an acceleration of the rate of economic growth which had been achieved under the first plan. The prospect of the national income expanding at the rate of 5 percent a year over the next five years, and of a combined public and private development outlay of Rs. 7,200 crores in that period, seemed to offer attractive opportunities for profitable investment. This was the hope that helped to reconcile investors to the less attractive features of the plan, the movement towards socialism, the extension of the public sector, the stress on small-scale and cottage industries, even at the cost of the growth of organised manufacturing industries and the prospect of heavy increases in taxation to finance the plan. The transport bottleneck, the foreign exchange gap, and the problem of the

Stocks and Shares

A MONTH-BY-MONTH SURVEY OF PRICE TRENDS FROM JANUARY TO OCTOBER, 1956

(H. / L., Rs. — each cell gives Highest / Lowest)

	JANUARY H. / L. Rs.	FEBRUARY H. / L. Rs.	MARCH H. / L. Rs.	APRIL H. / L. Rs.	MAY. H. / L. Rs.
CENTRAL GOVT. LOANS.					
3% 1946/86	80 6	80 10 / 78 2	77 8 / 76 11	77 0 / 76 11	77 8 / 77 1
3% 1957	99 9	99 11 / 99 9	99 12 / 99 9	99 14 / 99 12	99 14 / 99 13
2¾% 1960	96 2 / 95 14	96 5 / 96 2	96 5	96 4	96 4 / 96 3
2½% 1961	93 3 / 93 1	93 6 / 93 1	93 6	93 6	93 7 / 93 6
2¾% 1962	93 12	93 12	93 12	93 12	93 15 / 93 14
3½% 1961	99 8	99 8 / 99 6	99 6	99 8 / 99 6	99 13 / 99 8
3% 1964	94 9	94 12 / 94 9	94 11 / 94 9	94 13 / 94 11	95 1 / 94 13
3½% 1964	98 11	98 12 / 98 7	98 10 / 98 7	98 12 / 98 10	98 12 / 98 11
3% 1970/75	87 15	88 13 / 88 1	89 11 / 88 13	89 13 / 89 10	90 2 / 89 14
PREFERENCE SHARES.					
Anglo-India Jute (7%)	120 0	120 0	117 0	116 0 / 114 0	114 0
Alkali & Chemical (5%)	107 0	107 0 / 105 8	105 8	105 12 / 105 0	105 8 / 105 0
B.I.C. (8%)	137 0 / 136 0	135 8 / 134 0	121 0	123 0 / 121 0	125 0 / 123 0
Burn & Co. (6%)	122 0	123 0 / 122 0	123 0	124 0	124 0
Dunlop (6%)	129 0	129 0	129 0	129 0	129 0
Indian Iron (5%)	110 8 / 110 0	110 8	109 8	109 8 / 106 0	107 8 / 106 0
Kesoram Cotton (7%)	134 0	134 0	134 0	134 0 / 133 0	133 0
Titaghur Paper (8%)	151 0	151 0	151 0	151 0 / 148 0	148 0 / 146 0
BANKS.					
Allahabad (Fully)	365 0	365 0	365 0	366 0	356 0
Do. (Partly)	184 0	184 0	184 0	184 0 / 178 0	178 0
United Commercial	53 0	49 8 / 48 0	49 8 / 45 0	50 12 / 49 8	50 12 / 50 0
RAILWAYS.					
Ahmadpur Katwa	61 8	61 8	61 8 / 59 0	59 6	59 0
Arrah Sasaram	76 0	75 0 / 73 0	73 0	74 0 / 73 0	73 8
Howrah Amta	72 0	72 0 / 70 0	70 0	70 0	70 0
Shahdara (Delhi)	147 0 / 146 0	145 0 / 140 0	140 0 / 135 0	135 0	135 0 / 132 0
ELECTRICS.					
Agra	161 0 / 160 0	163 0 / 158 0	158 0 / 153 0	153 0 / 150 0	152 8 / 149 8
Benares	19 10 / 19 8	18 6 / 18 4	18 4 / 18 0	18 4	18 4 / 17 10
Calcutta	14 10 / 13 12	14 2 / 13 7	14 0 / 13 7	14 0 / 13 6	13 14 / 13 4
Patna	12 6 / 12 0	11 12 / 11 6	12 0 / 11 4	11 13 / 11 6	11 10 / 11 4
Jubbulpore	16 10 / 16 8	15 4	15 4 / 14 14	14 11	14 5
United Provinces	164 0	161 0 / 160 0	160 0	155 0 / 150 0	143 0 / 141 0
JUTES.					
Anglo-India	216 0 / 207 0	199 0 / 195 0	189 0 / 185 0	180 0 / 169 0	186 0 / 168 0
Belvedere	183 0	182 0 / 180 0	171 0 / 165 0	160 0 / 159 0	164 0 / 158 0
Barnagore	164 8 / 163 0	162 0	145 0 / 140 0	141 0 / 131 0	151 0 / 133 0
Champdany	182 0	168 0 / 154 0	155 0 / 150 0	159 0 / 153 8	168 0 / 150 0
Empire	22 5 / 22 2	22 0 / 21 8	22 12 / 20 3	19 6 / 19 4	20 4 / 18 14
Fort Gloster	420 0	400 0 / 390 0	350 0	350 0	350 0
Gourepore	322 0 / 319 8	315 0 / 300 0	300 0 / 290 0	291 0 / 289 0	265 0
Howrah	27 10 / 24 12	25 7 / 23 12	24 1 / 22 8	23 4 / 22 0	24 0 / 22 2
India	160 0 / 156 0	157 0 / 153 0	153 0	144 0 / 138 0	145 0 / 138 0
Megna	96 0 / 94 0	90 8 / 89 0	84 8 / 81 0	78 4 / 77 0	83 8 / 79 0
Northbrook	27 0 / 25 4	25 14 / 24 8	24 8 / 23 0	24 4 / 23 4	24 0 / 22 4
COALS.					
Amalgamated	26 8 / 24 0	23 8 / 22 12	23 2 / 23 0	25 8 / 23 4	22 12 / 22 10
Bengal	605 0 / 550 0	550 0 / 538 0	555 0 / 522 0	548 0 / 530 0	545 0 / 529 0
Burrakur	17 0 / 14 10	14 0 / 13 4	15 0 / 13 8	14 14 / 13 12	14 12 / 13 10
Equitable	36 0 / 33 14	33 6 / 32 3	32 4 / 31 4	30 8 / 28 8	30 8 / 29 14
East Indian	36 3 / 31 12	32 8 / 31 12	35 4 / 32 0	35 0 / 31 8	33 0 / 32 6
Katras Jherriah	64 6 / 63 4	64 0 / 61 8	60 12 / 60 4	60 0 / 56 6	55 0 / 54 12
South Karanpura	13 14 / 12 12	11 8 / 10 11	10 10 / 9 8	10 8 / 10 3	9 13 / 9 8
ENGINEERINGS.					
Britannia	19 4 / 18 0x.r.	18 0 / 17 8	19 2 / 18 7	19 4 / 18 0	18 8 / 18 0
Braithwaite	27 8	29 4 / 26 0	28 4 / 26 2	28 4 / 26 0	28 5 / 27 8
Burn & Co.	331 0 / 314 0	310 0 / 299 0	384 0 / 310 0	370 0 / 355 0	377 0 / 349 0
Indian Galvanizing	27 8 / 26 6	26 8 / 25 10	25 8 / 25 4	25 0 / 24 4	25 2 / 24 12
Indian Iron	38 7 / 35 0	33 8 / 31 14	35 13 / 31 8	36 1 / 34 3	38 0 / 34 8
Indian Standard Wagon	171 0 / 160 0	169 0 / 156 0	177 0 / 168 0	191 8 / 186 0	181 8 / 180 0
Jessop	65 8 / 59 12	60 6 / 57 6	35 8 / 31 8x.r.	36 2 / 33 8	36 11 / 34 8
Marshalls	7 7 / 7 2	6 14 / 6 11	7 4 / 6 11	6 12 / 6 2	6 12 / 6 0
SUGARS.					
Balrampur	9 12 / 9 8	9 4 / 9 0	9 0	9 0 / 7 8	7 8 / 7 6
Belsund	11 13 / 11 5	11 8	11 10 / 11 6	11 8 / 10 8	11 12 / 10 1
Carew	11 10 / 11 7	11 8 / 10 9	10 15 / 9 1	9 3 / 8 6	8 13 / 8 9
Cawnpore	25 8 / 24 10	21 14	21 4	19 12 / 19 6	20 1 / 19 7
Champaran	34 8 / 34 0	33 0 / 31 8	31 8	30 6 / 27 6	29 12 / 27 14
Darbhanga	24 9 / 23 7	25 8 / 21 14	21 4 / 21 0	21 6 / 20 9	23 0 / 22 2
Ramnugger	26 0 / 24 6	24 8	24 4	24 1 / 23 14	24 13
COTTONS.					
Cawnpore Textiles	9 8 / 9 1	9 5 / 8 15	8 15	8 7 / 8 4	8 12 / 8 4
Dunbar	320 0 / 304 0	289 0	296 0 / 294 0	302 0	308 0
Elgin	27 8 / 25 12	27 8 / 26 15	27 10 / 26 12	27 6 / 26 7	27 10 / 27 2
Kesoram	18 3 / 16 12	17 2 / 15 14	18 4 / 16 1	18 0 / 17 6	18 6 / 17 5
New Victoria	2 1 / 1 14	2 1 / 1 14	2 10 / 2 0	2 10 / 2 3	2 10 / 2 4
MININGS.					
Burma Mines	2 9 / 2 5	2 6 / 2 0	2 9 / 2 0	3 12 / 2 12	4 9 / 3 13
Chrestien Mica	18 2 / 17 6	17 1 / 16 3	14 14	14 14	14 8
Indian Copper	7 10 / 6 10	6 15 / 6 0	7 4 / 6 5	7 1 / 6 3	7 1 / 6 7
Karanpura Development	21 10 / 19 8	19 12 / 18 0	24 0 / 19 4	28 8 / 20 7	26 12 / 25 2
MISCELLANEOUS.					
Alkali & Chemical	23 10 / 22 7	21 4 / 21 0	23 2 / 20 13	19 11 / 18 8	20 11 / 19 10
Angelo Bros.	26 10 / 23 11	24 10 / 22 0	22 8 / 21 4	22 4 / 21 12	21 12 / 21 2
Bengal Paper	118 8 / 116 8	121 4 / 118 8	127 12 / 126 0	145 0 / 130 0	121 0
Balmer Lawrie	198 0 / 186 0	185 0	175 0	177 0 / 174 8	169 0 / 167 0
Britannia Biscuits	15 4 / 15 0	14 10 / 14 0	14 10 / 14 3	15 4 / 14 4	15 6 / 15 0
B.I.C.	13 4 / 11 12	11 15 / 10 14	11 9 / 9 11	11 1 / 10 6	11 8 / 10 14
Calcutta Trams	17 14 / 17 11	17 8 / 16 4	17 2 / 16 9	16 15 / 16 2	16 5 / 15 10
Dunlop	35 0 / 34 0	34 8 / 31 0	31 12 / 31 0	31 14 / 30 3	30 12 / 30 1
Eastern Investments	153 8 / 152 0	151 8	160 0 / 153 0	151 8	150 0 / 146 8
I.G.N.	133 0 / 126 0	125 0 / 113 0	115 0 / 113 0	107 0	127 0 / 107 0
Indo Burma Petrol	45 0 / 44 4	43 12 / 40 4	45 8 / 40 12	44 8 / 42 10	43 0 / 40 12
India Paper Pulp	24 10 / 22 15	23 5 / 22 14	25 6 / 23 2	25 2 / 24 4	25 14 / 25 0
India Steamship	8 14 / 7 13	8 9 / 8 0	8 12 / 8 4	8 14 / 8 5	9 11 / 8 8
Indian Wood Products	43 12 / 41 10	38 6 / 38 2	38 14 / 38 8	40 0 / 39 2	39 4 / 37 8
Indian Aluminium	205 0 / 198 0	186 0 / 184 0 (Rs. 100/- Pd. up)	23 4 / 20 4 (Rs. 10/- Pd. up)	22 6 / 21 7	22 8 / 20 6
Jardine Henderson	110 0 / 108 0	107 0	104 8 / 100 0	103 0 / 99 0	101 0 / 99 8
Martin Burn	29 4 / 27 3	28 2 / 26 3	28 1 / 25 12	26 2 / 24 4	25 10 / 24 15
Metal Box	27 5 / 26 2	25 5 / 24 14	27 10 / 25 12	28 4 / 27 4	27 12 / 27 5
Sone Valley	8 4 / 7 10	7 15 / 7 3	7 10 / 7 4	8 1 / 7 10	9 0 / 7 14
Titaghur Paper	48 4 / 45 11	45 4 / 43 8	44 13 / 43 15	46 8 / 43 12	44 13 / 43 2
TEAS.					
Baradighi	50 0	49 0 / 48 0	49 0 / 48 0	49 8 / 49 4	50 8
Bishnauth	38 2 / 35 0	37 8 / 35 2	26 12 / 24 0x.r.	26 8 / 25 6	25 14 / 25 12
Brooke Bond	20 12 / 19 10	20 8 / 19 10	25 8 / 20 0	25 10 / 23 15	24 14 / 23 11
Dufflaghur	44 4 / 44 0	42 0 / 40 14	48 8 / 48 0	50 0 / 47 8	48 0
Dhunseri	24 0 / 23 8	25 0 / 23 8	26 0 / 23 0	26 0 / 25 0	25 0 / 24 4
East India	23 2 / 20 12	22 12 / 22 8	26 14 / 23 0	27 8 / 25 8	27 11 / 25 4
Gohpur	43 0 / 42 8	41 5 / 41 0	41 2 / 39 12	28 6 / 27 14	27 4 / 27 0
Hasimara	33 14 / 32 6	33 4 / 32 6	38 12 / 33 2	41 12 / 39 8	40 6 / 39 6
Patrakola	169 0	165 0 / 150 0	254 0 / 155 0	206 0 / 184 0	182 0 / 181 0
Tezpore	24 4 x.r.	22 0 / 21 6	28 0 / 21 8	29 0 / 25 12	26 12 / 25 8

	JUNE. H. / L. Rs.	JULY. H. / L. Rs.	AUGUST. H. / L. Rs.	SEPTEMBER. H. / L. Rs.	OCTOBER. H. / L. Rs.
CENTRAL GOVT. LOANS.					
3% 1946/86	77 11 / 77 3	77 3 / 76 5	76 4 / 75 1	75 7 / 75 2	75 2 / 74 3
3% 1957	99 13	99 13	99 13 / 99 12	99 12	99 12
2¾% 1960	96 6 / 96 4	96 7 / 96 5	96 6 / 96 5	96 6	96 6
2½% 1961	93 9 / 93 7	93 9	93 9 / 93 7	93 7	93 7
2¾% 1962	94 0 / 93 15	93 15	93 15	93 15 / 93 14	93 15
3½% 1961	99 12 / 99 9	99 9 / 99 8	99 8 / 99 6	99 6 / 99 2	99 4 / 99 2
3% 1964	95 2 / 95 0	95 2 / 95 1	95 2 / 94 14	94 14 / 94 8	94 8
3½% 1964	98 13 / 98 12	98 12 / 98 11	98 11	98 11 / 98 8	98 9 / 98 8
3% 1970/75	90 7 / 90 2	90 6 / 90 5	90 6 / 89 14	89 14 / 89 6	89 6 / 88 14
PREFERENCE SHARES.					
Anglo-India Jute (7%)	113 0 / 112 0	111 0 / 109 0	107 0 / 105 0	107 0 / 106 0	107 0 / 106 0
Alkali & Chemical (5%)	105 0	105 0	105 0	105 0 / 102 8	102 8 / 102 0
B.I.C. (8%)	126 0 / 125 0	128 0 / 127 0	125 0	125 0 / 124 0	124 0 / 123 0
Burn & Co. (6%)	124 0 / 121 0x.d.	121 0 / 120 0	120 0 / 118 0	116 0 / 115 0	115 0
Dunlop (6%)	129 0 / 125 0x.d.	125 0	125 0 / 123 0	125 0 / 123 0	125 0
Indian Iron (5%)	107 8	109 0 / 108 8	108 0	109 0 / 108 8	108 8 / 104 8
Kesoram Cotton (7%)	133 0 / 130 0	130 0 / 128 0	126 0 / 124 0	122 0 / 117 0	117 0 / 116 0
Titaghur Paper (8%)	146 0 / 145 0	145 8 / 144 8	145 0	145 0 / 144 0	144 0
BANKS.					
Allahabad (Fully)	320 0	320 0	356 0 / 348 0	350 0 / 348 0	350 0
Do. (Partly)	160 0	160 0	165 0	166 0 / 164 0	168 0
United Commercial	51 8 / 50 8	57 0 / 51 4	60 0 / 57 8	58 4 / 56 8	56 8 / 56 0
RAILWAYS.					
Ahmadpur Katwa	58 8	59 0	59 0	59 0	60 0 / 59 12
Arrah Sasaram	73 8 / 72 0	72 0	71 8	71 8 / 71 0	71 8
Howrah Amta	53 8	59 8	60 0	62 0 / 60 0	70 0 / 62 8
Shahdara (Delhi)	125 0	125 0	126 0 / 125 0	129 8	130 0 / 128 0
ELECTRICS.					
Agra	154 0 / 152 0	159 0 / 158 0	158 0	158 0	159 0 / 158 0
Benares	18 2 / 17 12	17 12 / 17 10	17 9 / 17 4	18 6 / 17 6	18 0 / 17 14
Calcutta	13 9 / 13 3	13 14 / 13 6	14 1 / 13 12	13 15 / 13 5	13 11 / 13 3
Patna	11 9 / 11 6	11 11 / 11 7	11 11 / 11 5	12 0 / 11 8	12 0 / 11 13
Jubbulpore	14 8 / 14 5	14 6 / 14 2	14 8 / 14 4	14 8 / 14 4	14 4
United Provinces	148 0 / 142 0	146 0 / 144 0	153 0 / 148 12	155 8 / 153 0	15 4
JUTES.					
Anglo-India	173 0 / 167 8	165 0 / 158 0	188 0 / 165 0	193 0 / 185 0	185 0 / 168 0
Belvedere	168 0 / 163 8	155 0 / 150 0	159 0 / 156 8	158 0	155 0 / 130 0
Barnagore	150 0 / 136 0	134 0 / 128 0	148 8 / 131 0	142 0	140 0 / 135 0
Champdany	165 0 / 158 0	158 0 / 151 0	162 0 / 156 0	163 0 / 157 0	156 0 / 152 0
Empire	20 8 / 19 0	19 0	19 6 / 18 4	19 0	18 4 / 17 4
Fort Gloster	347 0	345 0 / 335 0	380 0	364 0 / 335 0	363 0 / 340 0
Gourepore	265 0 / 260 0	236 0 / 220 0	256 0 / 230 0	248 0 / 242 0	245 0 / 230 0
Howrah	24 3 / 22 0	22 4 / 21 3	24 5 / 21 14	25 1 / 23 11	23 12 / 21 4
India	140 0 / 136 0	130 0	150 0 / 136 0	148 0 / 142 0	148 0 / 142 0
Megna	85 0 / 81 0	73 0	95 0 / 84 0	87 8 / 85 8	84 0
Northbrook	24 0 / 22 9	23 9 / 22 15	26 6 / 26 4	28 4 / 25 10	25 6 / 24 8
COALS.					
Amalgamated	23 14 / 23 10	22 8 / 22 3	23 8 / 22 15	23 8 / 22 15	23 1 / 22 8
Bengal	559 0 / 534 0	538 8 / 535 0	542 0 / 536 0	536 0 / 523 0	504 0 / 500 0
Burrakur	14 9 / 13 1	14 0 / 13 4	15 4 / 13 6	16 6 / 14 10	16 12 / 15 9
Equitable	31 4 / 29 5	30 6 / 29 14	31 5 / 29 11	30 10 / 30 6	29 14 / 28 12
East Indian	33 8 / 32 12	32 12 / 30 10	31 14 / 31 1	33 4 / 31 14	33 4 / 32 0
Katras Jherriah	60 12 / 57 8	56 8	60 0 / 59 0	62 0 / 60 0	63 0
South Karanpura	10 1 / 8 15	9 12 / 9 6	9 9 / 9 0	9 12 / 9 8	9 6 / 9 2
ENGINEERINGS.					
Britannia	19 4 / 18 0	18 4	18 12 / 18 2	18 8 / 17 15	18 0 / 16 12
Braithwaite	28 12 / 27 12	28 12 / 27 11	31 4 / 28 12	31 0 / 29 8	30 0 / 28 9
Burn & Co.	382 0 / 356 0	358 0 / 353 0	361 0 / 356 0	385 0 / 358 0	373 0 / 371 0
Indian Galvanizing	23 12 x.d.	22 13 / 21 2	21 12 / 21 4	22 10 / 21 4	23 10 / 21 0
Indian Iron	39 2 / 35 10	36 9 / 35 0	37 13 / 36 8	36 13 / 35 2	36 0 / 33 9
Indian Standard Wagon	186 0 / 182 0	180 0 / 177 0	201 0 / 177 0	228 0 / 202 0	228 0 / 219 0
Jessop	36 10 / 34 4	36 12 / 34 8	35 4 / 33 15	38 5 / 33 10	39 1 / 36 12
Marshalls	6 11 / 6 6	6 4 / 5 11	6 5 / 5 15	6 5 / 6 0	6 4 / 5 15
SUGARS.					
Balrampur	7 4	7 12 / 7 10	7 14 / 7 8	7 9	7 8 / 7 6
Belsund	12 1 / 11 3	11 14 / 11 10	12 10 / 12 0	12 14 / 12 0	11 12
Carew	10 12 / 8 12	9 11 / 9 0	9 4 / 8 13	9 5 / 8 11	8 14 / 8 8
Cawnpore	20 8 / 19 11	19 13 / 19 4	19 11	20 4 / 19 15	19 0 / 18 12
Champaran	30 0	26 7	26 9 / 26 5	26 10	26 10 / 25 4
Darbhanga	24 3 / 22 15	24 0 / 23 12	22 8	22 13 / 22 9	23 0 / 22 8
Ramnugger	29 2 / 25 12	29 10 / 27 10	27 1 / 26 6	27 14 / 26 14	28 14 / 24 9
COTTONS.					
Cawnpore Textiles	8 15 / 8 7	9 1 / 8 13	9 1 / 8 14	9 2 / 8 13	9 3 / 9 0
Dunbar	312 0 / 308 0	300 0 / 295 0	303 0 / 294 0	284 0 / 274 0	274 0 / 260 0
Elgin	29 2 / 27 4	28 10 / 28 8	28 10 / 27 10	27 14 / 27 6	29 12 / 27 8
Kesoram	20 10 / 18 4	18 14 / 18 0	20 0 / 18 10	19 2 / 17 7	18 0 / 16 12
New Victoria	2 11 / 2 8	2 11 / 2 9	2 15 / 2 9	2 11 / 2 7	2 9
MININGS.					
Burma Mines	4 2 / 3 11	3 9 / 3 2	3 6 / 3 3	3 4 / 3 1	3 2 / 2 14
Chrestien Mica	17 10 / 15 6	16 8 / 16 6	17 13 / 15 13	17 4 / 17 0	17 0 / 16 14
Indian Copper	7 7 / 6 13	7 3 / 6 8	6 15 / 6 11	7 4 / 6 10	7 12 / 7 2; c.r. 4 14 / c.r. 4 2
Karanpura Development	26 4 / 22 0	23 1 / 21 14	21 8 / 21 2	21 2 / 20 15	x.r. 19 12 / x.r. 18 0
MISCELLANEOUS.					
Alkali & Chemical	23 12 / 20 13	22 14 / 21 0	22 14 / 21 0	23 8 / 22 10	23 9 / 22 8
Angelo Bros.	22 0 / 21 4	22 8 / 21 2	24 10 / 22 9	23 5 / 23 0	24 8 / 23 7
Bengal Paper	121 0	121 0 / 110 0	115 0 / 110 0	105 0	105 0
Balmer Lawrie	168 8 / 165 0	187 0 / 164 0	181 0 / 170 8	174 0 / 173 0	170 0 / 167 8
Britannia Biscuits	15 4 / 14 14	15 4 / 14 15	15 10 / 15 4	15 6 / 15 4	15 8 / 15 2
B.I.C.	11 6 / 10 12	11 13 / 10 14	11 2 / 10 8	11 10 / 10 2	11 11 / 11 0
Calcutta Trams	16 14 / 16 0	17 1 / 16 6	19 4 / 17 1	19 4 / 18 9	17 11 / 17 8
Dunlop	30 12 / 29 11	30 8 / 29 8	30 0 / 29 5	30 4 / 29 6	30 0 / 29 0
Eastern Investments	148 0 / 146 8	147 0 / 143 0	139 8 / 138 8	147 0 / 144 0	146 0
I.G.N.	117 0	116 8 / 108 8	116 0 / 112 0	115 0 / 114 0	106 0 / 95 8
Indo Burma Petrol	41 12 / 40 4	41 8 / 38 14	41 12 / 39 4	40 14 / 39 14	41 8 / 40 12
India Paper Pulp	25 14 / 25 0	25 12 / 24 15	25 12 / 25 0	25 9 / 25 0	25 2 / 23 12
India Steamship	9 9 / 8 14	9 8 / 8 13	9 14 / 9 2	10 14 / 9 10	10 11 / 9 15
Indian Wood Products	39 8 / 39 2	39 8	39 8 / 39 0	48 4 / 40 2	47 8 / 44 8
Indian Aluminium	23 2 / 22 4	22 9 / 22 1	25 4 / 22 13	25 1 / 24 3c.r.; 20 2 / 19 4x.r.	19 14 / 15 12
Jardine Henderson	102 8 / 100 0	100 8 / 100 0	99 8 / 99 0	99 0 / 94 0	95 0 / 90 0
Martin Burn	25 6 / 24 9	24 8 / 23 14	24 2 / 23 10	25 3 / 23 12	24 14 / 24 0
Metal Box	28 14 / 27 9	30 6 / 28 2	30 14 / 28 12	29 10 / 28 8	29 2 / 28 8
Sone Valley	9 0 / 8 12	9 11 / 8 9	9 1 / 8 10	9 14 / 8 10	9 14 / 9
Titaghur Paper	44 14 / 43 6	43 2 / 39 4	41 12 / 40 4	41 8 / 39 6	40 12 / 39 8
TEAS.					
Baradighi	50 0	49 8 / 49 0	49 0	48 8 / 48 0	48 0 / 47 0
Bishnauth	26 14 / 21 10	23 4 / 22 14	21 4 / 20 10	21 15 / 20 8	23 9 / 22 15
Brooke Bond	25 0 / 23 0	24 8 / 22 6	23 0 / 21 7	21 13 / 20 2	22 9 / 21 8
Dufflaghur	39 8	40 0 / 38 10	36 4 / 35 4	37 4 / 35 8	38 12 / 37 4
Dhunseri	24 10 / 23 6	24 0 / 23 0	22 0	22 0 / 21 4	21 12 / 21 8
East India	27 12 / 27 0	27 2 / 26 10	23 4 / 22 14	24 8 / 23 4	27 0 / 26 6
Gohpur	27 8 / 27 4	24 0 / 22 0	25 12 / 25 0	24 8 / 24 4	25 8 / 24 12
Hasimara	39 10 / 38 14	38 14 / 34 6	34 2 / 31 14	33 0 / 31 12	34 10 / 31 14
Patrakola	197 0 / 190 0	199 0 / 196 0	220 0 / 169 0	221 0 / 198 8	240 0 / 218 0
Tezpore	28 13 / 25 12	28 8 / 24 8	24 12 / 23 2	23 12 / 22 2	24 8 / 23 11

Figures between columns indicate that the highest and lowest quotations were the same. H = Highest. L = Lowest.

Supplement to "Capital" of December 20, 1956.

unfilled gap in financial resources did not cause any serious worry among investors. The ordinary operator in the share market evidently thought that the authorities could be trusted to prevent these problems from threatening economic stability. To him, the plan meant mainly large-scale deficit financing and consequent inflation. In market psychology, inflation means increased industrial profits and is, therefore, regarded as an important bull point.

Recent experience seems to indicate that this sort of reasoning, which associates deficit financing, inflation and rising prices with higher profits and a stock exchange boom, tends to oversimplify a complex situation. The wholesale price index rose almost continuously from 373.4 on 31st December, 1955, to 421.5 on 1st September, 1956, and has been fairly constant around 418 to the end of October. Share prices, for the greater part of this period, showed no corresponding rise. On the contrary, the prices in most sections were lower than at the beginning of the year. There are several possible explanations. The rise in prices was accounted for mainly by food articles and industrial raw materials. Manufactured articles showed a relatively smaller rise, indicating that the cost of production tended to increase more than the prices of finished goods, with a consequent narrowing of profit margins. It is possible also that the inflationary trend of prices failed to communicate itself to the share market because of the general lack of confidence in the investment outlook. Yet another explanation that has been heard in market circles is that the principal reason for the dullness in share dealings is the lack of investible funds. Bank credit is growing tighter and the Reserve Bank has been using selective credit controls to check loans by commercial banks for share market operations. In spite of the big increase in money supply and the consequent increase in incomes, there seem to be very little of new savings finding its way to the share market. Those whose incomes are increased by the new supplies of money are not saving and buying shares, whatever else they may be doing. It seems that before the share market can see a revival of activity, it will be necessary to devise ways of attracting new savings to investment in shares, possibly from classes who are yet ignorant of the ways of the stock exchange.

Ceiling on Personal Incomes

Two more events in May are note-worthy. In Parliament, the Prime Minister rejected the proposal for fixing a ceiling on personal incomes. This proposal which originated with the Taxation Enquiry Commission had caused serious misgiving among operators and the Prime Minister's realistic appraisal of the scheme was welcomed. Relief was however tempered by the knowledge that coming years would bring a big increase in the burden of taxation. The emphasis on the reduction of economic inequality seems to make it inevitable that much of this increase would take the form of direct taxation, including perhaps some of the proposals of Mr. Nicholas Kaldor, such as an annual tax on wealth, a capital gains tax, a gift tax and an expenditure tax. Apprehensions over the 1957-58 Budget began influencing market sentiment as early as the Puja season and from October, word has been going round that it will be wise to avoid heavy commitments till the uncertainties over the Budget and the general elections are out of the way. The present quietness is thus expected to continue till March or April next year. The other event of importance in May was the formation of the State Trading Corporation. Originally designed to handle the growing volume of India's trade with communist countries, this body has now created alarm in the business mind by tending to extend its activities even to internal trade.

June proved a dull month, except for the change at the Finance Ministry. Mr. T. T. Krishnamachari's appointment in place of Mr. C. D. Deshmukh was at first welcomed, on the ground that his intimate knowledge of the business world would influence the Government's policy in realistic directions. But soon after, the new Finance Minister disappointed his admirers by his policy in the matter of excise duties on cotton textiles and his other tax increases. This line of thought was later echoed by Mr. K. Santhanam, chairman of the second Finance Commission, who said that because the tax burden in India was only 8 percent of the national income, there was scope for increasing the proportion much more. Such comparisons overlook the fact that in a poor country, where the majority of the population live at a bare subsistence level, the proportion of the national income which can be paid in taxation is necessarily lower than that in industrialised countries.

For most of July, the market was featureless. Activity was at a low ebb. Towards the end of the month, international developments over the Suez Canal nationalisation brought a revival of activity, mostly speculative. Each turn of events was followed with the greatest interest, but there were conflicting opinions as to whether or not the deepening of tension should be considered as a favourable factor in share prospects. The dominant line of thought, under the influence of which business increased and prices tended to move up, was that stockpiling orders would bring prosperity to the major export industries and that would then spread to the entire economy. But the blocking of the Suez Canal later in the year, after the Anglo-French military action in Egypt, induced a measure of caution. It was realised that the Indian economy was vulnerable to any interruption of the transit facilities through the Canal. The second five year plan would be seriously affected by the increased cost of imports of machinery and capital equipment and the export industries would be faced with the problem of higher freight rates for the longer voyage round the Cape. Bullish enthusiasm was thus restrained and even at the worst period of the crisis, there was no sign of anything approaching a speculative boom. On the contrary, the overall turnover was so small that the Calcutta stockbrokers were heard to complain that business in July was the worst in the last few years. Perhaps one reason for this was that something like Rs. 150 crores had been taken out of the market as a result of the Central Government's borrowing programme for 1956-57.

International Events

International events dominated the market during August and produced a certain amount of speculative business. But investment support remained notably absent, except for some engineering and miscellaneous shares. Brokers had been advising clients to put money into those industries which were likely to benefit from the development expenditure under the second five year plan. There were several companies which, on their intrinsic merits, offered excellent prospects, both of attractive return and capital growth. But the extent of investment support attracted to these shares was far less than deserved. In market circles, there was much anxious questioning about why investment funds seemed so scarce. The most plausible explanation was that even those who had the money to invest lacked the confidence to do so. The major reason for this is probably that the Government's economic policy has tended to undermine confidence and to keep investors in a continous state of nervous tension. It is reported that the authorities are seriously concerned about the listless state of the share market and that high-level discussions have taken place as to how some life could be brought back to it. Perhaps this could be accomplished, if those who formulate and implement policy recognise frankly that the savers and investors are not a class of social parasites, but form a useful section of society, whose activities deserve encouragement and support. There are some 2,500,000 investors in the country, at least as large a number as that of the total of industrial labourers in factories whose interests and welfare receive so much consideration and publicity.

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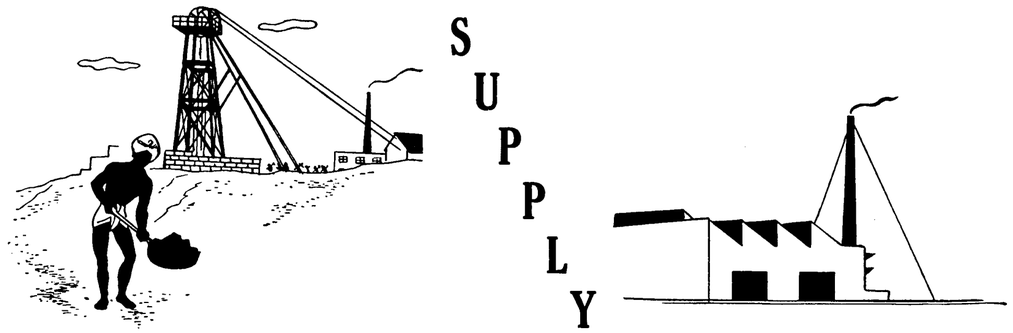
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which are invested in stock exchange securities represents sacrifice of much-needed comforts. The planners estimate that the rate of saving should rise from the present rate of 7 percent of the national income to somewhere near 11 percent over the next five years. For people whose living standards and incomes are as low as those of most people in this country, the marginal propensity to consume, to use the Keynesian term for the desire to fulfil unsatisfied needs, will be high. This simply means that when the incomes of such people increase, the greater part or the whole of the additional income is likely to be spent on consumption. And yet, the need for curbing consumption and increasing saving has been constantly stressed by the planners. Recent experience suggests that the principal means by which the necessary curtailment of consumption will be brought about is by excise duties on consumer goods and by inflation, that is, by allowing the prices of such goods to rise to the point where the common man would not be able to afford them. One wonders if sufficient consideration has been given to the idea of stimulating savings by offering some positive incentive to potential savers. One of the most effective of these may be the prospect of investing the saved funds in industrial shares, which will bring an attractive return and also a rise in capital value in course of time. This would require a reshaping of the economic policy in certain important respects.

Indian Iron Dividend

Except for some speculative activity, there was little of other interest in September, and as the month wore one, the usual pre-Puja slackness appeared. There was a good deal of interest in the dividend prospects of Indian Irons. As the undisputed leader of the Calcutta market, this particular counter occupies a key position. It is the market barometer and its ups and downs are followed by almost the entire list. It was expected, in view of the excellent working results, that shareholders would receive a higher dividend than the customary Re. 1 a share. When these hopes were not fulfilled and the old rate of dividend was maintained due to the Government's insistence, there was a severe setback in the shape of a general marking down of prices. Investors thought that the Government's action in this case was an ominous pointer to the importance attached in official thinking to the rights and interests of shareholders. The increased earnings of the Company brought gain to its workers and to the Government. Shareholders alone were denied their claim, on the ground that provision had to be made for servicing the loans granted to the Company by the Government as well as the World Bank, and to meet the cost of the Company's expansion schemes. It was pointed out, that sanction for the coming rights issue had been obtained on condition that it was made at a premium of Rs. 3-8 a share. If the dividend rate is to remain fixed at the level of previous years, this would lessen the attractiveness of those shares and place them at a disadvantage in comparison with others. There is also the important question of principle. The Government apparently is of the view that those who invest in expanding concerns should receive no share of increased earnings, until the expansion programme has been completed and all loans raised for the purpose have been repaid, in spite of the fact that the company's earnings have increased substantially in the interim. The acceptance of such a principle is hardly likely to attract new capital to expanding industries.

Operators have been working out the implications of the rights issue for the future price movements of this share. At present, the floating stock of Indian Irons is not too large for individual operators to influence the price trend. Hence the peculiar attractiveness of this scrip as a gambling counter. With the big increase in ordinary capital because of the rights issue in the proportion of one for one, it is going to be exceedingly difficult for any single operator to sway the market. It is believed, therefore, that in future, fluctuations in the price of the share will be much less than hitherto. This is all to the good, inasmuch as speculative gambling will decline because the stakes will henceforth be smaller. The floating stock may be increased also by the fact that some holders of big lots may unload part of their holdings to put themselves in funds for subscribing to the rights issue. If things work out in this way, the Calcutta market will lose much of its thrill and excitement, and the volume of business will fall considerably. But genuine investment is unlikely to be reduced and may even be encouraged by the greater stability of share prices.

Black-Krishnamachari Correspondence

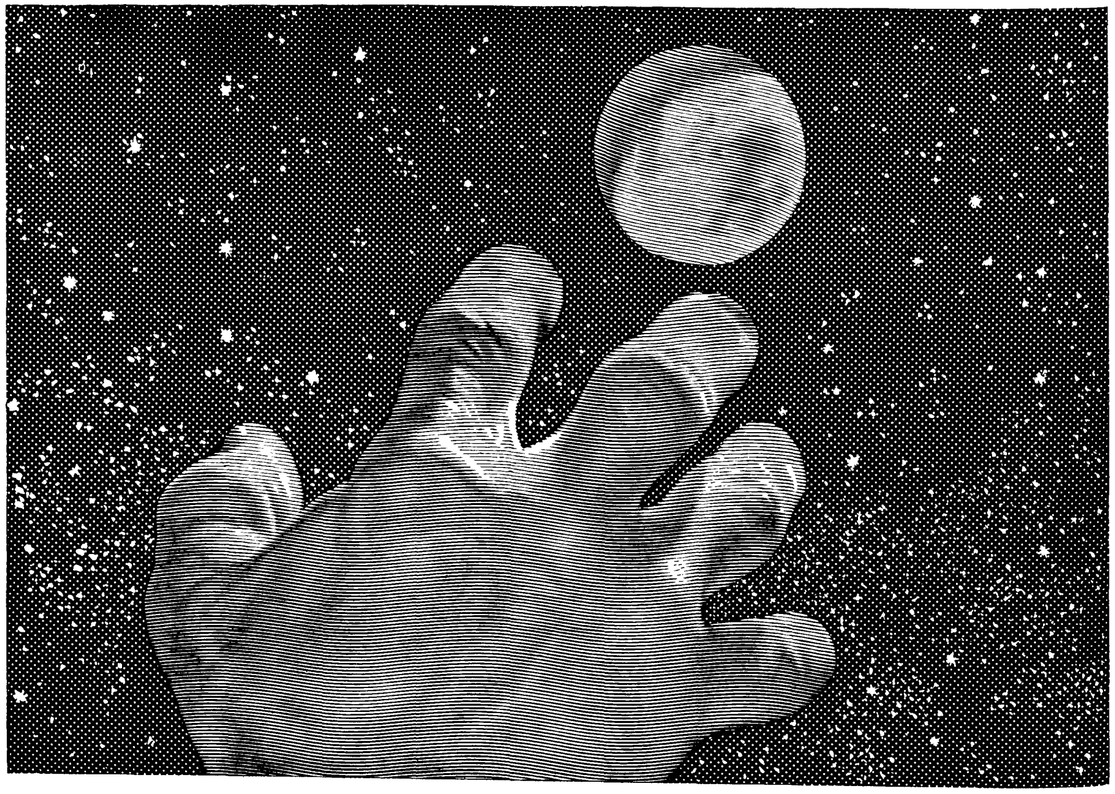
When the market reopened after the Puja holidays, interest centred on the correspondence between Mr. Eugene Black of the World Bank and Mr. T. T. Krishnamachari, on the Bank's criticism of certain aspects of the second five year plan. Briefly, Mr. Black made the four important points: (1) that the second plan is far too ambitious, (2) that private enterprise must be encouraged and its rôle more clearly defined, (3) that inflation should be carefully watched and (4) that the provision for transport facilities, which are vital to the plan, is inadequate. These are pertinent criticisms, by no means new, and there seems to be little reason for all the excitement this correspondence has caused. Market sentiment was at first disturbed over the prospect that loans to India from the Bank might not be available in future or would be made conditional on certain changes of policy which the Government of India might not be willing to accept. Interest in the issue subsided when it was learnt that such fears were groundless, that the Bank would continue to assist economic development in India as in the past and that Mr. Black was not trying to tell the Government of India how to do its job.

Middle East Crisis

The beginning of November brought a crisis in international affairs. Following the Israeli attack on Egypt and the Anglo-French intervention, a third world war seemed imminent. The share market responded by moving up as the danger increased, and declined as the chances receded. Apart from such speculative activity, interest was centred on the Guest, Keen, Williams issue and the prospects of other issues to follow, notably that of Hindusthan Lever Limited. It is remarkable that in spite of the stagnant conditions in the investment section of the share market and the tightness of money, with the inter-bank call rate at 4 percent, the Guest, Keen, Williams issue was heavily oversubscribed. The terms of issue, Rs. 10 shares at a premium of Rs. 10 were attractive, but it would be interesting to know what proportion of the funds subscribed represented new resources coming into investment and how much was the result of mere switching operations, involving selling of existing holdings to take up the new shares.

At the time of writing, which is mid-November 1956, investors are awaiting the details of the Congress election manifesto which is now in the process of preparation. It is believed that this document will lay down the policy of the Congress Party towards the private sector more explicitly than any previous statement. It is assumed that the Congress will be returned to office for another five-year term at the general elections next year, so the details of the economic policy now being prepared are regarded as the conditions under which private enterprise will have to operate in the future. Investors have braced themselves for some hard blows, both in the course of the election campaign and in the next Budget, which, it is feared, will be framed with an eye on the elections. There is, therefore, a tendency to caution and to avoid any new commitments until these uncertainties are out of the way. The more hopeful among those who are concerned about the investment outlook are inclined to believe that, once the elections are over, and the Congress is securely in the saddle for another term of office, a more favourable attitude towards private enterprise and the private investor is likely to emerge.





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REGULATION OF STOCK EXCHANGES IN INDIA

● By A SPECIAL CORRESPONDENT ●

NO one familiar with the course of stock exchange activity in India, particularly since the end of the second world war, can deny that there is need for reform and regulation. At one time, there was the danger that speculative gambling would swamp genuine investment, that the stock market, instead of facilitating the flow of private saving into investment, would have the opposite effect of discouraging potential investors who had no taste for risking their savings in games of chance. The coming into force of the Securities Contracts (Regulation) Act, which received the assent of the President on 4th September, 1955, is thus a landmark in the annals of Indian stock exchanges.

So far as can be discerned from the course of prices and the volume of business, this important event appears to have passed almost unnoticed. This apparent indifference is perhaps due to the realisation that the Act has as yet made no substantial difference to the working of the stock exchanges. Kerb trading and option dealings are now illegal, but in most other ways, the market functions very much as it did before. The full implications of this measure will appear as time goes on. The only previous case of legislative regulation of the stock exchanges in India was in Bombay, where the Securities Contracts Control Act was passed in 1925. The problems of amending this rather ineffective measure and of legislating on a nation-wide scale, have been engaging official attention ever since. The postwar boom and the subsequent crash underlined the need for regulation to check unbridled speculation and protect the interests of investors. Under the new Constitution, stock exchange regulation was made a central subject and the legal obstacle to all-India legislation was thus removed.

The present Act is the outcome of more than eight years of study and discussion. In 1948, the Economic Adviser to the Ministry of Finance submitted a report on the question of stock exchange regulation. This was followed by an official committee of representatives of the Government of India, the Reserve Bank and the Government of Bombay, and later, by an informal committee. Finally, in 1951, the Gorwala Committee was appointed. It included representatives of the important stock exchanges, of banking and insurance, of shareholders and accountants. The Act, as finally passed, is based largely on the recommendations of this committee. The Securities Contracts (Regulation) Bill was introduced in the Lok Sabha on 24th December, 1954. It was referred to a Joint Committee of both Houses of Parliament, whose report was received on 29th February, 1956. It was not until September, that the Bill was finally passed into law. It thus appears that, whatever its other defects, this measure was not enacted hastily. The broad outlines of the Bill were drawn up by the Gorwala Committee in 1951, long before the objective of a socialistic pattern of society was accepted and the general leftward swing of the Government's economic policy took place. Perhaps for that reason, there is little in the Act that can be regarded as aimed at restricting or suppressing the private sector. The object throughout is to provide such regulation and control of stock exchanges as to avoid the evils of unrestrained speculation and to ensure that these important institutions will assist savings, investment and economic development.

Rôle of Stock Exchanges

The Government clearly recognises that as long as a private sector of industry continues to exist depending upon private savings, stock exchanges have a useful, even vital, function to perform. It would be difficult to find a clearer and more comprehensive statement of the scope and functions of a well-organised and efficient securities market than that made by the then Finance Minister, Mr. C. D. Deshmukh, speaking in the Lok Sabha, on the motion for reference of the Bill to a Joint Select Committee. "In the first place," said Mr. Deshmukh, "it is only an organised securities market, which can provide sufficient marketability and price continuity for shares, so necessary for the needs of investors. Secondly, it is only such a market that can provide a reasonable measure of safety and fair dealing in the buying and selling of securities. Thirdly, through the interplay of demand for and supply of securities, a properly organised stock exchange assists in a reasonably correct evaluation of securities in terms of their real worth. Lastly, through such evaluation of securities, the stock exchange helps in the ordered flow and distribution of savings as between different types of competitive investment."

Even more significant is the fact that Mr. Deshmukh went on to defend speculation, as distinct from genuine investment. Bulls and bears, those much-maligned species of the stock market fauna, can now take comfort from the thought that the Government recognises that their activities are not invariably pernicious, but can serve a useful purpose. Mr. Deshmukh's observations are worth quoting in full: "Sceptics may argue that it is impossible for any securities market to function properly, because of the undesirable activities of speculators, and yet genuine speculation, which is based on a reasoned forecast of the real value of the investments which are dealt in on the stock exchanges, performs a very important function. No stock exchange can operate freely on the basis of investment buying or selling, because 'pure' investors in that sense are necessarily few in number and usually possess very limited resources. They cannot provide the requisite volume or continuity of business, which alone would allow a large number of buyers and sellers to trade at all times in the exchanges and to bring about an adjustment of the relative values of the securities in which they trade, in conformity with their real worth. It is the buying and selling of securities on a large scale, on the basis of reasoned forecasts, which alone can give the necessary breadth and continuity to the market. Informed speculation, which takes a reasonable view of future prospects and brings about an appropriate adjustment of security values, thus helps not only in the channelling of savings into the most productive lines, but also attracts new savings for investment into particular classes of securities. Too often, unfortunately, speculation in shares and scrip is not based on any reasoned calculation of the prospects of a company and comes very close to gambling. The main object of stock exchange reform is, therefore, to regulate speculative activities so that they may not degenerate into gambling; it is not the object of such reform to interfere with investment buying or selling or even with legitimate speculation, as long as it conforms to the rules of the game. It is with this object in view that the Bill now before the House has been framed". It is greatly to be desired that these words should be borne constantly in mind by Mr. Deshmukh's successor as well as by all those entrusted with the administration of this Act.

Powers of Government

The Securities Contracts (Regulation) Act, 1956 is comparatively brief; it has only 31 sections in all. Most of these relate to the powers of the Central Government over stock exchanges. There are provisions for application to secure recognition of stock exchanges by the Government, grant of such recognition (which may be made conditional on the representation of the Central Government on the stock exchange by three persons nominated by it), and withdrawal of recognition. Other clauses relate to the power of the Central Government to call for periodical returns or to direct enquiries to be made, power to direct rules to be made or to make rules relating to the constitution of a stock exchange, power of recognised stock exchanges to make bye-laws, subject to the previous approval of the Central Government, power of the Central Government to make or amend such bye-laws, to supersede the governing body of a recognised stock exchange, to suspend business, to prohibit contracts in specified securities, to license dealers in securities, to compel listing of securities by public companies and to make rules for the purpose of carrying into effect the objects of the Act.

All these add up to an enormous amount of power in the hands of the Government and a corresponding restriction on the autonomy of stock exchanges. Exercised with proper wisdom and restraint, these powers can help in the promotion of healthy speculation and investment and, in the prevention of the evils that have marked the working of the stock exchanges in recent years. On the contrary, they could be used by an extremist administration to hamstring every kind of stock exchange activity. As in the case of the Companies Act, much depends on how the powers conferred by this legislation are exercised. The Act accepts the principle recommended by the Gorwala Committee, that the only way to check speculation outside stock exchanges is to eliminate it altogether. Experience of the working of the Bombay Act demonstrated that it was not enough to make transactions outside recognised stock exchanges void. Accordingly, all such business is made illegal and not merely void. In each area, a recognised stock exchange will have a monopoly of the business in securities transacted within that area. This does not apply to spot delivery contracts, because they are defined as contracts which provide for the actual delivery of securities and the payment of its price, either on the same day as the date of the contract or on the next day, (the actual period taken for the despatch of the securities on the remittance of money therefore through the post being excluded from the computation of the period, if the parties to the contract do not reside in the same town or locality). The Act, however, empowers the Government to regulate even spot delivery contracts in the interest of trade or in the public interest. In areas where there are no recognised stock exchanges, there is a system of licensing of persons who deal in stocks and shares.

Kerb Trading and Blank Transfers

Kerb trading is thus abolished. Henceforth in Calcutta, every contract, excepting a spot delivery contract, which is entered into otherwise than between members of the Calcutta Stock Exchange

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or through or with such members is illegal. There can be little doubt that this is a desirable step. Kerb markets are generally the resort of the more irresponsible variety of gambling speculators: such dealings tend to accentuate price fluctuations, because a highly sensitive organisation like a stock exchange cannot but be affected by transactions in the irregular outside markets. Royal Exchange Place should be a good deal quieter from now on. On the controversial matter of blank transfers, there are no direct provisions in the Act to restrict the prevalence of such transfers. A blank transfer, according to the Gorwala Committee, means a transfer form, wherein only the transferor's name is specified, the transferee's name being not mentioned. Its purpose is to facilitate negotiability. It makes for the swift movement of securities from party to party and enables the holder to sell the security without getting his name registered in the books of the company concerned. Its negotiability makes easy the obtaining of credit. The committee held that by their very nature, such transfers encourage speculation. Again, because of them the registers of companies are rendered incomplete and inaccurate, the identity of the real holder remaining unrevealed. Such transfers are said to be helpful in the evasion of income-tax. In spite of these evils, proposals for the abolition of blank transfers have been resisted on the ground that they help maintain healthy speculation and prompt credit facilities.

Conflicting Opinions

The Gorwala Committee was divided against itself on the question of prohibiting blank transfers. Some members held that such transfers had become an important part of the trading practice and ought to continue. Others were in favour of restricting their life to six months, but desired that this should be done through the bye-laws of Stock Exchange Association and not through the Act itself. A third group agreed that the life of these transfers should be limited to six months, to begin with, but felt that provision should be made in the Act for this purpose. The Act, as finally passed, contains no direct restrictions on blank transfers. The matter of regulation or prohibition of these transfers is left to the bye-laws which recognised stock exchanges may make, subject to the previous approval of the Central Government. But the Act does contain a provision by which it is intended to discourage blank transfers indirectly. The relevant section states that it shall be lawful for a registered shareholder of a security to retain any dividend payable thereon, notwithstanding that the said security has already been transferred by him for a consideration, unless the transferee who claims the dividend lodges the security and other documents relating to the transfer for being registered in his name, within 15 days of the date on which the dividend becomes due. The period may be extended in certain cases like the death of the transferee or loss of the transfer deed. It is expected that the fear of losing the dividend will prompt the buyer to get the share transferred to his name.

The Joint Select Committee, which considered the question, expressed the view that the currency of blank transfers should be limited, by bye-laws, to a period not exceeding six months, but did not make an amendment to this effect. The Minister of Revenue and Civil Expenditure, in the course of the Lok Sabha debate on the Bill, said that the Government would consult the stock exchanges and, without tampering with their legitimate business in any way, try to make blank transfers non-existent beyond a period of six months.

Badlas and Option Dealings

The same solution, that of leaving the question to be regulated by the bye-laws of recognised stock exchanges, has been adopted in the matter of *badlas* or carry-over charges. The object of these charges is to enable forward business to be carried over from one settlement to another. In its absence, all business would have to be completed within the settlement period. In so far as it enables *bona fide* operators to tide over temporary difficulties, it renders a useful service. But, in certain circumstances, it may encourage unhealthy speculation and lead to a crisis. The Gorwala Committee believed that the danger was not necessarily inherent in the *badla* system itself, but came rather from its misuse. They thought that it should be within the power and capacity of stock exchanges to prevent this misuse and should, accordingly, be regulated by bye-laws. An important provision of the Act is that of prohibiting dealings in options. An option in securities is defined as a contract for the purchase or sale of a right to buy or sell, or a right to buy and sell securities in future and includes a *teji*, a *mandi*, a *teji mandi*, *agalli*, a "put", a call or a "put" and call in securities. It is likely that the great bulk of option dealings would fall in the class of unhealthy speculation and the prohibition of option dealings is unlikely to cause any serious inconvenience to speculators.

Business of Brokers

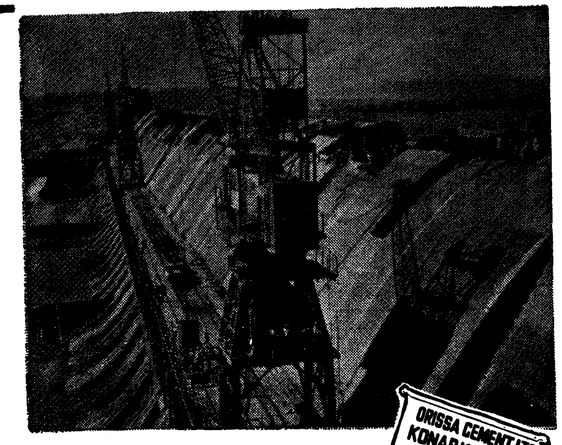
Another important provision of the Act is that no broker should act as a principal, without the knowledge and consent of his client. The broker, as the Gorwala Committee argues, is an agent carrying out the instructions of his principal and that is what the principal invariably understands him to be. If then, instead of performing his proper function of agency, he starts dealing as a principal himself, it is essential that he should inform the party who has given him the instructions and regards him as agent, of his changed status. This is all the more necessary, as it is often alleged that where the broker acts as a principal unknown to his client, there is a tendency to charge unduly high or low commission in one form or another. However, once the party is cognisant of the facts and has no objection to the change of status the transaction can go through.

Extension of State regulation is always opposed by those whose freedom of action is thereby reduced. Inevitably, the Securities Contracts (Regulation) Act has been criticised as yet one more encroachment by the Government into the activities of free enterprise. But leaving aside ideological considerations, few would deny the need for a measure of regulation of the stock market activities in India. If the need for regulation is accepted, the present Act is perhaps as moderate as any scheme of control that would operate effectively. There have been no rash wholesale prohibitions of blank transfers on *badlas*. The powers assumed by the Government are, for the most part, to be held in reserve, to be exercised in special circumstances. The Gorwala Committee's proposal for a Stock Exchange Commission to advise the Government on the administration of the Act, was dropped in response to the objections of the stock exchanges and chambers of commerce. Mr. Deshmukh's observations on the functions of stock exchanges and the value of speculation reveal a welcome awareness on the part of the Government of these important matters. It remains to be seen whether the administration of the Act will be informed with the same wide knowledge and sense of moderation.

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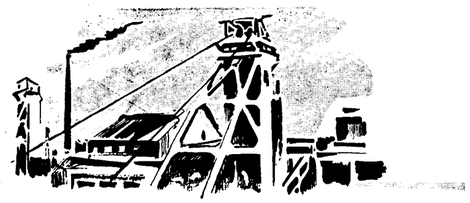




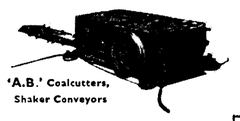
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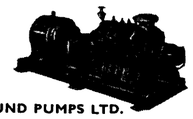
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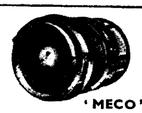
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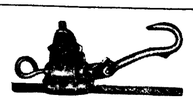


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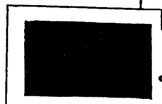
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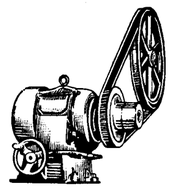
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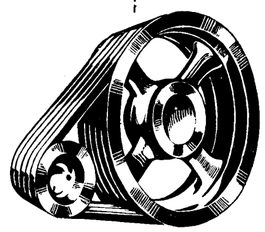
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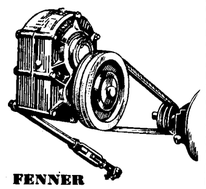
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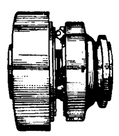
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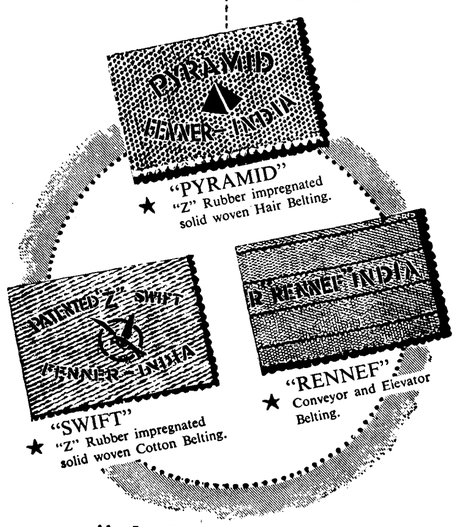
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COAL INDUSTRY IN THE FIRST YEAR OF THE SECOND PLAN

● FROM A SPECIAL CORRESPONDENT ●

THE coal industry entered upon the first year of the second five year plan, in which it is scheduled to play so large a part, with none of the buoyant enthusiasm of some of the other industries, especially engineering, but in a mood of despondency, which subsequent events during 1956 have done nothing to relieve. It knew that the plan envisaged a total annual coal production of 60 million tons by 1960, and it knew that this involved an enormous increase of 22 million tons over current production which could only be achieved by immediate and determined development. There was no indication from the Government of India as to the rôle which the private sector of the industry would be permitted to play in the future economy of the country, or of the proportion of the additional tonnage which it would be required to raise. This was in spite of the fact that private enterprise was producing more than 87 percent of the nation's coal and was in the best position to raise the extra needs by virtue of its experience and the facilities it commanded, and the skilled personnel and equipment which it already possessed. Little had been done to allay fears about nationalisation and the revision of leases, which had hung over the industry for several years, discouraging all initiative. These continued unabated. Major uncertainties such as labour costs and selling prices remained uncleared. Thus hedged in by restrictions and doubts, the industry was unable to take its destiny into its own hands and to put into effect the plans which it knew to be essential in the achievement of increased production.

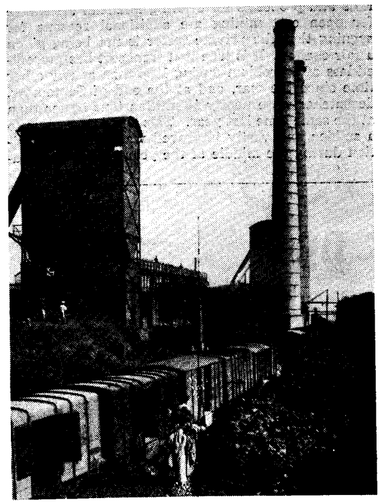
Some of the obscurities of the general economic policy were eventually removed when the 1956 Industrial Policy Resolution was announced in April. This Resolution placed coal in the first of three categories of industry and listed it among those industries where future development will be the exclusive responsibility of the State. It went on to say, however, that this did not preclude the expansion of the existing privately owned units, or the possibility of the State securing the co-operation of private enterprise in the establishment of new units where national interests so required. Adapting this general policy to meet the problems involved in providing additional coal, caused further hesitation and vacillation, and some more time passed before it was decided that private enterprise should aim at producing an extra 10 million tons a year, against the additional 22 million tons required, leaving the State to raise the remaining 12 million tons.

Doubts over Policy

This method of dividing responsibility for the future provoked immediate and considerable argument. Coal will be a major factor in the success of the second five year plan, and by any reasonable standard, it must, therefore, be open to grave doubt whether it is wise to entrust so much to the public sector. The existing State collieries were inherited from the nationalised railways, and their record as far as efficiency and production costs are concerned does not encourage confidence. The public sector, including the Hyderabad collieries, has nevertheless been called upon to increase its production by almost 300 percent in the short space of five years, and when consideration is given to the fact that it takes longer to bring a new pit into full production, it will be appreciated that this is a stupendous task, and one which is unlikely to be fulfilled. Private enterprise is better placed than the State to undertake rapid expansion, if by virtue of nothing else, at least by virtue of its existing facilities. It has also expressed its ability, provided conditions are favourable, to raise the vast proportion of the extra tonnage required, without calling upon the Government for any financial assistance. Even allowing for the fact that some units will have made claims which they have not the means or the intention of proving, this offer must be attractive in the light of the total cost of financing the ambitious second five year plan. This leads to the conclusion that the long-term interests of the country would have been better served by allowing the private sector to play in the future a substantially larger part in coal production of which it is capable and for which it is qualified, and that dogma has thus been allowed to prevail over expediency. It is, of course, a matter of opinion, but from the broader aspect it is unfortunate that there has been this compromise between a realistic appreciation of future prospects and the socialistic pattern of society accepted by Parliament in 1954, which points to the early nationalisation of the coal industry.

Frustrations and Delays

This broad policy outline for the future has thus placed increased coal production in hazard from the very outset, and in such circumstances, it is a matter of the utmost importance that the private sector, which on the face of it has been given the easier task, should realise its targets. But will it, or can it? Most regrettably the answer cannot be a clear-cut and confident "yes." Immediate development is essential, but the plans have met with frustrations and delays so that the impression has steadily gained ground that the private sector will not be given a fair chance to achieve even the limited targets assigned to it. This impression has been fostered by the persistent maintenance of a close and almost inseparable link between the direction of the public sector and the exercise of control over the affairs of the private sector. There are too many directly concerned with the future of the public sector who, in addition, are in a position to control the affairs of the private sector, by virtue of the powers granted by the Colliery Control Order and of the activities of the Coal Board.



Coal at a railway siding

It has been alleged that there is full realisation in official circles that the public sector cannot achieve the task allotted to it, and that some directly concerned with its future seek in the private sector a scapegoat for their failure, so they are determined to place every obstacle in the way of private enterprise to expand its output. It can only be hoped in the interests of the country as a whole that this allegation is unjustified and baseless, but it is one which inevitably will be present until there is a clear-cut division between the administration of the State collieries, the administration of the controls over the private sector and the administration of the Coal Board. The private sector feels shut out and there is no better example than the fact that it continues to have no direct representation on the Coal Board which plays so important a part in its affairs; the value of the new Coal Council of India which was constituted in August with wide terms of reference to review the affairs of the industry, (and those chosen to represent the private sector on the Council have been hand-picked by the Government) is problematic and has yet to be assessed.

Whether or not it is unjustified, there are many factors which give force to the view that the private sector is not being given a fair chance, not least of which is the fact that while the general policy may be known, individual collieries have encountered the greatest difficulty in finding out how much extra coal they will be permitted to raise. Coal companies originally sent in development plans in 1955, but they were asked to submit revised plans to the Ministry of Production for approval when overall production targets were finalised. There has been a peculiar reluctance to give a decisive answer on these plans. There was an attempt to make the railways responsible for accepting or rejecting them on the grounds that increased production must depend on wagon availability; there was an attempt to make the industry itself responsible for imposing limits on increased production by individual collieries, a task which it obviously could not accept in view of the degree of control which is exercised by the Government. These attempts were resisted and at the end of October, it was eventually made known that the Ministry of Production did not contemplate according specific approval to individual plans submitted by collieries, but that the industry could assume that all plans for increased production had the general approval of the Government except where, under statutory provisions or rules, the specific approval of the Coal Controller, the Coal Board or some other authority was necessary, for instance, when opening new pits or opening or re-opening seams.

Production of coking coal in the Jharia field will continue to be subject to the ceiling limits imposed by the Coal Board. After some two years of indecision which had called a halt to any substantial progress, the Government reached the final conclusion that it was unnecessary to plan in detail for the increased production of non-coking coal at least; the greater part of increased production will come from non-coking coal mines as a more restricted use of coking coal will meet the larger proportion of the extra demand from steel works. Having assumed responsibility for the future and having lost much invaluable time in consequence, when a clear and firm lead was so urgently desired, the Government has faltered in the exercise of that responsibility and while implying that it has to some degree been returned to the private sector, has given colliery companies no clear-cut chance to accept it, because rigid control has been retained.

Vague Approval of Plans

The vague general approval of development plans which has been accorded by the Government covers only the increased utilisation of available facilities. Long-term increased production can only come from opening new pits and new workings, and even now it is not known whether the private sector will be premitted to undertáke expansion of this nature. It has been said that private enterprise will be limited to existing workings and contiguous areas, but a "contiguous area" has still to be defined. Coal is a wasting asset and unless a coal company is allowed part at least of its existing reserves, it will be gradually strangled out of existence and while it may be able to achieve as a temporary measure, it will not be able to sustain over any lengthy period, the extra production which is required of it.

Even the policy on extension in the existing workings is not clear-cut. Seams cannot be opened or re-opened and depillaring cannot be undertaken without the permission of the Coal Board and in spite of the urgency, there has been quite unnecessary and protracted delay in obtaining this permission, amounting to as much as two years in some cases. Moreover, the unimaginative interpretation of the rules may result in permission being made conditional on demands which are impossible of fulfilment. As an example, there is a very justifiable emphasis on stowing when approving expansion, but the serious shortage of sand for this purpose, may well make it impossible to comply with this condition. The Coal Board itself has so far been unable to offer any practical assistance on sand supplies, and is it essential that a lack of sand should hold up increased production? Safety also plays an important part in development plans, and here again, a rigid interpretation of rules can hold up expansion, particularly when the Coal Board and the Mines Department are not always in step. The full implementation of the statutory safety measures is essential, but a little common sense can smooth the application of these measures without in any way endangering safety. For example, a light rail may be perfectly adequate as a safety fence in a given set of circumstances, whereas in others, heavy fencing would be necessary; there is no sense in insisting on heavy fencing in all circumstances. The Mines Inspectorate has the power to close down a mine or a section of a mine if instructions on safety measures are not carried out, and is, therefore, in a position to bring considerable pressure to bear on colliery owners. There is an increasing tendency for inspectors to shirk responsibility and this can be largely attributed to lack

of experience. There is unnecessary harassment as a result, and what is more important, production is hampered by demands covering the many safety measures required in a colliery.

No Guarantee Against Nationalisation

Progress in the detailed implementation of the general policy has inevitably been retarded by these various delays, but the already unsatisfactory situation is aggravated by the fact that the general policy itself is not on so firm a basis as was originally thought, although only a few months have elapsed since it was announced. The industry has repeatedly sought some guarantee about nationalisation so that it is assured of a reasonable security of tenure, but it has been forced to content itself with a somewhat vague and unsatisfactory assurance that in the event of nationalisation, full compensation will be offered for any development undertaken with the consent of the Government. The decision that specific approval will not now be given for a large part of the necessary development has considerably weakened its value. In addition, the assurance implied that there was no present intention to nationalise, but no sooner had the private sector started to build on this somewhat insecure foundation than there were strong and persistent rumours which have not been denied, that the Government is considering the immediate nationalisation of coking coal collieries.

Threats to Private Collieries

The threat of nationalisation is not all. Not only the leases of unworked areas, but the leases covering existing workings have been the subject of possible attack for some years. There have been determined proposals to repudiate all existing leases, except those granted in accordance with the provisions of the Mineral Concessions Rules, and to replace them by short-term leases lasting for 30 years and perhaps renewable to two periods each of 20 years. There is no guarantee that colliery owners might not well share the fate of those working other mineral deposits where in extreme cases the remaining period of leases has been reduced to a maximum of 15 years by the Mining Leases (Modification of Terms) Rules, 1956, published in September.

To the threats of nationalisation and inroads on leases, must be added a threat to the actual working structure of collieries. A Committee was set up in 1955 with the object of assessing the possibility of assisting production by merging smaller collieries into a number of larger and more economic units. The idea is an old one which has been put forward on several occasions in the past, and although the outlet for the type of coal normally produced by the smaller colliery is never likely to be anything but limited, some degree of amalgamation may be advantageous. Unfortunately, the terms of reference of this Committee were subsequently extended to cover the amalgamation of a small unit with a large one, or the amalgamation of part of a large unit with a number of small ones. The effect of any attempt to work an inefficiently run small mine as part of a well run mechanised mine or *vice versa*, can well be imagined. As if this was not enough, there was a rumour at one time that the Amalgamation Committee was studying proposals which would entail the boundaries of existing mines being revised so that they conformed to surface configurations such as roads and railways. Proposals such as these do nothing to restore confidence and it is disquieting that the industry should be worried by unnecessary and perhaps ill-advised boundary revisions at a time when it should be fully engaged on development. Investment in the coal industry is a long-term matter, and if capital is to be forthcoming for development, there must be security of tenure. There is no security, and this coupled with the fear of nationalisation, the fear of lease amendments and the fear of boundary revisions, makes it inevitable that confidence in the future which has been seriously undermined in recent years has not been restored in 1956.

Transport and other Problems

The transport situation, the shortage of materials and proposals for offering financial assistance for open cast mining are additional reasons for arguing that the private sector is not being given a fair chance. It is true that transport has presented less of a problem during 1956 than at any other time since the war, and at the end of September, despatches were nearly 1½ million tons better than at the same time last year. This was largely due to a sudden and vastly improved wagon supply position during the middle of the year which temporarily outpaced production. This unusual situation cannot be expected to continue in the future, however, and with expanding production, there will undoubtedly be a rapid reversion to the more normal circumstances of more coal than wagons, particularly as circumstances are compelling the railways to restrict their plans for expansion under the second five year plan. Collieries considering expansion must always keep one eye on the fact that wagons will be in short supply, and with the increasing importance of the public sector as the years go by, can they be sure that they will get a fair share of available wagons when distribution is undertaken by officers closely connected with the public sector? Experience in the past when the State collieries were able to despatch almost everything they raised while the private sector was left with considerable stocks, suggests that they will not, and this view is strengthened by a great reluctance to reveal any information about wagon despatches by the State collieries. Extra sidings are also required, but the new assisted siding terms are so one-sided as to be valueless and sidings which have already been sanctioned are not being put in, pending the recommendations of the Amalgamation Committee. It is argued that if collieries are to be amalgamated, fewer sidings will be needed, but this ignores the fact that amalgamation does not alter the location of the coal which will have to be moved from the same place, irrespective of groupings. There is no indication that the public sector suffers the same disability over sidings.

Wagon allotment is not the only sphere where there is discrimination against the private sector. Many materials urgently required by the industry both for development plans and for the implementation of the various welfare and safety provisions of the Mines Rules, 1955 and the Coal Mines (Temporary) Regulations, 1955, are in very short supply. Not least of these is cement. The quarterly allocations made to the industry have been but a fraction of the requirements, and even then supply has not been made in full against these allocations. In the first quarter of 1956, for example, a representative cross-section of the industry was allotted 2,893 tons against a requirement of 32,564 tons and 337 tons only were actually delivered against this allocation. The resultant acute shortage has been aggravated by the disproportionate sub-allotment of available supplies between the public and private sectors. Allocations to the industry as a whole are split by the Coal Controller's office, which in one instance saw fit to give the very much smaller public sector which raises about 13 percent of the total coal production, more than half the total allotment. It is small wonder that there is heartburning, more particularly as collieries are being pressed to use their slender cement resources, not on development work, but in implementing welfare schemes which in cases such as building canteens are not suitable to the coal industry or required by labour. Similar circumstances arise over other materials in short supply.

One last example, in a somewhat different sphere, where the interests of private enterprise have been subordinated to those of the public sector. The Coal Mines Conservation and Safety Fund is maintained mainly from contributions by the private sector, in order to provide financial assistance towards stowing for safety and conservation purposes. The Coal Board has recently given consideration to a proposal to raid this fund in order to assist open cast mining which is conducted mainly by the public sector. Taking all factors into consideration, open cast mining is more expensive and by its very nature produces coal of a quality below that of underground mining in the same grade. Not only is it suggested that open cast mining should be subsidised at the expense of the private sector, but that the rates of assistance should be more favourable than those applicable to underground stowing.

Wage Awards for Labour

Turning from these numerous frustrations, future prospects are equally dimmed by the problems of labour and price. The All-India Industrial (Colliery Disputes) Tribunal which had been deliberating on the future wage structure for colliery labour for more than two years, finally published its Award in May. This Award granted an increase in wages of some 40 percent and as far as general principles were concerned, it was a thoughtful attempt to be fair to both the employer and the employee, while at the same time taking full cognisance of the significance to the economy of the country as a whole, of any increase in coal production costs. The scope of the Award was very wide and it covered detailed aspects of the industry which if they were to be dealt with adequately, required detailed knowledge and understanding. Unfortunately and perhaps inevitably, the Award was a bad one on this very score because too often it avoided any decision on points of detail. This resulted in many anomalies, which inevitably caused friction between employing interests and labour and the solution of which must require a fair amount of give and take on both sides. Nevertheless, the employers felt that it should be possible to solve these difficulties by negotiation and although with considerable misgivings, they eventually decided that in view of the patience which had been shown by labour throughout the protracted deliberations of the Tribunal and of considerations for the national economy as a whole, it would be inappropriate to appeal against the Award.

Many employers made a sympathetic attempt to overcome anomalies, although this involved additional expenditure in the face of financial difficulties. Labour, on the other hand, has been divided in its opinions on the Award and its reactions have brought very much to the fore the fact that the industry has the misfortune to suffer from a multiplicity of weak unions, each bearing a political tinge and each by the very weakness being of doubtful value even to its own members. Possibly in consequence, the publication of the Award has brought about more industrial unrest than has been known in the industry for many years, and has been far from ushering in a period of peace as had been hoped. Political capital has been made of the numerous shortcomings of the Award with little or no regard for the well-being of labour or the industry as a whole. One union group largely concerned with arguing labour's case before the Tribunal, accepted the Award except in certain outlying areas. Another group of more extreme political views appealed against it and the familiar and long-drawn-out arguments have started once more and are still being heard before the Labour Appellate Tribunal, so that a third year may well pass before the legal aspects of this dispute are finally settled; when the various issues will be settled in practice it is difficult to assess.

A third group was sufficiently ill advised to try direct action in September and October. In spite of the fact that the constitutional means of airing its grievances were open to it, it saw fit to call a strike in two large groups of collieries in West Bengal, and even at one stage to call out the safetymen. They thus attempted to hold the nation to ransom and threatened the safety of individual collieries when flooding was at its height, in an endeavour to realise a totally unjustified demand for a wage increase mostly in excess of that regarded as fair by the Tribunal after the protracted and exhaustive deliberations. Fortunately, this strike was called off after some four weeks, virtually unconditionally, before it had caused any marked dislocation of industry as a whole, or any appreciable inconvenience to the general public. It is to be hoped that this strike will at least result in a more realistic appreciation of the extensive benefits which have been gained by labour in consequence of the Award. It is unfortunate, however, from the point of view of the well-being of the industry, that appeals to the Labour Appellate Tribunal should have extended the uncertainty about labour costs which has been a feature for more than two years.

Official Price Policy

The ex-pithead selling price of coal is, of course, statutorily controlled and the cost to the industry of implementing the Award of the All-India Industrial Tribunal (Colliery Disputes) amounts to Rs. 5 lakhs a day. It has been repeatedly stressed over a considerable period that the existing selling prices did not allow a return on capital sufficient to encourage the additional investment required for development. These prices were based on increases given in 1947 to meet the increased labour costs arising out of the Conciliation Board Award. Prices were revised at that time on the basis of a most careful scrutiny of coal company books by Government cost accountants and were designed to return an average profit of Rs. 1-8 a ton. Unfortunately, however, there was a subsequent downward revision and prices for Grade IIIA and IIIB coals were reduced in April 1949, for steam and slack coal in November 1949, and for Grade II coal in 1954. Against these reduced prices, production costs had risen steadily, mainly on account of considerable increases in the cost of capital equipment and of stores, and because of higher labour costs, which had been still further raised by the additional welfare and safety provisions covered by the Mines Rules, 1955 and the Coal Mines (Temporary) Regulations, 1955.

In consequence, few companies could, immediately prior to the Award, produce coal at anything above a nominal profit and figures relating to 1955 covering a group of 51 companies have shown that the total profits, as opposed to profits distributed to shareholders, amounted to no more than 2½ percent of the working funds. In these circumstances, it was a matter of the utmost importance that the announcement of a price increase to cover in full the cost of implementing the Tribunal Award should coincide with the publication of that Award. The industry was, therefore, emphatic that it was essential for the Government of India to undertake a comprehensive investigation of coal production costs and of the financial effect of any increase in wages, before the Tribunal concluded its deliberations; and figures were provided to assist in an easy estimate of the consequences of an increase. It was accordingly a matter for satisfaction that a Coal Price Revision Committee was constituted in April to investigate costs and to recommend whether any revision of price was necessary.

The award of the All-India Industrial (Colliery Disputes) Tribunal was published on 26th May, and the Coal Price Revision Committee was in a position to make its recommendations at about the same time. It was true that in view of the complex nature of the Award it was impossible to arrive at a completely accurate assessment of the cost of its implementation until the terms of the Award had been in operation for some months, but there was no reason whatsoever why an interim price increase should not have been announced immediately, and made subject to adjustment at a later date in the light of working experience. The industry was, therefore, deeply disappointed when the weeks passed and the Government still remained silent on this question. There were repeated discussions between the Government and the representatives of the industry and although hampered by the inexplicable delay which occurred before copies of the Award were made available to all concerned, the latter were able to submit an argued case for an increase, supported by comprehensive figures. Nevertheless, hesitation continued and it was not until 5th July, after the industry had lost a total sum of Rs. 2 crores on account of increased wages, that the Government announced a price increase of Rs. 3 a ton.

Subsequent experience has shown that this increase has just about covered the cost of implementation in some collieries, but has failed to do so in others where less favourable conditions prevail. There has been much loose talk about the profits of colliery companies and their ability to meet the cost of the Award without a price increase. Plain facts and figures do not substantiate this talk which has perhaps been influenced by the high retail prices which are charged, and by some recent increases in these rates which bear little relation to the enhanced price granted by the Government of India to supplying collieries. There is an apparent reluctance on the part of at least one State Government to interest itself in these prices and there is no reason why the general public should not be able to purchase its coal at much lower prices than those now prevailing. Producing collieries in no way benefit from these high prices, so there is no reason why they should be penalised for something which is beyond their control. Possibly this talk is responsible for no attempt yet being made to compensate collieries for their rising costs which had been apparent long before the Award. There is no justification for any such attitude because coal company accounts have now been investigated by the Government, and they amply support the claim for higher prices.

When added to the many other adverse factors, this refusal to allow prices to reach their proper economic level is most unfortunate from the point of view of long-term planning. Development programmes for underground mining require considerable capital investment, but by their very nature do not provide a return on that investment for several years. An investor, therefore, not unnaturally, looks for a larger ultimate return in order to make good the initial disadvantage which is not usually applicable to investment in other industries. Existing price levels do not permit colliery companies to offer a return which can compare favourably at any time with that offered by many alternative investments. It will not be surprising if these circumstances, coupled with a general lack of security, force capital, which as far as the local industry is concerned rests largely with the middle classes, to seek more profitable and more secure fields for investment. It can only be hoped, therefore, that the latest price investigations which are now being conducted by the Government will result in a more realistic price policy for the future. There seems to be no reason why an increase should not be granted. Indian coal is still among the cheapest in the world and the cost to the industry in general of an increase in selling prices would be negligible. It has been stated authoritatively in the Census of the Indian Manufacturing Industries, published by the Ministry of Commerce and Industry, that the cost of solid fuel expressed as a percentage of the gross factory value of a representative range of Indian industries is no more than 1.96 percent.

Despondency in Industry

This survey of the coal industry during 1956 might be justifiably criticised as being prejudiced, on the ground that it is a tale of woe with few, if any, gleams of hope. Nevertheless, it does no more than make an attempt to convey the views and the frustrations of those closely connected with the private sector. Colliery companies are expected to invest in development with a poor prospect of a reasonable return, with little security of tenure, with little prospect of being allowed the additional areas for expanding essential to sound and economic mining, with incomplete knowledge of how much they will be permitted to produce and the areas which they will be able to mine, with a shortage of building materials, with a prospective serious shortage in the means of despatching their raisings, with the frustrations and irritations of official control at every turn, and with unsettled labour relations. Can it, in such circumstances, be a matter for surprise that the industry is despondent? There is no reason to believe that those responsible for its direction are basically of a different outlook to those directing, for example, the engineering industry where there is confidence and enthusiasm for the future. The difference is that the engineering industry controls its own destiny and is confident of its ability to meet the future, whereas the coal industry has no control over its own affairs and goes forward chained and bound, to meet a task which needs unfettered and maximum effort. The results can be seen in the production figures which up to the end of September, 1956 were no more than 750,000 tons ahead of the corresponding figures for last year. The first year of the second five year plan is already well advanced, and there is hardly any progress towards the final target of 22 million tons, particularly when initial increases are the easiest.

It is possible, of course, that the estimated extra demand for coal will not arise so rapidly as at present anticipated, firstly because the construction of the three new steel works may fall behind schedule, and secondly because in spite of assurances to the contrary, rail transport may be inadequate to meet the greatly increased demands which will be placed upon it. In practice, therefore, the coal industry may not be called upon to meet its targets by 1960. Nevertheless, adequate coal production must remain one of the key objectives in the successful implementation of the second five year plan, and in view of the long-term objectives of that plan, it will be unfortunate if dogma is permitted to overshadow realism to such an extent that conditions are created in which success is jeopardised by a coal shortage.

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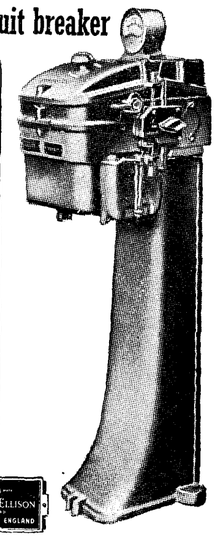
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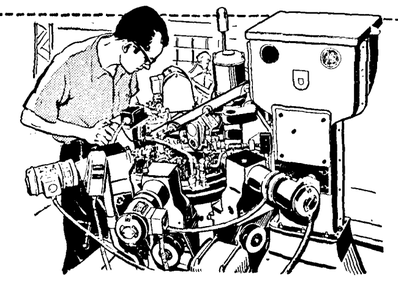
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THE PROSPECTS BEFORE THE TEA INDUSTRY

THREE COINS INTO THE FOUNTAIN

• FROM A CORRESPONDENT •

WHEN the history of the tea industry is completed—and it is perhaps no secret that the work of writing it is now well advanced—the year 1956 will go down as the "Year of Bonuses," for in that year, every plantation worker either enjoyed or became entitled to a windfall of relatively substantial proportions. The Delhi Agreement of January, 1956, provided the machinery for the payment of some Rs. 6 crores by one north-eastern Association alone, while in southern India, comparable benefits were agreed upon. So far, nearly all the money which has been paid to labour has been wasted, in circumstances of varying tragedy. The worker who bought an old army telephone, in the belief that like his manager he could then talk to the world, and the worker who killed his child because his wife would not give him her bonus for further drinking, each represents a pathetic waste of resources, and each adds emphasis to the question—if, in the interests of social justice, the workers are to receive a greater share in the profits of a business, is a bonus the best method of granting that share? For can anyone, with practical experience of the utilisation of bonuses, honestly affirm that bonuses provide "a bridge between an existing and a living wage"?

By the end of 1956, the tea industry will have paid out some Rs. 10 crores in bonus. It is perhaps unprofitable—though it may be chastening—to reflect that this money could have provided 50,000 pucca houses of an approved standard for tea garden workers: that it could have doubled the Assam Link or bridged the Brahmaputra: that it could have built and endowed a score of hospitals or a hundred high schools: and that it could have transformed a dozen airfields. It is equally unprofitable to argue that it is the industry's duty to build houses, just as it is the Government's duty to build roads, railways, hospitals and schools, and, anyhow, no materials were available. The fact remains that the windfall which the industry secured in 1954, when treasure from foreign countries poured into India, a windfall which could have altered permanently the circumstances in which the workers live, has disappeared. The State Governments may look—let it be hoped with mixed feelings—at increased revenues from excise: the local non-taxpaying shopkeeper may reflect with satisfaction upon a year of unexampled prosperity: but of real benefit to the workers there has, so far, been none.

Lost Opportunity

From the companies' point of view, the greater part of the benefits of 1954 has been dissipated. The year had given an opportunity—perhaps not to be repeated—of making good the losses of 1952 and of 1953, of starting substantially on the task of implementing the Plantation Labour Act, and of preparing to meet foreign competition. Indeed, the members of one Association had already set aside over Rs. 100,00,000 for works of improvement, works which will now take second place to the payment of bonus. Concerns which could hardly have refused, in face of 1954's prosperity, to proceed vigorously in rehabilitation, have now depleted coffers to show to the Inspectorate of Plantations.

The States and the Central Government have also suffered, at a time when revenue receipts are of exceptional importance. To make good the loss in income-tax, further taxes may have to be imposed upon the generality, inconvenient taxes may have to be retained, and additional loans may have to be raised; for what has happened in tea is no isolated example—equally impressive sums are being paid out in other major industries, not because workers have contributed something special to the industries concerned, but because the vagaries of international trade have led to price fluctuations and to unhealthy if transient booms. (Partisan references to managerial skill and enterprise may be omitted at this stage).

It was through the recognition of these circumstances that the I.N.T.U.C., while fighting with determination for bonuses for workers, realised that nothing of value could come from the scattering of substantial cash awards among workers who had little experience of handling money in bulk. The I.N.T.U.C., there, proposed that a third of the 1956 bonus should be paid in the form of Savings Certificates, a proposal which, after many vicissitudes seems (at the time of writing) to have been generally accepted by the rank and file in Assam. The benefits to be derived from such an arrangement are obvious. First, the workers will accumulate some humble savings, instead of useless trinkets, cattle for which there is no grazing land, and the remorse of indulgence. In the second place, the local inhabitants will be spared the upsurge in prices which follows the distribution of bonuses in rural areas—an upsurge which some consider to be partly responsible for the hardening of grain prices in north-east India. Finally, the Government will receive a substantial sum towards its plans, instead of seeing a reduction in its resources. Admittedly, the companies which pay the bonus would still have to find the money, but payment would be accompanied by less dislocation in the locality, and —since the money was saved—there would be fewer opportunities for idleness and absenteeism.

It is too early to say whether I.N.T.U.C.'s courageous and wise approach will be successful; envious opponents can so easily make cheap attacks on a policy which takes away with one hand what it claims to give with the other: but if the experiment now being tried in Assam is a success, its extension to other industries, and indeed to the whole question of "bonus windfalls", might only be a matter of time. An employer who criticises the bonus system as now understood is automatically suspect when he cries that all bonuses are bad: but such suspicion would be lessened, and due regard would be paid to the spirit of the times, if the employer agreed to go on paying bonuses, if the unions accepted such bonuses in the form of "savings"—in bonds or Provident Fund accumulations—and if the convention could be established that bonus awards would always be paid in the form of savings. By such means, many of the social disadvantages of the present system would be avoided.

For the acceptance of such a convention, two things are essential. First, the erroneous theory that bonuses help to make up a "living wage" must be abandoned for the foolish thing it is. The *normal* manner in which bonuses are utilised shows conclusively that they do nothing to improve the health or general standards of the recipient. There is perhaps a momentary flash of relative affluence, but subsequently, the higher level of prices depresses rather than elevates the standard of living. To criticise workers for spending so much on drink is sanctimonious and hypocritical, but criticism of another form is entirely justified when it is remembered that the bonus puts into the hands of a poor man a fine chance of doing something which, while it relieves the tedium of his existence, is contrary to his interests, to the policy of the Government, and to the Constitution itself. As soon as it is geneally realised that windfalls go with the wind, so soon will some less wasteful method of helping labour be devised.

Savings Machinery

The second essential is a simplification of the machinery of savings. It has always been a charge against Government departments that it is laborious even to pay them money, and impossible to get them to disgorge. If a worker, at the end of 10 years, received Rs. 4 in interest on his savings, and is "off duty" two days in getting back his money, what form of investment is that? If the services of petition writers and of identifiers are required for deposit and withdrawal, where will such services be found, save in the homes of the "professional"? It must, therefore, be the practice that where the worker is a member of a provident fund, any bonus to which he is entitled should go into that fund as a matter of course. Where no fund exists—and the number of workers in organised industries who are not members of some fund will steadily decline—then there should be available some simple form of saving—if needs be a special "Workman's Saving Certificate"—purchased and held on his behalf not by the management but by the Local Savings Committee. Only by such means can the worker derive any real benefit from the bonuses which he is given: only thus can inflation be avoided and available funds canalised into proper channels. There may be objections to compulsory savings in any walk of



Tea in the nursery



Tea being planted

life, especially in the poorer ranks, but there is a world of difference between the compulsory saving of part of income, and the compulsory saving of tax-free windfalls. A bonus is a windfall, and no high-sounding formula can alter its irregularity and uncertainty, or prevent its speedy transfer from the hands of the recipient to those of the liquor vendor, the dealer in shoddy, and the cheat.

Plantation Enquiry Report

If the year 1956 goes down in history as the year of bonus, it will also be memorable as the year in which the Plantation Enquiry Commission submitted its Report to the Government. Up to the time of writing, the Report has not received its "U" certificate, but sufficient has leaked out officially, and has been published unofficially, to enable one to gauge pretty accurately its scope and its contents, and to disperse the early fears that only an "X" rating would be appropriate. Nevertheless, there are certain published features of the Report which, certainly out of their context, give rise to alarm and despondency. There are indications, for example, that the Report has sought to divide the industry into "Indian" and "non-Indian" sections, and to draw unflattering comparisons. Conclusions would seem to be based upon evidence from which quite opposite deductions might have been made. For example, the high value of industrial shares might indicate not speculation, but a fear of an inflation which makes fixed interest securities of lesser appeal. *Per contra*, if an investor can secure 5 percent from the Government, in an atmosphere of slippered ease, will he be content with 6 percent or 7 percent from a tea company, with all the risks, the heart-break and the broken heads attendant upon company management? Yet it would be as well to await the Report's publication before commenting too critically or in too great a detail upon what are suspected to be its contents.

Of one thing the Report speaks with statistical authority: the gradual replacement of the non-Indian proprietor and shareholder by the Indian. This replacement is a symptom of something which is much greater, the change of what has been described as a "colonial economy" into a "free economy". Trade has invariably followed the flag, and it would be unrealistic to imagine that there is no connection between political events and economic developments. What is necessary is that the change should take place with the minimum dislocation to all concerned. It is, therefore, somewhat surprising that the "repatriation of assets" should have caused so much adverse comment, while the repatriation of experience is so seldom deplored. The World Bank could immediately make good the occasional Rs. 50 lakhs which leaves these shores, but it is extremely doubtful if even the Bank could immediately provide 50 experienced and active planters of tea. It would, therefore, seem that, in a developing economy in which shortages of expertise are as numerous as shortages of materials and of money, the repatriation of experience is every bit as undesirable as the repatriation of assets. This fact is accepted by the Commission, which though criticising certain aspects of management, stresses the vital importance of ensuring that national assets do not fall into inexperienced or unworthy hands.

Tax Burden

The tea industry complains of the burden of taxation, and complains in particular of the growing habit of imposing taxes which must be paid, although the concern has made no profit. The export duty admittedly varies with the price of tea, but pays no heed to the cost of production or to the existence or absence of a margin of profit. The Assam Carriage Tax falls with equal severity on rich and on poor, on the tea which incautiously but inevitably uses a mile of public road, and upon the tea which rides from Doom Dooma to Dhubri. The Bengal octroi affects the cheapest Dust and the finest Leaf, and is no respecter of the State of origin. These taxes, it is suggested, have perforce been imposed, not merely because money is needed by the Governments concerned, but also because the burdens which fall upon the tea industry are so reducing the margins of profit that income-tax and agricultural income-tax receipts are disappointingly low. In this dual taxation lies one of the greatest dangers, for so long as receipts from duties and octrois are high, a fall in—even an absence of—profits is of less immediate concern to the tax-gatherer.

The industry has long recognised that the existing enterprises must assist, through the payment of taxes, in the establishment of new industries and in the completion of successive five year plans. A high rate of income-tax is, therefore, accepted with as good a grace as possible, and though taxation on profits must restrict development, it at least bears some relation to the degree of prosperity. These "so much a pound" taxes, however, do nothing of the kind, and the very ease of their imposition, and their lack of flexibility is a constant temptation to those in search of revenue. It is not suggested that because of these taxes the foreign buyer will cease to be interested in Indian teas; on the contrary, where goods are sold in auction, the foreign buyer bids what he thinks the goods are worth to him, and is quite indifferent to the various taxes which the producer has paid in bringing his teas to the market. What is suggested, however, is that these taxes will gradually either reduce the producer's ability to observe the labour laws, or make it impossible for him to produce any teas at all. If the former takes place, there is the danger of unhappy labour relations, for labour unions are profoundly aware of their rights and of the benefits to which recent legislation has entitled them. If the latter takes place, the weaker units will be the first to suffer, and although in time things may sort themselves out, the interim will be painful and disturbed.

It seems desirable, therefore, that all "so much a pound" taxes should also pay heed to the margin between selling price and costs of production, particularly now when so much tea is sold in India, and when the buyer fixes his bid with a view to subsequent charges. It is also essential that the present arrangement whereby three Governments may tax the same pound of tea as it struggles from the garden to the wholesale customer should be abandoned, and that the Central Government should be the sole taxing authority, partitioning the proceeds among existing beneficiaries. Dr. Roy and Mr. Medhi would surely raise no objections if they received from the Centre a sum equivalent to their present receipts, without any of the botheration of collection. The industry would be immensely relieved by the avoidance of three-fold statements, payments and reconciliation; or would the State Governments seek to impose some "alternative" tax if it were made clear to them that any such imposition would be accompanied by a corresponding cut in the Central tax and in their share of the proceeds. The fantastic accumulation of forms and paper work can well play a significant part in the quality of tea manufacture, and in India's ability to compete successfully in world markets.

Labour Disputes

If one excludes two incidents of particular horror—the murder of Mr. Pandey and of Mr. Walker—the year has been reasonably free from labour disputes. The individual malcontent has sought to leave his mark, but the major unions have adopted constitutional methods, and have endeavoured to control their members. What has caused anxiety is the manner in which garden populations are increasing, with no corresponding increase in the volume of garden employment, and with a steady reduction in the acreage of garden land. The present figures indicate that there are 43 live births a thousand of population as against 13 deaths, and hardly any of the garden residents show any desire to leave the garden or to seek other employment. Nor is there even willingness to move from one garden to another, and after two years of expensive and largely unfruitful operation, the recruiting agencies which were established to arrange inter-garden transfers in Assam have had to close down: everyone wanted to stay where they were.

Coupled with this increase in population—an increase which has few parallels—is the tendency of the State Governments to take over land which appears surplus, and then to leave such land unutilised. There is perhaps some justification for the argument that the laying out of new areas under tea is too expensive at the moment, and that requisitioning does no immediate harm, but the fact unquestionably remains that potential tea lands, and lands essential for ancillary purposes and for the garden community, are being taken away. This will mean that the growing garden population will be compressed into a smaller space, and that the opportunities for the expansion of tea—and even for replanting on fresh soil—will grow less. Perhaps it will be argued that there is a sufficiently large area under tea already, and things should not be made too easy for the growing population. If they are compressed, if they are made uncomfortable, they will move elsewhere. Where, exactly, is never stated. The hillman of Darjeeling has no wish to go to the plains; the plainsman loathes the hills. The cities are crowded, and there is a jealous watch over cultivable land. Indeed, unless there is either a stop to this increase, or the provision of alternative employment, the tea garden population will increase by some 50 percent in the next 10 years.

Prospects for Industry

What, then, are the industry's prospects? That profits will continue to be shared with labour seems inevitable, and must limit the scope for development and improvement. That labour's share in such profits should be placed to useful purposes is devoutly to be desired, lest a wasteful practice should become an unalterable precedent, and lest welfare measures should be permanently delayed. That taxes will remain high is also inevitable, but if there is logic in the levy, and simplicity in the collection, the industry must be proud to play its part in the nation's advancement. That Tribunals will continue, with almost biblical fervour, to heap the imagined sins of the founders upon the heads of shareholders unto the third and fourth generation must also be feared, for they have taken to themselves the task of re-distributing the people's wealth, and they interpret the spirit of the times as being much to the disadvantage of organised industry. Yet, despite payments for bonus, despite unsympathetic taxes, and despite a garden population which increases inordinately, it seems likely that the tea industry will surmount its difficulties and, safeguarded by Britain's devotion, continue to play its rôle as *India's greatest employer* of organised labour, as pre-eminent among the earners of foreign exchange, and—unfortunately—as a giant tax-payer. Only if it is pressed too hard, whether by labour from below or by the Government from above, will it lose its resilience and seek, by the formation of splinter groups, to evade both its burdens and its responsibilities.

THE GROWING PROBLEM OF RAW JUTE IN 1956

● By A SPECIAL CORRESPONDENT ●

NOT all the problems of the jute industry in the past 12 months have arisen from the difficulty of marketing its products at remunerative prices or from increasing labour costs; another factor which has caused anxiety at times has been the supply of its raw material. Nor has the problem of raw jute been due entirely to the inadequacy of supplies. The main worry, which has continued practically throughout the year, has been the high cost of raw jute compared with the prices obtainable for the manufactured products, and although there is a close connection between supply and price, the main consideration which determines the price is that India is dependent on Pakistan for a substantial portion of her requirements.

The quantitative supply problem has been with us since Partition, and although good progress has been made towards making India self-sufficient in jute-growing, roughly one-fifth of the Indian mills' requirements has still to be imported from Pakistan. It is this dependence which keeps the Indian mills in the grip of a price disparity. Actually, taking the Indian and Pakistani crops together, there was last year enough jute to meet the world's requirements for manufactured jute goods, but the fiscal measures taken by Pakistan have made the price of jute imported into India from that country so high that the mills in India cannot afford, at the prices obtainable for manufactured goods, to buy anything but the lowest grades. Even these have recently been so highly priced that it has, at times, been more advantageous to Indian mills to buy slightly higher grades of Indian jute. Thus the high price of Pakistani jute forces Indian mills to concentrate on the purchase of Indian jute and that, in turn, keeps up the price of Indian jute. It may, of course, be asked how jute manufacturers in other countries can afford to buy jute from Pakistan if Indian mills cannot afford to. The answer is that they cannot profitably do so in the ordinary lines of standard goods, and it is their general complaint that they cannot compete with India in these lines because of the high cost of Pakistani jute. In the case of specialities it is different, because they have little competition from Indian mills and, in any cases, can command their own prices. Others have their home markets reserved to them by tariffs and other protective measures.

Another factor which has had a strong influence on keeping up the price of raw jute has been the erection of new mills in other countries, particularly in the Middle East and other countries of Asia. In some cases, Pakistan has given financial assistance to these new enterprises under a short-term policy of finding markets for her raw jute but forgetting that, in the long run, their products will compete in world markets with those of Pakistani mills. Thus we have an expanding manufacturing potential competing for a limited supply of raw material, and at the same time, competing to sell an increased volume of manufactured products while world demand is not proportionately increasing. It is even tending to become less. Pakistan could, of course, easily expand her jute crop so that her own mills and those others she has encouraged or sponsored, could get cheaper jute and underquote Indian mills, but Pakistan's policy has been to restrict jute-growing and keep prices high in the interests of her own jute growers.

Raw Jute Cultivation

These problems, so far as India is concerned, can be solved only in one way. That way is to expand jute growing in India as quickly as possible so that the country may become independent of foreign supplies. Some progress has been made in this direction, but not nearly enough. Various recommendations were made by the Committee of experts, and these were good so far as they went, but there has been a lack of energy and enthusiasm in putting them into force. One difficulty is that the jute crop is spread over several States and, consequently, there is no uniformity. It would be a great advantage if there were one co-ordinating authority with sufficient drive to push forward with all the proposals made by the Committee and to keep up the propaganda energetically throughout the year. At present, it tends to fade out after the crop is harvested, instead of which campaigning should be starting for the next crop. Besides, much could be done in the way of instructing the growers in the collection and preservation of seed, the preparation of composts and the digging of tanks for retting. Above everything else, however, as a long-term policy, there should be intensified research to develop strains which will give a greater yield of fibre from plants. Without putting more land under jute, it would also economise in labour and fertilisers and reduce the production of waste matter. Much time and money have been spent on research directed towards improving the quality of the fibre, but that is not so important. For even now it is difficult to market the better qualities grown. In some districts, of course, the quality produced is poor, but that is due more to soil, climate and poor retting facilities than to the variety of seed sown. If strains could be developed to give more fibre from each plant, the growing of jute could be concentrated on the lands most suitable for its cultivation instead of expanding the crop in areas of poor yields.

Transport Difficulties

One factor which has contributed to the difficulties of the mills in obtaining their jute supplies has been the lack of sufficient transport. Little difficulty was experienced in river transport but there were periods when acute shortages of railway wagons were experienced in moving jute from the districts to the mills. This forced the mills to make purchases in the local bazaars where they were held to ransom by stockholders who were fully aware of the mills' difficult stock position. It has never been understood in the trade why wagons are almost invariably available for the despatch of jute to Cossipur when booking to mills is restricted. Possibly the railways find it more convenient to make up complete rakes for one destination than to make up trains comprising wagons for half a dozen different mill sidings. But it certainly creates difficulties for the mills. The bottlenecks at the ferries over the Ganges also cause delays, which is understandable, but it is not understood why wagons loaded at places within 50 miles or so of Calcutta sometimes take weeks to reach the mills. Then, again, delays are caused by small numbers of wagons having to be placed in mill sidings by mainline goods engines, while the rest of the train is held up. There is also the anomaly that, although there appears to be a shortage of wagons, there are times when the wagons available have to be routed from stations in Bihar through Pakistan because the Indian railways cannot handle them, thus involving jute suppliers in extra freight charges. With all these difficulties in the way of the free movement of jute at present, it is not surprising that there is some apprehension as to what will happen when, as a result of the second five year plan, traffic demands on the railways considerably increase.

All these difficulties of rail transport in moving jute from the districts to the mills have forced dealers to turn to other means of transport. In recent years, considerable quantities have been brought to Calcutta by air from Assam when railway facilities were not available for one reason or another. This is most common with jute coming from Tripura which is almost isolated from the rest of India. Ordinarily, Tripura jute is brought by rail through Pakistan, but when that route is not available, it has to be brought by a long circuitous route through Assam and, when that happens, air transport is cheaper. Another development is the bringing of jute by road from places as far away as North Bengal and Bihar. This has become possible by the improvement of the roads, but the ferries which have to be used are an obstacle. Bridges are now under construction at some points, and when they have been completed, road traffic is expected to increase.

Moisture in Jute

For many years the watering of jute before sale has been a vexed question but, since mills' stock margins were reduced in recent years, it has become more acute and has probably never been worse than it is today. It used to be said that the jute was not watered by the growers but by the middlemen. The growers have learned the trick, too, and much jute is in a wet condition before it reaches the village *hats* or the *beparis*. In fact, during the harvest season, very little dry jute can be bought because the growers do not trouble to dry it before offering it for sale. Even in the dry season when one might expect to be able to purchase dry jute, that is seldom possible. Growers water their jute before bringing it out for sale, and then the *beparis* and other dealers all add a little more before the jute eventually reaches the mills.

The mills, of course, claim and get allowances for excess moisture, but the allowances are seldom enough to be set off against the moisture they actually accept. The loss thus incurred by them amounts in a year to a huge sum. If we take, for example, the amount of jute consumed by the mills in the year 1955-56 and take the average price at Rs. 25 a maund, the loss, if it were only one percent, which is a modest estimate, would be Rs. 75 lakhs. To that has to be added the cost of freight and insurance on a false weightage.

Marketing Methods

In last year's review, comments were made on the changes which were taking place in the mills' methods of purchasing jute. These have developed further in the course of the past year. To some extent this has been due to the inability of the mills to get the delivery of jute already purchased on contract, because of the lack of railway transport which has forced them to make increasing purchases in the local markets for quick delivery. They have also had to resort to this method of securing supplies because of the failure of dealers to implement their contracts in time. It will be remembered that, in 1955, when the mills' stocks were very low between the end of the old season and the beginning of the new, the dealers took advantage of the position, and, instead of despatching jute against their contracts, shipped jute to the local markets where premium prices were obtainable. In many cases they also consigned jute to themselves and made profits by selling ready bills of lading. A similar position developed in the current season, and the mills tried to protect themselves by buying on contracts for guaranteed shipment. The sellers' association, however, then took steps to enforce a rule which prevented their members from accepting such contracts and, although that has been only partially successful, it has added to the mills' difficulties. In the months of April, May and June, the mills made substantial purchases of both old and new crop for shipment by specified dates in July, August and September. When, however, prices began to rise, dealers resorted to the same tactics and, instead of despatching jute against their contracts, consigned it to the bazaar or to themselves. The result has been unfortunate for the mills and, at the end of September, it was believed that only about one-third of the jute purchased by the mills in April-June had been despatched.

Apart from being forced in these circumstances to make heavy purchases in the local bazaar, many mills have increased their purchases at the mill gates and jetties, although there are still groups which avoid this practice because of the temptations it provides to mill staffs, and corruption in this trade is extremely difficult to check. Moreover, most of the jute bought in this way contains heavy excess moisture for which it is difficult to get adequate compensation.

Another change which has been noticed in recent years, and particularly in the past year, is the purchase of jute through the mills' subsidiaries or the managing agents. It is doubtful whether the mills gain any advantage by this diversion of business from old-established channels. Another new departure from the old practice which has taken place this year is the buying by the mills of jute delivered into the "phatka" market. When this was proposed in Professor Todd's scheme for a futures market, the I.J.M.A. anticipated awkward results and many of its members declared their opposition to the idea. *Tempora mutantur nos et mutamur in illis*. What has brought about this change now is the fact that large deliveries are being made into the "phatka" market of ready bills of lading because sellers find that they can get better prices there than by selling direct to the mills. The bulls in the "phatka" market had to take delivery and they then unloaded it to the mills. It is certainly a pointer as to what will happen if and when a proper futures market is organised. Meantime, however, legal opinion is that these transactions are illegal under the Forward Contracts Act.

The obvious result of this changing pattern of jute buying is that the jute-broking concerns which have served the mills satisfactorily for generations find that their business is shrinking. Brokers, by underwriting the contracts, have stood between the mills and defaulting sellers, and there have been few seasons when some of them have not suffered losses from defaults on the part of dealers. This fact does not appear to be remembered at the present time, and there is a feeling of intense depression in the broking community, but the time may come when their services will be better appreciated.

The official estimate of the yield of the 1955 crop was 4,137,000 bales of 400 lbs each. Of that quantity, 2,006,000 bales were produced in West Bengal and 2,131,000 bales in the rest of India. To that has to be added the mesta crop, including Bimli, which the Government estimated at 1,159,000 bales and of which 612,000 bales were grown in West Bengal. The total supply of fibre available to the mills in 1955-56 apart from the carry-over from the previous season was, therefore, 5,296,000 bales. During the jute year 1955-56, the mills in India consumed 6,380,000 bales, leaving a deficit of 1,084,000 bales. This deficit was more than made up by the import of 1,241,000 bales from Pakistan. The mills in India are, however, reported to have brought forward at the beginning of July, 1955, 907,000 bales, but against that, it must be borne in mind that all the supplies did not go direct to the mills and that some of the jute imported into Calcutta was still in the local bazaars at the end of the season. Nor do these figures take into account the domestic consumption of fibre which, in India, is estimated at about 200,000 bales. It is clear, therefore, that at the beginning of the current season, the mills' stocks of raw jute were somewhat attenuated, which explains the compulsion for the mills to pay premiums for early delivery, when they were let down by sellers failing to implement their contracts in time. The trade estimates of the Pakistani crop were about 7,000,000 to 7,500,000 bales which was considerably higher than the Government figure. During the year July, 1955 to June, 1956, Pakistan exported overseas 4,399,000 bales, and to India 1,452,000 bales, a total of 5,851,000 bales. Besides this, Pakistani mills are estimated to have consumed 840,000 bales and domestic consumption is put at 300,000 bales. These figures account for a total of 6,991,000 bales which, disregarding the carry-over at the beginning and at the end of the season, may be taken as a fair estimate of the production of jute in Pakistan in 1955-56.

The 1956 Crop

As a result of good rain in the jute districts in February and early March it was possible to make a start with ploughing and sowing in both India and Pakistan in favourable conditions. These conditions continued into April, but in the latter part of that month, some districts were affected by drought which delayed further sowing. On the whole, however, sowing was about a month earlier than in the previous season. In May, the drought was broken in the districts where sowing had been delayed for want of rain. In Pakistan sowings were completed by the end of April and were reported to be 10 to 20 percent more than in 1955. But in May there was excessive rain, the rivers rose above the normal levels and some premature cutting of the crop to save it from flooding was reported. The wet weather continued into June and was unfavourable to the crop. Midnapore district and the Daissee districts were badly affected by the cyclonic weather in June, and damage was done to the young plants and sowing was further delayed. The completed sowings in India were estimated at about 12½ percent more than in 1955. Flooding was reported in Assam and in the Daissee districts in July, but, fortunately, it was not on the same scale as in the previous year and not much damage was caused. Expectations of an early harvest were not, however, realised and at times, imports of raw crop were delayed by wet weather which prevented the drying of the jute and interrupted transport.

The year 1956 opened with Assam Bottoms—the standard quotation—at Rs. 27 a maund, but prices were moving up and, by the end of the month, the quotation for Assam Bottoms stood at Rs. 30. Partly, this was because the I.J.M.A. had unsealed 2½ percent of the idle looms with effect from 9th January, which meant some increase in the consumption of jute and partly, it was due to the smallness of stocks in the local bazaars. Besides, there were reports of declining arrivals in the Pakistani markets and it was said that the Pakistani crop was not turning out to be as large as was originally expected. In the early part of the month, there was also a rise in the price of manufactured goods in expectation of improved demand, but this was not fully maintained. At the end of January, the I.J.M.A. decided to unseal a further 5 percent of the looms as from 20th February, and that gave the raw jute market another fillip although the increasing disparity between the prices of manufactured goods and raw jute put a brake on mill buying. At this time, too, there were reports of falling imports in the Indian markets upcountry, when they had been expected to increase after the finish of the paddy harvest.

Early in March, there was good buying by the mills at the beginning of the month, and the quotation for Assam Bottoms was carried up to Rs. 31. Towards the middle of the month, however, there was good rain in the jute districts in both India and Pakistan and this encouraged the expectation of an earlier crop than that of 1955. Good progress was made with ploughing and some sowing was reported. This caused a bearish tendency in the "phatka" markets and by the end of the month, Assam Bottoms were quoted at Rs. 28 for April-May shipment.

In April, mill buying was slow, buyers being unwilling to make more than hand-to-mouth purchases because of falling prices in the manufactured goods market. The weakness of the goods market had its repercussions on raw jute sellers. Favourable reports that the sowings of new crop were everywhere earlier and heavier than in 1955, also contributed to it. Prices remained much the same throughout the month with minor fluctuations within about Re. 1 a maund but at the beginning of May, there was a sharp decline to Rs. 26-4 a maund for Assam Bottoms. At this time doubts began to be expressed over the availability of supplies from Pakistan where imports were smaller and there were reports that stocks in the interior were much less than had been estimated. Some improvement in the price took place, but it was short-lived. Towards the end of May, the first business in New Crop was reported, business being done in Assam Bottoms at Rs. 25-8 to Rs. 25 for August-September, a discount of Re. 1 a maund from the price for Old Crop for June-July. Besides this, business was done for June-July-August shipment with option to the sellers to deliver old or new crop. At this time, too, fair quantities of Pakistani N.C. cuttings were bought by the mills at Rs. 105 to Rs. 107-8 for August-September shipment.

Cyclonic Conditions

Early in June, cyclonic conditions developed first in India and then passed into Pakistan. The crops suffered some damage, the young plants in some districts being submerged while in the later districts, such as the Daissee districts, some of the seeds and seedlings were washed away altogether.

Other developments also gave an impetus to the upward tendency. In August, Pakistan raised the export duty on cuttings and ropes from Rs. 5 to Rs. 10 a bale and *habi-jabi* was re-classified as long jute, thus raising the export duty from Rs. 5 to Rs. 20 a bale. These increases were obviously aimed at India which is the largest consumer of the grades concerned. The price of cuttings rose sharply, especially for ready and afloat parcels which, again, was due to mill demand arising from the fact that contracts made at much lower prices had not been fulfilled. Then came the nationalising of the Suez Canal which created a firmer market in Pakistan for early shipments, foreign consumers being anxious to secure supplies in case of delays in the route round the Cape. In August, the I.J.M.A. announced the sealing of a further 5 percent of the member mills' looms. This brought about a firmer market and better demand for manufactures and mills were able to secure orders for a large quantity of goods at rising prices. As a result, there was active buying of raw jute and prices rose as high as Rs. 31 a maund for Bottoms for quick deliveries. Some of this buying of gunnies was obviously due to covering against bear sales; some of it was because of the fact that consumers had hitherto felt that, as long as the mills were over-producing, they could get their requirements at their own price whenever they wanted them. Some, of course, was due to the Canal crisis. When the Canal crisis eased in September and the consumers of jute manufactures felt that they had secured enough for the time being, the demand for manufactured goods slackened and the mills also curtailed their jute buying. Consequently, the raw jute market softened, but sellers showed reluctance to reduce prices in spite of increased imports from the mofussil markets. Sellers were also unwilling to sell forward because of their experience this year that it is more profitable to sell jute for ready or early delivery. There was also an underlying feeling that, as long as Pakistani jute sold at substantially higher prices, there could be no great fall in the price of Indian jute.

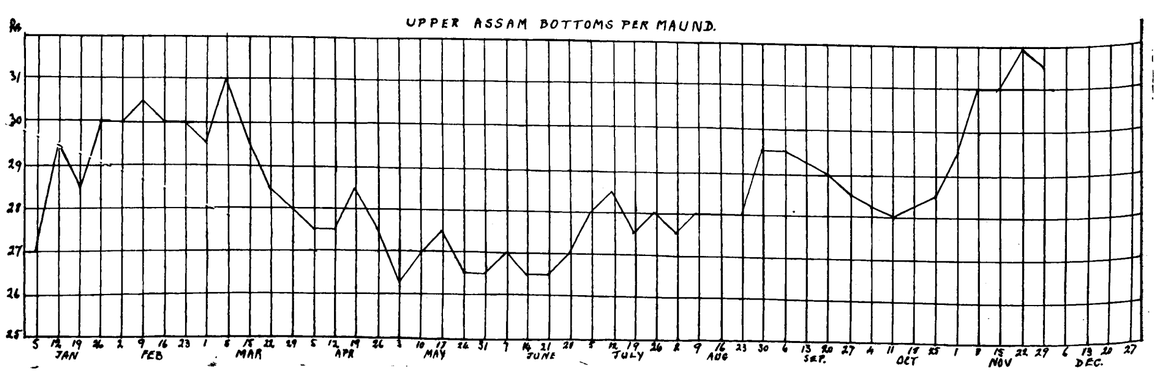
Sellers Reserved

The market continued dull throughout most of October, but there was an undertone of reserve among sellers because of the continued belief that the volume of Indian jute available to mills would not be adequate for their requirements and that prices must eventually rise. When the Middle East situation became critical towards the end of the month and demand for manufactures enabled mills to sell large quantities of hessians and gunnies there was heavy buying of jute and prices rose sharply. This rise continued, with minor recessions, throughout November and towards the end of the month prices reached the highest level of the year. Arrivals in upcountry centres were reported to be falling off, but this was seasonal because of paddy-harvesting which was just commencing and usually lasts until January, according to the districts. Arrivals at mills were also restricted by lack of wagons but, on the other hand, imports into Cossipur were the highest of the year, the railways giving preference to this traffic. Consignors of jute to Cossipur took full advantage of this, being anxious to get the maximum benefit from the high prices being paid by buyers there.

Futures Market

Two items of interest have been reported since. The first was the announcement by the Government that is had decided to recognise the East India Jute and Hessian Exchange, Ltd. under the Forward Contracts (Regulation) Act and to permit trading in futures contracts thrcugh that agency. This was welcomed by the trade in the hope that it would provide reasonable and reliable hedging facilities and eliminate the unsatisfactory speculative market which exists at present. The date for the commencement of business in the new market has not yet been announced.

The other announcement came from Pakistan where, apparently, the Government has reversed its policy on raw jute. It has now been decided that jute growers in Pakistan are to be encouraged to grow more jute in 1957 and that all restrictions on jute-growing are to be withdrawn. If this results in more ample supplies being available it should help to ease the position for Indian mills by making it possible for them to buy Pakistani jute at prices more in line with those of Indian jute and with the prices obtainable for jute manufactures. The Pakistani export duties will of course, still be a serious handicap, but if a bigger crop in Pakistan brings about lower prices there the incidence of the export duties will not be so serious.



A YEAR OF WORRY FOR THE JUTE INDUSTRY

TOO MUCH GOODS, TOO LITTLE RAW JUTE

● By A SPECIAL CORRESPONDENT ●

EACH industry has its problems; and among those who are in it, there is always a tendency, perhaps excusable, to regard their particular troubles as being especially nerous and intractable. After all allowances are ade for pardonable human exaggeration, how-ver, there remain sound reasons for viewing the dian jute industry's performance in 1956 with nsiderable disappointment. It has not been a appy year. At the beginning of 1956, there were rounds for hoping that the long-standing problems hich have beset the industry since partition were ell on the way to solution. After long and pain-l efforts, it had managed to expand its production a level which promised, by assured abundance nd cheapness, to withstand the most vigorous on-laughts of competition. But all too quickly the dustry ran into a renewed cycle of depression; ccumulating stocks and falling prices brought erious losses which the mills could not for long ear. Production therefore had to be curtailed, ith the result that the mills were back to their ld problem of surplus capacity and weakened nancial resources.

Trading Conditions

When the year began, the jute industry was not nhappily situated. It had just completed 12 onths of working a full 48-hour week and, at 3,500 tons, its stocks of manufactured goods were t a fairly low level. It opened 2½ percent of its ooms—leaving 10 percent sealed—in January, as prudent and moderate measure designed to pre-ent any shortage of jute goods. In the following onth, a further 5 percent of the looms were un-ealed. This further increase in production was nderstandable; not only was it desirable that oods should be available in abundance to preserve heapness and deter competition, but with the stablishment of large-scale trade between India nd Russia there was the prospect of a large Rus-ian order which would create an entirely new emand for Indian jute goods. Nevertheless, there ere many at the time who doubted the wisdom f the step. The increase in demand, they pointed ut, was still only a hope and not a fact, and the ills' increased production would require a corres-ondingly larger quantity of raw jute which, with he approaching end of the fibre season, might rove very embarrassing.

In the event, the fears proved justified. From he end of January, the industry's stocks of manu-actured goods mounted steadily. By 30th June, hey stood at 127,000 tons, and were precisely ouble the opening stocks at the beginning of the ear. Goods prices were consequently at very epressed levels, but raw jute, as had been predict-d, was buoyant—buoyant indeed to such an extent hat the industry as a whole was incurring heavy osses on its manufacturing operations. In these ircumstances, it was not surprising that 2½ percent f the looms had to be re-sealed in July. But this urtailment was not sufficient; prices did not im-rove, and during July stocks increased by 11,000 ons. Obviously, a further curtailment was called or, and this came in the middle of September when nother 5 percent of the looms were re-sealed. upply had thus been brought into a more realistic elation to demand; but the industry was back to vhere it had started at the beginning of the year, vorking 48 hours a week with 12½ percent of its ooms sealed.

The Lessons

It is disturbing that the performance in 1956 hould have been so disappointing; and it is anoma-ous that, at a time when the national economy is apidly expanding and Indian industry as a whole s working under favourable conditions, jute mills, n which the wealth of north-east India depends nd which contribute most to the export trade, hould have suffered heavy losses and found it ecessary to curtail production. The year's expe-ience will not have been wasted, however, if its essons are correctly drawn and acted upon. In he first place, the anomaly between the jute indus-ry's record and the economy as a whole is more pparent than real. The fact is that India is in phase of planned industrial expansion in order o meet her own internal industrial requirements, ut such expansion cannot be planned for or ex-ected from an industry which caters overwhelm-ngly for overseas markets and is affected only to minor degree by internal conditions. In other words, the results of planning and industrialisation are applicable only partially to the jute industry. It depends on external markets and they are beyond the control of the planners. In other words, one cannot, without drastic consequences, force the industry to produce more if the demand for its goods is simply not there.

Raw Material too Expensive

The dependence on export markets and over-production explain why stocks accumulated and why the prices of manufactured goods were depressed. That is only one side of the picture. The mills' losses were at least equally due to the lack of parity between raw jute and manufactured goods prices. The firm jute prices which have prevailed almost throughout the year have been one of its most prominent features. It has often been alleged in the past that the mills rule the jute markets and that they call the tune to the disadvantage of the cultivator. If that was ever true, the events of 1956 have demonstrated that it is no longer so. Various explanations have been put forward for the mills' weakness in the raw jute market. Without any question, one important reason is that the economic position of the Indian cultivator has improved greatly in recent years and that his holding power is correspondingly stronger. It is therefore a much easier matter nowadays for him to withhold his jute until such time as the market is in his favour; and the experience of the mills in 1956 tends to show that to a great extent this is in fact what happens.

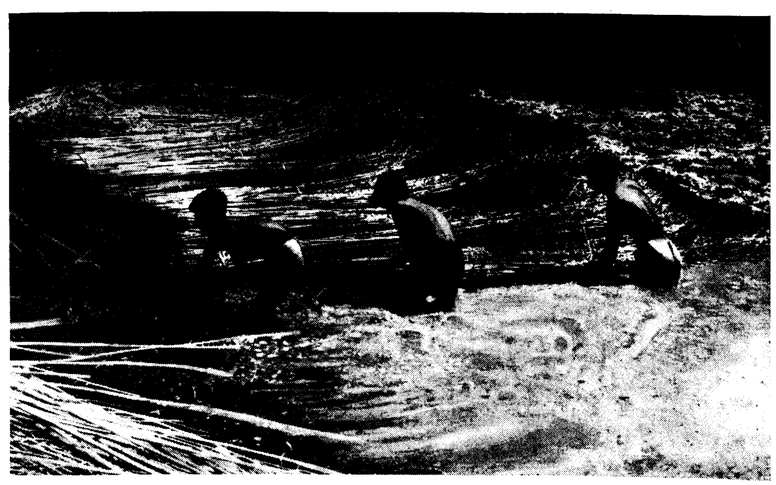
At best, however, this is no more than a partial explanation of the situation, and the main reason for the industry's raw material difficulties is more fundamental. It is simply that against a total consumption of 6.34 million bales of jute during the 1955-56 season India imported over 1.3 million bales from Pakistan; that India, in other words, is still dependent on Pakistan for a substantial proportion of her raw jute requirements. This dependence means that the Indian market is disproportionately influenced by supplies of Pakistani jute. The difficulties and uncertainties of trade with Pakistan are notorious. Indian prices are consistently bolstered up by doubts as to whether the balance of the industry's raw material needs will be forthcoming from Pakistan and as to the price at which it will be obtainable. The lesson is plain to read: the raw material problem of the Indian jute industry will not be solved until India is self-sufficient in raw jute.

In the industry's record during 1956, there is one encouraging feature. This is that it has been able to act in unity, and been sufficiently well organised to steer its way through its troubles without suffering irreparable damage. The measures it has taken to solve its problems have not passed without criticism however. There is always the opposition of labour who, regardless of long-term interests, will object to any adjustment of output on the ground that it affects employment. Again, there is a school of thought which sees the industry's ultimate salvation in flooding world markets with Indian jute goods so as to deter competition. Both schools of opposition neglect the fact that production without regard to world offtake can only mean over-production, which in turn must mean an internecine struggle among the Indian mills, with chaos in the industry and the weaker mills going to the wall. Under the conditions in which the industry operates today, such a situation could redound only to the economic disadvantage of the country as a whole and to the emergence of a contracted industry very differently organised and operated from the one we have at present.

World Market Prospects

If the industry, as far as its working schedules and production are concerned, is approaching the end of the year in much the same position as it commenced it, how does it now stand in relation to its world markets and what are its future prospects? A survey of the major consuming markets overseas will perhaps provide the best answer. It seems probable that the consumption of jute goods in north America during 1956 will show a fractional increase over the previous year—a gradual expansion which was evident also in 1955. The general feeling seems to be that, provided there is no steep increase in jute goods prices, north America can be confidently relied upon to maintain its consumption on much the present scale; and that—again, if prices are kept at a reasonable level—there is even scope for a gradual expansion of the market. While some of the projects which the Indian Jute Mills Association is conducting in America hold out the hope of contributing valuably to American consumption, it would be wrong to expect any sudden or greatly increased demand there; but north America seems likely to remain the industry's largest single market for hessian.

During 1956, shipments to the Argentine have been comparatively poor, mainly because that country held large stocks which were in process of liquidation, and also because the trade there is being returned from Government to private hands. It seems that there will be no more bulk purchases from the Argentine—which, although these sudden heavy demands have often come to the industry's assistance at crucial times in the past, may in the long run be no bad thing—but there are good grounds for hoping that, with an inevitable decline in stocks, Argentine business will return more nearly to its normal levels next year. Hessian shipments to the United Kingdom were also disappointing for the greater part of 1956. For this, there were a variety of reasons—a general fall in U.K. demand which equally affected the Dundee industry, the partial liquidation of heavy



Steeping bundles in retting water

stocks, and the effects of the credit squeeze. In recent months U.K. purchases have improved and prospects there now seem brighter; but, with the operation of the U.K. Jute Control which fixes purely artificial prices for Calcutta goods, and also with the U.K.'s need for protecting its own industry, the market for jute goods there is quite beyond the control of the Calcutta mills.

The largest sacking consumers, Australia and New Zealand, bought steadily and substantially from Calcutta during 1956. It was in fact largely because of their demand that during the first six or seven months of the year the mills' production was concentrated to an unusual extent on sacking qualities. Provided the Australian economy maintains its stability, there seems no reason for expecting any substantial fall in the demand from these countries. For the greater part of the year, China, which formerly took so much of India's sacking production, remained out of the market, but in the closing months a heavy demand arose from this quarter and substantial shipments have been made. China and Russia are potentially important consumers and, with a large-scale renewal of trade with the Iron Curtain countries, may well make a valuable addition to the world market. But considering that for years they have managed without importing jute goods, it would be wrong to place too much dependence on them,

Competition from Substitutes

On the whole, and leaving aside any question of unforeseen world cataclysms which can destroy the best-founded expectations, the world market for jute goods would seem to be as solid as ever. There are of course the usual competitive threats from alternative handling methods and substitute packaging materials, notably paper. But 1956 has not witnessed any startling new danger from these quarters, and jute fabrics have shown that they are now in a position to fight back equally hard against such competition. What from India's point of view is more important at present than the threat from substitute materials is the new tide of competition which has swept in from Pakistan. The Pakistan industry, in round figures, is now operating something like 5,000 looms on a double-shift basis, and during the jute year which ended in June 1956, it produced approximately 133,000 tons of manufactures. It has certain distinct advantages over India—some temporary, such as more modern equipment and a cheap labour force—and some permanent, such as ample supplies of high quality jute right on its doorstep. It also at present enjoys the unique advantage of receiving highly attractive prices for that substantial portion of its output which is consumed internally, an advantage which amounts to a hidden subsidy and which enables it to underquote India in export markets. What is quite definite is that the Pakistan industry is here to stay and that competition from this source must be a permanent factor in the calculations of the Indian mills.

Meeting the Challenge

How is the Indian industry to meet this challenge and re-orient itself so as to retain its supremacy in world markets and continue to play its traditional part in the Indian economy? There are various avenues of progress and means of strengthening the industry. For one thing, there is the modernisation of the mills' equipment. The industry has already made substantial progress in the installation of high-speed spinning machinery. Once the scheme for providing the mills with financial assistance from the National Industrial Development Corporation gets property under way and overcomes its early teething troubles, the pace of modernisation can be expected to show a sharp acceleration. Then there is the constitution of an organised futures market in raw jute and jute goods, so as to safeguard the mills against violent market fluctuations, and to relieve them from the weakness which at present arises from the absence of any strong holding power in the market and their inability under present conditions to carry on simultaneous business in raw jute and manufactured goods. Provided the new futures market is allowed to evolve gradually and to prove itself by the test of practical experience, and provided also that its operations do not interfere with the industry's ordinary specific delivery business and do not involve the imposition of unnecessary controls, futures trading may in the long run prove an inestimable boon to the industry and trade. Thirdly, the industry will be strengthened by the growth of a large internal market for its products, arising from the expansion of industrial activity under the second plan and consequently increased packaging requirements for such things as cement, fertilisers and sugar. The internal consumption has shown a very welcome increase over the past year, and India may yet become her own largest single customer for the products of the jute industry.

These developments can contribute substantially to the prosperity and well-being of the jute industry. But if the full advantage is to be reaped from this situation, one fundamental goal is necessary: self-sufficiency in raw jute. Considering that Indian jute production has expanded from about 1.5 million bales at the time of partition to approximately 5.2 million bales in the 1955-56 season, great progress has already been made. But in the past year or two, the rate of expansion seems to have slowed down and there are signs that the need for absolute self-sufficiency has not been given the priority it deserves in the second plan. There are those who say that the industry can have as much domestic jute as it desires provided it guarantees a fair price to the cultivator, but in a trade where the price of the end-product is fixed by the natural economic forces at work in world markets, it is irrelevant and unpractical to speak of guaranteed prices for raw materials. It seems unlikely too that there is much scope for the expansion of jute production by bringing new marginal lands under cultivation. Not only must the economics of such a form of expansion be highly doubtful, but the country's steadily increased food requirements severely limit the acreage that can be devoted to cash crops.

Improving Quality of Jute

On the other hand, there are many measures, recommended by the Expert Committee on jute production and widely acclaimed throughout the trade, which call for more vigorous support than than they are at present receiving. There is the setting up of seed farms and the distribution of improved seeds to the cultivators; the need for a large-scale programme of tank digging and renovation in order to improve retting facilities; and the instruction of the cultivators in the use of more modern agricultural techniques, including seed drilling and mechanical hoeing. Above all, there is an urgent need for producing improved strains of jute which will give a higher yield of fibre per plant and thus increase the output from the same acreage. A considerable amount of work has already been done in all these directions but it is as yet not nearly sufficient. An appreciably greater effort is called for on the part of the Central and State agricultural authorities. Only through such an intensive effort will the country achieve self-sufficiency in raw jute, and the jute industry attain its ultimate salvation.

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INDIA'S COTTON TEXTILE INDUSTRY

● By E. D. SHEPPARD ●

INDIA'S cotton textile industry is her largest and ranks second only to that of the U.S.A. in size and productive capacity. About 450 cotton mills are spread all over the country, nearly half being located in Bombay State. The second biggest concentration is in Madras with 90 units. The investment in the industry is of the order of about Rs. 113 crores, with 12,068,544 spindles and 207,347 looms in 1955. Indigenous cotton worth about Rs. 121 crores a year (about 44 lakh bales) is consumed every year. In addition, the industry imports about 650,000 bales of foreign cotton. The annual turnover in the industry is about Rs. 335 crores, and the average number of workmen employed a day ranges between 715,000 and 770,000 depending upon the number of shifts worked by the mills daily. The industry pays more than Rs. 40 crores annually by way of taxes and levies to the Union and State Governments, while the average annual wages and salaries bill amounts to about Rs. 80 crores. A comparison of these two figures is significant. With India's *per capita* income at about Rs. 284 (in 1953-54), the average earning of a textile worker in Bombay is about Rs. 1,600 a year. The industry is a large consumer of fuel, electricity and lubricants valued at about Rs. 11 crores, and is the mainstay of the handloom industry which obtains its yarn supplies from the mills to produce about 1,400 million yards of piecegoods annually. Furthermore, the industry provides opportunities for employment to a large number of persons engaged in the cotton yarn and cloth trades. It is indeed the very cornerstone of the nation's economy.

Kanungo Committee

With this background in development, the cotton textile industry found no difficulty in achieving the target set for it by the first five year plan. Meanwhile in September, 1954, the Textile Enquiry Committee, also known as the Kanungo Committee, submitted its report to the Government. The Committee expected that cloth consumption in India would rise from the then level of 15 yards *per capita* to 18 yards by 1960. This would require a production of 7,200 million yards of cloth on the basis of the country's population reaching a level of 400 million by then. The Committee visualised an additional production of 1,000 million yards for export. The central theme of the Committee's recommendations, as far as the mill industry was concerned, was that cloth production by mills should be "stabilised" at the then level of 5,000 million yards a year, with the responsibility for meeting the increased demand expected by 1960, being laid on the non-mill sector.

Official Policy

The problems of the handloom industry apparently influenced the Kanungo Committee, and they have tended to make themselves felt time and again since. Against this stands the larger issue of the need for expanding cloth production to meet not only the demand of the growing population, but also the need for higher exports. It is in this context that the Government's cotton textile policy has to be examined. The principal elements of the official policy now in force are: (i) Freezing cloth production in the mill sector at 5,000 million yards, during the next five years, any addition to the capacity of mills being permitted only to produce cloth for export and to meet the potential demand for large supplies of yarn. (ii) Encouragement of the handloom industry by allocating to it the production of an additional 1,700 million yards of cloth. (iii) The introduction of power looms in the decentralised sector to facilitate fulfilling the demand for additional production made on them. (iv) The utilisation of the *Ambar Charkha* to produce the larger quantities of yarn required for handlooms. There is left an unallotted balance of 150 million yards, which was to be allocated at a later date.

When the textile policy was announced by the Government in June, 1956, two reservations were made. Those were (i) that the production target would be "reviewed in a year or so in the light of consumption trends to determine whether the target should be raised" and (ii) that a decision as to the assignment of the unallotted balance of 150 million yards "would be taken later in accordance with circumstances that develop in the future". It was also declared by the then Minister for Commerce and Industry that the Government was "not unprepared to accept a higher target of 20 yards of consumption in the next 12 months" and if the target was raised later, a decision would also be taken at that time on its allocation. There is some consolation for the textile industry in this most recent policy announcement, in that the Government has emphasised that it is to be fluid and subject to revision when necessary. It is to be hoped that the Government will realise the need for revision as early as possible.

Need for Review

It would certainly appear that the need for review then promised is long overdue. That the demand for cloth in the country is exceeding available supply during 1956 and the exports are falling off, the following figures will reveal:

EXPORT OF COTTON PIECEGOODS FROM INDIA 1953-56.

Calendar years.

	(Figures in Million of Yards)			
	1953	1954	1955	Jan.-June, 1956.
To all countries	594.7	807.6	695.3	342.7

Even allowing for some margin for lesser offtake by the importing countries because of trade or economic reasons, one point which stands out is that the steep fall in the exports of cloth certainly reflects a greater domestic demand. The Kanungo Committee had visualised that by 1960 "it would not be too much to expect a consumption of 18 yards a head". The trend of demand certainly indicates that the *per capita* consumption by 1960 will be something more than 20 yards a head. The Committee's conception may have been based on the philosophy of restraint on consumption. This may have meaning if it is not tied to any dogma, and provided the limitations of the economic theory of restraint on the consumption of basic articles such as food and cloth in an under-developed country are understood. It is also an economic truism that with an increase in the effective purchasing power of the masses resulting from economic expansion under the second five year plan, a greater quantity of the national purchasing power is likely to be diverted to food and clothing. This surely is the object of the two five year plans—that the people of India should be able to enjoy a higher standard of living.

Thus the textile industry has estimated that the consumption of cloth a head "will have reached by 1960-61 the figure of at least 22 yards". This would necessitate the production of 10,000 million yards by 1960 as against 8,200 million yards visualised by the Kanungo Committee. Therefore, even assuming that the conversion scheme (from handloom to power loom) recommended by this Committee can be successfully carried out, and that the handloom industry achieves the production demanded of it, there would still remain scope for the production of an extra 1,800 million yards by the mills.

Trend in Congress Party Thought

In this connection, a reference to the policy of the Congress Party *vis-à-vis* the role of the mills, the power looms and handlooms would be appropriate here. In the report of the fourth meeting of the All-India Congress Committee Study Group on Village Industries* an opinion was expressed that cloth consumption "is expected to increase at the rate of one yard a head per year". Nevertheless, the Study Group is reported to have thought it necessary "to peg mill production at 5,000 million yards as suggested by the Kanungo and Karve Committees". The mental reservation involved in this approach is obvious. Another interesting facet of the A.I.C.C. Study Group approach to the problem is the proposal to fix a "pool price". According to the Study Group, "the Government should have a common pool of cloth and have parity of cloth prices according to the variety of cloth, irrespective of the methods of production. This has been done in the cement and steel industries and should now be done in the cloth industry".

The Study Group is oblivious of the fact that a comparison between the cement and steel industries on the one hand and the textile industry on the other, is not appropriate. Pool prices in the cement and steel industries were introduced to achieve some parity with the price of large imports. On the other hand, the Government's policy of assisting the handloom industry during the last few years, especially since the crisis through which the industry passed some years ago, has been in one way or the other at the expense of the mill industry—and, therefore, indirectly at the expense of the consumer of mill cloth. Surely the collection of the handloom cess cannot be a permanent feature of the fiscal system; and in any case, the proceeds from the cess cannot go on increasing indefinitely when cloth production by the mills cannot expand beyond a point prescribed by the Government. This would automatically limit the yield of the cess for subsidising handloom cloth. Consequently, the prices of handloom cloth are bound to rise unless that sector of the industry is rationalised.

Rationalisation

This brings up the question of rationalisation in the mill industry itself. The Lok Sabha recognised the principle of rationalisation in a Resolution adopted by it in September, 1954, which reads, "The House is of opinion that rationalisation of the textile and jute industries, where it is necessary in the country's interests must be encouraged, but the implementation of such schemes should be so regulated as to cause the least amount of displacement of labour in those industries providing reasonable facilities for the employment of such disposal labour". Although the Resolution recognises the need for rationalisation in halting terms, the principle for harnessing technological advance has been recognised.

Views of Mr. Nehru

A more forthright recognition for the need to employ modern techniques is evident from the Prime Minister's speech in Parliament on 13th September, 1956, when he stated: "You can only produce much more wealth by adopting higher techniques. The higher the technique, the more productivity is, that is to say, by adopting the methods and techniques which have come originally out of the Industrial Revolution and have been gradually improved by successive phases of that revolution. That is to say, if we stick to outmoded techniques, we may by hard work do some good. But ultimately, we cannot go very far. A man may work as hard as two men, if you like. He may work as hard as five men. But no man can work as hard as 1,000 men, and the modern technique gives a man the power of a thousand men. Obviously, you cannot compete with that. You have to adopt it in order not only to increase your wealth in the country, but, if I may say so, merely to survive, in this world of ours today. It does not care too much for the weak. And you have to be strong in mind, in heart, in character and in technique and in the modern ways of life; otherwise, you go down.

"We have to realise that we have fallen back in the race of man, that other countries have advanced. Other countries have explored nature's ways and understood nature, while we went about to our astrologers and palmists. They looked at nature and understanding nature's ways, got the power hidden in nature. What is all this, whether it is electricity or atomic energy? They are all hidden powers of nature which, phase after phase, have been discovered by man, not invented, discovered. They are there. He finds them out. And so because of that, the power in the hands of man has increased tremendously, a thousand-fold, or if you take the atomic power, a million-fold. A man becomes, therefore, equal to 10,000 men. Therefore, we have to understand nature's ways and profit by nature's powers, which America has done and which Russia has done. So long as we do not do that, we remain powerless and weak, and unable—apart from not being able to defend ourselves in case of need to produce the wealth which will get rid of our poverty. That is the basic proposition."

This whiff of fresh air on a problem which has aroused so much needless controversy will, it can be hoped, enable the mill industry to rehabilitate itself and thus be ready to fulfil the task set before it.

* *A.I.C.C. Economic Review*, 1st September, 1956,

TEA

IN INDIA'S ECONOMY



ACREAGE & PRODUCTION

There are more than 6,600 tea gardens in India covering nearly 791,640 acres. Their total yearly production is over 664 million pounds of tea.



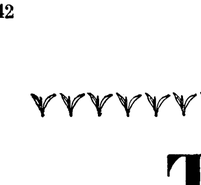
EXPORT

During 1955-56 India exported over 403 million pounds of tea. This is nearly 2/3 of her total production. Exports were directed to Great Britain, United States, Eire, Canada, Egypt, Continental ports, Turkey, Sudan, Australia, New Zealand, Iran and other countries.



HOME CONSUMPTION

The people of India consume about 200 million pounds of tea yearly or at the rate of a little over 1/2 lb. per head per annum.



FOREIGN EXCHANGE

Indian Tea earned over Rs. 109 crores in terms of foreign exchange during 1955-56.



INVESTMENT

Capital invested in the Indian Tea Industry is estimated at nearly Rs. 113 crores.



REVENUE

The Indian Tea Industry contributed to the National Exchequer about Rs. 17 crores as export duty, and about Rs. 3½ crores as central excise duty in 1955-56. Besides, it contributed large sums by way of State income tax, agricultural tax, road tax and certain imposts.



WORLD CONSUMPTION

India meets over 50% of the world demand for tea which is estimated at over 1,300 million pounds a year, excluding China, Japan, Formosa and the U. S. S. R.



ALLIED INDUSTRIES

The Indian Tea Industry assists other industries like plywood, ceramics, coal, cement, fertilisers, tea machinery and transport.



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THE FUTURE OF THE PLANTATION INDUSTRY

PROBLEMS AND MISUNDERSTANDINGS

• By VALALE I. CHACKO •

As a modern development in tropical agriculture, plantations are faced with the greatest threat to their existence in the east. Their origin and growth are coeval with the growth and consolidation of western colonial influence. With a history of over a hundred years, they are faced with problems that are beyond their internal capacity. Although the nature of the problems apparently differs from country to country, basically they arise from the same causes. Apart from the wartime occupation and the interruption of plantation operations and the export trade, the forcing out of Dutch rule hastened the weakening of the plantation industry in Indonesia. The recovery of certain plantation crops was thwarted by the difficulty of restoring law and order. So today Indonesia manages to produce only about half her normal prewar tea output and less than one-fourth the pepper output.

In Ceylon, although no threat to production has yet appeared, the shadow of nationalisation and the growing tendency towards the fragmentation of estate holdings have appeared. In both countries, western ownership has been reduced and the control required for the efficient operation of the estates has been greatly weakened. The same tendency is discernible in India. About 84 percent of the tea holdings were run by non-Indians, mainly British, in 1939, but the proportion fell to about 64 percent by 1953. The fall in non-Indian ownership in the south has been even greater. Holdings in tea still in non-Indian hands are not more than 54 percent, in the case of coffee not more than 7 percent, and in rubber 16 percent.

Differences Among Main Producers

The three countries, Indonesia, Ceylon and India which dominated the production and export of rubber and tea, and jointly contributed to the promotion of tea consumption, have now found it difficult to agree even on measures which are in their common interests. India was the first to withdraw from the International Tea Market Expansion Board without warning her partners in 1952. In 1955, the International Tea Agreement lapsed without the three countries finding it possible to agree on a new arrangement, although individually they recognise the need for reviving the Agreement. In India, land Bills have already threatened the development of the plantation industries, except on land owned by the Government. The rise of organised labour in the eastern plantation countries, including Malaya, has weakened discipline on the estates, lowered efficiency, and paved the way for large-scale intervention in management by the Government. Even if Government control over organised industries had not been introduced in the interests of planned development, the pressure of labour would have forced intervention.

In India, State intervention, both in the interests of labour and of the controlled economy, has probably gone farther than in any other country. Although many of the observations here would apply to all the plantation countries in the east, this review principally applies to India. The threat to the future of the plantations has become greater here than anywhere else. The plantation system of agriculture is not native to this country. It was introduced by the British in their colonial days and in the popular mind it is still associated with foreign rule. This impression has suited those who have been agitating against the management of the industry. The location of the industry along the mountain ranges and far removed from the plains, has left it isolated from the mainstream of Indian life. It has long existed without a sufficient appreciation of its rôle in the economy. As the industry was largely British-owned, until recently its expert knowledge and leadership were also predominantly British. The recent changes in ownership did not bring with them a talent for able and creative leadership in Indian hands. Those who took possession of plantation industries were not always sufficiently informed about the whole range of their problems, nor were they aware of how to fit the outlook of management into the framework of the evolving Indian economic philo-

total absence of expert knowledge and leadership which were not dependent upon ownership.

Into this complicated situation has entered State intervention. It has started on a large-scale without adequate experience of the industry and without appreciation of the critical points at which strains can be placed by such intervention. The result has been the emergence of a group of officials who remain anonymous as far as the industry and the public are concerned, but who nevertheless determine policy and conduct without any deep or well-founded understanding and without in any way being held responsible for the failures that might arise from their own decisions. With a critical attitude towards the plantation industry, the danger of official powers to initiate or to obstruct is not sufficiently recognised. To the three basic causes of the public attitude to the plantations—the colonial origin of the industry, the isolated nature of its existence and the absence of adequate, mature and farsighted Indian leadership —a powerful fourth must be added. During the last few years, with active Government patronage and support, there has emerged a labour movement which is weak in organisation but wields tremendous influence by virtue of its political position.

Nature of Ownership

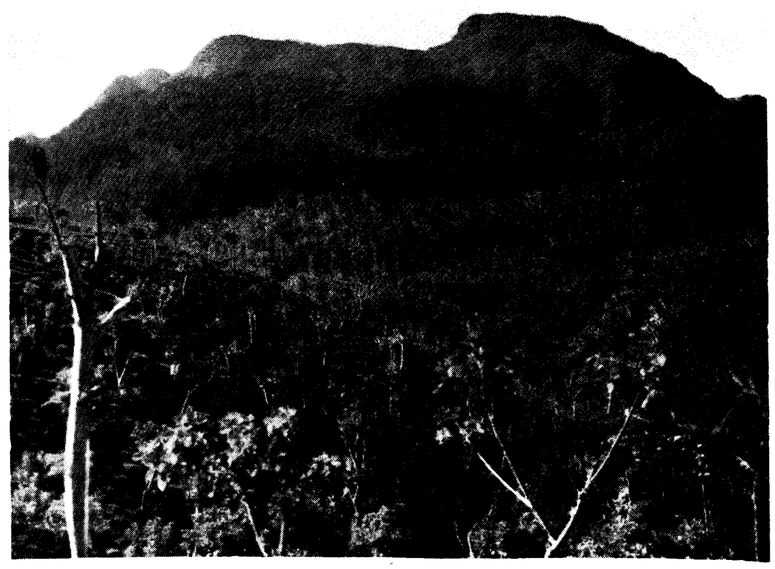
Whatever the origins and nature of ownership, the plantation industry has, acre for acre, been a source of revenue far more important than any other method of agricultural production in India. It has given its workers a standard of living well above that provided to agricultural labour of equivalent skill or aptitude. While it is by nature agricultural, it is in every other respect treated as industrial; and statutes and controls are imposed accordingly. It has recently been estimated that, on an average, Rs. 65 a 100 lbs. of tea is paid to Central, State and local authorities by way of duties, taxes, cess and other levies. For an average production of 800 lbs. an acre, this would amount to Rs. 480 an acre per annum. Besides, the industry finds employment for nearly 1½ million workers throughout the year. In trying to maintain a high standard of labour welfare and in order to maintain production, it depends upon a wide variety of supplies, goods and services. The major portion of its output is either used for the manufacture of goods, as in the case of rubber, or exported to earn foreign exchange. Above all these direct contributions to the economy must be considered the example set by the plantation industry to agriculture in general by its system of crop management, cultural care and managerial practices.

Political Influence

The plantation industry has long been one of the best organised in the country and in its day has wielded great influence. Today the various planting associations have better membership, higher incomes, larger staff, and a more important rôle to play. The industry produces more, earns more, pays more to the Government, employs more labour and offers it higher wages and a better life than ever before. Yet, never have its associations been so weak as they are today. The reason for this is not complicated. Organised labour is on the offensive. It is doing vigorous propaganda through labour leaders and politicians. These men are

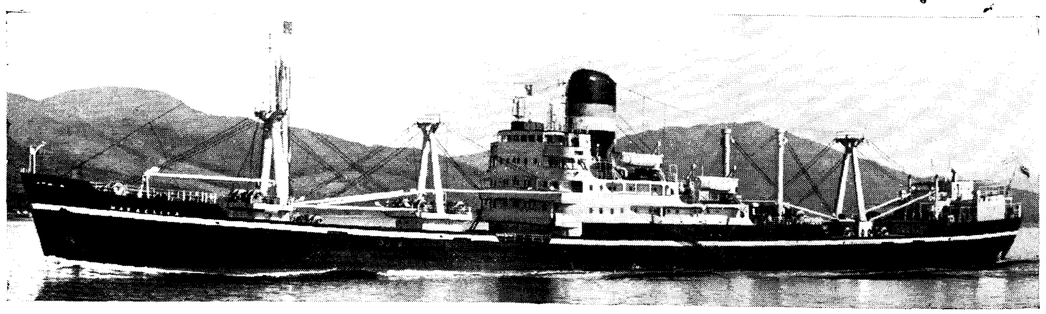


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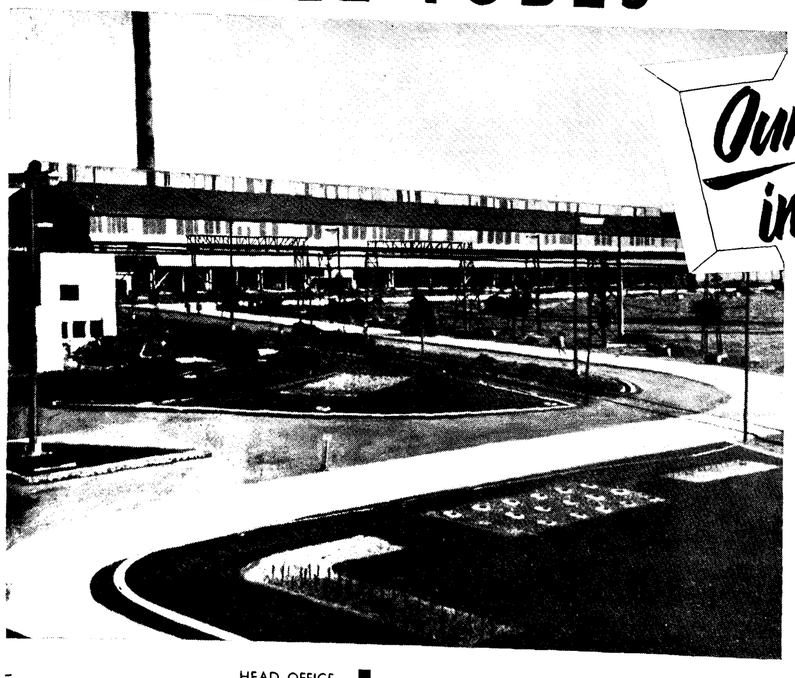
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among the most articulate in the country and their primary interests are in politics rather than labour welfare. They are pitted against an industrial leadership which has no interest in politics, and in any case cannot influence it to any great extent or at least enough to secure a fair hearing for its case. During the last ten years, managements of plantations have always been faced with having to move under pressure from labour before they could adjust their focus to the new situation created by independence, by the declaration of a welfare State and later a socialist State, and by the multifarious controls and regulations applied to the industry. During this period, the pace of improvements was forced by several means—by the application of all labour statutes irrespective of their effect on the industry, by securing the consent of managements at tripartite conferences, by the enactment of the most advanced labour welfare legislation in the entire east, namely, the Plantations Labour Act, 1951, and by adjudication and executive action.

The Government renders itself incapable of rational decision or action, because the mainspring of its action is its revenue requirements, and labour pressure, which is euphemistically called public opinion. Attacks on managements have increased in weight and frequency in recent years and have added to the hazards faced by investors in plantations. The power of labour is a prime factor in plantation affairs today. When it sits across the negotiating table, it has two invisible but powerful supporters on either side—a sympathetic, solicitous Government and a brooding, suspicious public opinion. The problem that faces the industry is not the result of a market situation. It arises from the growing tendency in the last few years of using both political pressure and propaganda to sway public and Government opinion against plantation managements. If the latter cannot exercise political influence, how can they meet the pressure of labour which is largely political? The only counteraction that is possible in such a situation is to inform the public. With the large masses of the population in ignorance about plantation conditions and with legislators no better informed, the group which applies political pressure and exploits its strong position in the public life of the country is bound to sway in great measure not only public opinion but also the Government's views.

Views of Managements

Many of the developments of the last few years can be credited to this fact. If managements need to reorientate their policies in the light of national objectives and if labour is not to exploit its political power to compel wrong and injurious steps, the Government requires a more objective outlook in the framing of its plantation policy. Neither managements nor labour should expect an uncritical acceptance of their points of view. But the former's views should not be ignored without proper examination merely because of their source. There has been a marked tendency to disregard the managements' views particularly during the last two or three years and to show a certain distrust in the industry's organisations. Many consequential steps are now being taken without consulting the industry, and very often without understanding the true implications of the steps taken. The withdrawal from the International Tea Market Expansion Board in 1952 was a Government action taken without consultation with the producers of tea on whose behalf propaganda was being conducted. It would, however, be wrong to forget that opinion within Parliament was based on incorrect reports about the Board. Influential members asserted during the debate that India had no voice in the Board's affairs, although on the Governing Body of the I.T.M.E.B. India had 42 out of 82 votes and the entire block was in the hands of India's Trade Commissioner in London.

Similarly, the views of the growers have not been ascertained prior to the negotiations for an International Tea Agreement. Within the Tea Board, the representation of the producers has been reduced to a position which has become practically ineffective, although the decisions taken by the Board almost entirely concern them. Similar trends are noticeable in the Coffee and Rubber Boards and in the many decisions that affect producers of these crops. The sections most vitally concerned with the industry are finding it difficult to be the consequential sections within the respective Boards; with the bias against managements developed so acutely, it has become a frustrating experience to put forward any view in the hope that it will have a reasonable reception. It is not only in the organisational aspects of the plantation industry that the impact of an unfriendly public opinion is felt. The total weight of legislation, executive decisions, contractual agreements, tribunal awards and other decisions taken for the improvement of wages and working conditions of labour and the Government's own financial levies and impositions on the industry have become so crushing that the expansion of the industry or its maintenance at a satisfactory level of production has become most difficult.



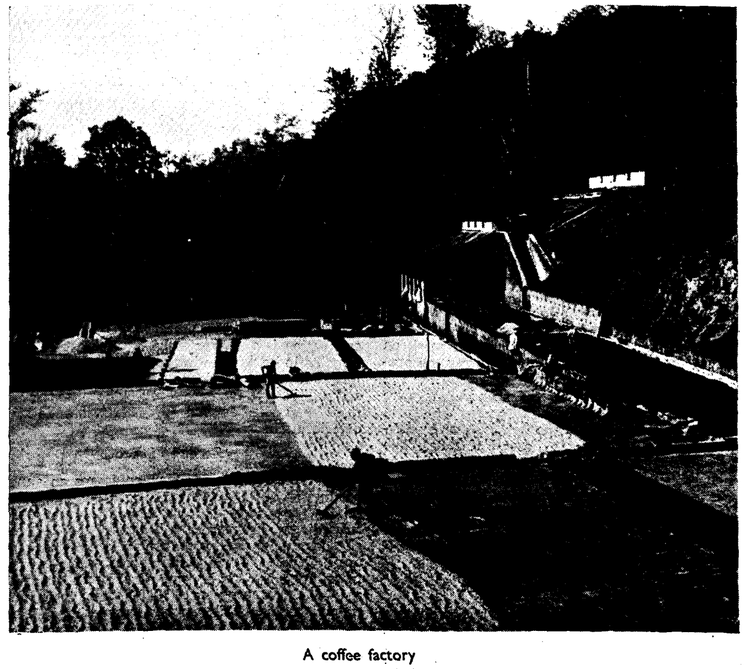
A coffee bush

The considerable improvement made possible in recent years was based upon two important factors. One was the higher price fetched for plantation products, largely in the export market, and the other was the tremendous contribution made by better managerial methods and improved yields to the plantation economy. The extent to which these two aspects can be further stretched is doubtful. In fact, it has become almost impossible to think in terms of any further increase in the prices of tea, coffee or rubber, and the plantation economy should clearly be related to a more modest price level. Although higher yields are considered possible, there will be serious difficulty in converting low-yielding areas into higher-yielding areas with the high cost of labour. There will also be strong opposition to any reduction in the labour force consequent upon uprooting low-yielding areas, thereby throwing planted areas out of current production. It is also not likely that any large build-up of internal resources will be permitted in the future. The deliberate policy of discouraging larger distribution of profits will have the direct effect of reducing the attractiveness of outside investment in plantation ventures. So, with the diminishing possibility of internal saving and the equally reduced attractiveness of plantation investment, it is not possible to conceive a future for the industry in which any large expansion or improvement can take place. Unless a reversal in Government policy is possible, the industry will become static.

In rubber, India is a small producer of practically no significance in relation to world output. She has an insulated rubber economy working under a rigid price system. In coffee, the large expansion in acreage and the great improvement in the planting material used during the last ten years or so are bound to increase output. This might give India, for at least a few years, some coffee for export but the total output will not be enough to affect the world market. It is in tea that India must still depend on exports—to the extent of over 60 percent of her production. Tea is one of the largest sources of foreign exchange but with the rigidity which is now being introduced into the tea economy and the insecurity felt by the principal section of the industry, a certain migration is taking place. In this case, it is a migration of excellent management material that should cause concern to India and which the country can hardly afford. All the retarding elements to which reference has been made earlier are most forcefully affecting the development of the tea industry. While labour efficiency cannot be improved and the share of labour in the total value is made to rise, the amount available for the improvement of the industry or its maintenance at a desirable standard are being seriously reduced. With the lack of security and the constant threat posed by labour, non-Indian interests are now relying more on tea lands in other countries, particularly in Africa. If the causes of this migration are not dealt with, India might find that her official policy is the great driving force for foreign tea production.

Need for Public Understanding

There are few industries so much in need of public understanding as the plantation industry today. A lot is being said and done by legislation and through executive action, the basis for which cannot be logically argued. The force behind these actions is not purposive direction within the new framework of India's development plans, but the backlash of a campaign which is in full swing for the glittering political prize that accrues to the leadership of the least mature and most numerous section of labour. With sympathy, understanding and encouragement, it is possible for the industry to expand and develop. To do that, the most dynamic sector within it must feel that it is being fairly dealt with, and that if it functions within the framework of the Government's policy, it is secure not only from wrong decisions but also from the attacks of politically powerful labour. Without this confidence, all that the industry can be expected to do is to mark time. If it is so forced to stagnation, it must eventually decline; other countries where political and ideological burdens are not so freely placed as here will rise to force the products of the Indian plantation industries out of the world market.



A coffee factory

SUGAR INDUSTRY ACHIEVES NEW PRODUCTION RECORD

WORRIES OVER CANE CONTINUE

● By HITINDRA MALIK ●

THE Indian sugar industry has had another record season. Actual production in 1955-56 amounted to 1,856,000 tons, the highest ever achieved, as against 1,856,000 tons in the previous year. This represents an increase of approximately 16.7 percent. The significance of this performance seems even more impressive when compared with 1953–54. The output then amounted to 1,001,241 tons and last season's figure exceeded this season's by approximately 85 percent. Several factors contributed towards this record-breaking output. The area under sugarcane expanded from 3,932,000 acres in 1954-55 to 4,446,000 acres in 1955-56 and the production of cane correspondingly increased from 55,460,000 tons to 57,749,000 tons. The 143 factories which functioned during the year had an extended season and some of them continued working till the middle of July. The total quantity of cane crushed amounted to 18,869,000 tons as against 15,900,000 tons in the previous season.

But plentiful supplies of cane, particularly in Uttar Pradesh and Bihar, also proved to be an embarrassment. The entire quantity offered could not be crushed and this entailed a loss for the cultivators. The factories in Bihar suffered, too, because they had to continue crushing beyond the normal season to a point at which recovery was low. Although the Government offered relief to the Bihar factories in the form of a rebate at the rate of three annas a maund in the price of cane crushed after 9th May, 1956, this was inadequate to offset the increased cost of production resulting from a lower recovery and the industry continued to function on an uneconomic basis. The average rate of recovery in this State declined from 10.22 percent to 9.79 percent. The same problem is likely to arise again in the current season. Preliminary estimates indicate that a total area of 4,700,000 acres will be under cane in 1956-1957 and while almost all the States share in this expansion, Uttar Pradesh and Bihar account for 20 percent and 27 percent of the increase respectively, which means that there is a danger of over-production.

Low Recovery

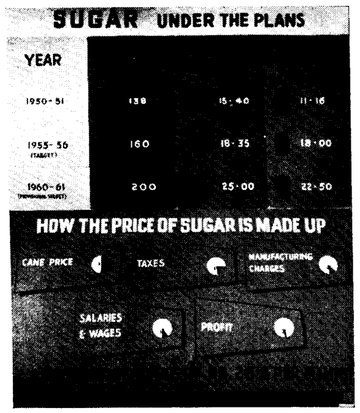
It has been suggested that the sugar factories in these two areas should begin crushing operations earlier than they normally do in order to consume the excess supplies of cane available. While this would be of advantage to the cultivator, the industry would stand to lose. The problem is that recovery from the variety of cane grown in Bihar is low both at the beginning and also at the end of the season. There is a particular optimum period at which recovery is at its highest and operations before or after this period are likely to be uneconomic. It would seem that the only immediate solution is for the price of cane to be linked with the percentage of recovery, but from a long-term point of view it may be worth while to experiment with new varieties of cane which will ensure maximum recovery throughout the season.

Much the same conditions prevailed in Uttar Pradesh. It is estimated that about 3,683,000 maunds of cane were diverted from one factory to another in the hope that some of this excess quantity would be consumed by factories in the area. In one case a consignment travelled from Saharanpur to Meerut—a distance of nearly 200 miles. Factories which had succeeded in crushing the cane within their own areas were induced to work on diverted cane and quite a few had to resume operations after they had actually closed for the season. Railways, fleets of trucks and boats were pressed into service to carry the excess cane from one part of the State to another. Further difficulties cropped up towards the end of June. The rains set in and it became almost impossible to transport cane from the outlying districts. Recovery deteriorated still further and labour charges for harvesting increased considerably. A ridiculous situation arose with some of the old crop still remaining to be harvested when the current season opened.

Basic Problems

The record production of sugar tends to obscure the accompanying agricultural fiasco, but it would be futile to ignore the basic problems involved. The fundamental problem is to align the cultivation of cane with the needs of the industry. The present situation arose because the minimum price fixed for cane was more remunerative than the prices of other cash crops. The area under cane increased but as the price of gur had fallen, larger quantities of cane were offered to the factories which they could not consume. This situation could conceivably change in the future and instead of the present surplus, a deficit could arise. It follows, therefore, that the basic security of the industry lies in improved methods of cultivation calculated to increase the yield an acre and a higher percentage of recovery a ton of cane.

It has been suggested that scope exists for additional factories in Bihar. The construction of a co-operative sugar factory in Banmankhi in Purnea District has already been taken in hand and is likely to be completed within the next two to three years. The setting up of four or five more factories within the foreseeable future is also contemplated. All this would involve a considerable outlay and it may be well to consider whether this would be justified from a long-term point of view. The points to determine are whether the present excess supplies of cane are a permanent



feature and whether it would not be more economic to expand and, what is more important, to modernise the existing units rather than to install new factories which may prove to be redundant at a later stage. A rational policy would seem to be to use the available resources in bringing the existing factories to a pitch of maximum efficiency before investing in new units. For instance, a factory with a crushing capacity of 700-800 tons a day is now considered to be an economic unit. But of the 143 factories now in operation, at least 31 factories have a daily capacity of less than 700 tons.

The importance of relating cane prices to the percentage of sucrose recovery has been recognised, but a suitable formula which can be applied on an all-India basis has yet to be evolved. This is an urgent problem which must be resolved in the interests of the industry as well as in the interests of the cultivator. The present system of haphazard cultivation is a danger to both. A great deal also remains to be done in improving the transport system between plantations and factories. This in itself will help to increase recovery because the cane must be crushed as soon as it is harvested to avoid deterioration.

Second Plan

The second five year plan envisages an annual production of 2,225,000 tons of sugar. Additional productive capacity is to be brought into existence. Accordingly, licences have been issued for 43 new sugar factories and for the expansion of 42 existing units. The total additional capacity approved for installation up to the end of March this year amounted to approximately 725,000 tons in terms of sugar. Of this 85,000 tons was commissioned during 1955-56. A capacity of about 220,000 tons is expected to come into operation in the current season, 250,000 tons in 1957-58 and the balance in subsequent years. A special feature is that most of the new factories will be run on a co-operative basis. There seems to be considerable enthusiasm in this direction and ambitious projects are reported from all over the country.

It is believed that the Uttar Pradesh Government has finally selected sites for two sugar factories to be set up on a co-operative basis in the State. These are in Bagpat and Bazpur in the Meerut and Nainital Districts respectively. In all, four co-operative sugar factories are to be set up under the State's second plan and a sum of Rs. 10,000,000 has been allotted for this purpose. In addition, a private factory is likely to be set up in Kiccha in the Terai area. Schemes for the setting up of three new sugar factories, one each in Bihar, Orissa and Punjab, are believed to have been approved by the Licensing Committee of the Government of India. Two of these are co-operative ventures. The new co-operative venture in Punjab will be located in Morinda in the Ambala District. The factory will have a daily crushing capacity of 1,000-1,250 tons. Sufficient supplies of cane are reported to be available in this area. This State envisages four sugar factories under the second plan.

In addition, the Punjab Government has decided to establish 16 centres for the development of the *gur* and *khandsari* industry. Under this scheme, improved cane crushers, boiling pans, furnaces and centrifugals will be introduced and efforts will be made to popularise *gur* moulds among producers. The State Government proposes to supply power and bullock-driven crushers on interest-free loans while pans, crystallisers, hand centrifugals, minor implements and moulds will be supplied on the basis of 50 percent interest-free loans and 50 percent subsidy. The Orissa scheme is for a sugar factory with a daily crushing capacity of 1,000-1,200 tons. It will be situated in the Ganjam District where good quality cane is known to be available. A co-operative sugar factory with a crushing capacity of 1,200 tons a day is also proposed to be set up in Saraseva in the Saharanpur District of Uttar Pradesh.

Rajasthan and Bombay

Rajasthan is considering the investment of Rs. 8,000,000 on two medium sized factories—one each in Bhilwara and Ganganagar. In addition, the Rajasthan Government has allotted Rs. 812,000 under the second plan to step up sugarcane production in the State. The sugarcane development scheme envisages an increase of the area under cane to 75,000 acres by the end of the second plan period. The area under sugarcane cultivation in the State rose from 45,000 acres in 1954-1955 to 47,000 acres in 1955-1956. Sugarcane is mostly cultivated in Ganganagar, Udaipur, Bhilwara and the Chittorgarh Districts in Rajasthan and also in the Kotah and Sawai Madhopur Districts. In Bombay, plans for setting up a co-operative factory in Belgaum are reported to have been completed. This will bring the total number of co-operative factories in the State to 15. The total capital of this factory is estimated at Rs. 7,500,000 of which Rs. 1,500,000 will be subscribed by member cane-growers. The State Government will contribute Rs. 1,000,000 while the Industrial Finance Corporation is expected to contribute Rs. 4,500,000 as a loan.

Madras

Arrangements are also reported to be nearing completion for the establishing of another factory in Madras City. An agreement is expected to be concluded soon between the Polish Machinery Corporation and a Madras firm for the supply and erection of a plant with a daily crushing capacity of 1,000 tons at a cost of Rs. 5,000,000. Under this agreement, the Polish manufacturers will also train in their country a team of Indian technicians in the working and maintenance of the plant. It is believed that the Industrial Finance Corporation has offered credit facilities to the company for importing the necessary equipment.

These activities towards expansion are all to the good, but it must be remembered that the rehabilitation and modernisation of existing plant is equally important and that the rationalisation of cane cultivation is an essential requirement if the industry is to function on a truly economic basis.

PROGRESS OF INDIAN HEAVY CHEMICAL INDUSTRY IN POSTWAR YEARS

● FROM A SPECIAL CORRESPONDENT ●

HEAVY chemicals are the workhorses of industry and their production is an index of the extent of a country's industrialisation. The term "heavy chemicals" generally refers to that sector of the chemical industry, where chemicals are produced in large quantities, usually at low cost and serve as raw materials and process agents in countless consumer products. This definition, though by no means comprehensive, includes various acids such as sulphuric, nitric and hydrochloric as well as the products based on such acids, alkalies comprising soda ash, caustic soda and allied products and various other chemicals drawn from organic and inorganic compounds. Heavy chemicals may, however, be clearly distinguished from fine chemicals such as dyestuffs, pharmaceutical and photographic chemicals and a large variety of products used in analytical and research work. These represent expensive chemicals of a high degree of purity made for specialised uses, and compared with heavy chemicals their number is legion.

Before the last war, sulphuric acid and some products derived from it represented the heavy chemical industry in India. The position has now changed as will be illustrated by the following table of production of some of the important heavy chemicals in 1946 and 1955:

	(Tons) 1946	1955
Sulphuric acid ...	60,000	165,000
Ammonium sulphate ...	22,460	393,100
Superphosphate ...	4,500	74,165
Caustic soda ...	2,900	34,250
Soda ash ...	12,000	77,270
Liquid chlorine ...	2,900	14,580

Private Initiative

It is remarkable that, apart from nitrogenous fertilisers, the progress made by the heavy chemical industry has been largely through private initiative, although a proportion of the capital expenditure has been provided as loans by the Industrial Finance Corporation of India. With the favourable atmosphere created by planning and tariff protection, new products are being added continuously to the list of chemicals manufactured in the country such as benzene hexachloride, D.D.T., hydrogen peroxide, ammonium chloride, calcium carbide and stabilised bleaching powder. The confidence arising from the strides made in recent years has been reflected in the targets (shown below) for the main heavy chemical industries visualised by 1961, i.e. by the end of the second five year plan.

	1951	(Tons) 1955	Target for 1961
Ammonium sulphate	52,664	393,095	1,600,000
Super phosphate	61,020	74,165	720,000
Sulphuric acid	106,932	164,842	470,000
Soda ash	47,532	77,272	230,000
Caustic soda	14,724	34,253	135,400
Liquid chlorine	5,268	11,577	17,000
Bleaching powder	3,588	2,698	15,000
Sodium bicarbonate	1,630	4,125	8,000
Potassium chlorate	1,593	2,135	3,800
Calcium carbide	—	3,110	24,000
Copper sulphate	505	1,045	3,000
Ammonium chloride	—	1,683	5,000
Acetic acid	—	2,375	—
Benzene hexachloride	—	1,603	3,000
D.D.T.	—	172	3,000
Hydrogen peroxide	—	—	1,500
Sodium hydro-sulphite	—	—	4,000

Higher than World Prices

It will be seen that in most cases the expansion envisaged is three to five times the existing capacity. It is estimated that the capital requirements for this programme will be around Rs. 150 crores. Even after its expansion to the proposed levels, the heavy chemical industry in India will have a large lee-way to make up. The output of many of the products in India is a fraction of that in other industrially advanced countries, and in terms of *per capita* consumption, India's is almost negligible.

CONSUMPTION PER CAPITA

(In Lbs.)

	India	U.S.A.	U.K.	West Germany	Russia	Japan
Soda ash	0.7	62	36	42	13	62
Caustic soda	0.5	41	20	22	6	52
Sulphuric acid	1.2	170	85	93	41	210
Fertilisers ("N")	0.7	34	16	21	96	14

The industry is, by and large, organised in small units. The prices of basic chemicals such as sulphuric acid, soda ash and caustic soda are much higher than world prices. In the following paragraphs, the progress of the principal heavy chemicals manufactured in India and the vital problems that affect the industry are examined.

Sulphuric Acid

The manufacture of sulphuric acid was the first branch of the heavy chemical industry to be established in the country at the end of the 19th century, due mainly to the natural protection available in the form of heavy freight on imports. By 1939 the installed capacity reached 57,000 tons. Since then, there has been a rapid growth and the present installed capacity is 245,000 tons in terms of 100 percent acid. Actual production is, however, 170,000 tons, about 70 percent of the installed capacity. Licences have been issued for an additional capacity of 240,000 tons. The manufacture of fertilisers, explosives, dyestuffs, steel sheets, rayon, white pigments and many basic chemicals depends on the ready availability of sulphuric acid at reasonable prices. Except in a few cases no product has taken its place, although research to this end has been pursued for many years. India is perhaps the only country which has no resources of elemental sulphur and yet continues to base all its acid production on imported elemental sulphur. Since the 1952 crisis in raw materials, the possibility of using indigenous pyrites and gypsum and the recovery of sulphur from the smelter gases of the Indian Copper Corporation has been discussed at great length, but no significant progress has so far been made. The N.I.D.C. is now investigating these possibilities. The selection of the most suitable sulphur-bearing raw materials for the scale and type of operation required is the chief economic problem to be solved.

The manufacture of alkalies comprising soda ash and caustic soda presents complex problems of location, the choice of process, fuel and raw material supplies. The capital cost of an alkali works is high, especially for small plants, and in order that manufacture should be economical, it is necessary to produce on a large scale. For the above reasons the development of the alkali industry in India has been slow, and it has experienced several vicissitudes since its inception.

Soda Ash

The annual capacity and production currently are 90,000 and 80,000 tons respectively. In addition, imports are of the order of 70,000 tons a year. There are at present two plants, both situated in the western part of India, producing soda ash of the light variety. Based on a survey by the Development Wing of the most suitable locations for the establishment of new units, the Government has licensed three projects in Porbandar, Tinnevelli and Banaras, in addition to the expansion of the capacity of an existing unit in Mithapur. It is estimated that about Rs. 14 crores will be required for the expansion programme of this industry. If all the schemes materialise, the total capacity by 1960-61 will be 325,000 tons, of which 280,000 tons will be available for sale, the remainder being converted into caustic soda. When all these units are commissioned the greater part of the current requirements will be met by indigenous production, including the requirements for heavy ash for use in the glass and bichromate industry. If the new units are able to produce soda ash at economic prices, the demand may rise considerably under the impact of increasing industrialisation, and it may become necessary to plan for establishing further capacity to meet the demand beyond the second plan period.

Caustic soda is manufactured from soda ash or by the electrolysis of brine. In view of the high cost of soda ash, it has not been found economical to produce from this source to any great extent. There is only one unit equipped to produce 6,600 tons annually, but as far as is known, it has worked only sporadically. The requisites for the commercial success of electrolytic caustic soda plants are the supply of electrical power at low cost, the provision of salt of the required degree of purity and an assured market for the chlorine gas which is produced in almost equal weight to the caustic soda. A number of electrolytic plants have been installed during last few years. The present annual capacity of these is 38,000 tons, which is about double the figure for 1950-51. One of the units is currently producing about 6,000 tons of the rayon grade caustic soda.

Based on new schemes and expansions currently licensed, the installed capacity by 1960-61 will be 143,000 tons of which 27,000 tons will be manufactured from soda ash and 116,000 tons by the electrolytic process. Not only has the unit size of the plants now under erection gradually increased, but also the production of rayon grade caustic soda has been looked after, for which a demand of between 40,000 and 50,000 tons is envisaged by 1960. It is unlikely that all the electrolytic plants will be working at full capacity since most of these units have not been located with due regard to the demand for their products in different regions, and do not appear to have integrated their plants by developing new outlets for the consumption of chlorine. As well as being uneconomic, the disposal of chlorine to waste is itself a serious problem, since it is corrosive and poisonous.

Chlorine

Chlorine as such (or as bleach) is used mainly for the treatment of paper, pulp, textiles, water and sewage. Further development depends on markets for such products as hydrochloric acid, bleaching powder, methyl chloride, trichloroethylene, benzene hexachloride, carbon tetrachloride, vinyl chloride, monochlorbenzene, ethylene dichloride and various chlorinated intermediates for dyestuffs.

In the U.S.A., there has been a sixteen-fold increase in the consumption of chlorine during the last 25 years mainly due to the sharp rise in demand for p.v.c., trichlorethylene, insecticides, refrigerants and organics (while the percentage of chlorine production consumed in paper and pulp manufacture has gone down from 57 percent to 11 percent, it has increased from 10 percent to 80 percent for the manufacture of chlorinated products). In India, at present paper mills account for 50 percent of the chlorine demand and chemicals about 25 percent. The annual *per capita* consumption of paper in India is hardly 1 lb., as compared with the U.S.A.'s 400 lbs., Canada's 175 lbs. and the U.K.'s 154 lbs. With the growth of literacy and the expansion of trade and industry, consumption of paper in India is bound to increase. The provisional target under the second plan is 360,000 tons, compared with the production of 185,000 tons in 1955. The paper industry, therefore, has bright prospects for expansion.

Among the products utilising chlorine, the manufacture of which has developed in India during the last five years are D.D.T., B.H.C., stable bleaching powder, ammonium chloride and rare earth chlorides. Expansion of the production of D.D.T. and B.H.C. has been planned and large developments in drugs, dyestuffs and plastics industries are visualised under the second plan. It has been suggested that one of the main outlets for chlorine, in the form of hydrochloric acid, which can be developed, is in the manufacture of di-calcium phosphate for use as a fertiliser. Besides utilising chlorine, this would partially solve the problem of imported sulphur. Though the present trends are encouraging, it is necessary to draw attention to the fact that the disposal of chlorine to the best economic advantage among its numerous end-products is a problem of extreme complexity. It is best done in a factory

with a large chlorine output and where a number of varied products can conveniently be made according to an integrated plan.

Chemical Fertilisers

In the field of nitrogenous fertilisers, the successful operation of the Sindri Fertiliser Factory to its full capacity is a landmark. Production in this factory has now reached the planned target of 330,000 tons of ammonium sulphate a year, and the total ammonium sulphate produced from all sources is of the order of 400,000 tons a year (80,000 tons nitrogen). To keep pace with the steadily increasing use of nitrogenous fertilisers, the Government of India has decided to establish additional production capacity in the country. Under the second plan, the target for nitrogen capacity and production has been fixed at 390,000 tons and 320,000 tons respectively. Indian production so far has been entirely in the form of ammonium sulphate, but the end-products from the new plants will include ammonium sulphate nitrate, urea and nitro-limestone. While the production of superphosphate recorded a substantial increase during 1954 (19,000 tons P_2O_5 against 9,000 tons in 1953), it did not keep up to the same level in 1955, and is running at a lower rate in the current year, which is probably due to less offtake. In view of the importance of the increased use of phosphatic fertilisers to the agricultural economy of the country, a concerted drive for popularising them has been undertaken. The present annual capacity for superphosphate production is 50,000 tons (P_2O_5). It is understood that licences have been issued for an additional capacity of 60,000 tons (P_2O_5) which will be sufficient to take care of the estimated demand in 1960-61.

Industrial Explosives

In view of the market for industrial explosives offered by India's substantial coal-mining industry and hydro-electric and other public works schemes, the erection of a factory to meet these requirements was the subject of discussion between I.C.I. and the Government of India in 1953. As a result of this, Indian Explosives Ltd. was formed by the Government of India and I.C.I. (India) Private Ltd. for the manufacture of industrial explosives in Gumia, Bihar. From the foregoing it will be obvious that the advances made by the heavy chemical industry in India in less than a decade are remarkable. However, there are still some vital gaps that have got to be quickly filled, and there are problems which must be given careful consideration if the expanding industry is to rest on firm foundations.

The protection granted by the Government to the manufacturers against overseas competition even when the price of the indigenous product was higher than the landed price of the imported product, has given rise to certain undesirable tendencies, e.g., the indigenous manufacturer considering such a price basis as normal for undertaking the production of new chemicals. It is neither possible nor desirable to continue to protect the industry in this manner for a long time. High freight rates and the lack of special tank wagons continue to pose problems. Although coal deposits are confined to a small area and salt has to be recovered from sea by solar evaporation, which makes it several times costlier than brine from salt mines, the location of many of the factories without due consideration of proximity to consuming centres or the sources of raw materials, has imposed a heavy burden on the country's transport system. It is gratifying that the Development Council for Heavy Chemicals and the Ministry for Heavy Industries are fully conscious of these problems and are formulating their policies and programmes to help and give impetus to the industry in every possible manner.

FACTORS INFLUENCING SHIPPING FREIGHTS

BOTTLENECKS AT THE PORTS

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INDIA's dependence on shipping and the need for the rapid growth of her merchant fleet have been strongly emphasised by the Suez Canal crisis and the continued threats of strikes by dock labour. The revised targets of one million gross tons of shipping in the second five year plan, with an eventual figure of two million gross tons, shows the importance the Government attaches to this vital means of communication. The growth of Indian shipping in overseas trades has been marked in the last two years, but coastal shipping has failed to keep pace with the demand for carrying capacity. Perhaps one of the main reasons for this is the schedule of freight rates now in force; it may require revision considering the increased initial costs of ships and higher running expenses.

Foreign flag owners who trade with this country have to contend with strikes, labour stoppages, and inadequate port and rail facilities. They naturally demand high freight rates to compensate for what, regrettably, has now become the certainty of delay, instead of the uncertainties for which provision is usually made in voyage estimates. The Government's anxiety to improve conditions is apparent in the many meetings held with representatives of port authorities and shipping interests. Certain immediate short-term measures have been adopted, in addition to long-term plans for the expansion of port capacities. But they do not appear to be sufficient, and when the full flow of imports under the second plan streams into the major ports, there is likely to be chaos.

Phasing Scheme

It is not yet possible to suggest accurate figures for imports in 1957, nor where the weight will fall heaviest. It looks as if Calcutta might have to handle the most, considering that it has to deal with the requirements of three steel mills for a start. Unless the port authorities are furnished with an accurate schedule of imports, they cannot be expected to maintain an even movement of cargo. There is talk of introducing a phasing scheme, that is, limiting the number of ships to be handled in a port over a specific period. But with so many countries contributing to the implementation of the second plan, this scheme can hardly prove practicable. Perhaps the nearest approach to such a scheme would be to establish a chartering committee in India to control the inflow of bulk commodities such as grain, fertilisers, etcetera. Another suggestion is to erect storage sheds at the smaller ports where vessels discharge into lighters off shore. This would allow the diversion of ships with homogeneous cargoes to these minor ports and the gradual distribution of their cargoes throughout the country.

The export trade suffers the same difficulties of inadequate rail transport and port facilities. Of particular interest has been the recent intrusion of the State Trading Corporation into the ore export trade, which has created confusion among private interests and alarm in the markets served. The avowed object of the Government is to increase ore exports. The private sector feels that this could best be handled by itself, if the supply of wagons and port facilities are adequate. Buyers find it difficult to reconcile the Government's intention to increase exports with the actual absorption by it of part of the export quotas already granted to private traders. Scepticism has also been expressed by Japanese importers over the projected export programme to Japan for the next few years. First news of this indicated exports of 2 million tons in 1957, 2½ million tons in 1958, 2¾ million tons in 1959 and 3 million tons in 1960. This was subsequently scaled down by 500,000 tons a year. But even that figure is unlikely to be achieved as some of the quantities estimated to pass through different ports are beyond their capacity at present, without taking into account the pressure of imports under the second plan. The progress of the State Trading Corporation will be watched with interest by the ore trade and by the private sectors of other industries which are likely to face similar competition in the future.

Good Prospects

Meantime, world freight markets have shown a firm trend and prospects for the next four or five years seem very good. (A table of freight rates appears below.) Prices of second-hand tonnage have risen in sympathy with the freight markets, and the sum of £545,000 paid recently for an *Empire*-type built in 1943 contrasts with the £390,000 paid for a similar ship a year ago. Conditions of work in Calcutta port are becoming increasingly difficult and cargo is accumulating despite the best efforts of the port authority to keep it moving. The possibility of building an auxiliary port in Geonkali is again attracting the attention of port users but to put any such plan into operation would take a number of years and would not solve the immediate problems. Without being aware of the technical objections which may be involved, it is suggested that a series of jetties and temporary warehouses could be built on the Howrah side of the river to handle lighter traffic which has increased much this year. Furthermore, Visakhapatnam port could probably be rapidly expanded and additional rail facilities provided there, instead of laying down a complete new railway system and port on a river which in itself presents one of the greatest problems in Calcutta. In 1956, there were 126 days when bore tides interrupted work at river berths and moorings. Assuming a loss of four hours of working time on each of these days, the number of days lost totals 21. Only four deep-laden vessels a day can sail from Calcutta and it is doubtful if sailings from Geonkali would increase the number.

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Rangoon	33-4	43-8
Singapore	46-8	53
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Continent	46	50
Ore		
Calcutta-Japan	65	83
East Coast India-Japan	63	83
Mormugao-Japan	63	86
East Coast India-Continent	70	86
Visakhapatnam-U.S.N.H.	72	120
Grain		
North Pacific-India	100	123
West Australia-India	85	93
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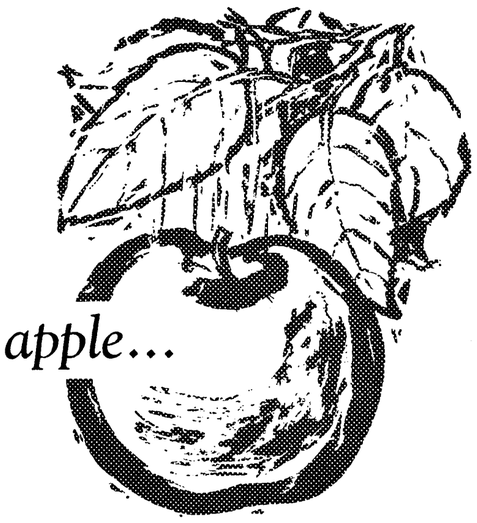
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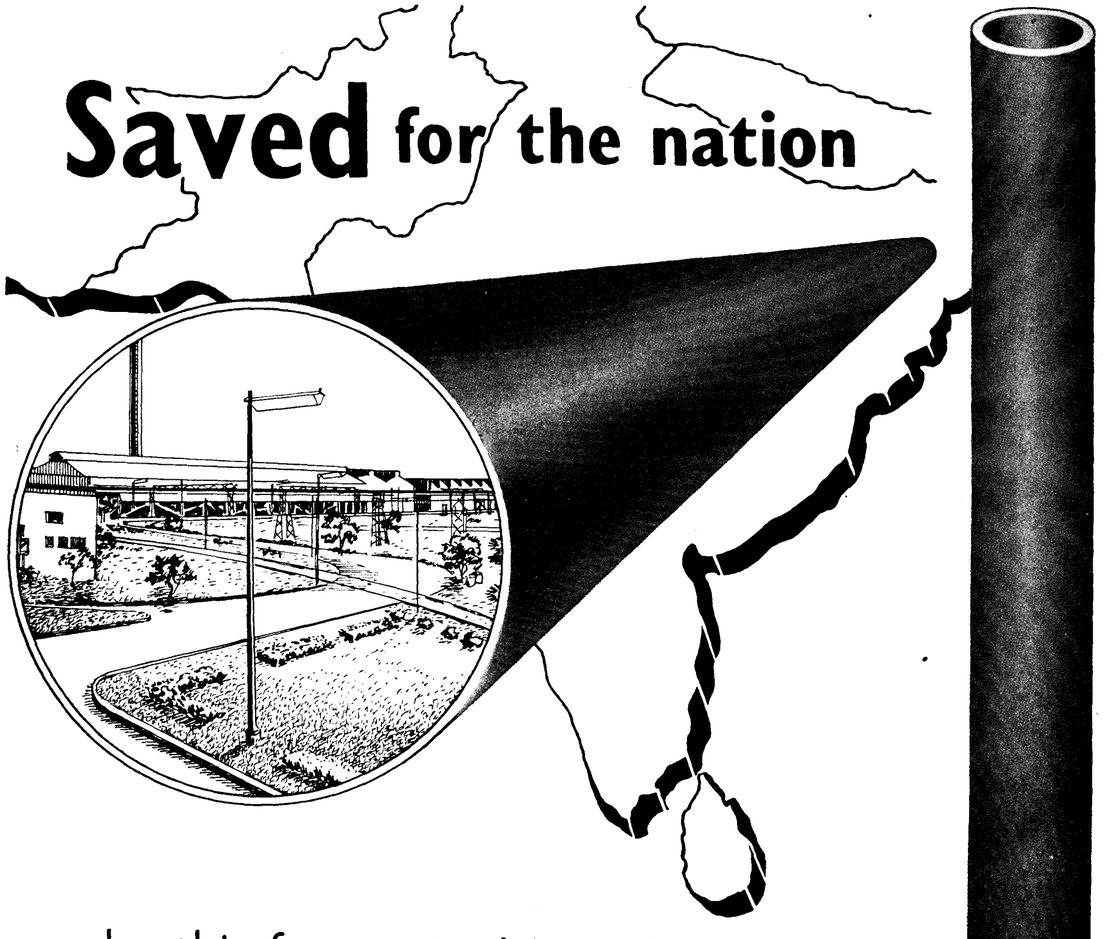
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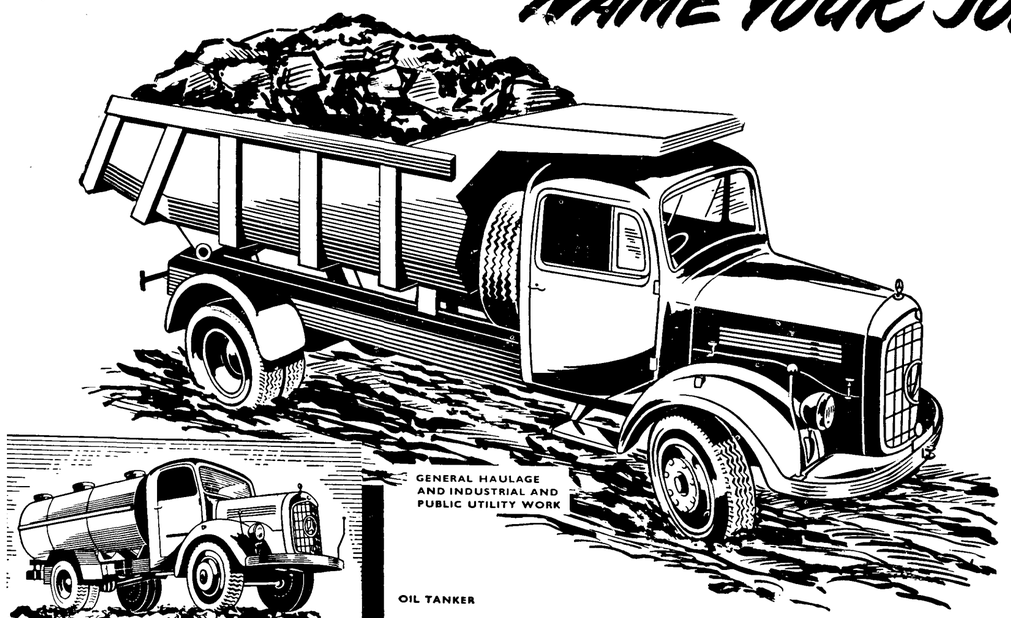
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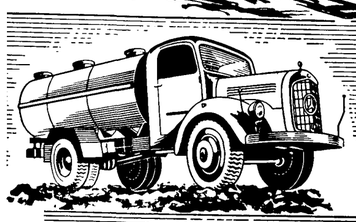
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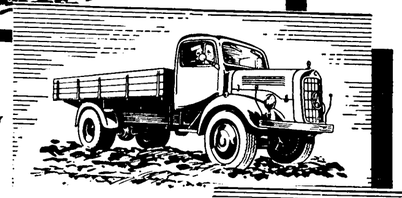
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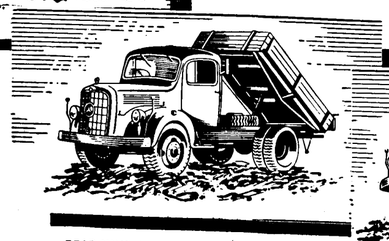
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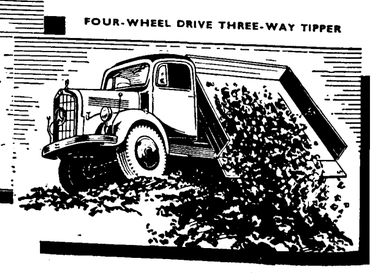
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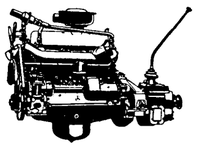


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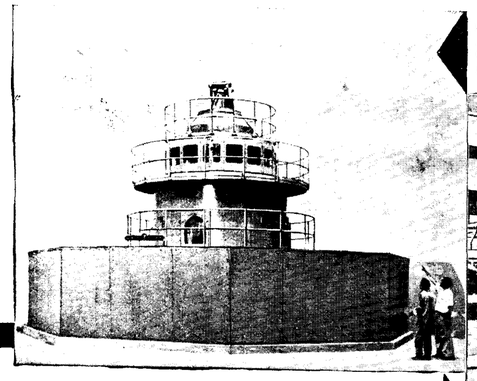
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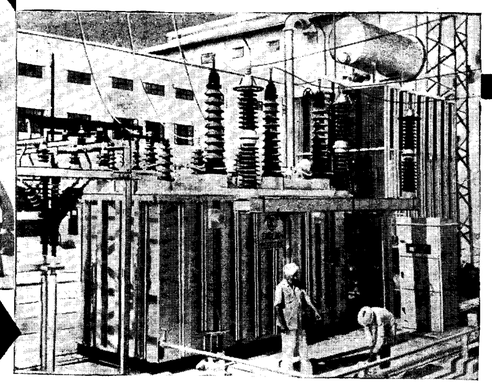
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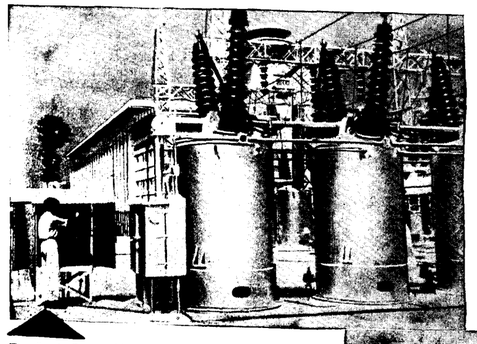
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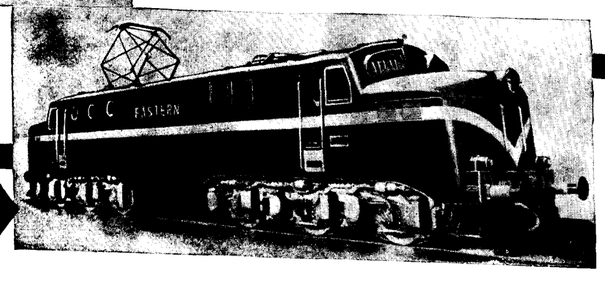
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TAXING FOR DEVELOPMENT

● By URSULA K. HICKS ●

The name of Ursula K. Hicks is pre-eminent among post-Keynesian writers on taxation theory. In the past twenty years, she has published a number of standard works on the subject, either on her own account, or in conjunction with her husband, Dr. John Hicks, Drummond Professor of Political Economy at the University of Oxford. Among these, her "Public Finance" is probably the best known and most widely studied. It is now regarded as compulsory reading for all economic degree students, and for anybody else who wishes to understand modern thinking on the problems of taxation. In this article, she outlines the principles on which the tax system of an under-developed country must be based if it is to combine in appropriate proportions its revenue-raising and growth-stimulating functions. The points made here are of special importance to this country at a time when it is increasingly being recognised that the key to so many of the difficulties which are being encountered in India's plans for rapid economic expansion, is to be found in her tax system.

IN a developing country, the fiscal system is all important because it provides the most useable and flexible instrument of policy available. This is true even in a country like India where monetary and credit policies have a fairly long-established tradition. There is no part of the economy which cannot be affected by fiscal policy, and its results are reasonably predictable. Neither of these virtues is shared to the same degree by monetary policy. It is thus of first importance that the tax system should be geared to assist development as well as tailored closely to the particular needs of the economy. Since people do not always mean the same thing by development, it would be as well to state explicitly at the outset that the concept which underlies the discussion below is the quite general economic criterion of an increase in the national product *per capita*.

We can distinguish three different ways in which the tax system can be expected to assist the process of development. The first is by providing a good supply of funds for the finance of public projects (more accurately, ensuring that adequate command over economic resources will be available to the public sector). Second, the tax system is vital in order to preserve economic stability, both internal and international. This it can do by preventing the bidding up of the prices of scarce goods, especially consumer goods, until the supply becomes adequate, or by over-weighting the demand for imports and so upsetting the balance of payments. Finally, the tax system can be used to stimulate the private sector to increase output, both of current and of investment goods.

It is the business of the planners to check and forecast what demands on resources are likely to be made, especially for the next accounting period. This process is known to economists as "resource budgeting"; there are indications that insufficient attention has been paid to it in India in the past. It is however a necessary prerequisite for the formulation of an appropriate tax policy. Once the planners have completed their job, it should not be too difficult to determine what particular tax set-up is needed in the circumstances.

Efficiency of Tax System

Taxation is of course not the only way in which a Government can acquire command over resources for development; but it is likely to be the most effective way of doing so. The alternatives of borrowing, or of forced saving through inflation, are of only limited usefulness, not least because of the further economic consequences to which they give rise. The first principle of a good tax system (although it rarely receives sufficient attention because it is so prcsaic) is, then, to use taxes which bring in a good revenue *net* of the cost of collection, in the widest sense. It is very easy to waste revenue, that can ill be spared, between legislation for it and collecting it. There are at least three ways in which this can happen.

In the first place, tax laws are often badly drafted, so that their meaning is ambiguous or the interpretation turns out to be different from the intentions of the legislature. There must always be a considerable danger of this occurring when a new tax is being tried out experimentally, since it is only after long experience that the weak points in the law will become apparent. Hence new taxes tend to be greedy of scarce administrative ability. Again, developing countries often try to save themselves time and bother by borrowing large sections of other countries' tax laws and incorporating them in their own. This is a fruitful cause of results turning out different from the original intention[1]. The first essential, consequently, is to pay the greatest attention to good drafting, and to make the tax formula as easily comprehensible and unambiguous as possible. This generally implies a firm resistance to subsequent amendments.

Serious Complications

It is, of course, impossible for income tax law to be very simple and at the same time watertight. It is only in the higher ranges of surtax, however, that the complications need become serious. For the lower ranges, much more rough and ready methods can be used without injustice, since the incidence will in any case be low. In respect of taxes on outlay, there is a *prima facie* case for choosing the simplest possible, such as straight specific revenue duties on easily identifiable commodities. When Adam Smith included simplicity as one of his four criteria of a good tax, he probably mainly had in mind taxpayers' willingness to pay; but simplicity is no less important from the point of view of the revenue departments.

Seccndly, revenue is frequently lost because the legislators try to make the taxes fly too high or be too clever. This happens very frequently with import duties, which in response to the pressure of particular interests are amended in ways which lead to increased costs of enforcement far exceeding the value of the extra protection provided. Another way in which revenue is lost is by the maintenance of unenforceably high rates of tax. There is little dcubt that even after the concessions on surtax in the last Budget, Indian income tax would be more satisfactory in terms both of equity between taxpayers who acquire their incomes in different ways, and also probably in terms of revenue collection, if the marginal rates were lower.

Concessions in the taxation of business profits designed to stimulate development, are a not infrequent cause of loss of revenue. This is difficult to measure, because it is not easy to estimate the revenue that would have been due in the absence of the concessions. A recent study of industrial tax concessions in Puerto Rico[2]—a country that is generally considered to have been most successful in this respect—estimates that the loss realised by forgoing tax that might have been collected without losing any of the development that actually took place, was of the order of $5,300 million over a five-year period. (To be comparable with India on a population basis, this should be multiplied by 300.) This is not to imply (as we shall discuss below) that there are no useful incentives that can be written into profits tax laws, which sacrifice little or no revenue.

Thirdly, and this is the commonest cause of failure, revenue may be lost by deficient assessment and collection. This is likely to be due, above all, to inexpert, unreliable (often because underpaid), overworked, revenue officials. In principle the solution is obvious, but it is not so easy to put into practice. More officers, better trained and then better paid, are however a vital necessity in India. The efficiency of British income tax depends very largely on the high calibre of the Tax Inspector class, who are required to take a stiff competitive examination before appointment[3]. It is equally important, however, that the central revenue officers should have at their disposal the best modern technical devices, both for keeping records and for checking taxpayers' returns[4]. It should be possible to treat each supertax payer as an individual, and for the revenue authorities to have complete knowledge of his circumstances. This is virtually what happens in the U.K. and it has resulted in the reduction of evasion to very small proportions. Legal avoidance can never wholly be eliminated, especially when tax rates are very high, but the greater the revenue authorities' knowledge of taxpayers, the more quickly can successive loopholes be stopped up. It is only when taxes are not merely assessed with equity, but collected with completeness, that taxpayers' confidence can be won and the best value got from the tax laws.

Taxing for Stability

The rôle of taxes in a developing country is even more important on the side of stability than on that of the provision of funds. It must always be borne in mind that the development process is inherently inflationary, especially in the early stages, in the sense that private income—command over resources—will be rising faster than the supply of final output, on which people will want to spend their additional incomes. How serious this inherently inflationary pressure will be depends on a number of factors. It will be the greater the more heavily the plan is weighted by projects which only give rise to increased final output after a long period, such as dams, steel works, docks and

[1] Mr. Kaldor, in his recent *Indian Tax Reform*, gives an interesting example of this in respect of expense allowances in company taxation. A phrase put in to strengthen the hands of the British Inland Revenue in doubtful cases has, by a slight change of context, become in the Indian law the source of a big loophole.

[2] *Industrial Tax Exemption in Puerto Rico.* By M. C. Taylor.

[3] Pakistan has recently opened in Lahore a separate Financial Service Academy, which seems to be remarkably successful in attracting cadets of high quality.

[4] Mr. Kaldor has some important things to say in this respect.



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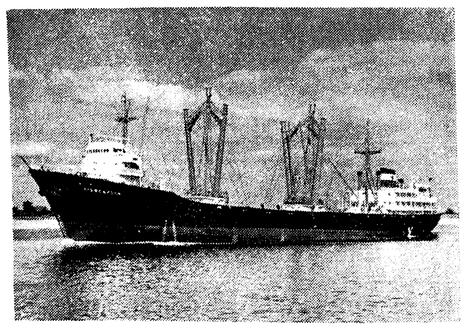
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shipbuilding yards, items which figure rather prominently in the Indian plan. Inflationary pressure will be aggravated also if it is difficult to increase quickly the supply of consumer goods. In this respect, India is now in a very much better position than she was at the beginning of the first five year plan; but the two most wanted consumer goods as development takes place are food and cotton cloth. In India, both of these are harder to increase than other goods[5]. There is, consequently, a special need in Indian conditions for the tax system to be geared so as to maintain internal stability. Unfortunately, there is reason to fear both that the aggregate incidence of the present Indian tax structure is insufficiently heavy to act as an efficient stabiliser, and that it is not closely enough geared to press where it is most wanted.

Given a sufficient aggregate of taxation, the principle of taxation for stability during development is quite simple. If the Government takes care always to collect a higher percentage of income than before, as incomes rise, it can never find itself in the position of having insufficient funds to finance its services. In economic terms, this implies that marginal revenue collected must always be higher than average revenue, that taxation on the increment of income must exceed the level of taxation on income as a whole. By and large, what this principle implies is that taxes need to be concentrated on those whose command over resources is rising fastest. These are clearly the people who are most likely to bid up the price of consumer goods; they are also the people whom it will hurt least to pay more in taxes, according to their means.

Taxing the Gainers

It is a mistake to think that those whose incomes are rising fastest due to development are only to be found in the higher income brackets; they are distributed all over the income scale, so that if taxation is to control pressure on final output it must reach quite a long way down into the middle incomes and even lower. In judging what are "middle" and "low" incomes for this purpose, it is the range of the country in question which is relevant, not that of some other, perhaps more highly developed, country.

The surest and most obvious way of ensuring that marginal revenue will always be higher than average revenue is by a progressive personal income tax, coupled with such taxation of profits as is necessary to round it off and to prevent managements from bidding up the prices of investment goods in short supply. This conclusion emphasises the importance of a really effective income tax as a revenue producer, which we have already discussed. In Indian conditions, however, even if the exemption limit were somewhat lower than it is now, income tax will clearly need to be supplemented a good deal for stability purposes.

In most developing countries, and in India at least as much as elsewhere, increased agricultural productivity is vital to the smooth progress of the development process. More food is normally the first additional demand as incomes rise. The pressure on the food supply will consequently go on rising for a considerable period, quite apart from the effect of the increasing population. It is only in rare cases (such as the Middle Eastern oil countries) that the balance of payments is likely to be strong enough to relieve it adequately by imports. The basic causes of the pressure on the food supply are, first, the increase in the proportion of urban workers who cannot grow anything for themselves; and, secondly, the fact that steady work under a contract of service calls for greater stamina and hence more food than is needed by the under-employed village worker.

Agricultural Productivity

At the same time as it is vital to secure an increase in agricultural productivity, it is essential to see that all the extra food is not consumed on the farm. Although, naturally, the main responsibility for improving agricultural productivity must rest on the expenditure side of fiscal policy, a well-thought-out tax system can help quite a lot. In the case of certain commodities, an export tax may be appropriate, and will act as a sort of income tax; but it is not really a very good method, especially if the small man provides a substantial part of the output. In the first place, the tax is liable to be disincentive of effort; in the second, some part of the effective incidence is likely to fall abroad, thus reducing its control effect at home. This is not to say that in some circumstances an export tax may be an acceptable way of raising funds for public investment. In so far as it falls on companies, however, its effects need to be considered alongside those of income and profits taxes.

A more promising approach is by a combination of a tax on potential output coupled with a subsidy on quality production. General experience seems to indicate that farmers react more successfuily to positive subsidies than to negative tax concessions. The point of basing the tax on *potential* output is that no disincentive effect is involved, as it is in the case of a tax on *actual* output. Potential can be estimated in various ways: the value of the average output of land occupied (which can usually be easily judged locally), adding wherever appropriate potential of other sources of income, such as tea or coffee bushes, farm animals, fishing nets and boats. The advantage of proceeding in this way is that "tertiary" incomes such as those of shopkeepers, lorry drivers, barbers and so on can also be inculded, thus greatly increasing the equity of the tax. Taxes of this nature are in successful operation in several parts of undeveloped Africa.

Tax on Real Estate

A closely allied field in which additional taxation is urgently needed for stability purposes is that of urban land and buildings. The development process is inevitably accompanied by accelerated building, especially in the larger towns. This phenomenon is very evident in India. Such development implies a rapid rise in the value of land and of many existing buildings, and a consequent increase in their owners' command over resources. A good deal of this development, for instance, of luxury flats and offices, adds little to the national product in terms of economic potential, and frequently hinders a more important use of resources, such as housing for industrial workers, by causing local bottlenecks in the building trades.

This problem could be tackled by a capital gains tax (but unfortunately Mr. Kaldor's recommendation for its application to real estate has been rejected). A better alternative, however, would seem to be by means of an annual tax on the full capital value of land and building, based on regular valuations taking place at least every five years. This method is more effective than a tax on realised capital gains, since it brings into the tax net the gradual rise in values ("unearned increment") as development takes place; it thus falls both on accrued and on realised gains. The prerequisites for the successful working of such a tax are, first, a register of all real estate transfers in urban areas (this will operate as a continuous check on valuations), and secondly the ability and determination to carry out complete and effective valuations at regular intervals. Since this is an expensive business and stability in development a national responsibility, it would seem reasonable for the Government to bear the costs of valuation. It is, of course, true that the Government of the Indian Union does not have a free hand under the Constitution with either of the two taxes just discussed. But because of the importance for development of their field of operation, every endeavour should be made to get the States to come to an agreement with the national Government. The case of death duties proves that State co-operation is by no means impossible to bring about.

Taxes on Outlay

There remain to be discussed as control devices a large number of taxes on outlay, both on imported and home-produced goods. Within limits, these can be effective in controlling inflation as well as in raising revenue; but many of them possess two defects which make it unwise to rely on them too heavily. In the first place, they raise the cost of living against those whose incomes are stationary as well as those whose incomes are rising fast; they are therefore clumsy instruments. Secondly, in the conditions of India and many eastern countries, it is desirable that the strength and variety of consumer demand should expand in order both to stimulate effort and to provide a market for new industrial output. The situation is very different in western hemisphere under-developed countries, or even in many parts of Africa, where the desire to "keep up with the Joneses" is strongly felt.

At present, rural workers in India are only faintly beginning to appreciate the opportunities which might be open to them as a result of more productive work. This consideration points to the desirability of bringing the first commodities demanded (especially durable goods) as cheaply as possible to the workers, especially in rural areas, so that they may be helped to build up their demands for the things that steady work can bring them. This implies exempting such things from taxation as far as possible, and emphasises the extreme undesirability of high octroi and terminal taxes which severely hinder consumers in one area enjoying the benefit of the products of another. The development of an effective tax on urban land and buildings would pave the way for the gradual extinction of such taxes.

So far nothing has been said of the possibility of using the tax system to produce extra saving by attempting to prevent expenditure in excess of income (which is the prime object of an expenditure tax). How far in Indian conditions people do consume their capital and do so in ways that can be discovered and taxed, is a matter on which there is as yet no data. It should be noted however that an expenditure tax is not particularly well geared to preserving stability during the development process (especially in the short period, where it is most wanted). In the first place, its effects, and the revenue from it, are quite unpredictable; it cannot, therefore, be assigned any definite place in a control plan. Secondly, its reaction is slow; liability cannot begin to be assessed until after the year's expenditure has taken place. Income tax usually has, and can certainly be made to have, a much quicker reaction than this, in addition to the possibility of fairly accurate prediction of revenue. Finally, what has been said above concerning the costs of introducing new types of tax is highly relevant here.

There is another point also. By no means all expenditure in excess of income is damaging to development. On the contrary, it may actually give rise to an increase in the national product in two different ways. In the first place, by promoting improvements in the personally managed business, in ways additional to the direct purchase of fixed assets (which would presumably qualify for some concessions under an expenditure tax). Secondly, and perhaps even more important, by providing the motive to increased productivity in order to accumulate a surplus for some definite purpose, for instance for retirement. The only sort of saving which is really benefited by an expenditure tax is saving with no intention of spending; "saving up" is actually injured by it.

Stimulating Output

This brings us to the third way in which the tax system can promote development: by stimulating private indusry to increase output. The two orthodox methods of stimulating private enterprise through the tax system are, on the one hand, the time-honoured device of protective tariffs; and, on the other, the newer fashion of profits-tax concessions for the purchase of equipment. Apart from the infant industry argument, which is perfectly valid but has much less generality than is often supposed, there are two economic arguments in favour of protection. First, that the terms of trade may be turned in favour of the country imposing the tariff, so that it gets its imports at better rates in terms of its own exports than before the tariff was imposed. Second, that foreign firms will be induced to set up factories within the tariff walls, thus promoting employment and industrialisation.

For the first condition to be realised, the tariff-imposing country must provide an extremely important market, and it is to be doubted if this would be the case in India at present, although as income rises the situation will be constantly improving. For the second condition to be realised, however, markets of the size which India can now offer may well be an inducement, and it is not impossible that a good deal more might be done in this direction; wool textiles is a possible case in point. In any case, even a quite high protective tariff serves consumers better than the total deprivation of alternative commodities which would follow monopoly concessions to home producers. In any sphere in which foreign capital is concerned, however, it has been the general experience that political considerations and apprehensions tend to outweigh fiscal concessions.

Wasteful and Expensive

As is evident from the Puerto Rican experience, concessions on industrial investment all too easily become wasteful and expensive. Most of the benefit in that country apparently went to the few prosperous firms which needed no encouragement. Experience in the U.K. seems to indicate, however, that firms do react rather strongly to inducements of this type; there is an even better case for them in a country which is only just beginning to develop, because in such countries the risks of failure are very much greater than in those with more predictable consumer markets. Concessions which reduce the risk of investment are therefore almost bound to be stimulating; but they need not sacrifice revenue, if they are carefully thought out. Chief among these are accelerated depreciation allowances, including a free choice of method for writing off equipment, and indefinite loss carry-forward. When the new Indian Companies Act has got into running order, the extra information which should be available concerning the economic position of firms should make it possible to proceed a good way in the direction of further concessions without damaging the revenue.

Enough has been said to indicate that the construction of a tax system for development can never be a simple affair. It is not a matter of hit or miss, or of light-hearted experiments. It calls, above all, for two things. First, careful statistical planning to determine the appropriate structure. And second, steady attention to detail throughout the process of assessment and collection. These are both difficult things, but they may well be decisive for successful development.

[5] At least so long as main reliance is placed on the output of cottage industry and small-scale farming.

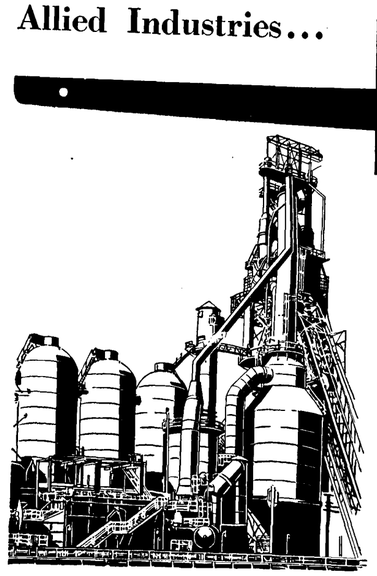
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POSITION OF FOREIGN ENTERPRISE IN THE INDIAN TAX STRUCTURE

● By A. K. ROY ●

Secretary to the Government of India, Ministry of Finance (Department of Revenue)

CORPORATE enterprise plays an important rôle in the economic development of every country. This is so because a corporate structure is one of the well-recognised and convenient methods of pooling resources. For the same reason, corporate enterprise constitutes the most important single earning and revenue-yielding unit in most of the important countries in the world. This is true of India also. Thus, for the fiscal year 1955-56, out of the aggregate incomes of Rs. 739 crores assessed to tax (excluding dividends), the income assessed in the hands of corporations amounted to Rs. 188 crores; and, out of the total tax demand of Rs. 182 crores, the tax levied on corporations amounted to Rs. 82.5 crores. These figures show clearly how important a rôle the taxation of corporate income has to play in the Indian tax structure.

As in any other country, the private sector in India depends for its resources on domestic investors as well as foreign investors. In underdeveloped countries, foreign investment plays in the early stages of economic development a very substantial part. This is true of India also, where the rôle played by private investors from overseas has been quite considerable in building up the present economy of the country. Such investment has usually taken the form of operation through companies, as, by and large, it is only big corporations or financial institutions that have adequate resources for large-scale investments outside the country of their origin. These foreign corporations have been functioning in India mainly through Indian branches or through subsidiary companies incorporated in India, the whole or the major portion of whose shares are held by the foreign companies. Although the number of such foreign firms in India is relatively small, as compared with the total number of companies incorporated in India depending exclusively on the domestic investors, the financial resources available to these foreign firms and their earning capacity, and consequently the tax-paying capacity, are quite out of proportion to their numerical strength. Thus, as at the end of 1953, as against the total paid-up capital of Rs. 942 crores of all companies incorporated in India, the foreign capital investment in India (through branches and subsidiary Indian companies and equity holdings in non-controlled Indian companies or as creditor capital) amounted to Rs. 419 crores.

Outlook for Foreign Investment

The question of the incidence of taxation in India on corporate income is thus a matter of considerable importance and interest to the foreign investor, as it is to the domestic investor. Indeed, it is perhaps of greater importance and concern to the foreign investor who is interested both in the overall impact of tax to see whether it holds out some attraction for him and ensures a fair return on his investment comparable with what he might expect in other countries where opportunities for similar investment exist, and also whether the foreign corporations are not denied any advantages or concessions concerning rates of taxation or computation of income, etcetera, as are available to domestic corporations within the country. These considerations have assumed considerably greater importance in the context of the planned industrial development of our country envisaged through successive five year plans. A simple and clear exposition of what the foreign investor should expect to pay *and* save under the existing tax system in India would go a long way to help him in making up his mind. As ordinarily it is not possible to ascertain this from a reading of the several taxation laws with the provisions relating to corporate taxation dispersed in different Sections, I am attempting in this article to state broadly and in simple language how and to what extent foreign firms will be liable to Indian taxation.

The General Pattern

To get a clear idea of the impact of Indian taxation on foreign firms, it is necessary first to know the pattern of taxation in relation to companies in general. So far, companies in India have been subject to tax under the Income Tax Act only. With effect from the current financial year 1957-58, companies have also become liable to the wealth tax. The latter will, however, constitute a mere flea-bite (as will become clear later) compared with the incidence of taxation on income.

Corporate Income

Take income taxation first. Broadly speaking, foreign companies have a tax liability limited to Indian incomes, whereas Indian companies have a tax liability without this limitation. An Indian company has to pay income tax in India on its income, whether the income is earned within India or outside. On the other hand, a company not resident in India will pay income tax only on the income accruing or arising to it in India or which is received in India, or which by virtue of operations carried on in India, is deemed to accrue or arise in India. Generally speaking, foreign companies having the seat of their control and management outside India will be not resident in India unless their Indian income is more than 50 percent of their whole world income. It will not, therefore, be wrong to assume, for all practical purposes, that the foreign company will pay Indian income tax only on its Indian income, while an Indian company will pay the tax on its world income. With this difference in the extent of *liability* to income tax between a resident company and a non-resident company, as stated above, the incidence of tax on a company generally (and for that matter on any business, whether incorporated or not) is ultimately determined by two important factors: (1) the computation of taxable income, that is to say, the amount which will bear taxation; and (2) the rate of taxation, that is, the rate at which tax will be computed with reference to the "taxable income". It is important to remember that these two components are complementary to each other, and further that the first element is the more important of the two, as it really determines the effectiveness or otherwise of the bite of the rates of tax, no matter how high they may be. It is necessary to emphasise this because a great deal of misconception and misunderstanding exists or arises in general, and in the minds of foreign investors in particular, about the incidence of Indian taxation, due to its being superficially related only to the *more apparent* element, namely, the rates of taxation, without going into the basis of computation of taxable income. This naturally requires deeper technical knowledge of the tax statute, but without its actual application to individual or specific cases, it is not possible to ascertain the real incidence. This ignoring of the *more* important complement of the tax structure thus leads to misgivings about the high impact of taxation.

Company's accounting year	Income tax assessment year	Depreciation accounted for by company in its books	Depreciation admissible in the computation of taxable income under the Income Tax Act.			
			Normal at 10 percent	Extra normal at 10 percent	Multiple shift	Total
		Rs.	Rs.	Rs.	Rs.	Rs.
Calendar year 1955	1956-57	35,000	50,000	50,000	10,000	1,10,000*
,, 1956	1957-58	32,550	39,000	39,000	7,800	83,800
,, 1957	1958-59	30,271	30,620	30,620	6,124	67,364
Total in three years		97,821				2,61,164
W. D. value on 1st January, 1958		4,02,179				2,38,836

The company thus gets a deduction of over 52 percent of the cost of investment within a period of three years.

* This is exclusive of the development rebate which is explained later.

Computation of Taxable Income

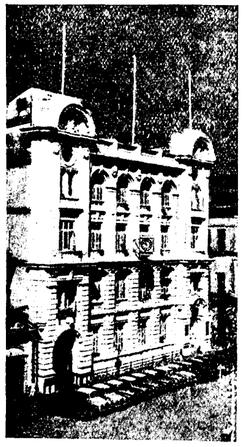
I shall, therefore, deal with the first element, namely, the basis of computation of taxable income in some detail. According to the Income Tax Act, the income on which tax is payable by a company is calculated in a manner which gives several advantages to the company. Besides the deduction of all expenditure incurred by the company directly for the purposes of its business, such as wages, salaries, bonuses and commission, raw materials, expenses of buying and of selling, rent and repair for business premises, interest on moneys borrowed, etcetera, certain special deductions are also made. It will be useful to refer to them briefly here:

(1) *Depreciation allowances on fixed assets:* For wasting assets used in business, depreciation allowances are granted on a more liberal scale than what would be the "normal" wear and tear from their use in business. Thus, in addition to the allowances of "normal depreciation" at reasonable rates fixed by the Central Board of Revenue considering the ordinary wear and tear, there is an extra depreciation allowance for new buildings, plant and machinery which can be deducted in each of five successive assessment years following the date on which the buildings, plant and machinery are brought into use in the business undertaking. This extra depreciation allowance is equal to the normal depreciation allowance due for the particular years. As the law stands at present, the extra depreciation allowance will continue up to the assessment year 1958-59. Additional depreciation is also given for certain types of undertakings or for certain types of machinery for working double or multiple shifts. Where the profits in any year are not sufficient to absorb the depreciation allowances due for that year (both normal and extra), the deficiency can be carried forward indefinitely and set off against the profits of the business in any later year or years. How these allowances operate in actual practice can be seen from the following example. A textile manufacturing company installs a new machine at a cost of Rs. 5 lakhs for regular use on 1st January, 1955. It closes its accounts at the end of every calendar year. During 1955, the company works double and multiple shifts for 120 days and for like periods in each of the following years. In its accounts, it charges depreciation for the machine at 7 percent on the diminishing balance method:

(2) *Development rebate for new plant and machinery:* An outright development rebate equal to 25 percent of the cost has been granted since 1955 for all new plant and machinery installed in a business undertaking after 31st March, 1954. This development rebate is in addition to the depreciation allowances due for those assets. Unlike the depreciation allowances which have the effect of only deferring the tax liability, the development rebate is a direct tax relief to the investor, as it is not taken into account for determining the written down value of the assets for computing future depreciation allowances. The combined operation of the depreciation allowances and the development rebate enables the taxpayer not only to accelerate the pace of the write-off and charging to revenue of the full cost of the assets, but also to get an extra 25 percent. In other words, over a period of years, he secures a total deduction of 125 percent of the actual cost of the new plant or machinery installed after 1st April, 1954.

Expenditure on Scientific Research

Ordinarily, in computing the taxable income of any year, only those expenses which are of a revenue nature and which have been wholly and exclusively laid out for the purposes of the business—that is, expenses incurred for the immediate purpose of earning the income—are deductible. Special provision also exists for the deduction of expenditure incurred on scientific, statistical, social as well as applied scientific research related to the class of business carried on by the assessee. Even if the research is not directly undertaken by the company, amounts paid by it to approved scientific institutions for the above purposes are allowed to be deducted in full. Expenditure on the above purposes, which, however, results in the acquisition of a capital asset, is allowed to be written off and deducted over a



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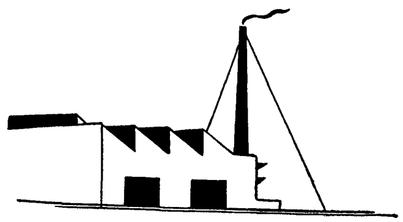
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period of five years. These deductions are available to all business undertakings, irrespective of the nature of the business. The net result of all the deductions allowed is that in many cases of industrial companies, the tax is levied on an income much less than that indicated in the balance-sheets of the companies. There are, indeed, cases where the balance-sheets indicate profits, while for purposes of income tax, there is not only no taxable profit, but indeed, a loss, which is allowed to be carried forward in subsequent years. This often happens in the ordinary course, without allowing for certain other special tax concessions which have been provided for the further encouragement of industrial investment.

New Undertakings

(a) *Exemption for new industrial undertakings:* By far the most important tax concession is the exemption granted to new industrial undertakings for a period of five years. So much of the profits of a new industrial undertaking as is equal to 6 percent of the capital employed by it is completely exempt from income tax and super-tax (or corporation tax for five successive assessment years following the year in which the undertaking commences the manufacture or production of articles. The essential requirements for this tax holiday are that the undertaking should function in India and should not be one which is formed simply by splitting up or reconstructing a business already in existence or by transferring the assets of an existing business to a new undertaking. It is not necessary that the new undertaking should be established as an absolutely independent and separate organisation. Even a new unit established by an already existing undertaking will be eligible for the tax holiday, provided the unit is designed to expand the productive capacity of the existing undertaking to a substantial extent and is not simply by way of renovation or replacement of existing equipment. Any dividends declared by a company out of the profits exempted above will also be exempt from tax in the hands of the shareholders. These benefits of exemption of profits of new industrial undertakings and of the dividends distributed out of such profits are available to foreign companies for their organisation in India and to non-resident shareholders.

(b) *Exemption from corporation tax of dividends received by companies from certain new undertakings:* Ordinarily, a company which invests its funds in other companies has to pay corporation tax on the dividends received by it from these other companies, notwithstanding the fact that the company declaring the dividends has also to pay corporation tax on the profits out of which the dividends are declared. Until now, there has been no difference in the rates of corporation tax applicable to the investing company on its dividend income and other incomes. A welcome differentiation in this respect has been made for the first time for the fiscal year 1957-58; the investing or principal company is required to pay corporation tax on the dividends it receives from an Indian subsidiary only at the rate of 10 percent, while it is required to pay at the rate of 20 percent or 30 percent, as the case may be, on its other incomes according as the investing company distributes dividends in India or outside.

Basic Industries

This apart, with a view to encouraging companies to invest funds in certain basic industries in India, it has been provided that dividends received by a company, whether Indian or foreign, from an Indian company (*not* necessarily a subsidiary) started after 31st January, 1952, will be exempt from corporation tax if the dividend-paying Indian company is engaged wholly or mainly in certain specified industries. This exemption, though seemingly limited to certain industries, practically covers the major field of basic industrialisation in this country that is likely to attract foreign investment. Thus, as at present, the industries specified are coal; iron and steel; motor and aviation fuel; heavy chemicals; dyestuffs; heavy machinery; automobiles; cement; machine tools; agricultural implements; machinery and equipment for the generation, transmission and distribution of electric energy; non-ferrous metals including alloys; paper, including newsprint and paper board; internal combustion engines; power-driven pumps; tractors; electric motors; locomotives; rolling stock; and ferro-manganese. Additions are made to this list from time to time, depending upon the importance attached to other industries in the context of the development of the country in general, and of the successive plans in particular. This exemption is also available for dividends declared on fresh capital issued by existing companies after 28th February, 1953, for the purpose of acquiring funds for increasing their production or for starting a separate unit for the production of any one or more of the specified items.

(c) *Exemption of capital gains from corporation tax:* Under the Indian law, capital gains resulting from the sale or transfer of capital assets are also treated as a form of income chargeable to income tax. Taxation of capital gains was previously in operation for the first time during the fiscal years 1947-48 and 1948-49 but was suspended thereafter. It has again been revived from the current financial year 1957-58. While capital gains arising after 31st March, 1956, are liable to tax, concessions have been provided in the law in relation both to tax rates and to computation of taxable gains. Thus:

(a) Capital gains will bear only income tax but *not* super-tax. In the case of a company, such gains will suffer a tax of 31.5 percent only and not the corporation tax also which varies from 15 percent to 30 percent. In case a company chooses to distribute dividends out of its capital gains, the shareholders in their turn will get credit for the capital gains tax paid by the company.

(b) It should be borne in mind that, broadly speaking, only realised capital gains are subject to the charge.

(c) Another important concession is in the computation of the capital gains. The ordinary rule of computation is to take the difference between the price at which the asset is transferred or sold and its actual cost to the vendor. The law however allows an option to the taxpayer concerning the old assets to substitute for the actual cost of the asset sold or transferred, its fair market value on 1st January, 1954. This is the year when prices in India had reached the peak and the adoption of the market value as on 1st January, 1954, will reduce the taxable capital gains considerably.

Transfer to Subsidiary

Capital gains resulting from the transfer of capital assets by a parent company to its 100 percent subsidiary are not charged.

(d) *Foreign loan creditors—exemption of interest on certain types of loans raised abroad:* Until now interest payable on moneys borrowed outside India was chargeable to income tax and super-tax if it was paid in India; if the moneys borrowed abroad were also brought into India in cash or in kind, the interest was chargeable to tax even if it was payable outside India. A very substantial concession is available with effect from the current financial year 1957-58 in this respect. Under the present law, the interest payable by any industrial undertaking in India on loans borrowed from foreign institutions approved by the Central Government or on moneys borrowed or debt incurred abroad for the purchase outside India of capital plant and machinery on deferred payment terms approved by the Central Government, is completely exempted from tax. Subject to the prescribed conditions being satisfied, this concession will be available not only to foreign parents of Indian subsidiary companies but also to foreign suppliers and foreign financial institutions who, instead of investing their funds in Indian industries directly, do so only indirectly by granting loans from abroad on interest to Indian entrepreneurs for financing their capital projects or by supplying capital goods on deferred payment terms. Income from interest on or from premium on the redemption of any bonds issued by any industrial undertaking or financial corporation of India under a loan agreement with the International Bank for Reconstruction and Development, which is guaranteed by the Central Government is, of course, already separately exempt.

Cumulative Effect

The cumulative effect of all these concessions is substantially to circumscribe and restrict the "base", that is, the taxable income, to which the rates of tax are to be applied, as compared with the actual earnings or profits determined according to commercial and accounting principles. Furthermore, though these advantages and concessions apply to both domestic and foreign companies, the latter are in a more favourable position to take advantage of them by reason of the resources available to them and their experience and expert technical "know-how" in industrial organisation and management.

Corporate Tax Rate Structure

We come next to the second factor which determines the incidence of taxation on foreign firms—the rates of tax. All companies, whether domestic or foreign, have to pay the tax on their income, partly as income tax and partly as corporation tax. The rates of income tax and corporation tax for companies are fixed annually along with the tax rates for incomes of other classes of taxpayers through the medium of the Finance Acts. For the current fiscal year 1957-58, the basic income tax rate for all companies is 30 percent on taxable income, and the income tax so computed is increased by a surcharge equal to 5 percent of the tax. In effect, the rate of income tax, including the surcharge, is 31.5 percent on taxable income. Even though the income tax is paid by the company itself, it is treated as having been paid on behalf of its shareholders, so that the shareholders get credit, in their own personal assessments, for the proportionate income tax paid by the company on the dividends included in their total income.

As far as corporation tax is concerned, the structure, though seemingly involved, is easly intelligible. First, there is a basic rate (of 50 percent) which is applicable to all companies, domestic and foreign. This basic is reduced by a rebate, fixed at varying percentages, with reference to certain factors, namely:

(1) The highest rebate of 40 percent is given for that portion of the taxable income of every company—whether domestic or foreign—which consists of dividends received by it from its subsidiary Indian company.

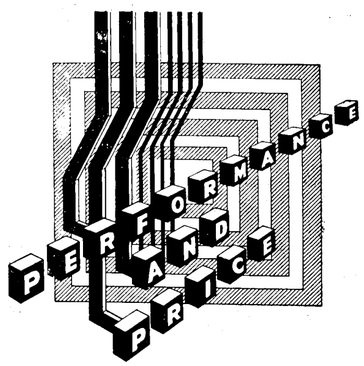
(2) As for the other income, the rebate is less and is graduated according to the nature of the company.

Size of Rebate

Using broad, non-technical terms, it could be said that the rebate is (i) 35 percent in the case of small Indian companies with incomes not exceeding Rs. 25,000 and in which the public is substantially interested; (ii) 30 percent in the case of all other Indian companies, including the Indian subsidiaries of foreign parent companies; and (iii) 20 percent in the case of Indian branches of foreign companies. However, whereas this rebate of 30 percent given to foreign companies is not reduced or taken away under any circumstances, in the case of an Indian company, the rebates are liable to be diminished at certain percentages on the amount of bonus shares or the amount of dividends distributed by it in excess of 6 percent on paid-up capital in the particular year. This adjustment on account of issue of bonus shares or distribution of excessive dividends can, at the most, only deny the rebate to the company in the corporation tax rate, and in no event will the company be obliged to pay corporation tax on its taxable income at a rate higher than the basic rate of 50 percent. However, as both the bonus issues and excess dividend distribution are controllable by the companies themselves, the reduction of rebate on this amount is, in actual practice, not at all significant, in the majority of cases. On the basis that the profits of a company before tax are about 20 or 25 percent of its paid-up capital, as disclosed by a Reserve Bank analysis of a number of groups of industrial companies, the average incidence of this excess dividend tax in ordinary circumstances would come to about 2.5 percent to 3 percent only of the taxable income of the company. The same position is reflected in the revenue estimate of the yield from the tax on excess dividends and bonus issues of Rs. 5-6 crores, against the total annual assessable profits of Rs. 188 crores for all corporate enterprises.

No surcharge is added to the corporation tax. The effective rates of corporation tax for the fiscal year 1957-58, after taking into account the admissible rebate in the tax rates, are thus as follows:

Class of Companies	Effective Rate of Corporation Tax after Adjusting the Rebate Due	Remarks
	(percentages)	
I. Indian companies which distribute dividends in India :		
(a) Companies in which the public is substantially interested with total income not exceeding Rs. 25,000 :		
(i) on dividends from a subsidiary Indian company	... 10	Assuming that no bonus shares are distributed.
(ii) on the remainder of taxable income ...	... 15	
(b) Other companies :		
(i) on dividends from a subsidiary Indian company	... 10	Assuming that there is no distribution of bonus shares or dividends in excess of 6 percent on the company's paid-up capital.
(ii) on the remainder of taxable income ...	... 20	
II. Indian branches of foreign companies (which do not distribute dividends in India) :		
(i) on dividends from a subsidiary Indian company	... 10	
(ii) on the remainder of taxable income ...	... 30	

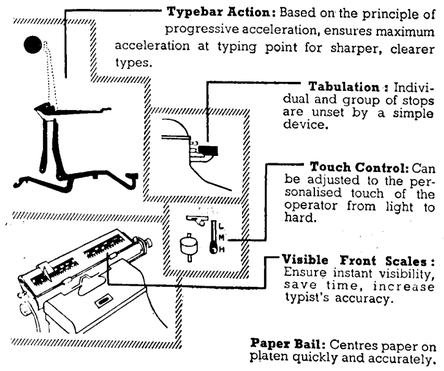


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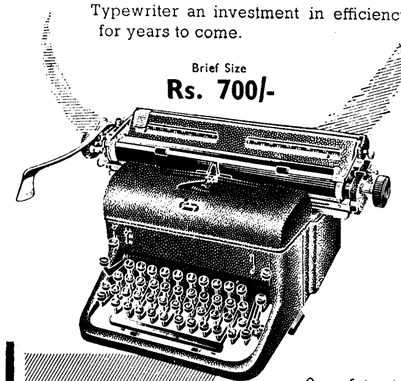
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Unlike income tax, no portion of the corporation tax payable by a company is treated as having been paid by it on behalf of its shareholders; they will have to pay super-tax at their own personal rates on the dividends. In the case of a foreign company (that is, one which does not distribute its dividends within India) the payment of super-tax by shareholders who are not resident in India does not arise, because although it is paid out of profits earned in India, the dividend in such cases is not considered as income taxable in India. This exemption to non-resident shareholders from liability to pay super-tax (which is denied to the shareholders in an Indian company, including non-resident shareholders of an Indian subsidiary of a foreign parent company) is the main reason why the effective rate of corporation tax for a foreign company is fixed at a somewhat higher percentage than in the case of Indian companies.

As for the advantage of 10 percent in the rate of corporation tax in favour of the Indian subsidiary of a foreign parent company, over the Indian branch of a foreign company, in actual working it is virtually fully offset by: (i) the excess dividend or bonus tax which the Indian subsidiary may have to pay (the average incidence of which, as has been shown earlier, comes to about 2.5 percent to 3 percent); and (ii) by the tax on dividends paid to the foreign parent company, which is also ultimately a levy on the Indian profits. The result thus is that the overall incidence of tax on the Indian profits earned by a foreign investor—whether this is done through an Indian branch, *or* through an Indian subsidiary—is more or less equalised. There is, however, on balance, a little advantage in favour of an Indian subsidiary, if it maintains its dividend distribution below 6 percent of the paid-up capital, an advantage which will increase up to a maximum of 10 percent in inverse proportion to the distribution, and in direct proportion to the retention and ploughing back of profits. Thus, as it should be, the functioning of the foreign investment through an Indian subsidiary which is subject to greater control within the country, *and* retention and utilisation of profits for further industrial development within the country, are both given encouragement.

Actual Incidence

It will be of interest here to analyse the actual overall incidence of tax: (a) on a foreign company functioning through (i) an Indian subsidiary and (ii) an Indian branch; and (b) on an Indian domestic company functioning through (i) a subsidiary and (ii) directly, *inter se* according to the 1957-58 rates of tax; and also to compare the incidence with reference to the tax rates relating to the earlier year. This is done in the statement below:

I (a). FOREIGN COMPANY FUNCTIONING THROUGH AN INDIAN SUBSIDIARY

1956-57 Rates of Tax			1957-58 Rates of Tax
25.00	Income tax	...	30.00
1.25	Surcharge	...	1.50
17.18	Corporation tax	...	20.00
43.43			51.50
4.07	Excess dividend tax	...	2.50
47.50 percent			54.00 percent
	Balance distributed as dividend	...	46.00
52.50			
71.20	Dividends grossed up	...	67.00
	Tax payable by the parent on the dividends received	...	6.70
14.24			
61.74 percent			60.70 percent
	Decrease in incidence		1.04 percent

Note :

(a) In computing the tax attributable to excess dividends, it has been assumed that the profits of the company before tax amount to about 20-25 percent of the paid-up capital.

(b) In computing the tax on dividends paid to the parent company, it has been assumed that the entire profits after tax have been distributed as dividends.

(c) If a part of the profits are ploughed back, the excess dividend tax as well as inter-corporate dividend tax will be correspondingly reduced (in aggregate up to a maximum of 9-10 percent).

I (b). INDIAN COMPANY FUNCTIONING THROUGH A SUBSIDIARY COMPANY

The incidence of tax on an *Indian parent* company run through an Indian subsidiary will be the same as that of a foreign parent company functioning through an Indian subsidiary.

II (a). FOREIGN COMPANY FUNCTIONING THROUGH A BRANCH IN INDIA

1956-57 Rates of Tax			1957-58 Rates of Tax
25.00	Income tax	...	30.00
1.25	Surcharge	...	1.50
36.00	Corporation tax	...	30.00
62.25 percent			61.50 percent
	Decrease in incidence		0.75 percent

As mentioned earlier, the incidence on a foreign company functioning through an Indian subsidiary is maintained at a slightly lower level than on a foreign company functioning through a branch to give some encouragement to the former.

II (b). INDIAN COMPANY FUNCTIONING DIRECTLY

1956-57 Rates of Tax			1957-58 Rates of Tax
25.00	Income tax	...	30.00
1.25	Surcharge	...	1.50
17.18	Corporation tax	...	20.00
43.43			51.50
4.07	Excess dividend tax	...	2.50
47.50 percent			54.00 percent
52.50	Balance distributed as dividend	...	46.00
71.20 percent	Dividends gross	...	67.00 percent
At rates from 7.5 percent to 65.625 percent (including surcharge) depending upon the total income of each shareholder.	In this case (unlike the foreign company) super-tax on dividends also is payable by the shareholders of the Indian company.		At rates from 6 percent to 54 percent (including surcharge) depending upon the total income of each shareholder.

The above analysis will show that there is no real discrimination in corporate taxation against foreign investment as compared with domestic investment.

Overall Picture

Both the components which go to determine the ultimate incidence of taxation having now been explained, it is time to assess their combined effect in actual application to industrial enterprise. The following points deserve special mention :

(i) In the case of industrial companies, whether new or old, a big chunk of normally taxable profits (equal to one-fourth of all investments after 1st April, 1954, in new plant and machinery) secures *permanent* exemption. A clear idea of the magnitude of this benefit can be had from the fact that the aggregate investment in fixed assets (according to the analysis of the Reserve Bank of India covering a large number of industrial companies) amounts to about 200 percent of the paid-up capital, and investments in plant and machinery cover nearly three-fifths of the investment in fixed assets, or 120 percent of paid-up capital. In the case of new companies, therefore (and indeed, in the case of old companies also), over a period of years—assuming, of course, that the concession continues indefinitely entitling the company to a development allowance of 25 percent of the cost of the new machinery—the profits up to 30 percent of the paid-up capital itself would bear no tax at all. The same analysis shows that the book profits of the company (which may be regarded as more or less equal to assessable profits *without* special concessions) come to about 20-25 percent of the paid-up capital. This would mean, generally speaking, that the profits of one to one and a half years would be covered by this exemption.

(ii) The exemption of profits up to 6 percent of capital will, no doubt, overlap in the case of purely industrial companies with the concession relating to development rebate, where such companies have been established after 1st April, 1954, high profit-yielding capacity where this concession but there will be many cases of companies with will be independently beneficial. Six percent of employed capital would mean about 9 percent on paid-up capital as, according to the Reserve Bank analysis, reserves generally amount to 50 percent of paid-up capital. And 9 percent on paid-up capital would mean about 40-45 percent of the assessable profits in one year or, in other words, over the five-year exemption period, a total exemption of over 200 percent or two years' profits.

These two concessions together, therefore, will secure complete exemption of profits for more than three years.

(iii) Apart from the fact that the tax on inter-corporate dividends has been reduced from 20 percent to 10 percent for 1957-58, it is necessary to remember that even this reduced rate of tax will *not* apply to dividends received from new industrial undertakings engaged in specified industries or on fresh issues of capital by existing undertakings for increasing production in the specified industries which, as previously mentioned, cover the major field of industrial enterprise. Furthermore, this benefit will primarily go to the foreign investor, as the domestic companies seldom, and foreign companies generally, function through subsidiary companies.

Taxation of Non-resident Companies

While on the subject of income taxation, I would like to refer to three matters which have given rise to a lot of misapprehension in the minds of the foreigners. One is the taxation of income from a business connection, the second is the operation of Section 23A of the Income Tax Act, and the third is the scheme for compulsory deposit of surplus funds with the Government. As stated earlier, a company which is resident in India has to pay the tax on its entire income whether it is made in India or outside. On the other hand, a non-resident company has only limited liability to income tax, that is to say, its taxable income consists of (i) income accruing or arising to it within India, (ii) income made outside India, but actually received in India and (iii) income accruing or arising outside India but which may be deemed under the law to accrue or arise within India. The third category of income mentioned above may, for the present purposes, be generally described as "income from a business connection in India". It is true that the expression "business connection" is not conducive to precise legal connotation, but one has to appreciate what the law seeks to bring into the tax net thereby. The law does not seek to tax a non-resident on the profits effectively made by him abroad and which cannot be attributed to any operations he carries on in India. Only where operations are carried on in India by a non-resident otherwise than in a casual manner, and the profits which should really be attributed to those operations get shifted outside India, does the law step in to deem a reasonable portion of the profits attributable to the Indian operations to accrue or arise in India. As a general rule, where the affairs within India and outside India are carried on at arm's length, there should be no fear that the non-resident will attract liability on this account.

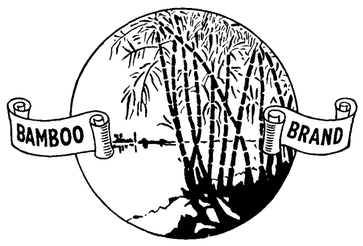
Foreign Companies and Section 23A

Not only in India, but in many other countries in the world, companies which are controlled by a few persons are required to distribute a minimum amount of their profits as dividends. The reason for this is that in many cases these companies are run by rich persons and if they actually received dividends in their hands, they would have had to pay large amounts of tax on those dividends. They generally, therefore, try to keep the bulk of profits with the company undistributed so that their personal tax liability may not increase. The relevant provision of the Income Tax Act which deals with such companies—which are described as "companies in which the public are not substantially interested"—is Section 23A. This provides that if any such company does not make the minimum prescribed distribution of dividends (now, ordinarily, 45 percent for industrial companies, 60 percent for non-industrial companies and 100 percent for investment companies) out of its profits, within one year from the end of the year of account, it is obliged to pay as additional super-tax on the whole of its profits of the year remaining undistributed. There is, however, no ground for entertaining any apprehensions in the context of foreign investment on this score. So far as foreign private companies functioning through branches in India are concerned, the provisions of this Section are *not* applied in their case, because with the foreign shareholder, not being subjected to Indian income tax on his dividend income, any insistence upon a foreign company of distributing abroad a minimum dividend would be pointless. As regards foreign parent companies functioning through Indian subsidiaries, it should now be clear, especially after the recent amendment to Section 23A, that there is no significant additional super-tax liability in such cases either. Under the law as it stood before this amendment, a subsidiary Indian company of a foreign public company came under the provisions of Section 23A in regard to minimum distribution unless it was a 100 percent subsidiary. By the amendment just mentioned, it has been secured that a company, more than 50 percent of whose shares are held by one or more companies in which the public is substantially interested, will not attract the operation of this Section. As under the company law, for a company to be regarded as a subsidiary of another, the parent must hold at least 50 percent of the equity share capital of the former, every subsidiary Indian company of a foreign public company will necessarily be outside the scope of Section 23A. Even where two or more foreign public companies join together to form a company in India, such a company will not become a Section 23A company so long as their joint holdings exceed 50 percent of the equity shares.

Percentage Reduced

Apart from this important change, so far as industrial companies coming within Section 23A are concerned—in which alone any substantial foreign investment would ordinarily be laid out—the percentage for minimum distribution in their cases has now been reduced to 45 percent of the profits after tax, which in terms of taxable income would be about 22 percent only, and in terms of paid-up capital (assuming a gross yield of 20 percent to 25 percent on paid-up capital) would ordinarily be less than 6 percent. This would be accomplished in ordinary practice in the majority of cases, as a yield of 6 percent on investment is the minimum that every company, under the existing money market conditions, would like to ensure to its shareholders. Most industrial companies wishing to plough back the rest of their profits for further development and expansion would, thus, be able to do so without infringing the pro-

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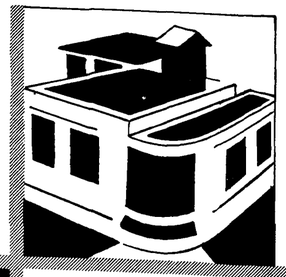
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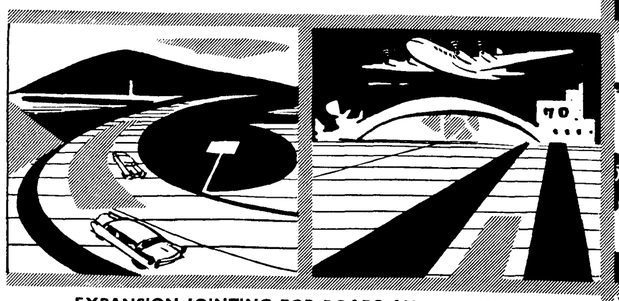
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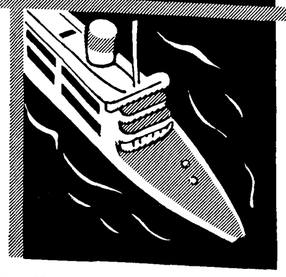
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visions of minimum distribution, and at the same time, avoiding liability to tax on the excess dividend distributions.

Compulsory Deposit Scheme

The object of the compulsory deposit scheme and the manner of its working appear to have been largely misunderstood. It has already been seen that the income tax law gives a positive encouragement to the establishment of new industries and to help the existing ones to rehabilitate themselves —to wit, the depreciation allowance, the extra depreciation allowance and the development rebate. It is obviously necessary for the Government to ensure that such generous reliefs are not misused, but are actually utilised for the purposes for which they are designed. The deposit scheme at present requires a company to deposit with the Government, before a stated date every year, an amount equal to a certain percentage of the amount by which the statutory surplus exceeds Rs. 1 lakh. The calculation of the amount to be deposited proceeds as under :

	Taxable income of the year ...	.....	
Add :	Depreciation allowances and development rebate allowable in the assessment for the year ...	.....	
		.....	
Less :	Dividend declared during that year in India		
	Income tax payable by the company for that year		
		.....	
	Statutory surplus	.....	
Less :	Rs. 1 lakh basic exemption ...	Rs. 1,00,000	
	Balance	.....	
	Amount due for deposit at .....% [For the fiscal year 1957-58, the percentage is 50.]	.....	

The consequence of not making the deposit in any year is that the company will have to forgo the depreciation allowances and development rebate due for that year. Adequate provision has been made in the administrative rules regulating the scheme for exemption from the obligation of making the deposits in deserving cases, or for quick refunds of moneys as and when a company wants money for investment in approved purposes. For a company which has been regularly ploughing back its profits in productive investment, there need be no fear that the compulsory deposit scheme will jeopardise its working. Further, while the Indian subsidiary gets a deduction of dividends declared in India, the foreign companies operating through branches in India are allowed to deduct the remittances out of profits they make out of India in computing the statutory surplus.

Surplus Money

In these circumstances, a deposit will become necessary *only* if a company has some moneys *surplus* to its genuine business needs consistent with the second five year plan. Even in such cases, the incidence of the deposit on its financial resources will be so light that it should not cause any serious inconvenience or dislocation in its normal business. It will not exceed (i) 50 percent of the depreciation and development rebate allowances *plus* (ii) 50 percent of its retained profits. According to the Reserve Bank analysis of groups of industrial companies, the general pattern of distribution and retention of profits and depreciation allowances making suitable adjustments for current rates is roundly as follows :

Profits (after depreciation)	100	
Depreciation allowances ...	30-40	(Including development rebate, this will be higher).
Tax	50	
Distribution ...	30	
Retained profits ...	20	

Thus, if the whole of the depreciation allowances and the retained profits are surplus to the immediate needs of the company, it will not be required to deposit more than half of the two amounts taken together which, in the case of industrial companies, will always be *less than the depreciation allowances* alone—specially after inclusion of development rebate.

This can be illustrated with reference to the figures relating to 101 companies which appeared in the *Reserve Bank Bulletin* for July, 1957. (Though the figures relate to 1955, they are assumed here to relate to 1956.)

		(Rs. lakhs)
Profits before tax ...	...	1,463
Depreciation allowances ...	...	560
		2,023
Dividend distribution ...	450	
Tax payable at current rates	753	
		1,203

		Rs. lakhs
Statutory surplus :		
Retained profits ...	270	
Depreciation allowed ...	560	
		830
Less : at Rs. 1 lakh each company for basic exemption		101
		729
50 percent thereof, being amount due for deposit		364

It will be seen that this is about 44 percent of the surplus that would be available with the companies and 65 percent of the depreciation allowances. With the inclusion of the development rebate (which has not been considered in these figures), the percentage of deposit due to tax free allowances will be further reduced.

What objection can there be to these surplus funds which are *not* needed by private enterprise, temporarily augmenting the resources of the public sector for direct or indirect furtherance of economic development of the country, so long as they are available for immediate release, as and when required by private enterprise?

Incidence of Wealth Tax on Companies

Two new taxes were added to the list of direct taxes in the 1957-58 budget—the wealth tax and the expenditure tax. Of these, expenditure tax, which incidentally comes into operation only in the fiscal year 1958-59, has no application at all to companies. That leaves only wealth tax for consideration in the present context. Here also the Indian tax structure does not make any discrimination between an Indian company and a foreign company in regard to the tax rates. The tax is an annual one and is chargeable on every company, whether domestic or foreign, at a flat rate of one-half percent on its net wealth in excess of Rs. 5 lakhs. A company, whether domestic or foreign, whose taxable net wealth does not exceed Rs. 5 lakhs is exempt from liability.

The incidence of tax is thus quite light. Further, as in the case of income tax, a number of exemptions and concessions of a substantial nature (some more liberal than under income tax) are provided under the wealth tax. These will result in total exemption for a period of years in some cases and substantial reduction in the net-wealth base in many other cases, so that the ultimate incidence in most cases will be far less than what would be expected with reference to the prescribed rates of tax. These are briefly enumerated below :

(a) *Total exemptions :* Certain companies, *e.g.* banking companies, insurance companies and shipping are completely exempted from wealth tax.

(b) *Tax holiday :* (i) As under income tax, industrial companies newly established are granted a tax holiday for five successive assessment years following the day of their establishment. The requirements are similar to those prescribed under Section 15C of the Income Tax Act.

(ii) As with income tax, for purposes of wealth tax also a similar concession will be available even to an existing company which establishes a new, separate and independent unit by way of substantial expansion of its undertaking, to the extent of wealth, represented by such expansion, and for five successive years from the date of commencement of operation for the establishment of such a unit.

These two provisions will be of considerable value to foreign companies—whether operating through branches or Indian subsidiaries—which are engaged in, or are contemplating, large-scale expansion internally or through new companies.

Valuation of Assets

(c) *Concessional valuation :* As regards companies which actually incur tax liability, the most important concession provided is on the valuation of assets. The normal basis of valuation is the price which an asset would fetch if sold in the open market. For the valuation of business assets, however, an alternative basis of valuation and the determining of the net wealth with reference to the balance sheet of the business as a whole (subject to appropriate adjustments) has been provided. This will work out to be an extremely concessional basis in the majority of cases, as it will result in the difference between the book value of business assets, and their present market value, being ignored. As this difference in the market value and the book value will be quite substantial in most cases—especially in the case of big industrial companies—in which category the foreign controlled enterprise in India would fall—this concessional valuation will have the effect of indirectly reducing the incidence of tax on such companies to a practically negligible figure.

(d) *Exclusion of assets from net wealth :* In addition to this, a number of assets usually forming part of the wealth of a company are to be completely excluded in determining the net wealth for the purpose of the tax :

(i) In the case of a foreign company, the value of assets located outside India is excluded in the computation of its net wealth, and only the wealth held by it within India is liable to tax. As the foreign company does not pay any higher rate of tax than the domestic company (as it does under corporation tax), in this respect, the foreign company is in a more advantageous position than the domestic company. For the wealth outside India of a domestic company is also liable to tax, and the value of its shares held by individual shareholders is also treated as taxable wealth in their personal assessment.

Operation through Subsidiary

(ii) *Inter-corporate holdings :* Shares held by one company in any other company are exempt from tax in the hands of the holding company. This provision will be specially beneficial to foreign companies operating through subsidiary Indian companies, (as against Indian companies, which mostly function directly) as the foreign parent company will not be required to pay any wealth tax on its holdings, whereas the shares held by individual shareholders in domestic companies will be treated as taxable wealth in their hands. The Wealth Tax Act is more liberal in this respect than the Income Tax Act, under which corporate tax (though at reduced rates) is payable on inter-corporate income.

(iii) *Foreign loans :* Consistent with the exemption provided under the Income Tax Act to interest on the foreign loans or debts, the terms of which are approved by the Central Government, the assets represented by such loans or debts incurred by an industrial undertaking in India, for purchase of capital goods from abroad, are also excluded in the computation of net wealth.

(iv) There are a number of other similar items —like agricultural land, which is relevant in the context of plantation companies—which are similarly exempted.

(e) *Reduction in rate of tax in special circumstances :* Although a tax on net wealth normally should have no relationship to income, it has been provided that the amount of tax found otherwise payable (by application of the prescribed rate of tax to the net-wealth base determined after giving the available concessions) should be further abated to the amount of actual profits. This ensures that companies which make losses or small profits are not put to undue hardship. In other words, a company incurring a loss will pay no wealth tax, regardless of its actual net worth, and a company making a small profit will not be required to pay wealth tax of more than that amount. The concession described here can be availed of only if the company does not distribute any dividend to its ordinary shareholders in respect of that year. The loss or profit for the applicability of these concessions will be determined without taking into account the depreciation allowance or development rebate due for that year or the losses incurred by the company in earlier years.

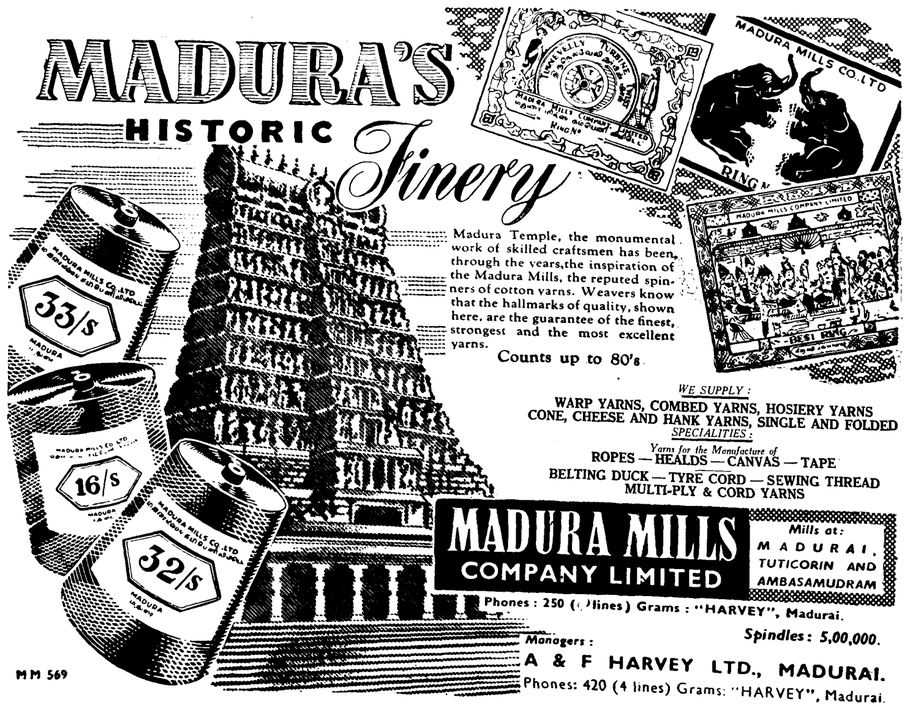
This concession will have the effect of extending the period of tax holiday in the case of new industrial undertakings which by their very nature and magnitude, or because of some unavoidable circumstances, take a long time for initial establishment, or for getting into full-scale operation, and consequently are not in a position to start earning normal profits within a period of five years from the date of their incorporation.

Normal Incidence

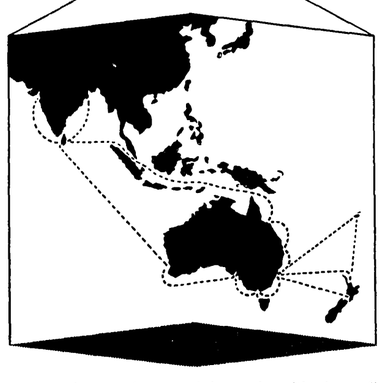
The *normal* incidence of wealth tax on an industrial company, expressed in terms of its profits of the relevant year, is not likely to exceed in the majority of cases from 3 percent to 5 percent. This can be illustrated with reference to the Reserve Bank analysis mentioned earlier. The particulars of the 101 companies whose balance sheets were analysed, are as under :

	Rs. lakhs
Paid-up capital	6,616
Reserves (other than specified reserves)	3,518
Profits before tax	1,463
Net wealth of companies	10,134

Assuming no material change in these figures (which relate to 1955) during a period of one year, the net wealth of these 101 companies is Rs. 101.34 crores. Of this, the first Rs. 5 lakhs in each case of Rs. 5.05 crores in all, will not be taxed at all, leaving a balance of Rs. 96.29 crores. Wealth tax on Rs. 96.29 crores at one-half percent will be Rs. 48 lakhs roundly. This works out to be 3.15 percent of the book profits of the companies. Approximately the same result is reflected in the revenue estimates of Rs. 6.5 crores for the current fiscal year 1957-58. The taxable income of all companies is about Rs. 188 crores. Excluding companies which have a net wealth of less than Rs. 5 lakhs, the income of companies liable to wealth tax will be approximately Rs. 170 crores. The estimated



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revenue of Rs. 6.5 crores will thus give an average incidence of 3.7 percent of corporate income.

This is, however, the general incidence which will vary in different cases depending upon the relative profit-yielding capacity of each company. The incidence will, perhaps, be slightly more in the less efficient or over-capitalised companies. In the case of companies engaged in expansion and development (whether new or old), however, the incidence will obviously be substantially less.

It will thus be clear that in the majority of cases, the levy of wealth tax will not make any substantial or significant increase in the incidence under income tax, and that after taking into consideration the various tax concessions available to corporate enterprise in India in general, and to the foreign corporations in particular, the overall incidence of both the levies taken together will not be unduly high.

Income Tax on Foreign Shareholders

I shall now briefly describe the position of a foreign individual shareholder. So far as the non-resident shareholder in a foreign company functioning through a branch in India is concerned, as the company does not ordinarily distribute its dividends in India, no liability to Indian taxation arises for the shareholder. However, there are many foreign individual investors holding shares in Indian companies (whether subsidiaries of foreign parent companies or otherwise) with or without controlling interest. In such cases, the foreign shareholder will be liable to pay income tax and super-tax on the dividends received by him from the Indian company.

So far as income tax is concerned, however, the credit that he will get for the income tax paid by the company (at the rate of 31.5 percent) which it is deemed in law to have been paid on behalf of the shareholder, will more than offset the income tax chargeable on his dividend income. In other words, he will not be required to pay any additional sum by way of personal income tax on the dividends. On the other hand, he will be entitled to some small refund (even if he is charged at the maximum rate of income tax under the normal provision applicable to non-residents).

As regards personal super-tax, he would normally pay super-tax on his dividend income at the flat rate of 19 percent, or at the graduated rates of personal super-tax applicable to a resident person, whichever is greater. A non-resident person, however, has the option (which is to be exercised in his first assessment) to be assessed to both income tax and super-tax on his total world income basis (which means that his Indian income will bear tax at the average rates applicable to his total world income). This optional liability to Indian tax places the foreign investor in a more advantageous position than his Indian counterpart. Under the optional provision he would never pay more than what a resident person would, with the same pattern of Indian and foreign income. But under the normal provision, if his Indian dividend income is very large (and he also has some foreign income, which will be so in all such cases), he would pay less super-tax on the dividend income, than if he was a resident person. Further, if any portion of his dividends are received from a company which constitutes a new industrial undertaking and is eligible for exemption of its income up to 6 percent of capital employed by it for a period of five successive years after it begins manufacture, such dividends, to the extent they are attributable to the exempted profits of the company, will be exempt from tax in the hands of the shareholder also. This concession obviously assumes substantial value in cases of foreign investors having large investments in new industrial undertakings in India.

Liability to Capital Gains

Apart from the recurring annual income from dividends, the foreign investor can also derive financial benefit from appreciation in value of his investment, which he can realise in the form of capital gains, by sale of his shares. Such gains will no doubt now attract capital gains tax. But the incidence of such tax will be quite low, for the following reasons:

(1) In the first place, such capital gains have to be computed, at the option of the assessee, with reference to the market value of the shares as on 1st January, 1954, when the prices of shares and securities were quite high. This would mean that gains which had accrued on previous investments up to that date will bear no tax at all, and only the excess of sale price over the market value as on that date will suffer tax. This will greatly circumscribe the base of taxable capital gains.

(2) Secondly, no super-tax is leviable on capital which will be liable only to income tax at the graduated personal rates. In other words, the rate of tax on capital gains will never exceed 30 percent.

(3) Thirdly, only one-third of the gains are to be included with the other income for determining the rate of income tax applicable to the whole of the capital gains. This has the effect of spreading the capital gains over a period of three years, which brings down considerably the average rate of tax applicable to them. This is, of course, not relevant, and hence not applicable in the case of capital gains made by companies.

Liability to Wealth Tax

A foreign shareholder of a foreign company functioning in India through a branch is not liable to wealth tax on his investments in India. As regards foreign investors in Indian companies, their foreign wealth is not liable to tax, but the value of shares held in Indian companies will attract liability. The value of these shares, however, is to be determined according to current market quotations, in the case of public companies and on the net-worth basis in case of private companies. In the latter case, the net worth is determined with reference to the balance sheet, that is the book value of the assets of the company, and not the aggregate current market value of each asset, which would generally be substantially higher. Thus, in either case, the value of the shareholding would ordinarily be less than the real or intrinsic break-up value thereof. This basis of valuation confers an advantage (which is available both to the domestic and the foreign investor), and goes to reduce the incidence of the wealth tax. Furthermore, a direct substantial concession provided to encourage private investments by a foreign individual investor is that he would be liable to pay wealth tax on his Indian assets at *half* the normal rates which are applicable to Indian investors (whether resident or non-resident). The comparative advantage to the foreign investor will be clear from the following table:

	Indian citizen resident and ordinarily resident in India.	Foreign citizen not resident in India.
	Tax payable on whole wealth whether in India or outside India.	Tax payable on Indian wealth only.
	Rates of tax.	Rates of tax.
On the first Rs. 2 lakhs	nil	nil
On the next Rs. 10 lakhs	1/2 percent	1/4 percent
On the next Rs. 10 lakhs	1 percent	1/2 percent
On the remainder	1½ percent	3/4 percent

A foreign investor will not attract any liability under the Expenditure Tax Act, as any expenditure incurred outside India—including expenditure incurred from income arising from India—by a foreign national who is not resident in India is completely exempt. The question of any such investor incurring expenditure on personal consumption in excess of Rs. 30,000 within India is not ordinarily likely to arise.

Foreign Directors and Executives

In the context of the position of foreign firms in the Indian tax structure, it will also be of interest to examine the scope of taxation of business executives in India, particularly those attached to foreign firms who are primarily responsible for the administration of operations of these firms in India. This is all the more necessary as, unfortunately, there has been some fear in the minds of many that the tax system in India is detrimental to the interests of the executives.

By reason of their physical presence in India for substantial periods during their service tenure here, these foreigners will become "resident" in India; but, at the same time, they will be regarded as not ordinarily resident in India unless their physical connection with India stretches or is likely to stretch beyond a period of ten consecutive years. In other words, in many cases, their status for tax purposes will be "resident but not ordinarily resident" and as such their liability to Indian income tax will be restricted to:

(i) the remuneration due to them for services rendered in India;

(ii) any other income accruing, arising or received in India;

(iii) any income accruing or arising abroad but which is actually received in or remitted to India.

It is very unlikely in the ordinary course that the foreigners who stay here for short periods would seek to bring their foreign incomes to India. In the result, therefore, they will have to pay tax only on what may be regarded strictly as their Indian income. It has already been seen that in the matter of income tax rates no discrimination is made between an Indian national and a foreigner who is resident in India.

Incidence of Levy

The following statement shows the incidence of tax at selected levels of income according to the rates of tax currently in force:

MARRIED INDIVIDUAL

(in rupees)

Taxable income annual (wholly earned)	Amount	As a percentage of income.
18,000	1,680	9.3
24,000	3,381	14.0
30,000	5,796	19.3
36,000	8,631	23.9
48,000	15,141	31.4
60,000	22,596	37.7
72,000	30,891	42.7
1,00,000	51,471	51.5

Here also the tax incidence is not to be measured purely by the rates of tax or by the rigorousness with which the law may seem to present itself on a superficial reading. There are a number of concessions provided under the law in the computation of taxable income of salaried employees also, which result in a significant reduction in the effective incidence of tax with reference to the total emoluments of an employee in money or money's worth (*i.e.*, inclusive of benefits in kind):

(1) *Exemption of employers' contributions to Superannuation and Provident Funds:*

Employer's contribution to superannuation fund (which, under the limit prescribed at present, can be made up to 25 percent of the employee's basic salary) is not included in the employee's taxable income.

Further, with effect from 1st April, 1957, it has been provided that the employer's contribution to the provident fund of an employee up to 10 percent of the employee's salary also is not to be included in the taxable income. The effect of this will be that such a contribution, which so far was exempt from income tax only (within the prescribed limits) will now secure total exemption from income tax *and* super-tax. This will mean a substantial benefit for the foreign executives in foreign firms whose income generally falls in super-tax brackets.

(2) *Income tax exemption in respect of employee's savings through Provident Fund and Life Insurance:*

Apart from the exemption of employer's contribution referred to above, no income tax is chargeable on the employee's own savings in recognised provident fund contributions or life insurance premia payments up to a limit of 25 percent of his taxable income, or Rs. 8,000 a month, whichever is less.

(3) *Other exemptions or deductions from taxable income:*

Apart from the exclusion of any special allowance, benefit or perquisite (other than entertainment allowance) specifically granted to meet expenses wholly and necessarily incurred by the employee in the performance of his duties, from the taxable income of the employee, the law also provides for the following deductions from such income:

(i) An amount not exceeding Rs. 500 expended by the assessee for the purchase of books and other publications necessary for the purpose of his duties;

(ii) Entertainment allowances to the extent they were being received by the employee regularly prior to 1st April, 1955, subject to a maximum of one-fifth of remuneration or Rs. 7,500, whichever is less;

(iii) Expenditure incurred by the employee in the maintenance and as representing normal wear and tear of his conveyance to the extent such expenditure is attributable to its use by him for the purpose of his employment;

(iv) Any other amount actually expended by the assessee which he by conditions of his service is required to spend out of his remuneration necessarily and exclusively in the performance of his duties.

(4) *Perquisites:*

In India (as in most other progressive countries), perquisites and benefits in kind received by an employee from his employer (in as much as they add to the comfort and privileges and mean an increase in the disposable income of the recipient indirectly), are regarded as additions to salary and are subjected to tax. In the computation of taxable perquisites, however, certain types of perquisites (such as ordinary medical facilities, payment of wages to staff maintained by or on behalf of the owner for proper upkeep of the accommodation in occupation of the employee, provision of refreshments in office during working hours, free trans-

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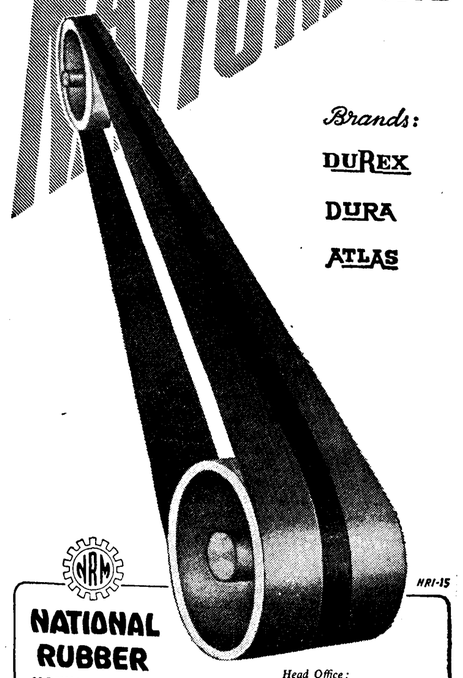
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port to office, and other recreational facilities, etcetera) are wholly ignored. Evaluation of other perquisites also, like rent-free quarters, personal transport, educational allowances and free domestic servants, is, as a rule, done according to methods of computation which are now fairly well established, and in a manner which, I believe, is generally regarded as reasonable.

(5) *Exemption of home leave passages:*

I should not fail to mention here the very important tax exemption provided to employees of foreign nationality in respect of the most privileged of their perquisites—the free passages provided to the employees by the employers when proceeding on their seasonal home leaves. These passage concessions are now allowed to be regulated, as far as possible, by the rules framed by the employers themselves and which are approved by the Government. No difficulty is now being experienced, I believe, in this respect by the employees or employers.

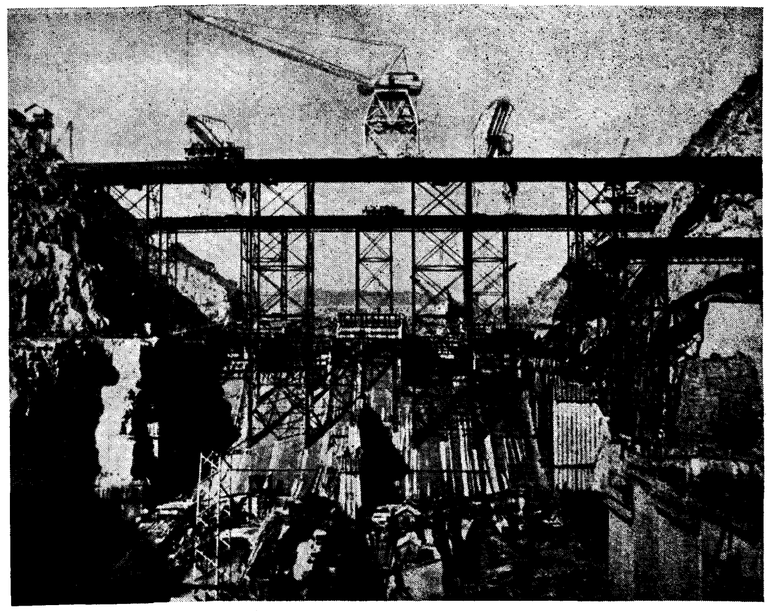
(6) *Exemption of the salary of foreign technicians:*

It is to enable industrial concerns in India to get the services of foreign technical experts at reasonable rates of remuneration, that exemption has been provided for foreign technicians on the salary they receive for services rendered by them in India. The technician is exempted thus on his remuneration for the first 365 days of his stay in India (whether the stay is continuous or broken, so long as this period is covered within the financial year of his arrival and the next financial year). Further, if the contract of service relating to his employment is approved by the Central Government before he commences his service in India, the exemption is continued further, so that he gets exempted on the whole of the income of the financial year of his arrival in India and the two succeeding financial years. The deciding criterion for the exemption is not the designation of the post held by the foreigner but the possession of specialised knowledge and industrial experience and the utilisation of such knowledge and experience in the course of his duties. Thus, business or industrial management advisers, who, even though designated as managers or general managers, etcetera, actually look after the technical side of the business, whether actively or in a supervisory or advisory capacity, also qualify for exemption.

Substantial Concessions

From what I have said above it should be clear that the various concessions available to foreign executives in India in computing their taxable income are quite substantial. To take an example, let us suppose that the emoluments of a foreign executive in India are made up as under:

		(In Rupees)
I.	Salary of Rs. 3,000 a month ...	36,000
	Commission and bonus	18,000
	Employer's contribution in recognised provident fund (own contributions equal in amount)	3,600
	Interest accrued on accumulated provident fund of, say, Rs. 50,000 at 6 percent	3,000
	Value of passage concessions for self, wife and children, provided by employer	12,000
	Value of rent-free furnished house provided by employer. Monthly rent of house is Rs. 600	7,200
	Motor-car (20 h.p.) provided as free conveyance by employer for private use (Estimated expenditure to employer Rs. 3,000)	3,000
		82,800
	(He pays insurance premia of Rs. 5,000 on policies taken on his life).	
II.	The tax on the gross amounts and benefits at the annual rates would have amounted to Rs. 38,829 or 46.9 percent.	
III.	His taxable income, however, will be:	
	Salary	36,000
	Commission and bonus	18,000
	Value of rent-free furnished residence	4,500
	Value of free conveyance ...	1,500
		60,000
	(i.e., only 72.4 percent of gross emoluments and benefits)	
IV.	Tax thereon will be:	
	Income tax on Rs. 60,000 ...	12,020
	Super-tax on Rs. 60,000 ...	9,500
	Surcharge	1,076
		22,596
	Deduct rebate on own provident fund contributions (Rs. 3,600) and life insurance premia (Rs. 5,000 limited to Rs. 8,000)	1,682.8
	Net tax payable ...	20,913.2



Construction work on the Bhakra Dam

With reference to his gross earnings and benefits of over Rs. 50,000, the tax works out to 25.2 percent only (against 46.9 percent if *no* tax concessions are available).

In the case of directors and other shareholders substantially interested in a company, not being its employees, although the remuneration and the perquisites they receive from the company are taxed under the head "other sources" and not as "salary", they enjoy in respect of *such income* most of the concessions and exemptions available to the salaried employees. In the matter of evaluation of perquisites also the same concessional criteria are applied in their cases.

Liability to Wealth Tax

In regard to wealth tax, the foreign executives will be liable only when their net wealth in India *i.e.*, the net value of their Indian investments, exceeds Rs. 2 lakhs. This is a very remote possibility in the majority of cases in view of the various exemptions provided under the Wealth Tax Act—including personal and household effects regardless of value, accumulated balances in provident funds and insurance policies until actual realisation by the employee, investments in shares in new industrial undertakings, and in Post Office and Treasury Saving Certificates (subject to certain conditions). All these will be specially relevant in the case of foreign executives, and, therefore, it can as a general rule be said that there will be no wealth tax liability on their Indian assets. In any case, as they will fall mostly in the category of not ordinarily residents in India, their foreign wealth will not be subjected to the levy.

Liability to Expenditure Tax

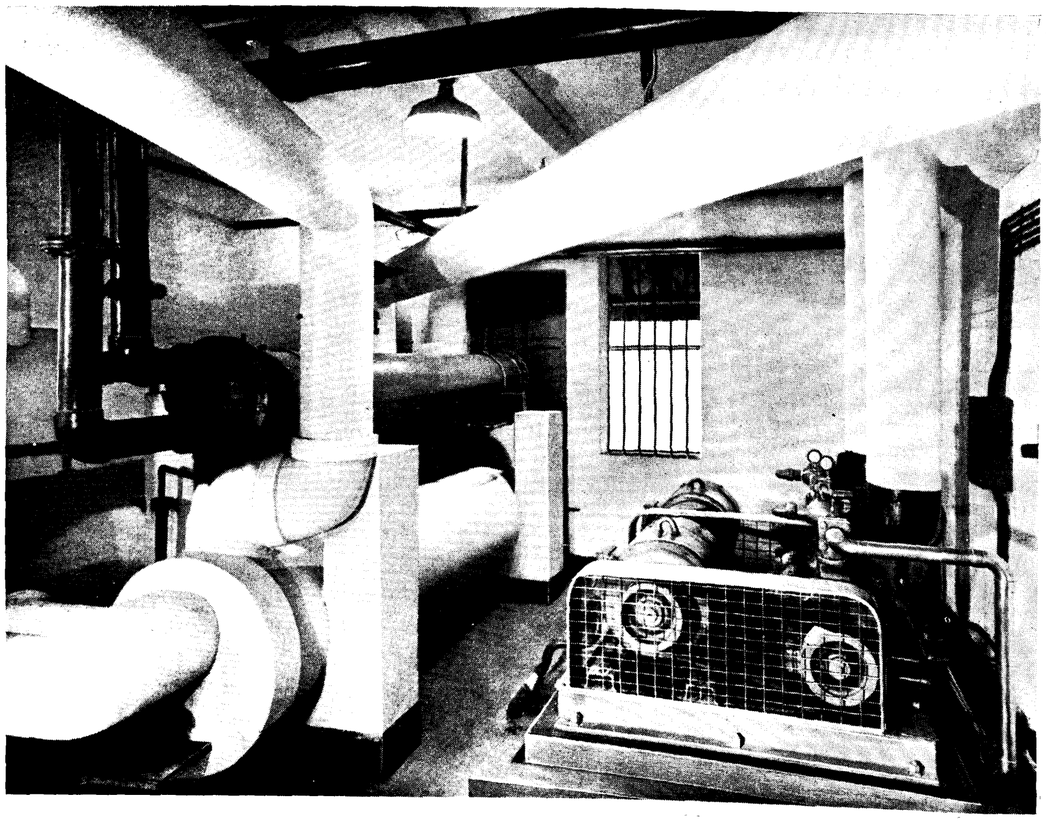
The expenditure tax is leviable on all individuals, and theoretically speaking, foreign business executives also will fall within the purview of the tax. This tax, which comes into force in the next financial year, 1958-59, is to be levied on excessive personal expenditure. The tax, however, will only apply to persons whose net income after tax exceeds Rs. 36,000. As the majority of the foreign business executives will be having mainly income from "salary" in India, it can be safely assumed that only those among them with a *taxable* income of over Rs. 60,000 will come within the scope of expenditure tax. Even then the actual liability will not be attracted in the case of foreign nationals who spend less than Rs. 30,000 annually in India and less than Rs. 40,000 *including* expenditure abroad. In the case of such of them as have necessarily to incur some expenditure in their home countries out of their earnings in India, therefore, the field of taxation will be further limited only to persons with a gross taxable income of Rs. 70,000 in India except in cases where capital is drawn upon for personal expenditure. Even in cases with higher incomes and with larger spendings, the limit of exemption is further greatly extended because the above-mentioned limit of Rs. 40,000 will not include expenditure on certain specific items which are themselves exempted. Thus it is to be noted that savings and investments (*e.g.* contribution to provident fund and life insurance premia payments) and other expenditure of a non-personal nature, or that incurred in the performance of duties of the employees, are completely excluded from taxable expenditure, as also expenditure represented by passage concessions or entertainment allowance, the value or amount of which is exempt from income tax. In addition, specific deductions are also allowed in the computation of the taxable expenditure in respect of taxes paid and certain other specific items of personal expenditure like marriage expenses, medical expenses, expenses on education of children abroad, and expenditure on maintenance of parents subject to prescribed limits. Expenditure on semi-durable assets like motor cars is allowed to be spread over four years. Finally, there is an option available under the law for an assessee to claim (instead of a basic allowance of Rs. 30,000 and other specific allowances) an *ad hoc* deduction with reference to his average normal expenditure over the last three years ended on 31st March, 1957. Thus, it will not be wrong to assume that very few, if any, of the foreign executives serving in India are likely to attract actual liability under the expenditure tax.

Conclusion

I have perhaps tired the reader's patience, but I hope I have said enough to make it clear that the taxation of foreign firms is not as high or as inequitous as is sometimes made to appear.



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● By S. BHOOTHALINGAM ●

Secretary to the Government India, Ministry of Iron and Steel

THERE has been some concern lately over the so-called rise in the cost of the three steel plants and over their progress. It was recently stated in Parliament that exclusive of the cost of townships, ore mines and quarries, land, prospecting and designing, development of water supply, power supply facilities up to the perimeter of the plants, personnel requirements for operation, including the cost of training, railway works outside the perimeter of the plants, personnel employed directly by the projects, customs duty, office expenditure and other ancillary expenditure, the cost of the three plants in the public sector, now under construction, had gone up by Rs. 86 crores. The statement obviously needs explanation. When one says, for example, that the cost of the Durgapur steel plant has gone up from Rs. 115 crores to Rs. 138 crores, the question for examination is: what did Rs. 115 crores represent? The Durgapur steel plant was first recommended by what is known as the Coates mission, which came to India to report on the setting up of a third steel plant. The Coates mission gave its idea of a steel plant, which in no way could be called "estimates" for the Durgapur steel works. This was followed by the Government of India's decision to set up the third steel plant of one million tons of ingot capacity in Durgapur. A mission, led by Sir Cyril Jones and representing the Indian Steelworks Construction Company of Britain, thereafter came out to India to negotiate the package deal for the third steel plant. It gave a quotation on the basis of certain specified requirements to be included in the plant. This quotation amounted to Rs. 115 crores. It consisted of two parts. Part one included the f.o.b. cost of the plant and equipment to be imported from Britain.

This was subject to variation by 5 percent in certain sections. The second part consisted of rupee expenditure to be incurred in India on materials obtainable locally. There were certain changes since this quotation was submitted by the Indian Steelworks Construction Company. It was decided that the lay-out should be such that the capacity of the plant could be expanded to 2.5 million tons. Certain materials, such as structural steel work and refractories, which it was originally proposed to obtain in India, had to be brought from the United Kingdom because the local capacity was not adequate for their supply in time.

According to Schedule

Construction of the three projects has generally been according to schedule. For the Rourkela plant, a detailed project report was submitted by the technical consultants—Indian Gemeinschaft Krupp-Demag—in January 1955. This was for a plant of 500,000 tons of ingot steel capacity. Meanwhile, with the target for steel raised to 6 million tons a year, it was decided to increase the capacity of the plant to one million tons of ingots from the beginning. A supplementary agreement was signed on 21st July, 1955, and a revised project report for the enlarged plant was received in November 1955. The decision to increase the capacity of the plant involved the re-designing of the rolling mills and the ancillary equipment. The design of the coke ovens and the blast furnaces was unaffected, although their numbers had to be increased. To avoid delay in construction, tenders were invited on the basis of the project report submitted in January 1955 for the coke ovens, the blast furnaces and ancillary equipment required for the manufacture of iron. For the coke ovens, there was some competition and the order was placed with a German firm, Dr. Otto and Comp. This work is progressing according to schedule and the coke ovens are expected to be ready in time.

For the blast furnaces, there was only one quotation from the German firm, G.H.H. The order was placed with this firm after negotiation. The contract with the German firm was only for the supply of plant and equipment and its erection. The civil engineering construction involved in the blast furnaces is the responsibility of the project authorities, although G.H.H. guarantees the blast furnaces in their entirety.

Competition Not Realistic

The experience with the tender for the blast furnace showed that competition would not be very realistic if orders were placed on the basis of competitive tenders. The advice of the consulting engineers to the Government was that the prospects of competition from Britain were nil and from other European countries negligible. There might have been quotations from the United States, but these would have been 25 to 30 percent higher. There were a number of German firms who individually had limited capacity but would together have had adequate capacity to supply the balance of the plant. Further discussions both with the consulting engineers to the Government and the German consultants for the Rourkela plant made it very clear that competition would not be realistic and if open tenders were invited, an illusion of competition might be created, the result of which would only be to weaken the negotiating position of the Government. There was also the risk of lack of co-ordinated dates of delivery. The Government, therefore, decided that a number of German firms, in addition to Krupp and Demag, should be selected and negotiations with them directed towards obtaining a co-ordinated delivery of the various sections of the rolling mills. For the power plant, for which competition was expected, global tenders were invited. For the steel melting plant, quotations were obtained separately from Krupp and Demag. Orders have been placed for the various sections of these plants with 28 different German firms.

The civil engineering work in the steel melting plant has been given to an Indian firm. The civil engineering work in the rolling mills is large and complicated. It was difficult to find a suitable Indian contractor. However, a contract has just been concluded with the participation of a German firm, where incentives have been offered for completion of work according to the original schedule.

In spite of certain initial difficulties in finding suitable civil engineering contractors in India, work on the civil engineering connected with the first blast furnace has been more or less according to schedule. There has been some delay in the erection of the blast furnaces. A delegation is now in Germany to discuss with G.H.H., the German consultants and the Indian civil engineering contractor, adjustments in the detailed schedules of construction so as to ensure that the original target for completion will be adhered to. It is hoped to be able to commission the first blast furnace before the end of 1958. Similarly, progress in the work on the steel melting plant and planning of the work in the rolling mills have led the Government to believe that it should be possible to produce steel before the end of 1959.

The work of construction of a dam across the Sankh river to provide a regular supply of water to the steel works is progressing well. Arrangements have been made for pumps, settling ponds and cooling towers required for the water supply system to the main steel plant. In the township, 1,393 houses have been built and 1,982 houses are under construction. At the end of the last month, there were 204 technical officers, 51 non-technical officers and 1,322 technical and non-technical staff in the direct employ of the project. Besides these, there were 4,780 work-charged staff and 10,800 contractors' labour in position.

Progress in Bhilai

The detailed project report for the Bhilai steel project was received from Russia in December 1955. This was accepted with certain modifications in March 1956 and orders were placed in April 1956 for the main plant and equipment worth Rs. 631 million. Since then, a number of contracts have



The site of the Durgapur steel project

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been signed for another Rs. 130 million worth of refractories, construction equipment, cranes and such other stores.

So far, over 90,000 tons of stores have been received from Russia. Contracts have been concluded for civil engineering work in all the zones of the steel plant. Detailed working drawings have been received from Russia. In May-June 1956, on such drawings and information as were available, tenders were called for sections on which work was to commence first. The response made it clear the nature of the information given was not enough for the firms to quote. After further discussion with a number of leading contractors, two Russian construction experts and the Russian chief engineer, it was decided to invite tenders for the entire work of civil engineering in the main steel plant on the basis of a description of the items of civil engineering work with quantities to an approximation of 10 percent. Tenders were received in September 1956 and the orders of the Cabinet obtained in October 1956. Because of the initial difficulties which, in Indian conditions, are inevitable while entering into arrangements for construction on such a large scale, the quantum of work which has been done so far is not as great as it could have been if it had been possible to start work in August 1956. On the other hand, as arrangements have been made for work on the whole plant, it is possible to increase the tempo of work progressively. Readjustments of monthly programmes of construction have been discussed and settled with the Soviet chief engineer so as to achieve the original targets for actual commencement of production, namely, iron by 31st December, 1958, and finished steel by 31st December, 1959. The progress of work, the tempo of which has increased sharply during the last few weeks, encourages the Government to believe that these targets of production will be maintained.

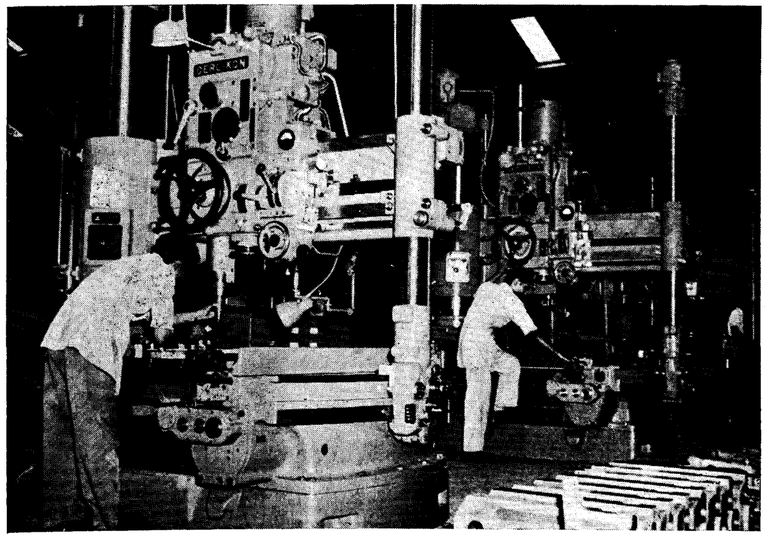
Houses Constructed

In the township, 624 houses have been constructed and 510 are under construction. Besides these, a hostel for the Russian experts was constructed some time ago; and a hotel to accommodate Russian and Indian engineers and a hostel for apprentices are under construction. About 420 technical and non-technical officers, 1,799 other staff, 620 skilled workers and 1,723 unskilled workers were under the direct employment of the project at the end of October 1957. This was in addition to the workers employed by the contractors.

The contract of 31st October, 1956, with the Indian Steelworks Construction Company of Britain is for the supply, erection and construction of a one million ton steel plant in Durgapur in its entirety. The works outside the perimeter of the steel works—township, water and power supplies, etcetera—are the responsibility of the project authorities. By the end of October, nearly 15,000 tons of stores had been received from the United Kingdom. Civil engineering work in those sections which are required for the production of iron has been progressing well and it is hoped that the various sections of the plant will be completed according to the original schedule, namely, iron by 31st October, 1959, and finished steel in stages from April 1960 to July 1961. In the township 414 permanent residential quarters are under construction; 119 temporary quarters have been constructed and occupied. About 63 technical and non-technical officers, 612 other technical and non-technical staff and 1,050 work-charged employees were in position at the end of October. This was in addition to over 22,000 workers employed by the contractors.

Staff Required

It is estimated that for the operation of the three steel plants, the following staff would be required: (i) 120 experienced engineers who would be entrusted with higher technical direction; (ii) 1,200 qualified engineers; (iii) 10,000 skilled workers of different categories; and (iv) 7,000 semi-skilled workers. Until 1st April, 1957—when the Bhilai and Durgapur projects were under the Ministry of Iron and Steel—the recruitment of engineers was made largely through the Union Public Service Commission. Since then, Hindustan Steel (Private) Ltd. has undertaken the recruitment. Applications are generally invited through open advertisement and selection is made by a committee of senior officers in association with advisers from outside. Two selection committees presided over by the Ministers (Economic), London and Washington, will select engineers (mostly students abroad) in the United Kingdom, the Continent and the United States. So far, 445 engineers have been recruited for the construction of the plants; 815 engineers have been selected for training to take over ultimately the operation of the plants. For the Bhilai steel plant, the engineers and skilled supervisory staff will be trained mostly in Russia. About 23 engineers have returned after training; 157 engineers are now under



Vertical boring machines in operation at a machine tool factory in Bangalore

training there; and 29 more engineers and 487 skilled supervisory staff are to be trained during the next 18 months.

Forty-five engineers have returned after training in West Germany; 38 are now under training. The Ford Foundation of the United States has made arrangements with the steel works in that country to train about 900 engineers and skilled workmen. As a first step, they have agreed to bear the expenses of the training of 200 engineers; 200 of them have gone to the United States. The steel works in the United Kingdom have agreed to train 300 engineers and skilled supervisory staff under the Colombo Plan. The first batch of 19 engineers have left for the United Kingdom. Besides these, Canada and Australia have agreed to train a few.

Technical Committee

A technical committee was appointed to ascertain and assess the existing training facilities in India for skilled workers required by the steel plants. The committee recommended that the Government should recruit skilled technicians from the following sources: (i) training centres run by the Ministry of Labour and the State Governments; (ii) existing steel works; and (iii) the open market. In suggesting suitable institutions in the country with an estimate of the likely number of trainees who could be given practical training in each, the committee recommended that special metallurgical courses be arranged at the Indian Institute of Science, Bangalore, the Engineering College, Poona, the College of Mining and Metallurgy, Banaras, the Bengal Engineering College, Sibpur, and the Indian Institute of Technology, Kharagpur. The Tata Iron and Steel Works, the Indian Iron and Steel Works and the Mysore Iron and Steel Works will train nearly 600 operatives.

The Bengal Chamber of Commerce, the Engineering Association of India and the Indian Chamber of Commerce have agreed to train at a time 1,000 skilled workers in the various engineering works of their member firms. Recruitment of skilled workers is now being made by a team of engineers and trade testers. Making use of the facilities offered by the existing steel works and engineering works, it is hoped that the entire requirement of skilled workers and some of the semi-skilled workers will be met. The other semi-skilled workers might not need any special training and could be absorbed directly for operation, particularly in the maintenance departments.

Raw Materials

The principal raw materials for the production of iron and steel are iron ore, coal and limestone. For the Rourkela steel project, iron ore will be drawn from mines which are being developed in Barsua about 45 miles away. Preparation of the site has been completed. Houses are under construction. A contract has been concluded for the supply and erection of the mining equipment. For the initial operation of the steel plant, iron ore from existing sources of supply in the Gua region is proposed to be brought and stockpiled.

Iron ore for Bhilai will be drawn from mines which are being developed in Rajhara about 60 miles away. The mines have been designed by a team of Indian and Russian experts. Tenders were invited for the civil engineering work. The response has not been encouraging. The possibility of getting the work done by the contractor who is doing similar work in Barsua is being explored. Contracts have been signed with Russia for the supply of the mining equipment. For the first five or six months of the operation of the steel works, ore will be mined manually, sized and sent to Bhilai.

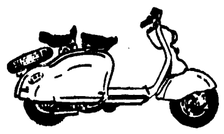
Ore for Durgapur

For the Durgapur steel plant, iron ore will be obtained from a new mine which is being developed by a company in which the Government has the major share. These mines will be in Bolani in the Gua region. The survey of a railway siding to connect the mines with the railhead in Barabil has been completed and tenders have been invited for the construction of the siding. Preliminary geological exploration at the site has been completed and a project report obtained from a firm of consulting engineers. It is hoped that these mines will be ready in time to supply the first blast furnace which is due to be commissioned by 31st October, 1959.

For Rourkela, coal will be drawn from Kargali-Bokaro and Jharia fields. For Bhilai, it is expected that besides Kargali-Bokaro and Jharia, the new fields of Korba which are being developed will also supply coals. As a measure of conservation of the limited resources of metallurgical coal, the coals from Kargali-Bokaro will be washed in a washery which is under construction in Kargali. This washery is expected to be ready by the middle of 1958. To wash the coals from Jharia, a washery is to be put up in Dugda near the coalfields. Tenders have been invited and are due to be received by 11th January, 1958. Until this washery is ready, unwashed coals from the Jharia fields will be selected and used for the operation of the Rourkela and Bhilai steel plants. The Korba coals will not be washed.

Blending of Coal

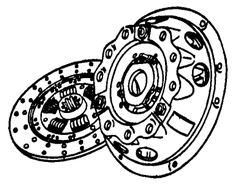
For the Durgapur steel plant, metallurgical coals of Jharia will be blended with the high volatile semi-coking coals of Barakar. The Jharia coals will be washed in a washery which is being put up as a part of the main steel plant in Durgapur. It is hoped to draw limestone for both the Rourkela and the Durgapur steel plants from the Birmitrapur-Hathibari areas. A preliminary project report prepared for the opening of quarries there shows that the cost of mining will be heavy because of the difficult nature of the deposits. To obtain limestone of the right quality, it will be necessary to mine nearly three times the limestone required. Because of the difficulties, the possibility of obtaining limestone from alternative sources is being explored. It might be necessary to draw limestone from sources which supply the existing steel works for the first few years of operation at Rourkela and Durgapur. For Bhilai, limestone will be drawn from the Nandini deposits, which are about 15 miles from the steel works. The quarries in this place are being developed with the assistance of Russian experts. Mining equipment will be obtained from Russia.



Lambretta

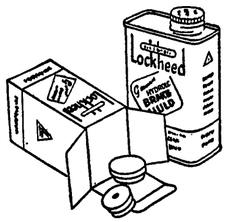
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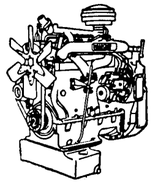


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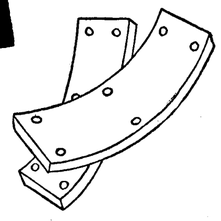
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● By B. K. NEHRU ●

Secretary to the Government of India, Ministry of Finance (Department of Economic Affairs)

THE country has during the last few months heard a great deal about the foreign exchange crisis. We seem to have moved in the short space of a few months from a mood of enthusiasm in which no task seemed too difficult to perform to a mood of despondency in which we seem to feel that economic stalemate is round the corner. The present mood of pessimism is perhaps the reaction from the over-optimism of the past. It is the purpose of this article to examine the facts about the Indian foreign exchange situation, to attempt to discover how and why the crisis was caused, through what means it can be overcome and, in general, through the presentation of the correct picture, endeavour to restore our views on this matter to some kind of equilibrium.

Plan Estimates

The country's foreign exchange reserves started falling from April 1956, when the second five year plan came into operation, and have continued to fall, with varying degrees of rapidity, ever since. It will be recalled that the second plan estimated that there would, over the plan period, be a foreign exchange deficit of Rs. 1,100 crores and that the worst year from the point of view of foreign exchange would be 1958-59. It was hoped to meet this gap by drawing on the sterling balances to the extent of Rs. 200 crores, through net foreign private investment to the extent of Rs. 100 crores, while the remaining Rs. 800 crores were to be met by the raising of external finance through various means. Balance of payments estimates are notoriously difficult to make and it is well known that, because of the number and nature of the uncertainties involved, the best forecasts of this kind have, even in the most advanced countries, been proved to be wide of the mark. Our own forecast has proved to be no exception to the rule; we have discovered that though our export earnings have exceeded the figures assumed by the planners, our expenditure on imports has been very much in excess of what they thought it would be. The reasons for this excess are, firstly, the foreign exchange costs of the projects included in the plan have proved to be under-estimates, partly because the original estimates were over-optimistic and partly because there has been an appreciable rise in the cost of capital goods; secondly, the planners under-estimated the extent of imports of raw materials, components and other industrial goods necessary to maintain the economy at an increasing tempo of industrialisation; thirdly, the plan, whether in the private sector or in the public sector, was not phased and too many orders for goods abroad were placed simultaneously; fourthly, the need for strengthening the defence of the country was accentuated after the plan was framed; and, finally, we did not in the years immediately preceding the commencement of the plan control imports sufficiently—though the quantitative effect of this factor is very much less than the critics of the Government often tend to assume.

Outstanding Commitments

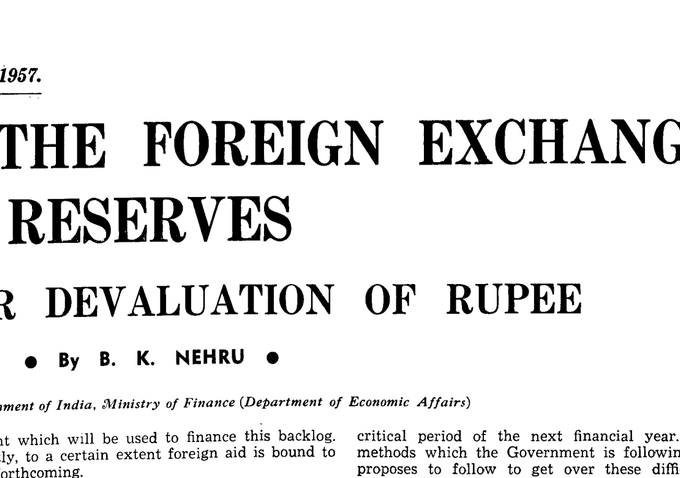
The basic facts relating to the foreign exchange crisis are that the sterling balances possessed by the Government have been reduced from Rs. 746 crores on 1st April, 1956, to Rs. 309 crores now. On 30th September, 1957, the outstanding commitments of foreign exchange to suppliers abroad are estimated to amount to just under Rs. 1,000 crores; and a considerable amount of commitments have yet to be made for the completion of the core of the plan. These are formidable figures and tend at first sight to give a rather gloomy picture of the whole situation. However, there is another side of the picture. Firstly, all economies have outstanding commitments. These constitute "the pipeline" and are, in a sense, for ever carried forward. Secondly, the figure of foreign aid firmly committed but not used on 30th September, 1957, was Rs. 290 crores. Thirdly, the commitments outstanding do not fall due for payment all together but are spread over a number of years. Fourthly, through a restrictive import policy we are generating surpluses on current account which will be used to finance this backlog. Lastly, to a certain extent foreign aid is bound to be forthcoming.

The residual problem nevertheless is substantial and is rendered more difficult by the fact that there is a bunching of payments for outstanding commitments in 1958-59. Added to the overall difficulty of finding external resources for financing the plan, there is, therefore, the ways and means difficulty of financing ourselves through the most critical period of the next financial year. Th methods which the Government is following an proposes to follow to get over these difficultie are dual in character—the one designed to restric demand and the other to increase supply. On th restrictive or negative side is the decision to follo an import policy on current account so rigid tha nothing is imported which is not required for th maintenance of the economy—thus cutting out al imports of consumer goods (other, of course, tha food) and reducing the level of stocks of importe

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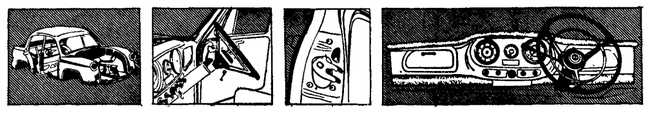
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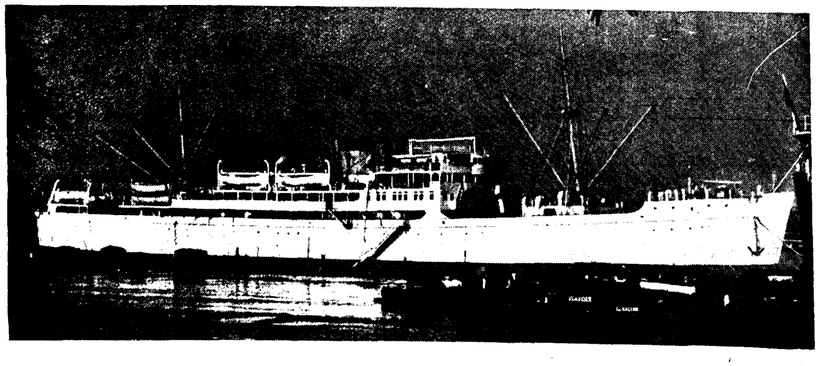
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raw materials. On the capital or developmental side, new commitments are permitted only for the completion of the core of the plan—the core consisting of the steel plants and the coal, power, port and railway facilities necessary for steel production. The only exceptions to this rule are commitments necessary for maintenance, replacement or "balancing", in which last category fall the purchases required to be made for the completion of projects on which the major portion of foreign exchange has already been either committed or spent.

Restricting Expenditure

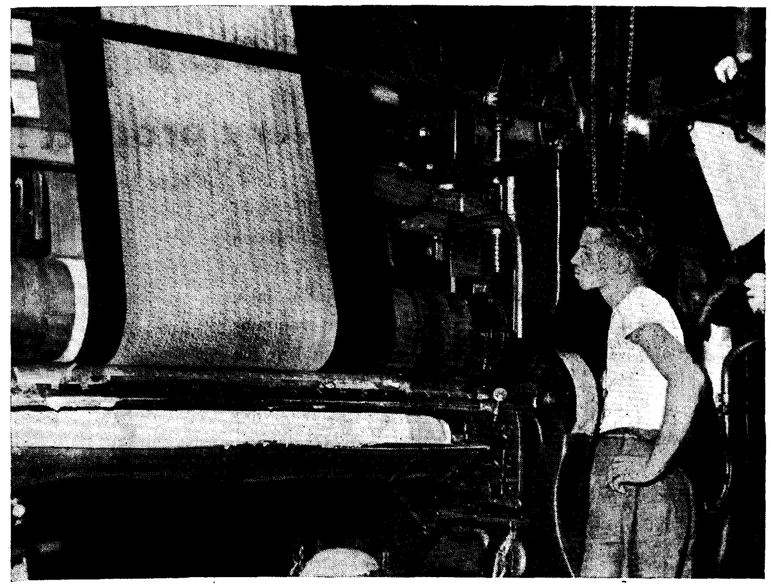
Having restricted expenditure in this manner, the Government is devoting its attention to increasing resources in all possible ways. The obvious method of self-help is to increase exports. The second method is actively to seek foreign assistance from friendly foreign Governments and international institutions. The third is to arrange for the deferment of payments for capital goods; and the fourth to encourage private foreign investment from abroad.

In so far as the promotion of exports is concerned, the report of the Export Promotion Committee is now under the consideration of the Government and it goes without saying that all possible steps will be taken to encourage exports and to remove any obstacles that might stand in the way of the development of the export trade. The activities of the State Trading Corporation in the development of exports to new markets have already achieved considerable success and give rise to the hope that sizeable markets for new export commodities will in future be developed.

In the matter of getting direct foreign assistance, the two international institutions on which we rely are the International Bank for Reconstruction and Development and the International Monetary Fund. The Bank has already lent $356 million to us over the years and we look forward to a continuance of loans on a sizeable scale from that institution. From the International Monetary Fund, we have purchased for Indian currency foreign exchange worth $200 million. Our quota in the Fund is $400 million, but since the function of the Fund is not to make long-term loans for development but to give short-term accommodation to correct temporary disequilibria in the balance of payments, we can only expect short-term assistance from the Fund.

Aid from the United States

As for the Governments to whom we can look for aid, the most pre-eminent is undoubtedly that of the United States. That Government has already given grants and loans to India of about $1,000 million, and following the visit of the Finance Minister, we hope that further substantial loans will follow. The Russian Government, in addition to financing in part the foreign exchange costs of the Bhilai steel plant, has recently given a line of credit of 500 million roubles (equal to Rs. 60 crores), though a part of this is earmarked for projects outside the core of the plan. The West German Government has agreed, as a result of the Finance Minister's visit, to postpone the payments on the Rourkela steel plant for a period of three years, thereby giving our balance of payments some immediate relief. Further conversations are due to be held in January to decide whether it will be possible for it to aid us further. Canada, Australia and New Zealand continue to aid us under the Colombo Plan and the first-mentioned may, in particular, be able to help us in addition with fairly substantial quantities of wheat.



Printing of cloth in a textile mill

The policy that the Government of India is following in the matter of deferred payments is as follows. For projects outside the core of the plan, no import licences are issued unless no remittance of foreign exchange is involved till 1st April, 1961. As such deferred payment terms are difficult to get, there is a virtual ban on non-core developmental programmes, whether in the public or the private sector, unless, of course, industrialists or Government departments are able to obtain foreign investments or loans to meet their foreign exchange costs. For projects within the core of the plan, deferred payments are acceptable even if certain down payments are involved. The reasoning behind this is that as the core projects are of the highest priority and would in any case have to be financed on the basis of cash payments, it helps our ways and means position if the payment for some of them can be deferred to future years. Goods other than capital goods are not permitted to be imported on the basis of deferred payments for the simple reason that we do not wish to mortgage the future in order to enable the present to be more comfortable.

Foreign Investment

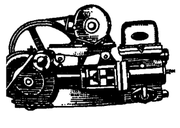
Private foreign investment, which the Government of India has always welcomed, is even more welcome now than it used to be. It is often alleged that the climate for foreign investment in India is not good. Whatever the justification behind this allegation may be, the fact remains that since the imposition of a rigid import policy, foreign investors have begun to show a much more active interest in India than they ever did before. The prospectively limitless Indian market, the virtual absence of foreign competition (because of import control) and the generous development rebates and depreciation allowances given to industries, coupled with the political and administrative stability of this country, seem gradually to be convincing the foreign investor that the climate for his investment is really not as bad as he at one time supposed it to be. It must, however, be remembered that foreign private investment can never in our conditions be an answer to our problem. What has caused the foreign exchange crisis is the heavy foreign cost of the infra-structure of development in which private investment in modern times plays a very small part. Larger foreign investment in India will, no doubt, strengthen the economy but will have very little effect on the foreign exchange crisis.

Critical Situation

The present situation is critical and it is not desirable to hide the facts from the public. It is, however, by no means such as to justify the belief that the economy is in irretrievable danger. With the restraint in current and developmental expenditures now being enforced and the aid that is likely to be forthcoming, there is not the slightest doubt that the Indian economy will be restored to balance, though it is true that before such balance is achieved, a difficult period will be passed. Two things, however, stand out very clearly. One is that no matter what difficulties the economy may face, there is no question of India defaulting on any of her commitments. Commitments, whether by way of valid contracts for purchase or by way of loans or deferred payments, whether entered into by private parties or by the Government, will remain the first priority on our exchange resources. The second is that, no matter how difficult the situation may become, the external value of the rupee will continue to be maintained as heretofore, there being no question of its devaluation.

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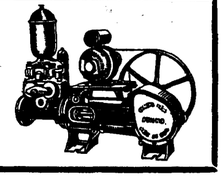
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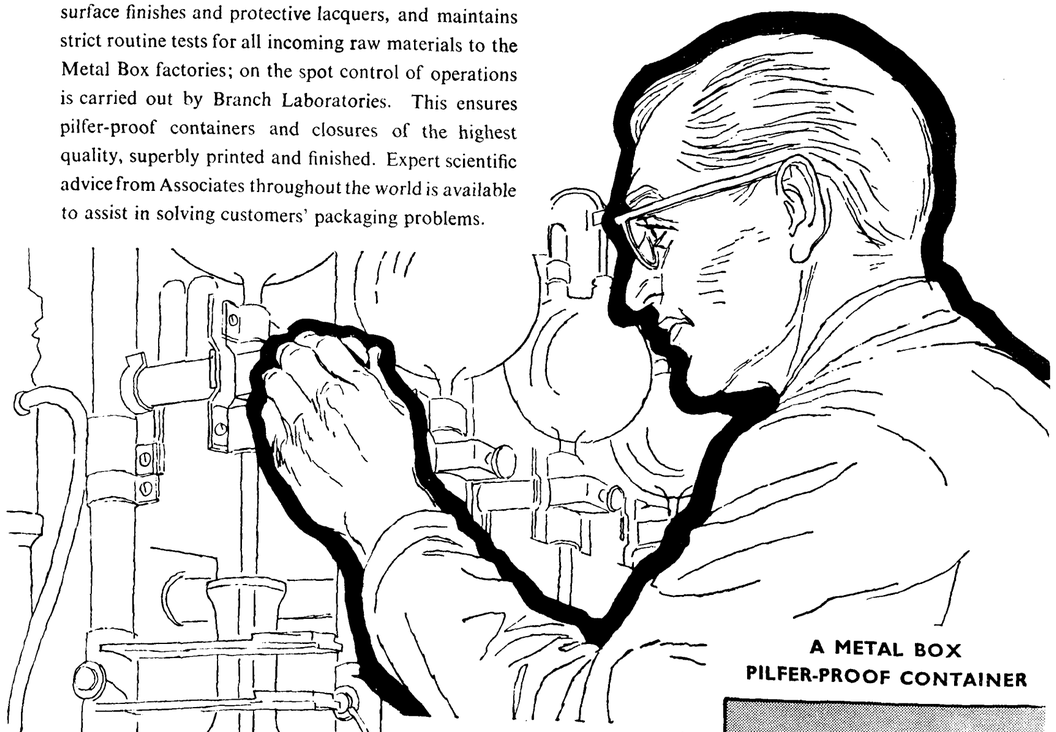
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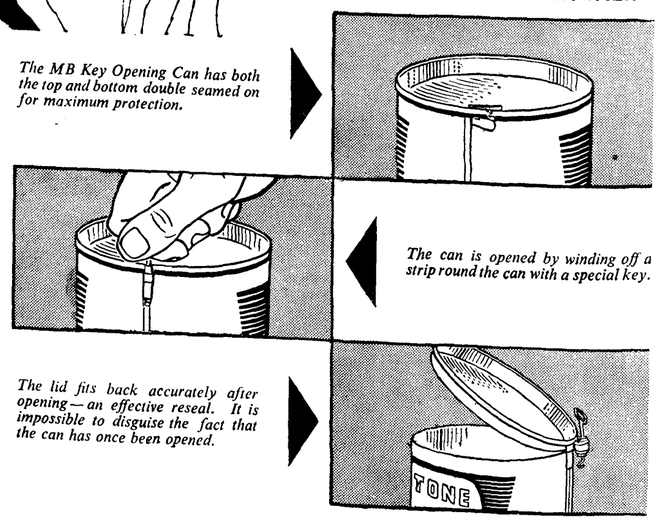
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FOREIGN INVESTMENT AND ITS DEPENDENCE ON VIGOROUS LOCAL ENTERPRISE

● By NEIL McINNES ●

IF we are to believe what Governments say, national economic plans never fail—they only get "revised". There appears to be no recorded case of a Minister saying: "Our five year plan has turned out to be a flop, because we greatly over-estimated our resources and the possibilities of foreign aid, while we grievously under-estimated import requirements and miscalculated costs and construction timings". Instead, an "irreducible" plan is discovered after a period of misadventure to be susceptible of "pruning" and "elongation", and is then found after a further period of difficulty to have a "hard core" which can be, and indeed generally is, saved. This sincere faith in planning is as secure from rebuttal by evidence as is the believer's conviction that his every step is guided by provident destiny, even when he steps under a car. So we shall not attempt to rebut it here. Granted then that no country's economic plan has failed, it will nevertheless be admitted that to the euphoria of ten or five years ago there has succeeded a measure of disappointment, discouragement and even anxiety about the progress of economic development and industrialisation in most under-developed countries. There is dismay that what has been accomplished (and indeed much *has* been accomplished) has done so little to improve living conditions in these countries, which continue to fall further behind those of the West. There is consternation that the very attempts to improve these conditions by planned development have themselves called up new and graver difficulties which are reflected in (but not restricted to) balance of payments crises. And, above all, there is disappointment that so little help has been forthcoming from abroad.

Considerable Disappointment

How deep this mood is in India, and how widespread, I who write from another place must leave my readers to judge. But in Europe and the United States the disappointment is considerable, especially among those who have done most to assist the cause of under-developed countries in search of financial and technical aid. One of the most eminent of these wrote lately, "it must be admitted that with rare exceptions the state of mind of specialists today is one of great pessimism about technical aid and about the efforts now being undertaken in most under-developed countries". And another spoke of "the disillusionment of the international experts, particularly the Americans, who point out that technical assistance is costly, that the amount of capital required to make any difference is colossal and that, in sum, in the ten years we have been studying these problems and setting up appropriate institutions nothing much has happened in practice". Some of this discouragement can be discounted as reaction from the generous optimism of a few years ago, when even the most reputable and cautious of economists were producing sanguine plans and forecasts for economic advance in Asia, and not least in India; and some of it is related to a feeling of anger or shame that Western Governments have not wished or have not been able to do more for the under-developed countries.

More Caution

But when all the discounting is done, the fact stands that both in Asia and in the West at the close of 1957, there is much more caution in assessing the prospects for economic progress by way of planned industrialisation. Specifically, it is felt that the stimulating or catalytic action of purely technical assistance has been exaggerated; that the flow of capital, either public or private, to the under-developed regions has been extremely meagre and ineffectual; that, in view of the urgent need in the West to keep up with Russian technical and industrial progress, there is slender hope of any increase in Western financial or even technical aid to Asia; and finally that, even supposing external aid were much more lavish, there are serious internal and structural obstacles, within under-developed economies, to rapid industrialisation. It is this last-named factor that we propose to deal with here: the internal resistances to economic progress, resistances connected with the very nature of undeveloped countries, which can be overcome only slowly even when external aid and central direction are adequate and consistent. In particular, we will refer to the disabilities that flow from the initial absence, and very slow emergence, of a class of native entrepreneurs.

First, however, a number of qualifications without which what follows would be quite misleading. It is not suggested that such internal and structural weaknesses in Asian society are final, fatal or perpetual; simply that their importance has been under-estimated and this is part of the explanation for recent disappointments. Moreover, most of the interest in pointing out these weaknesses in Indian society is just that they are being gradually overcome, and that reasonable suggestions can be made about hastening this process. Next, to concentrate for a moment on a structural deficiency in Indian society which is handicapping industrial advance does not amount to saying "the fault is not in our friends but in ourselves" and concluding from this that external assistance will be useless until a vigorous class of national capitalists has grown up; on the contrary, it can be shown that every step that is taken to encourage local initiative and enterprise will be at once rewarded with an increased flow of foreign aid. In other words, it is the embryonic state of local enterprise that is the chief obstacle to the import of foreign capital, and the two problems should not be separated—as they have been by the planners who hoped to secure foreign capital for Government plans while doing nothing to encourage (and even much to discourage) the emergence of local enterprise. Lastly, it will be evident that the assumption throughout is that India proposes to stick to both democracy and the mixed economy, in which alone the strengthening of private national industry has any meaning. (Not that a totalitarian economy escapes the problem of the emergence of domestic economic initiative, but it faces it in quite different conditions.)

Familiar Problem

Though it may have been made to seem abstruse in the general terms used in this introduction, the problem we are talking about is familiar enough. Mr. Nehru meets it when he goes to the United States and is asked (if not to his face, at least in the Press): "Why are you a socialist, that is, a sub-variety of communist? Why do you insist on planning your economy from Delhi and squeezing out private business, which has made this country the richest on earth?" The Finance Ministry meets it when it approaches any of the international institutions for a loan and is asked: "Why does the Government want to do this, instead of leaving it to private enterprise which would do it better (and to whom, incidentally, we would charge a lower rate of interest?)" Individual Indian business men encounter it abroad, and from visitors to India, when they are asked, "Why don't you start this industry or the other? Why is your stock market always so poor? How do you expect us to invest in your country when you won't do it yourself?"

The Indian business man, who generally regards criticism of his Government abroad as unpatriotic, contents himself with some general observations about the unfavourable investment climate, the scarcity of free savings, the narrowness of the market for goods—all real enough, but none of them sufficient explanation for timidity and a reluctance to invest and expand. Worse, he will quite often reveal the full extent of his lack of enterprise by expressing the optimistic hope that with the Government spending the way it is, things must soon get better for business—in other words, inflation will solve all his problems by creating his market with swollen purchasing power. This fond faith in Government-created inflation as a substitute for industrial initiative (which is sometimes quite improperly ascribed to Lord Keynes) has no historical case in an under-developed economy to support it, and a lot of cases in current Western economic history to controvert it.

The Government, or more exactly its apologists, have a ready answer that runs like this: "We are not doctrinaire socialists and the large place left for private industry in our plans is there to prove it. But it is no use our pretending to be economic liberals when liberalism was framed for societies that have a vigorous native class of entrepreneurs. We do not have this in India. Our so-called capitalists are merchant princes at best, speculators and stock-market gamblers more often. We are not squeezing out private entrepreneurs because they don't exist, apart from Messrs Tata, Mookerji, Birla and maybe half a dozen others. We are not limiting private investment by heavy taxes because savings not taxed don't get invested, partly because potential investors have no confidence in the so-called capitalists. Private enterprise is timid, inefficient and very often dishonest, which is why it has to be rigidly controlled by a company law that may seem illiberal elsewhere but is necessary here. The Congress relied on native capital just after 1947 and was badly let down. Now the State has to do what the private sector won't, can't or doesn't know how to do".

State Capitalism

Justifying the Government of India's State capitalism, an eminent economist, Charles Bettelheim, who has advised our Delhi planners, puts a similar argument in these words: "One must observe that there exist internal limitations on development and one of these is emphasised by sociologists when they point out that the social structure of under-developed countries shows a predominance of landed property and commercial capital. The revenues arising in these sectors are not often invested in industry, though industry is the basis of all worthwhile economic development. Such revenues are invested in purchasing land or in further commercial operations or in usurious loans, none of which contributes to economic development. Moreover, a large proportion of these revenues, even when they are relatively high, is used for consumption, notably for reasons of social prestige. These are facts which the classical liberal analysis neglected". Thus economic liberalism, or (granting that that theory is dead outside a few American academies) any policy that leaves a substantial place for private enterprise, is irrelevant in India because there is wanting a class of reliable, abstemious and enterprising entrepreneurs.

Now the facts on which this attitude is based are undeniable. It is no use proclaiming "eternal economic laws", defending private enterprise, damning planning, opposing socialism and State regulation and so on as though economics dealt with natural objects; it deals with certain calculable aspects of people's behaviour, and if people behave differently an economic theory is worthless. No attitude could be more sterile in India than dogmatic economic liberalism if that theory is a description of the behaviour of a class of people who do not exist in India or exist only in small and insignificant numbers. But two important facts need to be noticed. Firstly, a class that does not exist can come into existence, and once that process has started something can be done to hasten it (what Marx called "manufacturing the manufacturers"). Secondly, we have already noticed, and indeed this is what began this enquiry, that the assumption that economic development can go ahead without promoting private enterprise has so far given very disappointing results, and in particular it has failed to secure that international financial assistance that is admitted to be crucial.

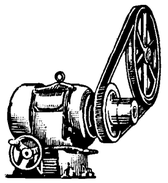
Fatalistic Conclusion

The argument that there exists in India no class of entrepreneurs is not only accepted by politicians and by a majority of middle-class opinion at least in eastern India, but is linked with the fatalistic conclusion that there never will be such a class. It is this latter belief that we cannot and must not accept, because there is no warrant for it and because it is becoming more evident that if it were true, there would be precious little hope of significant economic progress in the mixed economy. There was no class of entrepreneurs in England at a time when the earning of interest was held to be the preserve of Jews and the citizens of Cahors, and when native enterprise ran to piracy and pillage rather than to capitalist undertakings. Without going so far afield or so

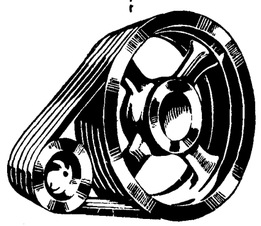
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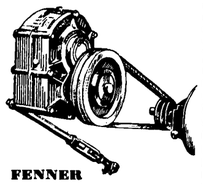
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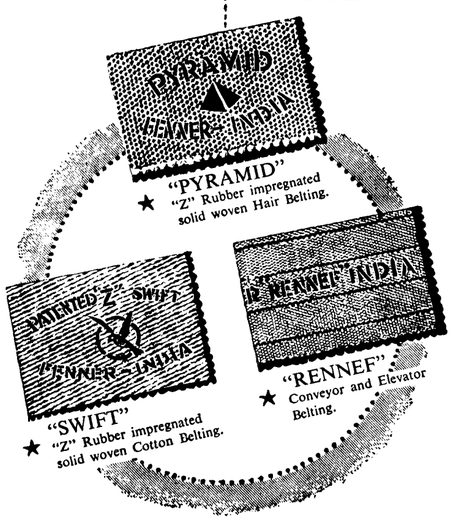
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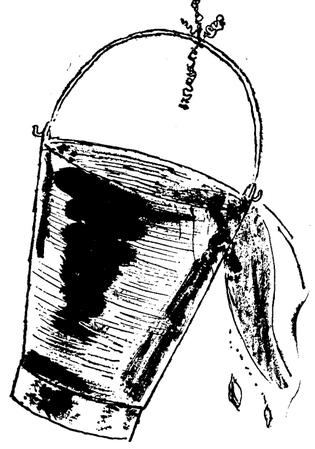
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far back in time, we can recall that throughout most of the nineteenth century it was the complacent British assumption that India could never produce a substantial class of business men, an opinion that was not discarded but merely modified with the rise of the Bombay Parsis. Even when the Parsis were grudgingly admitted to have some talent for certain forms of enterprise, the Marwaris had scarcely been heard of—for it must be remembered that the Marwari community made its first and unpromising appearance in the Calcutta business world just at the beginning of the first World War, and in Bombay shortly before. (By Marwari, of course, we mean not so much the community that calls itself so, but what the word means in ordinary Indian parlance: any north Indian Hindu or Jain who goes into business.) Simply to recall these facts is to see that classes are not castes but are groups that have a history, that can rise to eminence and change their characters over quite short periods of time. It is the merest racialism, or else thinking infected with static caste prejudice, to assume that this nation cannot produce a class of men capable of showing the enterprise that is required for economic progress and for which present conditions provide the opportunity. And it is little better to assume that the class of men who so far in India have offered to undertake this work will retain the characteristics they have shown during the last war and the first years of independence. We refer, of course, to the decline in commercial standards and business morality that has, it cannot be denied, accompanied the rise to financial power of the new class of business men.

For the economist who is prepared to take a sufficiently cold-blooded view of the matter, speculation and crookedness are forms of enterprise like any other: the rate of profit in them falls as competition increases, candidates for entry into them become fewer as alternative and more certainly profitable avenues for endeavour are opened up, and their attraction fades beside the satisfactions to be derived from consistent productive effort. To hear some critics declaim against the inadequacy and unreliability of some sections of Indian business men, one would never believe that the City of London was transformed from the sink for fools' money that it was in Georgian times to the heart of world capitalism that it became under Victoria, or that the Paris Bourse was a swindle shop in the days of the railway speculations and the Panama scandal but was the solid financier of Europe, Russia and Africa just a few decades later. There was nothing magical or inevitable about these transformations; vigorous Government intervention was no stranger to them and they were part of a normal process of economic expansion and public education.

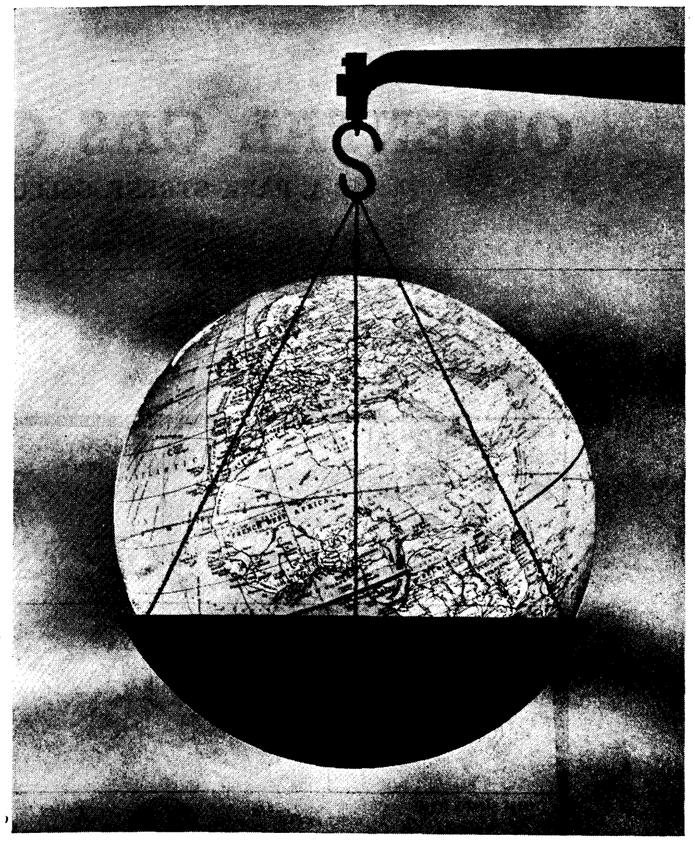
Inadequacy and Immaturity

The inadequacy and the immaturity of the Indian bourgeoisie have indeed shown up very clearly in the first years of independence, as the Congress claims. But there were special and transient causes for this. The bad habits acquired in the war years when money was easy, and the openings for all sorts of "very private enterprise" were legion, were exacerbated by the total economic disruption attending the division of the subcontinent. This period of confusion and unrest gave to a class, whose whole tradition lay in speculation and commerce, opportunities to earn money by methods that need not be seen again for generations, given stable Government. Those who deplore the decay of business morality in this period need to remember that there occurred a falling away from customary standards in many other sectors of life, among students, refugees and civil servants for example—but no one attempts to argue from this that India is for ever unsuited to the progress of learning or honest Government. In addition the business community faced tasks and found opportunities that were peculiar to itself: these were connected with the withdrawal of much British investment and British management. The "transfer of power" in the political field was not achieved painlessly, as we saw from the Punjab to Hyderabad; and nor could the transfer of economic power that has been going on since in Clive Street and elsewhere be accomplished in a way that would satisfy those whose notions of a bourgeoisie are based on the standards of Victorian England. Nothing is more misleading than to contrast, as a Cabinet Minister has done on the floor of the Lok Sabha, the business morality of the departing British and the arriving Marwaris, for it is sociologically absurd to compare the habits of a stable class with those of a new group feverishly rising to power. This would be like comparing the elegance of Versailles with the demagogy of the Convention and concluding that the *ancien régime* was superior to bourgeois democracy. Not only is it sociologically absurd, but it contains an economic error too; for it is a fact that old-established businesses, especially those dating from Victorian times (like, say, the Suez Canal Company), contain a lot of dead wood which the new management will ruthlessly cut out. This renovation will include a good deal of cheeseparing, lowering of standards and even plain cheating. There is no call to apologise for these things or to call them by other names, but it is needful too to see that they are part of a process of business reorganisation which has many unattractive features but does not continue indefinitely and which can have (indeed has already had in businesses which the former owners confidently predicted would be "driven into the ground"), as a consequence, a salutary increase in efficiency.

Experienced Management

Unfortunately, this engrossment of an immature bourgeoisie with the easy task of raiding an inherited orchard coincided with the expansion of Indian economic ambitions. Just when there were so many new things to be done, the old and experienced management of several of India's basic industries was withdrawn, increasing the gap between national ambitions and the technical resources of private business. Instead of doing the new things, the new class of entrepreneurs gave itself over to the job of buying out and exploiting the old and unromantic industries like tea and jute, which are too humble even to find a place in the national plans. The very class which, on our present argument, should be the main securer of foreign investment actually promoted disinvestment; instead of acquiring new capital, India was paying off the shareholders in tea gardens, jute mills and the like. It was argued, rather hastily, from this that the local entrepreneurs were showing a culpable lack of enterprise and we soon had the doctrine of State capitalism where Delhi was to do all the new things that the domestic bourgeoisie was not willing to try. But to the economist this concentration on buying up older concerns

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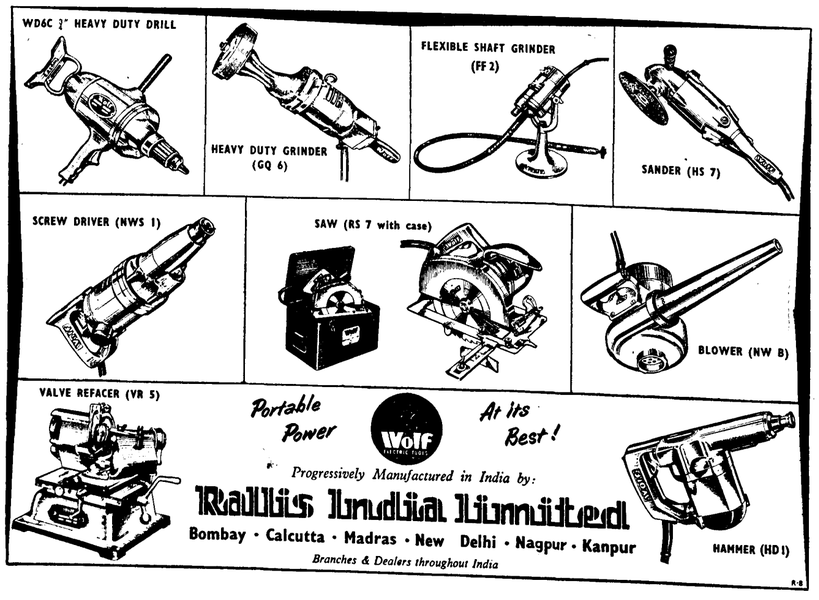
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(often by the devious methods of cornering and manipulation) is not surprising, and nor is it regrettable. This phase cannot last very long and is in fact already drawing to a close. Local enterprise must already turn to newer and more difficult field, and now when it does so it has behind it, what it would not have had in 1950, the profits and the experience derived from the older and simpler industries.

Profits gained in commodity speculation will never flow straight into engineering and heavy industry; the gap is too great. But they can flow to the industries producing commodities and semi-manufactures and thence into engineering. And this is already happening on a small scale. Those who study the Indian bourgeoisie instead of declaiming about its evident faults and shortcomings know that there is a familiar transition from gambling to industry that takes at most three generations: grandfather makes a fortune speculating in bullion and oilseeds, which father then applies to operations in industrial equity which are part speculation and part investment and in the course of which he finds himself the owner of a mill or factory, which he then entrusts to one son to manage. The first tendency is to use the reserves and resources of companies thus acquired as the means for further speculative operations, and hence the irregularities which it required drastic revision of the company law to suppress. But already the son in charge of the company regards grandfather's addiction to gambling in bullion as *vieux jeu*, though no doubt he himself still speculates as a hobby in shares. The next stage, aided by Government regulation and the drying up of rank speculative openings in the economy, is the devotion to steady productive effort.

Improvement in Living Standards

This process takes time, and as long as the problem of industrialisation is conceived as possible of achievement in short bursts of five years, it seems too slow to wait for. But the disappointments of planning now suggest that industrialisation will in any case and by any method take longer than was once imagined. So the emergence of the native bourgeoisie, on this longer time scale, once again become a factor of importance. And this is especially true if by industrialisation we mean (and most of the Indian public do take it to mean this) not the sort of grand achievement that we read of in the newspapers, but the sort of achievement that shows up in daily life as an improvement in living standards and employment. The Central Government has taken on itself the task of establishing the "strategic" industries and presumably it realises that even if it succeeds in this field it will never get any thanks, for no one consumes basic products, except transport. The goods and services that will make a visible difference to living standards must necessarily be the work of the private sector, as long as the economy is truly a mixed economy and not just a disguised totalitarianism.

So the strengthening of the local class of entrepreneurs becomes doubly important, as supplying the goods by which the success of planning will be measured and as attracting the foreign capital necessary for any economic advance. No one can twist these facts into a demand that the Government get out of business, that it surrender the strategic points of the economy, that it give up any part of the socialist or welfare programme to which it is committed, or that it sit around idly waiting for the native bourgeoisie to blossom like the rose. Any one of these courses would be dangerous for the Indian economy in general and precisely for the native bourgeoisie, because that class can only continue its present slow but important progress in co-ordination with the activities of State capitalism. The local entrepreneurs cannot develop without the plans, but nor can the plans begin to be fulfilled without much more active co-operation from, and assistance to, the private sector. The most the Government of India can be asked to do on the basis of the present argument is to take seriously its own words, and regard the Indian economy as truly a mixed economy, and not a sort of half-hearted and inefficient State socialism in which the private sector is tolerated on sufferance, crowded out of any industry that would stimulate its self-respect and meantime reviled for its want of enterprise.

Quest for Foreign Capital

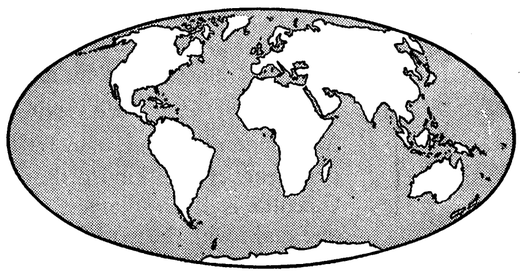
It is especially important that in the quest for foreign capital the private sector be put much more to the forefront than it has been. It is no coincidence that a Finance Minister can return virtually empty-handed from the United States while a mission of private industrialists can return from the same country at the same time reporting that it can get any amount of money it wants for any reasonable project. And this fact cannot be ascribed to some religious attachment on the part of the Americans to private enterprise; the same results will be obtained in any Western country, and not only in circles of private industrialists. People abroad, "liberals" or not, will necessarily take the progress and the self-confidence of the Indian private sector as their test of the success of India's economic advance; the flourishing of the Indian private sector will attract not only capital for itself but for Government plans too.

Self-Confidence at Home

It is not just a question of using a couple of eminent Indian business men as a bait to catch private investment by sending them abroad as a sort of shop-front for the private sector (though even that method works to a degree that must surprise planning officials). It is a question of keeping the private sector self-confident at home and permanently in touch with foreign investors abroad. Delegations to business conferences in San Francisco followed by quick trips to a couple of European capitals are not much use, especially while the stock exchanges are languishing in Bombay and Calcutta. Permanent committees in which Indian business men regularly meet representatives of investors in a foreign country (if necessary with the assistance of officials from both Governments), and at whose meetings the Indian delegation could report that certain specific opportunities exist in the country and that the stock markets testify to general confidence, would be of great value. Such committees now exist between a number of European and American countries and in fact *it is by such means that West German capital is flowing to Africa.* India's efforts to secure any part of this West German capital have to date been woefully inadequate and it is only Indian private enterprise that can do this properly. Moreover, where efforts of the right sort are made, there is a tendency to concentrate attention on the big lending countries that can possibly supply many substantial investments at once. But this is the infatuation with bigness characteristic of the planner; a search for investment capital conducted by the private sector should explore the possibilities for raising funds for single projects in each and every one of the European and Commonwealth countries, for these add up and simplify the task of debt servicing.

Progress of Private Sector

But there is no royal road to success here. In any such confrontation with foreign investors, the first and most important question asked will concern the freedom, the progress, the activity and the confidence of the Indian private sector itself—and it will not serve to answer, as Mr. Nehru often does, that India has a great private sector, meaning the handloom weavers and the peasants. The test is the emergence and the maturity of the class of local capitalist entrepreneurs. The innate shortcomings, the inexperience and the disabilities of this specific class are the main causes for the poor progress of Indian economic expansion and above all of the reluctance of the West to contribute more actively to that expansion. How quickly the structural weakness of Indian society will be repaired, one cannot prophesy, though the present progress of local private business is not altogether discouraging. It may be that not a lot can be done by conscious intervention to hasten the rise of this class and to wean it away from the infantile disorders of speculation and instability, but it is here that lies the key to future progress. In the face of unexpected difficulties no one need despair of India's advance towards industrialisation, but the grounds for hope are not, or not only, in the fact that India's is a "planned" economy but in the fact that it is a mixed economy and thus, if it is true to itself, leaves room for the emergence of a class that, with Government help, must lead the way to a richer society.



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THE INFLATIONARY THREAT TO THE ECONOMY

CUT IN INVESTMENT OUTLAYS ESSENTIAL

● By P. C. JAIN ●

Reader in Economics, University of Allahabad

IT was expected that the planned economic development proposed under the first and second five year plans would, to some extent, push up prices. It takes time before there is an increase in production and in the supply of goods as a result of the investment made by the Government out of created money. The people's income increases immediately, as a result of such investment, so there is more purchasing power but not a corresponding increase in the supply of goods; some rise in prices is, therefore, inevitable. Such a situation existed during the first five year plan. But the rise in prices during the second five year plan has been of an inflationary nature and is much greater than the theoretical consideration of a time-lag between increasing incomes and increasing production would justify. The general index number of wholesale prices (base: August 1939 equals 100) has risen from 342 in May 1955 to 368.2 in December 1955, 428.8 in December 1956 and 435.9 in September 1957.

Korean Boom

Prices are still below the level reached at the peak of the Korean boom but at that time the rise was of a temporary nature, while the higher levels prevailing now have probably come to stay. Moreover, the great danger of the present rise is that it threatens to undermine the second five year plan. Because of it, it is necessary to increase the outlay under the plan to achieve the original targets; but this, in turn, will push up prices further. When prices rise but the income of industrial workers, lower-paid Government servants and other employees does not rise to the same extent, there is a demand for an increase in emoluments. The industrial unrest which follows threatens to increase the production costs of industry and the cost of the plan, on the one hand, and to reduce the output and supply of goods, on the other. thus tending to push up prices still further.

INCREASE IN THE MONEY SUPPLY WITH THE PUBLIC AND IN THE PRICE LEVEL

	Between May 1955 and		
	December 1955 (percent)	December 1956 (percent	September 1957 (percent)
All commodities	7.7	25.4	27.4
Food articles	17.2	49.9	53.6
Industrial raw materials	10.6	30.4	32.5
Semi-manufactured goods	5.2	26.7	24.1
Manufactured goods	0.4	3.2	5.3
Money supply with the public	3.6	9.5	13.0

Bigger Money Supply

It is not possible directly to correlate the increase in the price level with the increase in money supply. Between May 1955 and December 1955, the money supply with the public rose by 3.6 percent, but the price level increased by 7.7 percent. Between May 1955 and September 1957, while the money supply expanded by 13 percent, the price level increased by 27.4 percent. In considering different groups of commodities, it is more difficult to find any definite correlation between the increase in the money supply and the price level. A recent study made by the Reserve Bank found that "during the five and a half year period, July 1950 to December 1955, money supply with the public and bank credit recorded net rises of about 10 percent and 30 percent, respectively, whereas the general price index recorded a net fall of about 7 percent". The price level might have been expected to increase as the money supply increased, but this did not happen. Since May 1955, both the money supply and the price level have risen, but it is not possible to establish a precise correlation between the two. The reasons are that (i) no information is available about the velocity of circulation of money, and, under the existing conditions, it is not possible to assume that this velocity remains constant even over short periods of time; (ii) the statistics of total money supply with the public, as published by the Reserve Bank, are incomplete and do not give an idea of the amount of money which actually changes hands in the course of buying and selling transactions in the market; and (iii) there is a big non-monetised sector to which the published statistics have no direct relevance. But even though it is not possible to establish a direct correlation between the total money supply and the price level, there is no doubt that the present rise in prices is inflationary.

Steady Rise

It is significant that the rise which began in the middle of 1955, and has been almost continuous in all commodities since, coincides with the increased outlay under the five year plans. If Government expenditure is met by additional taxation, it is not always inflationary in character; but in the peculiar conditions in India, it too has tended to push up prices. The real cause of the trouble is the enormous amount of deficit financing undertaken by the Government. The overall deficit in the Central Government's finances has increased from Rs. 160 crores in 1955-56 to Rs. 238 crores in 1956-57. In addition, there has been an overall deficit in the Budgets of State Governments. In 1957-58, the overall deficit in the Central Budget, after allowing for the increased revenue from new taxes, is expected to be Rs. 280 crores, and in the State Budgets more than Rs. 100 crores. These enormous deficits have placed bigger money incomes in the hands of the people, most of which are spent on current consumption. But as the emphasis in the second plan is mostly on long-term projects, it will take time to increase the supply of goods. If the second plan were not so big, the amount of deficit financing would have been less. In spite of the time-lag between increasing incomes and increasing output, the price level would not have risen much as the pressure of new purchasing power would, to some extent, have been absorbed by the growth in industrial and agricultural production. Another method of reducing the inflationary pressure would have been to increase imports of consumer and other goods on which people spend their inflated incomes. But the shortage of foreign exchange has now made this impossible. The conclusion is that the main cause of the inflationary rise in prices for the past 2½ years has been the excessive rate of investment under the second plan. In order to keep prices in check, it is necessary to reduce the rate of investment and to curtail the size of the plan.

Additional Taxation

It is because the second plan is too big that the Government has had to resort to enormous additional taxation in the last two years. In theory, taxation can be anti-inflationary when it reduces the disposable income in the hands of the people. Without taxation, the Government would have to resort to deficit financing on a larger scale and purchasing power would increase. But in the manner in which additional taxation has been levied by the Central and State Governments, it has actually been inflationary. Prices have been raised by import and excise duties along with the increase in postal rates, railway freights, and cement and steel prices and by sales taxes, electricity duties, etcetera.

The impact of these forces has naturally been different in the case of food articles, other primary products and manufactured goods. The greatest increase has taken place in food prices, the index having risen by 53.6 percent between May 1955 and September 1957 and by 49.9 percent between May 1955 and December 1956. Greater purchasing power, along with inadequate production and imports, has made the situation worse. The Government and the Planning Commission have been complacent and have not done enough to increase food production and imports so as to offset the growth in purchasing power and in population. The Foodgrains Enquiry Committee, in the report it issued in November 1957, has said that in 1955-56 the output of millets declined by about 3 million tons, and this began the rise in foodgrain prices in the autumn of 1955. At first, the prices of millets increased but subsequently there was greater demand for both wheat and rice, so their prices also rose. The output of wheat and rice has now increased, and additional quantities have been imported, but in 1956-57 the supply of millets was still at least 2 million tons less than in 1954-55. This has kept the prices of foodgrains high.

Manufactured Goods

In the case of manufactured goods, there has been only a small rise of 3.2 percent between May 1955 and December 1956 and of 5.3 percent between May 1955 and September 1957 because there has been a marked increase in production. The general index of industrial production (base year 1951 equals 100) has moved up from 112.9 in 1954 to 122.1 in 1955, 133 in 1956 and 168.3 in June 1957. The rise in prices is due to higher costs of production resulting from heavier taxation and increased labour wages. It is hoped that the prices of manufactured goods will remain more or less stable, unless conditions develop in which industrial production is reduced. As a result of the increase in activity, industrial units need more money both for working and for fixed capital. But the monetary policy of the Government and the Reserve Bank has restricted the supply of credit to industry and increased its cost. This policy has already done some damage, and if it is continued or intensified, it might reduce production. Another factor which might affect production is an increase in costs, especially wages. Much of the expansion in output in earlier years has been facilitated by the fact that imports of machinery and raw materials have been allowed on a liberal scale. But now the import policy has become extremely restrictive because of the crisis in the balance of payments. If the policy is tightened further and industrial enterprise is not able to get the raw materials, tools and machinery it needs, production might fall.

Reducing Size of Plan

In order to check inflation, it is necessary to curtail the second five year plan drastically. Some projects are already being dropped, while others are being postponed or slowed down. This will do no harm, but will actually help by reducing the severe strain caused by excessive developmental outlay. It has been argued that as the population is increasing and as it might double in about 35 years, it is necessary to double national output and income also in 25 years so as to avoid the frustration brought about by static living standards. But the rate of economic growth is not to be decided by the increase in population as much as by the availability of resources, economic organisation and technical knowledge. Taking these considerations into account, it is impossible to sustain the rate of investment and growth proposed in the second plan. As far as popular frustration and disillusionment are concerned, they would be greater if a plan cannot be properly implemented and if in the process the price level continues to rise. If the size of the plan is reduced and concerted efforts are made to increase industrial and agricultural production, it might yet be possible to control inflation and check the steady rise in prices.

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IMPORTANCE OF AGRICULTURE IN ECONOMIC PLANNING

ADVERSE EFFECTS OF LAND REFORMS ON FOOD PRODUCTION

● By V. G. RAMAKRISHNA AIYER ●

HE report of the U.N. Food and Agriculture Organisation for 1957 shows that world production of food is rising at a slightly higher rate than population—thus providing a mar- for improvement in *per capita* consumption. encouraging feature is that the growth of food oduction in the less developed countries has been a higher rate than in the more developed coun- es. As the benefit from an increase in output is gely neutralised by the rapid increase in the pulation, a much higher rate of expansion in d has to be achieved to raise consumption and tritional levels. The F.A.O. survey points to fact that a vital factor affecting food consumption is the level of income. Increases in incomes the less developed countries have led to greater demand for food and the consumption of re nutritious varieties. A remarkable development in 1956-57 has been the general rise in the re- prices of foodgrains in many countries, in spite the fact that the trend of prices in international arkets has been downward. The report says that rise in retail prices is to be attributed mainly the increases in incomes which have led to ger outlays on food. This seems to be partiarly true of the situation in India, where prices foodgrains have gone up by nearly 20 percent er the last two years.

Rise in Prices

The rise in food prices has synchronised with a avy increase in public expenditure, while food oduction has changed relatively little. The Go- rnment has been trying to keep down prices ough food imports and restrictions on advances ainst foodgrains. But as long as development penditure is maintained at a high level, mone- y measures or even physical controls will not lp in keeping down prices. Supplies have to be reased through increased production as well as ports. In this connection, as has been pointed t at a recent meeting of the Standing Committee the National Development Council, the States' ogrammes for the development of irrigation and riculture have to be given priority in any at- mpts at "rephasing" the plan and preserving its ard core". In most references by Central Minis- 's to the hard core of the plan, the main concern ems to be with the financing of the steel, railway d power projects. But food production is in no y less important than these projects, as an in- ease in food prices is likely to lead to general rest and will upset many of the other assump- ns on which the plan is based. Stability in food ices is essential for the plan and schemes for in- easing food production have to be given the high- t priority.

Future Prosperity

India's future prosperity depends to some extent the development of industries for which condi- ns are well suited, but there is good reason to lieve that it can be achieved more surely by the plication of greater skill, knowledge and capital st to agriculture. Any large diversion of capital ay from agriculture might do much harm in the ger run. It is against this background that the esent position and future possibilities of agricul- re have to be considered. Agriculture is the live- ood of about 70 percent of the population. It is ckward, and among the reasons why it is so are l erosion, excess or scarcity of water, the general verty of certain soils, infestation of weeds, a ortage of manure and good seeds, and the absence an organisation to bring scientific farming within e easy reach of poor and ignorant cultivators. ere are also some economic shortcomings, such rural indebtedness, defective land systems and e sub-division and fragmentation of holdings. e small size of holdings and their dispersal in all parcels over a large area are the biggest ndicaps to better farming. The physical unit of village varies from State to State, and the aver- e size of a holding is 4½ acres, of which only one re is irrigated. About 60 to 75 percent of the ldings in each State are less than this average. The success of tractor ploughing in Russia has l people to think that the unit yield and total oduction could be increased in India also. But e fact is that no technological schemes for increased production or better farming can work on uneconomic holdings of three or four acres. It is only in large holdings that specialised and expensive machinery can be used economically. Can large holdings be brought into existence?

Collective Farming

The Russian example of collective farming is often mentioned. In that country, collective farming was part of an organised attempt by the State to abolish private property. In India, the co-operative and compulsory consolidation of holdings attempted by provincial Governments in the past has not been very effective, partly on account of the complexity of ownership and tenurial rights in land and the absence of a consciousness of common welfare. There has been much loose thinking on the subject of the mechanisation of Indian agriculture. The mere use of large tractors and harvesters will not increase production. Complicated machinery is used primarily in grain farming by large-scale methods, as in the United States and Russia. This type of farming is not quite suited to a crowded country like India. Much smaller editions of multi-furrow ploughs and 40 horse-power tractors would meet the requirements here better. The peasant in India could use with advantage various kinds of small equipment, such as root slicers, chaff cutters, hay elevators, threshing machines, water pumps and liquid manure pumps. The scope for tractor ploughing lies mainly in weed eradication, and here it is limited by the period in which the ploughing can be done.

Mechanisation is desirable, but peasants have to be taught the use of mechanical appliances. A beginning may be made with less complicated machinery, which is less expensive, easier to handle and likely to be of more practical value. As for large-scale farming, the mere consolidation of holdings, whether voluntary or compulsory, will not go far enough; replicas of the Russian *kolkhoz* are not wanted here. Experiments in co-operative or collective farming show that the Indian peasant values highly his right of ownership. Co-operative farming does not imply merely the pooling of land among small owners; it also implies group control over management—a group can carry on cultivation itself, employing the members as paid workers and distributing the proceeds in proportion to the work done. Small plots of land may be allotted to the members on an occupancy basis. Besides, the size of the field, organisation, capital and techniques are important.

Planning in Agriculture

Recent discussions of agricultural planning have emphasised bringing uncultivated lands under the plough, increasing the acreage under food crops to diversify agricultural operations, increasing yields by the use of improved seeds, better manures and irrigation, drainage or bunding. As for targets of production, opinions may differ about how much yields can be increased. The Bombay Plan outlined proposals to increase agricultural production over a period of 15 years. Dr. Burn's note on the "Technological Possibilities of Agriculture in India" indicated that yields could be increased by 30 to 50 percent in rice and wheat, 10 to 20 percent in other cereals, and 100 to 200 percent in sugarcane. The Council of Agricultural Research also put forward a plan for self-sufficiency in foodstuffs, suggesting a production increase of 10 percent in cereals, 20 percent in pulses, 250 percent in fats and oils, 50 percent in fruits and 100 percent in vegetables. The Government of India's Reconstruction Committee framed a plan for the development of agriculture and animal husbandry, under which agricultural production would be increased by 50 percent in ten years and 100 percent in 15 years.

The first five year plan proposed for agriculture an outlay of Rs. 361 crores, constituting 17.5 percent of the total expenditure. It accorded the highest priority to agriculture, irrigation and power projects, which together accounted for 44.6 percent of the total expenditure in the public sector. Among the targets for agricultural production suggested in the plan, that for foodgrains was the most important. The Planning Commission suggested various measures for increasing the production of foodgrains by 8.9 million tons during the five-year period.

AGRICULTURAL TARGETS

	1950-51	1955-56
Foodgrains (million tons)	52.7	61.6
Cotton (lakh bales)	29.7	42.2
Jute	33.0	5[illegible].9
Sugarcane (million tons)	5.6	6.3
Oilseeds (million tons)	5.1	5.5

The Second Five Year Plan

It is more than 1½ years since the second five year plan was launched and there is now a better realisation that an increase in agricultural production holds the key to the success of the plan. The increase is necessary to feed a population which is growing by more than four million a year, and to neutralise the inflationary effects of heavier development expenditure. One reason why prices did not rise sharply during the first plan period was the striking increase in agricultural output around 1953-54, which absorbed the impact of the increase in development spending. During the second plan period, while public expenditure has been stepped up considerably, agricultural production has not gone up proportionately. At meetings of the Standing Committee of the National Development Council, much attention has been devoted to agricultural problems, but the Committee seems more concerned about quickening the pace of agrarian reforms than about drawing up a realistic programme for raising agricultural production.

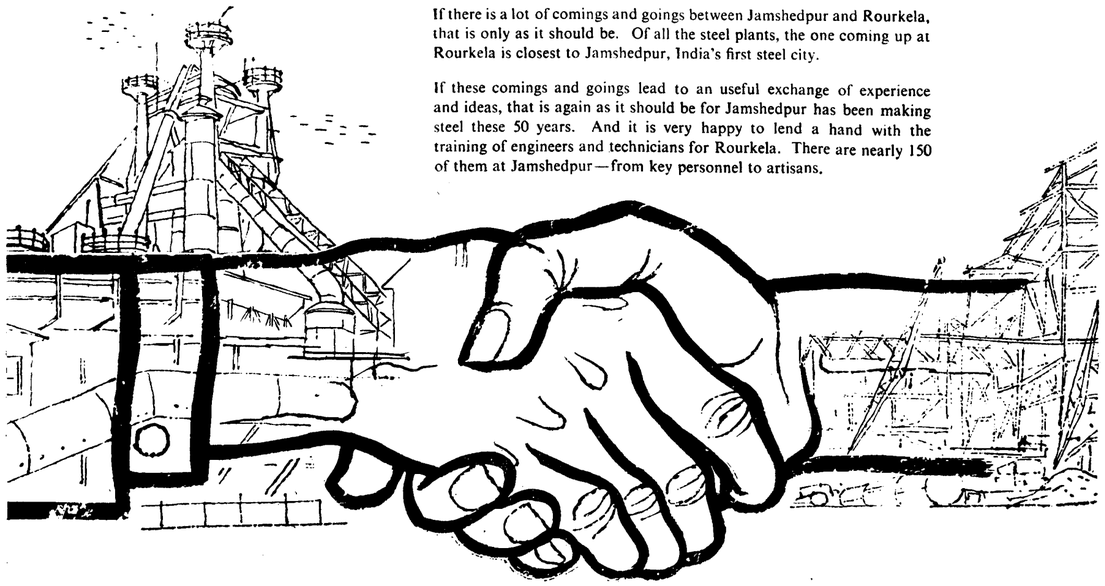
The Prime Minister has reiterated his faith in co-operative farming, although the Indian Co-operative Union's study of co-operative farms in India shows that they have been a dismal failure. The Standing Committee of the N.D.C. has decided on further experiments in this direction, but it seems to be a wholly misconceived move. There are many less ambitious fields in which co-operation would be more useful and rewarding. The Prime Minister has insisted that co-operative farming should be entirely voluntary; yet the manner in which the Government has so far gone about it shows that it is being imposed from above. A great deal has to be done to encourage agriculturists to adopt co-operative methods in such matters as the purchase of seeds, fertilisers and implements, cheaper credit and efficient marketing. Substantial progress on this front would lead to an early increase in agricultural production.

Co-operative Farming

The fondness of some for co-operative farming shows an unrealistic approach. The pattern of agrarian reforms which they have been advocating, whatever the apparent justification in the name of social justice, is bound to lead, in the short run at any rate, to a decline in output. The Planning Minister, Mr. Nanda, it is reported, has taken to task some States for not proceeding with measures to reduce rent and fix land ceilings, as recommended by the Planning Commission. While the tenant should be assured of a fair return for his labour, the suggestion of the Planning Commission to fix maximum rent at 20 or 25 percent of the gross produce is arbitrary, and unrelated to such essential factors as the quality of the land, the landlord's investment and the continuing cost of maintaining the fertility of the soil. This explains why the State Governments in Madras, Andhra and elsewhere have not been able to adopt that formula mechanically. A good deal of tenancy legislation in recent years has proceeded on the assumption that the landlord is a functionless parasite who must be quickly eliminated. The result has been a drying up of the flow of capital into agriculture, a catastrophic fall in land values, a loss of interest in cultivation among the landed middle class and a fall in agricultural yields. The Government's efforts to prop up co-operative credit and encourage co-operative farming appear to be desperate efforts at filling up a dangerous vacuum which its agrarian legislation has created.

An independent enquiry into the effects of recent legislation on the agrarian economy would show how much it has contributed to the decline in production. If co-operative farming is favoured on the ground that petty farmers are incapable of

From a Neighbour



If there is a lot of comings and goings between Jamshedpur and Rourkela, that is only as it should be. Of all the steel plants, the one coming up at Rourkela is closest to Jamshedpur, India's first steel city.

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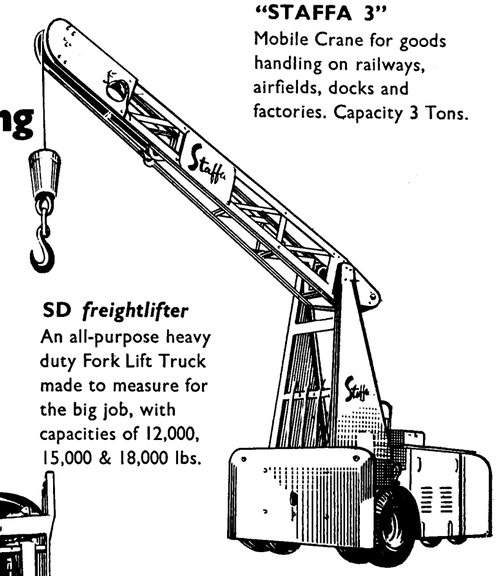
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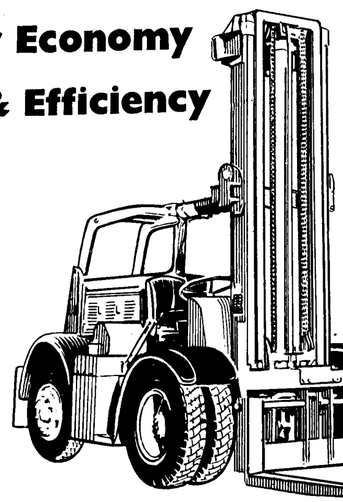
undertaking the investments and improvements essential for raising yields, what is the logic in seeking to break up an existing big farm and parcelling it out among numerous landless labourers who individually have no means of their own to develop the land? It would be more sensible to buy out such holdings from the present owners and run them as large State-owned farms. The Standing Committee does not appear to have examined the financial implications of fixing ceilings on the existing holdings. What is the level at which the ceiling should be fixed? Under a recent law in communist Poland, the ceiling for private holdings has been fixed at 50 acres. But in India, a ceiling of 30 acres or even 15 acres is being suggested. How is the compensation to be paid for land in excess of the ceiling? And how much will it add up to for the whole country? Moreover, is this expenditure, which will not contribute anything to the development of land, worth while at a time when the States have not been able to find funds for more urgent development schemes? It is a pity that the Standing Committee of the N.D.C. has found little time to consider the real needs of Indian agriculture. The agricultural plans, particularly the food plans, being still based on the monsoons, can hardly be designated as well-thought-out schemes of development. The food problem should be defined as follows: a quantitative problem of increasing food production; a qualitative problem of a balanced diet; an administrative problem of effective distribution free from transport bottlenecks, hoarding and inter-State restrictions; and, ultimately, an economic problem of low purchasing power. The most effective remedy, therefore, is not only the rationalisation of agriculture, but also industrialisation at an increasing rate and along particular lines in which India can hold its place in international markets. The riddle of food supply *versus* the population is still unresolved. Any scheme of agricultural planning as a long-term measure will have to be accompanied by population planning. It is a good augury for the future that, in recent years, there has been a growing awareness of this problem.

While much of the detailed planning must fall on the shoulders of the States, the Centre must take the lead in many matters if progress is to be rapid. It must accept the main responsibility for fundamental research and should no longer remain entirely aloof from the application of the results of research to farm practice. Self-sufficiency in food and raw materials for industry, together with the production of raw materials for an export market, must be the aim of a national agricultural policy. In fine, the broad aims of the policy may be summed up as follows: (i) the securing of adequate nutrition for the growing population (India must produce sufficient food of all kinds required for a balanced diet); (ii) the production of adequate raw materials for the industries of the country (industrial expansion in India would make increasing demands on raw materials such as fibres, sugarcane and oilseeds); and (iii) the production of raw materials for which, with or without processing, there is an export market. This is necessary to obtain the foreign exchange required for financing economic development.

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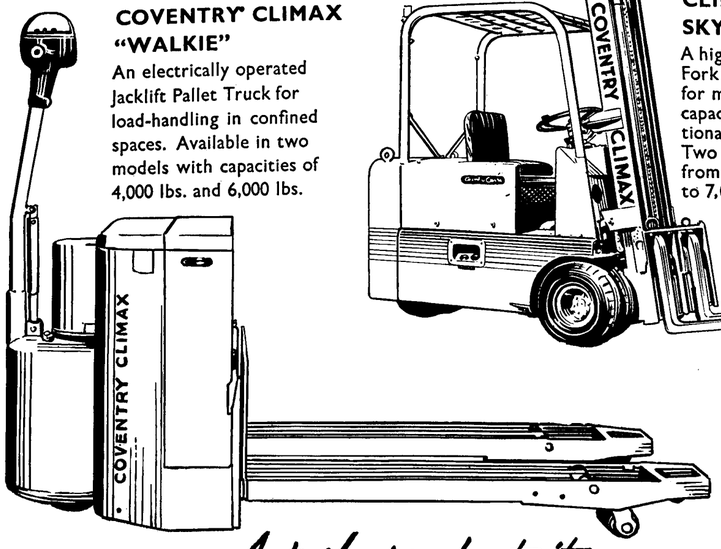
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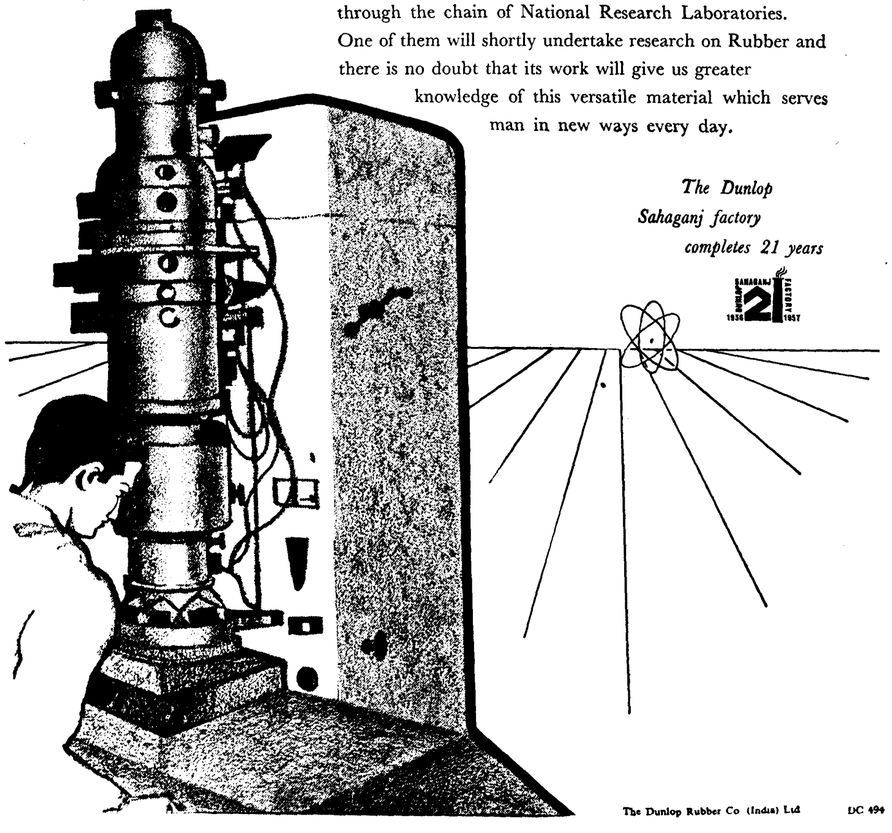
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THE INADEQUACY OF INDUSTRIAL FINANCE

BETTER CONDITIONS FOR FOREIGN INVESTMENT NECESSARY

● By NIRMAL KUMAR ROY ●

THE second five year plan has run into difficulties because there are not enough resources for the development of industries. India is a backward country and the planned development of the economy is an ambitious effort considering that the annual *per capita* income is only about Rs. 272. Before the second world war, G. D. H. Cole remarked that planning in a democracy was something like putting a square peg in a round hole. In other words, democracy and a planned economy are in some ways incompatible. In theory, they may go together, but in practice they are contradictory. India's planned economy, therefore, represents a pioneering effort. It requires not only an extraordinary national effort but also extraordinary financial resources. The usual ways of raising money are not adequate. In an underdeveloped country, the rate of capital formation is very low. It was just 4 percent a year before the first five year plan. Under the second five year plan, the annual rate of capital formation is estimated at 6 percent of the total national income. In some developed countries of the West, it is 20 percent of the national income. The shortage of industrial finance is, therefore, inherent in the very nature of the Indian economy.

Long-term Funds

Industrial finance consists of working capital and block capital. Working capital is supplied by the commercial banks. What India really needs today is long-term industrial finance. The sources of industrial finance generally are: (1) foreign balances; (2) foreign lending; (3) private capital; (4) taxation; and (5) deficit financing. The last two measures help in domestic capital formation for the public sector, while foreign balances and foreign aid help create external finance. Foreign balances result from a favourable balance of payments and that is possible when a country exports more than it imports. The shortage of external finance is the crux of the problem of industrial finance in India today.

Domestic capital formation may be supplemented by taxation, by internal borrowing and also by inflationary spending through currency creation by the central bank (that is, the Reserve Bank of India). For the successful implementation of the second plan, India has to import capital goods, but the difficulty is that she has very little external purchasing power. Since independence, she has been frequently running trade deficits. Between 1948-49 and 1955-56, the payments deficit was Rs. 810 crores. In 1957, the deficit is expected to be not less than Rs. 290 crores. These growing deficits are arising mainly from bigger imports of capital goods and foodgrains. Exports have not increased to any appreciable extent.

Balance of Payments

There is a close relationship between economic development and the balance of payments. The Finance Minister's recent search for capital in the United States and Europe is not likely to bring enough money in the near future. A comparative study of the first and second plans indicates how much more of foreign exchange is needed for the latter. The total investment in the first five year plan was about Rs. 3,100 crores. This amount was divided more or less equally between the public sector and the private sector. But the total investment in the public sector under the second five year plan has been estimated at Rs. 4,800 crores, (because of rising costs, this amount was expected to rise by Rs. 1,000 crores). In the private sector, the total investment proposed is Rs. 2,400 crores. The estimated total investment in the second plan is thus more than double that under the first plan. The important categories of projects involving large foreign exchange expenditure are:

	First Plan (Rs. crores)	Second Plan (Rs. crores)
Power	260	440
Industries in public sector	57	524
Railways	268	1,125
Industries in private sector	233	575
Total	818	2,664

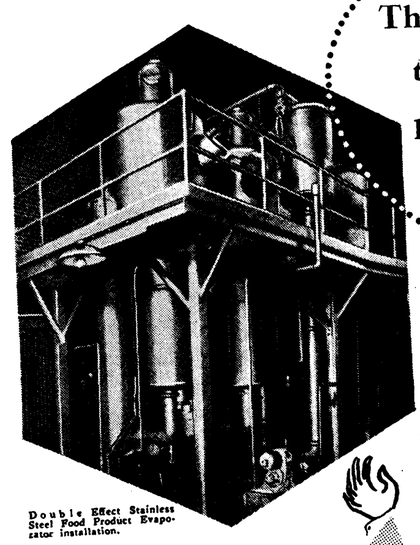
The external finance available under the second plan was originally placed at Rs. 800 crores. But the Finance Minister has recently declared that nearly Rs. 1,800 crores will be needed now. In comparison with the first plan, the estimated expenditure on the railways has been increased four-fold. For the development of industries in both the public and the private sectors, the increase in estimated expenditure is of the same proportions. Thus the foreign exchange needed for the second plan is three times that of the first plan. But actually the expenditure under the second plan will be much higher; additional imports will have to be made because within the selected group of projects, there has been an important shift in favour of those which require a larger proportion of foreign investment goods. Three factors are mainly responsible for the difficulties: (1) under-estimation of the foreign exchange requirements in the original calculation; (2) the inclusion of additional projects; and (3) the rise in prices.

Capital Goods

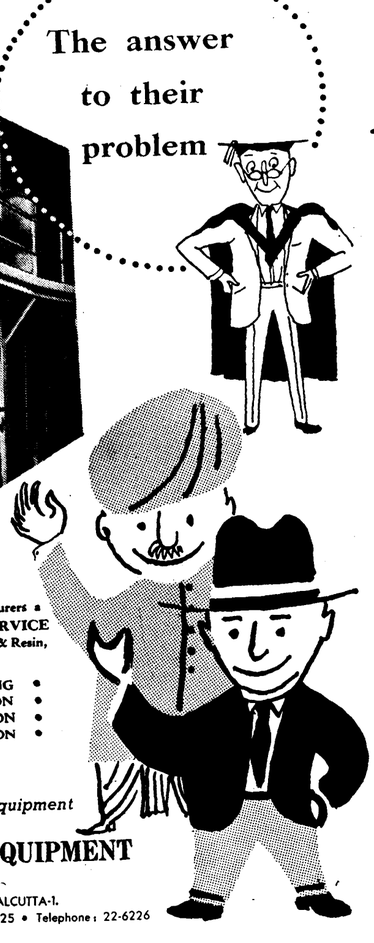
Under the first plan, the aggregate foreign exchange expenditure on machinery, vehicles and metals amounted to Rs. 980 crores. Under the second plan, imports of these materials have been estimated at about Rs. 2,150 crores, that is. more than double the figure for the first plan. Many of the imported capital goods have been utilised for the replacement and modernisation of existing machinery. Food imports are to a large extent coming as aid under the U.S. Public Law 480. A substantial portion of the foreign exchange requirements for the three new steel projects in the public sector is being supplied by the countries concerned, and India has made arrangements for deferred payments. For transport and river valley projects, she has received about $200 million from the World Bank. More may be coming in the near future. In order to meet current obligations on account of food and capital goods, $200 million has been drawn from the International Monetary Fund. Besides, considerable assistance has been received from Commonwealth countries, the Ford Foundation and Norway. It is strange that in spite of the spending of such large sums, exports have not risen appreciably. It is suspected that large sums have been frittered away on the import of goods which have done little to increase production.

For industrial finance from abroad, India is depending heavily on the World Bank. But that body has restricted functions, and its resources are inadequate in relation to this country's huge needs. It must rely largely on funds borrowed from private investors, but its ability to borrow varies with the state of the capital markets of the lending countries. Except in special circumstances, it is also restricted to lending on a specific project basis. In view of these handicaps, some think that the Bank should borrow funds from foreign Governments and, it should lend to Governments for

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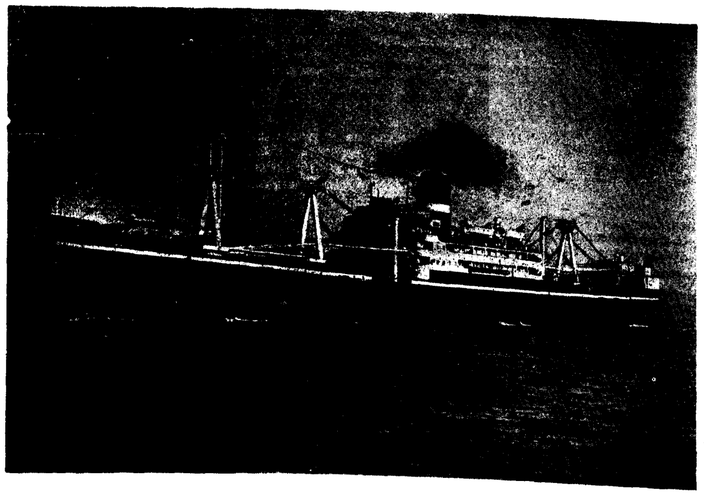
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general development purposes instead of only for specific projects.

International Finance Corporation

The International Finance Corporation can provide money for industries in the private sector. Mr. Garner, its president, has recently said that financial groups in the United States and Europe are taking increasing interest in its activities. They are prepared to consider participating in projects in which the Corporation might invest. A leading New York financial group has joined it in a Chilean copper project. Such operations promote the flow of private capital and managerial skill.

To cope with the foreign exchange shortage, various measures have recently been discussed. Some think that the foreign security component of the paper currency reserve should be abolished. Others say that the Government should purchase gold from the people either against cash or against long-term bonds. A third proposal is to negotiate more bilateral trade agreements. For instance, if India is to maintain her present level of imports from West Germany, that country should be asked to increase her imports from India, particularly of tea and jute goods.

Bank Lending

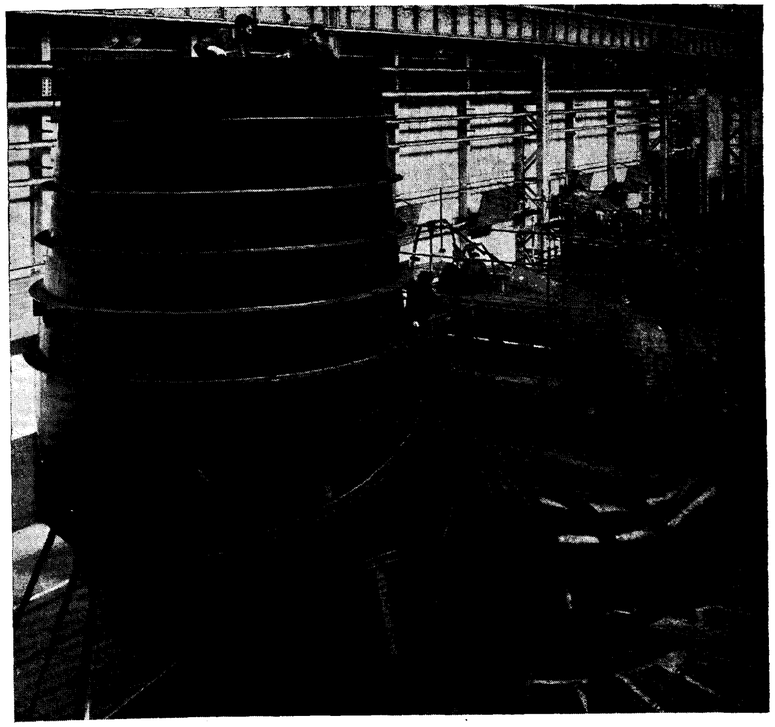
As for increasing the supply of domestic industrial finance, particulraly long-term funds, the Industrial Finance Corporation can help. The Corporation has the power to grant loans which are repayable within 25 years. It can underwrite the stock, share, bond or debenture issues of industrial concerns. Furthermore, if banks go in for term lending, the shortage of industrial finance might be eased.

The importance of the investment programmes in the private sector can be judged from the fact that over the second plan period they are expected to cost Rs. 2,400 crores. Organised industry and mining account for Rs. 575 crores; plantations, electricity undertakings and transport other than the railways for Rs. 125 crores; construction for Rs. 1,000 crores; agriculture and village and small-scale industries for Rs. 300 crores; and stocks for Rs. 400 crores. The question arises whether the resources available to the private sector will be adequate to finance an investment of this order, after making allowance for the resources appropriated by the State. The Planning Commission has said that this depends on the aggregate volume of savings. But many doubt whether the savings will be enough. The Commission says that the problem is to raise domestic savings from 7 percent of national income at the beginning of the second plan to 11 percent by the end. This rate of domestic savings will be adequate if external resources of the order of Rs. 1,100 crores become available over the plan period.

Taxation and Savings

The Commission is not fully aware of the difficulties. The public sector has certain advantages in getting access to scarce resources. But much depends on the mobilisation of capital in the private sector; heavy taxation, however, has greatly reduced the savings available for capital formation. The wealth tax and the expenditure tax, in particular, might do much harm. The cost of rehabilitation and modernisation of industries is meanwhile rising. The ability to attract domestic as well as foreign private capital depends on the investment climate, including the prospect of earning reasonable profits. Periodic threats of nationalisation reduce the ability to raise capital.

According to an official statement, the net capital formation in the private sector in 1954-55 amounted to Rs. 385 crores, as against Rs. 375 crores in the preceding year. On this basis, there will be a shortfall of about Rs. 500 crores to Rs. 600 crores over the period of the second plan. As for sources of capital in the private sector, internal sources consisting of depreciation and various reserves contribute nearly 60 percent of the total. Of the external sources, the volume of share capital is relatively small, but borrowings are large. It has been suggested that a development finance corporation should provide the needs of industries in the private sector. The contribution by the Industrial Credit and Investment Corporation is none too encouraging and the National Industrial Development Corporation is engaged mainly in providing capital for the modernisation and rehabilitation of existing industries, particularly jute and cotton textiles. The needs of many other industries in the private sector remain unfulfilled. Some think that the N.I.D.C. can convert itself into a full-fledged development corporation to provide finance for them. Certain industries might be able to secure their capital as Tatas have done. In addition to a loan for $75 million from the World Bank, they have secured substantial amounts from U.S. private institutions. The shortfall in capital formation in the private sector might have to be made up partly by the State and by State-owned financial institutions. Foreign capital will still be necessary, and for its inflow the conditions need to be improved.



The draft tube of a turbine for the Rihand Dam being assembled at a factory in Britain

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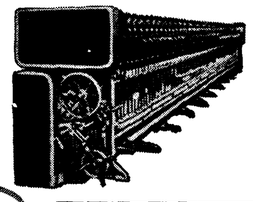
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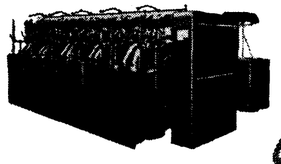


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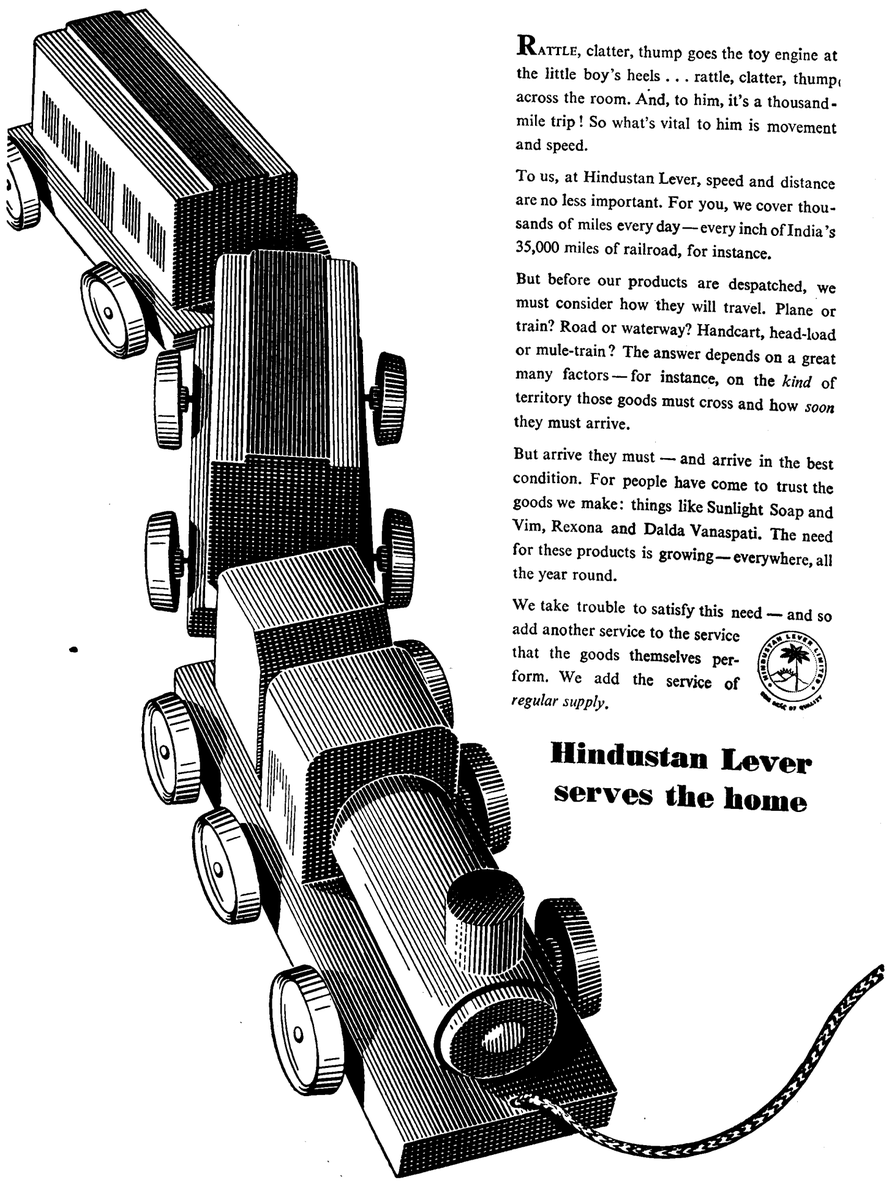


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EFFECT OF TAXES ON DEMAND FOR CURRENT RESOURCES

FEATURES OF INDIAN FISCAL POLICY

● By I. S. GULATI ●

AS the strains of development affect the economy, the various devices, physical as well as financial, which are used for maintaining progress naturally come in for ımment. It is in the interests of the development rocess itself that there is a continuing appraisal ıd reappraisal of measures, because that gives ı opportunity for reform and improvement. The ırpose here, however, is to appraise only one class : such measures, that is, measures to withdraw ırough taxation the private command over cur- ent resources in order that the proceeds can be tilised for the second five year plan. It is worth aking clear at the very outset that taxation is ot the only method of doing this. Subscription loans and voluntary contributions can also mean ıe surrender of private command over current esources. So also can compulsory loans, although ıese loans may contain a certain tax element de- ending upon the terms of repayment and interest harges. The compulsory deposit scheme intro- uced by the Finance Minister, Mr. T. T. Krish- amachari last year (but which, it is believed, is kely to be abolished next year) comes nearest to mposing a compulsory loan without a tax element idden in it. Nor is it always true that taxation in- olves a draft on private demand for current re- ources. A person drawing an income of Rs. 1,000 month may be required to pay Rs. 200 in tax, ıd he may pay that amount to the tax authority ut still spend Rs. 1,000 a month on his consump- on. This means that he pays the tax from his ac- umulations of the past and does not reduce his wn present demand on current resources.

Impact of Taxes

There are various considerations which weigh ith a private individual in deciding how he should xercise the power of command that he has over urrent resources. Taxation does subtract from he totality of command over current and future esources which a taxpayer otherwise enjoys, but he impact of different taxes is not necessarily the ame in so far as it concerns the taxpayer's distri- ution of the tax burden between the present and he future, that is, whether because of the neces- ity of having to pay taxes he should reduce his urrent expenditure or pay the amount out of his ccumulations, which would otherwise have been vailable for his use in the future. The way tax- ayers in general react to taxes is, however, of reat significance from the macro-economic point f view. The main premise of this article is that axation is resorted to with a view to securing unds for financing development. This, of course, oes not mean that all the proceeds of taxation re used only for developmental purposes. In fact, sizeable part of the Government's tax revenue s being, and will continue to be, used for meeting he non-developmental type of Government ex- enditure.

But what is quite likely to happen in the course f years is that with an increase in the tempo of evelopment activity under the five year plans, hich tend to rely more and more on the public ector for the execution of development projects, he proportion going to developmental heads will ise. This means that the marginal rate of utili- ation of tax revenues for developmental purposes eeps on increasing. For instance, between 1955-56 nd 1957-58, the total tax receipts of the Central overnment will rise from Rs. 428 crores to Rs. 592 rores (the latter figure includes receipts estimat- d to accrue from new taxes introduced in Mr. rishnamachari's May Budget). During the same eriod, the non-developmental expenditure on re- enue account will increase from Rs. 290.2 crores o Rs. 359.7 crores. (This rise, incidentally, can be xplained entirely in terms of the increase in ex- enditure on defence.) Assuming that non-develop- ental expenditures are the first charge on tax evenues, the balance left for the financing of evelopmental expenditures has increased during his period from Rs. 137.8 crores to Rs. 232.3 crores.

Taxation for Development

As a result, while in 1955-56 the proportion of tax revenues used for developmental purposes was 32.2 percent, in 1957-58 the proportion is expected to be 40.4 percent. But more significant is the fact that of the additional revenue (Rs. 164 crores) to be raised in 1957-58 compared with the amount raised in 1955-56, Rs. 95.5 crores is to be spent for developmental purposes. In other words, the marginal rate of utilisation of tax revenues for developmental purposes will be 58.2 percent, which, as will be noticed, is far higher than the proportion of the total tax revenue going to developmental heads in 1954-58.

Now, all revenue collected in taxes is usually spent currently except when the Government has a surplus budget and a part of the proceeds therefore remains unspent. But the Government does not levy taxes with the sole objective of raising revenue, although it is certainly the most important purpose underlying any system of taxation. A fairly well-known non-revenue measure is the imposition of protective tariffs, in which case the main objective is to tax out foreign commodities from the domestic market. As far as the revenue objective is concerned, the protective duty may actually go against it. Suppose there is a revenue duty chargeable on a certain commodity X imported from abroad. If the purpose is to raise additional revenue from the duty on this item of imports, the tax authority would naturally have to raise the rate of duty chargeable. But there is a limit beyond which the increase in duty will not only not yield additional revenue but will actually cause a decline in the revenue already raised. The point of limit is set by the elasticity of supply of the commodity in question.

Enhancement of Import Duty

The foreign manufacturer of the commodity will start reducing his supply the moment the net price paid to him falls as a result of the duty in question. But as long as the rate at which he cuts down his supply does not exceed the rate at which the duty is raised, the revenue raised will continue increasing but not thereafter. After this point, the duty, if raised, will only cause a fall in revenue, and the Government should not raise the duty if its idea is to raise revenue. Actually, the Government will stop at a much earlier point, that is, where the maximum revenue from the duty is raised and not where the revenue will not fall below a certain hypothetical point in the rate schedule from where it began.

But in the case of a protective duty the limit does not apply because the idea is to restrict the import of the commodity in question, the rate of duty is determined by the extent to which it is intended to cut down the supply of the imported commodity and the rate thus fixed may be far above the point of intersection referred to. In that case, the revenue accruing from duty may be very negligible. Still the duty at that high rate is justified because the Government's purpose is to restrict the import of the commodity in question. Traditionally, a duty of this type has been imposed with a view to insulating domestic manufacturers against foreign competition. Lately, however, such duties have also been imposed in order to reduce the strain on the balance of payments, although the more popular device adopted to achieve this end is to ban, or impose a quantitative restriction on, the imports in question by an executive order.

Restriction on Consumption

Similarly, on the domestic front, the Government may impose certain duties with a view not to collecting revenue but to restricting the domestic consumption of the commodities taxed, either because it has been decided on moral or other grounds that it is not good for the people to consume these commodities, or because it is hoped to conserve these commodities for other urgent purposes. In India, for instance, excise duties were recently imposed or increased on commodities like cotton textiles, sugar, steel and cement. In the case of cotton textiles and sugar, the idea behind the recent increases in excise duties is to restrict the local consumption of these commodities so that more of them are available for export. The duties on steel and cement are intended to save these commodities for use in urgent developmental works.

Whenever non-revenue objectives supervene, the revenue aspect of the taxes suffers. But the extent to which the former impinge on the latter depends on the weight which the Government assigns to non-revenue objectives. In a developing economy of the type now evolving in India, where proceeds of taxes are to finance developmental expenditures, the conflict between revenue and non-revenue objectives has to be conceived in terms of the choice between the non-revenue purposes of the taxes levied or proposed, and the developmental purposes to which the proceeds are increasingly to be devoted. In the discussion so far, attention has been focussed on commodity taxation. But even in commodity taxation it has to be seen whether this yields revenue which can be said to represent withdrawal of private demand for current resources.

Customs Tariffs

As for Customs tariffs, to the extent that they are paid by foreigners, we can safely assume that their proceeds are currently spendable by the Government. But such a straightforward statement cannot be made either in the case of Customs tariffs which are paid for internally or in the case of excise and other duties (including sales taxes) payable on domestic products. In both these cases, the first thing to find out is the distribution of tax incidence between producers and consumers. In the case of producers, the tax cuts into their profits, but that reduction may not be reflected in the currently spendable incomes flowing from the concerns adversely affected. And even if it is reflected, the individual income-earners may decide not to reduce their current expenditure in spite of a decline in their income.

The example given earlier of the person earning Rs. 1,000 deciding to continue to spend the same amount even when he is asked to pay Rs. 200 as tax is relevant in this case. As for the part of the commodity taxes which falls on consumers, the usual assumption is that since the payment of these taxes is linked up with expenditure, the proceeds thereof can all be taken to represent withdrawal of current demand. But behind this assumption lies the belief that the consumer has got only a fixed amount to spend currently and if a part is taken away from him in the form of higher prices of taxed articles he has to accept a smaller bundle of commodities and services. But this belief need not be valid in all cases. Some taxpayers, if not all, may have their savings to fall back upon and they may decide not to reduce the size of the bundle that they were getting previously, which means that in spite of the taxes in question, these better-off persons are demanding the same amount of current resources as before.

Corporate and Personal Taxes

Something may now be said about corporate and personal taxes. There is in India a big array of these taxes, and one or two more might be added next year. It is necessary to deal first with corporate taxes. On their incomes, companies are chargeable to: (a) income tax at the rate of 31.5 percent; and (b) corporaton tax at the rate of 10 percent on dividend income derived from a subsidiary Indian company and at a rate varying from 15 percent on the other income of public companies, to 20 percent on the other income of companies in which the public is not substantially interested, and 30 percent on the other income of foreign companies. In addition, to prevent the payment of excessive dividends, a tax at the rates of 10 percent, 20 percent, and 30 percent is chargeable on the distribution of dividends in excess of 6 percent, 10 percent and 18 percent of the paid-up capital. Bonus issues are also taxable. Companies are required to pay a tax of 30 percent on these issues. Then, there is a wealth tax on companies of ½ percent on assets in excess of Rs. 5 lakhs in value. All these taxes are payable by companies to the tax authority but in the case of income tax, there is a provision for its refund to shareholders on the dividend income received by them.

Therefore, in so far as the companies are concerned, even the income tax on the distributed part of their profits is as good as having been paid off finally. All the taxes payable by companies

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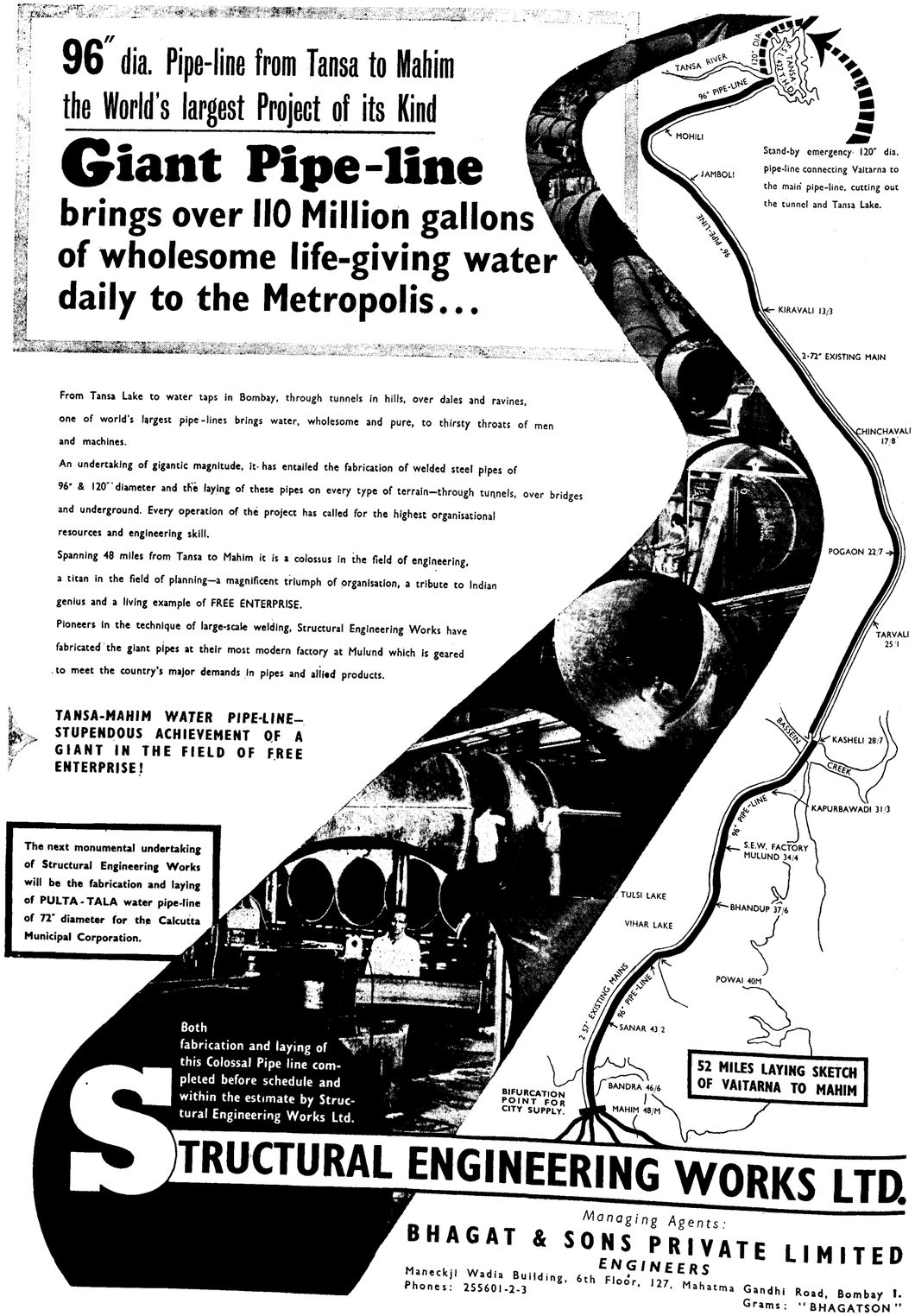
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(including wealth tax) will normally be paid out of their current profits. But not all the company profits are distributed. In India, distributed profits as a proportion of total company profits before tax have been around 20 percent. This may not necessarily mean that the burden of taxes payable by companies will fall on distributed and undistributed profits in the proportion of 2:8, but it will still be a fair assumption to make that the burden is more on the undistributed part of profits. These undistributed profits represent company savings, which may be accumulated either for expansion or for later distribution. And the sums earmarked for expansion are not usually spent immediately afterwards. There is a time lag. In other words, the sums thus saved represent a withdrawal of current demand and if taxes are paid out of these sums, the payment to the Government does not represent the creation of any further saving on the part of the corporate sector.

Levy on Personal Incomes

Coming now to the taxes on individuals; the taxes in force at the moment are: income and super taxes on personal income, wealth tax, expenditure tax, and estate duty. Of these, the taxes charged on personal income as well as the wealth tax are ordinarily payable out of current income, but that does not mean that the entire amount thus paid represents a draft on current spending by individuals. The extreme case of an individual who refuses to cut down his current spending because of his liability to pay taxes has already been referred to. In actual practice, individuals do cut down their current spending for meeting recurrent taxes of the type being discussed. But the point which is worth remembering is that a part at least of the proceeds from these taxes does not really represent withdrawal of private current demand, and is therefore not available for Government spending.

Expenditure Tax

As for the expenditure tax, it is usual to take it for granted that the tax is met entirely out of current spending. This is not a generally valid assumption. It is true that the tax liability in this case is related directly to spending, but this only means that spending in general has become more costly as a result of this imposition for persons liable to it. That does not necessarily imply that individuals will buy less than before. They might meet the extra cost (in the shape of expenditure tax) out of their savings. It is usually said about persons in higher income and wealth brackets that they tend to save (that is, not spend currently), partly because they have hardly anything left to spend on. These are the people who will perhaps be the most liable to expenditure tax. It is quite conceivable, therefore, that when asked to pay this tax, they will meet the liability out of their savings. All this, of course, should not be taken to detract from the value of the expenditure tax as a deterrent to spending.

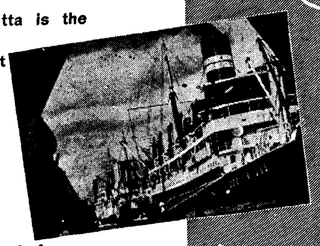
The estate duty appears to go further than any of the taxes discussed so far, in that in its case the presumption is strongest that its payment will cause the minimum of draft on current spending. This is so, firstly, because it is a non-recurring tax and taxpayers would prefer to have its burden spread over a number of years rather than reduce their current spending steeply; and, secondly, because the beneficiaries of estates are more likely to accept an estate net of duty as their inheritance rather than pine over the tax deductions from the estate and make good the loss by personal abstinence. The same argument applies to the tax on gifts which may be put on the statute book next year.

Social Objectives

According to the argument developed in this article, taxes like the estate duty and the gift tax are the least available for current spending by the Government. But that does not mean that such taxes ought never to be levied. Estate duty, for instance, may be considered necessary as a device to correct inequalities in the ownership of weaith. Similarly, a gift tax is essential to have both as a complement to an estate duty as also to an expenditure tax. A highly progressive income tax may be defended on the score of the social objective of reducing income disparities. The point which it is intended to emphasise is that the tax authorities and planners would not be justified in treating the proceeds of all taxes on par, judged on the score of their availability for current spending by the Government.

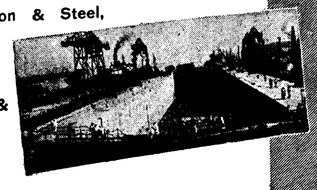
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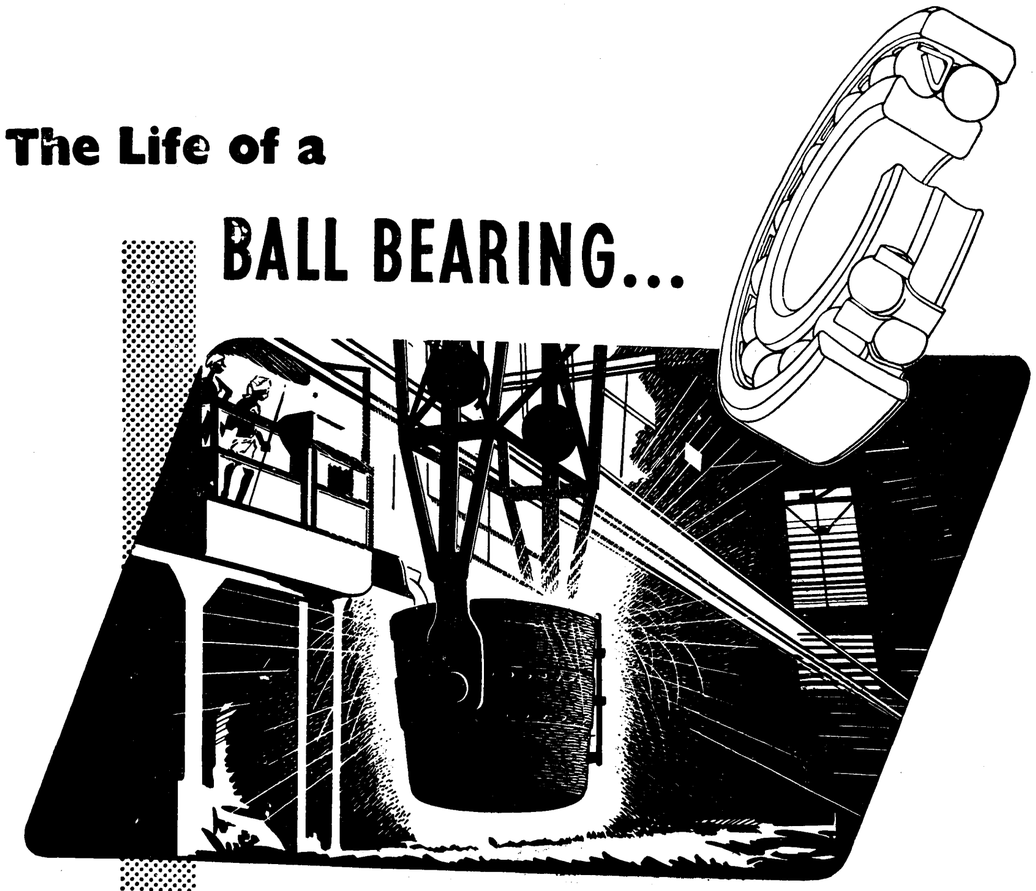


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ANOMALIES IN THE LEVY OF SALES TAX

EFFECT OF CENTRAL LEGISLATION ON INTER-STATE TRANSACTIONS

● By G. P. AGARWAL ●

Law Officer, Rohtas Industries Ltd., Dalmianagar, Bihar

PRIOR to its amendment, Article 286 of the Indian Constitution stipulated restrictions on the imposition of tax on the sale or purchase of goods in the following way: "No law of State shall impose or authorise the imposition of a tax on the sale or purchase of goods where such sale or purchase takes place (a) outside the State or (b) in the course of the import of the goods into or export of the goods out of the territory of India." It was stated that for the purposes of sub-clause (a), a sale or purchase would be deemed to have taken place in that State in which the goods have actually been delivered for consumption. This would be so in spite of the fact that under the general law relating to the sale of goods, the "property" in the goods had, by reason of such sale or purchase, passed in some other State. Except where Parliament had by law otherwise provided, no law of a State would impose or authorise the imposition of a tax on the sale or purchase of any goods where it took place in the course of inter-State trade or commerce.

Before the decision of the Supreme Court in the case of the Bengal Immunity Company, different State Governments used to impose tax on sales which, by virtue of the explanation to Article 286(1) (a) of the Constitution, were deemed to have taken place within the taxing State. The ban imposed by Article 286 clause (2) was not an absolute ban; only an authority of Parliament was necessary to lift it. As was held by the Bombay High Court, the power to tax lay with State Governments, and they could exercise it fully after authority had been received from Parliament.

Distinct Changes

The Sixth Amendment to the Constitution has made some distinct changes. It has taken away the power of State Governments to legislate for the imposition of sales tax on inter-State transactions and this has now become a matter for the Indian Union. Parliament has to formulate principles for determining the sale or purchase which takes place outside the State, or which is in the course of import and export. There was also a restriction on the imposition of sales tax by State Governments relating to the sale or purchase of goods which Parliament had by law declared to be essential for the life of the community. State Governments could, however, impose such a tax after they had received the assent of the President. But after the amendment, only Parliament has the power to prescribe the conditions and restrictions concerning the State's power to levy sales tax on the sale or purchase of goods of special importance. All the previous bans imposed on the States to levy sales tax were separate and independent, so a State Government had to get over each one of them before imposing the tax on the sale or purchase of goods. Apart from the limitations mentioned above, there is another non-discriminatory clause. The system of sales tax in one State cannot operate in a manner so as to discriminate between goods imported from other States and goods of the same kind which are locally produced or manufactured. Freedom of trade, commerce and intercourse throughout the Indian Union being guaranteed, such a limitation on the powers of State Governments is justified.

Fixing the Situs

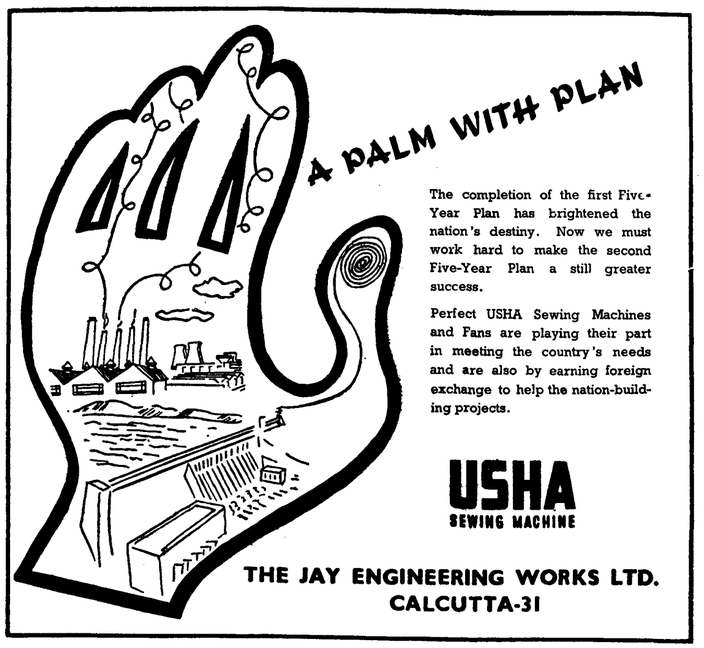
As the word "sale" has not been defined in the Central Sales Tax Act, different considerations would follow for the purpose of testing whether the sale has taken place outside or inside a State. For the situs to be fixed under the Sale of Goods Act, it should be on the basis of the rules relating to the passing of the property in the goods; it should also depend on the nature of the contract entered into between the parties to a transaction. Before the amendment of the Constitution, the test was according to the explanation to Article 286(1) (a) of the Constitution A sale or purchase was deemed to have taken place in the State in which the goods were actually delivered "as a direct result of such sale or purchase for the purpose of consumption." This legal fiction was created in order to take away the taxing power on sale or purchase of all the States concerned excepting the one where the goods were delivered for consumption. Once the situs had been determined, it followed that the sale was outside all other States. This was the view taken even by the Supreme Court in the case of United Motors in 1953. But it overruled itself on that point in 1955 in the Bengal Immunity case. It held that the explanation to Article 286(1) (a) of the Constitution did not govern sub-clause 2 of that Article. The two clauses were different and independent of each other. The sole purpose of the explanation, the Court held, was to define the situs of sale or purchase under clause 1(a) of the Article. Therefore, the sale which was inter-State in character on account of the explanation to this Article, could be deemed to be an inter-State sale if the transaction indeed took place in the course of inter-State trade and commerce. On account of this opinion expressed by the highest judiciary of the country, Parliament thought of making the position clear through an amendment of the law. The Sixth Amendment empowers Parliament to formulate by law the principles for determining when a sale or purchase of goods takes place outside a State. The Central Sales Tax Act, 1956, has, therefore, described the conditions defining the sale taking place inside a State and outside, and also when the sale is in the course of inter-State trade and commerce.

Some Anomalies

Certain anomalies which are creating difficulties for dealers in general have come to light. There is no provision in the Act by which a registered dealer would be entitled to realise sales tax from his customer. This being the position, a customer might refuse to pay sales tax to the dealer from whom he has purchased the goods. Litigation might ensue and the free flow of inter-State trade and commerce might thus be hampered. A registered dealer might think of charging tax on sales according to the definition of the sale price given in Section 2(h) of the Act. If he does, it will fall heavily on the customer. If he does not, he would then be leaving himself at the mercy of the assessing authority and might get assessed on the gross turnover, which might include the sales tax also in the sale price. This would create confusion among dealers in general, and may lead to unnecessary litigation. It is high time the position was clarified either by a suitable amendment or by a proper interpretation by the judiciary.

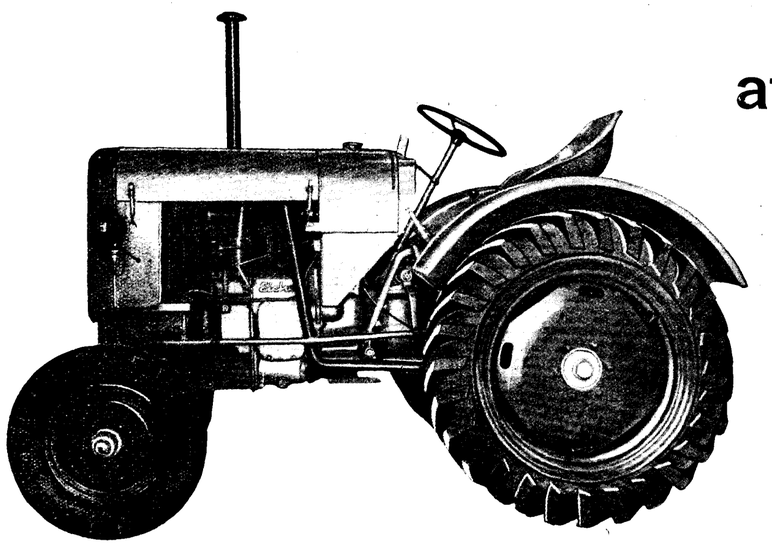
Two Bans

In the Bengal Immunity case, it was argued on behalf of the Government that if the two bans imposed by Article 286 were treated as separate and independent, they would reduce the sale of goods inside the State as the consumer would get goods free of sales tax from outside dealers. The Supreme Court, however, left this point to be decided by an Act of Parliament, under Article 286 of the Constitution. But in spite of the enactment, this unfortunate anomaly between the sale price of goods when sold by the State dealer and when sold by the non-resident still exists. The position becomes obvious when a consumer purchases an article from a registered dealer inside his State and from one outside it. In the former case, he may have to pay inter-State sales tax and the State sales tax, which would certainly be greater than what he would have to pay on his purchases outside his State.



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GROWING STRAIN ON THE BALANCE OF PAYMENTS

NEED TO SECURE LARGE FOREIGN AID

● By BHABATOSH DATTA ●

Professor of Economics, Presidency College, Calcutta

INDIA'S second five year plan is not yet two years old, but it has already created problems considerably more serious than those created by the first plan in its entire five-year period. Compared with its successor, the first plan was modest in every way, but still economists analysing its prospects expected that the two major problems of a large-scale development plan—domestic inflationary pressure and a strain on the balance of payments—would arise long before the end of the five-year period. The fact that these problems did not arise was due to several causes: excess capacity and elasticities of the productive system, shortfall in expenditure in the Government sector, failure to implement fully the import-intensive parts of the plan, good monsoons and a good foreign reserve position. The second plan was launched in conditions which were considerably more difficult. By 1955-56, the existing elasticities of the productive system and the excess capacities had almost all been fully utilised. The prospects of increasing the output by "taking in the slack" had been reduced by the fact that the slack had already been taken in under the first plan. Food production had stopped increasing at the high rates experienced in the middle of the first plan period. Above all, the expenditure targets of the second plan were set at much higher levels than under the first plan and the import-intensity was also higher because of the emphasis laid on heavy industry.

It was obvious within the very first year of the second plan that many of the expectations and assumptions on which it was based would not be realised. The unavoidable implication of a sharp rise in investment expenditure in any non-regimented economy is to create additional incomes which lead to an excess demand for consumer goods. At the same time, the increase in investment expenditure means a diversion of resources to the production of capital goods, and it cannot be said that all the diverted resources were idle before such diversion. These facts together create both the domestic problem of inflationary pressure and the external problem of a strain on the balance of payments. If the consumer goods sector is unable to meet the excess demand, because of the diversion of resources, or inelasticities induced by structural rigidities, or because of a deliberate policy of discouragement of the expansion of consumer goods industries, the strain on the balance of payments will be still more serious.

Special Factors

Many special factors come into operation in the balance of payments situation of an economy in which there is a sharp increase in investment expenditure and where the domestic productive system is relatively inelastic. To the extent that foreign equipment is required for new investment, there is a direct increase in import demand. To the extent that new incomes are created and the domestic consumer goods sector is unable to meet the resultant increase in demand, there is a rise in the demand for imported consumer goods. Even when an import and exchange control system is in operation, there will be some increase in the import of consumer goods in such conditions, because however carefully designed, a system of controls is bound to leave some loopholes (through imperfections in classification, etcetera) which can be taken advantage of by importers. There is also the fact that a rise in investment expenditure often means an increased retention of exportable raw materials, and an increase in domestic incomes may mean a larger domestic retention of exportable consumer goods. From all sides, pressure on the balance of payments is an almost inevitable result of a large-scale development plan.

It is necessary to remember that some of India's major export commodities are also important items in domestic consumption. In theory, one could expect that a payments deficit caused by domestic inflationary pressure would itself act as a corrective, by causing a decline in money supply and an increase in the supply of imported goods. But this has not happened in India because a large part of her imports are capital goods and the consumer goods which have come in recently have not been (except in the case of official food imports) of the essential category which could have an effect on the domestic cost of living index. A balance of payments deficit is thus not surprising in the present situation. In fact, such deficits were confidently expected under the first plan and it was not thought that the draft on the foreign exchange reserves would be as small as Rs. 138 crores in the 1951-56 period, rather than the estimated figure of Rs. 290 crores. The cause for worry is not the fact of the payments deficit, but its size and timing.

Second Plan Estimates

The framers of the second plan expected that the total payments deficit on the current account during the entire five-year period would be Rs. 1,120 crores (excluding official donations), that is, an annual average rate of Rs. 224 crores; it was thought that the deficit in the first year (1956-57) would be Rs. 148 crores. The actual current account deficit in 1956-57 was Rs. 292.5 crores according to the provisional estimates, but this figure includes total credits of Rs. 39.8 crores from official donations. If these official donations are left out, the current account deficit in 1956-57 comes to Rs. 332 crores, or about 2¼ times the figure estimated by the framers of the plan.

Table 1: Second Plan Estimates of Foreign Exchange Gap and Financing
(Rs. crores)

	1956-57	1957-58	1958-59	1959-60	1960-61	Total five years	Annual average
Exports f.o.b. ...	573	583	592	602	615	2,965	593
Imports c.i.f. ...	783	886	990	895	786	4,340	868
Trade balance ...	—210	—303	—398	—293	—171	—1,375	—275
Invisibles, excluding official donations ...	62	55	51	46	41	255	51
Total current account balance ...	—148	—248	—347	—247	—130	—1,120	—224
Financing Plans:							
Estimated inflow of foreign capital on private account							100
Unutilised balance of past authorisations of loans, etcetera, on public account ...							94
Assured loans and credit from the U.K. and Russia (net of repayments) ...							76
Drafts on foreign exchange reserves ...							200
Estimated gap (approximately) ...							630
Total financing required on external account (approximately)							1,100

(Source: Second Five Year Plan)

The position in the second year of the plan can only be roughly estimated from the draft on the foreign exchange reserves. The total foreign exchange assets of the Reserve Bank declined from Rs. 746.13 crores at the end of March 1956 to Rs. 526.83 crores 12 months later, that is, by Rs. 219.30 crores. It has to be remembered that India purchased Rs. 60.6 crores ($127.5 million) of U.S. dollars from the International Monetary Fund in February and March 1957, while she had repurchased Rs. 2.9 crores ($6 million) of U.S. dollars in the first month of the fiscal year 1956-57. The net drawing from the Fund in 1956-57 was thus Rs. 57.7 crores. The draft on the exchange reserves of the Reserve Bank and on the Fund resources thus explained Rs. 277 crores of the total current account deficit of Rs. 293 crores (including official donations). The remaining Rs. 15 crores were offset by movements in other short-term assets and liabilities of the Government and the banks, and also by long-term capital movements. As is obvious, the net total effect of all such movements was small.

Decline in Foreign Exchange Assets

In the first six months of 1957-58 (from 1st April to 30th September, 1957), there was a further sharp fall in foreign exchange assets. The total foreign exchange reserves of the Reserve Bank stood at Rs. 526.83 crores at the beginning of 1957-58; of this Rs. 412.52 crores was held in the Issue Department under the amended law which prescribed a minimum foreign exchange holding of Rs. 400 crores, while the remaining Rs. 114.51 crores was held in the Banking Department. By the first week of June 1957, the reserves in the Banking Department came down to Rs. 33.95 crores and the Government then drew upon the stand-by of Rs. 34.4 crores ($72.5 million) arranged earlier in the year with the I.M.F.

Table 2: Reserve Bank Holdings of Foreign Exchange Assets
(Rs. crores)

End of	Held in the Issue Department	Held in the Banking Department	Total foreign exchange assets	Purchases from I.M.F during the month
1956 October	492.02	90.23	582.25	...
November	457.24	79.29	536.53	...
December	447.30	82.61	529.91	...
1957 January	427.43	83.18	510.61	...
February	412.52	106.35	518.87	28.56
March	412.52	114.31	526.83	32.13
April	412.52	92.39	504.91	...
May	412.52	42.55	455.07	...
June	412.52	40.82	453.34	34.51
July	400.52	19.68	420.20	...
August	360.52	19.34	379.86	...
September	326.62	25.90	352.52	...

(Source: Reserve Bank of India Weekly Statements)

The impetus rendered by this new drawing did not last. In the first week of August 1957, the Reserve Bank found it necessary to take advantage of the escape clause in the paper currency reserve laws, under which the reserves held in the Issue Department could be lowered to Rs. 300 crores for a six-month period. At the end of September 1957, the reserves came down to Rs. 326.62 crores in the Issue Department and Rs. 25.90 crores in the Banking Department. The decline in the first six months of 1957-58 was thus Rs. 174.31 crores, and if the Fund drawing in June is left out, this six-month foreign exchange deficit was about Rs. 209 crores. This can be put against the second plan estimate of a current account deficit (excluding official donations) of Rs. 248 crores in the 12-month period of 1957-58.

Net Reserves

In the first 18 months of the second plan there was thus an actual decline of Rs. 396 crores in the foreign assets of the Reserve Bank; in the absence of Fund drawings, the figure would have been Rs. 491 crores, or nearly 2½ times the total planned draft of Rs. 200 crores on these assets during the entire second plan period. One would get a better picture if one could obtain up-to-date information on the changes in the *net* reserve position of all the sectors. A net computation of the total reserves of India would take into account not only the foreign exchange and gold holdings of the Reserve Bank, but also the holdings of the Government's foreign agencies (embassies and supply missions) and the working balances of authorised dealers in foreign exchange; against these would be set the short-term foreign liabilities of the Government and the banking sector. Data on the net position are at present available up to June 1957, and these indicate a greater deterioration than the gross Reserve Bank figures alone. There was a sharp increase in the liabilities of the banking sector in 1957—from Rs. 59 crores at the end of December 1956 to Rs. 144 crores at the end of June 1957—

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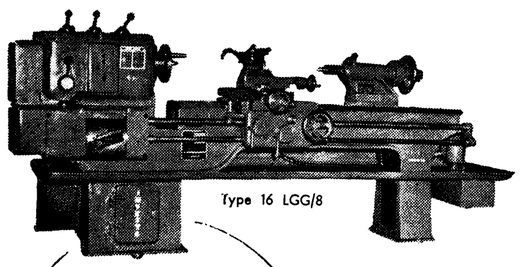


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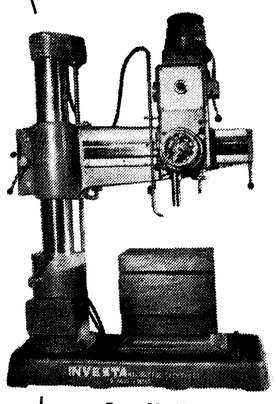
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which indicates that India is meeting part of her payments deficit by postponing immediate payments.

Table 3: India's Foreign Exchange and Gold Assets
(Figures in crores of rupees include gold valued throughout at Rs. 117.76 crores)

End of	Gross assets of Reserve Bank	Gross official, Reserve Bank and other banks' reserves	Bankers' and Reserve Bank liabilities abroad	Net official, Reserve Bank and other banks' reserves
1951-52	841	873	141	732
1956-56	864	920	81	839
June 1956	799	860	65	795
September 1956	733	792	61	731
December 1956	648	704	59	644
March 1957	645	701	118	584
June 1957	561	631	144	487
July 1957	538	...	...	...
August 1957	498	...	...	...
September 1957	470	...	...	...

(Source: Reserve Bank of India Bulletin September 1957.)

The total foreign exchange and gold assets of the Reserve Bank at Rs. 471 crores constituted nearly 32 percent of the currency liabilities of the Bank, nearly 28 percent of its total demand liabilities and a little more than 30 percent of its demand liabilities to the non-official sector. They have since fallen to around Rs. 425 crores. Domestic confidence in the currency, even in countries like India, depends mainly on the people's confidence in the Government, and it is worth noting that neither the change in 1956 from a proportional reserve system to one of fixed reserves nor the decline in the reserves below the statutory Rs. 400-crore limit this year caused any flutter in markets in India. It is possible now to proceed on the assumption that the Indian public are aware of the implications of, and reconciled to, a domestically inconvertible currency.

International Confidence

International confidence in a currency, on the other hand, depends both on the confidence in the Government and on the balance of payments position. It has been claimed that in spite of the worsening of the Indian payments position in recent months, there has not been any appreciable deterioration of the international position of the rupee—apart from the movements that it has experienced along with sterling. It is not always remembered that the rupee is an important medium of international transactions over a large part of Asia and Africa; the volume of rupee account trade is growing and there is, besides, a large demand for the Indian rupee for *illegitimate trade* and capital transfers. There does not seem to have been any slackening of the demand for the rupee for these purposes, and this is remarkable when one remembers that the store value of a currency is very important in determining its exchange value for capital transfer purposes. This, however, is a small part of the problem. The important thing is whether, in view of the future need and the immediate stability of the rupee, any further substantial fall in the reserves will be advisable. Some think that a further reduction of, say, Rs. 150 crores in the foreign exchange assets of the Reserve Bank will not produce any serious domestic repercussions, if the people have reasons to believe that the Government is screening expenditure very carefully. But for international transactions, the reserves represent liquid purchasing power, and a decline to a critical limit may force upon the Government exchange and other policies which will be unwelcome for many reasons.

Adequacy of Reserves

The changes in the net reserves of a country are important for evaluating its real balance of payments position. But when one tries to measure the currently available purchasing power which a country commands for purchases abroad, it is the gross position which is more important. The gross short-term foreign assets and gold of the official and banking sectors stood at Rs. 631 crores at the end of June 1957, and if it is assumed that there were no changes in the relative proportions of the components in the subsequent months, the end-of-September figure would be about Rs. 530 crores, which is quite small compared with the balance of payments requirements of the country. Only three years ago, India's total reserves were about 150 percent of her annual imports, that is, the reserves could pay for one and a half years' imports, even if there were no export or other receipts. In the last 18 months, imports have increased while the reserves have fallen and the present total gross reserves of the country are less than 50 percent of the present annual rate of imports. There are, of course, countries which manage with a smaller reserves-imports ratio than this, but they are either otherwise very strong financially, so that they can manage with small cushions, or are desperately weak. Furthermore, the important thing is not so much the absolute lowness of the ratio as the rate at which the ratio has been falling—from 150 percent in 1953-54 and more than 100 percent in 1954-55 to less than 50 percent in 1956-57. A further year of deficit at the rate experienced recently will practically wipe out the reserves.

Main Functions

The main functions of the international reserves of a country are essentially similar to those of the liquid balances of an individual or a firm. Reserves are required for "transaction" purposes, or to meet the current payment needs; they are necessary for "precautionary" purposes, that is, to take care of unforeseen emergencies; and they are also necessary, according to the Keynesian triad, for "speculative" purposes, or for taking advantage of income differentials from different alternative assets. A country needs transaction balances for international payments; the working balances of the Banking Department of the Reserve Bank and of the authorised dealers come under this category. There have been cases of individuals and banks keeping foreign exchange balances for speculative purposes—the "international short loan fund" of the 'thirties was a collective name for such holdings; but for a country like India, speculative balances, when they escape the net of exchange control, are likely to be of small quantitative significance. The most important element for consideration in the problem of the adequacy of reserves in India is that of the precautionary requirements.

The current gross reserves of India are not absolutely inadequate as a currency backing, nor are they insufficient as a working balance. But if the reserves are now allowed to drop much further, there will be little to fall back upon in case there is a real emergency like a food shortage. Even a single year with a particularly bad monsoon may lead to large food imports, in spite of the improvements in irrigation facilities, and it may not always be possible to get foreign loans or aid of the type provided by the U.S. Public Law 480. It is not unlikely that there may be a sudden emergency need for defence stores. All these considerations indicate the need for stopping any further substantial draft on the existing level of reserves. Two important questions follow from this: first, is the balance of payments situation likely to improve by itself in the near future, so as to reduce the pressure on the reserves, and, secondly, what should be the appropriate steps if the payments position on the current account is likely to remain unfavourable?

Lower Export Receipts

India's export receipts in 1956-57 were a shade lower than in 1955-56, but were about Rs. 60 crores better than the estimate for 1956-57 made by the framers of the second plan. The really important factor was import payments, which, at Rs. 1,077 crores, were Rs. 326 crores higher than the imports in the preceding year, Rs. 294 crores higher than the plan estimates for 1956-57 and Rs. 209 crores higher than the plan estimate of average annual imports in the entire second plan period. The trend remained unchanged in the first quarter of 1957-58 (April-June), when the exports and imports were Rs. 149 crores and Rs. 261 crores, respectively, compared with Rs. 132 crores and Rs. 192 crores in the corresponding period of 1956-57.

Table 4: India's Overall Balance of Payments (Rs. crores)

	1955-56	1956-57	April-June 1957
(1) Imports c.i.f.	—750.6	—1,076.5	—261.0
(2) Exports f.o.b.	641.1	637.0	149.0
(3) Trade balance	—109.5	—439.5	—112.0
(4) Official donations	42.0	39.8	...
(5) Other invisibles (net)	84.4	107.2	...
(6) Current account (net)	16.9	—292.5	...
(7) Errors and omissions	—5.3	—4.6	...
(8) Official loans	6.5	56.4	...
(9) Other capital transactions (net)	—3.1	21.7	...
(10) Movement in reserves (decrease —)	15.0	—219.0	—70.0

Sources: Reserve Bank of India, Report on Currency and Finance, 1956-57, page 72; and Reserve Bank of India Bulletin, September 1957.

According to the plan estimates, the peak imports were to come in 1958-59 and the peak figure was not to be higher than Rs. 990 crores. Some price corrections would of course be necessary for a proper evaluation of these figures, but one notes that, at least in 1956-57, the rise in import payments was almost wholly due to an increase in the physical volume of imports. It is doubtful if one could argue that the plan imports have been coming ahead of time and consequently the pressure will decline soon. No accurate information is available for the individual sectors, but it would appear from piecemeal evidence that there are still large amounts of plan imports that have not come and large amounts of payments that have not been made. It is not impossible that we have climbed up to a plateau and that we shall find our import demand remaining high for the major part of the second plan period.

It is difficult under the present system of classification to determine the exact proportion of capital goods in the total of our recent large imports. The share is undoubtedly high, but there are many classes of commodities about which it is difficult to be sure; it is not improbable that substantial amounts of non-essential consumer goods, especially consumer durables, have entered the country through the loopholes of classification. These consumer goods are not of the type that can reduce inflationary pressures in a country like India and, besides, it seems probable that a large part of these imports are being held as traders' inventories.

Rise in Capital Goods Prices

There is some likelihood of a rise in the prices of imported capital goods as a result of the inflationary forces that have been gathering momentum in Western countries for some time. Much will depend on what happens in West Germany. It is not always remembered that of the total current account deficit of Rs. 293 crores in 1956-57, Rs. 202 crores was with non-sterling E.P.U. countries, which, so far as India is concerned, means mainly West Germany. The recent increase in the British Bank rate to 7 percent will, of course, act as a disinflationary factor but there will also be a sharp rise in the cost of export credits.

In 1956-57, net receipts on "invisible" account (Rs. 107 crores excluding official donations) were substantially better than in the previous year (Rs. 84 crores) and very much better than the plan estimate of Rs. 62 crores. The receipts on this account have up to now included substantial earnings of the Reserve Bank from the sterling balances held in London and in recent years the most important factor explaining the increase in these receipts was the rise in British short-term interest rates. The recent rise in the British Bank rate will undoubtedly push up the Treasury bill rate in which India, as a holder of sterling balances, is interested, but the large decline in the amount of sterling assets will more than neutralise the effects of the increase in the rate of earning. Besides, the rise in the interest rates has meant a decline in the book values of the sterling securities held by India and a further decline is not unlikely.

The most important element in the balance of payments is of course trade, but there is nothing in the domestic or world situation to encourage hopes of a marked improvement in the near future. The position which Indian cotton textiles attained in world markets a few years ago will be increasingly difficult to regain and maintain. Japanese competition is likely to become more and more important in Eastern markets and it is possible that domestic factors will impede the effort to reduce costs that is necessary for expanding exports. The tea market expands only slowly, and there is strong competition on the supply side. The prospects of earning substantially larger amounts from the export of jute goods are also limited. There has been some talk about exporting steel produced by the new plants, but one can easily see the impossibility of any such export in the next year or two, and it is doubtful how far the cost advantage that India presently enjoys will continue in the future.

Expanding Home Demand

The major Indian export commodities are also those for which there is a large and expanding domestic demand. The home demand for cotton cloth and tea is elastic in relation to increases both in money incomes and in population, and the demand for gunny bags is closely related to the increases in the agricultural output. The domestic demand for steel is likely to remain much greater than home production for many years to come. The prospects of earning large amounts of foreign exchange by exporting sugar, leather goods, etcetera, are also limited by the prospects of sharply increasing domestic demand. These increases in domestic demand are the logical implications of economic development. A rigorous policy of control may be able to divert all increases in output to the export markets, but this will naturally enhance the domestic strains and stresses.

New exports may develop in the near future, but there will in that case be an increase in the current import requirements. Apart from the fact that all exports are to some extent import-intensive, there are some exports, for example plastic goods or processed cinema films, which are import-based to a very large extent. There does not seem to exist any great prospect of securing large increases in India's export earnings in the remainder of the second plan period, unless some unforeseen inter-



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national developments bring about a sharp increase in the demand for her basic exports. Export promotion councils and similar other institutions no doubt help, but the results of their action are rarely immediate.

Cut in Consumer Goods Imports

If export receipts are not likely to increase appreciably, relief may be had on the import side. Here also one notes that imports of capital goods cannot be reduced much without pruning the plan substantially and that the import estimates for coming years may be exceeded simply because of higher prices. There has, of course, been a drastic cut in the import of consumer goods under the June-September import policy and under the new policy announced for October 1957 to March 1958. But here the gain will be a final one—for once consumer goods imports have been reduced to the absolute minimum, no further cushion will remain for future action. If the drain on the foreign assets continues in 1958-59, the remedies on the import side will have to affect the imports of capital goods necessitating the pruning of the plan.

There is also the possibility, noted earlier, of large imports of foodgrains ; if the international situation deteriorates, there is also the possibility of increases in the imports of defence stores. It may not in all cases be possible to get foodgrains under the U.S. Public Law 480, and unless plain military aid is accepted, imports of defence stores will have to be paid for in foreign exchange. There is thus little or no reason to expect a substantial improvement in the trade imbalance. As for invisibles, the position is even more uncertain. There will be some relief on account of the cuts in foreign travel expenditure, but, on the other hand, the investment earnings of the Reserve Bank from its sterling assets will fall. The restrictions imposed by India's neighbours on private remittances to India are becoming stricter and there may thus be some decline in the private donations received. It appears that any improvement in India's overall balance of payments accounts will have to come through official donations or through capital inflows.

Devaluation and Multiple Rates

Before turning to the prospect of changes in the capital account, it is necessary to say a few words about the prospects of correcting the trade imbalance by direct devaluation or by partial devaluation through multiple exchange rates. The case against direct devaluation by India alone (that is, when the United Kingdom and other major countries are not devaluing) is clear. There is probably some ground for debate whether such devaluation will or will not increase our net export earnings. It appears that the prospects are not encouraging when there is nothing to prevent India's competitors in the world's tea and textile markets to offer strong price competition. As for jute products, while some increase in exports is likely, it is doubtful if the increase will compensate for the decline in the unit price. In the case of imports, on the other hand, it is certain that the burdens will increase. Once consumer goods imports have been physically cut to the minimum level, the balance of payments advantages of a devalued currency through increasing import costs are no longer available. If all other imports are absolutely essential, devaluation will simply increase the foreign exchange liabilities. The crucial elasticities that determine the net advantage of devaluation for any particular country are not known in the Indian case, but one could presume that they add up to a value which would increase the net burden of payments.

It has sometimes been suggested that India might now take advantage of a multiple currency system with high rates for essential imports and exports which are to be discouraged, and with low rates for non-essential imports and desirable exports. The recent French currency changes might have stimulated thinking on these lines, but it is difficult to see any advantage from a multiple currency system in India. The main point is not that the I.M.F. will object; in fact, a more effective objection may come from the British Treasury and the Bank of England. The I.M.F. seeks to discourage the adoption of multiple rates, but it is unlikely that India's access to further aid from it will be seriously affected by the mere fact of the adoption of such rates.

Reduction of Non-essential Imports

The really important point is that a multiple exchange rate system has meaning when non-essential imports are permitted on the payment of unfavourable or penal rates. If non-essential imports are reduced to a minimum through import controls, multiple rates have no meaning on the import side. The point which is generally missed in this connection is that although multiple rates originated as balance of payments devices, they have generally continued to exist as convenient fiscal measures. But in order to succeed as tax measures they must involve a wide permission to import non-essential consumer goods. A tax on luxury imports is meaningful only if luxury imports are permitted on the payment of taxes. In the Indian situation, with its gross inequality of incomes, a multiple exchange system will lead to substantial imports of high-income categories of consumer goods at high rupee prices (including the exchange premium). The Government will, of course, get a larger revenue, but this will be at the cost of a deteriorating balance of payments situation.

There is nothing that a multiple currency system can secure which cannot be ensured by an appropriate system of export and import duties. This means that the permission of G.A.T.T. has to be obtained, but just as the I.M.F. can permit many practices under its transitional arrangements, G.A.T.T. also can permit changes in tariffs in the case of balance of payments difficulties in an underdeveloped country. The historical experience of practically all the multiple currency countries has been one of increasing complications and India's standing in the world of international finance will suffer considerably if the unitary rate of exchange is given up. It may be possible to get some relief from strains on the exchange rate if wider margins than the present 1 percent are adopted and the rupee is allowed to float within these margins, but all this will not act as anything but temporary palliatives. As long as the large development demand for foreign exchange remains, the main problem is to increase the supply of foreign exchange. Manipulation of the exchange rate may be necessitated by the force of circumstances, but these will not solve the basic problem.

Husbanding of Private Foreign Assets

Another easily disposable suggestion is that the Government should try to husband those private assets which are held abroad or are easily marketable abroad, such as gold. No one will question the desirability of using gold hoards for financing the foreign exchange expenditure of the plan, but it is difficult to suggest any practicable method for achieving this end other than a completely totalitarian search-and-acquisition procedure. As long as the price of gold in India is nearly 80 percent above the world price, there can be no question of a spontaneous export of gold. Government purchase of gold at the market price will mean a large budgetary loss and an accentuation of inflationary pressures. The Government can try to borrow privately held gold stocks, but the inducement must be very high in order to tempt holders to part with an appreciating asset.

The foreign assets of private individuals in India are surely small ; exchange control is now a mature institution, and it is unlikely that large amounts of private balances have been created abroad. Small amounts of private foreign balances may have been created through unauthorised capital transfers—by leaving unspent travel allowances in foreign banks, or by the more traditional methods of under-invoicing of exports and over-invoicing of imports. But whatever their quantity, it will be impossible to hunt them out. If they could escape the Indian exchange control at the time they were created, they will not now fall into any other net. In exchange control matters, bygones are always bygones.

Purchases from the I.M.F.

It remains now to consider the prospects of getting short, medium or long-term loans or assistance from foreign sources. The most important source of short-term assistance is naturally the I.M.F. Under the Fund articles a member country may purchase foreign currency at the rate of 25 percent of her quota in any 12-month period. This limit can, however, be waived and it has recently become almost an accepted principle that the Fund will easily permit purchases up to 50 percent of the quota. In 1956, Burma was allowed to purchase dollars to the extent of 100 percent of her quota and a similar exception has recently been made in the case of the United Kingdom. A ceiling on total purchases is laid down by the rule that the Fund's holdings of a member's currency must not exceed 200 percent of its quota, which means in effect that the upper limit for Fund assistance is equivalent to the country's quota plus her gold contribution. This upper limit can also be waived, but up to now this has not been done. In India's case, the upper limit now is her quota of $400 million plus her "gold tranche" of $27 million. As India has already purchased $200 million (Rs. 95.2 crores) in the current year, the scope for further purchases is limited to another $227 million or Rs. 108 crores.

There was some criticism in the past of the level of the annual charges made by the Fund on its currency sales, but the recent rise in short-term interest rates will put the Fund charges in a favourable position. These charges are progressive both according to the size of the purchase in relation to the quota and according to the length of time elapsing before repurchase. But the highest slab rate is 5 percent and the average rate (including the service charge of 0.5 percent) on a purchase equivalent to 100 percent of the quota unredeemed for five years, comes to nearly 3.5 percent a year. A more important difficulty is that repurchases have to be made within a three to five-year period. The Fund often lays down a definite schedule of repurchase, and though no such schedule was prescribed for India for her purchases earlier this year, it is not improbable that a schedule will be insisted on in the case of a further purchase. The Fund offers the advantage of immediate help on a large scale ; but unless a remarkable improvement in the payments position is expected in the coming three to five years, a large Fund purchase may create difficulties.

More important than all this is the historical fact that the Fund has extended a large amount of assistance in recent months—to India, France, U.K. and others—and its liquidity position is not now as good as it was two years ago, when the Fund authorities were anxiously looking for potential purchasers of currency. In the course of the last year, the Fund has sold about $1 billion of currency and has granted, an equivalent amount as standby. The uncommitted liquid assets of the Fund are now about $1.5 billion, and, in view of the fact that the Fund cannot increase its resources by borrowing in the open market, it will not be unnatural for it to be more careful in extending further assistance.

Aid from Foreign Banks

If the Fund is left out now as a source of funds in the last resort, the only other source of short-term aid is foreign banks. There have been cases, even among Asian countries, when temporary balance of payment maladjustments have been rectified simply by allowing liabilities to foreign bankers to increase. It is not easy to do this for any length of time, and it is obvious that the circumstances under which a country will not be able to get other types of assistance from abroad will also be those which will discourage foreign bankers from extending credit.

More substantial help can be obtained by arranging medium-term credits from foreign exporters. India's new import policy seeks to encourage the deferred payment system of importing capital goods in the private sector and it is well known that West Germany has been extending export credit on a fairly large scale. It is necessary, however, to be cautious about the quantitative importance of such export credits. The position that West Germany has built up has created problems for the other members of the E.P.U. and the deutschemark is now among the hardest currencies in the world. It will not be surprising if the forces operating within the E.P.U. bring about a contraction of West German exports and export credits. The increase in the British Bank rate will make export credits from that country very expensive. Of course, every little sum helps in a crisis, but one should not expect a very large increase in the volume of export credits received by Indian enterprises.

The World Bank and the I.F.C.

Foremost among the potential sources of long-term capital is the World Bank. It has already supplied a substantial amount of assistance to India; the total of loans granted to this country so far comes to nearly $300 million and India is in fact the largest single borrower from the Bank. It is not equally well known that of the total amount of loans sanctioned, nearly half remains unutilised and undisbursed and that there have been a few cases of cancellation also. This has been mainly due to India's failure to complete the details or to implement the rupee-financed part of the projects concerned. The World Bank loans are for specific projects, and it is probable that the loans granted by the Bank will remain undisbursed, or will even be partially cancelled, although the overall shortage of foreign exchange continues.

The World Bank is accessible to private enterprise but the Government must act as the guarantor. Thus for all practical purposes a loan from it is a Government liability. The Bank, however, is strongly in favour of encouraging private enterprise, and the International Finance Corporation has been inaugurated with a view to achieving this object. The I.F.C. is now only one year old and its first annual report states that three loans have so far been granted by it. It is obviously an accessible source for Indian private enterprise, but it is unlikely that this institution, with its relatively small resources, will play a very important part in relieving the pressure on the Indian economy.

Private Capital Inflow

The second plan estimates expected Rs. 100 crores as private long-term capital inflow in the five-year period, that is, an average of Rs. 20 crores a year. The actual inflow of long-term capital on the private account in 1956-57 was anly Rs. 9.7 crores, which was not only lower than the plan estimates but also lower than the gross annual inflow of Rs. 14.3 crores a year of such capital in

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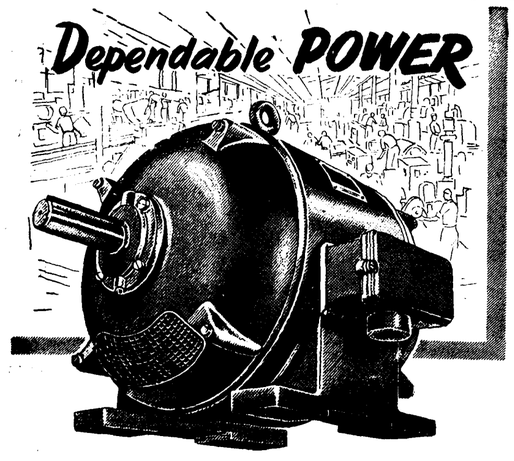
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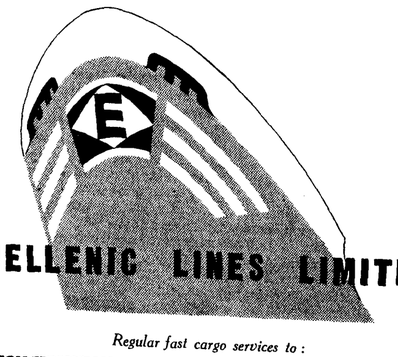


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the first plan period. It is necessary to note in this connection the factors which, according to a U.S. Commerce Department publication of 1953, tend "to restrict or impede the placement of new foreign investment in India". Among these are: India's screening policy which denies admission to some types of investment and is slow and costly for all types; existence of import, export and exchange controls; Government participation in industry; Government policy favouring nationalisation; absence of an adequate system of informing U.S. investors of the existing investment opportunities; unfamiliarity of U.S. investors with Indian business ways; absence of a double taxation agreement; obligation to train Indians; obligation to increase the manufacturing operations carried out in India.

Main Difficulty

It is obvious that some of these difficulties are bound to arise in the case of any international investment. The main difficulty in this field is not that there are impediments of these types, but that the U.S. investing groups find it more profitable to invest either at home or in countries in which the United States has a dominant economic and political interest. It is not without strong reasons that the major part of U.S. private investment abroad is flowing to countries like Venezuela or to some parts of the Middle East. Looked at from this standpoint, the problem of India seems difficult to solve. It is still too early to estimate the probable effects of the recent visit of Indian industrialists to the United States, but one has to appreciate that the problem is not simply one of domestic economic policy.

The U.S. Commerce Department report mentions some of the special facilities which India offers to private foreign capital: for example, grant to foreign enterprises of tax exemptions; accelerated depreciation allowances and other benefits which are available to domestic industry; guarantee of exchange facilities for profit remittances, capital repatriation and import of essential requirements; Government assistance in the acquisition of land and in obtaining power, transportation facilities, etcetera; right to own all or the majority of shares, and so on. It may be hoped that the recent agreement between the United States and India on the remittance of profits, etcetera, and the U.S. Government's guarantee to American investors of such remittances will remove a major obstacle.

In spite of all this there is no sign yet of any appreciable increase in U.S. or other foreign private investment in India. It is doubtful whether there will be a marked change in the position in the remainder of the second plan period. It should also be noted that on a *net* basis there is an *outflow* of private long-term capital from India every year. The gross outward movements showed a declining trend from 1948-49 to 1953-54, but have recently been rising again. If the plan estimates are to be realised, the gross inflow of private long-term capital has not only to be much larger than at present, but has also to increase fast enough to take care of any increase in the rate of repatriation of old investment that may take place.

Inter-Governmental Grants or Loans

The only other important source that remains is Government-to-Government grants or loans. The major part of such grants or loans that India has received so far has been from the United States, though relatively small amounts have been received from the U.K., Canada and Australia under the Colombo Plan, from a few other countries under the U.N. technical assistance schemes and from Russia. It is, however, clear that the ability of Russia to offer such aid is limited. The domestic situation in the United Kingdom will make it difficult for that country to export capital and it will be expensive for other countries to borrow it. The United States seems to be the only really important source.

The U.S. Government can offer help to India in many ways. It can offer agricultural surplus commodities for rupee payments under the Agricultural Trade Development and Assistance Act or Public Law 480. It can offer grants or loans from the amounts placed at the disposal of the International Co-operation Administration. It can extend loans through the Export-Import Bank and offer aid from the new $300 million Development Fund. Lastly, it can offer a big new grant or loan under a special authorisation for India approved by Congress. India has already received $360 million worth of agricultural surplus commodities under Public Law 480. It will be desirable to seek further aid under this law in coming years, as the food scarcity is likely to continue. U.S. aid under Public Law 480 does not entail any foreign exchange liability, and, in general, the rupee payments are lent back to the buying country for development purposes. There is also the tactical advantage that the President does not have to go to Congress for any new authorisation, so long as the total transactions do not exceed $1.5 billion.

On the other hand, while food imports under Public Law 480 will relieve inflationary pressures, such imports are not part of the estimates on the basis of which the foreign exchange gap is calculated. This means that the $1,400 million or Rs. 665-crore gap of which the Indian Finance Minister now speaks is additional to the food imports that may have to be financed by this method. By relieving inflationary pressures, it will help in preventing a further upward revision of the foreign exchange gap and to the extent that food imports are available without foreign exchange expenditure, a further draft on our resources can be made for other purposes. The amount that the International Co-operation Administration can offer is severely limited by the total appropriations and no single country can be given a large share. Similarly, the President's Development Fund cannot be utilised wholly for India, except in a very special case, that is, except when the general Congressional opinion in Washington is in favour of an all-out U.S. effort to help India. If such a situation develops, or can be made to develop, the U.S. administration can also get a special Act passed for authorising large-scale aid to India, as either a grant or a loan. It is doubtful, however, if such a change in the political climate, favourable to India, will develop in Washington soon, in spite of the effects of the visits of the Finance Minister and the industrialists' delegation.

Prospects for U.S. Assistance

The Export-Import Bank can offer some help without Congressional authorisation. If one could hazard a guess, the maximum total amount that the U.S. Government could offer to India in the near future is not likely to exceed $300 million—about $100 million each from the I.C.A. grants, the Development Fund and the Export-Import Bank; to this might be added the rupee-financed imports of foodgrains under Public Law 480. Anything more than this will need special Congressional action and not much hope can be placed on that. If, then, the prospects are all summed together we get the following picture: from the U.S. Government $300 million; from the World Bank some $100 million; from the I.F.C. not more than $25 million; and from private capital inflow another $25 million. This makes a total of about $450 million or Rs. 214 crores. To this may be added some amounts of export credits, aid from other countries, etcetera, and in an extreme emergency, assistance up to a maximum of Rs. 108 crores may be obtained from the Fund. But a Fund loan and exporters' credits have to be repaid within a few years and therefore the major problem is whether the long-term inflows will suffice.

Cutting the Plan

It appears that the probable amounts of long-term capital inflows in the remainder of the second plan period will not go far in meeting the foreign exchange deficits unless other factors also help. Even if import cuts and export promotion measures together lead to a substantial improvement in the trade balance, the prospects of getting back to a position in which all the planned foreign exchange expenditure could be undertaken are poor. Under the circumstances, there will be no alternative other than to prune those parts of the plan in which foreign exchange expenditure is large but firm commitments have not yet been made. There is, in fact, no alternative to cutting the plan, unless exceptionally large foreign aid is available, and in the last analysis that means a thorough change in the foreign policy of the Government. There may be good reasons for not changing the foreign policy, but in that case one should logically proceed with a clear awareness of the impracticability of the plan as it was formulated two years ago.

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THE CHANGING PATTERN OF MONEY SUPPLY

NEED TO CONTROL FUNDS OUTSIDE THE BANKING SYSTEM

● By R. M. MITRA ●

ABOUT 70 percent of the money supply in India has traditionally consisted of legal tender currency and nearly 30 percent of the banks' demand liabilities. But the recent growth in bank deposits might foreshadow a new trend in the relative importance of the components. There has been an increase of Rs. 153.84 crores in the money supply, from Rs. 2,189.13 crores in June 1956 to Rs. 2,342.97 crores in June 1957. Demand liabilities of banks other than the Reserve Bank account for Rs. 83.57 crores, "other deposits" with the Reserve Bank for Rs. 11.48 crores, and the legal tender currency for Rs. 58.79 crores of this increase.

The current growth in demand liabilities works out, therefore, to about 140 percent of the growth in currency, whereas the customary ratio of banks' demand liabilities to currency in circulation does not exceed 50 percent. This aspect of the apparently changing monetary pattern acquires added importance if it is noted that the weekly average of total liabilities of scheduled banks has risen by Rs. 175.15 crores (from Rs. 1,072.95 crores in June 1956 to Rs. 1,248.10 crores in June 1957), as against an increase of Rs. 70.98 crores in the weekly average of notes in circulation, (from Rs. 1,496.50 crores in June 1956 to Rs. 1,567.48 crores in June 1957). The rise in banks' total liabilities has thus amounted to about 250 percent of the rise in notes in circulation, while the conventional proportion of banks' liabilities to notes in circulation is about 80 percent. Although the growth of bank deposits in India is still much slower than is needed to attain the relationship between currency and bank deposits in countries with organised economies like the U.S.A. and the U.K., a continuance of recent trends might be expected to bring about a change in the equation between bank money and cash money.

Unchanged Monetary Habits

Yet, in spite of this apparently healthy development, there are reasons for anxiety and uncertainty. The proportion of cash money held outside the banking system does not show any appreciable decrease. Cash with banks is about 3 percent of the total currency with the public, and it does not show a rise comparable with the growth in deposits and the currency (cash with banks in the U.S.A. represents about 10 percent of the currency in circulation). Although the recent rise in bank deposits has been spectacular in comparison with past experience, the increase is proportionately much less than that required to meet the growing requirements of national output. The annual increase in national output has been estimated at 3 to 5 percent; it might, therefore, seem that the rise in bank deposits of about 10 percent in 1955, 8 percent in 1956 and 20 percent during January to September, 1957, is keeping pace. But the gap to be filled is so wide that at least 100 percent increase in bank deposits has to be achieved before the financial system can expect to own and control enough resources to meet the changing requirements of the economy. Bank deposits, at their all-time high of Rs. 1,350 crores, still do not exceed 13 percent of net national income in India; in the U.S.A., they amount to about 50 percent of the gross national product and 60 percent of the net national income. The relative inadequacy of bank deposits is seen in perspective when it is noticed that bank credit in India, representing only about 9 percent of the net national income, involves nearly 70 percent of bank deposits and at that stage causes concern about the safety and liquidity of banking funds. Bank credit in the U.S.A., ruling at a level of about 25 percent of the gross national product, does not exceed 50 percent of bank deposits.

Current Trends

Current trends in bank deposits do not seem to arise from a new tendency towards the institutionalisation of money. The increase in bank deposits results mostly from increased credit creation brought about by the higher tempo of economic activity. It is partly the result of deficit financing for the five year plans; and, to some extent, it is also derived from the counterpart funds created from imports under the U.S. Public Law 480. It would be incorrect to assume, therefore, that a process of canalisation of money into the organised banking system has actually started. The magnitude of cash held outside the banking system shows no change; it was about 13 to 14 percent of the national income in 1952 and now exceeds 15 percent, whereas the relative proportion in the U.S.A. was 9 percent in 1952 and less than 8 percent in March 1957.

Impact of Plan

The character of banking in India is thus changing under the impact of planned investment and production, and not because of an increasing preference for bank money as against cash money. The seemingly higher level of deposits only reflects increased credit activities. As increased credit is the origin and not the consequence of increased deposits, the economy has been subjected to a severe strain produced by "undisciplined money." It is true that other countries with economies built on bank money have also been experiencing the same stresses and strains. But the origin and nature of the strains differ in different countries. The concurrence in time is mainly the outcome of the increasing interdependence of national economies. It would be a fallacy to conclude that because an evil originating in one country accentuates the evil in another, the character of the two evils is similar or that the remedy for their purely internal aspects is identical. If over-employment accompanied by higher production is producing a phase of cost inflation in the U.S.A., uncontrolled money flowing outside the banking system, eluding supervision of the monetary authorities and not amenable to productive use, is chasing after insufficient production and causing inflation in India. Again, if it is almost impossible for Britain to plan her economy except on the basis of a high level of exports to pay for her imports, it is conceivable that India may organise her economy so that capital investment may be phased in accordance with the growth of internal resources, and thus reduce the disturbances caused by excessive imports.

Common Factor

It is important, therefore, to realise that in spite of the appearance of a common factor of investment and cost inflation, the problem in India is essentially that of unregulated money and an improperly phased plan. The second five year plan is "ambitious" not because the net investment outlay reaches the figure of Rs. 6,200 crores, but because the projected investment is based on an estimated foreign exchange expenditure of Rs. 2,200 crores to Rs. 2,700 crores, and on a further speculative expectation of foreign aid, loans and credits to the extent of Rs. 900 crores. It may be argued that reliance on foreign assistance is necessary not to finance the import of capital goods, but to finance the foreign purchases of foodgrains, raw materials and consumer goods worth between Rs. 1,700 crores and Rs. 2,100 crores. But it is to be noted that non-capital goods imports, as calculated in the plan report, represent a fall from Rs. 452 crores in 1955-56 to an annual average of Rs. 438 crores for the period 1956-61, while imports of capital goods will be increased from Rs. 299 crores in 1955-56 to Rs. 430 crores which is the plan period average. It is true that the 1956-57 imports of foodgrains and other non-capital goods actually amounted to Rs. 635 crores, which represents a considerable increase on both the 1955-56 actuals and the estimated plan average; but this excess of about Rs. 180 crores to Rs. 200 crores is accounted for by the import of foodgrains to the extent of about Rs. 73 crores and other materials which are capable of being locally produced. It is also worthy of notice that the import of investment goods during the period of the first plan amounted to Rs. 818 crores, or a little above 26 percent of the total investment of Rs. 3,100 crores, whereas the estimated import of investment goods represents about 43 percent of the total investments under the second plan.

It is neither economically nor politically sound to make amends for years of neglect by wholesale importation of production apparatus, technical skill and "know-how". Development would be feasible and enduring if greater emphasis were laid on the higher output of indigenous machinery and apparatus, and on the development of indigenous skill and scientific research. Such reshaping of the plan may not excite the imagination as does the picture of economic growth measured in terms of tons of metal and kilowatts of electricity, but it is essential to ensure that the present well-being of the common man and planned economic growth continue on a stable basis.

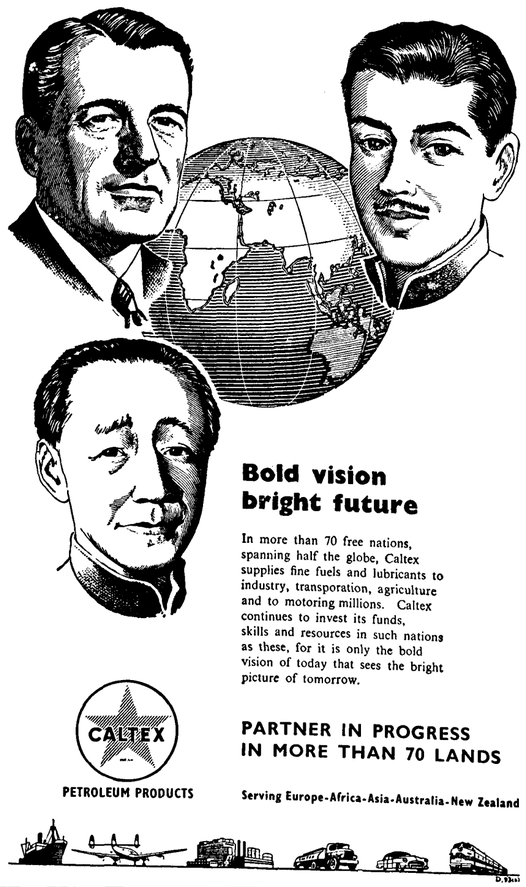
Control through Bank Rate

Apart from reshaping the plan, the orderly growth of the economy requires a reorganisation of the monetary system. This reorganisation should be in terms not of quantitative but of qualitative control of money. The instruments of quantitative control, based on the experience and skill derived from monetary control in other parts of the world, are already in operation in India. Bank rate, a variable reserve ratio and open market operations—three of the important devices are already at the disposal of the Indian monetary authorities.

Bank rate was raised in India from 3 percent to 3½ percent in November 1951, when the index number of wholesale prices declined to 435.4 from the Korean war peak of 462 (base, August 1939), and that of consumer prices was also showing a downward tendency. The money supply recorded a fall of Rs. 192.2 crores between April 1951 and October 1951. Bank rate was again raised to 4 percent in May 1957, when the index number of wholesale prices rose from 390.3 in May 1956 to 431.2 in May 1957 (base, August 1939) and that of consumer prices from 104 in May 1956 to 109 in May 1957 (base, 1949). The money supply increased by Rs. 156.18 crores between May 1956 and May 1957. There is another important difference between the circumstances relating to the action taken in 1951 and that in 1957. Market rates followed Bank rate in 1951 and Bank rate followed market rates in 1957. It was, perhaps, because Bank rate led the way in 1951 that steps were taken to ensure that bank credit did not suffer an embarrassing diminution. The so-called bill market scheme was introduced in 1952 to maintain the supply of credit for *bona fide* purposes of trade and production. On the other hand, the banks are being called upon in 1957 to reduce their loans and advances, and the official view on the propriety of the banks availing themselves of the facilities of the bill market scheme, seems lately to be undergoing a change.

Behaviour of Money

It is not the quantity of money in circulation but the pattern of its behaviour that causes disturbances in prices and in the supply and distribution of goods and services. While a decline in prices preceded and followed the enhancement of Bank rate in 1951, the money supply began an uptrend and rose by Rs. 33.1 crores between November 1951 and February 1952. It is worth noting that the money supply in India, at about Rs. 2,382 crores in May 1957, does not exceed 24 percent of the net national output at factor cost, whereas the money supply similarly computed amounts to about 55 percent of the net national product in West Germany and 37 percent in the U.S.A. It is also doubtful whether the movements of Bank rate can produce the desired effect on the money supply without serious repercussions on domestic production and trade. It needs to be remembered that



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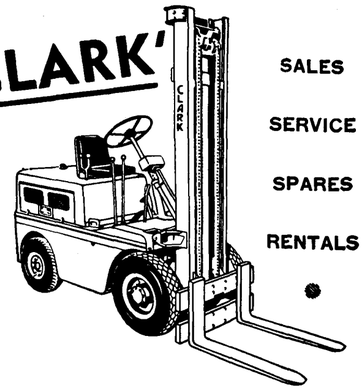
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Bank rate was successfully employed in Britain in the pre-1914 economy as an instrument for the protection of the gold reserves, and only as long as London remained as the international monetary centre.

Although the instrument of Bank rate has been brought into active use after two decades of hibernation, its effectiveness as a major policy measure has been significantly reduced by the changes in the economic, financial and social structures throughout the world. Exchange controls, political considerations and confidence in the value of the monetary unit of a country are forces against which the manipulation of Bank rate is scarcely an effective weapon. Technological developments have tended to shorten the useful life of capital investment, and the new concepts of wage policy have rendered "interest" a negligible component of the element of cost. Moreover, in countries such as India, the absence of an integrated money market limits the area of influence of Bank rate. This will be evident from the fact that wide fluctuations in call money rates and the banks' deposit and lending rates have not caused any noticeable change in the bazaar bill rates, which have been ranging between 10 and 12 percent in Calcutta since 1951-52. It is instructive, therefore, to note that "the movements in Bank rate" in Canada "are a mere reflection of monetary conditions and are not intended to exert any influence thereon or even to serve as indicators of official policy".

Open Market Operations

The other measures of quantitative control of money are no more effective. The growing volume of public debt, mostly of the floating type, will make it increasingly difficult for the central monetary authority to undertake open market operations on the scale necessary. The weapon of the variable reserve ratio was included in the armoury of the monetary authorities in India in October 1956. But soon after the introduction of the law vesting the Reserve Bank with the power to use this device, a phase of credit crisis arose. The authorities found it necessary to exhort the banks to take larger recourse to the facilities of the bill market scheme in order to meet the increasing financial needs of industry. The attention of the banks was also directed to the necessity of adjusting their lending techniques so as to accommodate the medium-term, if not long-term, needs of industry. In the circumstances, there has been no scope for operating the variable reserve ratio scheme, as the present reserve requirements are at the minimum legal level. Any change has necessarily to be upward, and an upward change is obviously inconsistent with a drive to increase credit.

The authorities seem now to be revising their attitude towards the part banks should play in meeting the credit needs of the country. The banks have been asked to reduce their total loans and advances from the level of Rs. 925 crores in June to Rs. 800 crores in October, (*i.e.*, before the start of the current busy season). But the situation is too confused, and an intelligent anticipation is not possible of results that may follow an upward change in the scheduled banks' reserve requirements. The new device, therefore, remains untested in present-day Indian conditions. This does not, however, vitiate the general conclusion reached by independent observers that deep economic movements can hardly be influenced by a quantitative control of money. In this connection, it is interesting to know that the American Bankers Association has sponsored a move to restrict the scope for the use of the variable ratio. The move is gaining support in a country that gave birth to the original idea.

The duty of the State to increase employment makes it difficult for any steps to be taken which adversely affect the vigour of trade and industry. It is obvious that quantitative control can scarcely distinguish between the desirable and undesirable uses of money. In a recent paper on "The Scope and Limitations of Monetary Policy", Mr. W. F. Crick has rightly observed: "The obstacles in the way of an effective monetary policy are so imposing as to extinguish any reasonable supposition that old-type monetary methods will ever again suffice for the purposes that policy is now required to serve".

Qualitative Control

Methods of qualitative control are being devised so that the use of money for the undesirable purposes of speculative hoarding or non-essential production may be effectively restrained, and yet adequate finance for the genuine needs of essential production and rational distribution may be ensured. The policy of qualitative control generally known as selective credit control was introduced in India on 17th May, 1956, in the form of a directive issued by the Reserve Bank. Similar directions have since been issued from time to time concerning commodities such as foodgrains, pulses, sugar, cotton textiles and cotton yarn.

The directive of May 1956 imposing restrictions on advances against rice and paddy was withdrawn on 14th November, 1956, and re-issued on 9th February, 1957. Another directive affecting advances against cotton textiles, pulses and cereals other than rice and paddy was issued on 13th September, 1956. A fresh directive was issued on 7th June, 1957, dealing with rice, paddy and other cereals and pulses; this required advances against rice and paddy not to exceed 66⅔ percent, and advances against other cereals and pulses not to exceed 75 percent, of the level in the corresponding week of 1956. It became effective from 12th July, 1957. The margin on the value of the security was raised to the minimum of 40 percent.

Wholesale Prices

Curiously, the index number of wholesale prices of cereals rose from 449 in May 1956 to 530 in November 1956, and declined slightly to 526 in February 1957. It again rose sharply to 565 on 13th July, 1957. While pulses showed a similar rise from 358 in May 1956 to 440 in March 1957, the index number started a decline in April and reached 392 on 13th July, 1957. The scheduled banks' advances against rice and paddy amounted to Rs. 24.76 crores on 11th May, 1956, Rs. 5.02 crores on 16th November, 1956, Rs. 21.28 crores on 8th February, 1957, and Rs. 13.75 crores on 12th July, 1957. Figures relating to wheat, gram, and other grains and pulses for the corresponding dates were Rs. 11.71 crores, Rs. 8.83 crores, Rs. 8.24 crores and Rs. 18.09 crores, respectively. It might seem a plausible conclusion, therefore, that selective credit control has failed to work satisfactorily because it has not exercised the expected influence on prices. But a hasty judgment should be avoided. The selective credit control has failed to produce appreciable results in India, not because the instrument is inherently defective, but because the area in which it operates is insufficient. Money flows largely outside the banking system and eludes the control of the monetary authorities. The Reserve Bank has been developing modern methods of studying the behaviour of bank money on the basis of statistics relating to "debits to deposit accounts", diverse classifications of deposits and advances, rates of interest on deposits and advances, investments in securities and equities, etcetera. But the results of such study contribute little, if anything, to the formulation of dependable monetary policies, because bank money constitutes barely one-third of the total money supply and the remaining two-thirds of money supply evades control.

Refinance Corporation

It seems, therefore, a curious process of socialisation which seeks to control, regulate and direct the various forms of economic activity, but is content to leave money unregulated. The confusion which arises from such an incongruous approach threatens to disrupt not only the banking system but the entire economy. Medium-term and long-term bank finance was hitherto considered unsound according to the tenets of orthodox banking. The experience of American banking, new trends of thought in the U.K. banking world and the needs of Indian industry, have led the authorities to an examination of the possibilities of term-lending by bankers. The Reserve Bank, it is reported, is enquiring into the questions relating to the liquidity of banks' assets and the adequacy of their resources with a view to deciding on the safety and practicability of term-lending operations. A preliminary step has been taken to give an impetus to term-lending by setting up the Refinance Corporation. The institution will be a private company under the Companies Act, 1956. Its initial share capital of Rs. 12.5 crores will be subscribed by the Reserve Bank, the Life Insurance Corporation, the State Bank, and 14 other selected scheduled banks. The funds of the Corporation will consist of the paid-up share capital and the U.S. counterpart funds of Rs. 26 crores (accruing because of the Agricultural Commodities Agreement signed in August 1956 under the U.S. Public Law 480). The counterpart funds will be lent to the Corporation for a period of 40 years. The total amount of Rs. 38.5 crores will be utilised in refinancing term-loans granted by the selected 15 scheduled banks to their borrowers. The State Bank will be allotted a quota of Rs. 5 crores, and the other 14 banks will be allotted quotas ranging from Rs. 1 crore to Rs. 3 crores. The loans which will be eligible for refinance will be of not less than three years' and not more than seven years' duration. They will not exceed Rs. 50 lakhs in the case of an individual borrower, and will not be granted to a borrower having total resources of more than Rs. 2 crores. It is proposed that the interest charged by the scheduled bank on its loan will be about ½ per-cent above the rate charged by the Corporation. Lastly, the scheduled bank will be required to assume the entire risk in case of non-realisation of any part, or whole, of a loan refinanced by the Corporation.

The scheme is intended to "afford facilities for medium-term finance to medium-sized borrowers in the private sector". It is also expected that the pilot scheme already launched by the State Bank for extending credit facilities to small-scale industries, and the increasing activities of the Finance Corporations combined with the functioning of the Refinance Corporation, will assist in the evolution of term-lending techniques by the Indian banking system. It is possible that the refinancing scheme will promote a better appreciation of the problems of bank lending, and thus indirectly contribute towards the evolution of a system of term-lending. The Corporation will provide a meeting ground for the monetary authorities and commercial banks on terms of equality and common responsibility; their collective consideration of the problems, it may be reasonably expected, will lead to the development of suitable techniques of term-lending. But the present scheme of refinance itself can hardly be the beginning of a well-established system.

Problem of Term-Lending

The real problem of term-lending is not the ready convertibility of a loan or the inadequacy of funds. The true nature of the so-called short-term bank loans has been exposed. It is now known that considerable amounts of bank loans are in fact renewed from year to year, and though nominally short-term, they are for all practical purposes medium-term or long-term. It is not possible for more than a small percentage of bank loans to be realised on demand except by shifting them to other bankers or financiers. Yet there is a difference between a short-term and a long-term loan. This difference does not lie only in its duration, but also in its purpose. The bank prefers to lend its money to finance current assets because these assets are turned over at convenient intervals in the usual course of production and sale, and also because the bank can administer this finance on the basis of conventional documents and papers arising in the course of finance. It is easy, therefore, for the bank both to handle these loans and to deal promptly with the risk of loss. Technological developments have introduced new elements of uncertainty in the life of machines. Quickly changing conditions in the internal markets of a developing economy, and in the external markets of newly industrialised countries, are tending to shorten the periods of market stability. The risk of loss on loans made to finance fixed assets is, therefore, becoming more and more uncertain. Term-lending already plays a significant part in American banking and is now being seriously discussed in U.K. banking circles. The discussion which Sir George Erskine started in 1955 has been continued by Mr. T. M. Bland in his presidential address to the Institute of Bankers in 1957. It has produced in Britain a general acceptance of the need for "special assistance to special types of borrowers" and for adapting the "banking system by degrees to changing circumstances".

It is this question of adjusting the Indian banking system to the needs of the economy which seems to have been lost sight of. Term-lending and the other requirements of a developing economy will not fail to be served in the automatic course of competitive business practices, if and when money ceases to run out of the banking system and suitable methods for the collective absorption of losses are evolved. In the absence of these essential conditions, provision or allocation of special funds for term-lending is more likely than not to produce dangerous overgrowths, or in the alternative, to tinker with the growing problem of term-finance.

Views of Reserve Bank

Attention was invited to this aspect of the Indian banking problem in the "tentative study" prepared by Mr. B. K. Dutt at the request of the Indian Banks Association. The need for appropriate action has been stressed in the Reserve Bank's report on the *Trend and Progress of Banking in India during the year 1956*. The report contains a chapter, entitled "The Task before the Banking System", which clearly presents some of the essentials of the problem. It is intriguing to note that the Reserve Bank considers the action involved in implementing its suggestions for drawing up a plan for branch expansion and merger of banks is "essentially" a matter of "voluntary process" and that initiative "will have to come from the banks themselves". Money is essential for the five year plans and even for the normal growth of the economy. It is difficult to see how then the planning of the monetary system is not the direct obligation of the authorities.

Moreover, the Reserve Bank's powers of control and regulation of banking have been steadily widening. The Banking Companies (Amendment) Act, 1956, which came into force on 14th January, 1957, provides fresh evidence of the continuing process of development in this direction. The amending law extends the scope of restricting shareholdrs' voting rights, strengthens the previous

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provisions relating to the interlocking of directorates, makes appointment and/or re-appointment of the chief executive officer of a bank subject to the Reserve Bank's approval, empowers the Reserve Bank to appoint observers on the boards of directors of banks, and increases the powers of the Bank to issue directives to banks on matters of policy or administration. Lastly, chapter IX of the Indian Penal Code has been amended to extend to chief executive officers of banks the provisions of the Code relating to "public servants". It appears, therefore, that though the business of banking is still technically a private enterprise, the field in which the "voluntary process" may be allowed to operate is being continuously narrowed. In the circumstances, the responsibility of the Reserve Bank for initiating and finalising programmes for the expansion and consolidation of banking units appears to be a logical sequence.

It was recently observed by W. R. Kuhns in a survey of the American business outlook that the use of money and credit is a "part of unpredictable public psychology". A study of the economic situation in India supports this view. The money supply increased by nearly 10.4 percent during the period March 1951 to March 1956, and the national product went up by about 17.7 percent at constant prices. The index number of wholesale prices fell by 13.2 percent, whereas the shortfall in the money supply in relation to the growth in the national product should not have caused a fall in prices of more than 6.2 percent. Again, the money supply has increased by about 5.9 percent during the period March 1956 to March 1957. The national product, it is reported, has increased by about 4 percent and the index number of wholesale prices has recorded a rise of 7.9 percent. But the comparative excess of the money supply should not have occasioned a rise in prices of more than 2 percent. The lesson which these disproportionate movements in the economic indicators bring home is that the multiplying effect of the psychological reaction of money supply on prices is more pronounced than the quantitative relation between money and the national product. It is the behaviour, rather than the quantity, of money that has to be regulated.

Handicap of Banks

Although Indian banking thus labours under the handicap that money is uncontrolled while the banking and economic systems are highly controlled, it must be said to its credit that its performance under the supervision of a master with almost absolute power and ill-defined responsibility, but fortunately imbued with a helpful spirit of sympathy and understanding, has been favourable to the growth of a sound banking structure. With the growing importance of industrial production, and the consequent diversification of the economy, the traditional seasonal curve of bank advances has of late tended to flatten out. Scheduled bank credit showed a rise of Rs. 3.7 crores in the slack season of 1956, against a fall of Rs. 31.6 crores in the corresponding season of 1955. The scheduled banks have been faced with the necessity of meeting the needs of increased production under the influence of the five year plans. Scheduled banks' advances rose by Rs. 138.4 crores during the period 1st April, 1955, to 31st March, 1956, and by Rs. 138.8 crores during the corresponding period of 1956-57. The total bank credit outstanding as on the last Friday in March 1957 was Rs. 900.04 crores, representing 76.6 percent of the scheduled banks' deposits and other liabilities (excluding borrowings from banks).

Considerable Strain

The result has been a considerable strain on the banking system. During the period March 1956 to March 1957, the scheduled banks' borrowings from the Reserve Bank rose from Rs. 65.08 crores to Rs. 103.16 crores (against a fall in borrowings from the State Bank from Rs. 19.71 crores to Rs. 11.60 crores), the ratio of cash balances to liabilities (other than borrowings) fell from 8.1 percent to 7.5 percent and investments in Government securities fell from Rs. 359.90 crores to Rs. 347.18 crores (this represents 29.5 percent of the liabilities in March 1957, compared with 34.5 percent in March 1956). The upward trend in scheduled banks' advances continued into the slack season of 1957, but then the authorities revised their attitude of encouraging banks to participate increasingly in the rising tempo of economic activity. The bankers responded to call for caution. The scheduled banks advances, after rising to more than Rs. 930 crores in May 1957, fell to less than Rs. 840 crores on 27th September. Similarly, investments in Government securities, after showing a further fall to Rs. 332 crores in July, rose to Rs. 386 crores on 27th September and borrowings from the Reserve Bank slumped to Rs. 28 crores on 13th September. This adaptability not only shows the co-operative spirit ... cedural efficiency and prudent selection of loan assets.

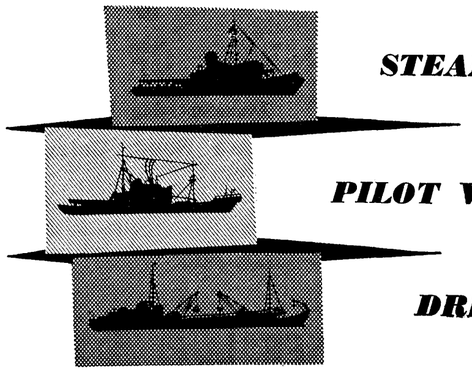
Although misgivings have been felt about the effect of bank advances on speculative activity, it will be noticed that advances to the wholesale and retail trade showed only a slight increase from 35.5 percent in December 1955 to 35.9 percent in December 1956. Advances to dealers in securities, shares and bullion fell from 4.1 percent to 2.9 percent, and those for personal and professional needs fell from 8.6 percent to 8.5 percent; on the other hand, advances to industry rose from 34.3 percent to 38.5 percent. It can hardly be doubted, therefore, that bankers have been exercising care in controlling the direction of loan funds.

Operational Soundness

The banking structure continues to show its operational soundness. In spite of the hardening in rates of interest on deposits and the surreptitious transfer of part of "demand deposits" to the category of "time deposits" in the volatile form of "call money", total earnings and expenses of the Indian scheduled banks have not developed any disquieting symptom. Net profits, calculated after providing for bad and doubtful debts, rose from Rs. 7.36 crores in 1955 to Rs. 10.08 crores in 1956, representing about 0.84 percent and 1.05 percent of the deposits in the respective years. While it is recognised that an increasing level of net profits is necessary to build reserves against the growing uncertainties of a developing economy and also to remedy the creeping deficiency in the ratio of paid-up capital to deposits, the bankers have not ignored the social necessity of sharing with their staff a reasonable part of the total income. Salaries, allowances and bonus paid to the staff aggregated Rs. 17.23 crores in 1955 and Rs. 18.63 crores in 1956, representing about 1.9 percent of the deposit resources for each year. Transfers to reserves were 14.2 percent of the net profits in 1956, against 11.1 percent in 1955, while 29 percent was provided for payment of dividend on shares, compared with 37.3 percent in the previous year; the provision for taxes, however, increased from 23.7 percent to 29.4 percent.

Narrow Foundation

The major weakness of a narrow and weak foundation continues to endanger the rising structure. The Indian banker may, with legitimate pride, make the claim, as Dr. Adams has done in a survey of "Monetary Restraint and Bank Credit" in the U.S.A., that "bank credit in this country is adequately responsive to monetary policy". But he will confess his inability to add that "our banking system serves as an effective mechanism for diffusing the influence of monetary policy throughout the economy". It has been noticed that the total money supply in India is less than 25 percent of the national product, compared with 37 percent in the U.S.A., whereas the currency in circulation in India amounts to about 15 percent of the national product, against about 8 percent in the U.S.A. These features of the money supply bring into focus the task ahead of Indian banking.



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REGULATING PRICE TRENDS IN A PLANNED ECONOMY

THE PARADOX OF INCREASED OUTPUT AND INFLATION

● By D. C. BISWAS ●

PLANNING for faster growth within the framework of a mixed economy in an under-developed country such as India is a bold venture. Private initiative and incentive—the mainspring of economic activity—have been retained, and given scope for development in fields that cover 75 percent to 80 percent of the economy. The public sector has been assigned the rôle of creating the base, on which are to be created expanding opportunities for private enterprise. This bifurcation of the economy, providing for healthier and dynamic changes in the two sectors, is a feature essential to democratic planning for rapid economic growth.

The debating point today is to what extent the private sector should be left alone. Steady secular growth requires that both sectors should function as parts of one organic whole. The private sector has to be so ordered that the other sector may not deviate from its planned pattern. But physical control is ruled out except in emergencies. The reason is obvious. Millions of farmers, artisans, entrepreneurs and workers cannot effectively be brought under any regulating scheme. Moreover, too much direct interference is likely to kill individual initiative.

Rising Food Prices

India's present-day economic indicators suggest the need for a better thought out and better integrated price policy. Foodgrain prices have long been rising in spite of an increase in production. The prices of industrial raw materials, such as jute, cotton and oilseeds, have also increased. A family budget enquiry in middle-class or working-class families will bear out the fact that expenditure on essentials, the demand for which is relatively inelastic, has gone up. These are disturbing facts for the planning authorities. Widespread strike moves and anti-price rise agitations are taking place. They have their root in politics, but they thrive on economic hardship.

Economic indices, properly constructed and accurately interpreted, show how the situation is developing. But they do not suggest specific causes and remedies. A stereotyped reduction of facts, collected often in a casual way, to mathematical formulæ and the hurried deduction of inferences from them have become the fashion of the day. The realities remain untouched and unexplored. For example, the food situation has, of late, puzzled many experts. Administrators, business men, economists and statisticians have offered different explanations for the difficulties. Production has increased but prices, instead of coming down, have been rising. According to the *Eastern Economist*, the index number of foodgrain prices reached the new high of 401.4 in the fourth quarter of 1956-57 from 288.7 in the first quarter of 1955-56. Similarly, the index of industrial raw material prices has risen.

The Causes

Some of the explanations offered for the rise in foodgrain prices are: (1) increased consumption by the growers themselves; (2) the improved capacity of cultivators to hold on to their marketable surplus of foodgrains so as to get better prices in periods of comparative scarcity; (3) the speculative build-up of hoards by traders, with bank finance; (4) smuggling to Pakistan; and (5) an increase in effective demand resulting from the rise in income generated by the large volume of development expenditure under the plan. No data, perhaps, are readily available to confirm or reject these explanations or to indicate the best remedies.

To those familiar with the nature of the rural economy, the right explanation, perhaps, is not far to seek. The explanations noted above might indicate the factors responsible for the current anomalies in food price trends. An accurate appraisal of the aggregate seasonal demand and supply on the one hand, and of the day-to-day market demand and supply on the other is essential for a proper evaluation of the market forces affecting the price mechanism.

Rural Consumption Pattern

Not all growers are self-sufficient in foodgrains. Some have a marketable surplus, irrespective of the crop being a bumper one or otherwise. Some are just self-sufficient in years of normal crop or are left with a marketable surplus in years of a bumper crop, while they have to purchase food in years of failure. Some are always running deficits; they have to depend for most of the year on purchased food. These three categories of agriculturists exist in proportions varying from place to place. On a rough and ready estimate made by the author from his personal observation of selected rice-growing tracts of Bihar, Orissa, Assam and West Bengal, the first and second category of cultivators predominate in Cuttack (Orissa) and Purnea (Bihar); in Jalpaiguri (West Bengal) and Nowgong (Assam), it is the second and third category of cultivators who constitute the largest proportion. The consumption characteristics of the third category of growers, who always need to purchase some foodgrains, are that they consume all that is produced on the farm and supplement it by purchases from outside. The second category of growers resort to purchases only in years of failure. Ordinarily, the consumption of foodgrains by the first and second categories leaves little room for a further increase. Their demand is mostly inelastic. It is the third category whose annual intake of food (home-produced and purchased) always leaves scope for a considerable increase, and it does increase, income permitting, in years of bumper crops accompanied by a more than proportionate fall in prices. Their demand for foodgrains has both price and income elasticity.

Judged by these criteria, it can hardly be true that the consumption of foodgrains in the agricultural sector increased during 1956-57 and, therefore, left a smaller marketable surplus compared with 1955-56. The year 1956-57 witnessed neither bumper crops nor a downward trend in prices. The production of rice, no doubt, rose by 4.8 percent, and the acreage by 1.7 percent over 1955-56. The acreage under wheat increased by 9.9 percent (first estimate), which yielded an additional output of 4.4 percent. But the decline of 3.2 percent in the acreage under jowar and of 5.5 percent in that of bajra more than offset the acreage increase under wheat. In spite of the decline in acreage, jowar recorded a 4.7 percent increase in production, but bajra output declined by 12.9 percent. The net increase, therefore, in the overall production of foodgrains in 1956-57 was not so much as to justify it being described as a year of bumper crops. An increase of 4.8 percent in rice production, associated with a 14 percent rise in its price, imparted elasticity to demand in a manner that brought about a virtual reduction in the consumption of purchased foodstuffs by the third category of cultivators. The conclusion that the total consumption of foodgrains in the agricultural sector diminished rather than increased in 1956-57, compared with 1955-56, therefore appears sound.

Effect on Demand

With rising agricultural prices, the aggregate cash income of the agricultural sector must have increased; but its effect on the demand of this sector for marketed foodgrains was greatly limited by the non-monetised (*i.e.*, self-sufficient) area of the agricultural economy. Cash crops such as jute, cotton, oilseeds and *rabi* crops have all fetched substantially higher prices. Gross sale proceeds from the increased output in 1956-57 were considerably above the 1955-56 level almost everywhere except in regions or pockets which suffered large-scale failures of crops. Agricultural cash incomes also recorded an increase. Because of the unorganised character of employment of farm labour, cash wages in agriculture did not lag much behind agricultural, more appropriately food, prices during 1956-57. In fact, the increase in the net cash resources of this category of agriculturists was offset by the rise in foodgrain prices.

This suggests that the agriculturists' purchasing power deteriorated rather than improved in 1956-57. The relative movements in the prices of some commercial crops and foodgrains adequately bear this out. The prices of jute and rice, the major two competing crops in the jute-growing tracts, stood at an overall ratio of approximately 1:1.2 (jute to rice) which, compared with 1955-56, was much against jute, and, consequently, adversely affected the jute grower's position as a purchaser of rice during the 1956-57 season. Any suggestion of increased consumption of rice by the agricultural sector ought to take these facts into account. They contradict the view that the marketable surplus of paddy during 1956-57 might have fallen below the 1955-56 level due to increased consumption by the producers themselves.

Speculative Hoarding

The other explanations, however, appear to be more in accord with facts; but none of them can alone account for the basic anomaly. One might be inclined to the view that growers with a marketable surplus generally defer sales until there is comparative scarcity in the rice market. This being their usual behaviour, their holding of stocks does not make much difference to prices from year to year. It is rather the trader's speculation against the background of the season's total supply and internal demand-*cum*-export possibilities that governs the seasonal price trend. Agricultural prices in India cannot be dictated. They still depend on the automatic functioning of the price mechanism. Traders' speculative build-up of stocks is the pivot for the seasonal movement of agricultural prices. As demand is mostly inelastic and the supply not enough to cover the effective demand, speculation in foodgrains pays.

Speculation on the supply side is one aspect of the problem. The other is the increase in the total effective demand for foodgrains. A wider diffusion of incomes with the growing volume of employment, consequent on the huge developmental expenditure under the plan, is a factor adequate in itself to influence the price situation. It is not unlikely that the income diffusion has been potent enough to increase effective demand in sectors which have so far been very short of food. The possibility was considered by the planning authorities. But they probably did not reckon on the price situation getting out of control. The safeguards provided in the plan, therefore, have proved inadequate.

Industrial Raw Materials

Industrial raw materials show trends similar to those of food. At 519.9 in the fourth quarter of 1956-57, the index number of raw material prices recorded a 33.3 percent rise over the first quarter ot 1955-56; but production in 1956-57 registered a considerable increase, particularly in fibres and oilseeds which are the two most important groups of home-produced raw materials. Cotton has increased by 20.8 percent and jute by 0.6 percent. Of

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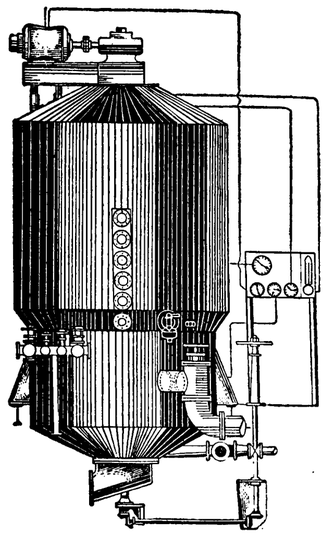
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the oilseeds, castorseeds and groundnut production is higher by 4 percent and 5.8 percent, respectively. Linseed, too, with 10.4 percent more of acreage sown under it during 1956-57, must have registered an increase in output. The increase in production, however, has failed to keep pace with industrial requirements. The relative scarcity of indigenous supplies has been worsened by restricted imports.

These divergent trends in the production and prices of primary produce have been reacting in turn on the wage-cost-price structure of manufacturing industries. Scheduled bank credit and the money supply with the public have been steadily increasing. The former rose by 50 percent, from Rs. 613 crores in June 1955 to Rs. 932 crores in 1957, with the ratio of advances to deposits standing around 75 percent a few months ago. The second stood at Rs. 2,386 crores in May 1957, compared with Rs. 2,226 crores in May 1956, *i.e.*, 7.2 percent higher. The source of anxiety is not the expansion in bank credit, but the fact that the traditional contraction in bank credit in the agricultural slack season (May to October) has been becoming less pronounced in relation to the credit expansion in the preceding busy season for the last few years. In fact, there was a rise of Rs. 6 crores in the slack season of 1955-56, an unusual experience indeed.

A substantial proportion of this credit expansion has gone into the speculative build-up of stocks in agricultural commodities, mostly foodgrains. The Reserve Bank's armoury to regulate prices has exhausted itself with the enforcement of selective credit control, the raising of Bank rate and partial open market operations; but inflation has not been held in check. In spite of the Reserve Bank's directive to banks in February 1957, asking them to charge higher margins for their secured advances against paddy and rice, these advances stood at Rs. 22.16 crores on 17th May, compared with Rs. 23.18 crores on 22nd February, 1957, and Rs. 9.61 crores on 28th December, 1956.

The rumour of the Government's entry into the grain market during harvest time was once held responsible for the rising trend in foodgrain prices. To counteract the rumour, the Government announced its decision not to buy, and partially cordoned off some surplus tracts by banning inter-regional trading in certain cereals. The opening of gruel kitchens in near famine-stricken areas and of fair price shops with modified rationing in deficit areas have not helped remedy the situation. The failure of these measures to bring down prices, however, can perhaps be attributed to administrative shortcomings. The fundamental remedy lies in the intensification of the "grow more food" campaign, supplemented by other auxiliary measures such as buffer stock administration, export-import regulation, pump priming operations and the effective regulation of forward trading.

Maintaining Price Stability

The broad aim should be to prevent sharp fluctuations in the general level of prices with a view to maintaining a reasonably stable economic climate which will promote investment and free enterprise. To help create this situation, it is essential: (1) to maintain a reasonable parity between the prices of agricultural commodities and those of manufactured articles, and thereby prevent sharp fluctuations in the terms of trade between these two important sectors; (2) so to plan the production targets in the agricultural sector that an appropriate relationship is maintained between the prices of competing crops; and (3) to reduce seasonal fluctuations of agricultural prices. Care must be taken to see that the price trends promote the secular growth of the economy.

Some ways of realising the objectives of this price policy are: (1) timely manipulation of the monetary system by the Reserve Bank through the media of open market operations, Bank rate and selective credit control; (2) quick use of appropriate fiscal measures such as capital issue control, taxes, subsidies and deficit financing; (3) strict enforcement of the export-import quotas fixed on a quarterly basis and adjustment of Customs duties; (4) organisation and effective regulation of futures trading by the Forward Markets Commission; (5) widening the coverage of warehousing and credit services; and (6) administration of a buffer stock under the Union Ministry of Food and Agriculture. The Reserve Bank can launch an all-out drive with the assistance of the State Bank and co-operative banks to link the indigenous system of banking with organised institutional banking. This is essential for establishing effective control over the monetary system. Moreover, it will help mop up savings in the inaccessible interior of the sector which at present finds its only avenue of investment in the anti-social activity of hoarding essential agricultural commodities. Co-operative warehousing services and buffer stock administration, together with the other ancillary measures, hold out good possibilities of arresting undesirable developments in the agricultural economy.

Need for an Expert Body

The execution of these measures poses a complex problem. Formulated and implemented without co-ordination by different Ministries and institutions, they may fail to bring the desired results. It is, therefore, desirable to set up a central advisory body consisting of experts in monetary affairs, statistics and the freight structure of air, river, rail and road traffic, with the major representation given to non-official experts. The body may be styled as the Central Price (Technical) Advisory Board.

The functions to be assigned to this board would be (1) to keep a constant watch over prices so as to detect the sectors where corrective measures are necessary; (2) to decide the appropriate measures in particular situations; (3) to determine which economic indicators should be constructed for reference and guidance; (4) to advise the authorities about the timing and programme of measures; (5) to evolve an integrated price policy and co-ordinate its execution by different authorities; and (6) to organise a strict and efficient supervision of the collection of primary data. The way primary data are collected at present is defective. It will, therefore, be in the fitness of things to attach responsible supervisory staff to this advisory body. Monetary and fiscal measures, together with modern technical devices to control the economies of developed countries, can be used to promote planned economic growth.

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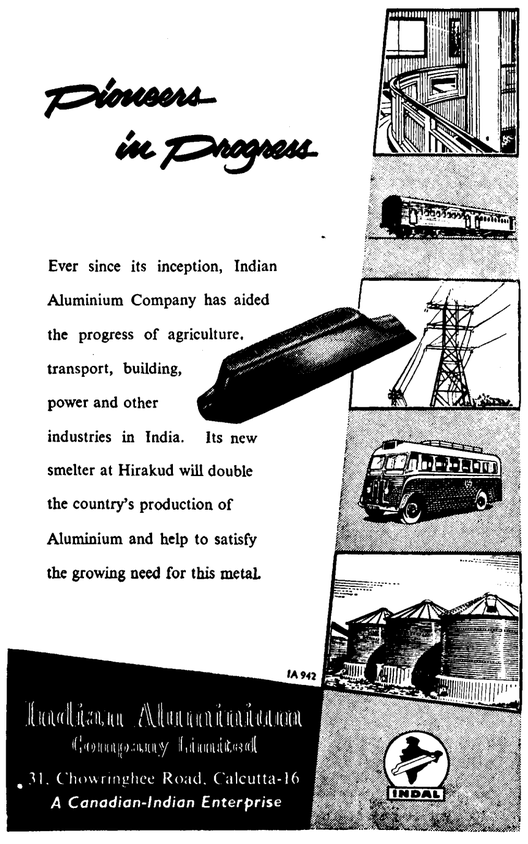
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UNDER-EMPLOYMENT IN BACKWARD ECONOMIES

● By S. R. SARNA ●

FULL employment has been defined by William Beveridge in *Full Employment in a Free Society* as a situation "where there are more vacant jobs than unemployed men, not slightly fewer jobs." It, therefore, involves manpower planning aimed at the optimum utilisation of the labour force, but the objective is essentially a long-range one. At present, there is unemployment in a large part of the world, particularly in the under-developed and agricultural economies. Apart from that, there is also much under-employment—defined by G. D. N. Worswick in *The Economics of Full Employment* as the "labour at present wastefully used". Under-employment can be defined as a state of affairs in which the labour force is "neither fully employed, nor totally unemployed". Some prefer to call it disguised unemployment, while others call it under-employment. It is assumed to exist or arise when a part of the labour force can be conveniently released from a particular sector of economic activity, by transferring the affected workers to other jobs or occupations, by improving work techniques through rationalising equipment and management, or by introducing labour-saving devices, but without changing the capital intensity or the institutional framework, so that the remaining workers may get full-time work and earn higher incomes. In economic terms, under-employment or disguised unemployment reflects the tendency towards diminishing physical productivity which arises or exists when the average product a unit of labour starts to decline, because, the technology of production remaining unchanged, labour moves in as a variable agent of production due to pressure of population and is successively applied to a fixed amount of other agents of production. The phenomenon of under-employment is, therefore, the effect of a rising rate of population growth, without a matching rate of technological advance.

Measure of Full Employment

According to the report entitled *The National and International Measures of Full Employment* submitted to the United Nations in December 1949 by Messrs. J. M. Clark, Nicholas Kaldor, A. Smithies, P. Uri and E. R. Walker, unemployment is of three main kinds. The first category is connected with or arises from a general lack of capital equipment and other complementary resources necessary to keep or maintain the labour force at work. The second category of unemployment is attributed to certain structural factors, or malfactors, in economic life, such as seasonal fluctuations in economic activity resulting in peak and slack seasons, decline in real incomes or purchasing power, and irregular phasing in certain types of occupations. The third kind of unemployment is "engendered by the insufficiency and instability of effective demands". According to this classification, the first category is visible unemployment, the second can be called seasonal unemployment, and the last can be called disguised unemployment or under-employment.

A functional classification of unemployment was given in the report entitled *The Measures for Economic Development of Under-developed Countries*, submitted to the United Nations by Messrs A. B. Cortez, D. R. Gadgil, G. Hakim, W. A. Lewis and T. W. Schultz, wherein it was observed that unemployment in the under-developed countries falls into four categories—cyclical, seasonal, technological and disguised". Here it may be observed that disguised unemployment is a synonym for under-employment, but the U.N. experts preferred the former term. Under-employment thus goes hand in hand with the under-employment of human resources or the under-development of social capital. It is, therefore, a matter of serious concern mainly in under-developed countries. When under-employment in Asian countries was discussed at the third session of the Asian Advisory Committee of the International Labour Organisation in November 1951 in Geneva, it was found that, under the prevailing conditions, a certain amount of labour could be released without reducing output and without any change in the methods of production; this can be called visible unemployment according to the terminology adopted. A further amount of labour can be released, without affecting output, by introducing simple and already known changes in the methods of production, which do not require much capital investment. This can be termed as disguised under-employment. Yet more labour can be released only by introducing more fundamental changes in methods, and in this situation, according to the terminology adopted, there exists potential under-employment.

Concept of Under-employment

The concept, and also the measurement, of under-employment is distinguished by certain characteristics. First comes the disparity between the actual productivity of the worker and the production-potential or that productivity which is possible, or which can be rendered possible by adopting labour-saving devices, modern technology and scientific production. This differential in productivity denotes the prevalence of idle capacity. To that extent, either the industrial capacity remains idle and under-utilised, or the labour force remains under-employed, resulting in a situation where workers produce less than what they can, earn less than what they should and, therefore, purchase less than what they need. Input-output ratios, or as an alternative *per capita* output correlated with the real earnings, can be taken as an index of under-employment in this case.

The second characteristic concerns the attitude of the worker towards work. The distinction between idleness and leisure is a crucial element in the twin concepts of productivity and under-employment. It depends on whether the worker does or does not desire to accept more gainful work, or perform more productive work so as to earn more income. Output usually grows not only because people are working harder, but also because they are working more productively, using more knowledge or more capital and taking more favourable opportunities for specialisation, for vocational progress and for investment. Therefore, instead of output a head, the ratio of actual hours of work performed to hours of leisure enjoyed may be taken, with certain reservations, as an index of under-employment. The third characteristic of under-employment centres on the availability of full-time work, or the opportunity for utilisation of the labour force for full-time employment, so as to eliminate the wastage arising from idle capacity and idle manpower. If the economy fails to provide a worker who is willing with more gainful work or full-time employment, the worker is forced to remain under-employed or prevented from doing a more intensive job or more productive work, on account of structural factors which are beyond his control. Capital-labour ratios can be taken as indicators of employment opportunities as well as under-employment in this case.

Under-employment in India

Much emphasis is being laid in India on the study and corrective treatment of the problems arising from unemployment. But under-employment needs equal and separate attention. The incidence of under-employment in India can be divided into two distinctive groups: (i) its area-wise prevalence, and (2) its industry- or occupation-wise prevalence. A comprehensive measurement or detailed analysis of overall under-employment has not been attempted so far, but a rough idea can be formed from the data collected during the 1951 census. The entire population, on the basis of the pattern of livelihood, was divided into three categories: (1) self-supporting, that is, one who is not dependent on anybody and is producing an income which is at least sufficient for his or her maintenance; (2) an earning dependent who, if left to himself or herself, cannot support himself or herself to the required or full extent; (3) a non-earning dependent, who does not take part in any gainful work or in procuring his livelihood by his own efforts and, therefore, depends on somebody for his maintenance. According to the 1951 census, there are 104.5 million self-supporting persons. How many of them are gainfully or fully employed as compared with under-employed, and in what precise manner or to what extent, is not known. Earning dependents are either unpaid helpers, or workers engaged in family operations, or others who earn insufficient or barely sufficient incomes to meet part of the cost of their maintenance. These earning dependents, who apparently belong to the category of the under-employed, are placed at 37.9 million persons, whereas there are 214.2 million non-earning dependents. The following table shows the livelihood classification of the population, rural and urban, according to the 1951 census.

LIVELIHOOD PATTERN OF THE INDIAN POPULATION
(According to the 1951 census)

Classes	Urban population		Rural population	
	Men	Women	Men	Women
Agricultural classes :				
Self-supporting	1,894,422	416,748	56,620,272	12,117,914
Non-earning dependents	2,225,746	3,373,392	54,967,720	86,389,782
Earning dependents	310,480	446,488	10,168,815	20,143,122
Total	4,430,648	4,236,628	121,756,807	118,650,818
Non-agricultural classes :				
Self-supporting	14,653,252	1,693,934	14,009,284	2,993,977
Non-earning dependents	12,490,233	21,818,439	12,467,694	20,108,288
Earning dependents	1,213,134	831,416	1,723,902	3,099,878
Total	28,806,619	24,343,789	28,200,880	26,202,123
Grand Total	33,237,267	28,580,417	149,957,687	144,852,941

This table indicates the outer limits of under-employment. The regional pattern of employment, and hence of under-employment, is influenced not only by the size of the active population living in a region, but also by the growth of employment opportunities arising from the regional distribution of natural resources and their exploitation. The regional distribution of natural resources cannot be properly determined unless their presence is known or exploited. The development of a region demands better techniques of exploitation and utilisation, and an increasing search for new resources as well as new productive techniques.

Rural Areas

The pattern of employment in a particular sector depends to some extent on the distribution of population. The large-scale under-employment in the rural areas as compared with the urban areas reflects the enormous proportion of the population —as much as 80 percent—living in the former. But something more is also involved. As W. A. Lewis has observed in the *Theory of Economic Growth*, "because economic growth reduces the importance of agriculture in the economy, it is necessarily associated with urbanisation". The highly rural nature of an economy explains the chain reaction of many stresses and strains, caused by the inadequate flow of capital to rural areas, subsistence farming on account of the heavy pressure of population on land, insufficient development of rural industries to provide alternative employment to surplus labour, immobility of labour, preponderance of unskilled manual workers tending to halt technological progress, and depressed *per capita* incomes. These conditions distort not only the entire pattern of the rural economy but also of rural employment. They spread under-employment or disguised unemployment in rural occupations.

This explains to some extent why cultivators are forced to leave their fields and take up other occupations; when that does not help much, they search for jobs elsewhere or go to the towns. This movement of the rural population towards cities and towns is caused by the distress of under-employment in rural areas, and not by a voluntary redistribution of population or by the occupational mobility of labour. All these factors indicate the urgent need for programmes to relieve the pressure of under-employment in the rural areas. The growth of the rural economy requires an integrated and comprehensive programme of employment planning. As the second plan recognises, "unless there is comprehensive village planning, which takes into account the needs of the entire community, the weaker sections like tenant cultivators, landless labourers and artisans may not benefit sufficiently from assistance provided by the Government." For that purpose, the national extension movement has been created and it aims at reaching every family in the village.

Migration to Cities

The steady migration of rural workers to urban areas in search of work and food suggests that the latter are a sort of El Dorado for the unemployed or under-employed working population. Too much emphasis has been laid in the past on the development of cities and towns, leaving little for the



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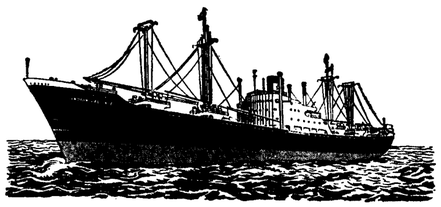
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villages and the countryside. But it should not be assumed that under-employment is prevalent in the rural areas only, and that the urban areas are free from it. An *ad hoc* survey to measure the nature and extent of unemployment in the urban areas was undertaken by the Directorate of the National Sample Survey in September 1953, covering large towns in India with a population of 50,000 and above, except the four big cities of Bombay, Calcutta, Madras and Delhi. According to a summary of the survey report, published in the *Indian Labour Gazette* of November 1956, a little less than three-fourths (72.93 percent) of the gainfully employed persons in the urban areas are fully employed; the rest (26.32 percent) are under-employed. These under-employed persons represent 8.48 percent of the urban population, out of which those who have work for "a quarter or less" period comprise 3.17 percent. Assuming these seriously under-employed persons as virtually unemployed, 5.8 percent of the urban population is badly under-employed or practically unemployed. Analysing the causes of under-employment in the urban areas, the report mentions that 46.89 percent of the under-employed persons gave lack of demand as the reason, 18.26 percent were unable to accept work because of illness, 5.83 percent could not work for domestic reasons, 3.40 percent did not get opportunities to work full time for lack of materials and equipment, and various other reasons accounted for the under-employment of the remaining 25.62 percent. The rural economy, it is said, is characterised by the predominance of agriculture, whereas the urban economy is characterised by the predominance of business. But the employment potential of the business economy alone is insufficient to absorb the unemployed or surplus labour migrating to urban areas, because employment opportunities arise from, and are to that extent a function of, industrial growth. Urbanisation, in this context, is essentially associated with industrialisation.

Occupational Structure

The occupational structure of a community depends on many factors. Among them are the size of the population, the rate of population growth, the nature of resources and their utilisation, the stage of industrialisation, the diversification of production, and the rate of growth of employment opportunities. These indicate that the occupational pattern of a population is the function of what has been called the "structural equilibrium at the factor level". To that extent, it closely follows the pattern of economic growth as indicated by a capital-intensive or labour-intensive technology of production and mobility of labour. The way in which the gainfully occupied population is distributed between different economic activities or occupations is ultimately determined also by capital-labour and capital-output ratios. Further, the laws of economic growth stipulate that the income-elasticity of demand for manufactures exceeds unity, whereas that for food or agricultural products is less than unity, and for services is even higher than that for manufactures. Therefore, the occupational pattern is necessarily associated with and faithfully follows the phenomenon of services growing most rapidly, followed by the output of manufactured goods, with agricultural output at the tail end.

Under-developed Economies

In an under-developed and over-populated economy, such as that of India, the rate of economic growth is hindered by the population pressure and the resultant surplus labour, while the occupational pattern is dictated by the position agriculture occupies in the economy. Under these circumstances, subsistence agriculture, personal and domestic services, cottage and small-scale industries, and other occupations are flooded with people in search of jobs, but they cannot provide full-time work to all, so under-employment is widespread. Those who cannot find any work are driven to begging, vagrancy or crime, or go in search of casual employment of any nature, such as carrying loads, repairing houses, road-building, selling vegetables, driving carts, hawking petty merchandise and so on. The phenomenon of under-employment is generally more pronounced among those who are self-employed than among those who are employed on wages. This fact limits the geographical or occupational mobility of labour and also restricts the opportunities for technical substitution of the factors of production. On the other hand, because of a large labour surplus, which is mostly illiterate and unskilled, wage-paid employment, except in large industries, is either casual or seasonal.

There has not been any marked change in the occupational pattern of the population in India over the past three or four decades, in spite of a considerable increase in industrial production. According to the 1951 census, a broad framework of the occupational pattern shows that agriculture and allied pursuits continue to absorb nearly 70 percent of the labour force, mining and organised industries absorb 2.6 percent, small enterprises including construction employ about 8 percent, transport, communications and trade (wholesale and retail) provide work for about 7 percent, and public administration, professions, liberal arts and domestic services account for over 10 percent. However, an occupation-wise assessment of under-employment in reliable and precise details is not available, although rough estimates can be made on the basis of the data which emerged from the 1951 census.

The Indian economy not only suffers from the effects of overpopulation; it is also predominantly agricultural. The stagnation of agriculture is due to structural disadvantages and other handicaps. In the first instance, agricultural operations depend heavily on rainfall, and in the absence of an alternative source of water supply, have become a gamble on the monsoon. The dependence upon seasonal rainfall, the rigid or unavoidable time schedules for performing agricultural operations at fixed periods, and a regular season or a fixed interval between sowing and harvesting, are responsible for a peak season of work, followed by a slack or "off" season of idleness. This seasonal expansion and contraction of labour requirements in agriculture results in severe seasonal unemployment. Opportunities of full-time work or more productive work, after a short-lived period of peak employment, drop much below the level of normal employment, to the extent that it is very difficult to distinguish seasonal unemployment from under-employment.

Population Growth

Another disadvantage is the high rate of population growth, with the pressure on land mounting continually. Thus the agricultural population is forced to remain in the rural areas, whether partially employed or unemployed, on account of inadequate opportunities of alternative employment in other sectors. The land-man ratio, as a result, has become very low, land holdings are getting subdivided and scattered, and a large percentage belong to the uneconomic size group of less than one acre. To these dwarf holdings, the economies of scale and organisation are not available, their operating costs and other overheads are high, and the marginal productivity of surplus labour being zero or even negative, the output a unit of labour as well as a unit of land goes down. With an abundance of labour, which is not offset by the requisite development capital and technological improvement, a general bias or preference for labour-intensive techniques has become pronounced. The terms of trade, as reflected in the parity prices of commodities sold by and purchased by cultivators, move against agriculture. Thus agricultural incomes are depressed. In other words, employment in subsistence agriculture is characterised by self-employment on small holdings with the help of family members, casual employment as wage or hired labour for seasonal work, and as attached labour on a regular basis. In all these modes of employment, chronic conditions of massive under-employment exist.

According to the Agricultural Labour Enquiry conducted by the Central Ministry of Labour in 1951, casual labourers, who constitute as many as 85 percent of all agricultural workers, get work for 176 days and non-agricultural employment for 31 days in a year. Taking the Indian Union as a whole, "want of work" accounts for 74 percent of their unemployed period. Attached workers get agricultural employment for 299 days and non-agricultural work for 13 days in a year. The self-employed farmers, of which there are 167.3 million owner-cultivators and 31.6 million tenant-cultivators according to the 1951 census, are forced by necessity to leave their holdings for a time in order to earn something extra.

Individual Estimates

No official estimate of disguised unemployment and seasonal unemployment in agriculture exists, but some individual estimates have been made. Dr. Nabagopal Das has estimated surplus agricultural labour on the basis of an average work-unit of a 10-acre land-holding a cultivator, which a peasant can cultivate with the aid of his family and a pair of bullocks. He calculates the pre-war surplus of agricultural labour in a large part of India, excluding the former princely states, at 15.5 million. Dr. B. Datta has estimated it, for the year 1951, at 19.43 million, on the basis that the work done in a "double cropped area" is the standard full-time work-load for a cultivator. He assumes that 16 percent of the cultivators and agricultural workers are fully employed because 16 percent of the total cultivated area is double-cropped, whereas the remaining 84 percent are employed for about four months in a year and, therefore, 28 percent of the working time in agriculture goes in waste. The Planning Commission, visualising the nature and extent of under-employment, has observed in the second five year plan report that "under the existing conditions, with present techniques of agriculture being continued, if cultivating units were to approach what might be described as family holdings, affording the possibility of fairly full-time work in agriculture for a family of average size, agricultural production could be maintained with about 65 to 75 percent of the number of workers now engaged in it. In other words, on certain assumptions, one-fourth to one-third of the existing labour force in agriculture may be surplus to its requirements." The existing labour force, according to the 1951 census, is 243.7 million, excluding 5.3 million non-cultivating owners.

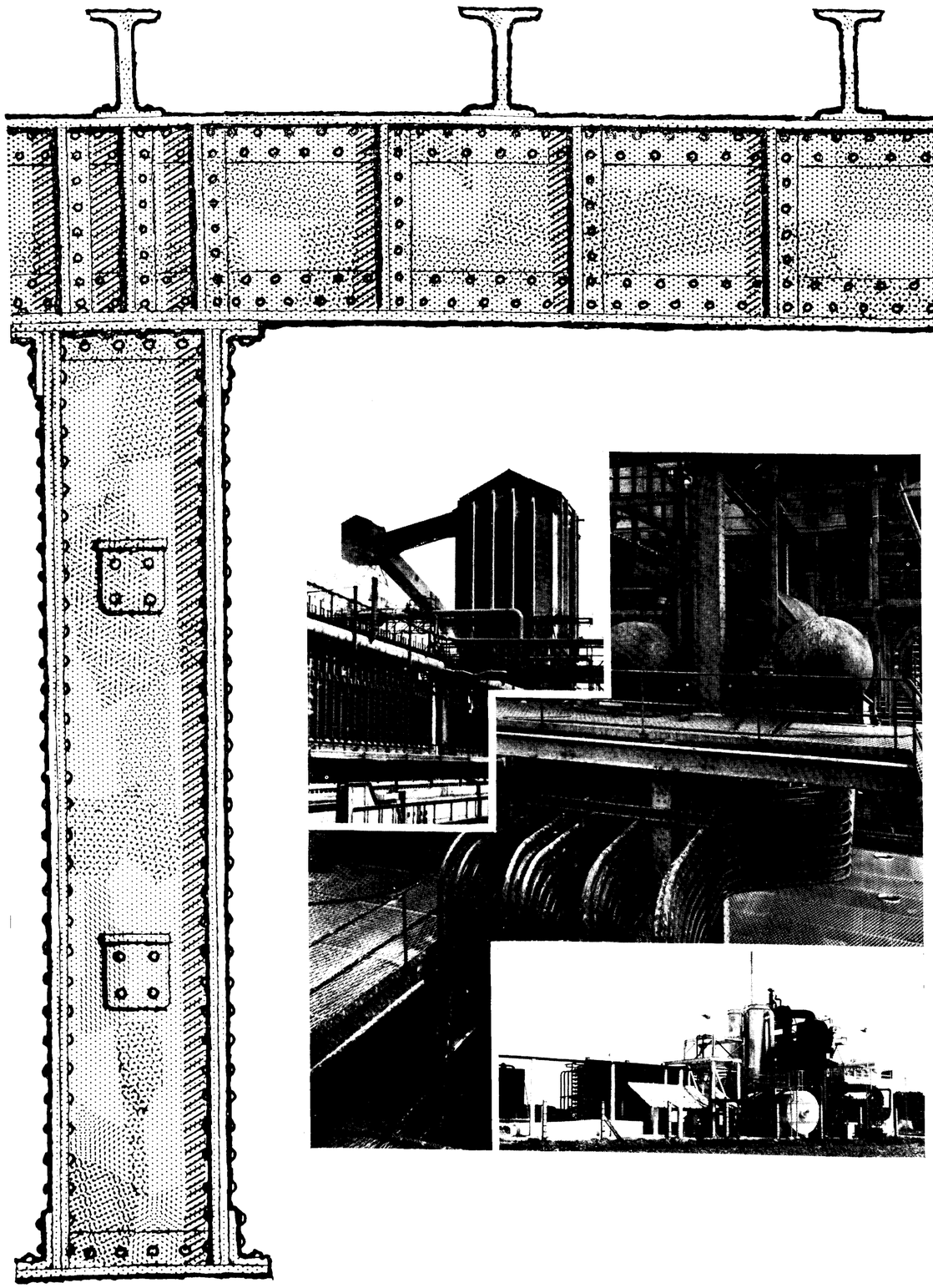
Given a population of this size engaged in agriculture, with such a large labour surplus, the proper policy for economic growth is to shift as many workers to other occupations as possible, or to create as much employment off the land as can be done. This diversion has taken place in other countries during the course of their development. The available data on changes in the occupational structure of some the more advanced countries show that the proportion of the active population engaged in agriculture declined from 54 percent in 1870 to 23 percent in 1930 in the U.S.A., from 42 percent to 25 percent in France, from 85 percent to 51 percent in Japan and from 39 percent in 1880 to 22 percent in 1930 in Germany. As the second plan report points out, economic development in India "involves a transfer of part of the working force from agriculture to secondary and tertiary activities, but this, in turn, presupposes an increase in productivity in agriculture itself, if the food and raw material requirements of a developing economy are to be met". That underlines the need for integrated development and perspective planning to accelerate the effort for increasing the volume of work and the quantum of earnings, that is, full employment in the agricultural and non-agricultural sectors. This, in its turn, makes the geographical and occupational mobility of labour an important necessity.

Problem of Mobility

In taking the surplus labour off the land, it is preferable to increase work opportunities within the rural economy, particularly through the intensive development of village and small industries, so that the hardships of uprooting can be minimised. But those who cannot be adjusted or accommodated in any way in the rural economy will have to be provided with employment elsewhere. For that, increased employment opportunities will have to be created in the industrial sector. A programme to provide full-time work within the agricultural sector itself will also have to be chalked out. Such a programme of work will need heavy capital outlay, particularly for creating irrigation facilities, road transport, marketing arrangements and agricultural research and extension, which are otherwise beyond the means of the famished small-holder. The harshness of seasonal unemployment can be reduced by a diversification of agricultural activities. Through crop rotation, double-cropping and mixed farming, labour requirements can be evenly spread over the whole year and the nature of agricultural operations can be transformed from seasonal into full-time work. Diversification to the fullest extent will be possible in irrigated areas, where the chances of a better utilisation of water supply and better farming, are more than in other places. Economies in the cost of production and marketing can be secured through agricultural co-operatives, while distress selling can be reduced by agricultural warehousing and marketing boards. Surplus labour within the agricultural sector can be reduced further by settling landless workers and others on reclaimed land, land received through the *bhoodan* movement, land becoming available from redistribution measures, and new land opened in river valley project areas. All these programmes involve not only a poulation movement, but also a commensurate investment programme.

Cottage Industries

After agriculture, cottage and small-scale industries constitute the second largest occupation in India. They are also afflicted equally, if not more, by disguised unemployment and seasonal unemployment. According to the 1951 census, the total number of workers, engaged in all lines of processing and manufacturing, including cottage and small-scale industries, is 9 million. Of these, the average daily number of workers engaged in all factories, governed by the Factories Act, 1948, and mainly large-scale factories, is 2.5 million, according to the Labour Bureau of the Government of India. Thus, the number of workers engaged in cottage and small-scale industries can be placed at 6.5 million. Taking one-third of the labour force as surplus on the basis of normal requirements, or a minimum wastage of one-third of the workers' available time on account of the fluctuations in demand, slack season and other



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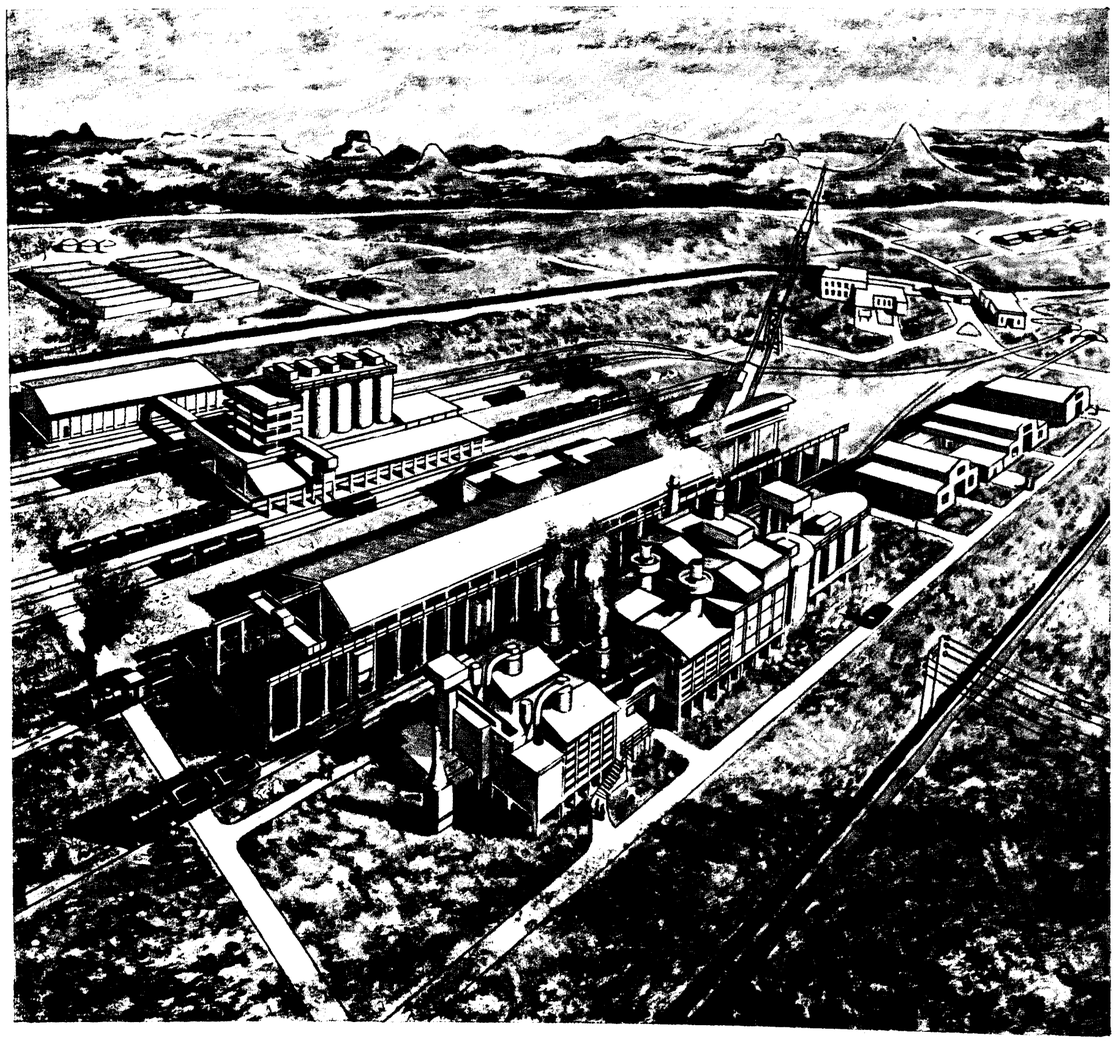
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EXPANDING FACILITIES FOR FARM CREDIT

SIGNIFICANCE OF STATE ACTION

• By A SPECIAL CORRESPONDENT •

THE deficiencies of Indian agriculture are basically two—firstly, a preponderance of small and uneconomic holdings, and, secondly, the average peasant's inability to make the necessary capital investments for maintaining, let alone raising, the yield from land. The causes are well known. The foremost of them is the population pressure which is growing unchecked, and there is littie else to provide the peasantry with any worthwhile subsidiary occupation. Consequently, the vast majority of the peasants, as recent enquiries show, have such a low income that it is not sufficient to provide even the barest necessities. Yet agriculture is the only source of livelihood for the vast majority of India's population. The planners have learnt to their cost, and the country's, that agriculture has still to provide an important support for their spectacular schemes of industrialisation. Hence the latest drive to raise farm output by almost 25 percent.

If agricultural output is to be raised, these basic deficiencies will have to be removed—and the Government has been taking measures in both directions. It has initiated a far-reaching programme of land reforms aimed at eliminating the parasitic elements and granting security of tenure to the actual tiller of the soil. Also, as a measure against further subdivision and fragmentation, encouragement is being given to co-operative farming in almost all States. But only Bombay, U.P. and Madras have made any progress in this field. U.P. has legislation for the consolidation of uneconomic holdings under statutory compulsion. But the record of the rest is unsatisfactory.

Controversial Issue

There has been a controversy about the economic merits of co-operative farming. In spite of the fact that powerful support has been given to it by the Prime Minister and a strong effort is being made by the Planning Commission to persuade the States to take to it more seriously, the controversy continues. A U.P. Minister, Mr. Charan Singh, has been prominent among those leading the campaign, and lately Dr. Sampurnanand, the U.P. Chief Minister, has thrown his weight on the side of his colleague. Co-operative farming, it is argued, destroys individual incentive. The peasant ceases to take a personal interest in land since he no longer has the same sense of personal ownership which he had before. Individual small-scale farming, it is further argued, has been quite successful, its productivity is high, and there is no reason why it should not be tried in India also.

There is doubtless some truth in these contentions. Even a communist country like Poland under the leadership of Mr. Gomulka has been relaxing its grip on the peasantry. She is now allowing a wider measure of individual initiative in agriculture by not forcing the peasantry into co-operatives, because the co-operatives have been found to be less successful than the farms which have been allowed to remain under individual control. But these examples can also be misleading. There is a great deal of difference between the circumstances of those countries and of India. On strictly commonsense grounds, co-operative farming would seem to have economic advantages, the economies of scale being the most important. Besides, India's availability of land a head is very low, and a large proportion of the peasantry is landless. This consideration alone would justify experiments in co-operative farming on a larger scale. It is perhaps significant that while the critics quote the examples of Japan, Poland and certain other countries in support of their case, they say very little about the results of co-operative farming within the country itself. The evidence suggests that the results have been promising. They could be better if the approach to agriculturists is made in the right way and if the State Governments show a little more initiative instead of merely looking to the Centre for bigger grants on sundry pretexts.

Important Advantages

One obvious advantage of co-operative farming is the "collective credit-worthiness" which the peasants acquire together, and which individually they would never have. Individually, the majority of them do not possess "credit" for co-operative loans; according to one authoritative estimate, not more than 25 percent of the total peasanty would qualify for assistance. The Reserve Bank has been advising credit organisations to make loans after a proper assessment of the borrower's credit-worthiness. The reason is the large amount of arrears in repayments and overdues which have arisen on account of individual borrowers. In the latest statistical statements relating to the co-operative movement for the year 1955-56, the Reserve Bank says: "A feature observed in the case of all primary societies is an increase in their overdues at the end of the year. It is true that, expressed as a percentage of loans outstanding, there has been a fall in this ratio, but the fall is due to the sharp and sudden rise in advances and not to a decrease in the quantum of overdues. The need, therefore, for making advances with due scrutiny of each case can hardly be over-emphasised." According to the figures given in the same statement, the total of loans advanced during 1955-56 amounted to Rs. 140 crores against Rs. 111.15 crores in the previous year; the amount of overdues at the end of the year was Rs. 22 crores compared with Rs. 21.82 crores in 1954-55.

Having said this, it has also to be pointed out that agriculture in India is very much an individual enterprise, and most of the co-operative activities have centred on agricultural credit. It is the fulcrum of the movement, so to speak. Agricultural credit has, therefore, to be granted to individuals, and to more of them. It is, however, wrong to suggest that the co-operative movement ought to allow generously for the peasant's personal needs—such as religious obligations, marriages and even for his maintenance for some part of the year. These needs are desperate and the extent of rural indebtedness is colossal. But credit institutions are not the proper agencies for satisfying them, although under the circumstances, they have to grant loans for such purposes. As one authority has pointed out, the peasant's primary poverty is more the effect, not of his improvidence or thriftlessness, but of the hopelessness of his pursuit. The remedy, therefore, lies in a broader front of action, and the Government realises this. But the problem is so complex and vast that quick solutions are impossible.

Helping Productivity

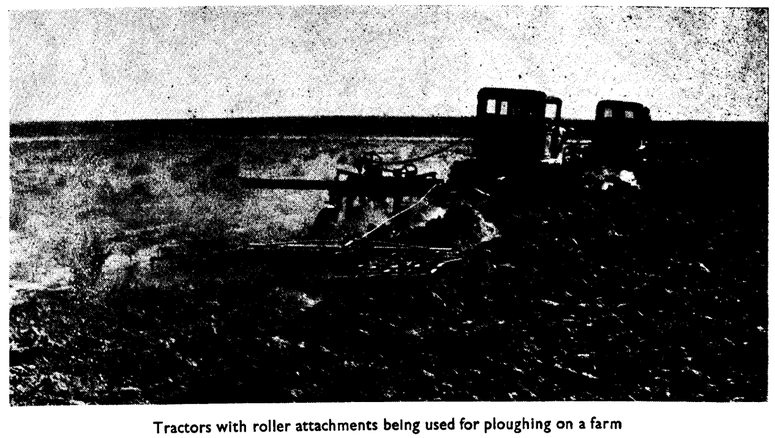
The agricultural credit movement should confine itself largely to helping the farmer to raise a better crop, and marketing it profitably. Otherwise, the disastrous experience of the early years of the movement will be repeated. The Reserve Bank's insistence that a proper scrutiny of borrowers' "credit-worthiness" should be made before credit is granted is undoubtedly correct. Those who advocate a more liberal loan policy do so on the ground that the State is the major partner in the movement today, and since the welfare of its citizens (in this case the peasantry) is its primary charge, it must not be unduly restrictive in its credit policy. Against this view, the counter-argument is that the essence of co-operation is self-help, and anything that makes its members more and more dependent on an external source, like the State, is bound to prove harmful to the movement itself. The State can promote fuller employment by starting public works, or by giving support to rural industries, but it is wrong to use agricultural co-operatives as an easy source of credit on which the peasant can draw for all sorts of purposes.

The next question to examine is the structure of co-operative agricultural credit, and the extent of its adequacy or inadequacy in serving the agricultural population. The happy feature is that it is growing in size and, one hopes, in strength also. According to the latest statistics available from the Reserve Bank, the number of these societies stood at 159,939 at the end of June 1956, compared with 143,320 at the same date in 1955—a rise of 11.6 percent. The rise is striking. There has been a corresponding increase in the membership also—the respective figures being 7,790,850 and 6,565,416. The working capital of these societies has increased from Rs. 62.93 crores to Rs. 79.10 crores. Advances to members have shown a substantial rise.

Unsatisfactory Features

The encouraging statistical picture, however, conceals many unsatisfactory features. For instance, the rise in the working capital does not represent any increase in rural savings, to promote which should be among the important objectives of these societies. A large proportion of the rise represents borrowing from central financing agencies. An analysis of working capital made by the Reserve Bank shows that the dependence on borrowings from central financing agencies remains heavy. Outstandings against such borrowings amount to Rs. 41.78 crores, and represent 52.8 percent of the working capital. Loans from the Government amount to Rs. 1.02 crores; owned funds, which stood at Rs. 29.25 crores at the close of 1955-56, form 37 percent of the working capital. Deposits have shown a rise from Rs. 5.44 crores to Rs. 7.05 crores during 1955-56, but constitute only 8.9 percent of the working capital, against 8.6 percent in the preceding year. A State-wise analysis of the working capital of agricultural credit societies shows that the ratio of deposits to working capital is less than 6 percent in the case of as many as 12 States. "This depressingly low ratio indicates that the primary agricultural credit societies have not succeeded in the important task of promoting thrift and savings," says the Bank.

The composition of the working capital of the 478 central banks and 24 State or apex banks, shows a similar pattern. The larger part of it has come



Tractors with roller attachments being used for ploughing on a farm

through borrowings or grants from the State. The owned funds (share capital) of the central banks (they should be renamed as district co-operative banks, which is what they are) at the end of June 1956 were only 16.4 percent of the total working capital. Deposits were 60.1 percent and borrowings accounted for the rest. In the apex or State co-operative banks, the share of State Governments' contributions ranged from 50 percent to 90 percent. The Government will also now be participating in the share capital of even primary credit societies, which are at the lowest level of the credit structure. This implies even greater control of the co-operative movement by the State.

State Participation

This is not necessarily a bad thing. The Rural Credit Survey Committee, justifying the necessity for State participation in the movement, says: "The problem is not so much one of re-organisation of co-operative credit as of the creation of new conditions, in which it can operate effectively and for the benefit of the weaker. The prevailing conditions cannot be transformed by the very persons who are oppressed and rendered weak by their existence. The forces of transformation have to be at least as powerful as those which are sought to be counteracted; such forces can be generated not by co-operation alone but co-operation in conjunction with the State." If one remembers that the village moneylender even now supplies nearly 75 percent of the rural credit at a usurious rate of interest, and that he is a trader in the produce against which he advances his loans, one is inclined to agree with the Committee that the State should step in. Moreover, according to several authoritative estimates the investment needs of agriculture today have been placed, for short-term and long-term purposes, at nearly Rs. 1,000 crores which only the State is in a position to provide. The co-operative movement can supply only a fraction of this requirement.

Opposition to any extensive participation and control by the State continues to be voiced—even in some places by the co-operative organisations themselves. But this merely serves a negative purpose. The more useful thing to do would be to make some concrete suggestions about how State participation, such as is proposed, can promote the spirit of self-help, discipline and thrift among the rural people. This will call for an extensive programme of educating the peasantry about the aims and benefits of co-operation. Almost all experienced Indian co-operators agree on this aspect, and the Government, too, has of late been giving it close attention.

Recommendations of Survey Committee

In this connection, it is necessary to review what the State has been doing to help the movement during the past few years. A useful starting point would be to provide a brief summary of the Rural Credit Survey Committee's more important recommendations, on which the Government has been acting. The Committee suggested: (1) State partnership in co-operative institutions at all levels; (2) grant of crop loans in the case of short-term credit and long-term loans for long-term purposes through land mortgage banks; (3) development at the base of the agricultural structure in the direction of bigger primary credit societies based on limited liability and covering larger areas; (4) a large-scale programme for the storage and warehousing facilities to strengthen the marketing side; (5) nationalisation of the Imperial Bank and its conversion into a State bank with a wide network of branches all over the countryside for providing remittance and other facilities to the rural population; (6) countrywide facilities for training co-operative personnel at all levels; and (7) the creation of funds for financing these objectives.

Funds for Co-operation

Action has been taken almost on all these recommendations. The Imperial Bank was nationalised in 1955, and renamed as the State Bank of India, but it has not been able to expand its branches as rapidly as was suggested. Two funds have been set up—the National Agricultural (Long-term operations) Fund and the National Credit (Stabilisation) Fund. The intention of the former is to make loans to State Governments for enabling them to purchase shares in co-operative credit institutions, medium-term loans for agricultural purposes and loans to central land mortgage banks and the purchase of their debentures. An initial non-recurring grant of Rs. 10 crores has been provided to it, and it will be receiving an annual recurring grant of not less than Rs. 5 crores. The purpose of the latter is to make medium-term loans to State co-operative banks "to enable them to convert short-term credit into medium-term credit wherever necessary, in the event of drought, famine or other natural calamities". The annual allotment for this is to be not less than Rs. 1 crore. For instance, in the drought-affected States of eastern India, particularly Bihar and Orissa, the latter fund will be called upon to provide credit to the affected population through the appropriate agencies. These two funds are administered by the Reserve Bank.

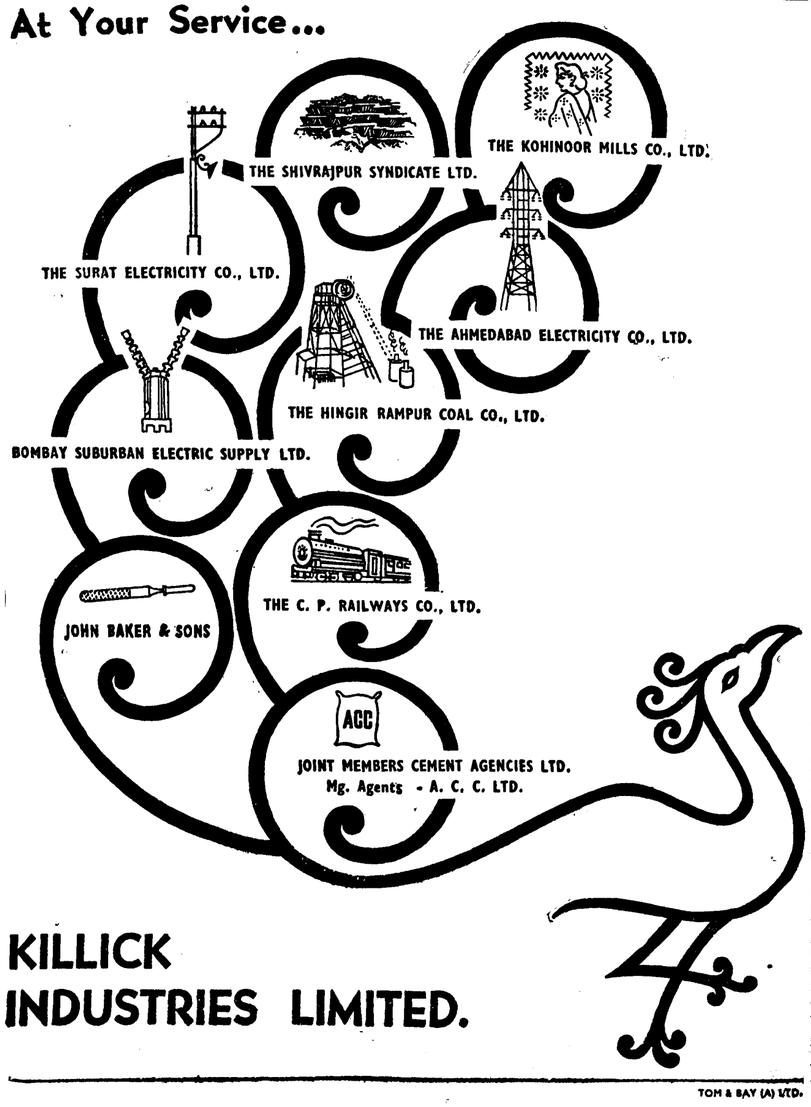
Three funds have been set up for the Government of India to manage. They are: (1) the National Warehousing Development Fund; (2) the National Co-operative Development Fund; and (3) the National Agricultural Credit (Relief and Guarantee) Fund. A National Co-operative and Warehousing Development Board has been constituted to look after the first two funds, which are together to receive Rs. 5 crores a year (the Co-operative Development Fund gets Rs. 3 crores and the Warehousing Fund Rs. 2 crores). In addition, the third fund has received an initial non-recurring grant of Rs. 5 crores. As the names imply, the warehousing fund is meant to promote warehousing for rural produce and a few have already been started by the Central Government in certain States. The States will soon start their own warehouses to provide a link with the main producing centres. The second fund is being used for the development of co-operative marketing and processing, etcetera. The third fund is being given an annual allotment of Rs. 1 crore, and it is to provide relief to co-operative institutions under certain circumstances "when, due to reasons such as famines or floods, amounts due to them have to be written off, and secondly, for meeting obligations arising out of certain types of guarantee likely to be provided by the State to such institutions."

Rôle of Reserve Bank

The effect of these measures is this: the Reserve Bank will provide financial aid for the co-operative credit structure and the Government for the non-credit structure of the movement. The two structures are to work hand in hand "in an integrated scheme of credit, linking credit with marketing." In this scheme of things, the Reserve Bank, in particular, has been entrusted with a big responsibility, at any rate, a bigger responsibility in relation to the movement than it has been shouldering so far. But a no less heavy responsibility has been put on the State Governments, in whose jurisdiction co-operation falls. Meeting in April 1955 in Delhi, the State Ministers of Co-operation have set themselves ambitious targets to be achieved during the second five year plan. The targets are: the volume of short-term credit is to be increased from Rs. 30 crores to Rs. 50 crores between 1954-55 and 1960-61; medium-term and long-term credits are to be raised, respectively, from Rs. 10 crores to Rs. 50 crores and from Rs. 3 crores to Rs. 25 crores within the same period.

Judging from the steps which have been taken by the Centre and the importance which it attaches to the movement, these targets are in a fair way to being achieved; assuming that they are, there will be two important difficulties to be solved. One is to make credit not only adequate but also cheaper. It is admitted that in several cases, borrowers have had to pay as much as 13 percent interest, which is close to what they may be paying to the not-so-greedy moneylenders. The rate is very high and it should be brought down to around 6 percent. The other is to remove all sources of delay in a farmer getting his credit; these are now in danger of increasing with the bureaucratic control of the machinery. The Prime Minister has complained that a co-operative society near Delhi in which he is personally interested has taken nearly nine months to be set up because of the many legal obstacles which have come in the way. So the law needs to be changed, and perhaps the Prime Minister will see to that. In the U.S.A., the extension service plays a valuable rôle. It provides a useful link between the Farmers' Home Administration (which is an official body charged by Congress with the task of administering credit to farmers) on the one hand, and the farmers, on the other. India might well emulate the example.

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SHORTCOMINGS OF THE COMMUNITY DEVELOPMENT PLANS

PROBLEM OF DEMOCRATIC DECENTRALISATION

● By A SPECIAL CORRESPONDENT ●

ALTHOUGH the national extension service and community development programme has been in operation in India for over five years now (the programme commenced in October 1952), and considerable praise has been showered on its achievements by visiting experts, there has also taken place during recent months a considerable reappraisal of what it has failed to achieve. The first jolt came from the fourth evaluation report on the working of community projects and N.E.S. blocks issued in April 1957. A product of detailed studies undertaken under the auspices of the Programme Evaluation Board set up by the Planning Commission in December 1956, and headed by Dr. V. K. R. V. Rao of the Delhi School of Economics, the report contains frank comments which have created quite a stir and made many people, hitherto complacent, look inwards and analyse what exactly is wrong in the actual implementation of the programme. The fourth evaluation report covers the period up to the last year of operation of the first series of community projects started in 1952-53. It has, therefore, been possible for Dr. Rao's team to make an overall appraisal of achievements in these areas in physical terms as well as in terms of behaviour and attitudes—a type of assessment which could not have been made, or could have been made only inadequately, in the earlier reports.

The unit of operation in this programme is the development block which represents, on an average, 100 villages with a population of 60,000 to 70,000 spread over an area of 150 to 170 square miles. Under the pattern which is being followed since 1953-54, every new development block is first taken up under the more modest national extension service programme. After a period, which may vary from one to two years, there is initiated in a proportion of these areas a programme of intensive development for about three years. The areas then enter into what is called the "post-intensive phase": they are supposed to have been fully developed and attained a pattern expected to continue indefinitely without special help from the community development budget.

Achievements during First Plan

The fourth evaluation report highlights certain interesting facts. In the majority of the villages (at the end of the first five year plan, the programme covered about 123,000 villages and a population of about 80 million), the achievement has fallen short of the accepted programme. The performance has been unsatisfactory in physical terms in certain sectors, but particularly so in terms of the behaviour and attitudes of the village people. Thus, while improved agricultural practices are more or less widespread, many villages have not adopted other items vitally related to agricultural production, that is, irrigation, land reclamation, soil conservation and consolidation of holdings. The performance in the sphere of cottage industries and in the sector of the institutional programme, *i.e.*, schools, co-operatives and *panchayats*, is, according to Dr. Rao's report, definitely poor.

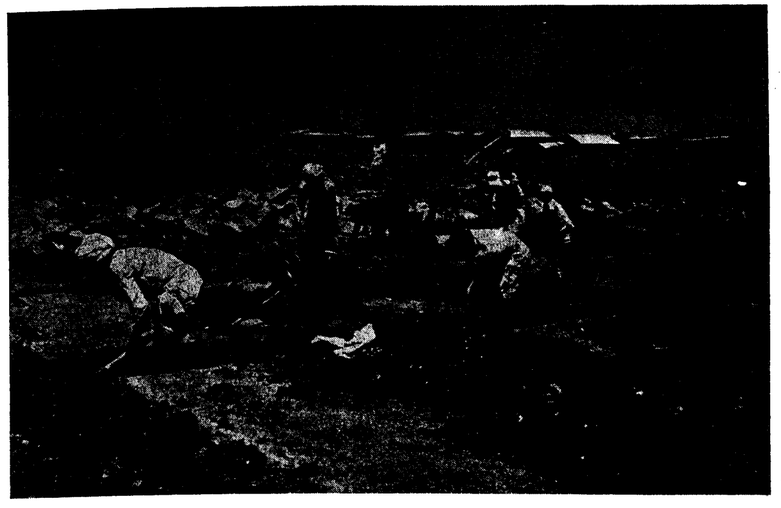
The most disquieting chapter in the report is the one on the attitude of the people. According to Dr. Rao, there has been a considerable increase in rural consciousness of economic and, to a smaller extent, of social needs, but the objective of stimulating continuous and positive effort based on self-help for promoting economic or social development has been comparatively unsuccessful. Too much dependence on Government initiative and assistance is still being shown by the vast majority of the rural population. Yet, the essence of the programme is that villagers should come together for bringing about social change, be assisted in building up a new life for themselves and then take the lead, with increasing awareness and responsibility, in promoting their own well-being.

Not Representative

The appraisal made in the fourth evaluation report has not been accepted *in toto* either by the Development Departments in the various States or by the Ministry of Community Development at the Centre. For instance, it has been pointed out that the villages covered by Dr. Rao's team are not representative and that the statistical tools employed are neither adequate nor comprehensive. The fact that the total value of the contribution the rural people have made in all the national extension and community project areas amounts to almost as much as, if not more than, the expenditure incurred by the Government, has been cited as proof of the extent of the participation by the people in the planning and execution of rural schemes. The extensive use made in certain States of local organisations like *panchayats*, co-operative societies and other *ad hoc* local bodies, has also been quoted to rebut the thesis propounded in the report.

Planning Commission Team

Nevertheless, the Government does not like to rest on the laurels collected by its own officers. Long before the fourth evaluation report was written, the Planning Commission set up a team, consisting mainly of non-officials and with Mr. Balwant Rai Mehta, M.P., as chairman, to study the community project and national extension service scheme with a view to securing economy and efficiency in its operation. One of the assessments it was asked to make was "the extent to which the movement had succeeded in utilising local initiative and in creating institutions of durable strength and leadership to ensure continuity in the process of improving economic and social conditions in rural areas".



Villagers in a community development project area in Andhra Pradesh digging the foundations of their homesteads

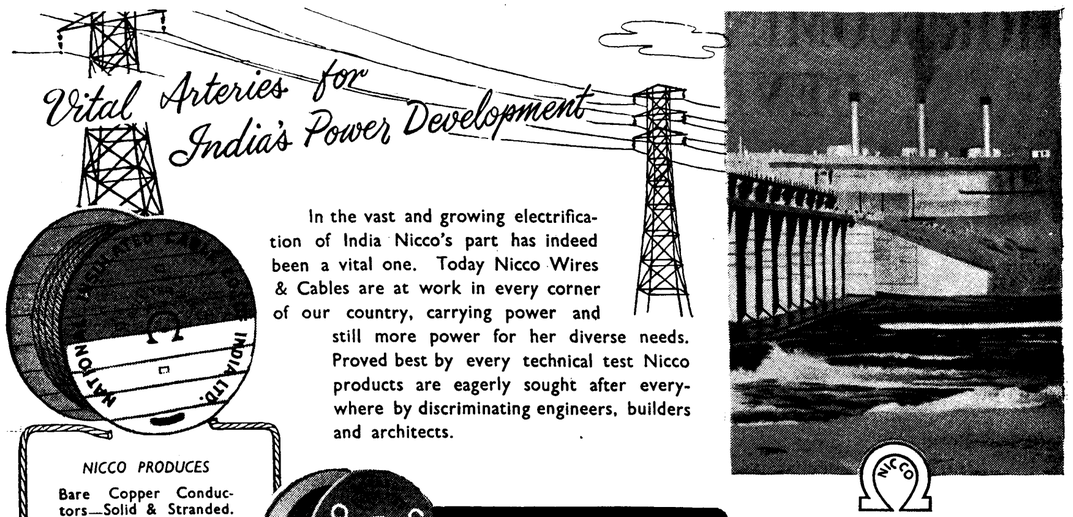
The team made an extensive and detailed study of the working of the programme in different parts of India. It visited a number of development blocks, had discussions with officials and non-officials at various levels and submitted its report to the Planning Commission some time ago. Its main conclusion is that while the movement has been essentially sound, it has not been able to evoke popular *initiative*, as opposed to *enthusiasm*, to the desired degree. According to the team, none of the local bodies at a level higher than the village *panchayat* has shown any sustained interest in this work, and even the *panchayats* have not come into the field to an appreciable extent, except in certain States. The *ad hoc* bodies set up in some States have been largely advisory in character; not having been invested with adequate power and not possessing the appropriate finances, these bodies have not been able to nourish local initiative in the field of development.

Democratic Decentralisation

The team, therefore, has come to the conclusion that "democratic decentralisation" is essential for rural development. It pleads for the setting up of a statutory, elective body at the level of the development block to take charge of all aspects of developmental work in the rural areas. This body would ultimately be "the instrument of expression of the local people's will" in the matter of such development. The team has recommended in detail how these block boards should be constituted (it has suggested indirect elections from the village *panchayats* and such small municipalities as are substantially rural in character) and what their functions should be. It has taken pains to explain that what is needed is "decentralisation" and not a mere "delegation of powers". While a block board may make a start with the development of agriculture in all its aspects, in due course it should take over all other branches of rural development and even such functions as public health and sanitation, medical relief, and maintenance and development of forests. As for resources, the team has stated that the main source of income should be a share of land revenue collected within the block area in the ante-penultimate year, but other cesses and taxes have also been suggested. Finally, grants-in-aid by the Government, both unconditional and on a matching basis, are to supplement the receipts from other sources.

The setting up of block boards does not mean that the village *panchayats* will cease to function. All that will be necessary is that the relations of the former with the latter will have to be redefined. The village *panchayat* will be subject to a certain amount of control by the appropriate block board, but, within its own sphere of responsibility, it will function as a democratic and autonomous unit.

Finally, the team has envisaged the setting up of a district council in each district, with the Collector as chairman, with a view to co-ordinating the activities of the various block boards. This council will be composed of the presidents of the



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block boards, all M.L.A.s and M.P.s whose constituencies lie within the district, and district level officers of the various Development Departments. The council will distribute Government grants-in-aid among the various blocks, co-ordinate and consolidate the block plans and generally supervise the activities of the block boards. But the council will have no executive functions, as the assumption of such executive responsibility might undermine the initiative and effectiveness of the block boards.

The recommendations of the team have been criticised in certain quarters—both official and non-official—as visionary and unrealistic. It has been argued that the proposed "democratic decentralisation" will lead to inefficiency and corruption. The fact that elected bodies at local levels have not been very successful in the past in discharging even much lesser responsibilities has been cited by sceptics as evidence in support of their view. It has been further urged that quasi-autonomous block boards will be dominated by local politics and party factions, and this will make the implementation of development programmes on a fair and equitable basis extremely difficult. No one who has been in close contact with the administration will say that these apprehensions are imaginary.

Agricultural Productivity

In this connection, it is important to remember that one of the primary objectives of the community development and national extension service programme is to increase productivity in agriculture and bring about greater diversity in the pattern of agricultural production. To achieve this, it is necessary not merely to supply the tools and implements and provide the ancillary facilities, but to create in the cultivator a desire to improve his standard of living. Unfortunately, although agricultural production in the whole of India registered an increase of 15 percent during the first five year plan and a target has been set for a further increase of 20 to 25 percent during the second quinquennium, the increase has been below the all-India average in many of the project and N.E.S. areas. In other words, the relatively larger increase which should have occurred in these areas as a result of the emphasis and priority given to this aspect of development, has failed to materialise.

What has this been due to? According to one school of thought (the team on community development projects perhaps belongs to this school), the shortfall has been due mainly to the fact that the local enthusiasm of the people has not been roused sufficiently. Others, however, argue that in a matter like agricultural production, enthusiasm is not enough; much more important are such facilities as manures, improved seeds, water for irrigation, greater security of tenure and a price for the agricultural product which the farmer considers remunerative. In this view of the case, the need is not so much for "democratic decentralisation", but for better co-ordination of the various organisations and units operating in the rural areas.

The controversy over the issue of decentralisation is not likely to be resolved easily or soon. In those States which are fairly well developed, local bodies and organisations such as *panchayats* and co-operatives would perhaps like to make the experiment, but others may, quite understandably, demur. To have faith in democracy is an exhilarating feeling, but faith cannot remove all obstacles, nor can it always create the ideal conditions for rural development.

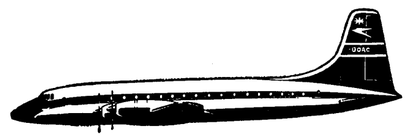
Efficient Equipment

Whichever method a particular State Government may like to adopt, the basic idea of community development is that the nation should be developed from the "bottom upwards". As has been pointed out by Mr. Carl C. Taylor, there are four distinct steps in community development. First, a systematic discussion of commonly felt needs by members of the community; second, systematic planning to carry out the first self-help undertaking that has been selected by the community; third, an almost complete mobilisation and harnessing of the physical, economic and social potentialities of local community groups; and finally, the creation of an aspiration and a determination to undertake further community improvement projects. All these steps require considerable devolution of authority on the one hand, and efficient administrative and technical machinery at the village, block and district levels, on the other. It is not merely that local bodies should have unfettered power and ample resources to work out their salvation in their own way. They must also have at their disposal competent technical institutions and agencies able to supply dependable and adequate assistance.

The target set by the Planning Commission and accepted by the Ministry of Community Development is that, by the end of the second five year plan, that is, by 1960-61, the entire countryside shall be covered by community development and/or national extension service blocks. The annual programme which has been drawn up in pursuance of this target is being implemented strictly according to plan. One need not, therefore, doubt the ability of the Government to reach the target in the broad physical sense.

Attitudes of People

The more pertinent question (this question has been posed both in the fourth evaluation report and in the report of the team headed by Mr. Balwant Rai Mehta) is whether the behaviour and attitude of the people will undergo the desired transformation, and whether they will develop the aspiration and determination to go ahead even in the absence of the stimuli now injected from outside. It would be as well not to be dogmatic in this matter, but there is no doubt that a considerable advance has already taken place and democratic decentralisation, properly phased, could perhaps accelerate the metamorphosis. As has been emphasised by the Prime Minister on more than one occasion, no great change can be brought about by mere governmental functioning; community development and national extension service units should ultimately be run by non-official agencies with public co-operation. Whether the time has come for further decentralisation is an issue on which honest differences of opinion still exist among both officials and non-officials, but the very complexity of the problem points to the need for further study and experimentation both by the Ministry of Community Development at the Centre and its counterparts in the various States.



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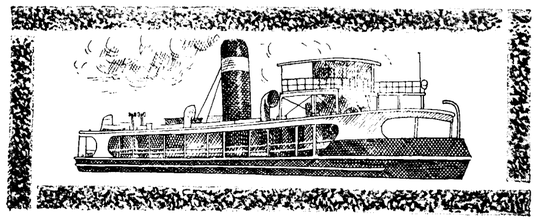
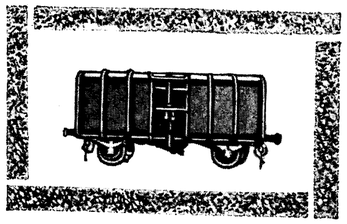
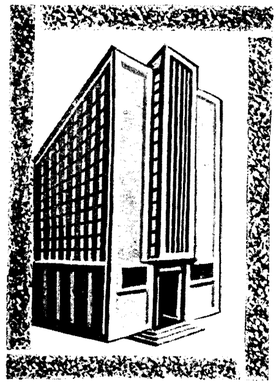
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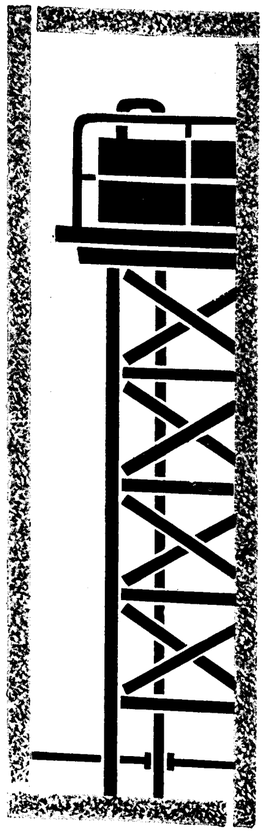
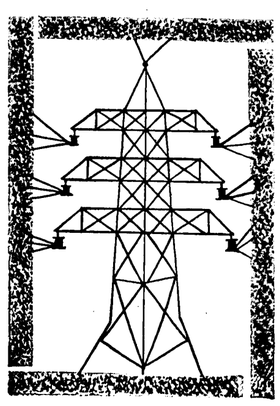
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RECENT TRENDS IN STATE FINANCES

INCREASING DEPENDENCE ON THE CENTRE

● By V. R. NATARAJAN ●

STATE finances have become an important factor in economic growth, occupying as they do a strategic position between the Centre on the one hand, and local finance on the other. An analytical study of State budgets is of special significance at the present time in view of their increasing activities in the fields of development and social services. The concepts of the welfare State and the "socialistic pattern of society" call for an augmentation of revenue and expenditure. States have the right to impose a wide range of taxes to which the limits are set more by the poverty of the people than by the Constitution. The most important sources of State revenue at present are sales taxes, land revenue, stamp duties and excise on liquor (being important only in West Bengal and Bihar). The most important new taxes, which have been only partially exploited, are those on luxuries, including entertainment, betting and gambling, on vehicles, and agricultural income tax. Other potential sources of tax revenue are taxes on advertisements (except advertisements in newspapers which are on the Union list) and succession and estate duties.

State Governments derive their revenue from services which are not likely to expand, but are likely to diminish, whereas the services they have to render require increasing amounts of money. Between 1913 and 1929, land revenue increased by ½ percent only; income from excise remained almost stationary and stamp revenue fell substantially after 1925. Between 1923-24 and 1928-29, the provinces' total expenditure increased by 22 percent, but their total revenue increased by only 4 percent. The burden of land revenue is already considerable, excise revenue must vanish some day or other, and the revenue from registration is small. Forests require a large outlay for development. On the other hand, a huge expenditure is necessary on education and public health. Sources of revenue are thus not only inadequate, in relation to the requirements of the States, but are also inelastic and inflexible. Besides, the burden of State taxation is inequitably distributed among the various classes of the people. The financial policy of State Governments is very conservative. Law and order swallows up the bulk of the revenues, and the expenditure on social services is meagre.

Centre and the States

In the State sphere, we find the picture quite difficult as compared with that of the Centre. While the Centre incurred heavy deficits during the war, most of the States built reserves out of annual surpluses. This comfortable position was due largely to the buoyancy of revenues with only a moderate increase in expenditure. Larger receipts through their share of income tax reinforced State revenues. Central assistance was an important contributory factor in the increase. There was a very large increase in the States' expenditure due to the expansion of their activities following independence, such as the increased outlay on social services, the revision of the scales of pay and allowances, and the continuance of food controls and subsidies. Development programmes of considerable dimensions were already under way when Partition took place, causing much dislocation in the country's economy. Soon after independence, many State Governments embarked on projects to establish industrial, electricity, road transport and other public enterprises. Economic decontrol came shortly after Partition and the inflationary rise in prices that followed led the Centre to reduce its assistance to the States. Post-war development grants were stopped from 1950-51, except for the "grow more food" and certain special schemes. This imposed some strain on the finances of such States as could not reduce their development commitments. State revenues maintained their buoyancy throughout the period and expanded steadily. A principal constituent of these revenues was the States' share in the divisible pool of income tax which increased from about Rs. 29.9 crores in 1946-47 to Rs. 45.7 crores in 1949-50. The policy of Prohibition resulted in a loss of revenue to some States, particularly Madras and Bombay. But this was more than made up by additional receipts from fresh taxation, chiefly the general sales tax. The increases in State taxation were particularly marked in these three years. The rates of existing taxes such as the entertainment and betting taxes, the tax on motor spirit, excise duties, electricity charges and the motor vehicle tax were increased, and new taxes such as the sales tax and agricultural income tax were introduced. During these years, State revenue as a whole was in excess of expenditure. To meet the difficulties created by Partition, Pnujab received special grants of Rs. 1 crore in 1947-48 and Rs. 1.75 crores each in 1948-49 and 1949-50. *Ad hoc* grants of Rs. 40 lakhs in 1947-48 and Rs. 50 lakhs each in 1948-49 and 1949-50 were made to West Bengal.

Total Revenue

The total revenue of all the States, allowing for transfers from revenue reserves and including the addition to revenue anticipated from tax proposals in the Budget for the year 1952-53, is Rs. 382.9 crores, Rs. 406.7 crores and Rs. 416 crores, in 1950-51, 1951-52 and 1952-53, respectively. The total expenditure in the respective years is Rs. 380.6 crores, Rs. 401.7 crores, and Rs. 435.3 crores, leaving surpluses of Rs. 2.29 crores and Rs. 4.93 crores in 1950-51 and 1951-52, and a deficit of Rs. 19.3 crores in 1952-53. The States' share of income tax, grants and "revenue gap grants" amounted to a total of Rs. 62.4 crores in 1950-51 and Rs. 70.8 crores in 1951-52, forming 16.3 percent and 17.4 percent of the total receipts, respectively, in the two years. The total transfer of revenue and grants-in-aid to the States formed 13.6 percent and 12.8 percent of Central revenues in 1950-51 and 1951-52, respectively. As for State revenues, the States did not resort to any important additional taxation in 1950-51 and 1951-52. In 1952-53, however, several States took steps to increase their resources through additional taxation. Some additional revenue from new taxes and increases in the existing taxes was raised in Bombay, Madras, Uttar Pradesh, Punjab, Hyderabad and a few other States. Among the measures of additional taxation may be menticned the adoption of a multi-point general sales tax in place of a single-point tax, enhancement of the tax on motor spirit, increase in the rates of mctor vehicles taxation, levy of surcharges on land revenue and bus passenger fares, etcetera. Taking all the States together on the basis of the 1951-52 figures, sales tax (including the tax on motor spirit) emerges as the most important single head of revenue for the States, followed as a close second by income tax (that is, the share from the Central income tax and agricultural income tax). Land revenue and excise are of about equal importance, each somewhat less than sales tax and income tax. The percentage shares of sales tax, income tax, land revenue and excise in the aggregate of all State revenues were 14.6, 14, 12.5 and 12, respectively. The total tax revenue raised by the States themselves formed 56.4 percent of the total revenue; income tax receipts from the Centre were 13.9 percent and Central subventions and grants of all kinds were 5.8 percent.

Steady Increase

Since 1950-51, the revenues of the States have shown a steady increase, but as the rise in expenditure has been larger, the deficits on revenue account have been on the increase in recent years. The principal sources of State revenue were commodity and consumption taxes (26 percent), the shares from income tax and Central excise (16 percent) and land revenue (15 percent) in 1953-54. The relative importance of major revenue heads also varied among the three categories of States; thus in the former Part A States, sales taxes and the share from income tax were the most important items, forming 20 percent and 22 percent. In the former Part B States, State excise and land revenue were the main items, forming 26 percent and 28 percent, respectively. An outstanding development in the sphere of State finances in recent years has been the growth of the general sales tax, the total yield from which amounted to Rs. 65 crores for all the States in 1953-54 and formed about one-fifth of their total tax revenue. This is their main elastic source of revenue. It is significant that land revenue has today become much less important in the total revenue of the former Part A States. Before the war, it was by far the largest single source of revenue, forming about 45 percent of the total tax revenue and 33 percent of the total revenue of the nine provinces. The long interval after which assessments are revised and the restrictions on upward revisions of assessments render land revenue an inelastic source even in normal circumstances. Its comparative position in the revenue structure has worsened because of the steep rise in agricultural prices and almost indefinite postponement of the revision of the assessment which fell due. If, nevertheless, there has been some increase in land revenue receipts, it is mainly the result of *zamindari* abolition and the taking over by the Government of the rents previously due to the *zamindars* in certain States. In the sphere of public utilities, revenue from irrigation works is fairly important in the former Part A States (the net income from this source being estimated at Rs. 7.5 crores in 1953-54). As for public enterprises, it is mainly in Mysore and Travancore-Cochin that the policy of State participation in industry has resulted in some addition to public revenues. With the abolition of the *zamindari* system, the revenue from agricultural income tax has gone down from Rs. 3.14 crores in 1950-51 to Rs. 2.53 crores in 1953-54. It is possible that this item may decrease further with the progress in land reforms, but it is also possible that its total proceeds in the country as a whole may increase with the extension of agricultural income tax to the many States where it does not exist at present.

Elasticity of Taxes

It is now proposed to review trends in the comparative elasticity of State revenues. The States still lean heavily on land revenue and liquor excises, but much less heavily than before. They now have sales tax and they have also found that their taxes contain a considerable measure of elasticity. The really significant factor that makes for the difference in elasticity in State revenues between the prewar and postwar periods, is the increased share of the States in the elastic sources of Central revenues and the larger grants they now receive from the Central Government. Here Central and State revenues have a meeting point, and the old antagonism between them has disappeared. In fact, the recommendations of the second Finance Commission and their acceptance by the Central Government have substantially increased the resources of the States. The Santhanam Commission has also made recommendations on the question of grants-in-aid to the States to meet their revenue gaps, and on the distribution of the yields from the tax levied on railway passenger fares.

Five Year Plan

State Budgets are dominated by the requirements of the five year plan. They are, therefore, mostly deficit Budgets, and the search for new sources of revenue continues. Sales tax, betterment levies and a share in estate duty are the new sources which are being tapped. The Budget estimates of the 13 reorganised Indian States for the current financial year show an overall deficit of Rs. 111.2 crores, against Rs. 104.7 crores for the previous year (1956-57). The Reserve Bank in its study on State Government Budgets says that the current year's deficit is to be met by reduction of cash balances to the extent of Rs. 85.7 crores and the sale of securities amounting to Rs. 25.7 crores. The overall deficit of Rs. 111.2 crores has been worked out on the basis of the net decreases in cash balances and the change in security holdings by the States. On revenue account, the States have estimated a total receipt of Rs. 630.9 crores and an expenditure of Rs. 717.5 crores, leaving a deficit of Rs. 86.6 crores, against a deficit of Rs. 77.4 crores for the last financial year. On capital account, estimated receipts total Rs. 436.5 crores and disbursements Rs. 437.4 crores, leaving a deficit of Rs. 90 lakhs, against a surplus of Rs. 15.6 crores last year. Commenting on the trend of the State Budgets, the study says that the revenues of State Governments have shown a consistent rise over the first plan period, but they have lagged behind the growing volume of expenditure. It is from this point of view that the revenue accounts of State Governments have to be assessed.

The real nature of the resources position may be seen from the fact that several States have substantial and persistent overdrafts. It is evident that these overdrafts are not so much due to the exigencies of short-term financing to cover the normal lag between expenditure and the collection of revenue—the Centre also makes available ways

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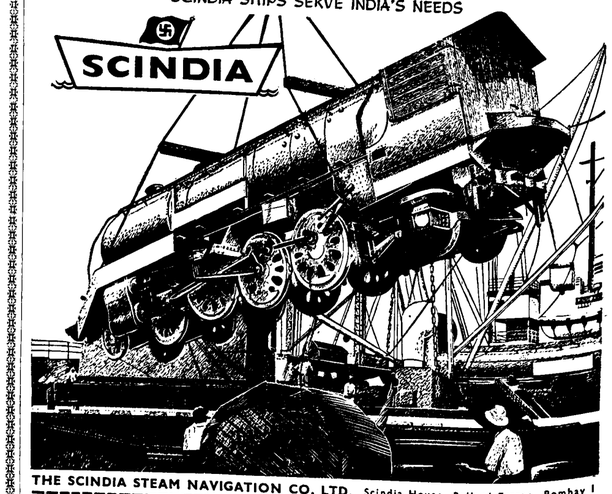
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and means assistance to State Governments—but also because of the inadequacy of resources to meet the budgeted expenditure. The following table presents the contribution of Part A and Part B States which they are expected to make towards the financing of their second five year plans :

FINANCIAL RESOURCES OF PART A AND B STATES

(Rupees Crores)

		1956-61	
	Part A States	Part B States	Total
I. Size of the plan	1,567.2	535.4	2,102.6
II. Resources on Revenue Account	312.3	24.4	336.7
(i) Balance from the revenues at existing rates of taxation	115.3	—17.5	97.8
(ii) Additional taxation	172.0	44.0	216.0
(iii) Shares of additional taxation at the Centre Deduct interest charges on new loans from the public	49.1	8.1	57.2
	—24.1	—10.2	—34.3
I. Resources on Capital Account	377.3	108.8	486.1
(i) New loans from public (gross)	210.0	90.0	300.0
(ii) Share of small savings	158.5	21.5	180.0
(iii) Other receipts (net)*	8.8	—2.7	6.1
Total Resources on Revenue and Capital Accounts	689.6	133.2	822.8
Gap in Resources	877.6	402.2	1,279.8

*These represent accumulations in provident funds, recoveries of loans and advances, appropriations from current revenues for reduction or avoidance of debt and miscellaneous capital receipts minus committed disbursements on capital account including repayments of loans, payments of compensation to *zamindars* and *jagirdars*, etcetera.

The balance which these States can make available from their resources at the existing rates of taxation is below Rs. 100 crores. Their share of additional taxation, against the total of Rs. 225 crores for all States, works out to Rs. 216 crores. The States are likely to get about Rs. 57 crores as their share from the additional taxation to be raised by the Centre. Making allowance for the interest charges on new loans to be raised from the public, the revenue resources of Part A and Part B States total Rs. 337 crores. The target for new loans to be raised by State Governments in the second plan period has been placed at Rs. 300 crores. This is a gross figure, the repayments against which amount to about Rs. 35 crores. The net borrowing of some Rs. 265 crores by the States may be compared with the total borrowing target of Rs. 700 crores for the Centre and States together. The State Governments are expected to receive as their share of small savings about Rs. 180 crores. Allowing for other net receipts on capital account, the total of the States' resources on capital account works out to Rs. 486 crores. Altogether, Part A and Part B States are thus expected to find about Rs. 823 crores, against their total plan of over Rs. 2,100 crores.

Estimated Receipts

The plans of Part C States, together with those of the Andaman and Nicobar Islands, N.E.F.A. and Pondicherry, are estimated to involve an expenditure of Rs. 125 crores. The resources of Part C States for meeting expenditure are negligible and, in fact, the Centre has to finance gaps on revenue account in several of them. Measures for additional taxation amounting to Rs. 9 crores over the five-year period have been suggested for Part C States; their estimated receipts by way of loans from the Centre against their collections of small savings are around Rs. 20 crores. The overall position is that the Centre has to finance the entire plans of these States as also of the other areas mentioned above.

Inadequate Resources

The resources of all the States taken together fall short of their requirements by as much as 60 percent. In the circumstances, large transfers of resources from the Centre to the States are inevitable. It has to be remembered at the same time that the Centre's own resources are limited, and if the second five year plan is to be implemented in full, it will be necessary for State Governments to contribute their utmost to the resources to be raised. The target of Rs. 225 crores of additional taxation to be raised by State Governments has been determined on the basis of detailed discussions with them, and an assessment of the likely yield of the various measures recommended by the Taxation Enquiry Commission. The proposed measures include land revenue surcharges, increases in rates and the extension of territorial coverage of agricultural income tax, a more extensive adoption of property taxes and taxes on transfer of property by local bodies, a widening of the coverage and an increase in the rates of sales tax, etcetera. So far as the Centre is concerned, some of the recommendations of the Matthai Commission were implemented in 1955-56. The yield from these measures has been taken into consideration in estimating the resources available for the plan at the existing rates of taxation. The Central Budget for 1956-57 contained proposals which were expected to yield an additional revenue of approximately Rs. 35 crores. A substantial step was thus taken towards realising the target of Rs. 225 crores of taxation by the Centre over the five-year period. As a result of the recommendations of the Finance Commission, the States are now free to tax tobacco. In Madras and Andhra, the sales of tobacco are separately taxed, while in Bombay the general sales tax is now applied to them. Thus the total yield from increased taxation during the first three years of the first plan, 1951-54, has been estimated at only Rs. 27 crores or less than 8 percent of the revenues in 1950-51, excluding grants-in-aid from the Centre. The seriousness of the problem is underlined by the opinion expressed in the memoranda submitted by the States to the Matthai Commission that there is no appreciable scope for raising more revenue through taxation.

Tax Effort of State Governments

In view of the growing shortage of resources in the public sector, particular importance was attached to the potentialities of the tax effort by State Governments.

Heads of Revenue	Rs. Crores
Land revenue	37.0
Agricultural income tax ...	12.0
Betterment levy	16.0
Sales tax	112.0
Irrigation rates	11.0
Electricity duty	6.0
Motor vehicles tax, stamp duties and court fees, etcetera	14.0
Others (mainly local property taxes)	170
Total	225.0

What is envisaged is a little more effort along the existing lines rather than any far-reaching innovations in the sphere of State taxation. It is in this context that the paramount importance of balancing the revenue accounts of the States has to be considered. The effective implementation of State plans will require substantial efforts by the States themselves to raise additional resources through taxes and small savings. During the first three years of the first five year plan, the revenue accounts of State Governments showed a small surplus, but during the latter part of the plan period, there have been increasingly larger deficits, due to the fact that revenues have not kept pace with the rapid increase in expenditure. The revenue surpluses for the first three years of the first plan were: Rs. 12.7 crores (1951-52), Rs. 3.1 crores (1952-53) and Rs. 5.5 crores (1953-54). The deficits in the last two years of the first plan were Rs. 11.5 crores (1954-55), and as high as Rs. 66.3 crores in 1955-56. During the first year of the second plan, these deficits rose to Rs. 77.4 crores, to be followed by the estimated deficits of Rs. 86.6 crores during the current financial year. The resources which were made available by the Centre to the States through grants, loans and proceeds of the divisible taxes constituted "a little less than one-half of the total expenditure of State Governments."

Economy Measures

No doubt some States have tried to increase their resources by new taxes or by some economy measures or tried to squeeze more out of commercial and industrial enterprises. With the exception of Bihar, Kerala, Madras, Punjab, Rajasthan and Uttar Pradesh, other States have not made specific proposals for additional taxation during the current financial year. Only Assam and Bombay have indicated the specific reasons why fresh tax proposals have not been made. In the case of Assam, it has been justified on the ground that recent Central taxes are falling heavily on the middle classes and the poorer sections of the people in Assam, where the cost of living is already higher than in the rest of India. Among the new taxes proposed by the States are the levy of cesses on commercial crops in the Punjab, an education cess in Bihar, and a tax on agricultural wealth in Kerala.

The I.M.F. Mission has observed that the progress of the States in securing additional resources has often been disappointing. It has endorsed the suggestions of the Planning Commission for raising "additional resources through taxation"—increased land tax, heavier taxation of luxury goods, betterment taxes and an increase in irrigation and electricity rates. But the limitations of these methods must be recognised. For instance, a large amount cannot be realised from consumption taxes on luxuries and semi-luxuries without depressing further the standard of living of the middle classes. In the case of land tax, systematic reassessment of land is a lengthy process and it may not be possible to raise land revenue proportionately to the increase in agricultural prices. If additional resources cannot be voluntarily raised in order to raise the rate of investment to the level of 7 percent of the national income, deficit financing to a limited extent appears to be inevitable, but the I.M.F. Mission warns against inflationary financing on the ground that such policy will lead to galloping inflation and thus defeat the whole object of planning.

Ever since the first five year plan was launched, the States' finances have become increasingly dependent on aid from the Centre. The total of what the States have secured from the Centre by way of their share in Central taxes, grants and loans has gone up from Rs. 160 crores in 1951-52 to an estimated Rs. 477 crores in 1957-58. Shares in Central taxes and grants accounted for 22 percent of the revenue receipts of the States in 1951-52. In the current year, the corresponding figure works out to 30.6 percent of the States' revenues. If the total resources made available by the Centre are compared with the total expenditure (revenue and capital) incurred by the States, one finds that the former have increased from 29.4 percent in 1951-52 to 43.2 percent in 1957-58. The percentage stood even higher in previous years—it was 49 percent in 1954-55 and 46.1 percent in 1956-57. The Budget figures of the States for the past year and the current year show that the problem is not one of finding funds for the States' capital schemes, but of raising resources for meeting their revenue expenditure. The Centre is already bearing the burden of capital expenditure largely, and is meeting, in addition, directly or indirectly, nearly a third of the revenue expenditure. Nor is it as if the States' revenues have remained inelastic over the years. Their receipts on revenue account, exclud-

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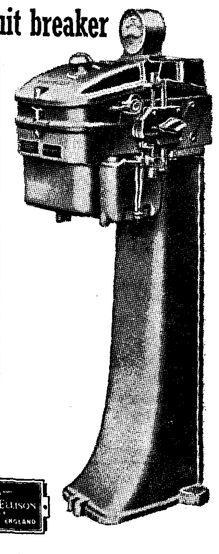
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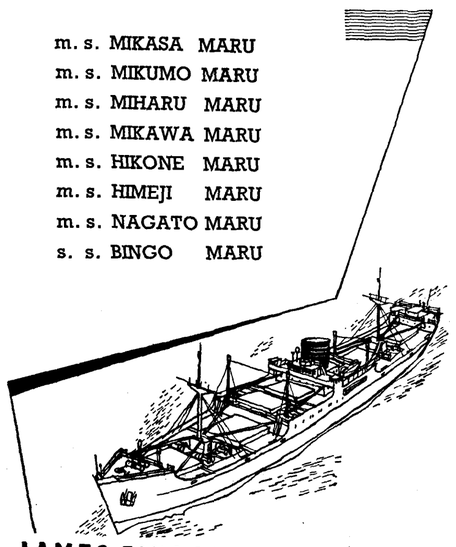
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ing Central taxes and grants, have increased by roughly 30 percent between 1951-52 and the current year.

Mounting Revenue Deficits

The problem today is one of mounting revenue deficits, unaccompanied by any determined effort to increase revenue. The total revenue deficit of the States has gone up from Rs. 11.5 crores in 1954-55 to Rs. 86.6 crores in 1957-58. The States' attempts to raise additional taxes have been meagre and half-hearted. Most of the States have exhausted their accumulated revenue surpluses as well as their cash balances and some of them, like Andhra, are carrying on with the aid of heavy overdrafts. The first task is to make a thorough investigation into the growth of expenditure in the past three years and see how much of it is justifiable in terms of providing essential services to the public. The idea that there is something heroic and great about deficit Budgets must be discarded. After all, deficits have to be covered somehow and to meet a revenue deficit by borrowing is perhaps inadvisable. There is no excuse for the deliberate planning of expenditure in excess of revenue in the Micawberian hope that somehow somebody will make up the difference.

The second five year plan has categorically declared that "each public authority should balance its revenue account." This means that if the States are not able to raise the funds for meeting their increased revenue expenditure, they must cut the latter down to the available revenue. The total increase in taxation proposed by the States this year—those which have announced their proposals or intentions to raise additional taxation—is about Rs. 10 crores, against the total deficit of all the States of Rs. 86.6 crores. There is thus an uncovered deficit of Rs. 76.6 crores, which cannot be covered by receipts from small savings alone. It is doubtful whether, in lieu of the very heavy additional taxation levied by the Centre this year, there is much scope for increasing the tax revenue of the States. The problem of expanding the tax resources of the States cannot be considered in isolation. After all, the taxpayers, for the Centre and the States, come from the same classes, except for agriculturists. And the possibility of increasing land revenue is being eliminated by the radical land reforms which are being carried out.

Suggestions for Reforms

The following reforms in State Budgets may be suggested. As soon as possible, the States should be handed over a bigger share of income tax. Land revenue should be reduced in the case of poor peasants so that after some time, uneconomic holdings are exempted altogether. There should be better co-ordination between State and local finances so that both units of the administration are able to maintain standards of efficiency in the services entrusted to them. The greatest need is to diversify the character of State finances and reduce their heavy dependence on land taxes. This can be done by encouraging both village industries and big industries, so that there is a better balance between agriculture and industry. The development of trade and industry will open new avenues of taxation.

Financial Dilemma

A rapid survey of State Budgets leads one to the conclusion that the States are facing a financial dilemma. They seem to have reached the limit of their resources, but they urgently need funds for development projects. Their revenues will expand when the development projects have been executed, but in the meantime, from where is the money to come? Their resources are either inelastic or likely to shrink, but their needs are ever-expanding. It is a vicious circle. The people are poor and cannot pay more taxes, so that the resources of State Governments are too limited to bring about economic development and consequent prosperity.



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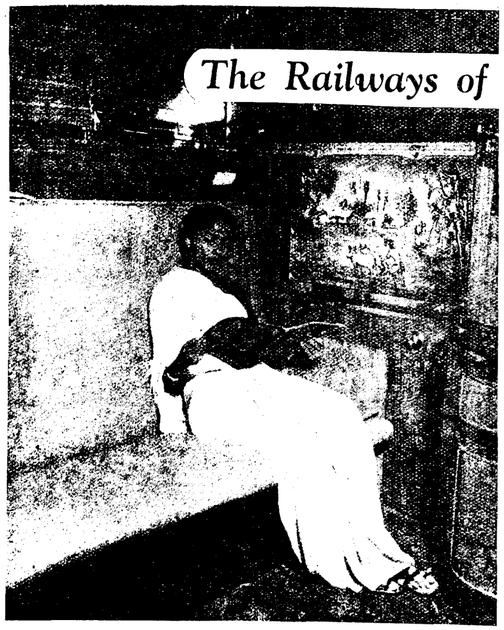
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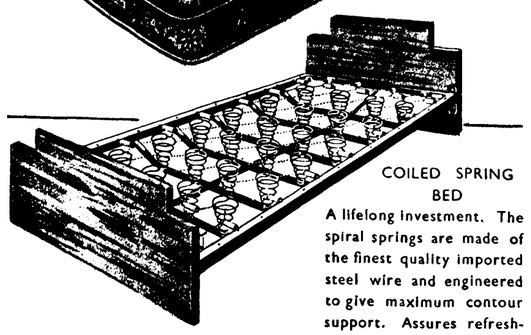
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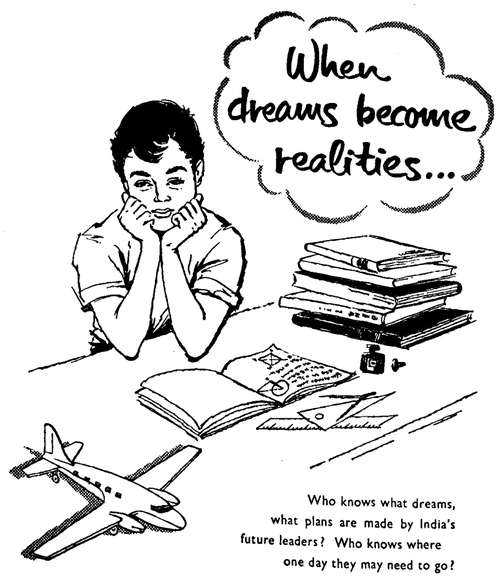


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MEASURES TO IMPROVE ROAD TRANSPORT FACILITIES

SOME HELPFUL ENACTMENTS: NEED FOR UNIFORM TAX RATES

● By B. V. VAGH ●

Executive Vice-President, The Indian Roads and Transport Development Association

TWO events of considerable importance have taken place during 1957 in the sphere of road transport. They are: (1) the Motor Vehicles Amendment Act of 1956 which came into force on 16th February, 1957; and (2) the State Bank Amendment Act of 1957 which came into force in June 1957. The severe handicaps from which road transport has been suffering since 1940 are broadly as follows: (1) legislative restrictions on movement; (2) lack of credit facilities for the purchase of vehicles, particularly of the commercial type; and (3) high and varying rates of taxation on motor vehicles in different States. Of these, the first two have been met to a large extent by the two enactments mentioned above. The third still remains.

Relevant Provisions

The principal provisions of the Motor Vehicles Amendment Act relating to the operation of vehicles—provisions the importance of which, unfortunately, does not yet seem to have been realised either by the States who have to implement them or by the operators in whose favour they have to be implemented—need to be publicised widely. They are as follows:

(1) Transport vehicles owned by automobile manufacturers and used solely for purposes approved by the Government [Section 42(3) (ee)], light motor vehicles of the type of delivery vans plying on owners' account, trailers on two wheels attached to motor-cars and weighing not more than 1,700 lbs [Section 42 (3) (i)] are exempt from permits.

(2) A private carrier's permit can be granted in one region for any other regions in a State and will be valid without the counter-signature of regional transport authorities in other regions [Proviso to Section 63(1)].

(3) Temporary permits which were issued to facilitate nationalisation at any time will be discontinued [Section 62(d) first and second provisos].

(4) The period of permits for public and private carriers, which used to be from three to five years, has been fixed at five years [Section 58(1) (b)]. Also, changes in the conditions of permits by transport authorities require at least a month's notice [Section 56(2) (vii)].

(5) Other things being equal, preference will be given to co-operatives [Section 47(1) proviso and Section 55(1) proviso] and old permit-holders for both passenger and goods vehicles [Section 58(2) second proviso].

(6) The limit for the laden weight of a medium vehicle has been raised from 14,500 lbs to 18,000 lbs [Section 2(9)].

No Distance Limit

(7) There will be no distance limit anywhere on the operation of motor vehicles. (The limit of 150 miles between places connected by railway as originally proposed in the Bill was deleted.)

(8) Inter-State traffic will be placed under a central inter-State transport commission [Section 63A(1)].

(9) No scheme of nationalisation will be introduced unless it is first published in a *Gazette* to invite objections, if any. [Section 68C and Section 68D(1), (2) and (3)].

(10) Nationalisation of transport on inter-State roads will require the approval of the Government of India [Section 68D proviso].

(11) States have been asked to issue directions for giving permits to displaced operators for alternative routes in case of nationalisation [Section 43(i), (iii)].

(12) Compensation will be paid to operators for the cancellation of their permits or for the modification of their routes or areas, but not for refusal to renew them [Section 68G (3), (4) and (5)], nor when a permit for an alternative route or area is offered and accepted [Section 68G (2)].

(13) Compensation for assets is permissible but not compulsory. (This is covered by the statement of the Deputy Minister of Transport in the Lok Sabha on 29th November, 1956, that "it has been left for private negotiation between the Government and the private operators".)

(14) Speed limits have been raised as laid down in the Eighth Schedule of the Amendment Act.

Remaining Obstacles

While these changes represent a substantial advance, they are not sufficient to ease the transport shortage. For instance, it has been found that the issue of permits for new vehicles takes three to four months. Restrictions on distance, although removed by the Act, still continue in practice because the old Code of Principles and Practice has not been formally withdrawn. The measure, strictly speaking, is now *ultra vires* of the Act. Permits for public carriers require counter-signature from regions in the same State other than the one in which they are issued. Inter-State

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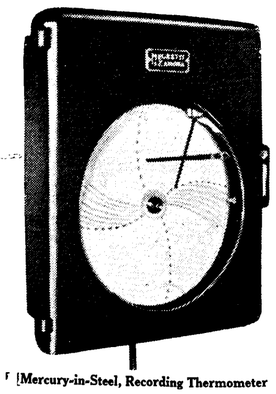
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traffic is restricted both in the number of vehicles and the period of their permits; in some States, it is allowed on short-term permits of two weeks, which are renewable if necessary. Finally, vehicles on inter-State routes still have to pay double taxation. When it is remembered that the implementation of the second five year plan requires, according to known estimates, practically a 100 percent increase over the number of commercial vehicles existing in 1955-56, it will be seen that the gravity of the situation has not yet been realised. A far more intensive effort is necessary.

Then, there is the point about economic loads to be carried. They have been raised from 14,500 lbs to 18,000 lbs, but all the new roads and bridges built during the past 15 years are capable of carrying loads of 27,000 lbs. Although the Government of India has asked States to permit such loads, wherever feasible, even on sections where through communication is not possible, States have been slow to act. The allied question of permitting articulated vehicles, and truck-trailer combinations within the carrying capacity of roads and bridges, also requires consideration. The greater the load carried by a vehicle a trip, the less is the cost of operation. If road transport is to be successful for long-distance traffic, it is essential to reduce costs.

Operating Costs

Operators have to put their own house in order also. They have done magnificent work but the days of small-scale development are now past. The operating industry requires large units. Most of the operating business is in the hands of small units, owning in a majority of cases only one vehicle. This limits the scope of operation and, inevitably, leads to malpractices which give the operators a bad name. Also, the smaller a unit, the less efficient it is. Consequently, customers cannot get the service which they are entitled to expect. One of the reasons why the public has not reacted adversely to the nationalisation of passenger transport is that the nationalised services offer better amenities. This is not because they are nationalised, but because they operate in big units. Operators should take a lesson from this and form themselves into unions owning at least 20 vehicles each, by pooling their resources and experience and evolving better business techniques. Unless this is done, they will not be in a position to shoulder their responsibilities. Important decisions were taken recently on this point by the Transport Commissioners' conference. It is hoped that they will be implemented as quickly as possible with the co-operation of the States, on the one hand, and that of the operators, on the other.

In 1955-56, there were about 160,000 commercial vehicles in the country, excluding miscellaneous vehicles numbering about 14,000. It is estimated that to implement the second five year plan, another 150,000 commercial vehicles, excluding miscellaneous vehicles, will be required by 1960-61. At an average of Rs. 25,000 a vehicle, the total cost works out to nearly Rs. 375 crores. If one-third of this amount is found by the operators, the remaining Rs. 250 crores will be required by way of loans. There are a number of credit corporations, but their resources are limited. Hence, most of the balance has to come from the Government to finance the large purchase of vehicles. That is the reason why the State Bank of India Act has been amended, making it possible for the Bank to advance money at reasonable rates of interest and on reasonable terms to hire-purchase organisations, which can then advance it to intending operators. Details have to be worked out and it is hoped that a suitable scheme will be evolved soon.

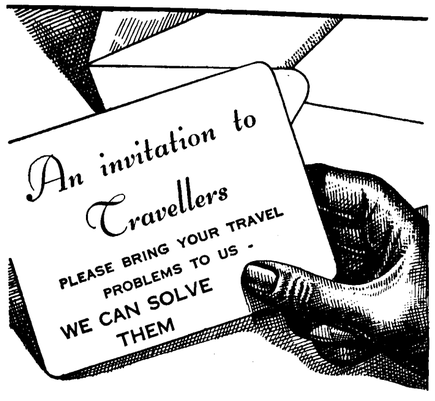
Inter-State Traffic

The greatest need is to develop long-distance inter-State road traffic. At present, the bulk of such traffic is carried by the railways, but this is no longer possible, mainly for two reasons: (1) all the finance needed for the railways has to come from the public sector, which has limited resources taking into account the demands for welfare schemes; (2) all the areas which are being developed and which are likely to be developed are not accessible to the railways. The railway system was designed in the pre-independence era, when India was essentially an importing country, for carrying imported consumer goods to marketing centres. Now the country is trying to be self-sufficient in these goods by producing most of them internally. Hence, lines of communication have to be different. This cannot be done through the existing railway system except at a huge cost. At the same time, the investment in roads has to be fully utilised. For that reason and also because the capacity of water transport is limited, the best solution is the development of long-distance road traffic.

This has now been recognised by the Government, which proposes to appoint an inter-State transport commission "to develop, co-ordinate and regulate" inter-State transport. But here definite action is necessary on two main points, namely obtaining the requisite number of trucks, and creating conditions favourable for their operation. It has been estimated that if about 75,000 more trucks can be put on the national highways and through communication is provided on them by building, by 1960-61, about 56 major and some minor bridges which are missing at present, additional long-distance transport capacity of 34 to 50 million tons of goods a year can be created. The Government has to find about Rs. 115 crores for this purpose. In view of the fact that the railways need about Rs. 200 crores for carrying about 24 million tons of extra traffic, the proposal is economical. The Government has not yet started to think of such road transport projects, although if the railways need money, they do not seem to have much difficulty in finding it.

Uniform Taxes

To ensure the free movement of trucks over inter-State routes, it is not enough to change the present licensing system. It is necessary also to have one rate of taxation throughout the country. This point has been discussed for seven years and several Government committees have recommended its adoption. Recently, the Estimates Committee of the Lok Sabha has supported it strongly; the conference of Transport Commissioners has recommended its adoption except in the case of the vehicle tax. But this is not sufficient. There will be no free movement of traffic even if one tax varies, and unless there is absolutely free movement, long-distance road traffic is not possible on the scale in which it is required. The solution is to centralise *all* taxes and to disburse receipts as between the Centre and the States on an agreed basis, as in the case of income tax, the States' share being inclusive of the share of local bodies which should be paid on the basis of their present receipts. It is understood that a scheme on these lines has been submitted to the Government, and it is hoped that an early decision will be taken.



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INSURANCE: COMMERCIAL UNION ASSURANCE CO., LTD.
UNION ASSURANCE SOCIETY LTD.

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Stocks and Shares

A MONTH-BY-MONTH SURVEY OF PRICE TRENDS FROM JANUARY TO OCTOBER, 1957

	JANUARY H. Rs.	JANUARY L. Rs.	FEBRUARY H. Rs.	FEBRUARY L. Rs.	MARCH H. Rs.	MARCH L. Rs.	APRIL H. Rs.	APRIL L. Rs.	MAY H. Rs.	MAY L. Rs.
CENTRAL GOVT. LOANS.										
3% 1946-86	73 62	73 0	74 37	73 50	74 62	74 31	74 40	74 25	74 40	73 0
3% 1959-61	97 75	97 62	97 75	97 62	97 81	97 75	97 75		97 75	
2½% 1962	93 94		93 94		93 94		93 94	93 85	93 85	93 75
3½% 1964	98 50	98 19	98 44	98 25	98 44	98 37	98 44	98 33	98 33	98 0
3% 1970-75	87 06	86 81	87 37	87 0	87 37	87 31	87 31	87 12	87 20	86 75
3½% 1974	98 56	98 50	98 50		98 50		98 50		98 50	98 40
4% 1972	..		..		..		..		..	
PREFERENCE SHARES.										
Anglo-India Jute (7%)	102 0	101 0	103 0		101 50		101 0		101 0	99 0
Alkali & Chemical (5%)	101 0		101 50		101 50		96 0		96 0	
B.I.C. (8%)	118 0		120 0	119 0	120 50	119 0	122 0	120 0	122 0	106 0
Dunlop (6%)	119 0		119 0		119 0		119 0		121 0	119 0
Indian Iron (5%)	105 0	101 50	105 0	101 50	100 50	100 0	99 50	97 0	100 0	96 50
Kesoram Cotton (7%)	113 50		114 50	113 50	116 0	114 50	116 0		116 0	114 0
Titaghur Paper (8%)	139 0		139 0		139 0		139 0	135 0	133 0	
BANKS.										
Allahabad (Fully)	365 0	360 0	366 0		366 0	358 0	360 0		360 0	
Do. (Partly)	182 50	181 50	181 0	165 0	183 0	179 0	180 0		180 0	
United Commercial	60 0	53 0	57 50	56 0	57 0	53 50	53 50	51 50	54 0	53 0
RAILWAYS.										
Ahmadpur Katwa	59 0		59 0		59 0	57 0	57 0		57 0	
Arrah Sasaram	69 50	67 50	67 0		68 0		66 0		66 0	
Howrah Amta	62 0	61 0	52 0		51 0	50 50	49 0		49 0	
Shahdara (Delhi)	125 0		125 0		123 0		115 0		115 0	
ELECTRICS.										
Agra	145 0		145 0		142 0		142 0	139 0	139 0	127 0
Benares	18 06		18 0	17 62	16 0	17 19	17 50	16 50	16 62	16 0
Calcutta	13 25	12 81	13 25	12 75	13 69	12 31	12 87	12 31	13 50	12 36
Patna	11 75	10 87	12 0	11 25	11 44	11 12	11 12	10 62	10 69	10 50
Jubbulpore	14 31		14 25		13 87	13 25	13 12	12 80	12 25	
United Provinces	148 50	147 0	146 0	145 0	142 0		142 0		142 0	
JUTES.										
Anglo-India	141 0	124 0	141 0	136 0	136 0	132 0	139 0	131 0	140 0	136 0
Belvedere	108 0		111 0	106 0	105 0	95 0	92 0	84 0	89 50	88 50
Barnagore	110 0	96 0	106 0	96 0	96 0	90 0	89 50	87 0	90 0	89 50
Champdany	127 50	122 0	138 0	130 0	130 0		120 0		134 0	130 0
Empire	15 50	15 25	16 0		16 0	15 50	14 75	14 37	14 44	14 25
Fort Gloster	340 0	309 0	305 0		300 0		290 0	289 0	290 0	
Gourepore	210 0	190 0	226 0	217 0	226 0	210 0	220 0		234 0	227 0
Howrah	20 50	17 94	20 0	17 50	18 25	15 62	15 87	15 0	15 56	13 50
India	135 0	122 0	138 0	128 0	125 50	122 0	130 0	121 0	120 0	95 0
Megna	80 50	65 0	78 0	72 0	73 0	70 0	81 0	68 0	79 50	65 0
National	20 19	17 87	21 62	18 50	20 94	18 0	20 70	19 20	20 35	19 0
Northbrook	21 0	19 62	22 12	21 44	21 12		22 0	20 31	20 25	20 12
COALS.										
Amalgamated	20 50	19 75	18 62	18 50	18 50	17 50	17 62	15 93	16 0	
Bengal	462 0	441 0	466 0	462 0	450 0 (200/- pd. up)	440 0	220 0 (100/- pd. up)	214 0	230 0	212 0
Burrakur	21 56	20 87	21 50	20 94	21 44	20 62	21 81	21 12	22 37	21 50
Equitable	26 37	24 37	25 56	25 0	24 25	23 25	24 50	20 87	24 0	23 75
East Indian	27 25	26 25	27 25	26 12	26 69	26 25	25 69	24 56	24 0	23 50
Katras Jherriah	63 12	53 50	62 0		54 75		53 75	52 75	54 62	53 75
South Karanpura	10 37	8 87	10 25	9 25	9 37	8 94	8 56	7 81	8 12	
ENGINEERINGS.										
Britannia	14 0		14 0	13 44	13 62	13 50	13 37	12 68	13 75	13 35
Braithwaite	27 50	25 87	28 50	27 19	28 25	25 62	25 12	24 50	25 37	24 40
Burn & Co.	315 0	311 0	336 0	320 0	323 0	315 0	312 0		314 0	304 0
Guest, Keen, Williams	24 94	22 75	24 50	23 69	25 37	24 37	26 62	25 37	27 25	25 62
Indian Iron	30 12	27 69	29 50	24 75	26 87 cr. 21 37	23 81 cr. 19 19	20 33	18 64	20 69	16 78
Indian Standard Wagon	212 0		188 50	182 0	xr. 180 0	xr. 176 0	168 0	166 0	161 0	159 0
Jessop	29 50	27 50	28 50	24 81	25 75		26 12	22 81	25 12	22 12
Richardson & Cruddas	23 0	21 50	21 62	17 44	19 37	16 37	18 0	15 12	17 37	15 10
SUGARS.										
Belsund	10 19	9 94	11 37	10 69	10 87	10 75	11 50	10 56	11 12	10 50
Carew	7 56	7 25	7 44	5 87	7 62	7 50	7 69	7 22	7 50	7 19
Champaran	24 0	22 0	21 75	21 50	21 50	21 0	20 37	18 98	18 0	17 37
Ramnugger	25 12	22 87	25 50	25 0	26 50	24 75	25 75	25 0	25 75	25 0
COTTONS.										
Cawnpore Textiles	10 0	7 87	7 94	7 69	7 75	7 62	7 19	6 12	6 03	5 75
Dunbar	203 0	199 0	191 0	190 0	191 0	175 0	174 0	173 0	176 0	172 0
Elgin	28 87	23 75	26 25		25 0	24 0	24 0	20 25	20 25	19 0
Kesoram	15 75	14 25	16 0	14 50	15 0	13 69	14 0	13 12	13 69	13 12
New Victoria	2 25	1 19	2 19	1 81	2 0	1 87	1 87	1 75	1 87	1 62
MININGS.										
Burma Mines	3 0	2 69	3 12	2 56	3 06	2 56	2 56	2 40	2 50	2 30
Indian Copper	3 81	3 56	3 81	3 19	3 37	3 12	3 32	3 10	3 46	3 20
Karanpura Development	16 56	14 25	15 87	13 12	14 06	12 75	13 06	11 75	12 50	12 25
Orissa Minerals	21 75	19 69	22 0	21 37	22 0	20 37	19 57	18 37	20 06	18 44
MISCELLANEOUS.										
Alkali & Chemical	19 19	18 31	18 81	18 19	14 87	11 12	11 69	11 25	12 62	11 44
Angelo Bros.	24 25	18 75	22 0	20 50	19 75	x.r. 19 50	19 37	18 87	18 50	17 62
Balmer Lawrie	164 50	150 0	162 0		156 0		151 0	144 0	145 0	
Britannia Biscuits	15 0	14 56	14 75	13 87	13 62	13 25	13 25	12 87	13 50	12 75
B.I.C.	13 87	9 0	8 50	7 31	8 0	7 87	7 60	6 50	7 0	6 10
Dunlop Rubber	26 25	25 69	26 0	24 87	25 37		25 0	23 39	24 25	22 69
Dalmia Cement	12 56	11 87	12 37	12 0	12 31	11 75	11 75	11 12	11 75	11 25
Eastern Investments	129 0	126 0	132 50	132 0	130 0	119 0	115 0	105 50	107 75	104 50
I.G.N.	79 0	69 0	76 0	71 50	72 0		69 0	65 0	68 0	
Indo-Burma Petrol	36 25	33 87	36 37	34 37	33 62		31 12	28 37	30 56	27 87
India Paper Pulp	23 56	22 25	23 19	22 62	22 75	22 25	21 44	21 25	21 25	20 75
Indian Aluminium	15 12	14 0	14 31	13 25	14 0	13 62	13 37	12 50	13 81	12 56
India Steamship	10 69	9 19	10 44	9 94	10 37		10 32	9 90	10 12	9 75
Indian Wood Products	42 50	42 0	42 50	42 0	42 0	41 50	40 75	40 0	38 75	38 25
Jardine Henderson	82 0	80 0	80 0	75 75	78 0		79 0	74 25	76 0	74 0
Martin Burn	25 0	22 25	25 0	23 50	25 62	23 25	23 44	22 19	23 37	22 44
Metal Box	29 0	25 75	29 62	26 0	26 50	26 25	27 55	26 75	27 62	24 69
National Carbon	27 0	25 75	26 75	25 62	27 12	26 25	26 75	25 0	25 09	23 25
Orient Paper	34 50	30 0	33 87	29 75	33 0	30 0	31 30	29 95	30 50	25 45
Titaghur Paper	39 0	36 06	39 37	36 44	37 37	36 50	35 37	33 44	33 87	32 87
Triton Insurance	154 0		154 0		145 0		140 0		150 0	
TEAS.										
Baradighi	19 50		22 62	22 50	23 62	23 25	23 66		22 75	22 25
Bishnauth	21 0	18 25	22 50	20 50	21 75	21 50	20 06	19 0	18 50	
Brooke Bond	19 69	18 87	21 61	20 50	20 37		18 25	17 69	18 25	16 75
Dufflachur	33 12	32 37	34 0	33 50	35 25	33 50	33 87	33 0	32 50	32 0
Dhunseri	22 0	20 50	19 50		18 12	17 50	16 50		15 0	
East India	22 31	21 62	25 25	22 75	29 12	28 0	26 25	25 25	23 87	23 25
Gohpur	23 0	21 87	23 75	23 12	23 12	22 50	22 56	21 75	21 0	20 50
Hasimara	28 0	27 31	29 0	27 25	27 75	27 37	27 50	24 37	24 44	21 0
Patrakola	200 0	162 50	165 0	160 0	164 0		162 0	158 0	155 0	
Tezpore	20 87	20 0	21 87	20 31	20 50	20 37	20 06	19 50	19 25	18 94

	JUNE H. Rs.	JUNE L. Rs.	JULY H. Rs.	JULY L. Rs.	AUGUST H. Rs.	AUGUST L. Rs.	SEPTEMBER H. Rs.	SEPTEMBER L. Rs.	OCTOBER H. Rs.	OCTOBER L. Rs.
CENTRAL GOVT. LOANS.										
3% 1946-86	73 35	73 0	73 05	72 40	72 10	71 0	71 55	71 10	71 10	71 0
3% 1959-61	97 80	97 75	97 95	97 80	98 05	97 90	98 25	98 05	98 55	98 25
2½% 1962	93 84	93 80	93 90	93 84	93 95	93 90	94 10	93 95	94 15	94 10
3½% 1964	98 15	97 70	97 70	97 50	97 62	97 45	97 65	97 62	97 70	97 55
3% 1970-75	86 95	85 65	85 65	85 20	86 25	85 70	86 30	86 25	86 25	86 10
3½% 1974	98 45	98 30	98 40	98 25	98 32	98 30	98 30		98 30	98 25
4% 1972	..		..		100 0		100 0		100 12	100 0
PREFERENCE SHARES.										
Anglo-India Jute (7%)	97 0	94 0	94 0	91 0	92 0	91 0	91 0		91 0	
Alkali & Chemical (5%)	96 0		97 50	97 0	97 50		97 0	95 0	95 0	
B.I.C. (8%)	107 0		105 0	103 50	103 50		103 50		104 50	103 50
Dunlop (6%)	121 0	118 0	118 0		118 0	116 0	116 0		116 0	
Indian Iron (5%)	99 0	98 50	99 0	98 50	98 0	97 0	97 0	96 0	96 75	94 50
Kesoram Cotton (7%)	114 0		114 0	108 0	104 0	103 0	103 0		102 0	
Titaghur Paper (8%)	133 0		133 0		133 0		133 0		133 0	
BANKS.										
Allahabad (Fully)	364 0		364 0		368 0	366 0	359 0		359 0	
Do. (Partly)	182 0	180 0	182 0		182 0	179 50	179 50		179 50	
United Commercial	54 50	53 25	58 50	54 50	58 25	57 50	58 0	56 0	56 0	55 50
RAILWAYS.										
Ahmadpur Katwa	57 0		57 0		57 0	55 0	55 0		55 0	
Arrah Sasaram	66 0		66 0		66 0	63 0	63 0		63 0	
Howrah Amta	49 0		49 0		49 0	46 0	46 0		46 0	
Shahdara (Delhi)	112 0		112 0		121 0		115 0		120 0	
ELECTRICS.										
Agra	129 0	125 0	125 0		120 0		123 0	122 0	125 0	123 0
Benares	16 75	16 12	16 12		16 12	15 0	14 43		14 43	
Calcutta	12 68	11 75	12 37	12 0	12 62	12 0	12 87	12 12	13 37	12 44
Patna	10 50		10 50		10 69	10 31	10 87	10 50	10 81	10 75
Jubbulpore	12 75		12 56	12 25	11 87		11 75		11 75	
United Provinces	140 0		121 0		121 0	116 0	118 0	115 0	119 0	117 0
JUTES.										
Anglo-India	134 50	133 50	146 0	130 0	141 50	135 0	141 0	135 0	152 0	135 0
Belvedere	80 0	72 0	83 84	72 50	91 0	71 0	77 0	71 0	88 0	69 50
Barnagore	84 85	74 76	88 0	82 0	76 0		92 0	79 0	95 0	79 0
Champdany	105 0	94 0	107 0	98 0	98 0	95 0	103 0	101 0	150 0	99 50
Empire	14 25	12 44	14 75	14 0	14 0	13 50	13 88	13 81	16 94	13 75
Fort Gloster	280 0	270 0	297 0	287 0	288 0		305 0	300 0	325 0	295 0
Gourepore	228 0	227 0	221 0		235 0	228 0	225 0		245 0	230 0
Howrah	17 0	13 25	16 97	16 0	17 06	15 19	16 87	16 25	17 37	15 81
India	125 0	118 0	128 0	121 0	120 0		125 0	111 75	128 0	107 0
Megna	67 0	64 50	88 0	70 50	86 0	82 0	82 0	76 0	91 0	74 0
National	19 90	19 40	19 85	17 80	18 15	17 45	18 25	17 75	20 05	18 30
Northbrook	19 37	18 62	19 50	19 12	18 62	18 50	19 0	18 75	20 0	18 69
COALS.										
Amalgamated	16 75	16 0	16 0	15 12	15 19	14 12	14 31	14 12	15 0	14 12
Bengal	230 50	203 0	240 0	226 0	221 50	211 0	217 0	209 0	240 0	214 0
Burrakur	22 37	21 44	22 0	21 60	22 06	21 50	22 0	21 12	22 12	21 75
Equitable	23 0	19 75	25 50	23 25	24 75		24 75	23 0	24 0	22 25
East Indian	24 69	20 19	25 12	24 12	21 75	20 0	21 50	x.d. 20 81	21 25	
Katras Jherriah	54 62		57 0		56 50	53 50	51 87	51 50	53 0	49 50
South Karanpura	8 06		8 94	8 50	8 19	8 0	9 56	8 74	12 69	9 75
ENGINEERINGS.										
Britannia	14 12	13 20	14 25	12 75	13 25	12 50	12 87	12 25	12 75	12 0
Braithwaite	26 0	24 62	27 69	26 0	27 81	27 19	28 0	27 62	27 25	
Burn & Co.	300 0		323 0	313 0	325 0	316 0	315 0	308 0	325 0	312 0
Guest, Keen, Williams	28 50	25 84	28 25	27 50	29 25	28 0	28 87	28 19	28 56	27 75
Indian Iron	20 69	18 18	20 90	19 30	19 48	17 64	18 24	16 88	18 88	17 36
Indian Standard Wagon	185 0	160 0	184 0		177 0	173 0	174 0	167 0x.d.	166 0	163 0
Jessop	25 50	19 87	25 18	23 50	23 62	21 81	25 81	23 75	25 25	24 0
Richardson & Cruddas	15 25	11 75	15 75	14 19	13 75	10 25	11 68	9 50	9 81	9 0
SUGARS.										
Belsund	10 87	10 0	10 87	10 62	10 81	10 75	10 31	10 12	10 37	10 12
Carew	7 37	7 0	7 81	7 25	7 44	6 94	6 25	6 0	6 0	
Champaran	25 0	14 75	23 37	21 37	21 25	20 44	20 50		20 50	
Ramnugger	23 87	21 25	21 81	20 87	21 37	21 25	21 00	20 75	21 0	
COTTONS.										
Cawnpore Textiles	6 25	5 44	7 31	6 87	7 0	6 81	6 50	6 0	5 50	5 12
Dunbar	167 0	151 0	146 50	146 0	130 0		135 0	132 0	138 0	126 0
Elgin	18 75	17 50	22 06	21 87	19 75	19 69	17 06	16 06	16 12	15 12
Kesoram	13 75	12 50	14 0	13 06	13 06	11 81	12 06	11 50	12 12	11 50
New Victoria	1 75	1 53	1 94	1 56	1 61	1 37	1 53	1 37	1 72	1 35
MININGS.										
Burma Mines	2 39	2 28	2 56	2 30	2 32	2 12	2 10	1 91	1 96	1 87
Indian Copper	3 71	3 30	3 54	3 25	3 31	2 95	3 10	2 71	3 04	2 73
Karanpura Development	12 25	10 31	12 50	12 37	10 75	8 25	9 06	8 50	10 19	8 69
Orissa Minerals	19 94	19 12	19 75	19 19	19 81	19 25	19 69	18 31 x.d.	18 31	18 0
MISCELLANEOUS.										
Alkali & Chemical	14 06	12 94	13 94	13 37	13 81	12 69	14 06	13 06	13 62	12 87
Angelo Bros.	20 25	16 75	19 50	19 0	19 0		18 10		17 50	17 0
Balmer Lawrie	146 0	141 0	155 0	144 50	155 0	151 50	151 50	148 0	153 50	144 0
Britannia Biscuits	13 19	12 87	13 31	12 94	13 31	13 25	14 50	12 87	13 0	12 87
B.I.C.	6 75	5 05	6 95	6 50	6 68	5 60	5 73	4 65	4 95	4 75
Dunlop Rubber	20 75	17 37	21 12	20 37	21 12	19 12	19 81	18 68	20 25	19 44
Dalmia Cement	11 37	11 25	11 87	11 0	11 87	11 19	10 28	9 75	10 0	9 75
Eastern Investments	103 50		112 50	108 0	108 0		110 0		110 0	109 0
I.G.N.	72 0	65 0	77 50	76 50	70 50	68 0	66 50	64 50	66 0	62 0
Indo-Burma Petrol	26 50	26 37	26 50	26 12	26 37	26 12	24 50	24 25	25 0	24 0
India Paper Pulp	20 62	19 69	20 37	19 87	20 06	19 75	18 62	18 25	19 25	18 19
Indian Aluminium	13 94	12 56	13 94	13 50	13 75	12 19	12 50	12 12	13 06	12 37
India Steamship	10 60	9 81	10 86	10 0	10 50	10 0	11 25	10 25	11 66	10 94
Indian Wood Products	38 50	38 25	36 75		38 62	37 50	41 0	38 75	41 25	40 50
Jardine Henderson	75 50	73 0	74 50	72 0	74 0	72 0	73 50	71 50	75 50	71 0
Martin Burn	23 68	22 62	24 12	23 37	23 75	23 25	23 25	22 37	23 0	22 75
Metal Box	25 62	23 50	27 0	22 0	28 25	27 12	28 0	27 75	26 25	25 0
National Carbon	25 0	22 44	25 0	24 0	25 50	22 50	25 50	25 0	24 31	23 12
Orient Paper	26 0	22 30	26 40	24 50	24 75	22 50	23 75	20 95	24 45	23 05
Titaghur Paper	33 50	31 0	33 50	32 0	33 62	32 50	32 56	32 06	32 25	32 0
Triton Insurance	154 0	145 0	150 0	142 0	150 0		150 0		150 0	148 0
TEAS.										
Baradighi	22 87	21 0	23 25	21 87	21 75	20 86	20 62	20 50	18 37	18 12
Bishnauth	22 25	18 44	23 18	21 12	20 75	18 69	19 50	17 56	19 25	17 56
Brooke Bond	19 87	16 56	20 75	19 31	18 87	18 25	18 25	17 25	17 37	17 0
Dufflachur	32 0	31 0	34 0		33 0		32 75		32 75	32 50
Dhunseri	14 0	12 75	14 0		14 50		14 0		13 50	
East India	22 62	22 12	25 25	22 12	22 50	20 0	20 0	19 75	20 12	19 50
Gohpur	23 50	21 0	24 12	23 37	23 0	22 12	21 56	20 94	21 25	
Hasimara	21 87	18 50	24 12	22 25	23 0	21 31	22 25	18 75	19 25	17 87
Patrakola	136 0	130 0	177 0	175 0	145 0	141 0	147 0	120 0	145 0	127 0
Tezpore	22 50	20 25	23 50	21 50	21 0	19 81	18 75	16 0	16 50	16 12

Quotations are given in Rupees and Naye Paise.

Figures between columns indicate that the highest and lowest quotations were the same.

H = Highest. L = Lowest.

THE CALCUTTA STOCK EXCHANGE IN 1957

A DISASTROUS YEAR FOR INVESTORS

• By A SPECIAL CORRESPONDENT •

THE year 1957 will go down in Indian stock market history as a year of disaster. At the time of writing, it is difficult to say whether this description will apply to the entire year, or whether the last few weeks will see an improvement in the investment climate. Mr. T. T. Krishnamachari's return to India after his fund-raising efforts in America and Europe has coincided with a revival of interest in the share market. By the time this appears in print, readers may know whether or not the revival is purely temporary.

To realise the full magnitude of the loss which investors have suffered, it is necessary to go back to the beginning of September 1956, when the present downtrend began. The all-India index number of variable dividend industrial securities (base 1949-50 equals 100) then stood at 128.6. By 5th October, 1957, it had dropped to 97.3, but it moved up slightly to 97.6 by 12th October. In little over a year, investors in equities have thus lost about a quarter of their capital. This is a general average, which applies to those who have spread their investments over all sections. Probably the more common example is that of investors who have concentrated their holdings in a much narrower range of industries. In such cases, the sectional indices point to the likelihood of even greater losses, especially among the popular investment groups. The principal sectional indices are listed below:

	1st Sept., 1956	12th Oct., 1957	Percentage Fall
Cotton, woollen and silk	146.6	102.5	30.08
Jute	76.3	51.9	31.98
Iron and steel	160.6	112.7	29.82
Paper	270.9	196.4	27.50
Cement	190.2	137.5	27.70
General engineering	197.9	147.2	25.61
Sugar and breweries	109.9	92.1	16.19
Chemicals	152.6	128.3	15.92
Coal	79.3	65.5	17.40
Mining and oil	249.0	153.9	38.19
Plantations	176.8	124.0	29.92

The loss suffered by individual investors depends of course on the nature of their particular holdings. Investment portfolios show wide variation, both in volume of capital and in sectional distribution, reflecting differences in means, temperament and judgment. In spite of this, an attempt is made in the following table to construct the possible investment portfolio of an average investor:

Amount of Shares	Kind of Securities (all Ordinaries)	12th September, 1956 Rate Rs.	12th September, 1956 Value Rs.	12th October, 1957 Rate Rs.	12th October, 1957 Value Rs.	Percentage of loss or gain
100	Braithwaite	30	3.000	27.25	2,725	
100	Martin Burn	24.50	2.450	22.81	2.281	
100	Metal Box	29.50	2.950	26	2.600	
100	Titaghur Paper	40.12	4.012	32 12	3.212	
100	Howrah	24.87	2.487	16	1.600	
100	Jessop	35.19	3.519	25.25	2.525	
100	Kesoram	18.12	1.812	11.81	1.181	
100	East Indian Coal	32.37	3.237	21.25	2.125	
100	Cawnpore Sugar	20	2,000	14.50	1.450	
100	Orissa Minerals	26	2,600	18.06	1.806	
100	Tezpore Tea	23.50	2.350	16.12	1.612	
100	Basmatia Tea	34.25	3,425	25	2.500	
			33.842		25.617	Loss 24.30 percent
Rs. 15,100 face value	3% 1946-86	75.37	11,380.87	71	10,721	
11,500	3% 1959-61	98	11.270	98.35	11.310.25	
12,600	3% 1970-75	89.62	11.292.12	86.25	10.867.50	
			Rs 33.942.99		Rs. 32.898.75	Loss 00.44 percent
326 Bars	Gold Bar	104.25	33,985.50	109	35,534	Gain 4.56 percent

Calculating on the basis of a holding of 100 shares in each of a dozen popular industrial concerns, such an investor will have seen his capital depreciate in value from Rs. 33,842 in September 1956 to Rs. 25,617 in October 1957, a fall of 24.30 percent. What this means in terms of economic distress, insecurity and destruction of incentives to save and invest cannot be statistically estimated. The consequences for an economy which is trying hard to implement an ambitious development programme are already apparent in the stresses and strains which have upset the calculations of the planners.

What makes matters worse is that these staggering capital losses have occurred at a time of inflation. Not only has a substantial portion of savings been wiped out by the decline in share prices: the real value of what is left, as well as of the income received from investments or in other ways, has declined as a result of the rising cost of living. If the experience of the past year holds any lessons for the investor, it is to make him regret the day when he decided to put his savings in industrial shares. He might have fared better with Government securities. Had the representative investor, whose case was considered earlier, put his capital of about Rs. 34,000 in three Government of India Loans, 3 percent 1946-86, 3 percent 1959-61 and 3 percent 1970-75, his capital loss would have been a mere 0.44 percent. But he would have done best of all if he had bought bullion. Although there would have been no return by way of interest or dividend, he would have been more than compensated by a capital appreciation of 4.56 percent. One wonders if those who frame the Government's economic policies realise that they have created conditions in which risk capital is heavily penalised and the unproductive hoarding of bullion encouraged. The anomaly that such conditions should exist in a country where capital shortage is retarding economic development does not appear to have caused serious concern to the Government.

Taking Risks

Taking risks is the essence of private investment. The investor is fully aware that when he buys ordinary shares, he must be prepared to take the rough with the smooth. But the situation in India is a very special case. On intrinsic merits, investors by and large have displayed sound judgment in buying shares. The economic outlook has justified confidence, and the concerns chosen have been intrinsically sound and efficiently managed. The one thing which has not been taken into account is that the Government's economic policies would become extremely adverse. So they are now paying the penalty. Never in the past decade has stock market sentiment been so depressed. There have been bad times in the past. Crashes and crises are not unusual in any long stretch of stock exchange history. What distinguishes the present situation from all previous experiences of this sort is the growing conviction that the Government's economic policy is killing private investment.

It is difficult to believe that the destruction of private investment is intended or desired by the Government. Apart from the now familiar repetition at periodical intervals by official spokesmen of assurances about the important rôle allotted to the private sector in the economy, it is clear that private saving and private investment will remain indispensable for economic development. But investors cannot be expected to respond to exhortations to save and invest, when painfully bought experience warns them not to. If the present decline is to be halted and reversed, something far more concrete than verbal assurances will be required. Not that speeches by Ministers and other Government spokesmen are no longer important. Much damage has been done by irresponsible and often conflicting utterances from those in authority.

Crisis of Confidence

The stock market is suffering essentially from a crisis of confidence. It is true that difficulties have arisen because of the attempt to implement an over-ambitious second five year plan. The shortage of resources, both internal and external, has brought inflationary conditions within the country and a substantial deficit in the balance of payments. The food situation has again become critical, and the failure of crops in U.P., Bihar and West Bengal seems likely to lead to shortage and high prices. Monetary stringency, aggravated by the Reserve Bank's policy of credit restriction, has resulted in a scarcity of working capital for industries as well as of investible funds. It would be unwise to underrate the seriousness of these problems. But when full allowance has been made for them, it remains true that the economy is being expanded and developed. In fact, the difficulties originate from the process of growth. They have their source in a high rate of development expenditure, in both the public and the private sectors. They may slow down or even temporarily halt economic growth, but the long-term trend is almost certain to continue. How rapidly the economy will grow will depend on the effectiveness with which domestic resources can be mobilised and foreign resources attracted. There may be temporary aberrations or even reverses, but there can be little doubt that, short of a political or economic cataclysm, growth will continue. Almost every major industry is increasing its output. The statistics for the first half of 1957 show notable increases in the production of cement, sugar, automobiles, diesel engines, machine tools, razor blades, coal, sewing machines, bicycles, cotton textiles, soap, cigarettes, copper, aluminium, paper, soda ash, bleaching powder, tyres and tubes.

Support from Life Insurance Corporation

Conditions are thus favourable for a big expansion in private investment. The one ingredient which is lacking, and the absence of which has transformed an essentially favourable investment outlook into its exact opposite, is confidence. Responsibility for destroying investment confidence lies with the Government. The fall in share values does not reflect the full extent of the damage done. Almost throughout the past year, the share market has received substantial support from the investment operations of the Life Insurance Corporation. Share prices have in many cases been propped up in this way. It is good that the Corporation should use part of its vast resources to help up share prices and its more active rôle in this field will be welcomed. But the point cannot be ignored that it is a State-owned institution.

It is a striking commentary on the condition of private investment that the stock market, a citadel of free enterprise, should have to depend to such a substantial degree on Government-controlled funds. The decline of the individual investor and the rise of the institutional one is a widespread phenomenon, but in other free countries these institutions are themselves part of a free enterprise system, so that the investment, whether individual or institutional, remains essentially private investment. In India, the body which is well on the way to becoming the major institutional investor is entirely State-owned. Through the Corporation, the Government is becoming a substantial shareholder in a wide range of industrial concerns. This is, in effect, an extension of the public sector into fields which the Industrial Policy Statement of 1956 describes as the domain of private enterprise. The nearest parallel is the policy lately proposed by the British Labour Party, of using State funds to acquire equity holdings in private industrial concerns.

Yield Spread

The yield spread between the different types of securities in a period of inflation provides interesting material for study. In general, the effect of inflation is to make fixed-interest bearing securities relatively unattractive compared with variable dividend securities. This is the well-known line of reasoning which advocates investment in equities as a hedge against inflation. It is argued that if the value of money is depreciating at the rate of, say, 4 percent a year, any investment likely to show a total net return, on income and capital accounts, of less than this amount is giving a negative yield and should be discarded. Ordinary shares, with their relatively high dividend rates and prospects of even higher rates as industrial profits rise, appear to prospective investors a better buy than gilt-edged or debentures or preference shares, with their fixed rates of return. The greater security offered by this type of investment proves to be illusory when the value of money is declining.

One would expect, therefore, that in inflationary conditions prices of fixed-interest securities would fall and their yields would rise. Ordinary shares would be bid up in price and the yield on them (assuming dividend rates to remain unchanged) would fall. There would thus be a narrowing of the differential return on the two sorts of investment. This is precisely what has happened in Britain. In July this year, so pronounced was the drift of capital from gilt-edged to ordinary shares, that the differential between the yield on 2½ percent Consols and the 30 high-grade industrials in the *Financial Times* index shrank to less than ½ percent. What is particularly significant is that this differential, the smallest in years, occurred in spite of the fact that persistent wage demands reduced the prospect of a noteworthy increase in company pro-



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fits and dividends. With a better outlook for industries, the talk that was then heard of the time when gilt-edged would yield 5 percent as against a 1 percent return on equities might not have turned out to be mere idle fancy.

Credit Restriction

When the monetary authority wakes up to the inflationary menace and clamps on credit restrictions, the investor faces a complex problem. The immediate and greatest impact of dearer money or higher interest rates is on fixed-interest securities, the prices of which are marked down to the extent necessary to bring their yield in line with the higher rates of interest. The effect on equity prices is likely to be smaller. Some fall is to be expected because the tightness of bank credit reduces the supply of funds available for investment, but ordinary share values are subject to a wide variety of influences, among which the prevailing interest rate is only one and by no means the most important. Equities are likely to lose some of their attractiveness unless other influences affecting the investment outlook are strong enough to offset the depressing effect of the credit squeeze. This is hardly the case in Britain today and even less so in India. Writing in the *Investors' Chronicle* soon after the September 1957 increase in the British Bank rate to 7 percent, "Candidus" put forward the view that fixed-interest securities offered more attractive investment prospects than ordinary shares. He argued that the drastic increase in Bank rate showed that the Government meant business in the fight against inflation. If its efforts succeeded in checking the fall in the value of money, these securities would share in the appreciation of money. The outlook for equities, on the contrary, remained clouded and, with the prospect of a Labour victory at the next general election, the possibility of a further deterioration could not be ruled out.

Inflation Continues

The Indian situation is not exactly analogous. Here, too, inflation continues, the cost of living is rising steadily and the income value of money is decreasing, in spite of the apparent steadiness of the official wholesale price index number with its revised 1952-53 base. The monetary policy is one of credit restriction, partly through selective controls and partly through the old-fashioned Bank rate policy (indicated by the rise of ½ percent to a ¼ percent Bank rate in May). What is remarkable about the Indian experience is that the differential between fixed-interest security yields and equity yields has tended to widen, instead of narrowing as in Britain. The following table shows the trend of yields on the different types of securities. The 3 percent 1986 Government of India Loan is taken as representative of gilt-edged securities:

Percentage Yield on	September 1956	August 1957	Variation
Gilt-edged	3.99	4.21	+0.22
Debentures	3.91	4.21	+0.30
Preference shares	5.42	6.05	+0.63
Equities	5.45	6.68	+1.23

From September 1956 to August 1957, the yield spread between gilt-edged and equities actually widened, from 1.46 percent to 2.47 percent. The yield on gilt-edged rose by 0.22 percent while that on equities increased by 1.23 percent. The fall in gilt-edged prices and the rise in the yield on them is what one would expect as a result of the normal tendency for fixed interest securities to depreciate in a period of inflation. The trend was accentuated by the upward movement in interest rates and by the tightness of money. What is remarkable is that equity prices, instead of rising, declined so steeply that the yield on them actually increased more than the yield on gilt-edged. This provides striking testimony of the extent to which the outlook for equity investment has deteriorated and investors' confidence has been lost. To say, as the report of the Central Board of Directors of the Reserve Bank does in its review of the year ended 30th June, 1957, that "the fall in share prices reflects in the main the adjustment of share prices to a higher yield basis in the context of prevailing financial stringency and the rise in money rates, as well as the impact of disinflationary measures on the monetary and fiscal front", is to exaggerate one factor out of all proportion to its real importance and to play down the major influence which has destroyed a substantial portion of the value of equity investments. The Reserve Bank would have been nearer the truth if, instead of slurring over what it vaguely calls "fiscal disinflationary measures," it had said frankly that the load of taxation which the investor has been called upon to carry is the principal reason for the sorry plight of the share market.

Increase in Taxation

Mr. Krishnamachari's tenure of office at the Finance Ministry has brought an unprecedented increase in the burden of taxation on investors. Soon after he assumed office, the excise duty on mill cloth was raised. This was followed by the interim Budget in November, with its capital gains tax, increased rates of dividend supertax and the scheme for compulsory deposit of a portion of profits and corporate reserves. The climax came in May 1957 with a Budget the like of which has never before been known in Indian fiscal history. The wealth tax on individuals and companies, the personal expenditure tax, the rise in income tax on companies and in corporation tax, together with steep increases in a wide range of excise and Customs duties, and in the tax on bonus issues, have combined to convince investors that the Government is not concerned about their fate. Against this formidable array of new taxes, the small concessions, like the reduction in the rates of dividend supertax, the reduction in the proportion of profits of Section 23A companies which must be distributed if the penal supertax is to be avoided and the concessions to earned income receivers, amount to little more than a gesture.

Stress on Egalitarianism

The actual tax measures are less important, from this aspect, than the trend in thinking which they reflect. The "socialistic" stress on egalitarianism even at the cost of productivity, along with the shift in emphasis from income to capital as the base of taxation, has resulted in a big increase in the tax incidence on investment. As a result, India is today in some ways the most highly taxed country in the world. In relation to saving, the inconsistency, and even incongruity, of the Government's attitude is most striking. Official reports on the state of the economy are content with merely drawing attention to the difficulties caused by inadequate saving, and Government spokesmen never tire of exhortations to save. But the person who responds to such exhortations and accumulates savings seems to be at once transformed, in the Government's eyes, from an earner of income worthy of esteem, into a property-owner and a "capitalist" who deserves no sympathy in a socialist pattern of society. There is hardly any point in advising people to save and then penalising them by heavily taxing the investment outlets for their savings. The most effective way to encourage saving is to provide profitable investment opportunities which will bring the saver both an attractive return and gradual capital appreciation. That is how things work best in a developing economy with virtually unlimited scope for capital investment. But the cumulative effect of the Government's policy is to create the strongest possible disincentive to saving—except saving in the form of bullion.

The Wealth Tax

The argument that the new structure of income, wealth and expenditure taxes will encourage saving and investment is superficial. In considering the wealth tax, it must be remembered that the act of investing involves two sets of decisions. The first

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is whether to consume or to save. After the decision in favour of saving has been taken, there comes the second choice—whether to hoard the savings in cash or to invest them in gilt-edged, debentures, preference shares or equities. Mr. Krishnamachari's arguments about the incentive effect of the wealth tax looks only at the second of these decisions and ignores the first. It is true that if a person has already saved and is holding investible funds which will be subject to the wealth tax anyway, the existence of such a tax is likely to make him choose the investment which will yield him the highest return. But the funds must first be saved before the question of investment can arise. In making this decision between consumption and saving, the awareness that if he saves (provided, of course, he falls within the scope of the wealth tax), a part of his accumulated wealth will be appropriated by the Government every year, will be certain in marginal cases to tilt the balance against saving and in favour of consumption. The inequity of applying the wealth tax to companies is obvious, but the Government remains adamant. Some of the worst features of this tax have been mitigated by amendments to the original Bill, but it is still wrong in principle and bad in effect.

Expectations of Savers

The argument used to defend the expenditure tax as a way of stimulating saving is also open to criticism. To reason that the prospect of liability to the expenditure tax will cause a diversion of income from spending to saving, is to overlook the fact that an income must be received before the question of spending or saving it can arise. In most cases, getting an income requires effort, and if the effort is made in order to enjoy the satisfaction of spending, the chances are that, as a result of the expenditure tax, the person concerned will decide that the effort involved is not worth making. In that case, the income fails to come into existence, so the question of the other choice, about spending or saving, simply does not arise.

If the Government is seriously concerned about restoring the share market to health, some rethinking on the fundamentals of private saving and investment will be necessary. Taxation and inflation have reached a point where, for most people, saving is difficult, if not impossible. The least that can be asked of the Government is that a halt be called to this trend, before savings dry up altogether. The saver who invests his money in stock exchange securities does so with two quite legitimate expectations. One is that of a reasonable return on his capital, graded acccrding to the degree of risk involved in the different types of investment he chooses; and the other is that, over the years, as the country moves towards higher levels of productivity and prosperity, the value of his capital will gradually appreciate. It is the Government's duty to ensure that its monetary, fiscal and general economic policies do not disappoint these expectations. Judged by this test, the only possible verdict on the Government's record is that of failure. The state of the stock exchange is an accurate commentary on the extent of that failure.

Subdued at the Start

Except for a short-lived recovery in June, which soon petered out, the trend was almost steadily downward throughout 1957 until the last week of October. The year commenced with the share market subdued and cautious as a result of the interim Budget of November 1956, which introduced the capital gains tax, the scheme for the compulsory deposit of part of companies' profits and reserves, and increased the rates of supertax on dividends. A slight recovery began in the second week of January, but it could not be sustained and in the third week the downtrend was resumed. The improved sentiment was attributed to reports of purchases of leading shares by the Life Insurance Corporation, and the Finance Minister's statement to the effect that there was no intention of bringing in two or three Finance Bills in a year and that there would be no large-scale revision of the tax structure after February 1958. The later weakness was a reflection of the market's disapointment over the terms of the Indian Iron and Steel rights issue—one-for-one at a premium of Rs. 3.50 over the par value of Rs. 10. The terms were known in November 1956 but hopes of a favourable revision of the decision were now finally abandoned. The company announced that the new shares would not rank for dividend for the year ended 31st March, 1957, disappointing hopes which ought never to have been entertained, seeing that the dividend related to a period when the new shares did not exist. The impending closure of the transfer books of the company for the rights issue resulted in high carry-forward charges which were a further source of weakness. Sentiment was adversely affected by uncertainty about the Kashmir situation and rumours of a possible rise in Bank rate. The easiness in jute goods and the discouraging results of some jute companies had a depressing effect on jute shares, though in the second half of the month a few scrip came in for support at lower levels. The coal section was adversely affected by the publication

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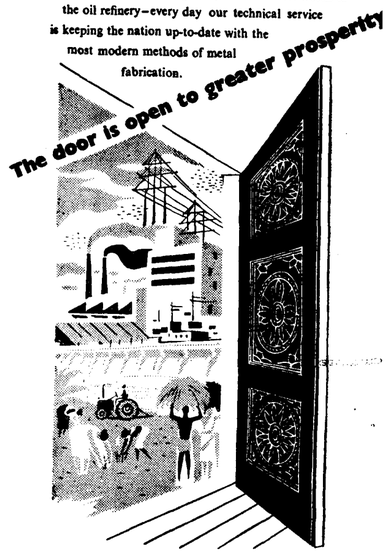
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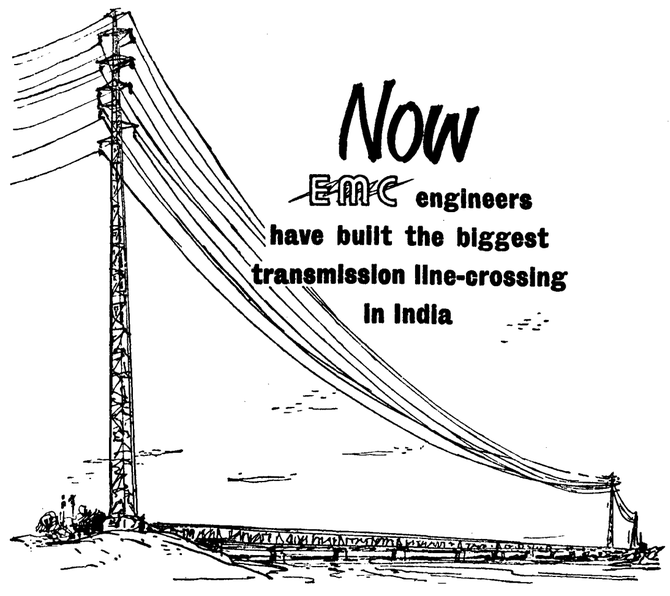
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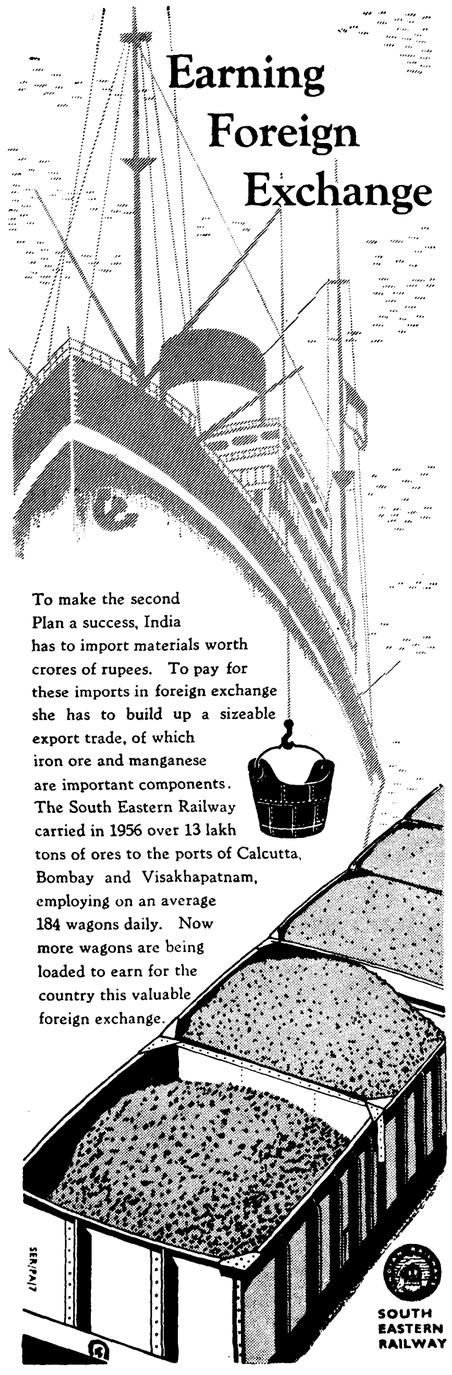
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of the report of the Appellate Tribunal, as it was feared that the decision of the Tribunal would further increase labour costs. Tea shares continued their easier trend, due to lower auction prices and apprehensions of lower dividends.

Heavy Bear Pressure

February saw the disappearance of the last traces of the previous month's half-hearted revival. Prices came under heavy bear pressure. The index number of variable dividend industrial securities slipped from 115.1 for the week ended 26th January to 110.9 for the week ended 2nd March—a decline of 3.7 percent. In the iron and steel section, the decline was of the order of 11 percent. The Reserve Bank took two important measures of credit control: it raised its rate for advances against Government and other approved securities from 3½ percent to 4 percent from 1st February, and on 9th February it reimposed restrictions on scheduled banks' advances against paddy and rice. The first step was necessitated by the rise in the effective rate on Reserve Bank advances against usance bills to 4 percent following the increase in the stamp duty on such bills, and the second by the unusually rapid increase in advances against paddy and rice in December. In effect, Bank rate was thus increased to 4 percent, although the official fiction of a 3½ percent Bank rate was maintained till May. A move towards tighter money normally tends to depress gilt-edged prices, but on this occasion there was no such effect.

The Reserve Bank's index for Government securities for Calcutta rose fractionally from 89.7 to 89.8 as a result of selective official support. Industrial securities were influenced by fears of impending taxation, in spite of the Finance Minister's assurance that the March Budget would be of the "lame duck" variety. The difficulties which the Tata Iron and Steel Company was experiencing in raising additional capital through the rights issue, and the spate of further rights issues expected after the Budget, added to the gloom. The shortage of funds for investment was illustrated by the fact that the call money on rights shares issued by Tata Iron and Steel had not yet been paid, though the management imposed a penal rate of interest of 9 percent on default. Indian Irons declined from Rs. 29.18 on 31st January to Rs. 24.75 (cum rights) by 26th February. Near-panic conditions prevailed and the Stock Exchange authorities imposed an interim clearing in Indian Irons on 26th February. They announced further that sellers in this scrip should deposit a margin of Rs. 3 a share if the price went below Rs. 24.75. Following this, the price recovered somewhat at the end of the month to Rs. 25.06.

Brief Revival

The beginning of March saw another brief revival, but again the improvement could not be sustained and the downtrend was resumed. There was a net decline for the month as a whole. The earlier improvement was caused partly by bear-covering in an oversold market and partly by encouraging reports of corporate working. Sentiment was aided by the Stock Exchange Committee's decision to place the rights issue of Indian Iron on the clearing list from 6th March. Alkali and Chemical slumped heavily on the news of a four-for-one rights issue at par. The Budget which Mr. Krishnamachari presented on 19th March proved to be genuinely a "lame duck" affair and was devoid of interest. As there was no reduction in the cloth excise duty, textiles suffered a moderate setback, but apart from this, operators were inclined to be thankful that the Budget did not impose any new tax burdens. Subsequently, however, in post-Budget trading, anxiety was revived on the realisation that the additional tax measures had only been postponed to May. Later developments showed how well-grounded these apprehensions were. The tea section ruled firm in the first half, but eased subsequently as the outlook for the new season was considered to be somewhat discouraging, in view of the prospect of overproduction in relation to demand. Jute shares ruled generally dull, with the exception of Nationals, which rose from Rs. 18.62 to Rs. 19.75, mainly on interested buying.

Compulsory Deposits Scheme

April provided the same general pattern of market behaviour—initial weakness, then a brief spasmodic revival, followed by further declines. The index for variable dividend industrial securities fell from 109.2 for the week ended 30th March to 106.4 for the week ended 27th April, showing a net decline of 2.6 percent over the month and of about 17 percent since the end of August 1956. Nervousness in the early part of the month was caused by continued fears of increased taxes in the May Budget and by reports that the Tata Iron and Steel Company would shortly make the final call for Rs. 35 a share (including a premium of Rs. 10) on the new shares. The draft rules in connection with the scheme for the compulsory deposit of part of companies' profits and reserves with the Reserve Bank were announced. Operators, threading their way through the maze of regulations, found little cause for cheer, except that the rules related only to deposits out of current profits and made no reference to deposits out of accumulated reserves. It gradually began to look as if this obnoxious measure was being watered down. Months later, it was reported that, according to one of Mr. Krishnamachari's utterances in the United States, the scheme was likely to be abandoned altogether from March 1958. (The report has since been denied.) The harm done by the over-hasty announcement of such ill-advised fiscal adventures cannot be altogether repaired by scrapping them later.

Sentiment in Indian Irons was adversely affected by the approach of the last payment date (15th April) for the rights issue, but subsequently, with the rights issue out of the way, a steadier trend emerged in this scrip. Jute shares were subdued on account of the rise in raw jute prices and the discouraging results announced by some jute companies. The closing of the Standard Jute Mill on account of uneconomic working highlighted the difficulties of the industry. The slight improvement in sentiment after the first week was attributed to the favourable trend of company news, the Prime Minister's remarks at the meeting of the All-India Manufacturers Organisation on the rôle of the private sector, and reports about the early setting up of the Refinance Corporation. This institution for assisting commercial banks to provide medium-term loans to industries was expected to relieve, to some extent, the acute shortage of finance, which was impeding industrial expansion. The later return of easier conditions was due, in part, to the Reserve Bank's directive to scheduled banks, issued on 22nd April, to exercise greater caution in granting advances against shares, so as not to make bank finance available for cornering activities. For the rest, the resumption of the downtrend was due to the growing feeling that the general outlook for investment was getting steadily worse.

Pre-Budget Jitters

May commenced with the market in a state of acute anxiety over the forthcoming Central Budget. The earlier "vote on account" Budget of March, with its substantial uncovered deficit, had prepared operators for some drastic increases in taxes. It was known also that the Kaldor recommendations on tax reform were in high favour with the Government. But Mr. Krishnamachari's breath-taking performance on Budget Day, 15th May, exceeded all expectations. It took the market completely unawares and the reaction to the devastating new taxation measures was a wave of heavy selling, which depressed prices by about 5 percent or 10 percent. Tata Steels slumped from Rs. 165.75 to Rs. 146 and Indian Irons from Rs. 20.57 to Rs. 16.90. The committee of the Calcutta Stock Exchange closed the market early on 16th May, declared a special clearing on that day and also imposed a margin of Rs. 3 a share on fresh sales in Indian Iron. Over the month, most sections suffered big losses, the biggest declines being in plantations (8 percent) followed by iron and steel (6.6 percent), cotton, woollen and silk (4.2 percent), cement and sugar and breweries (3.4 percent each) and general engineering (3.1 percent). In spite of the bad state of the market, the Dunlop rights issue (seven-for-eight at Rs. 15 a share) was a success. Shortly after Budget Day, the market steadied up and a smart recovery ensued, partly because it was thought that the earlier fall had been overdone, and partly on hopes that the rigours of the wealth and expenditure taxes would be mitigated at the select committee stage. These hopes were realised to some extent and the Acts, as finally passed, contained some concessions. In the general furore over the Budget, the Reserve Bank's announcement of an increase in Bank rate from 3½ percent to 4 percent with effect from 16th May tended to pass almost unnoticed. In fact, the effect of the change was small, because the *de facto* Bank rate had been around 4 percent for quite some time.

Limited Recovery

June was remarkable because of the emergence of the first bullish phase since the year began. Early in the month, prices eased somewhat, but from about mid-June conditions became buoyant. From 101.3 for the week ended 15th June, the index of variable dividend securities rose to 103.9 for the week ended 29th June. The rise took some of the leading scrip above the pre-Budget levels. The change in sentiment was brought about chiefly by the Finance Minister's talks with business men in Bombay and Calcutta, in which he emphasised the important rôle allotted to the private sector in the plan for economic development. There were, in addition, broad hints that measures like the dividend supertax and the compulsory deposits scheme were temporary expedients which would be abolished in due course. Sentiment was aided by sustained purchases of selected scrip by the Life Insurance Corporation, higher dividend announcements and prospects of bonus shares from some companies. But coal and jute shares were neglected. Tea shares were bullishly inclined, on reports about the smaller north Indian crop during May and higher prices at the Calcutta auctions. A sharp reaction in the Mundhra group of shares and rumours of further payments difficulties restrained the bulls.

The recovery gathered strength during the greater part of July, with the variable dividend securities index moving up from 103.8 for the week ended 29th June to 105.6 for the week ended 27th July. The new import policy for the quarter ended September 1957, announced on 29th June, was favourably received. Like the import policy announced subsequently for the half-year ended March 1958, it was viewed by operators less as indicating the critical state of the balance of payments, than as an opening of opportunities for domestic industries to meet the demand for goods which the country could no longer afford to import.

Quick Profit-taking

But there was nothing to indicate that operators and investors were ready to revise their estimates about the general investment outlook. As a result, every modest rise induced a wave of profit-taking by those who were anxious to book quick profits or to unload holdings purchased at higher prices, at what seemed to them the most favourable rates they were likely to get for a long time. It was clear that no one expected the revival to be anything more than a brief interruption in the general downward trend. The Tata Iron and Steel Company's announcement on 18th July about the dividend for 1956-57 was in line with market expectations, so it aided sentiment. In the case of Indian Irons, however, the dividend of Re. 1 a share—the same as for the previous year—proved disappointing and the scrip recorded a net decline of Rs. 1.30 at Rs. 19.36. There was actually little prospect of a higher dividend in spite of the very satisfactory working results, because it was generally known that the Government was unlikely to permit any increase until the expansion programme had been completed. But even those who had resigned themselves to the restricted dividend were worried about whether that rate of distribution would be maintained in the following year in view of the enlarged capital following the rights issue. Sir Biren Mookerjee could give shareholders no specific assurance in this matter, but his guarded reference to the prospect that the ban on higher dividends might be lifted "in the near future," together with an allocation in the company's balance-sheet, to dividend adjustment account, of the amount required to maintain the present dividend rate on the increased capital, was interpreted as amounting to such an assurance.

Cement Shares

Cement shares firmed up on reported buying by the Life Insurance Corporation and on hopes of higher cement prices. The tea section was strong, following the Government's rejection of some of the recommendations of the Plantation Enquiry Commission and also because of higher tea prices at the Calcutta auctions. Subsequently, the fall in auction prices, coupled with the enhancement of export duty from 25nP to 38nP a lb, brought about a decline in the prices of tea shares. Selected jute shares rose as a sequel to purchases by the Life Insurance Corporation. The coal section was mostly neglected; the Government's announcement of

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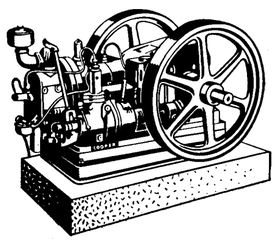
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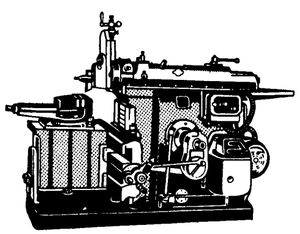
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an increase of Rs. 1.50 a ton in the price of coal had virtually no effect. In the closing week, an all-round decline in prices occurred on fears of labour troubles, the threatened postal strike and congestion in Calcutta port. Activity was restrained by uncertainties about the Select Committees' recommendations on the Wealth and Expenditure Tax Bills.

Central Government Loans

In the gilt-edged market, the main event of the month was the announcement on 25th July, by the Government of India, of two new cash-cum-conversion loans for a total sum of Rs. 100 crores, namely, 3½ percent National Plan Bonds 1967 (Fourth Series) at an issue price of Rs. 99.50 percent (yielding to redemption 3.81 percent) and the 4 percent Loan 1972 issued at par. The maturing issues offered for conversion into the new loans were the 3 percent Victory Loan 1957 and the 3 percent Loan 1958, which were accepted at Rs. 100 percent and Rs. 99.70 percent, respectively. The announcement was received favourably as the terms and timing were in line with market expectations. The lists opened on 5th August and closed on 6th August, the loans being fully subscribed. Subscriptions to the new loans, including conversions, amounted to Rs. 105.97 crores, of which Rs. 56.92 crores were for the 3½ percent National Plan Bonds 1967 and Rs. 49.05 crores for the 4 percent Loan 1972. Conversions amounted to Rs. 44.99 crores. Following the announcement of the new loans, gilt-edged prices tended to ease.

During August, the steadier tendency of the previous two months finally fizzled out. The index of variable dividend securities dropped from 105.6 during the week ended 27th July to 101.6 during the week ended 31st August, compared with 101.3 for the week ended 15th June, when the upward movement started. The threatened postal strike was an important bearish influence, but even when it was averted on 8th August, no revival of activity followed. The publication of the Select Committee's recommendations on the Wealth Tax Bill on 17th August dispelled the last hopes that the tax would not apply to companies. Textile shares in particular were depressed by reports about the heavy accumulation of cloth stocks with mills. Jute shares showed net losses, in spite of selective support in the second half of the month on favourable dividend announcements by some jute companies and in spite of hopes that the working of jute mills would improve with a fall in raw jute prices. In the last week of the month, there was a partial recovery, helped by the reported purchase of selected scrip by the Life Insurance Corporation. The Finance Minister's hint in the Lok Sabha that he might not bring forward any new tax proposals in the next three years helped lift sentiment. So did the assurance given by the chairman of the Tata Iron and Steel Company that the shareholders' suggestion for enhanced dividends on bonus shares to celebrate the company's Golden Jubilee in 1957-58 would be favourably considered.

Foreign Exchange Reserves

The Reserve Bank's statement for the week ended 2nd August showed that the foreign exchange reserves in the Issue Department had fallen below the statutory minimum of Rs. 400 crores. Under the terms of the Reserve Bank Amendment Act, 1956, the Central Government, therefore, permitted a reduction of the reserve to Rs. 300 crores for a period of six months. In view of the continuing deficit in the balance of payments, it was reported that the Government was considering a further amendment of the Reserve Bank Act in order to permit a reduction of the foreign exchange reserve against the note issue below the minimum of Rs. 300 crores permissible under the then existing law, or even scrapping the reserve requirement altogether. Without altogether concurring with the Reserve Bank's description of currency reserves as being, "in one sense, a relic of the past," operators were inclined to take the view that this was largely an academic question. The drain on the foreign exchange reserves was a matter for concern, not so much because it reduced the backing for the note issue but because it reflected the deterioration in the external payments position. It tended to sap foreign confidence in the stability of the economy at a time when the successful implementation of the development programme depended increasingly on the capacity of the country to attract foreign aid and foreign private investment.

Ultimately, on 31st October, an ordinance was promulgated by which the statutory minimum currency reserve was reduced to an overall sum of Rs. 200 crores, of which at least Rs. 115 crores had to be held in gold coin and bullion. The aggregate minimum currency reserve, including gold and foreign securities, was reduced from Rs. 515 crores (reducible in special cases to Rs. 415 crores) to Rs. 200 crores. A sum of Rs. 215 crores was thus freed for meeting the balance of payments deficit. The drain on reserves being about Rs. 8 crores a week, it was felt that even this drastic cut would not provide more than a breathing space and that more lasting remedies would have to be devised.

Credit Stringency

September brought a further general decline, with the variable dividend securities index sinking from 101.6 for the week ended 31st August to 97.6 for the week ended 28th September. The fall was particularly noticeable in cotton textiles, iron and steel, paper, general engineering and plantations. Sentiment was subdued by fears of more stringent credit restrictions, the bank strike from 18th September and the approach of the Puja holidays. The rise in the British Bank rate from 5 percent to 7 percent on 19th September accentuated the prevailing weakness because of fears that India might follow suit and increase the Reserve Bank rate further. When this did not happen, there was some revival of confidence but not even further reports of purchases by the Life Insurance Corporation could succeed in reversing the decline. The emergency measures taken during the bank strike included suspension of delivery of shares in the clearing and a compulsory carry-over at prescribed *budla* rates. The Stock Exchange Committee warned members not to increase their commitments and declared its intention of taking action against those found to be dealing excessively.

October began on a dull note, with prices continuing to slide downwards. There was little cause for cheer, except perhaps in jute shares, where the improved outlook for the industry generated a broadening of interest in a section which had succeeded in ousting coal from the position of "sick man of the Calcutta Stock Exchange." For the rest, the usual worries about taxation, credit restriction, labour demands and growing anxiety over the deterioration in the food situation combined to depress sentiment.

Prospects of Foreign Aid

The success of the Tata Iron and Steel Company in negotiating loans from the World Bank and U.S. commercial banks for financing its expansion programme was welcomed, but interest centred on the probable outcome of similar efforts by Mr. Krishnamachari and the Birla delegation, about which nothing definite was known. With effect from 10th October, the Calcutta Stock Exchange received official recognition under the Securities Contracts (Regulation) Act, 1956. The Act will have far-reaching effects on the future working of Indian Stock Exchanges and is expected to increase the difficulties of the stock-broking business through stringent regulation. The Puja holidays and the continuing bank strike contributed to the decline in activity and the Moorat session on 22nd October, ushering in the Hindu New Year, was the dullest on record. Brokers returning to work after the Pujas complained that never before had they found so little business waiting to be disposed of. Then came a remarkable transformation. Mr. Krishnamachari's return to India on 25th October coincided with a strong revival of activity and rise in prices, which continued till the end of the month. Almost every scrip was marked up and in the case of jute shares, the gains were spectacular. Operators asserted that, after a prolonged bear phase, a bull market had become long overdue and had at last come.

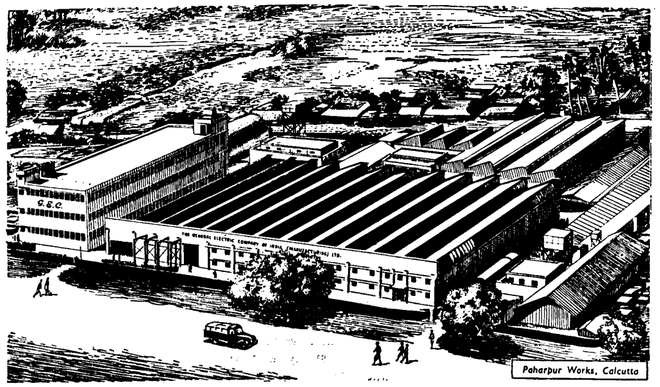
Doubtful Reasoning

All this, it seemed, was based on rather doubtful reasoning. Mr. Krishnamachari, it was said, would tell the Government that unless something was done to revive the stock market, India could not present before potential foreign investors the spectacle of a prosperous private sector; without that, foreign private capital would not be attracted. The relation between the domestic investment climate and the chances of getting foreign investment is obvious. But what is open to doubt is whether, and to what extent, the Finance Minister has been converted to this view.

The following table compares the prices of a representative list of shares on 24th October and 31st October, showing the extent of the rise :

	Prices on 24th Oct., 1957 Rs.	Prices on 31st Oct., 1957 Rs.
Indian Iron ...	17.58	18.74
Bengal Coal ...	216	240
Calcutta Electric	12.50	13.25
Burn & Co. ...	316	325
National Jute ...	18.70	19.95
Champdany Jute	101	144
Anglo-Indian Jute	136	152
Indian Copper ...	2.78	3.02
Dunlop ...	19.75	20.25
India Steamship	11.19	11.62
Jardine Henderson	72	75
Orient Paper ...	23.65	24.45
Samastipur Sugar	10	11.50
Bishnauth Tea ...	17.75	19.25

Serving the electrical needs of India...



Paharpur Works, Calcutta

...from our Paharpur Works

Manufactures of the Works include :—

- SWITCHGEAR
- INDUSTRIAL MOTORS
- TRANSFORMERS
- CEILING, TABLE & PEDESTAL FANS
- HOUSE SERVICE METERS
- RADIOS
- INDUSTRIAL FANS
- HOUSEHOLD APPLIANCES ETC.

G.E.C.

THE GENERAL ELECTRIC CO. OF INDIA PRIVATE LTD.
Calcutta Delhi Kanpur Patna
Madras Bangalore Coimbatore Secunderabad
Bombay Ahmedabad
Representing : THE GENERAL ELECTRIC CO. LTD. OF ENGLAND

GEC 880



The Story of Oil—4

Exploring for oil

It is impossible for anyone to say exactly where petroleum will be found. It accumulates in isolated subterranean traps, and these are what the oil-explorers seek, rather than the oil itself.

It must first be decided where conditions in past geological time have favoured the formation of oil. This is usually land which was once the site of an ancient sea. Having selected a likely area, the next step is to survey the surface, mapping exposed rocks and searching for any oil which has seeped to the surface.

The geologist is all the time patiently searching for signs that could point to the existence of underground rock traps. Traps suitable for an accumulation of oil consist of porous rocks in which the oil (if any is there) is hemmed in on all sides by non-porous rock. Clues to such buried structures may be found in the banks of rivers and streams, for here the earth's rock layers are often exposed to view, enabling the geologist to calculate their age and measure the directions in which they slope beneath the surface. The rocks may contain the fossilised remains of plants and animals that lived millions of years ago, when crude oil was being formed.

Aerial photographs help the geologist too. They reveal a surprising amount of geological evidence, even in densely wooded country, enabling him to map the differences in rock structure.

When all surface sources of information have been exhausted, the next step in the search for oil is to explore deep beneath the surface of the earth. The science which makes this possible is known as geophysics.



Assam Oil A full-scale petroleum industry

This is one of a series of informative advertisements about the petroleum industry.

BOC

PROSPECTS FOR THE DEVELOPMENT OF NUCLEAR POWER RESOURCES

CONCENTRATION IN SELECTED AREAS LIKELY

● FROM A SPECIAL CORRESPONDENT ●

THE report of the Atomic Energy Establishment of the Government for the year ended 31st March, 1957, has referred to the need for setting up at least one atomic power station during the second five year plan period. This power station would "produce concentrated fissionable material, plutonium, which is essential for the more advanced economic stations which are likely to be built after next five years." It has since been stated in the Lok Sabha that a decision about establishing the power station is likely to be announced by the Government towards the end of 1957.

In considering the prospects for nuclear power, it is appropriate to make a brief reference to the conventional power potential. At the end of the first five year plan, India's total commercial power generating capacity was of the order of 3.5 million kW. It is expected that the total installed generating capacity will need to grow as follows up to March 1986:

Installed capacity by	Million kilowatts
March 1956	3.5
March 1961	7
March 1966	12
March 1976	25
March 1986	50

The total surveyed hydro-electric potential in India is estimated at 35 to 40 million kW. It is also calculated that the easily procurable low-grade coal suitable for power stations will be sufficient for the next 100 years at least. But the availability of capital for development is likely to be a limiting factor. Where hydro-electric schemes, especially river valley projects, are concerned, sufficient weightage has to be given to irrigation while considering the economics of generating and transmitting power to load centres. The estimates for a number of hydro-electric projects indicate that the capital cost, after allocating a proper share to irrigation, may ultimately be of the order of Rs. 1,000 a kW when a stage of optimum development is reached. It is obvious that wherever hydro-electric power is available for development at a reasonable cost and in the required time, it should have preference over other methods. Sometimes, however, hydro-electric projects involve the construction of large dams and other extensive civil engineering works which take many years to complete. The time factor in a power-starved area may, therefore, justify the construction of a thermal power station, even though the ultimate cost of electricity from the latter may be somewhat higher.

Coal Reserves

In a paper submitted to the Geneva conference on atomic energy, Dr. Bhabha, stated:

1. The known reserves of coal and hydro-electric power in India are sufficient for the industrialisation of the country during the next few decades at the maximum rate which can be considered feasible.

2. They are insufficient to maintain for more than a couple of decades a standard of living equal to that obtaining in the industrially advanced countries today.

3. The known reserves of uranium and thorium in India are equivalent in energy value to over 15 times the reserves of coal.

4. As the reserves of coal are concentrated in a few regions, the generating cost of electric power from conventional thermal power stations ranges from 0.5 to 1.2 annas a kilowatt-hour at industrial centres remote from the coalfields. Electric power from atomic power stations would be competitive with that from thermal power stations in such areas.

5. The higher capital cost of an atomic power station could be largely, if not fully, offset in some areas by the capital expenditure necessary for increasing the railway facilities required by a corresponding conventional thermal power station, since the movement of coal is at present hampered by transport shortages.

6. To obtain enriched or pure nuclear fuel (plutonium and uranium 233) for use in future atomic power stations of a more advanced design requires the setting up during the next decade of a few atomic power stations designed to produce these materials as well as electric power. Such stations would be located most economically in areas which are remote from the coalfields, and where there is an urgent demand for power which cannot be met in time from hydro-electric sources.

More recent pronouncements by Dr. Bhabha have underlined the urgency of harnessing atomic power. India has enough uranium to start on a nuclear power programme, and in the process also to produce plutonium which is essential for the more advanced, breeder type, power stations. Since the main reserves of atomic fuel consist of thorium, breeder type stations will have to be developed.

Cost Considerations

Cost considerations are, of course, very important. The cost of atomic power a kilowatt-hour in the United Kingdom is estimated at 0.6d to 0.7d, made up of:

	(Pence a kilowatt-hour)
Capital charges, depreciation and interest	0.37 to 0.40
Interest charges on fuel	0.05 to 0.06
Net cost of fuel burnt	0.16 to 0.19
Works cost	about 0.05
	0.6 to 0.7

The breakdown indicates that capital charges account for two-thirds of the total cost—a factor which is very significant for under-developed countries such as India that are short of capital. But although the initial cost is heavy, it looks less so if an overall assessment of the problem is made, especially when the saving in coal and transport which would result from a nuclear power programme is considered. It has been estimated that a power station in western India or in the Delhi region (which are far from the coalfields) would, for a proper turnover, need 1,700 wagons and 30 locomotives for the transport of coal. That would involve a capital investment of Rs. 3 crores. With a coal consumption of 750,000 tons a year, about Rs. 2.2 crores would have to be invested in coal-mining machinery. Against this, it is estimated, the transport requirements for about 50 to 75 tons of uranium a day for an atomic power station of similar capacity would be negligible. The capital investment for mining 300,000 tons of uranium ore, lying within ten feet of the surface soil, would also be very much less. On the whole, it is estimated that a conventional thermal station of 500,000 kW would cost roughly Rs. 23 crores for the mining and transport of coal, against Rs. 13.6 crores by way of fuel costs for an atomic power station. This saving does much to offset the higher initial capital cost of a nuclear power plant.

Developments in Britain

Britain has announced an ambitious short-term nuclear programme, which calls for the installation of 6 million kW of nuclear plant by 1965 at an estimated cost of £900 million. Her industrial economy has been, and still is, based on coal; the latter is either used directly as a source of power or it is used to generate electricity in thermal stations. The more easily mined coal has mostly been used up and getting future supplies will mean extracting coal at a steadily rising cost. It is thought that over the next 15 years, energy requirements in the U.K. will rise by 40 percent, of which only 11 percent are likely to be met from bigger coal production (*i.e.*, from 225 million tons to about 250 million tons). This increase in coal production will necessitate an investment of over £1,000 million.

The gap between the demand for energy and the amount which can be supplied by coal will have to be filled by oil or by nuclear power, or by a combination of both. The use of oil will mean bigger imports, which might strain the balance of payments. There have been some references recently to a campaign for greater fuel efficiency and this might well gather momentum, leading to the more economic use of coal. But whatever may be achieved in this direction, the United Kingdom's need for atomic power is more pressing than that of other countries.

Industrialised Countries

Highly industrialised countries which do not have enough of indigenous fuels will probably not be far behind the U.K. in introducing nuclear power. France, West Germany and Japan might have a significant number of nuclear power installations in the early 1960s. A few commercial stations might be started during the same period in Italy, Spain and southern Australia, perhaps also in Canada. But some industrialised countries will probably wait longer. The Scandinavian ones, for instance, are thinking of using nuclear reactors as a source of heat, but they may not require nuclear electricity until the 1970s because they have an abundance of water power. Russia is probably in a position similar to that of the United States. These two countries will have a number of "power demonstration stations" operating by 1960, but with their large conventional energy resources, their need for commercial nuclear electricity in the 1960s is likely to be limited to a few special areas.

In most of the under-developed countries, power is produced in comparatively small blocks, except where hydro-electric resources are available. A thermal station of 30 mW is usually considered a large one in these countries. It is believed that it will be at least ten years before competitive nuclear power stations of this size are fully developed and tested, and are available for large-scale use. But there are some countries, such as India, Turkey and Egypt, where a few large thermal power stations of 100 mW or over have been built or are being planned. In some of these countries, it is expected that one or two nuclear stations will be constructed in the next ten years. It is worth noticing that the demand for electricity grows so rapidly—it doubles every ten years in many countries—that the size of the stations required is likely to increase substantially.

Scarce Fuel Resources

Except in the case of hydro-electric development, which takes place mainly in areas away from load centres, an important question which arises is whether there are enough fossil fuels in the world to sustain a steadily expanding power programme. It is generally recognised that before long most nations will be seriously concerned about how best to continue meeting the need for power. It is primarily because coal supplies are inadequate and the cost of electricity has increased due to greater haulage in the transportation of coal that Britain and the Euratom countries are planning large-scale atomic power programmes. A Euratom report states that "the range or cost of electricity produced by nuclear reactors, of the American as well as of the British type, may be estimated at 11 to 14 mills a kilowatt-hour, while the cost of electricity produced from new conventional stations which must use imported fuel will be 11 to 12 mills a kilowatt-hour." While this is the situation in European countries, the Euratom report makes a significant reference to the prospects in the United States in the following terms: "The average cost of electricity in America is about two-thirds of what it is in Europe, so atomic power will compete in Europe long before it can do so in the United States." The indications are that it will not be long before atomic power becomes more economic even by orthodox standards. The world seems likely to achieve significant progress in the development of nuclear power, so it is a matter of satisfaction that it has a place in India's plans also.

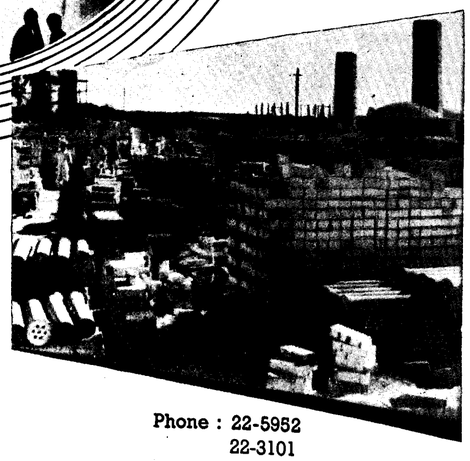
'BEHAR'
the dependable name
in FIRECLAY
REFRACTORIES



Works :
MUGMA
(Dhanbad Dt.)
Phone :
BARAKAR-41

FOR OVER 35 YEARS "BEHAR"
FIRECLAY REFRACTORIES
of every variety and description are being successfully used by leading Iron and steel Works, Cement and Glass factories, Sugar and Cotton Mills and other users throughout the Country.

Extensive use of 'BEHAR' FIREBRICKS over years have proved their superior quality, high refractory value and strong resistance to slag penetration, spalling and abrasion. That is why the name 'BEHAR' today stands as the symbol of quality and dependability in FIRECLAY REFRACTORIES



Phone : 22-5952
22-3101

BEHAR
BEHAR FIREBRICKS & POTTERIES LTD.
(Manufacturers & Exporters)
22, STRAND ROAD. CALCUTTA-1

ADVERTISING AS AN EDUCATIONAL FORCE

NEW FUNCTIONS IN A DEVELOPING ECONOMY

● By G. H. GATES-REED ●

Vice-Chairman, Indian Society of Advertisers

Illustrations by Miss J. D. Stephens

THE ever quotable Lord Birkenhead, as Lord Chancellor in 1921, made the following comment in a debate on a Bill, one of many introduced around that time, to check the excessive enthusiasm of outdocr advertisers. He was referring to a large bottle appearing at frequent intervals by the rail side :

> "I will confess that I am so unaesthetic and so unexacting in this matter that if the bottle gives me the information how many miles we have passed since London was left, how many miles remain before London is reached, I withdraw all my aesthetic objections, because I consider that the bottle has played its part....."*



The bottle has played its part

* * * *

Some £330 million was spent on all forms of advertising and sales promotion in the United Kingdom during 1956 representing. at market prices, 1.6 percent of the total domestic expenditure. (In the same period, U.K. Budget education grants and rates expenditure on education was £432,603,000.) The percentage has remaind fairly constant; in 1938 it was 1.7 percent, when the total expenditure on advertising was nearly £100 million. The U.S. figure for 1955 was $9 billion. No comparable figures are available for India, but expenditure on advertising and sales promotion must obviously increase as industrialisation proceeds ; it is, in fact, inherent in that process.

Creating Demand

The influences exerted by advertising on such a formidable scale, over a period of years, obviously must extend beyond the initial function of selling goods. In creating new demands—with time, new habits and customs—new attitudes are also created.Whether these other results are always ethically and socially desirable, or even progressive, is sometimes open to doubt (as with the usually negative, sometimes dangerous, fads and follies of fashion and fashionable behaviour encouraged in order to sell articles essential to those fads and follies). But what is certain is that those responsible for deploying this selling power in the act of selling, generally do more to shape our ideas, our way of life than do the actual inventors, the producers of the goods and services being put across—although the original sin may be the latter's. The dividing line is, of course, ill-defined and it matters little in the present context which comes first, the chicken of production or the egg of selling. What is important is that over and above the economic influences which advertising produces by stimulating the movement of wealth, and by creating new wealth, in the process of doing so it adopts tactics and selling approaches that are psychologically based—appeals to patriotism, pride, snobbery, fear, desire, wanderlust, greed, *et al*—which in time have an overall bearing on day-to-day thinking, attitudes and customs. In selling a product (a television set) you sell its usage (viewing, staying-at-home), and in your selling approach (say, snob appeal) you sell an attitude. In America or the U.K., one is almost socially suspect if one does not have a television



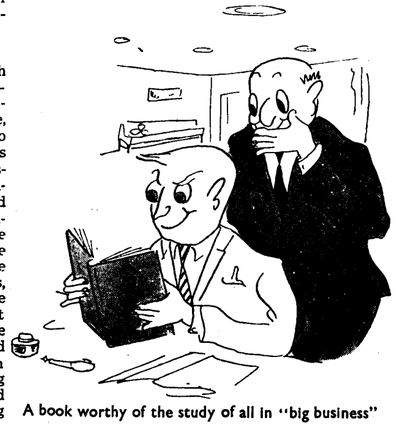
Socially suspect if one does not have a television set

set; equally, in less developed and developing societies, the same might be said of bicycle ownership. The influence has its more positively commendable side also. From the desire to possess, not to covet, the goods one's neighbour possesses, grows ambition, the urge and the need to improve oneself, an important economic and social influence in itself.

Making Innovations

Dr. Mark Abrams, writing in the *Financial Times* Advertising Survey on 29th April, 1957, has said : "In all competitive economies (and this includes those where monopolistic competition prevails), innovation, and therefore advertising, are the very essence of everyday economic life. Innovation, that is, providing the consumer with something that he regards as an improvement, is not an occasional disturbance in a normally static world; it is endemic in a world that is normally dynamic. And this innovation is made possible only with the aid of advertising".

An outstanding case history of "innovation" in its most spectacularly effective form has recently been told in *Synthetic Detergents, A Study of the Development and Marketing of a New Product* by



A book worthy of the study of all in "big business"

P. A. R. Puplett, published by Sidgwick and Jackson Ltd. (42 shillings). Free from technical jargon and the pretentious claims sometimes associated with advertising case histories, it is a book worthy of the study of all in "big business", whether they are on the advertising side or not. With detergents, advertising and sales promotion were and are used at full blast to educate the consumer into a new approach to "soap" usages, fabric washing, general cleanliness and hygiene. A particularly interesting feature of this publication is that it considers on a statistical basis the need for and the cost of such advertising, showing it to be essential to the establishment of the product at an economically marketable level of demand. Expenditure has been and remains high, but to quote Lord Heyworth : "These advertising expenditures sustain the necessary demand to bring about savings in production costs which, although they cannot be exactly calculated, are probably greater in amount". Similarly, the question of whether or not a price reduction could be effected as a result of reducing advertising and sales promotion costs is considered analytically. The saving would be infinitesimal on a pack basis, and certainly not enough to encourage an increase in demand sufficiently big to offset the possible loss in sales as a result of reducing promotion costs.

Coupon Schemes

The following opinion on the operation of coupon schemes (rated as sales promotion), about which there is the occasional grumble along the above lines, offers food for thought : "The operation of a coupon scheme is similar to making a price reduction but with certain limitations. Firstly, it can be restricted to a particular area. Secondly, it can be done many times whereas a deliberate price movement has to be semi-permanent unless one wishes to upset confidence in the brand". Dr. Abrams's definition, therefore, of "innovation" as "providing the consumer with something that he regards as an improvement" begs his final deposition "and this innovation is made possible only with the aid of advertising" for we, the consumers, (which includes those in advertising), *ipso facto*, have to be told that the innovation, the product, the service exists and why we should consider or find it an improvement, in order for the urge to utilise, or to possess, to be generated. And so the juggernaut of modern mass selling moves into operation, and through the Press, television, the radio, the cinema, hoardings and literature we are told that "Guinness is Good for You" ; to drink tea "For the Droops" ; that "You can be sure of Shell", etcetera, etcetera. And in the process of being told about, and sold, these ideas, Guinness has introduced us to the various types of oysters native to America, we have learnt how to make a cup of tea properly (*sic*), and the word "additive" has crept into our vocabulary. We have, in fact, been educated as surely as we ever were at school. In the process, new habits have been formed. Stout, from being a "four ale bar" drink, finds itself sipped from a silver tankard held with genteelly crooked fingers in the Savoy. The Americans, who ejected



Genteelly crooked fingers in the Savoy

*From *The Shocking History of Advertising*. By E. S. Turner.

WISH YOU

PROSPEROUS
1958

SREE SARASWATY PRESS LTD.
CALCUTTA-9.

ALWAYS

AT YOUR

SERVICE

for

Every kind of Coal, Coke, Colliery Machinery & Stores, Dyes for Cotton, Jute, Rubber, Silk, Ink, Oil, Leather Industries and Auxiliary Products.

Managing Agents :

The Selected Satgram Collieries Private Ltd.

Agents (in West Bengal & Assam)

THE ATUL PRODUCTS LTD., BULSAR.

S. D. SHETHIA & CO. Private Ltd.

Satisfying Depend & Service to Customers

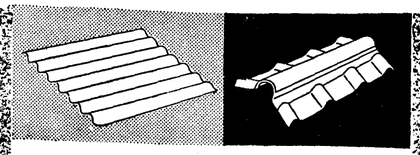
P. B. No. 657, Calcutta-1
Gram: "COALING"
Phone: 22-6936/7

P. B. No. 906, Bombay-1
Gram: "SHETHIACO"
Phone: 255808/6

Gram: "SHETHIA COMPANY" Jharia. Phone: 6348

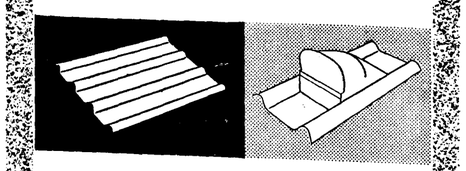
Gram: "SHETHIA CO.," Makrana.

It's quality first—with "CHARMINAR" products!



SHEETS
PURLIN TILES
VENTILATORS
FLANGES
ACCESSORIES

Leading builders and contractors insist on "CHARMINAR" *quality*—because our asbestos cement products assure greater durability, easier handling, smarter appearance *and* much lower cost. See them at any good dealer's.



CHARMINAR

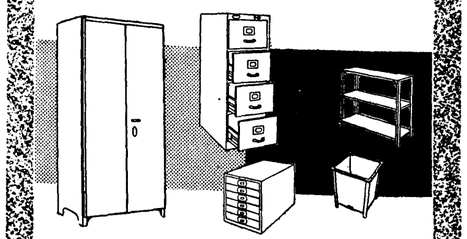
ASBESTOS CEMENT PRODUCTS

HYDERABAD ASBESTOS CEMENT PRODUCTS LTD.,
Sanatnagar, Hyderabad-18.

ALLWYN

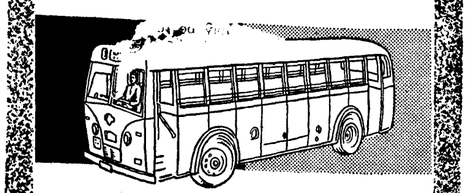
FURNITURE AND BUS BODIES

HYDERABAD ALLWYN METAL WORKS LTD.,
Sanatnagar, Hyderabad-18.



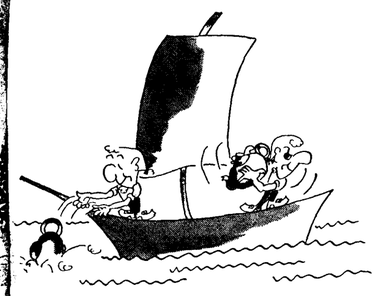
Modern styling! Maximum Serviceability!

Whether it's furniture or bus bodies, 'Hyderabad ALLWYN' is in the forefront today. Our products never swerve from the highest modern standards of quality, styling, durability and economy. "Hyderabad ALLWYN" can pass *any* test. Discuss your problem with us, today—you're welcome.



HAML. 57-12

EVEREST



The Americans, who ejected tea in 1773

a in 1773, find it insidiously creeping back into lite usage; and the most unmechanically minded yman has acquired a knowledge of and an in- rest in the internal combustion engine which he ould never have deliberately set out to acquire show were it not for the propaganda of the etrol giants.

There may be a tinge of facetiousness to this riting but that is not to deny its basic purpose. n an age when most of us are susceptible to, and ave in fact been trained to, accept digested edu- ation, potted literature, learning whatever we have o learn "without tears", the practised and studied ethods of advertisement acquire added impor- nce. We expect and accept the short, snappy pproach, the kindergarten presentation of a thesis a picture related to a fact indisputably dramatic nd so indisputably right, making a cat irrevocably cat! "Guinness is Good". Eventually we do ot ask "Why ?" The fact has been established by rce *majeure*. Your children probably remember ore of the information conveyed to them on a ornflake packet than was written on the black- oard the day before at school. On television last ight, you visited a South Sea island by courtesy f Tropical Lure Lipstick! The process goes on, athers momentum. We are being educated "by ourtesy of . . . . !"

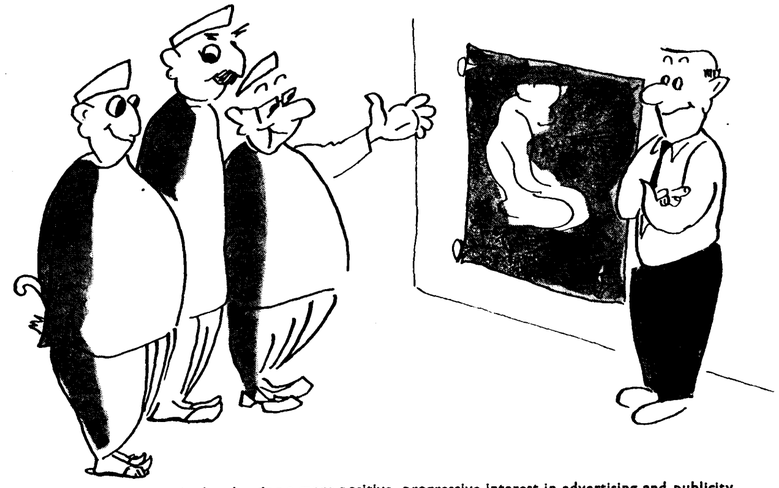
In Relation to India

There is an inevitable degree of over-simplification here, but the main object is to relate the ubject to conditions in India; to dramatise, if ossible, the significance of the rôle advertising an and should play in guiding mass thinking along onstructive lines, while at the same time stimu- ating the movement of goods and an upward trend living standards. For the trend of improvement hould refer not only to creature comforts but also attitudes towards the new way of life that is eing encouraged and planned for on a massive cale.

In India, where illiteracy is widespread but the irst for knowledge, whether or not it is recog- ised by the individual, must be inherent in the ew order of development; in the break-away from aditions and the encouragement of secularism, dvertising should assume this educative rôle s an essential part of supporting the rôle eing played by private enterprise, while, in s more general function as advertising, making it ossible for private enterprise to flourish. It must e appreciated that even if no effort is made to ducate in a general sense during the function of dvertising, no matter how simple the approach, nfluences will inevitably be inherent in the pro- ess and consequent upon the use of the article or ervice sold, that will be readily assimilated y the new urban working class and parti- ularly by the emerging middle class of techno- rats, administrative and professional personnel. t this formative, receptive stage. Neither the ause nor the effect may be recognised ; the process s like that of "subliminal" advertising.

Although in the orthodox sense illiteracy is idespread, to adopt a looser and possibly more ealistic interpretation there is, in urban areas articularly, little "mental" illiteracy, for it is vir- ually impossible for employed workers, even of he lowest class, to remain for long in the same tate of general ignorance and unsophistication as hey were before they or their predecessors m[illegible] d to the towns. They may not [illegible] rite but they cannot avoid being influenced, ed- ated and informed, for better or for worse, by the inema and to a lesser extent by the radio, and by he general conditioning effects of metropolitan liv- ng. In turn these formative forces make their victims" susceptible to the more subtle coercions f pictorial advertising, neon signs, hoardings, win- low displays, exhibitions, mobile cinemas and the llustrated Press. The process of education is thrust pon them—and one has not mentioned the verbal arrage of political haranguers, social reformers nd the sellers of plans, or the Indian Government's udget allocation of Rs. 77.5 crores for direct edu- cation.

With so many varied factors at work, by its very *ex gratia* nature, because the influence is less obvious if acknowledged at all (this lack of realisation applies generally to those producing advertising material), advertising and sales promotion have a power to mould habits and attitudes that is to a degree greater than that of the pure educationists or the politicians. It is an unassessable quantity and quality of power, because it is neither directed nor co-ordinated into an overall approach as is general education. But it undeniably exists. Unfortunately it is not possible to study in detail here how these "subliminal" influences bear upon the evolution of a social system, but a reading of *The Dreadful History of Advertising* by E. S. Turner, which relates to the United Kingdom specifically, would help the reader to understand while being amused, and would certainly stimulate thought along the lines of this argument. And all that has been said so far must be related to two supremely important conditions peculiar to India at present—the new social order is evolving under the exhilarating stimulus of re-born nationhood, while at the same time suffering the upheavals of a bloodless Industrial Revolution with all the changes in class structure, function and attitude consequent upon it.



The Government is also showing a more positive, progressive interest in advertising and publicity

Delayed Adolescence

There is a satisfactory feature of this relationship between advertising and the present state of social and economic development in this country in that the directional forces behind advertising and sales promotion had suffered and outgrown the pangs and indignities of childhood and delayed adolescence before the onset of this critical stage in the growth of modern India. Such was not the case in the countries of the West where, during the equivalent industrial and social revolutions, advertising was brash, ruthless, opportunist and to a degree incalculable in its over-riding significance. It was either without any appreciation or unmindful of the wider rôle it was playing—with, of course, the inevitable exceptions. Advertising and sales promotion in India, which have been nurtured on both the client (who pays for the advertising) and agency (which produces it) sides by foreign companies of international repute is able, therefore, to use the experience gained overseas during the formative years. Although it must be admitted that those responsible are not necessarily aware of the educational aspect of advertising, they are utilising the powers at their disposal to sell and inform in the more moderate manner of later-day advertising in the West.

In India over recent years, due to the efforts of the societies and groups representing the various aspects of advertising production and usage, this controlled approach has been co-ordinated and made coherent in the interests of ensuring an ethical attitude to advertising practice. As a result, the Government of India is today adopting, through the recently formed Advertising Council, a Code of Ethics which will have legal backing. Now in its fifth year of operation, the Indian Society of Advertisers, which represents over 60 of the leading users of advertising and sales promotion material in India, has devoted most of its activities to ensuring that advertising practice is made respectable, without being less spectacular, without negating its functional value. The Audit Bureau of Circulation has achieved an international reputation for the thoroughness with which it has handled the checking of circulations of the publications issued by its members. The Government is also showing a more positive, progressive interest in advertising and publicity matters, although there is a degree of ignorance in high places that needs to be dispelled. However, one can say that, all in all, the atmosphere is a good one in which to ask and expect advertising to play a more positive rôle as an educative force at this auspicious period in Indian history.



Cannot avoid being influenced, educated and informed

Private Enterprise

At a recent Press conference in Writers' Building, Dr. B. C. Roy indicated to a representative group of industrialists and advertising practitioners how he felt that more positive use could be made of advertising to educate. He stated that he considered private enterprise through its advertising and sales promotion could not only explain the importance of industry's own essential rôle within the framework of India's socialist pattern of society, but that it should realise how essential it was to emphasise to the people, the workers of India, their own workers, why they should co-operate with conviction and knowledge, why their enthusiasm and effort was necessary for the success of the plans and for their own future good. Dr. Roy quoted Mr. Nehru : "If you want to develop this country, you must utilise this manpower. You must produce that temper in our people which laughs at difficulties and gets things done sometimes in spite of facts, without which we can achieve really nothing big". He followed up by indicating that during his recent visit to Japan, he had found that this atmosphere, this spirit, existed among the working class there. "I was even more amazed at the willingness with which the labourers worked in their factories..... I was told by one big industrialist, who employs 25,000 people, that in Japan they had no difficulty with their workers ; and I asked the workers also and it seemed to me that they had realised that the development of the country was as much their job as of the big financiers or of the Government. Every man was prepared to put in his share in the development of the country. It is thus only that a country can develop".

Private enterprise, even if only on purely selfish grounds, should undoubtedly feel it worth while to bear this need in mind when planning its public relations and promotion programmes, for the less obvious approach is eventually the more memorable. (Information rooms, as one had them in the Services, produce as much spontaneous enthusiasm in the viewer as does an archaeological museum.) In this respect, one can again refer to

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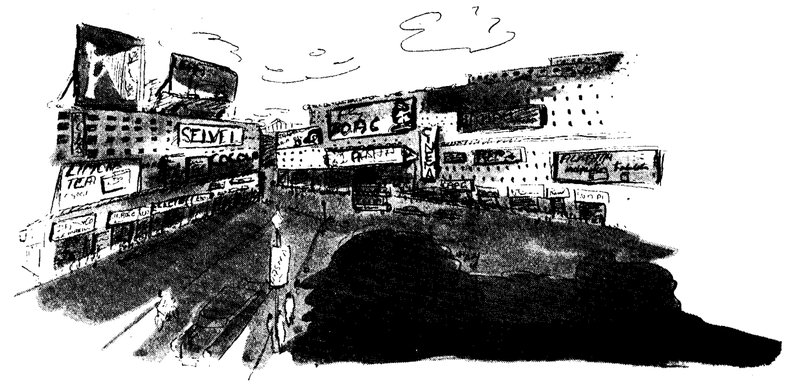
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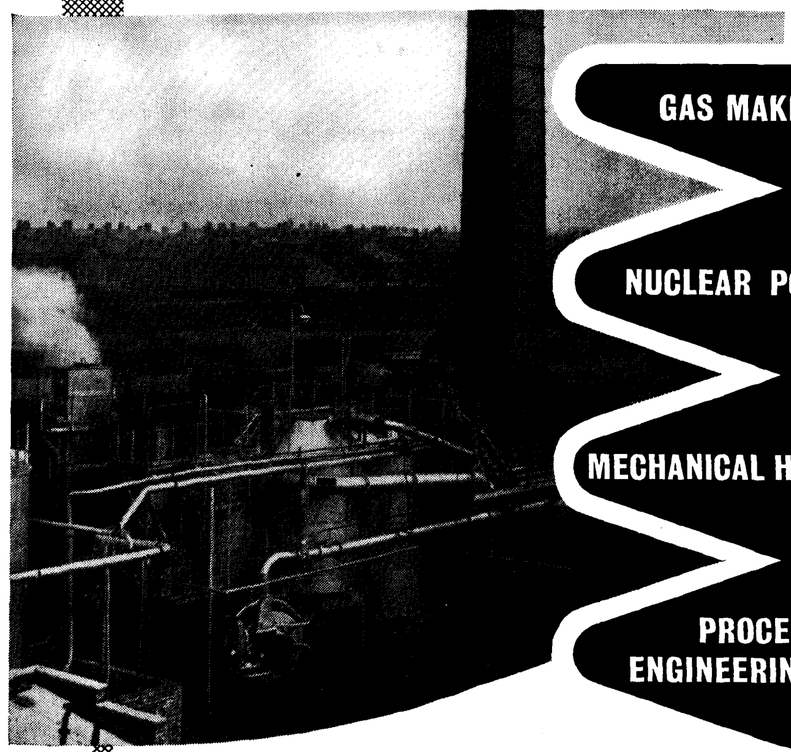
Dr. Roy's speech, which has inspired many of the thoughts in this article. In the following quotation, he has shown how advertising can indeed be educational in a general sense, as well as immediately positive in a selling sense, with the overall, shall we call it "subliminal", quality still there—in that this type of advertising and sales promotion will inevitably help in forming future attitudes, customs and behaviour: "It seems to me that those who sell tractors could, in the process of selling, tell the people of the food targets or of the need to grow more food or introduce the Japanese method of paddy cultivation or of the judicious and extensive use of fertilisers and better farm practices.....Then again, there are, those who deal in petrol; they could advertise in such a way that tourism might be promoted in this country, so that people might take an interest in moving about from one place to the other, to see the big factories, the new projects, the new farms and research institutions. Thus people might be induced to travel about and know the country, and once they know the country they would begin to love it, and once they love it they would begin to work for it".



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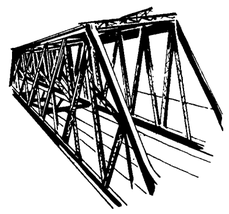
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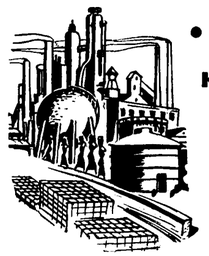


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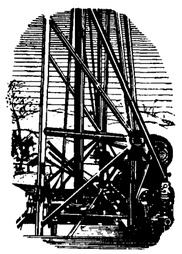
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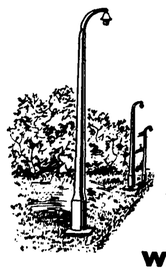
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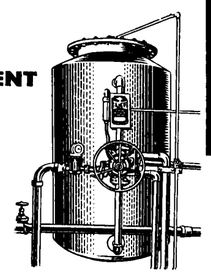
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PRACTICAL CONSIDERATIONS IN INDUSTRIAL ADJUDICATION

● FROM OUR LEGAL CORRESPONDENT ●

THIS selection of cases, reported during the past 12 months under the Acts relating to industrial disputes, is exclusive of those on which comment has already been made in the weekly issues of *Capital;* and has been made with a view to elucidating the principles on which the Acts are administered rather than the presentment of incidents of mere factual, temporary interest. At the outset it is vital to emphasise the primary and essential object of the Acts as stated by the Supreme Court in one of the leading cases reported during the year.[1] "The industrial courts are to adjudicate on the disputes between employers and their workmen, etcetera, and in the course of such adjudication they must determine the 'rights' and 'wrongs' of the claims made, and in so doing they are undoubtedly free to apply the principles of justice, equity and good conscience, keeping in view the further principle that their jurisdiction is invoked not for the enforcement of *mere contractual rights* (italics ours), but for preventing labour practices regarded as unfair and for restoring industrial peace on the basis of collective bargaining. The process does not cease to be judicial by reason of that elasticity or by reason of the application of the principles of justice, equity and good conscience."

Putting it plainly, this means that the legislature expects and enjoins the tribunals to be guided by considerations of policy rather than those of "mere contractual rights,"[2] that they may extend an existing contract, abrogate it and make a new one, or in general create new obligations or modify old ones,[3] and in short are not fettered by the ordinary law of the land as a court of law would be, provided their motive is "in the interests of industrial peace, to protect legitimate trade union activities and to prevent unfair practice and victimisation."[3] The rule of policy in place of the rule of law. Wise enough, no doubt. One is reminded—writing from memory and subject to correction—of the bard's advice 300 odd years ago in the matter of a certain Prince of Denmark: "Be politic then; best safety lies in fear." Policy then is the background. And the background of the policy is, in the writer's respectful submission, fear.

Sermons on Ethics

But, at least, surely we are entitled to be spared sermons and essays on ethics. There is a tendency in this direction in the industrial tribunals. In one of the cases reported during the year, an employing company tried to check it.[4] The company had deemed it in its interest to terminate the employment of its assistant electrical engineer. He was popular in the factory and the men stopped work on account of his discharge. An industrial dispute arose, and one of the issues was whether the engineer's discharge was justifiable and whether one month's notice pay was sufficient compensation. The tribunal found that it had no jurisdiction to entertain the dispute as the engineer was not "a workman" within the meaning of the Act, and therefore on this issue there was no "industrial dispute". On the issue of the men's strike, the tribunal found for the company. But concerning the engineer, the tribunal, while finding for the company, went out of its way to make the following pungent observations: "I would, however, advise the company, if it means to establish a fair name for itself, that it should as a gesture of goodwill towards.....pay him gracefully, if not already paid, full pay and dearness allowance for the period he was out of employment plus the amount of gratuity payable to him for the 15 years he was in the service of the various Dalmia concerns."

Fair Name

The company had not invited the tribunal to advise it as to its "fair name", its duty, if any, to make a "gesture of goodwill", or its ethical obligation, if any, to make a large farewell payment to its ex-employee, whose services it did not wish to retain. And being of opinion that serious consequences and repercussions were bound to be the result of the tribunal's unnecessary remarks, it applied to the Labour Appellate Tribunal to expunge them and certain other similar pronouncements from the record. This, you may be surprised to hear, the Labour Appellate Tribunal held that it had no power to do, contenting itself with holding that the tribunal's recommendation was not binding on the parties. One would have thought that there would have been a terse reminder that "the principles of justice, equity and good conscience" do not impose upon a tribunal a duty or even a right to lecture a party, successful in proceedings before him, as to that party's alleged moral obligation to do the very things which the tribunal had just found that it could not order him to do. Surely it is bad enough that it may occupy a period of from four to five years, as it did in the *Caltex* case, before an employer can establish his right to dismiss an employee who endangers life by smoking, after being expressly prohibited from so doing, a few yards from a plane which is being refuelled, without running the risk of being at the receiving end of a sermon admonishing him to preserve his "fair name" by keeping on the delinquent.

Closure and Lock-out

The following case took only a matter of just over three years to dispose of, so the employer and employees may both consider themselves lucky. It was instructive as indicating the difference between the closing down of a business and a lock-out. The petitioner was the sole proprietor of a business which he carried on under the name of the Photo Litho Press, Madras. On 28th February, 1953, the workers *through* their union made certain demands on their employer, the petitioner, which he did not comply with. Conciliation proceedings were begun under the Act, and on 11th April, 1953, the employer issued the following notice: "Due to my domestic and other circumstances I am unable to run the press for some time. I regret to inform all the employees of the press that their services will not be required from today. They will, however, be paid one month's wages in lieu of notice and may receive the wages due to them up to date from the office on Tuesday, the 14th instant. Such of those who have uncompleted work on hand will please complete it as early as possible and then stop away." The employer duly closed down, and the subsequent industrial dispute referred to the tribunal in Madras for adjudication was whether the closure of the factory was justified, and, if not, to what compensation the workers were entitled. The employer's case was that he had sold the business to a limited company, the Photo Litho Press Ltd., and that it was now being carried on not by him but by a different entity, of which he was the managing director. The workers' case, which was upheld by the tribunal and later by the Madras High Court, was that the sale of the press to a company was merely a device to get over the consequences of not taking back the workers who were sought to be discharged: in short, that it was not a *bona fide* closing down but a lock-out and an illegal one at that.

The Principles

Of course, every one of these cases has to be decided on its own facts and circumstances, so we need not linger over the facts in this one. What we are concerned with are the principles involved and some instructive observations made by Rajagopalan J. on them. "Whether the closure of the factory ..... constituted a discontinuance of business which was the plea of the petitioner or whether it amounted to an illegal lock-out which was the plea of the workers was one of the questions the industrial tribunal had to decide. If it had been a case of discontinuance of business by its owner, that would not have amounted to an industrial dispute as defined by the Industrial Disputes Act ..... If the petitioner had proved his claim and established that it was a case of discontinuance of his business, the tribunal could have no jurisdiction to treat that as an industrial dispute and go further into the question of whether such a closure was justified or not. If, however, it was proved to be a lock-out, obviously the tribunal had the jurisdiction to go into the further question whether that lock-out was justified or not. That would have been well within the terms of the references under Section 10(1) of the Industrial Disputes Act." His lordship quoted the learned Chief Justice of Madras in another case[4] on the fundamental difference between the two: "A lock-out is different from the discontinuance of a business. Occasionally some confusion is caused by the use of the word 'closing'. Lock-out does not mean closing down of a business. It only means the closing down of the place of business. It means the suspension of work, not a discontinuance of the carrying on of the business. It means the refusal by an employer to continue to employ the persons employed by him and not the refusal by an employer to carry on any longer his business.... In other words, closing down of a business is different from the closing of a place of business."

Liability to Workers

The industrial tribunal held that the petitioner had failed to prove that he had discontinued his business and further that it was an illegal lock-out that he had declared. The High Court declined to disturb those findings but largely on the ground that "the petitioner has only himself to blame for his failure to place before the tribunal the evidence which he had in his possession all along to prove his contentions (1) that the Photo Litho Press Ltd., an incorporated company, came into existence on 2nd June, 1953, and (2) that the petitioner had sold the business that he had carried on to this company."[5] From the consideration of the position of the vendor of a business, we turn to that of its purchaser concerning the liability of the latter to workers in the employment of the concern at the time of the change-over of the proprietorship. The year's reports supplied us with some interesting decisions on this point. It is necessary to distinguish between the sale of assets, even of the whole of the tangible assets of a concern, and the sale of the business including the goodwill. Where a person merely buys the whole or any part of the tangible assets of any person who has been using the same in his business, the purchaser cannot be said to acquire any interest of any sort in the old business of the vendor, and, if the purchaser starts a similar business of his own with the help of such assets, he cannot be regarded in any sense as a successor of the old business, and he is not entitled to any of the intangible privileges belonging to the old business, like the right to use the same or a similar name for his business; which observation, you may say, is a platitude and a truism, and so it is. But as we have before had occasion to remark, a truism has the merit of being true and it is sometimes necessary to labour the obvious. You have to bear the foregoing in mind in contradistinction to its extreme opposite which we will now state, and to remember that there are borderline cases between the two extremes.

Intangible Assets

Where a business is sold as a going concern, including all the intangible assets like the goodwill, the purchaser must be considered as a successor of the business. Well then, that being so, when X buys the business of Y as a going concern with the goodwill, what is the position of X concerning employees or workmen in the firm who demand of him the continuation of their employment? We have said "employees or workmen" because the point is an important one, and we have to differentiate between those to whom the Industrial Disputes Act applies, that is, those engaged in manual or clerical work and those to whom it does not, that is, officers, managers and the like. The latter are governed by the ordinary civil law of the land. Under it, a person who is successor to a business is not bound merely because of such succession by any of the liabilities of the old business. Of course, he may by the contract of sale agree with the vendor to make himself so liable, and if he does so agree and breaks his undertaking he may be sued *by the vendor*. But not by the employee whose non-re-employment may constitute the breach unless the employee—and this would be most unusual—was himself a party to the instrument of sale. In a Bombay case, the High Court has put it succinctly thus: "There is no obligation on the successor

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[1] *Nirmla Textile Mills Ltd.* v *State of Punjab*, 1957. I. L.L.J. 470.

[2] *Krishnakutty Nair* v *Industrial Tribunal*. 1957. II. L.L.J. 50.

[3] *Teller on Labour Disputes*. Vol. I. p. 536.

[4] *Orissa Cement Ltd.* II. L.L.J. 401.

[5] *Jaya Bharat Tile Works* v *State of Madras*. (1954. I. L.L.J. 286.)

[6] *Krishnamurthi (M.K.)* v *Industrial Tribunal, Madras*. (II. L.L.J. 238.)

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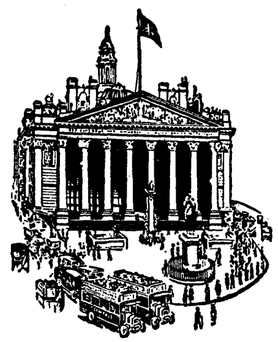
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The people of India consume about 200 million pounds of tea yearly or at the rate of a little over 1/2 lb. per head per annum.

ACREAGE & PRODUCTION

There are more than 6,600 tea gardens in India covering nearly 7,91,972 acres. Their total yearly production is about 660 million pounds of tea.

ALLIED INDUSTRIES

The Indian Tea Industry assists other industries like plywood, ceramics, coal, cement, fertilisers, tea machinery and transport.

EXPORT

During 1956 India exported 523.55 million pounds of tea. This is more than 1/4 of her total production. Exports were directed to Great Britain, United States, Egypt, Canada, Eire, Australia, Iran, Sudan, West Germany, Netherlands, Afghanistan and other countries.

EMPLOYMENT

The tea gardens of India alone employ well over one million workers - thus our Tea Industry is the largest single employer of labour in India. Besides, with the tea trade it provides additional employment for a very large number of persons.

REVENUE

The Indian Tea Industry contributed to the National Exchequer about Rs. 19 crores as export duty, and about Rs. 3½ crores as central excise duty during 1956-57. Besides, it contributed large sums by way of State income tax, agricultural tax, road tax and certain imposts.

FOREIGN EXCHANGE

Indian Tea earned over Rs. 142.82 crores in terms of foreign exchange during 1956.

WORLD CONSUMPTION

India meets over 50% of the world demand for tea which is estimated at over 1,300 million pounds a year, excluding China, Japan, and the U. S. S. R.

INVESTMENT

Capital invested in the Indian Tea Industry is estimated at more than Rs 113 crores.



I am Tea – the wealth of India

T.B. BOARD INDIA

PST 168

business to employ a workman who has been dismissed by the owner of a business to which it succeeds, nor has the workman any guarantee that after his services are terminated he would be re-employed.'"

Equitable Relief

The above remarks of the High Court obviously refer only to a liability which can be enforced by a former employee as a matter of legal right under the ordinary law of the land and have been so construed by the industrial tribunals. They do not refer to cases, which may be precisely similar as to the facts, of workmen who can bring themselves within the four corners of the Industrial Disputes Act, and claim the discretionary, equitable relief which the tribunals are entitled to dispense. The Labour Appellate Tribunal definitely lays this down in the case[8] we are now considering, in the following terms: "Unlike the civil law, however, the industrial law has naturally taken a different view on the duties of a successor in business, who has decided to run the same and in the case of employees in the old concern. It has regarded the rights and obligations of the old concern as continuing and to be enforceable as against the new management and not to be affected by the substitution of the new management for the old.....The transfer of a business *ipso facto* does not terminate the services of the workmen employed in such business, and the purchaser of such concern as a going concern with all its assets and liabilities is bound to continue the old employees on the same emoluments with continuity of service."

Nevertheless there is a safeguard. The Labour Appellate Tribunal went on to add: "But the right to ask for such relief of re-employment from the successor in business, as recognised by industrial law, is not a matter of absolute right but one of discretion, which must be judicially exercised by the labour court after having regard to all the circumstances. Then in investigating such a claim, the court must carefully consider whether the refusal to give such re-employment is capricious and industrially unjustified on the part of the successor in business or whether he could show cause for such refusal on reasonable and *bona fide* grounds such as want of work, inability of the applicant to carry out the available work efficiently .....or any other cause which, in the opinion of the tribunal, makes it unreasonable to force a successor in interest to give re-employment to all or any of the employees of the old concern."

Industrial Law

Now you have in the above, and in the instance which follows it, an excellent example of the difference between the rule of law and rule by policy, otherwise known as equity and good conscience. Under the rule of law, you know exactly what your rights and obligations are; under the rule of high-sounding politic phrases, you know nothing. X owns a business. He wants to sell it and retire for good. Wherefore he proposes to sell it to Y. Y knows that it has always been a one-man business built up by X who is universally popular and greatly respected; Y knows also that if he buys the business he is bound to lose a large proportion of its customers, for the goodwill of the concern lay in the personality of X himself. Y is prepared to risk that. But X has kept a large staff of "workmen". Is Y bound to take over the whole lot of them? No one can answer Y that question, for no one knows what a tribunal will hold is incumbent upon Y on principles of equity and good conscience.

Or, take the following case.[9] Is a receipt in full settlement of all claims and demands given voluntarily without any question of fraud or mistake binding on the recipient? Under the civil law, of course, it would be conclusively binding. Under the industrial law we obtain an answer which, vague and inconclusive though it is, and impracticable if we try to apply it, in order to obtain specific guidance, to the facts and circumstances of any particular case, yet undoubtedly leans over backwards in the direction of saying that such a receipt may be mere waste paper.

A company retrenched certain clerical workers; they were paid their notice pay, leave pay and retrenchment relief according to law. When they received their dues after the termination of their services, they signed receipts which included the following statement: "I have got no other claims whatsoever against the company, past or future." But some of these workers did have other claims, and complaining that they had been wrongfully discharged by the company which had retained their juniors in service, they applied to the industrial tribunal for reinstatement. The industrial was upheld by the Labour Appellate Tribunal on tribunal granted reinstatement and the decision appeal. We are not concerned here with the merits of the workmen's claim and will assume that it was a just one. What we are concerned with is the receipt covering all "claims whatsoever against the company, past or future."

Quit Receipt

You will note the "mights" and "maybes" in the guidance the appellate judgment affords us: "If an employee at the time when his employment terminates voluntarily and without showing any reluctance passes a full quit receipt, it might well show that he was completely satisfied with what had been done by the employer in the particular case, and if, in such circumstances, he tries to raise a dispute as to his dismissal being improper after a considerable lapse of time the industrial tribunal may well refuse to make an enquiry into the propriety of the dismissal, when the employee does not allege that the receipt was taken from him in an improper manner. However, it does not follow that in all cases, where such a receipt is produced, industrial tribunals are precluded in law from investigating any other claim like one for reinstatement made by the employee, however justified such a claim may be under the circumstances, or that if such a claim is gone into and decided by the industrial tribunal on the merits, the appeal court should, as a matter of law, reverse such a decision merely because a poor employee, who would on termination of services be naturally in great need of money, has no other alternative but to pass such a receipt, in order to get without further delay the money strictly due to him in law by his employer and which money, the employer refuses to pay him unless such a receipt is passed in his favour." Describing the latter transaction as "a form of coercion" by the employer "opposed to the principles of social justice", the Appellate Tribunal affirmed the decision of the tribunal in disregarding the receipts and ordering the reinstatement of the workmen in their original posts.

So the lesson is: take a comprehensive receipt by all means. It may be binding. More probably it will not. But, at any rate, the existence of the receipt will put the onus on the workman repudiating it to show that it was obtained by coercion.

Go-slow Tactics

Another interesting decision reported during the year supplied us with some forthright observations by the Labour Appellate Tribunal in condemnation of go-slow tactics and emphasising the distinction between that method of coercing employees and a strike.[10] Now the right to strike has been a legitimate weapon in the hands of labour for over half a century, ever since, in fact, the famous *South Wales Miners' Federation* case[11] of 1905. Before that it had been the constant and discreditable practice on the part of employers' associations to land the executives of trade unions in jail on charges of conspiracy. Those interested in the labour problems of today might do well to read again one of Dickens's lesser known works, *Hard Times*. It will give cause for reflection. The right to strike, restricted to some extent by the Industrial Disputes Act, is indisputable nowadays. Not so go-slow tactics. The reason of the law's sanction of the former and disapproval of the latter is obvious. A strike is a plain, open and above board declaration of war. It can be fought to a finish in the open. In go-slow tactics, on the contrary, there is an element of slyness, secrecy, treachery, deceit. It is difficult of detection, often impossible of legal proof.

The workers in this particular case tried to argue that the go-slow manœuvre is in effect a strike, and as such is entitled to the law's protection, and claimed reinstatement when their services had been summarily terminated "for giving habitual and deliberate low production." The workers had succeeded before the labour court (Bombay). The employers appealed successfully to the industrial court and on further appeal by the workers to the Labour Appellate Tribunal, the latter rejected their contention and held that deliberate go-slow tactics constitute "misconduct" and are punishable as such. Quoting an earlier decision," their lordships observed that : "It was contended on behalf of labour that go-slow tactics were as much a recognised weapon as a strike[3] for the purpose of compelling the employers to yield to their demands. This is a view which we cannot accept. Slow-down is an insidious method of undermining the stability of a concern, and certainly tribunals will not countenance it. In our opinion, it is not a legitimate weapon in the armoury of labour. Furthermore, while the right to strike under certain conditions has been recognised by necessary implication under the Industrial Relations Act (Bombay), and is controlled by its provisions, go-slow has been regarded by labour legislation as misconduct.....Deliberate slowing down is a species of misconduct punishable in departmental proceedings.....(it is) wilful insubordination or disobedience whether alone or in combination with others to (the) lawful or reasonable order of a superior."'[13]

Piece-rated Workmen

Deliberate, designed, intentional slowing down, —that is what has to be proved and, especially in the case of one individual employee, that may be a matter of great difficulty. A workman is a temperamental human being, not a machine. He yawns and is entitled so to do. He may slow down not as a matter of tactics but for natural reasons. But there is a limit. Their lordships of the Bombay High Court put it in this way with special reference to piece-rated workmen: "It is perfectly true that a piece-rated worker may on occasion put into his work every ounce of energy that he possesses. He may reach heights which it is not possible to reach every day; he may surpass himself on certain occasions and nobody suggests that, if a piece-rated worker does not maintain the same standard throughout, he could be guilty of slowing down. But without reaching those heights, it is expected even of a piece-rated worker that during the time he is serving his employer he must at

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[7] *K. N. Joglekar* v *Barsi Light Railway Co. Ltd.* (1955. I. L.L.J. 371.)

[8] *Himabhai Mills Co. Ltd.* (No. 2.). II. L.L.J. 244.

[9] *Digvijaya Woollen Mills Ltd.* II. L.L.J. 253.

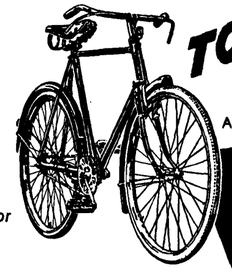
[10] *Fine Knitting Company Ltd.* 1957. I. L.L.J. 409.

[11] (1905). A.C. 239.

[12] *Firestone Tyre and Rubber Company (India) Ltd.* v *Bhoja Shetty.* 1953. I. L.L.J. 599.

[13] *Vasant Govind Madhavrao* v *Gujarat Rubber Works.* 1956. I. L.L.J. 731.

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least use his normal skill and average speed..... Even though a minimum may not be prescribed, the conditions of service must require that during the time the employee is in the service of his employer he must at least give to the employer what he is entitled to, namely, the minimum of his ability and his skill, and of his time. If he deliberately refuses to give that minimum, he is as much guilty of misconduct as he would have been if he did not come up to the minimum, if such a minimum had been prescribed under the contract of service."

Summing it all up, it seems that to solve essentially practical questions of this kind, the tribunals will have to resurrect that hoary legendary veteran, the law's "ordinary reasonable man", whose obsequies were celebrated in 1947 with the passing of the Industrial Disputes Act and whom we have not once seen referred to in a solitary judgment of any tribunal. Meanwhile, as for this particular problem, the solution appears to be a fixed minimum average speed prescribed in writing in the contract of employment."[15]

Claim for Bonus

In April appeared the report of a decision or rather a useful reminder of previous decisions by the Madras High Court that belated claims for bonus cannot be entertained."[16] In 1955, their lordships of the Supreme Court had laid down: "On the accounts of each year being made up, and the profits of the industrial concern being ascertained, the workers during the particular year have their demand for bonus fully satisfied out of the surplus profits, and the balance of the profits is allocated and carried over in the accounts. No further claim for payment of bonus out of those reserves or undistributed profits can therefore survive."

Moreover, the Appellate Tribunal itself had realised the difficulty of reopening the accounts long after they had been closed, and the profits ascertained and even appropriated; and had evolved the principle that a belated claim for bonus should not be investigated."[17] It was this principle which had received the approval of the Supreme Court when, in the passage just quoted, their lordships pointed out that the claim did not survive. Nevertheless in the present case where a claim for bonus for the year ended 30th June, 1948, was made 17 months after the year had ended and after the profits of the partnership had been ascertained and distributed among the partners, which claim was rejected by the industrial tribunal on the ground that it was belated and was preferred long after the period for which the bonus was claimed had elapsed, the Appellate Tribunal had reversed the award on appeal and directed payment of bonus at varying rates. The employers, the Madras City Hotels Association, thereupon applied to the Madras High Court for relief. And the employers got it. Pointing out that "the Appellate Tribunal was bound to be consistent", his lordship (Rajagopalan J.) held that "the exercise of the jurisdiction the Appellate Tribunal had was vitiated by that Tribunal, in effect, flouting the principle which it had purported to apply to the facts of the case." The order of the Appellate Tribunal was therefore set aside.

Purported Resignation

In March was reported a High Court judgment which we may view with a certain amount of respectful reserve. The case related to the effect of resignation, or, perhaps, we had better say the purported resignation from his post of an employee. Is the resignation binding on the employee from the time his employer receives his letter announcing it, or can he withdraw it at any time prior to its acceptance by the employer? This was not a case under the Industrial Disputes Act but one under the ordinary civil law. Mr. Barwell in his and Mr. S. S. Kar's well-known work on the subject[18] appears to have little doubt as to the answer and says: "Resignation by a servant does not operate as discharging the contract by bringing it lawfully to an end unless such resignation be accepted by the master. When that is the case, the parties have, by agreement, determined the contract from the date of the master's acceptance." In support of this statement the learned authors cite the observations of Jenkins C.J., in a leading Bombay decision[19]: "A contract of service is continuing in its nature and its continuance and the obligations under it can only be terminable in certain defined modes. Mere resignation is not enough, unless it is assented to, or unless it complies with those terms which the law implies, or the prior agreement of the parties may permit."

In our present case, the employee held the post of electrical supervisor in the department of power engineering in the Indian Institute of Science. On 7th May, 1953, it appears that the then director-in-charge called the employee a liar and charged him with incompetence. The employee, resenting this, wrote a letter dated 11th May, 1953, addressed to the director. Therein he tendered his resignation. But having cooled down, he, on second thoughts, wrote another letter, this time to the registrar by which he purported to withdraw his offer to resign. The Institute authorities, however, refused to allow him to withdraw his resignation and treated his employment as terminated at the end of six months from the date of the letter of resignation. In a subsequent suit by the employee for a declaration that he was still the occupant of his post, his counsel contended that the letter of resignation required acceptance by the director and that until it was so accepted it could not have any legal effect. Though under his contract the employee was to hold his appointment to the age of 60, he was himself entitled under it to terminate it by giving six months' notice and the learned Chief Justice and his colleague in the Mysore High Court held that, in effect, he had so terminated it. Said the Court: "He voluntarily chose to send his letter of resignation or notice of termination of his services and cannot complain if the same has been given effect to.....The contention of the petitioner that his letter of resignation...required acceptance has, therefore, no substance."[20] Nevertheless it is, of course, always advisable to clinch the issue by a formal letter of acceptance.

Cautionary Words

We conclude with a cautionary word or two. The reader will be aware of the leisurely progress of legal proceedings in India. It may well be that some of the above cases may be the subject of appeals and it is no unusual circumstance for such appeals to be successful. Our comments therefore are throughout based only on the various decisions, not necessarily final, at the time they were made and reported, and are not in any way intended to be prejudicial to any in which appeals may be pending.

[15] *Ziakh* v *Firestone Tyre and Rubber Co. Ltd.* (1954). I. L.L.J. 281.

[16] *Fine Knitting Co. Ltd.* (1957). I. L.L.J. 409: *Mysore City Hotels Association* v *Labour Appellate Tribunal* (1957). I. L.L.J. 282.

[17] *Kashi Iron Foundry and their workmen.* (1952). I. L.L.J. p. 202.

[18] *Barwell and Kar on Master and Servant.* Vol. I. pp. 353-355.

[19] *Ganesh Ram Chandra* v *G. I. P. Railway Co.* (1900. 2. Bom. L.R. 790.)

[20] 1957. I. L.L.J. p. 284.

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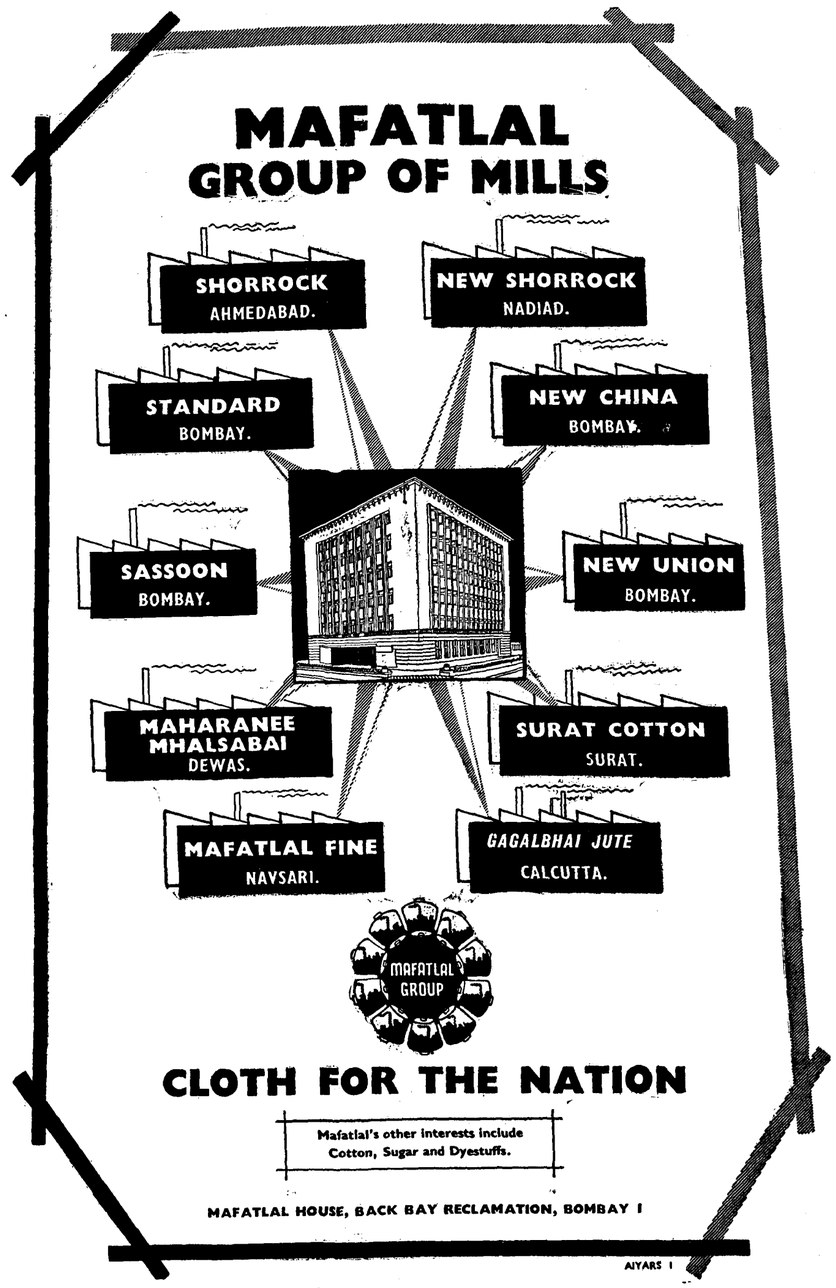
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THE spectacular heights to which the freight markets rose in 1956 were contrasted by an equally drastic fall in 1957. It is only recently that there have been signs of rates becoming more favourable for shipowners. The main topic of discussion in Indian shipping circles this year, however, has not been the trend of the markets but the serious congestion at major ports. It was not until the middle of the year that the Central Government realised the danger of allowing the situation to drift. The cost in foreign exchange by way of demurrage must, by then, have reached a significant figure.

Very satisfactory progress has been made in clearing the congestion in Bombay, and there has been a distinct improvement in Madras and Calcutta. But conditions in Visakhapatnam have deteriorated still further; a turn-round of 84 days faced a vessel carrying 4,600 tons of steel for Bhilai which arrived at that port in early October. Optimistic forecasts about clearing the congestion have been made by Government spokesmen but there is an ominous silence about future prospects. This may partly be because of uncertainty over imports, in view of the difficult foreign exchange position, but it also seems to indicate a lack of knowledge of handling large-scale bulk imports. The question of controlling imports in bulk has been brought to the notice of the Central Government, but there is need for a greater degree of co-operation between the port authorities and the Centre.

Imports for Steel Projects

The Ministry of Food does not fully support the idea of discharging grain arrivals at the smaller ports, such as Kakinada, Cuddalore, Masulipatam and Tuticorin, because of their inaccessibility to the main distributing centres. But it might be cheaper to erect temporary warehouses at these ports pending the despatch of the grain, rather than pay large sums of foreign exchange in demurrage and cause disruption in the main ports. It appears that no great progress has been made in establishing lighterage points in Calcutta to handle the imports for the Rourkela and Durgapur steel projects; it may be that the authorities hope to utilise the ordinary port facilities in view of the improvement made recently. It should be remembered, however, that because of a substantial fall in exports, it has been possible to use export berths for import cargoes; this, it is hoped, will be only a temporary phase. Facilities for the clearance of heavy lifts, which will constitute a high percentage of the steel plant imports, are still unsatisfactory and will not be easily improved.

There are other problems in Calcutta which are probably more difficult to solve, such as the vagaries of the river and the acute shortage of harbour masters. It is a constant struggle to maintain an adequately dredged channel to the sea, and to keep berths clear in the port, with the present dredging equipment. Compared with 1956, when work on 126 days was interrupted by bore tides, a total of 176 days has been reached in 1957, giving a loss of 29 working days on the basis of four hours of working time lost each day. Efforts to recruit suitable personnel locally and abroad as harbour masters have not met with much success and the strain on the present staff is very heavy, particularly in view of the increased number of shifts which a vessel now has to work in order to help ease the congestion. Recently, one vessel with 4,000 tons of cargo took five shifts to complete discharge and all on to berths which were primarily for export vessels.

There is no doubt that the authorities are keen to improve the situation in Calcutta and the arrival of the new Port Director has stimulated the various departments to activity. If the effort is sustained and combined with the introduction of a piece-work system early in 1958, it might be possible to have the port relatively clear of congestion by the middle of next year. A port can be considered free of congestion when a ship can enter and commence work on arrival, and sail as soon as the work has been completed.

Development of Geonkali

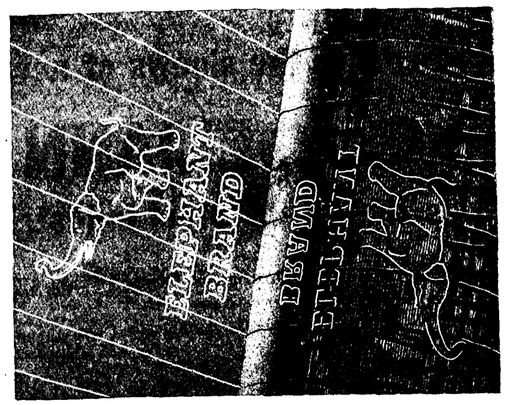
Two missions from abroad have recently visited the country to study short-term and long-term measures to improve port facilities, and in Calcutta the emphasis has been placed on the development of Goenkali. Apart from the economic factor of one-way rail traffic, which militates against the scheme, the difficulty of securing suitable personnel is likely to prove insuperable. It is not easy to visualise a rush of applicants for posts at a place which will have very few amenities when the attractions of Calcutta itself are insufficient to draw recruits to the present port. Why repeat the mistake of building a port on a river which is so unpredictable when a ready-made substitute in Visakhapatnam is available? The comparative cost of developing a railroad from the coal and ore centres to Visakhapatnam, and of the construction of a port in Goenkali, apart from the uncertainties of the site would be interesting to study.

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Rangoon	...	43-8	48
Singapore	...	53	28
Hampton Roads to Japan	...	107	50
Continent	...	50	23-8
Ore			
Calcutta-Japan	...	83	40
East Coast India-Japan	...	83	38-8
Mormugao-Japan	...	86	36-8
East Coast India-Continent	...	86	33-4
Visakhapatnam-U.S.N.H.	...	120	57-8
Grain			
North Pacific-India	...	123	46-8
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THE PROSPECTS FOR LIFE INSURANCE

ORGANISATIONAL DIFFICULTIES AND POLICY CHANGES

● By N. T. RAJU ●

THE Life Insurance Corporation of India, the first major attempt in a democratic country to run life insurance under State management and ownership, has just completed its first full year of working. The problems it has had to face have been immense as well as numerous; some of the difficulties could be realised only in practice and could not have been foreseen. The Corporation had no opportunity to draw upon the experience of others in similar circumstances. To start with, it had two distinct and equally important spheres of responsibility. Firstly, it had to make suitable arrangements for servicing the business which it took over from the life offices. Secondly, it had to set up an organisation to write and develop new business. The difficulties can be visualised from the fact that it inherited the business of 243 different units. The latter differed from one another in many ways; they were of varying sizes and worked with different degrees of efficiency. Between them, they had 5 million policies assuring a total sum exceeding Rs. 1,250 crores, with assets of about Rs. 411 crores and with salaried employees numbering nearly 27,000.

The New Set-up

The problem was cut into two halves—that relating to the servicing of existing business, and securing new business. The two were tackled separately. It was considered important that any dislocation in the servicing of old policies should be avoided as far as possible before the different units were absorbed into an integrated structure. It was accordingly decided that the machinery provided by the former head office and branch office units of insurers should be left largely undisturbed. New business and the servicing of policies issued by the Corporation is being handled by the Corporation's divisional offices, 33 in number, which are spread all over the country and which are fully competent to deal practically with all problems affecting policy-holders. These divisional offices are grouped into five zones for administrative purposes, and the zonal offices in turn are guided by the central office of the Corporation. The divisional offices are ultimately scheduled to service the old policies falling within their territorial jurisdiction as well. This will imply transferring the records of old policies from the head office units of the former insurers to the newly set up divisional offices. The records of the different units are being gradually standardised with a view to facilitating their final redistribution among the divisional offices. The process will involve the movement of some 4 million policies.

The head offices of the former insurers were mostly located in Bombay, Calcutta, Delhi and Madras. Their technical and managerial organisations were concentrated at the head offices. As the divisional office is now an administratively self-sufficient unit, trained personnel and office equipment have had to be redistributed between 33 centres, many of which are new. This resulted in temporary difficulties, but the divisional offices are gradually adjusting themselves to the requirements and by now the teething troubles have been largely overcome. The location of these offices all over the country is of much importance. The servicing they can do will be much more expeditious than what the former insurers were capable of with their machinery concentrated at their head offices.

Initial Fall in Business

The change-over from the life offices to the Corporation and the preliminary organisational troubles of the newly created divisional offices adversely affected the procurement of new business. The immediate fall in new business is no reflection on the ability or suitability of the Corporation to conduct business operations. It is, in fact, the result of the impracticability of making the divisional branch offices run soon after they were brought into existence. New life business in India varied between Rs. 135 crores to Rs. 155 crores a year during the last decade, except in 1954 and 1955, when it was nearly Rs. 240 crores. The following are the figures for new business and the business in force for the last 11 years:

Year	New Business	Business in Force
	(In crores of Rs.)	
1946	154	651
1947	140	706
1948	135	724
1949	142	765
1950	140	780
1951	148	873
1952	147	922
1953	155	966
1954	236	1,086
1955	238	1,123
1956	188	Not available

In 1954 and 1955, there were special circumstances which helped write a high level of new business, such as a substantial reduction in premium rates early in 1954, staff insurance schemes, the introduction of estate duty and to a certain extent a sudden increase in the bonuses declared by companies. The effects of these developments could only be temporary and they would have worn off in time. Furthermore, the companies sought new business with insufficient regard for the cost involved. The marginal business was usually expensive and of poor quality, being subject to a high rate of lapses. The result was reflected in the spurt in the expense ratios of the life offices for the year 1955. The following figures show the expense ratios of insurers during recent years:

Year	Percentage of Premiums Expended
1946	31.2
1947	30.4
1948	29.0
1949	29.2
1950	28.9
1951	27.2
1952	27.2
1953	27.4
1954	29.4
1955	33.4

Of the new business in India in 1956, Rs. 136 crores was completed in the first eight months before the Corporation came into existence and Rs. 52 crores by the Corporation during the last four months of the year. During the first half of 1957, the Corporation wrote new business amounting to Rs. 74 crores, which compared with Rs. 94 crores done by the companies in the same period in the previous year. In its first full year of working, the Corporation wrote in India new business exceeding Rs. 160 crores.

Increased Confidence

The nationalisation of life insurance and the guarantee by the Central Government of the payment in cash of claims under life policies is having a salutary effect on the public mind. The prospective policy-holder has been relieved of the trouble of having to choose a proper life office to insure with, keeping in view its stability, efficiency and the level of premium rates and any anxiety about its solvency. Equally, the salesman is no longer worried about convincing his clients of the wisdom of insuring with the office he represents in preference to others. He can now concentrate his efforts on bringing home to his clientele the advantages of life insurance, its suitability as a medium of family security and its effectiveness as an instrument of small savings. The experience of the sales staff since nationalisation indicates that the procurement of new business is now easier and resistance to sales is far less than before. This may not be due entirely to the security provided by the guarantee of the Central Government. It may be due partly to the increased popularity of insurance as well. It is confidently hoped that the Corporation will be able to write an increasing volume of new business year after year, and that its new offices, when they settle down to execute smoothly the tasks entrusted to them, will be able to render efficient and satisfactory service to policy-holders.

Liberal Terms

While the Corporation was still very young, steps were taken to ensure its progress in several directions, such as liberalising the terms of insurance and extending the field of operations. After an intensive and expert scrutiny of the basis of underwriting, a thorough modification has been made so that more persons wanting to be insured can be accepted at standard rates of premium. Also people with certain serious limitations, such as those who are diabetics, can now be insured. Army and Navy personnel are no longer charged extra premiums to cover war risks unless they are engaged in especially hazardous duties like gliding and parachuting. The extra premiums for some categories of these personnel used to be heavy, particularly for those involving aviation risks. In 1951, it was decided by the Central Government that the occupational extra premiums payable by Defence Service personnel insuring with the postal life insurance fund would be met by a charge on the Defence Services estimates but the concession was not extended to those insuring with the life offices nor to the Corporation after it came into existence.

It may be mentioned that in the United States most of the offices accept pilots on scheduled airlines at standard rates. Private pilots aged 27 or over, having over 400 hours of solo experience and expecting to fly less than 110 hours annually, are similarly accepted at standard rates. In India, however, pilots are now charged an extra premium of Rs. 30 a thousand a year for the first five years of each policy taken.

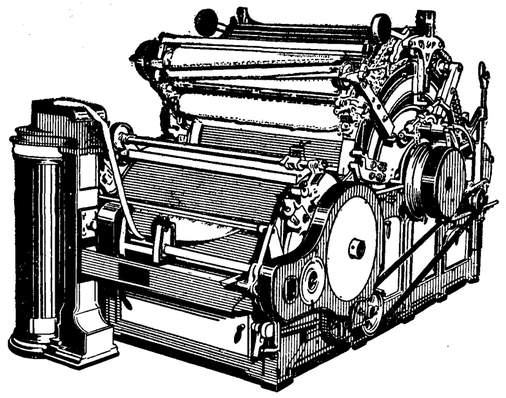
Another innovation is the assessment at par of both male and female lives. Insurance of female lives in India was thought to involve a certain amount of extra hazard. The physical risks of child-bearing were considered high as most women do not get the benefit of adequate medical attention. It was, therefore, the practice hitherto to impose extra premiums and other restrictions on policies issued to females. At present, the only restriction imposed is the one relating to the first pregnancy risk, and even that can be removed by paying a single additional premium of Rs. 5 a thousand sum assured. This reform, theoretical considerations apart, is in line with the growing literacy and employment of women and current political and social thinking.

While these improvements affect those who insure afresh, mention may be made of an important concession made to some of the old policy-holders. Under the Life Insurance Corporation Act, the Corporation was empowered to reduce the amounts of insurance under life policies issued before 19th January, 1956, by insurers which were found to be insolvent. The extent of the insolvency was of the order of Rs. 70 lakhs. It was considered that it would be in the general interest of the business to pay the sums insured under the policies affected in full and it would also be in conformity with one of the basic objectives of nationalisation, namely, the development of the business for the maximum social advantage. Thus the slogan, nationalisation in the interests of the community, came into the limelight when the Government generously agreed to bear this charge of Rs. 70 lakhs from its share of the profits from the Corporation's business. The common impression that this charge will fall in the latter's funds and thus on the policy-holders of well-managed companies is incorrect.

Janata Policy

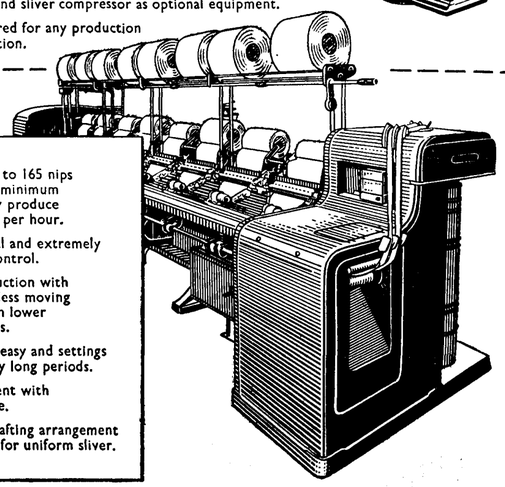
An epoch-making development in the first year of the Corporation's existence is the introduction of the Janata policy. It is similar to industrial or home-service insurance which is so popular in the United Kingdom. The principal feature is the low sum insured a policy, below Rs. 1,000, and facilities for the collection of premiums at the residence of the policy-holder. Unlike ordinary insurance, the sum insured is quoted for each rupee

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a month paid as the premium. The formalities have been simplified so that the writing of business on a vast scale and dealing with illiterate or semi-literate clients are made easy. As the policy is new in the country, pilot projects have been launched in selected areas to gather experience and to make modifications where necessary in the light of such experience.

The Janata policy scheme was inaugurated on 26th May, 1957, in Bombay by the Central Minister for Commerce and Industry. It was warmly welcomed by Congress, Socialist and Communist trade union leaders and they assured their co-operation in making the scheme a success. Bombay, Ahmedabad and Sholapur were selected for the pilot project in the western zone, Kanpur in the central zone, Madras, Coimbatore and Hyderabad in the southern zone, Calcutta in the eastern zone, and Delhi and Faridabad in the northern zone.

Investment Pattern

The investment pattern of life insurance funds is of considerable interest because of the volume involved and the effect it has on other sectors of the economy. When life insurance was nationalised, doubts were expressed in some quarters about the future of the investments and it was thought that the funds might be diverted to the public sector. The then Central Finance Minister assured the Lok Sabha that the proportion of investments in the private sector existing before nationalisation would be maintained. The proportion of the funds invested in company debentures and shares stood at 16 percent when the Government nationalised the business. On 31st August, 1957, when the Corporation came into existence, the investments were as follows:

Type of Investment	(Book Value) Amount Invested	Percentage of the Total
	(In crores of Rs.)	
Government and approved securities	237.70	69.6
Foreign securities	12.09	3.5
Debentures and shares of companies	57.09	16.8
Mortgage and other loans	15.68	4.6
Real property	18.84	5.5
Total	341.40	100.0

Mysore and Kerala had their insurance departments, which are now merged in the Corporation. The controlled funds of these departments were held as balances with the respective Governments. It has now been agreed that they will be treated as loans carrying interest at 4 percent a year to the respective State Governments, to be repaid in 20 equal annual instalments of principal.

During the period 1st September, 1956, to 30th June, 1957, the investments of the Corporation recorded an increase of Rs. 19.63 crores. The increase in holdings of Government and approved securities was Rs. 10.39 crores and that in company debentures and shares was Rs. 8.62 crores.

The investments of the Corporation, as on 30th June, 1957, were as follows:

Type of Investment	(Book Value) Amount Invested	Percentage of the Total
	(In crores of Rs.)	
Government and approved securities	248.09	68.7
Foreign securities	12.08	3.4
Debentures and shares of companies	65.71	18.1
Mortgage and other loans	15.03	4.2
Real property	20.12	5.6
Total	361.03	100.0

The Central Finance Minister's assurance about future investments in the private sector has therefore been fully honoured so far. In its first year, the Corporation has witnessed a severe setback in security prices because of the introduction of a series of new taxes beginning with the capital gains tax late in 1956 and others during the 1957 Budget session of Parliament. When sentiment in the investment market was greatly affected and confidence was shaken, the support extended by the Corporation as a big purchaser helped halt the downward trend in stock and share prices. It infused into the stock market a new element which was at least partially responsible for regaining some of the lost confidence.

The investment patterns in some leading countries are given below:

	Type of Investment	Amount (In millions of dollars)	Percentage of Total
U.S. life companies as on 31st December, 1956	U.S. and other Government securities	10,923	11.4
	Railroad and public utility bonds	18,397	19.2
	Industrial and miscellaneous bonds and stocks	23,290	24.3
	Mortgages	32,989	34.3
	Real property	2,817	2.9
	Others	7,595	7.9
	Total	96,011	100 0
		(In millions of Canadian dollars)	
Canadian life companies as on 31st December, 1956	Dominion Government securities	336	4.9
	Other bonds and stocks	3,473	51.0
	Mortgages	2,286	33.5
	Real property	197	2.9
	Others	523	7.7
	Total	6,815	100.0
		(In millions of pounds)	
U.K. life companies as on 31st December, 1956	British and other Government securities	1,596	36.4
	Debentures and stocks	1,581	36.0
	Mortgages	497	11.2
	Real property	332	7.6
	Others	393	8.8
	Total	4,399	100.0

Bonus Prospects

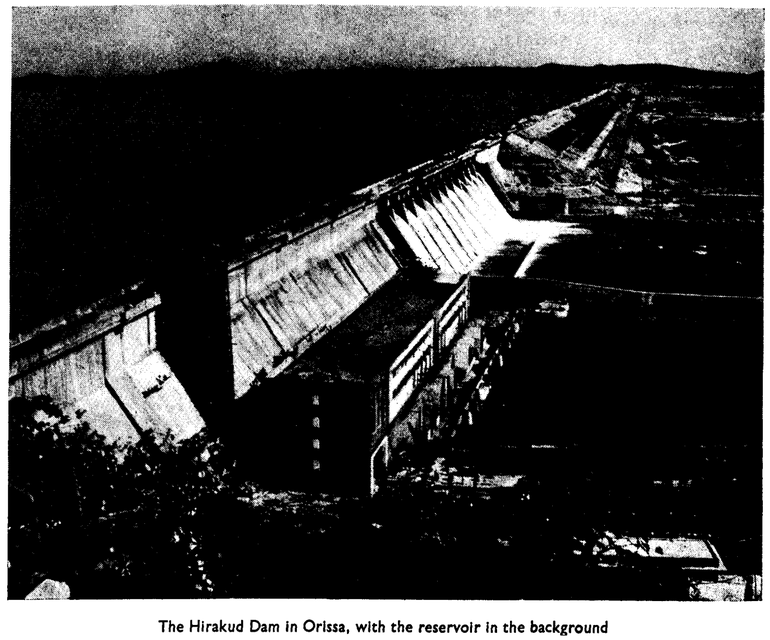
The valuation of assets and liabilities of the Corporation is to be made at least once in every two years and the first valuation is scheduled for the end of 1957. The results will be of great significance since they will offer an opportunity of comparing private enterprise and State management in this field. The bonuses declared by the Corporation on the policies issued by it, quite naturally but unjustly and incorrectly, may be taken as the criterion for judging profitable working. There were some fundamental changes in the business composition at the time the life offices last declared their bonuses and after nationalisation; and any conclusion drawn from the rates of bonus only, without keeping in mind the other factors, are likely to be misleading.

The majority of the leading life offices declared their last bonuses either as at the end of 1953 or as at the end of 1954. The bulk of the business in force at that time was written by the offices during the preceding decade, when the premium rates charged were the highest in the history of Indian life insurance. The gradual and steady rise in the yield on investments since 1946 made those premium rates increasingly profitable and the fall in security prices due to a rise in the rate of interest was easily absorbed, partly through the maturity of redeemable securities and partly through the phenomenal appreciation in values of industrial shares. Towards the middle of 1954, premium rates were cut by about 7 or 8 percent, and after nationalisation by another 2 or 2½ percent. The bonuses declared at the end of 1953 and 1954 were for policies on old rates of premium which have entered a new and favourable period. At the end of 1954, policies on the new rates of premium were negligible relative to the business in force and offices ignoring the difference in premium rates declared high bonuses for new policies as well.

Now the position is basically different. The Corporation has issued policies only on the new rates of premium, which are about 10 percent less than the rates in force before the middle of 1954. While declaring bonuses on these policies, importance should be attached to the level of bonuses which the current premium rates can support. Because of the reduction in premiums, the current business may not be able to afford bonuses as high as those declared by life offices in spite of the more favourable interest rates obtaining at present.

Improved Organisation

A number of steps taken by the Corporation to liberalise policy conditions, and to ensure that from the initial stage onwards no delay takes place, have already started to yield results. It can therefore safely be said that this continuing process of improving the organisation and revising the concept of life insurance through liberal conditions will yield rich dividends by way of increased business. It should be remembered that every single policy is guaranteed for full payment in cash by the Central Government. The security aspect of people's savings has been amply demonstrated in the manner in which the Government has accepted the recommendation of the Corporation to take over the liabilities for the payment of the full amount of claims in some 29 deficit insurance companies. Similarly, supporting development plans, in both the private and the public sectors, continues to be the aim of the Corporation as its major contribution towards efforts to raise the standard of living of the people. In the long run, this enlightened policy will help tap new business sources in the rural areas. It is from this angle of the trends concerning new business or organisation revealed in the Corporation's interim report that the year's working has to be analysed.



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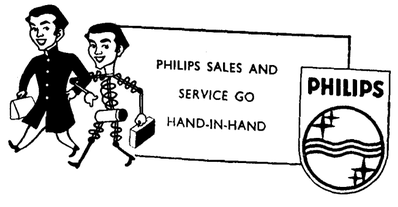
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P 129



INDUSTRIAL INSURANCE IN INDIA

● By A. C. GUHA RAY ●

THE main reason why, under the company *regime*, there was hardly any planned attempt to extend life insurance to the low-income groups—even in the peak year when business went to a figure of Rs. 238 crores—was the prevailing feeling that any attempt to place the insurance service on a nation-wide scale, embracing the smaller-income groups, might turn out to be a costly adventure. However welcome from a social point of view, purely from an expense stand-point it was a much less inviting proposition. The character of the national economy, which was mainly agricultural at the time, was an additional deterrent factor. After 1947, the socialistic trend with its emphasis on the welfare of the labouring class, marked the beginning of a break with the traditions of the feudal past. With it began the slow and steady shift in income from the traditional "chair-borne" earning groups, to the skilled and semi-skilled labour A planned economy, to which India is wedded, is in reality the age of the artisan class and not of the so-called middle-class, which is being steadily pauperised. On this vast human body, the eyes of Mr. A. D. Shroff were focussed when he estimated India's insurance potential at Rs. 800 crores. The Life Insurance Corporation by its scheme of the "Janata policy" appears to be trying to probe this vast reservoir of insurable material.

Failure of Provident Societies

Bred in the traditions of upper-income and middle class insurance, life business in India was conditioned for the requirements of the existing income levels. The law in force was not responsive to the shifting economic pattern, although provident societies did endeavour to cater, in some form, to the needs of the "Janata". As at 31st December, 1955, 71 provident societies wrote new business to the extent of Rs. 2,20,41,700 on 25,349 policies. Total business in force was Rs. 5,28,70,400 on 73,003 policies, while the premium received during 1955 was a little over Rs. 6 lakhs. The total insurance fund stood at about Rs. 1 crore, while expenses of management were as high as 42.5 percent of the total premium income. The high rate of lapse, shown in the cost ratio, indicates organisational weakness particularly in the method of collecting premiums. Of the 73 companies whose valuation results have been published in the *Insurance Year Book*, 29 were running at a deficit, thus underlining contradictions in management, procuration and collection of renewals. The failure of these so-called provident societies shows the weakness of the organisational pattern on the one side, and an inappropriate system on the other. While somehow workable in higher life insurance, the system was unsuitable for the smaller. Also, no serious support was received from the then existing statutes for developing a constructive technique of industrial life assurance with a view to basing the companies' structure on the objective realities of the situation.

The Life Insurance Corporation, in inaugurating its scheme of Janata policies, has the advantage of being free from the limitations imposed by the Controller of Insurance. It has re-established trading in this class of business at the beginning of an era in which the process of shifts in income is taking its inexorable course. The climate is thus more propitious for the Corporation to take the maximum advantage, if it can avoid the errors and pitfalls of the earlier amateurish transactions.

Insurance Potential

The extent of insurance potential in the country can be judged from the 1951 census figures. According to these, the population of India was about 361 million of which nearly 105 million were self-supporting persons and about 40 million earning dependents. Of the self-supporting, 71 million were agriculturists and 33 million non-agriculturists. The present number of insured persons may be estimated at 4.5 million, which is as low as 5 percent of the potential number of people who need life insurance protection for their own benefit in old age and for the benefit of their dependents in case of premature death. This leaves virtually 95 percent of human resources untapped. The Corporation estimates the potential to be at least 20 times the present number of insured persons. It is on this body that attention needs to be focussed. The Janata policy appears to be a pilot project in that direction.

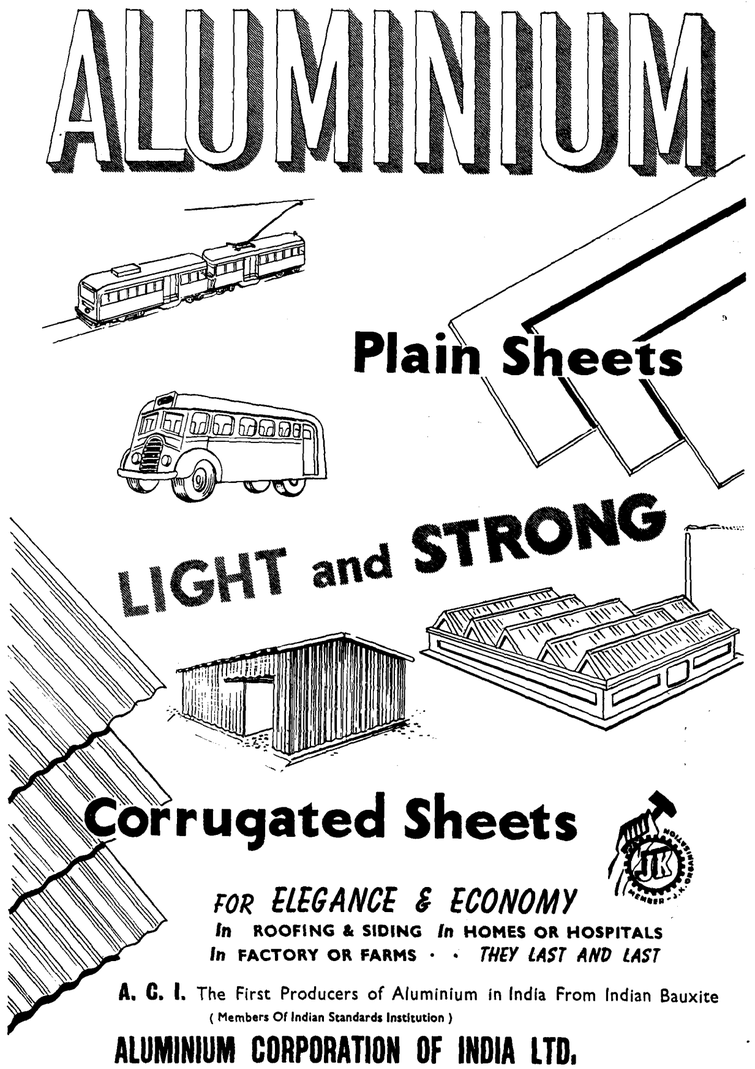
The scheme is essentially simple. Only endowment policies, with and without profit, will be issued. The maximum age at entry is limited to 45. The term of the policy will be 10, 15, 20 or 25 years subject to maturity age or premium-ceasing age not exceeding 60. The sum assured will not be less than Rs. 250 and not more than Rs. 1,000, on any one life, subject to certain restrictions as embodied in the prospectus. Premiums are always to be in an integral number of rupees, whatever may be the method of payment. There will be no medical examination in the case of lives aged 33 or less, at entry. A short medical report will be required in the case of other entrants. The risk will be entertained subject to certain terms and conditions as embodied in the prospectus and table of rates, an important feature of which is to adjust the sum assured instead of charging the usual "sex-extra".

Premium Collection

For the convenience of policyholders, two methods have been devised for the payment of premiums: (i) by affixing stamps in the premium collection book and (ii) by entering the premium paid to a collecting agent in the premium collection book. The days of grace in case of policies where the premium is collected in stamps will be six months from the due date of the premium, and in the case of policies where the premium is collected in cash, six months from the due date of the unpaid premium except in the case of monthly instalments, where it is three months. No premium notices will be issued.

Lapsed Policies

Lapsed policies may be revived within a period of three years from the date of the first unpaid premium by payment of arrears with 6 percent interest compounded half-yearly, subject to a minimum of four annas. The life assured has to appear at the office of the Corporation and produce evidence of good health and habits and other information at his expense. Any policy where premiums have been fully paid for two years becomes automatically paid up for a reduced amount subject to a minimum, in terms of the prospectus, if the premium is discontinued. A policy which has attained its paid-up value, may be surrendered for cash. A liberal surrender value has been provided



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for. Nomination on the usual terms can be made and this will be incorporated on the face of the policy. Loans, disability and double-accident benefits are not available. There are no restrictions on travel, resident or occupation.

On the business merits of the scheme, little need be said because it must have been introduced with the approval of the actuarial team of the Life Insurance Corporation. Where error is likely to occur is in the organisational pattern, because it is obvious in such a scheme that orthodox methods of organisation will be entirely out of tune with the character and psychological background of the low-income groups. The traditional thriftlessness of the lower artisan class and the rather fatalistic outlook of Indian industrial and agricultural labour, are hostile rather than conducive to propagation of virtues inherent in any scheme of life assurance.

British Example

In the U.K., the problem of insuring industrial labour has been tackled resolutely. This store of experience should be a valuable guide, and will enable the Corporation to avoid the pitfalls in a mass sale of this nature, if it can rise above the traditions of orthodoxy and red-tape, and set itself to tackle the problem in a business-like manner.

The British Industrial Assurance Act, 1923, defined industrial assurance as being the business of effecting assurances on human life, the premiums being received by means of collectors. This definition itself is indicative of the importance attached to collections—so much so that the collector's post in the scheme had to be statutorily recognised. Indeed, collection of premiums is the core of any project for industrial assurance. It came to be recognised in the U.K. that the service of full-time employees is essential for the transaction of industrial assurance. Needless to say, the laborious process of collecting small sums of money is bound to be expensive. This expense has throughout been one of the major problems facing the business. When one considers that during the course of the week the agent has to travel many miles collecting a few rupees here and a few rupees there, it is easy to understand that he requires as remuneration a substantial proportion of the amount he collects. That being so, it becomes obvious that any hope of reducing expense in this direction can only be effected by some change in method, some improvement in organisation, by the elimination of waste of time, and in fact by making it possible for one man to handle a great deal more business without any material increase in effort on his part.

In answer to this problem, the larger industrial assurance companies have introduced what they term the "block system". Under this, collectors are paid a salary increasing with the growth of their collections, but not increasing in strict proportion. Consequently, as the amount collected by one man goes up, so does his remuneration, but the ratio which it bears to the total of the premiums collected decreases.

Most of the large companies in America use a salary-scale method of remunerating their agents, instead of a fixed percentage commission. In the case of a small agency, the salary may work out to a commission of 15 percent or more, and as the amount collected increases, the rate of commission to which the salary is equal, falls steadily, notwithstanding the fact that the salary itself increases. Thus, on a medium-sized agency, the salary will be equivalent to about 12 percent of the amount collected, and on larger agencies it will be even smaller. The British blocking system achieves almost identical results.

Trial Run

The Janata policy of the Corporation has now been introduced in some specified areas as a pilot project. It is still more an experiment than a venture, because the machinery will have to be overhauled in the light of experience. The officials of the Corporation, bred in the traditional organisational pattern, have been unable so far to untie themselves from the moorings of the past even though "Janata" is a new social concept in their hands. For them, an intensive study of British industrial assurance is fundamental, because up to now there is hardly any emphasis on the rôle the collectors have to play. Apart from emphasising the risk-bearing character of an insurance policy to a society fatalistically inclined, the workers have to be continuously on guard to maintain and enlarge the collections. Unless, therefore, the self-interest of the collectors is considered, within the limitations of the cost factor in the premiums, there is hardly any chance of achieving a success comparable to that of the U.K., or of playing that social rôle for which a policy of this character is primarily designed.

It is not difficult to visualise objectively the actual pattern of organisation more suited to Indian conditions so far as the Janata scheme is concerned. The line of difference between this scheme and the organisation of higher life insurance cannot be lost sight of in any formulation of policy. Working through ordinary agents may be an unsuitable device; no agent will be interested in the paltry commission that he can earn from small policies. The tedium of perennial collection remains an unremunerative drudgery to him. And while for the same labour he can earn more in higher insurance, he will naturally divert his talents to it. This apart, life-insurance agency in India still remains a floating profession. This makes the scheme excessively risky and may easily bring it into disrepute with the labouring classes. The only practical alternative would seem to be found in salaried worker-cum-collectors who could provide the necessary stability. Of course, the number of such workers must inevitably be large and it is here that the orthodox officialdom of the Corporation might well falter.

An Opportunity

Nevertheless, the problem need not scare those who feel that in a highly scientific business like life insurance, boldness of plan has only a limited scope. On the other hand, it is a wonderful opportunity for the life-insurance planner to create a vast field for insurance in a hitherto untapped region on the one hand, and, on the other, to stimulate employment as a part of the national employment policy. The Janata policy may well accommodate salaried workers at factory level, or a sizable unit level of industrial workers. For instance, a unit of 10,000 workers can be handled by five procuration-cum-collecting salaried workers with a senior supervising inspector at the head. A three-year organisation plan on this pattern may yield brisker business, while at the same time ensuring service at the factory door and a steady flow of premium collection. The salary scale of these collecting workers would be so devised that sales and collection may be integrated in a comprehensive salary structure. An organisational pattern of this type may help galvanise industrial and rural labour and suggest machinery for a closer contact at the base. The mass-mind in an undeveloped country can never be roused to thrift if the Corporation remains remote and distant, in a too-wooden and antediluvian operational machine.

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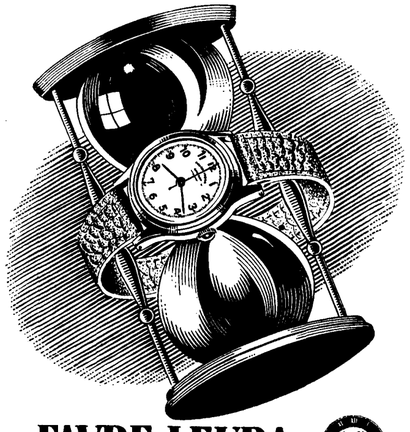
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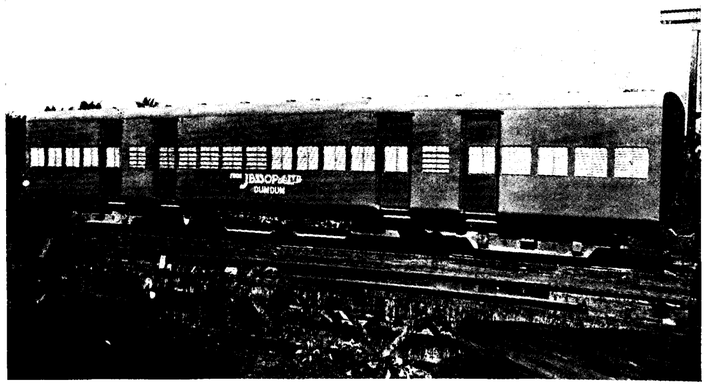
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A MORE HOPEFUL YEAR FOR THE JUTE INDUSTRY

IMPORTANCE OF SELF-SUFFICIENCY IN FIBRE

● By A SPECIAL CORRESPONDENT ●

WITH the sharp rise in India's requirements of foreign exchange to finance her second five year plan, the development of her export industries has assumed greater urgency. This sense of urgency has been shown at recent meetings of the Export Advisory Council, and the magnitude of the task was clearly indicated by the Minister for Commerce and Industry at the Council meeting last June. There, in his inaugural address, he pointed out that India's imports had exceeded her exports by no less than Rs. 210 crores in 1956, or a monthly average of Rs. 17½ crores, and that during the first two months of this year the adverse trade balance had risen to Rs. 20 crores a month in spite of a higher level of exports. In such a situation, it is obvious that the jute industry, as the leading export industry and the principal source of dollar earnings, has a vital rôle to play. In spite of the recent growth of other export industries, jute goods still account for more than 40 percent of India's dollar earnings and over 20 percent of her total earnings of foreign exchange. Much will therefore depend on the industry's ability to maintain and expand its overseas markets, and this in turn will depend on the efficacy of the measures now being taken to overcome its principal problems of raw material supplies and a lowering of production costs.

Unhappy Legacy

At the beginning of the year, the outlook for the industry was far from auspicious but the difficulties in which it then found itself were largely due to the unhappy legacy of the previous year. This must be briefly reviewed if the position during the current year is to be seen in its proper perspective. Last year was disappointing since it failed to fulfil its early promises. After three consecutive years during which there had been a steady, if small increase in the offtake of jute goods, trading prospects in January 1956 looked reasonably bright. Although there is always a seasonal fall in exports during the early months of the year, the industry agreed—not without some misgiving—to take a chance with increasing production by unsealing some of the looms which had been closed since 1949. The misgivings of those who considered this move premature were soon justified by events. Instead of showing a further improvement, exports declined compared with 1955, stocks of manufactured goods rose rapidly, and by the middle of the year it was evident that production would again have to be curtailed. By re-sealing the looms which had previously been opened, the industry gradually reduced its excessive stocks over the remaining months of the year, but the market was seriously affected and the experiment proved a costly failure.

Financial Position

It is against this background that the events of the current year must be assessed. While at the beginning the technical position of the industry as a whole was sounder than it had been six months before, the financial position of individual mills was distinctly worse. The persistent disparity between the prices of raw materials and finished goods had been accentuated with the result that trading conditions were most unfavourable and many mills were incurring heavy losses. Grim though it was, this state of affairs was not without its compensations. It was a situation that demanded prompt action, and the very urgency of the problem gave added impetus to the various measures which were being taken to strengthen the economic position of the mills. Of these, the most important were those concerned with raw material supplies and the rationalisation of the industry. In both directions, a significant advance was made, and there would probably be general agreement that the drive towards self-sufficiency in jute and the further concentration of production in the more efficient units of the industry were the two outstanding features of 1957.

Ever since the mills were first cut off from their main source of raw jute by the partition of the country in 1947, and especially after the exchange difficulties resulting from the devaluation of the Indian rupee in 1949, the high cost of jute in terms of jute goods prices has been the main handicap for the industry in the efforts to meet the growing competition in world markets. At the time of partition, only about a quarter of the jute consumed by the mills was grown in what is now India. By bringing more land under jute, the crop was rapidly expanded, until by 1952 the proportion of home-grown jute had risen to more than two-thirds of the mills' requirements. But just when self-sufficiency seemed to be in sight, the jute cultivation drive slowed down and up to 1956 India was still dependent on Pakistan for as much as 20 percent of her needs. There were various reasons for this slowing down. There was a belief within the industry itself that a proportion of high quality Pakistani jute was essential for the efficient operation of the mills, and there was also the apprehension of the State Governments that if India were self-sufficient in jute, so that imports from Pakistan became unnecessary, jute prices might fall to the detriment of cultivators. This view underrates the inherent strength of the cultivator's position. Whether or not jute is imported from Pakistan, the fact remains that for most of its jute requirements the industry here must rely on the cultivator.

Economic Price

The Indian jute grower will not grow enough jute unless it pays him to do so. Although the mills are naturally anxious to obtain their raw material as cheaply as possible, they are equally concerned to see that the cultivators on whom they depend receive an economic price for their crops. This is not a question of altruism but simply of enlightened self-interest. Conversely, it is to the ultimate interest of cultivators to ensure that the mills do not have to pay too much for their raw jute. If prices are too high, Indian jute goods become less competitive, and any diminution in the offtake of the industry's products by overseas buyers must result in a fall in the demand for Indian jute goods. Towards the end of last year, there were signs that such a situation was going to develop. Offtake had been falling, stocks of finished goods were accumulating, and many of the mills were in serious financial difficulties. These factors, coupled with the urgent need to conserve foreign exchange, brought about a fundamental change in the official approach to the raw jute problem. The result was that at the beginning of 1957, for the first time, complete self-sufficiency in jute was proclaimed as the objective.

Target Revised

This is a decision that could have the most far-reaching effects on the future of the industry if it is implemented with determination and despatch. A promising lead was given by the Government of India, which not only revised the target for jute production but also initiated measures for its early attainment. Excluding mesta, which was already making an annual contribution of about 1 million bales of fibre, the target for the jute crop under the second five year plan was raised to 5.54 million bales a year. Dr. Panjabrao Deshmukh, the Central Minister of Agriculture, convened a series of conferences with representatives of all the jute growing States, at which a general agreement was reached on the measures necessary to achieve the target at the earliest possible date. In the face of the acute shortage of foodgrains, which clearly precluded any diversion of land from food crops to jute, the main emphasis was laid on increasing the acreage yield of the jute crop, for which there was ample scope. Whereas before partition the average yield was as high as 3½ bales an acre, the average yield at present ranges from only 2½ bales to less than 2¼ bales an acre. Experiments carried out by the Indian Central Jute Committee had shown that this could be substantially increased by improved methods of cultivation, and the measures agreed upon at the conferences were therefore mostly concerned with intensive cultivation by the dissemination of improved seeds, by the scientific use of fertilisers and by the introduction of improved cultural practices such as line sowing by seed drills and subsequent inter-culture by wheel hoes.

Improved Seeds

The full effects of these measures will not be apparent for some years. Although a start has now been made by the I.C.J.C. in establishing seed multiplication farms for the large-scale production of improved seeds, it will be some time before these are fully developed. Arrangements have still to be made for the distribution of seeds, and better facilities will be needed for the distribution of chemical fertilisers. Above all, cultivators will have to be educated in the proper use of the latter and in the application of the more scientific cultural practices now recommended. This is a major task in which success will depend largely on the vigour with which State Agricultural Departments follow the Central Government's lead. In the meantime, some progress has already been made, and in 1956-57 jute imports from Pakistan were reduced to about only 650,000 bales, representing a reduction of more than 50 percent on those of the previous year and a saving of over Rs. 10 crores in foreign exchange.

Admittedly, the higher production has so far been confined mainly to the mesta crop, which according to official estimates rose from 1.16 million bales in 1955-56 to 1.47 million bales in 1956-57. But there was also some increase in the jute crop, and in spite of the unfavourably dry weather during the sowing season and a possible reduction in acreage, the view expressed at the annual meeting of the Indian Central Jute Committee in September was that the current crop would be at least as large. Already, the adverse ratio between the prices of raw jute and finished goods has been slightly reduced and if, by improving the fibre yield of the plants, the same acreage can be made to yield a larger crop, lower prices need not mean any reduction in the cultivator's return from his land and the mills should have the additional benefit of getting better quality jute.

Progress of Rationalisation

The economic difficulties that encouraged the drive towards self-sufficiency in raw jute also accelerated the progress of rationalisation in the industry. In the first half of 1957, the heavy trading losses of the previous year forced five mills to close down. Except in the case of one small mill, the production was transferred to other mills in the same group where most of the workers were absorbed. The result was the elimination of five uneconomic units and the concentration of production in more efficient and modernised mills. This is a process that will have to continue if the industry is to attain maximum operating efficiency, but that it should take a financial crisis to bring it about is a sad reflection on the difficulties that still stand in the way of progressive planning. Rationalisation is not a new development in the industry. It began soon after the war and has been continuing with increasing momentum ever since. But although the need for it is obvious and is now generally appreciated there has always been some opposition from labour, with the result that until the industry's hands were forced by economic necessity this year, rationalisation mainly meant the modernisation of machinery rather than the reallocation of productive capacity.

In the initial stages, a certain amount of opposition was perhaps to be expected. Unemployment has always been a major problem in West Bengal, and until it could be seen how rationalisation would work in practice, the bogey of retrenchment might appear very real. Experience has shown that these fears are groundless. While nobody denies that the object of rationalisation is to reduce labour costs, a gradual reduction in the labour force by natural wastage is a very different matter from large-scale retrenchment. To oppose rationalisation in this form is ultimately against the interests of workers themselves. Yet opposition still continues, and to such an extent that after all these years of steady modernisation the West Bengal Government has found it necessary



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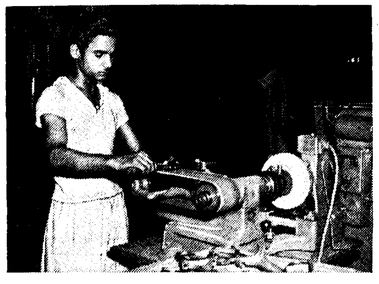
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to constitute a special tripartite committee to consider the matter and make recommendations concerning a phased programme of rationalisation and the apportionment of the work-load in the industry. Meantime, the modernisation programme continues, as continue it must, and for mills which are short of financial resources, loans are available, although less readily than could be wished, from the National Industrial Development Corporation. Until a few years ago all modern machinery had to be imported from abroad. With the development of a machinery manufacturing industry, a considerable proportion of the equipment required by the mills is now made locally in Calcutta and the expenditure of foreign exchange has been correspondingly reduced.

Futures Market

These two developments, a better supply of raw material and a streamlining of the manufacturing process, mean that the industry is now in a healthier condition than it was at the beginning of the year. The position of the mills will be further strengthened if a genuine futures market can be established to provide the hedging facilities they need. The constitution for such a market was, in fact, drawn up in 1956, and in a resolution issued in November of that year the Government of India accorded recognition to the East India Jute and Hessian Exchange Ltd. under Section 6 of the Forward Contracts (Regulation) Act, for the purpose of conducting futures trading in jute and jute goods. But the resolution indicated that this trading would be carried on not only in future contracts but in transferable specific delivery contracts as well; and this last provision has delayed the opening of the market. If transferable specific delivery contracts were to be brought within the scope of the East India Jute and Hessian Exchange all the normal forward sales of the mills would have to be conducted through an organisation designed solely for handling futures trading in hedge contracts, and this would have serious repercussions on the entire export trade in jute goods. A solution of the difficulty has still to be found and at the time of writing it is not possible to say when the futures market will begin to function.

If the current year has seen a change for the better in the internal economy of the industry, the recovery is largely potential and has still to be fully reflected in the volume of sales. During the first half of the year, in spite of a substantial increase in shipments to the Argentine, hessian exports were only slightly up on the corresponding period of 1956, sacking exports were nearly 10 per cent down, and there was a disappointing fall in the internal offtake of goods for consumption in India. As the year progressed, trading conditions became more favourable to the mills. Since July, there has been a marked rise in the volume of exports, which to the end of September were more than 6 percent higher than in the first nine months of 1956. This rise in exports during the third quarter of the year was entirely confined to heavy goods and resulted in a considerable switch from hessian to sacking production. But if hessian exports did not rise during this period they maintained the level of the previous year, and taking the first nine months as a whole, both hessian and sacking showed an increase over 1956 although they were still not back to the high level of 1955.

Lower Offtake

While the increase in total exports is encouraging, it is noteworthy that, with the exception of the Argentine, exports to India's principal overseas markets have declined. The markets chiefly affected are the United States and the United Kingdom for hessian and Australia for sacking. Admittedly, in the case of the former, the fall in exports has been only slight, but it is significant that the consumption of burlap bags in the United States this year is appreciably lower than in 1956 and there is evidence that in some trades bulk handling is gaining ground at the expense of hessian bags. In the United Kingdom the decline in demand has been relatively greater, exports this year being little more than half those of the previous year, and it appears that in this case the loss has been mainly to paper bags. Exports to Australia, India's biggest market for heavy goods, have declined by more than 12 percent and there has so far been no sign of the hoped-for revival of demand from China. A permanent decline in the offtake of these traditional export markets will undoubtedly be a serious matter; but demand is often influenced by temporary factors and too much importance should not be attached to a single year. In Australia, for example, there has been drought in the wheat-growing areas, and it is possible that this may have been largely responsible for the smaller purchases of bags.

A switch to bulk handling does, of course, represent a permanent loss to the industry, but the burlap trade in the United States is fully alive to this threat, and there are grounds for hoping that any losses in this direction will be more than compensated by the development of new industrial uses for jute fabrics in that country. In the U.K. market, the reduced demand for sacks is directly attributable to the fact that, in order to bring prices into line with those of the industry in Dundee, Indian manufactures have been sold by the Jute Control at 40 percent above the landed cost and have thus been placed at a disadvantage as compared with paper bags. Representations made by the Government of India have recently resulted in a reduction of the mark-up to 30 percent and if the U.K. Board of Trade can be persuaded to make a further reduction within a reasonable time there is every possibility that much, if not all, of the lost ground will be recovered.

Encouraging Signs

From the broader aspect, too, there are some encouraging signs. The lower offtake of India's established markets in 1957 was more than offset by larger exports elsewhere—particularly to South America and to countries in Africa and the Far East. This growing demand from the underdeveloped countries should be capable of further expansion, and notwithstanding the disappointing experience of the past year, it is reasonable to expect a substantial increase also in the consumption of jute goods in India as her agricultural and industrial production develops. In exploiting these market possibilities the industry will, of course, have to face the usual competition not only from bulk handling and substitutes but also from its foreign counterparts, especially the Pakistani industry. But although the latter continues to be a most formidable rival, competition from it is no longer increasing as rapidly as before. It appears that the progress of the Pakistani mills has been temporarily arrested, and their exports this year have been practically at the same level as in 1956.

Nevertheless, it would be foolish to underrate the threat and assume that the situation will remain static. Pakistan is planning a further expansion of her jute industry, and any increase in her exports will inevitably be at India's expense. Moreover, the world economy is no longer expanding at the same rate as in the past, and there are indications of a recession in some of the industry's principal export markets. Under the circumstances, an expansion of India's export trade in jute goods will need an all-out effort, in which success will depend principally on the industry's ability to increase its efficiency by rationalisation, on the maintenance of good labour relations, and above all on the speed with which self-sufficiency in jute can be achieved. Meantime, as far as the Indian economy is concerned, it can safely be said that with the higher level of prices ruling in the jute goods market, the foreign exchange earnings of the industry this year will show an appreciable improvement over 1956.

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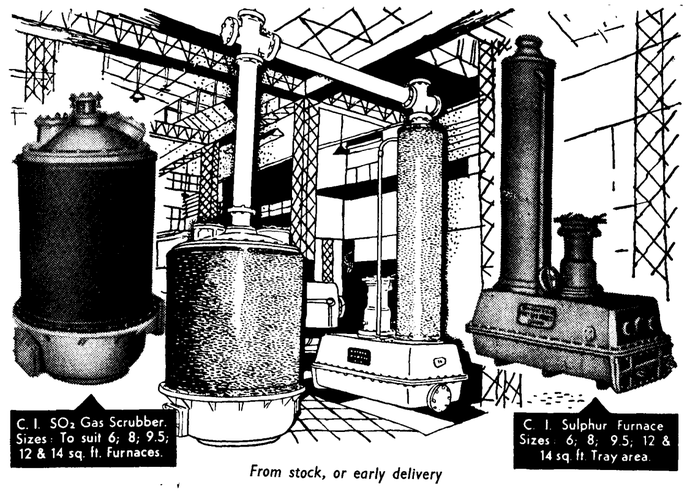
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GREATER EMPHASIS ON SELF-SUFFICIENCY

● By A SPECIAL CORRESPONDENT ●

THE past 12 months have been one of the most difficult periods for the jute trade for a considerable time. Problems have arisen with monotonous regularity, and each of them has placed a greater burden on an already troubled industry. The year opened under the strain of international conflicts in the Middle East. The closure of the Suez Canal towards the end of 1956 had a disturbing influence on the market, but news early in the year that progress was being made with clearing the Canal induced an optimism which later proved unfounded. A lot of buying was done by overseas consumers well ahead of the normal time to counteract the shipping delays and shortage of space resulting from the longer voyages which had to be made during the period the Canal was closed. Unfortunately several more months elapsed before ships again used the Canal freely, so sailing schedules were badly disrupted. Many overseas consumers, who towards the end of last year asked their Calcutta representatives not to ship any goods until the shipping position was clarified, now asked that their commitments be fulfilled. This caused a flurry of activity in Calcutta as operators with blank sales on their books attempted to cover for steamers loading in port. Thus rates were pushed up and local markets benefited from the increased demand. It was a false market, however, as the demand was not fresh business but covering against former contracts.

Much has been said in recent years about the modernisation of jute mills, and the subject has remained a source of controversy during the past year. Modernisation has made substantial progress, but for some months, the West Bengal Government's attitude has appeared to hamper rather than help it. The ban on the import of warp sliver spinning frames has created difficulties. These frames are essential for modernisation plans; if the indigenous ones were up to the standard and workmanship of those which have been imported, the ban might have been justified. Unfortunately this is not the case, and the supply of suitable local machinery has fallen far behind requirements. It is reported that the Government of West Bengal has on several occasions questioned the I.J.M.A. on the subject of retrenchment of workers. Modernisation means the installation of labour-saving machinery, which means that part of the labour force must become redundant. Redundancy implies retrenchment. Conditions since the Government gave its sanction for modernisation have not changed, but apparently the Government has changed its views in spite of the fact that provision has been made for compensation to retrenched workers. The attitude of the West Bengal Government hampers progress, and is contrary to the principles of the second five year plan. If the industry is to compete effectively, it must install the maximum number of labour-saving devices, which means a reduction in the number of employees. If the Government does not allow retrenchment through modernisation to proceed, the workers eventually thrown out of employment will be far more as the mills will have to close down.

Central Sales Tax Act

Since the middle of the year, a further imposition has been placed on the jute trade by the Central Sales Tax Act. At first, no authoritative pronouncement about the application of the tax was made and the industry did not know its provisions. Mills were left in doubt whether it applied to gunnies, and sellers were uncertain about raw jute. This led to confusion, and large quantities of jute were despatched to Cossipore from various upcountry agencies before 30th June so that they would be in Calcutta and therefore presumably would not be liable to tax when sold to the mills after the Act came into force. It was not known whether the tax was payable in the State of origin or at the destination, and no statement was issued until long after the Act was introduced.

Throughout the year, great emphasis has been laid on methods of increasing the jute crop, with self-sufficiency as the ultimate aim. Conferences have frequently been held, but some of them have been of little use, as the proposals have not always been translated into action in the jute fields. The problem of educating growers is perhaps the biggest obstacle to overcome, and it is reported that although they are keen listeners, they are unwilling to change their methods of cultivation. This is so even when results have demonstrated the advantages of new methods. Much has been said in *Capital* in recent years on this subject, and great emphasis has been placed on the need for experiments to develop strains yielding more green fibre a plant. Admittedly, this is a long-term policy, but it is one which would eventually lead to a larger crop on a smaller acreage, thus releasing land for rice cultivation, which is a vital need in these days of food shortages. As far back as 1931, experiments were conducted with this end in view, and progress has been made over the years by various research institutes. But little progress has been made in the fields towards the general adoption of these methods, in spite of pressure. If this had been done, say, even from the time of partition, experts agree that India would today have been more self-sufficient in jute.

More Mesta Grown

During the past year, the Calcutta mills have used an increasing amount of mesta. Even concerns which previously scorned the fibre because of its poor spinning qualities and high rate of wastage, have now of necessity turned to it. As a result, over the past few years the acreage under mesta has increased greatly. This year, crop estimates indicate that some areas which were formerly entirely under Daissee now have up to 70 percent of mesta. Growers like to cultivate mesta because it requires much less attention than other fibres, and it has the advantage that it grows more quickly than jute, so that if rain comes late, as was the case this year, it can still be sown and can come to maturity with little loss of time. An increasing use of mesta involves new techniques of preparation before spinning. Mills have adopted these new methods, and in spite of the extra work involved, the cheapness of the fibre allows them to lower their batch price.

Demand for Daissee jute, however, is still large, as the properties of this fibre, which carries practically no root, enable mills to use the root ends of other fibres, which the spinning qualities of Daissee carry through. It is these qualities that explain the premium mills are willing to pay, and the demand for it; unless sufficient Daissee is available, they might find themselves in a position of not being able to use the large quantities of mesta that are produced. With the increase in the cultivation of mesta, however, the land under Daissee has suffered. Cultivators are not keen on Daissee, as it is a late crop which grows slowly and requires a great deal of attention. By the time it is harvested, it is seldom possible to put the fields where it has been grown under any other crop. It is not surprising that this year will probably see a further reduction in the amount of Daissee produced.

Transport Difficulties

Although transport facilities for the movement of jute to the mills have improved, they are still inadequate. This does not apply to river transport, although even here conditions would be much better if proposals concerning the Ganga Barrage were implemented. An amendment of the Damodar Valley Corporation Act is necessary for this purpose, and it is understood that such an amendment is under "active consideration". The completion of the Ganga Barrage would facilitate the transport of jute, as a direct waterway would then be opened to Calcutta *via* the Hooghly. The new route would cut by more than half the distance to be covered, allowing a reduction in freight charges, etcetera. It would also relieve the congestion in the Pakistani waterways, through which most of the jute now has to travel, thus allowing supplies still using this route to be speeded up.

The Calcutta mills rely to a great extent on the transport of jute by rail, but many difficulties have arisen. No reasonable explanation has ever been, or is likely ever to be, given for the restriction of bookings to certain mills without prior warning. It is odd that wagons are often available for bookings to Cossipore but not to mills from the same booking stations. Delays in rail transport are understandable during the monsoons when breaches in the line are frequent, but at other times of the year also hold-ups are frequent. In spite of representations to the railway authorities, very little improvement has been discernible. Unscrupulous sellers often take advantage of the situation, and ask for an extension of delivery dates on the ground that wagons are not available when the market goes against them. These requests are invariably accompanied by a confirmatory note from the station master concerned, usually on a scrap of paper, the origin and authenticity of which is often impossible to establish.

Purchasing Procedures

The procedure in buying jute for the mills has come in for a great deal of discussion. The system of buying through recognised brokers under contract has declined with the establishment by some mills of agencies of their own to buy fibre in the districts. This has evoked criticism from many quarters and has been given as one of the principal reasons for the high price of the raw material upcountry. Growers have tended to hold back supplies in the districts where agencies have been opened, with the intention of creating an artificial shortage and thus forcing the agencies to pay higher prices. That this has been successful is confirmed by the prices conceded by agents, and by the unreasonably high rates ruling at the end of October and beginning of November, when prices normally should decline. While admitting that they have had to pay a premium for their purchases, the mills concerned point out that they are now receiving the type of jute they require, in an assortment suitable to their purpose and in a dry and storable condition. But reports from the interior do not support the claim. This method of buying jute is not new, but is one which was discarded many years ago as defective, as an examination of certain public companies' accounts showed.

The practice of buying jute in the bazaars through appointed agents has developed rapidly, and has had a bullish influence. Arrivals in upcountry receiving stations and in Cossipore have been much smaller than in previous years, resulting in keen competition among buyers. In many instances, representatives have bid vigorously against one another in an attempt to secure a particular parcel, and prices paid have been out of line with the market in general. Some mills have again reverted to buying jute over the jetty and at mill gates. Sellers admit that opportunities of indulging in malpractices arise, and even if they get away with only 10 percent of inferior jute on each lorry it is a paying proposition. Jute bought in this way invariably contains heavy moisture, and the temptations and corruption are practically impossible to detect.

The excessive moisture in jute continues to be a major headache for the mills. Very little attempt is made these days to dry it out before sale and the practice of watering jute is more prevalent now than ever before. The compensation which mills receive on making claims seldom covers the actual loss, and in many cases the difference can turn the loss in a trading year into a profit. Mills themselves are partially to blame as they condone "private settlements". If the terms of the contract are strictly adhered to, and all claims are referred to arbitration, which carries with it the added burden of costs to the defaulting party, the incidence of inferior quality and excessive moisture would drop considerably. The mills' stock position, however, does not always allow this, as often the jute is required for issue shortly after arrival and claims must therefore be settled quickly. Frequently mill salesmen accept a lower claim in order to get a settlement so that the jute can be used up.

Mills are thus the victims of their own folly. Most buyers have considered prices too high and have expected rates to fall with the increased availability of jute. But arrivals have not come up to expectations, and prices have not declined. Mills have eventually been forced to buy quick shipment jute, and to forgo the possibility of reach-



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Payment for Raw Jute

There has been much controversy over the past year about payment for raw jute by mills. Sellers have frequently been placed in an embarrassing position, causing considerable anxiety over the failure of several buyers to fulfil their contractual obligations under the reimbursement clause. In previous years, incidents of this nature were few, but now the practice has grown to alarming proportions. During the bank strike in September-October, delays in payment were understandable and were caused by reasons entirely outside the mills' control. Before then, however, such delays were also frequent; and in many cases, they caused heavy financial losses to sellers whose money was blocked, as payment of interest against advances made to them by their banks or brokers nullified to a large extent any profit they may have made on the original transaction. Sellers' organisations took up the matter strongly and passed resolutions urging their members to insist on payment as provided for under the reimbursement clause of the standard I.J.M.A. contract. But there has been no great improvment, as some sellers are still willing to "finance" the mills in this way in return for a greater volume of business. The result is that nowadays many of the smaller sellers make it a point to stipulate the mills to whom they are willing to sell when they put up their offers.

In the early months of 1957, there was very little rain in the jute-growing districts, but it was enough for the ploughing of the land to be started. The rain necessary at sowing time was long delayed, and up to April very little sowing was done. At that stage, sowings should have been nearing completion except in the Daissee districts. It was obvious then that the crop was going to be late in coming to maturity, a possibility that would probably have far-reaching effects on the availability of jute to the mills later in the season. In Pakistan, sowings were also later than usual. It was reported that in some lowland areas, having been delayed by the lack of rain, they had been abandoned, because it was unlikely that the plants would reach maturity before the rise in river levels enforced cutting. In India, rain was still delayed and sowing was restricted to isolated areas, and as May approached without adequate rain, anxiety increased. Many places in Assam and a few places in northern Bengal were still suffering from drought. But late in June the rains upcountry really started, and by the middle of the month sowing was well in hand. The Murshidabad and Bihar districts were well behind the others, but by the end of June sowings in all areas were completed although much more rain was required to promote growth. In Pakistan, new crop reports were very favourable and in many cases were the most optimistic for several years. The completed sowings in India were estimated to be approximately the same as in the previous year. In July and August, reports of flooding were received but the damage to the jute crops was not extensive, as the crop was too far advanced for heavy damage to be inflicted. Following this, favourable weather conditions allowed much time to be made up, and although the eventual harvesting of the crop was much later than in the previous year, the delay was not as great as was at first expected.

Market Trends

Events in the Mediterranean and Suez Canal area towards end of 1956 made the fibre markets very firm, and Assam Bottoms opened 1957 at Rs. 32 a maund. Mills bought steadily over the first two weeks and prices moved up to Rs. 33. Towards the end of the month, after several weeks of activity, they withdrew from the market and rates began to fall. The main reason for the cessation of business was that their godown stocks had improved with recent purchases and the gunny market was weaker. Prices declined rapidly towards the end of the month and Assam jute dropped to Rs. 30-8. Sellers were reported to be nervous at this stage as the majority were holding unsold stocks, and with the increase in arrivals at both the upcountry receiving centres and in Cossipore, the general sentiment was weak. During February, weak conditions prevailed and heavy selling pressure from dealers anxious to reduce their holdings and cut their losses caused a further reduction in prices. Assam jute fell by Rs. 2-8 to Rs. 28 a maund. Raw jute received no support from the manufactured goods market, which was very weak.

In early March, mills began to take a little more interest at the lower rates, and raw jute staged a slow recovery. The turnover was small and was confined to day-to-day purchases, the main interest being in Daissee mesta, which was selling at Rs. 25 a maund. The weak gunny market gave mills no incentive to purchase jute and, with the approach of the end of the accounting year, they seemed to be unwilling to enter into further commitments. The improvement in the mills' godown stock position also encouraged them to delay purchases, and the month closed with Assam jute at Rs. 28 a maund. Sowing of the new crop was held up by lack of rain, the weather in most districts, both in India and Pakistan, being hot and dry.

At the beginning of April, the market was officially closed for about half a week, first on account of the municipal elections, and then two days were declared bank holidays to enable the banks to convert their accounts to the decimal currency. After the closure, sellers raised their quotations but buyers were not inclined to follow the advance, though gunny quotations were substantially higher. General quotations were based on Rs. 28.50 during the first half of the month but some buyers showed interest in new crop jute which was on offer at Rs. 27.50. In the second half of the month, climatic conditions played a major part in the proceedings. Sellers were reserved because of the lateness of rain, and realisation that the new crop was going to be some weeks late inclined them to the opinion that prices would rise. Consequently, there was no selling pressure and enquiries from buyers were met with a good deal of reserve. In some cases, buyers paid prices above the general quotations to secure their requirements. As a result, prices at the end of April rose to Rs. 30.

Lack of Rain

The lack of rain kept the market firm during the first week of May, and buyer interest pushed up prices by Re. 1. Reports of showers in Assam and East Bengal, however, brought about a reaction and quotations dropped back. The fall was short-lived, and within a few days prices recovered with active buying by mills. Over the month, prices showed a gradual rise and the continued drought in most of the jute-growing districts became the dominant influence in the market. Buyers were still anxious to secure jute but this only caused sellers to withdraw their offers. The month closed with Assam jute at Rs. 31.50.

In the first few days of June, showers were reported in nearly all the jute districts and markets eased. In the districts where rain had fallen, sowings proceeded rapidly but still more rain was required. Sellers were inclined to persevere with their bullish attitude due to the widespread belief that mills must continue to buy in order to maintain their stocks against late arrivals of new crop, and the possibility of the new crop being smaller. In the middle of June, new crop purchases were prominent for periods ranging from July to September with very little discount being paid on these purchases, rates being in the region of Rs. 32.50 to Rs. 32 according to shipment. At this stage, the raw jute markets derived a fair amount of support from gunnies and the general undertone was firm. A great deal of interest was shown in Pakistan N.C. cuttings, and mills bought large quantities at Rs. 112 to Rs. 119 a bale.

July opened with little change in the price of raw jute. Offers of old crop jute were becoming scarce, and a demand for ready bills of lading and railway receipts developed. When this was satisfied, buyers appeared to lose interest in old crop jute, and the bulk of the business was carried on in new crop fibre, which was quoted at Rs. 32.50 a maund. Daily business was reported and prices showed no signs of falling. Towards the end of the month, however, there was a marked reduction in mill interest, and prices fell back rapidly, keeping pace with the easier sentiment in the manufactured goods market. Several mills opened their own agencies and engaged representatives to purchase jute on their behalf, not only upcountry but in the Cossipore markets also. Although activity in Calcutta was reduced, bringing Assam prices back to Rs. 30—a drop of Rs. 2.50 over the month—mill representatives continued to buy, paying premium rates. At one stage there was a very wide disparity between the prices quoted to mills under contract and those paid for the same category of jute in Cossipore and upcountry agencies. The price of cuttings showed a sharp decline as interest waned, and N.C.'s were quoted at Rs. 100 a bale.

In early August, widespread flooding in Assam and Bihar caused a dislocation of rail traffic and arrivals in Cossipore practically stopped. The manufactured goods market was weak and fibre prices fell back to about Rs. 28. Mills took an interest at the lower rates and heavy transactions were reported daily, with the result that prices advanced again to Rs. 29. Many buyers were interested in quick delivery jute, but business in this was small compared with the total quantity, as sellers reluctant to commit themselves due to the uncertainty of the supply and transport position brought about by the flooding. Reports from the Daissee growing districts were favourable, but due to the lateness of the sowing on account of the delayed monsoon, the crop was expected to be much later in coming to maturity. A feature of the month was the fall in the price of Pakistani cuttings from Rs. 100 to about Rs. 85 a bale; thus, since early June, this category of jute had lost Rs. 35 a bale.

Rates Recover

Mills continued to take an active interest throughout September and business was transacted daily. Rates made a gradual recovery to Rs. 30.50 and the smallness of imports in nearly all agencies gave a bullish tendency to the market. Quick delivery jute was at a premium. The trend was brought to an end by the news of an increase in the U.K. Bank rate, which had a depressing influence on the market. This, combined with the difficulty in transacting business on account of the Calcutta bank strike which commenced on 18th September, reduced activity in general. The bank strike was to continue for another month before a settlement was reached, and during this time raw jute rates ruled firm around Rs. 30. The aftermath of the bank strike caused much discontent in the trade. Mills found difficulty in meeting their bills for jute, as they were not being paid for their gunnies. Concerns which normally had a good reputation took up to one month to meet their commitments and sellers suffered great hardships. Prices fell towards the end of October as imports increased, and Assam jute dropped to Rs. 29 but continued interest from mills held prices at this level. The method adopted by mills of buying jute in their own agencies, and of taking up only small quantities at a time in the general market, helped maintain rates. Substantially higher prices prevailed towards the end of the year than had normally been the case.

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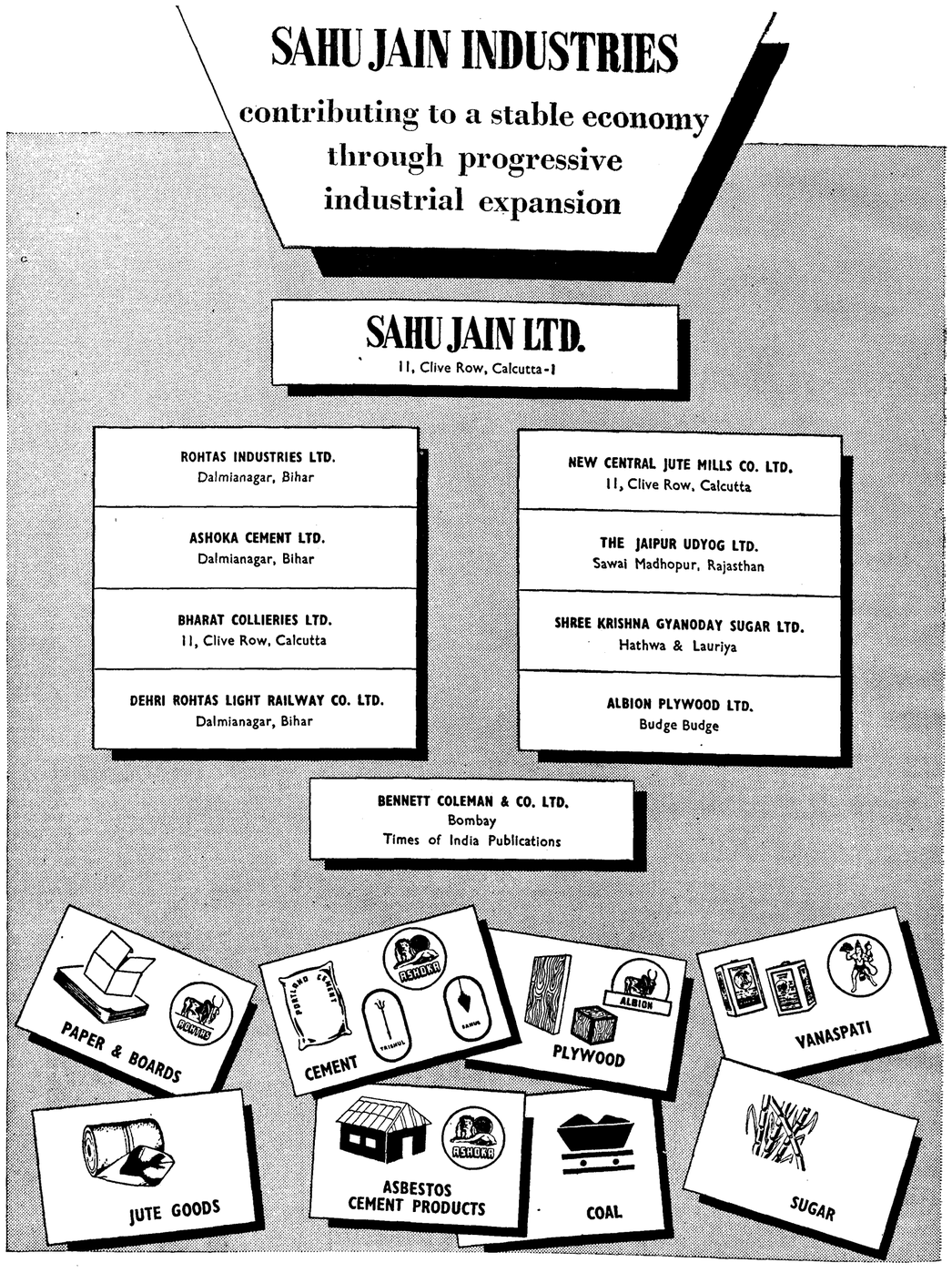
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RISING COSTS IN THE TEA INDUSTRY

STRONGER COMPETITION DEPRESSES PRICES OF COMMONER GRADES

• By A SPECIAL CORRESPONDENT •

THERE are perhaps few industries with such a wide market, such a comparatively simple product and such long-established foundations, yet the future of which is so uncertain and so widely debated, as the tea industry. Part of this uncertainty is due to the fact that for the last hundred years it has depended for the vast bulk of its sales on a system of auctions. The great centres are Calcutta and London, after them Colombo and Amsterdam, and, since the last war, Cochin and Chittagong. The system has the advantage of avoiding any possibility of monopoly, and of obtaining for producers of high quality tea the maximum price the public is prepared to pay. It is thus of great advantage, from the national point of view in India, in obtaining the maximum possible amount of foreign exchange. It does not always work quite so well for a seller of common teas, particularly when there is believed to be an excess of such tea in the world market. At present, it is estimated that there is an excess of about 100 million lbs in the supply of tea. (World consumption, excluding China's internal consumption, is around 1,300 million lbs). Yet it is remarkable, as shown in the illustration, that over the last three years average price trends in the main markets of Calcutta and London have followed very much the same pattern over the season (although 1956 was a rather better year than 1955 or 1957). This pattern is largely determined by the periods at which the higher quality Indian teas arrive in the market and the periods at which the lower quality monsoon teas form the bulk of the sales.

The main feature of price trends is that over the last three years, common teas, which form the bulk of even the Indian crop, have scarcely been reaching a price equal to the cost of production in India, which may very roughly be taken as Rs. 1.75 to place teas on the Calcutta auctions, and about 3s 8d (depending on the current rate of duty) to place teas on the London auctions. It may be argued that tea companies can obtain their profits from their high quality teas. But only certain areas and certain properties can be sure of producing a large proportion of high quality tea. Many areas, such as Cachar, Nowgong and most of the Dooars and Terai, are climatically capable of producing only common teas. The "concertina" of prices has widened in recent years. While high quality teas still sell well above the average, common teas are distinctly below it.

Crop Regulation

There are, moreover, certain factors which are maintaining common teas at a price level, low as it is, which may not last long. In 1956, north Indian tea producers, by mutual agreement to cease plucking earlier than usual, reduced the end-of-season crop by about 26 million lbs. This made a significant reduction in the weight of common tea in the market (end-of-season teas being generally of poorer quality). This year, climatic factors—lack of rain in May-June, and abnormally cool weather later—have reduced the north Indian crop up to date by about 30 million lbs, though this has been partly offset by increases in south India and Ceylon. One wonders what will happen in a normal year of production. Fortunately this year growers have announced that no attempt will be made to catch up on crop at the expense of quality. The disadvantage of north India regulating her crop unilaterally is that, in the absence of an international agreement to control production, which has not been achieved effectively since before the war, other countries, particularly Africa, continue to expand their production at India's expense, and the market lost may never be regained. Ceylon, foreseeing this, has for several years declined to limit her crop.

In the general quality of her tea, and in the climate and soil of her tea-growing areas, India has an advantage over African growers. Her labour also is so far more productive. Where the African grower has the advantage is that his Government lends every encouragement to the industry. The importation of the best machinery is encouraged, preference is given on the railways to the movement of both stores and tea, and taxation is light. Labour remains comparatively cheap. In India, on the other hand, taxation averages about Rs. 520 an acre a year. Admittedly some of this is on profits, but apart from land revenue at the highest rates, tea now pays in excises (including the Assam Carriage Tax and the Calcutta octroi, both of which are in effect excises) 3 annas a lb on the garden and a further 3 annas when the tea is packeted. Four to six annas more is paid when the tea is exported. All this brings in a very substantial revenue to the Central and State Governments, to the extent of Rs. 30 crores a year, but it is in effect a protective duty safeguarding African tea exports, and is a handicap to the earning of Rs. 150 crores or so of foreign exchange which India expects the industry to secure. The time may well soon come when India, in spite of the immediate loss to her budget, will have to reduce excise and export duties to regain her proper share of the world market.

Uniform Wage Level

Another effect of heavy taxation is its restraint on the earnings of labour. In spite of the popularity of the bonus system, it is being increasingly recognised in labour and industrial circles that an effort should be made to maintain wages at a level where equal pay may be earned for equal work. The industry recognises this even in its bonus system for labour, which is based on the "area prosperity" of each tea-growing district, and not on the profits of individual firms. Profits are severely restricted by heavy taxation, but apart from that effect on the more prosperous firms, the majority of tea companies, which produce mainly common teas, are earning hardly any margin of profit at all. The effect of the heavy weight of excise and export duties has, therefore, been to prevent any betterment in the conditions of labour. The Government of India has referred the Plantation Enquiry Commission's recommendation to abolish the Assam Carriage Tax and the Calcutta octroi to the State Governments concerned. But in the absence of a positive recommendation from the Centre or any willingness to share further with producer-States the Centre's large revenue from tea, the reference is likely to be ignored.

In contrast to the help given to producers in Africa, the industry in north-east India is treated badly as far as the provision of stores is concerned. It is forced to take the most expensive and least efficient coal for its burners—that from the Khasi hills. Even when undertakings accept all the coal the region can produce which is up to standard, permission is refused to stock additional quantities of Bengal coal, even though due to a breach of communications in the monsoon season the gardens may not have any supply of fuel and may be forced to encroach on north India's declining forest reserves. Efficient tea garden machinery is produced in India, but in insufficient quantity and range to satisfy the industry's demands for new machines. Permission to import, however, is very reluctantly given. Tea garden machinery is, therefore, not being replaced with better machines at the same rate as by India's competitors.

Cement Supplies

As far as cement is concerned, the industry, on the basis of its last few years' experience, can generally expect to obtain about one-twentieth of its reasonable demands. This is not sufficient to keep factories in good repair, let alone build houses and hospitals to fulfil the provisions of the Plantation Labour Act. Concentration of effort on the big construction scheme of the five year plan is admirable, but care should be taken that existing export industries are not strangled in the process.

It is seldom that the industry gets sufficient railway wagons to bring the necessary fertilisers to gardens in time for the season's crop. While every other agricultural concern obtains fertilisers at a pool price from the nearest railway station, this facility is not offered to the industry on the ground that part of the journey is performed by steamer, although if there were no pool, the north Indian tea industry, on account of its proximity to sources of fertiliser, could expect to obtain its stocks more cheaply than the all-India average.

Export Control

Export control of tea by the Government of India has not in recent years been governed by considerations of the international market, but by a determination to retain sufficient tea in the home market to satisfy the internal demand of the consumer without an undue rise in prices. The effect is not only to discourage exports but also to induce producers to restrict the size of their crop for fear of a glut in the market. If the internal demand was left to take care of itself, planters could without difficulty always produce enough tea to meet it. One of their main objectives at present is, in fact, to increase this demand, and the Tea Board has embarked on an elaborate internal propaganda drive. If the average Indian citizen could be induced to drink even 1 lb of tea a head a year, compared with the present ½ lb and the British consumer's 10 lbs, then instead of an internal market of 200 million lbs a year the industry would have 400 million lbs to supply, and within comparatively few years it could quite easily do it, in addition to its exports of 450-500 million lbs.

Indeed if, as appears to be the case at present, India has little hope of ever reaching an international agreement with Ceylon, still less with the African countries, to restrict the export of tea, it is doubtful whether the present elaborate paraphernalia of export control serves any useful purpose. It imposes an artificial burden on regular exporters of having to buy "export quota", which is issued originally to each estate strictly in proportion to its previous crops. It provides a nice little subsidy for producers who never have any intention of exporting their crops, and this perhaps tends to reduce internal prices, but it is a severe discouragement to those who are trying to earn more foreign exchange. It is far from certain whether, if control were removed, there would be any excessive export at all, and if there were, it might at least ensure that the excess in foreign markets consisted of Indian tea rather than African. The control might perhaps be lifted as an experimental measure, as it would not be difficult to re-impose it at short notice should the need arise. Meanwhile, a vast amount of documentation and expense would be saved.

Quota System

When the Government of India some years ago endeavoured to limit the amount of tea exported unsold to the London auctions, in an endeavour to encourage greater use of Calcutta, the bigger and more regular exporters asked the Government not to introduce an official quota system, but themselves undertook, and successfully carried out, a voluntary restraint within the total set by the Government, leaving the occasional smaller exporter to send out what he pleased. In effect, the only producers to suffer seriously were those accustomed to confining their interest to the Calcutta auctions, as they found abundant supplies in that market because of the discouragement given to tea shipments to London. It seems the lesson has been learnt that for an exporting country the maximum national benefit is to be derived by allowing exporters freedom to sell their goods in the market where the best return can be obtained. In fact more Indian tea is sold in Calcutta than in London. The London sales are primarily for consumption in the United Kingdom and in the neighbouring countries of Europe. The vast majority of sales for "out markets", including the United States, take place in Calcutta.

Minimum Wages

Reference has been made to the restraint imposed by heavy taxation on efforts to improve the position of labour in the industry. It must be admitted, however, that contrary to popular belief, tea garden labour is by no means badly off compared with labour in other industries, and particularly with workers in other agricultural pursuits. Minimum rates of wages, including food

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concessions, are around Rs. 2 an adult worker a day. As work is normally provided for all the family over the age of 12, this involves a minimum average family earning of well over Rs. 100 a month. In the plucking season, it is not unusual for a family to double that income on piece rates. In addition, housing of a high quality and medical attention of a standard far above that provided outside the tea garden areas are given free. In north India, opportunities for tilling paddy land on a nominal licence fee are available to most of the permanent labour, and fuel and other forest produce are often obtainable at little or no cost beyond the effort required to gather it.

If, therefore, the Government, in the interests of the financial stability of the country and the success of the five year plan, is unable to forgo any of the heavy weight of taxation levied upon the industry, and if it is unwilling to see many more marginal estates being squeezed out of existence by rising costs, thereby increasing unemployment, it is essential that a further rise in wages for the present be halted. At recent conferences and meetings, both in New Delhi and in the tea districts, labour representatives have urged that minimum wages on plantations be revised on the basis that the wage of the average adult male worker should be sufficient to cover all the requirements of himself and his family, neglecting the fact that his wife is normally a worker too, while at the same time demanding that a female worker should get equal pay for equal work, like her husband. With the latter proposition, employers are in general inclined to agree. Although the minimum daily rate of wage is an anna or two less for a woman than for a man, this applies mostly to cold weather work, such as hoeing and pruning, where women workers are given lighter work than men. For the main work of plucking on piece rates, wages for men and women are generally the same, and women in fact usually earn more than men, because of the nimbleness of their wrists and fingers.

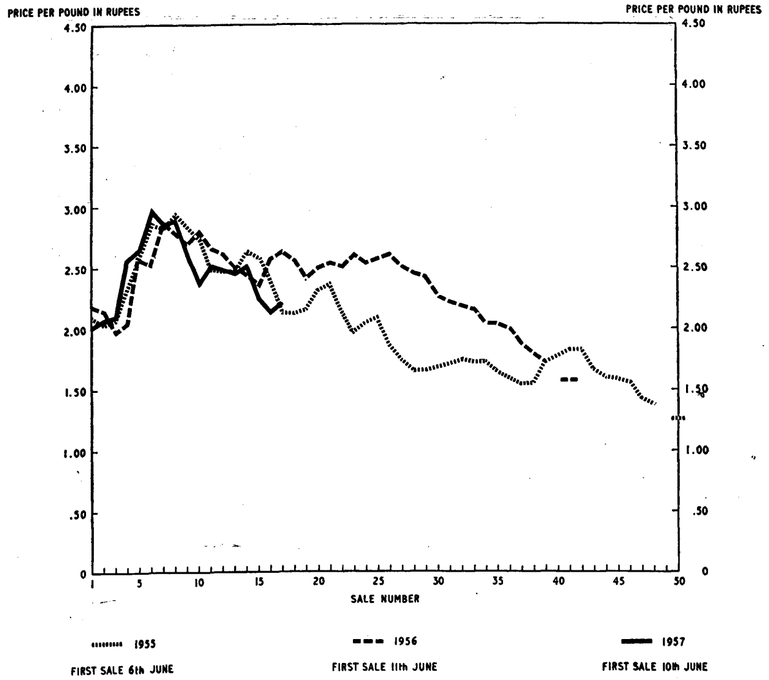
Earnings of Wives

With the proposition that the earnings of wives should be neglected in fixing the minimum wage, employers cannot agree. Combined with the principle of equal pay for equal work, it results in treating not only the wife and children as dependents of the husband, but the husband himself and the children as, at the same time, dependents of the wife. It cannot be regarded as a step in consonance with modern thought to neglect the factor of wives' earnings. In the United Kingdom and other Western countries, it is becoming more and more customary, even among the professional classes, for the wife to earn in addition to her husband. From the practical point of view, apart from discouraging the employment of women, to double minimum wages in the industry on the ground that women's earnings should not be taken into account will compel most gardens to stop production.

Against the rising cost of foodstuffs, wage rates of garden workers in north-east India are completely cushioned. Employers guarantee to sell foodgrains on the old all-India ration scale to those who work and their recognised dependents at a fixed price—in Assam at 8 annas or 7 annas a seer, in Darjeeling 7 annas, and in the Dooars and Terai 6 annas. The cost of any rise above these figures is borne by employers. If the market price falls lower, then the worker can buy in the local market and spend the saving on other things. Most permanent workers also have their rent-free *khet* in the garden to supplement their food supplies. Thus a restraint on cash wages implies no hardship to workers if food prices rise. At the same time, in view of the difficulty the industry has to face in making ends meet, and the general need to prevent inflation throughout the country, it looks to the Central and State Governments so to manage their policy on food prices and supplies that it can buy the large food stocks it requires to feed a population of around 1,100,000 at reasonable prices and in good time to prevent sudden local shortages and an increase in prices. The Government is now in fact doing so, though the industry would rather have had the supply earlier. In return, the stocks held by the industry, particularly in Assam, bring a general benefit to the whole population of the State by restraining a rise in prices.

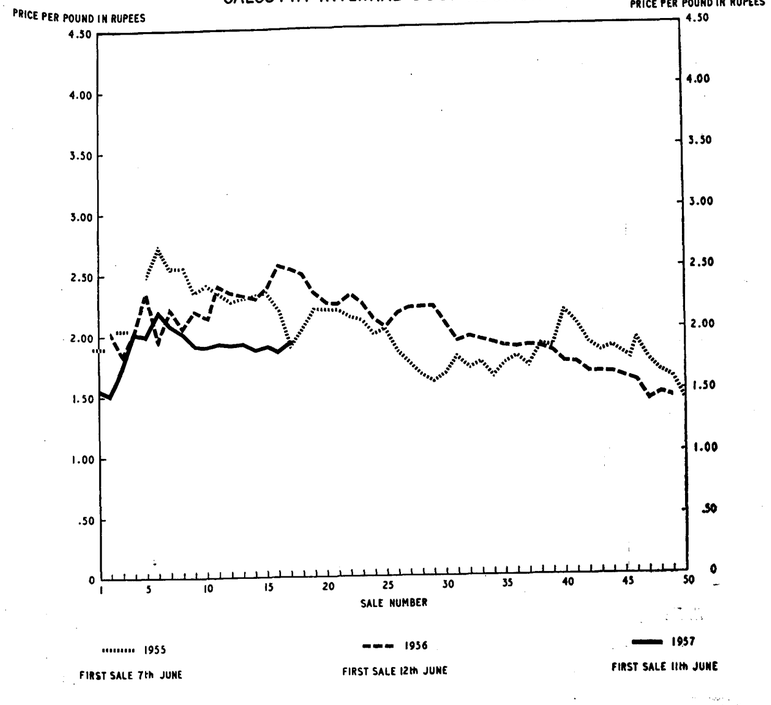
TREND OF TEA PRICES SINCE 1955 SEASON

CALCUTTA EXPORT AUCTIONS



TREND OF TEA PRICES SINCE 1955 SEASON

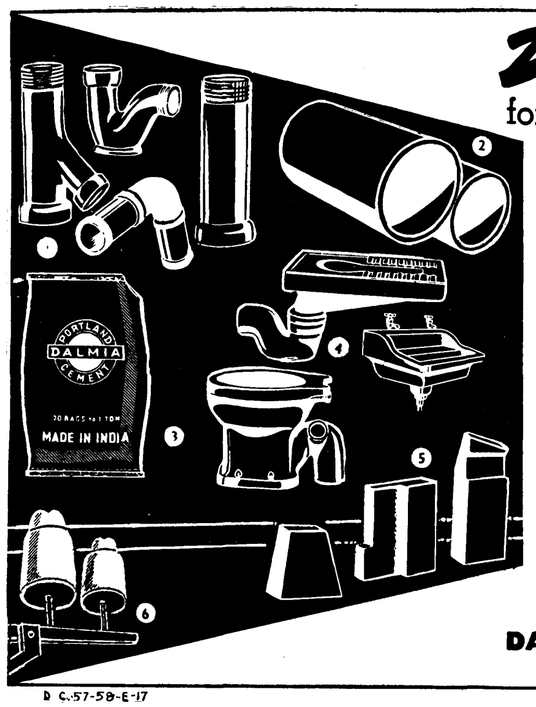
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Provident Fund

During the past year, the benefits of a provident fund, with 6¼ percent of wages contributed by both employer and employee, which was instituted in Assam in 1956, have been extended throughout West Bengal also. While pessimists said that it would give rise to widespread labour trouble, a one-third share of the large bonus paid on the profitable working of the year 1954 was successfully credited through the provident fund in Assam as savings for labour in the form of National Savings Certificates. It is desirable, in order to encourage saving and prevent inflation, that a substantial quantum of bonuses paid under future agreements should also be given in the form of such Certificates. Enlightened labour leaders have supported this proposition.

It is to be hoped, in view of the financial position of the industry and the country as a whole, that efforts to improve the lot of garden labour over the next few years should be concentrated not on efforts to raise the cash wage, but in a quiet and steady drive to have the housing and other conditions on all gardens brought up to the standards laid down under the Plantation Labour Act. In this connection, it is hoped that in spite of the preoccupations of State Governments with large-scale construction work, they will be less niggardly in their allocations of cement to the industry for building purposes. Once standards have been laid down, as they have been for labourers' houses in Assam, they should not be altered to the discouragement of those progressive companies who seek to carry out their obligations without delay.



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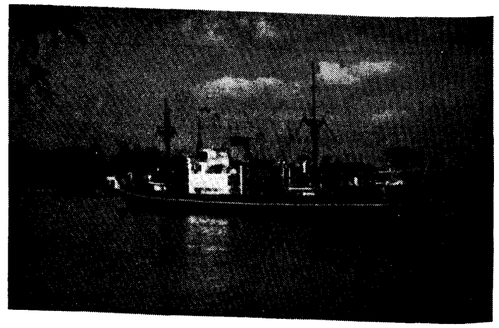
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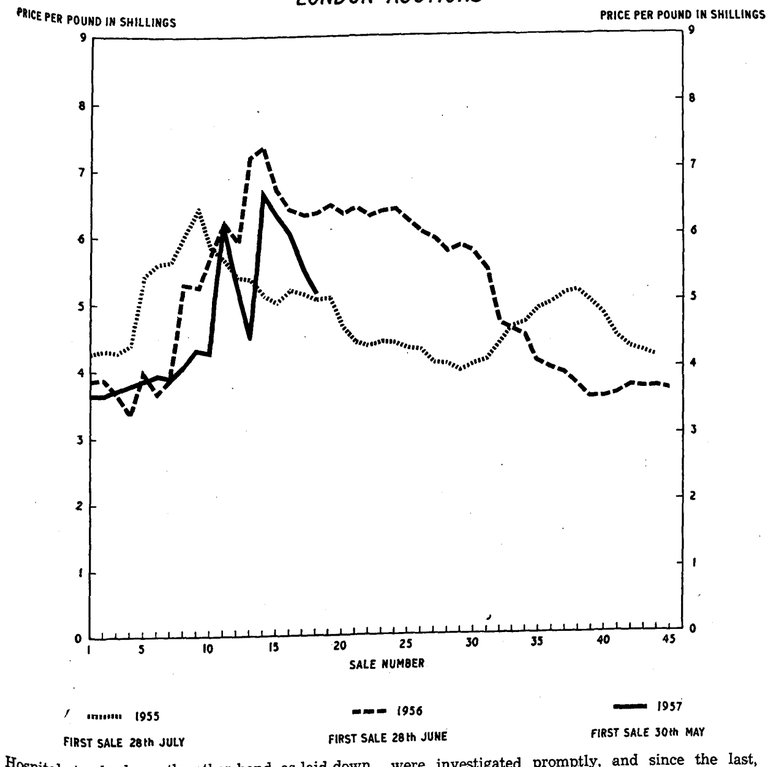
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Hospital standards, on the other hand, as laid down in the rules so far promulgated, are beyond the means of most tea companies and proprietors. "Group" hospitals with highly specialised departments are more than can be expected of a single industry, and should be provided and staffed in suitable centres by State Governments. Effort should rather be concentrated on seeing that every estate has a small but efficient garden hospital suitable for everyday needs and emergencies, with provision for sending more complicated cases to Government hospitals.

Absenteeism and Strikes

It would be of great benefit to the industry, and to the labour force, if a full and honest day's work is done by all. It is true that absenteeism has lately shown signs of decreasing, largely by managers' efforts to get rid of those workers who habitually fail to turn up for work, many of whom clandestinely allow *budlis* who are not on the books to turn up for work in their name. But in the last two years there have been a distressing number of local strikes, not for more pay but for less work, though on investigation it is almost always proven that the task given took far less time than the normal working day. Similarly, strikes often occur because of justifiable managerial criticism of the poor quality of plucking. Enlightened union leaders should discourage strikes launched in opposition to doing a fair amount of work.

Much has been written of late on the distressing increase in riots and violence in tea gardens. Attention has been concentrated on Kerala, largely because of the novelty of a communist State Government, and because of its initial regrettable decision to discourage the police from intervening in cases of violence to persons or damage to property, as opposed to subsequent action to restore law and order or to investigate a crime that has already taken place. But north-east India too has had serious trouble. Three murders of managers in Assam took place within 12 months. Since 1st January, 1956, there have been 22 cases of violent assaults on the management in Assam and 40 cases in West Bengal. In West Bengal, though cases of assault have been more frequent, and union leaders are more prone to encourage violence and often desperately at variance with each other, police action at least has generally been prompt and effective, though the investigation and disposal of cases in the courts has often left much to be desired. In Assam, the police, who are short in both numbers and transport, have often been tardy in responding to calls for assistance and in investigation of cases, though the three murder cases were investigated promptly, and since the last, that of Mr. Dam in Bormahjan tea estate, there has been a general improvement.

Law and Order

Strengthening of the police force and the intelligent use of the improved sections of the Criminal Procedure Code dealing with investigation and trial, as amended two years ago by Parliament, may do much to improve law and order in tea districts. The readiness of owners to stop work on the garden for a period when it is found that the staff cannot work without grave personal risk, or when reasonable orders are repeatedly disobeyed, may act, without any thought of vindictiveness, as a deterrent to indiscipline on other gardens. But such action takes place only after the damage is done. The root causes of the trouble can only be tackled by making labourers realise that although the manager in modern days may not be the final authority for them in everything, as he is alleged once to have been, his reasonable orders should be obeyed. If any grievance exists, it should be brought first to him, and if his decision is not felt satisfactory, there is a detailed and constitutional procedure for dealing with grievances with the help of the unions and of the employers' district organisations and of the Government labour officers, and, if necessary, labour courts and tribunals, by which disputes can be settled in bipartite or tripartite discussions, without there being any need to resort to violence or even to strikes.

It can safely be said that no act of violence, nor even any of the strikes that have taken place in the tea industry in north-east India in the last three years, has brought any benefit at all to labour. What has been gained has always been through tripartite discussions or by Government decision following them. In the last seven years, this procedure has raised wages and other benefits by a good 50 percent. It is necessary that trade union leaders, particularly in the lower ranks, should learn that this is the method by which to set about improving the lot of labour, and indeed the free trade unions, national and international organisations, have set up schools and courses in which the right methods are taught. It is then for the union leaders, and the Government labour relations officers, to instil these ways of working into the minds of the labour force. On the employers' side, there is a wide organisation of labour officers and advisers keen to follow the same method of dealing with labour disputes.

Over-populated Gardens

One of the growing troubles facing the industry in north-east India is that of over-population in gardens. Formerly not only was employment given automatically on the garden to workers' children when they grew up, but labour was also recruited from Bihar, Orissa and Andhra on three-year contracts and sent to Assam and the Dooars under the auspices of the Tea Districts Labour Association, in accordance with the provisions of the Tea Districts Emigrant Labour Act, which ensured their safe return at the end of their term of service, unless they arranged to renew it. Nowadays, such has been the natural growth of workers' families under the healthy conditions now obtaining on gardens, that not only has immigration been reduced to a mere trickle, but on most gardens the resident population, apart from those now residing in villages in the neighbourhood, has outstripped all possible requirements. As a result, it is no longer possible to give empoyment on the garden to every child as he grows up, and in some cases it is not even possible to guarantee work to the wife of a labourer who has married from outside the garden.

Government or individual enterprise may from time to time find employment for the surplus population, but this is frequently not easy in districts hitherto almost entirely devoted to tea cultivation. It is clear that the population has already reached or passed its optimum level in most areas. If unemployment and under-nourishment are not to be the tale of the future, it is urgently necessary that family planning schemes be undertaken without delay. The Government is alive to the situation, but there is fortunately no misguided popular opposition, and such medical experts as have already visited garden areas to investigate the situation have been welcomed. The industry is ready to co-operate with the efforts of the Government and of the Family Planning Association, and give them every assistance. Where the garden medical staff have already made a beginning, they have proved that the tea garden worker and his wife welcome their advice and assistance.

Future Prospects

There is not likely to be any great expansion of the Indian tea industry for some years to come. There may be an increase in the crop, and if the internal market can be expanded by persuading more of the middle and labouring classes to drink tea, this could easily be accelerated. But the increase will come from the more intensive cultivation of existing estates and not from the opening of new ones. It is not possible with the present level of costs to obtain a return on the investment of capital in a new garden. It is not even likely that the acreage under tea within existing gardens will be greatly extended, and many less economical areas may well be abandoned. Managements, where they can, are likely to concentrate on the continued improvement of quality, as it is high quality tea that still obtains satisfactory prices. For high quality gardens the outlook is still fair. For the producers of plain tea, unless the Government calls a halt to rising labour costs, and is successful in stabilising food prices, and unless some relief can be given in the heavy burden of taxation, those who can avoid making a loss will be considered fortunate, and the maintenance and improvement of their garders will be a difficult task.

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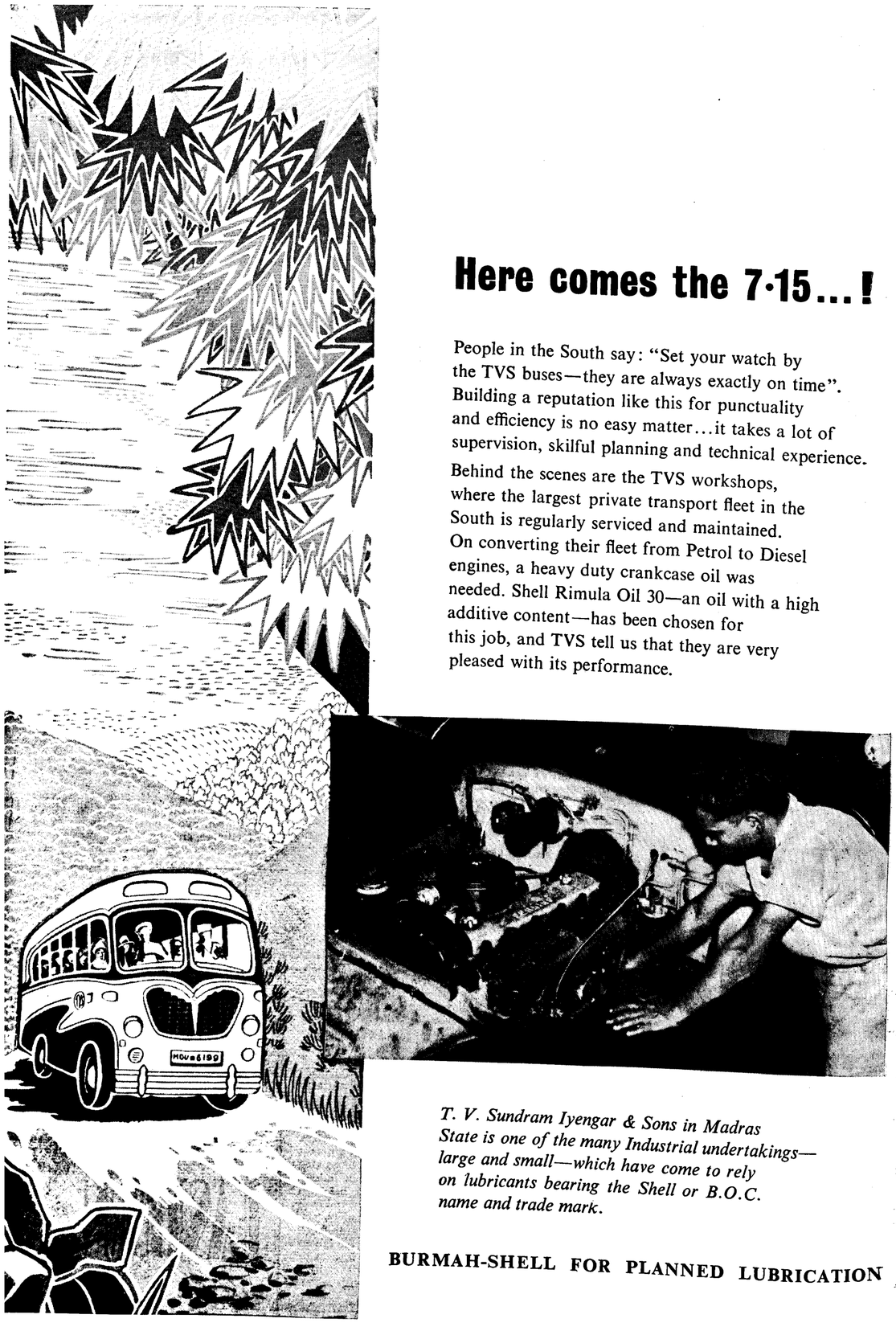
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PROSPECTS FOR THE PLANTATION INDUSTRIES

FACTORS INHIBITING DEVELOPMENT

● By VALALE I. CHACKO ●

PLANTATION crops are India's biggest foreign exchange earners, but their producers are heavily taxed and workers enjoy wages and benefits they have never known before. The future of the industry is now viewed with scepticism. It suffers from an acute feeling of insecurity and uncertainty. A proper examination of the causes has not yet been attempted, but few doubt that it attracts less investment support than at any time in the past. Everybody just carries on and nobody is keen on taking risks.

One of the most confusing aspects is the apparent prosperity of the industry and its increasing production. A recent report of the Reserve Bank of India states that plantations have made the highest profits in 1956 of all the industries whose balance-sheets it examined. Production of tea reached 663 million lbs, only 1 million lbs short of the record reached in 1955, in spite of the efforts made to restrict production. Should these trends continue, the truth of the matter may not be recognised for some time to come.

The principal plantation crops are tea, coffee and rubber. All these crops were introduced into India. Although tea was discovered as a wild plant in Assam, the foundation of the industry in India was laid with imported Chinese plants. Coffee was introduced from Arabia, and rubber from Brazil. Similarly, the plantation system was new to the country. Peasant holding was the basis of agriculture, and plantations were unknown. Although coffee was grown long before the British period began, it was the British who introduced the plantation system to it, as to tea and rubber during the 19th century. The popular notion that the plantations are a British-created industry springs from this fact.

Three Phases

The development of the plantation industry in India can be divided into three phases. The first was when individuals themselves or small partnerships, began to open up and operate plantations. The second was when corporate ownership took over from the proprietary concerns. The third phase began when corporate and proprietary enterprises were welded into industrial organisations which provided direction and leadership. It is superior organisation that marks the plantations from common agriculture. The plantation industry was the first field in which producers organised themselves into powerful associations, and this led to an expansionist movement. Apart from formulating and expressing their collective point of view, they organised important supplies, research, promotional activities and marketing. The restriction schemes and the market expansion activities showed the signs of an internal discipline which only powerful organisations could impose. Since the organised sector of the industry was overwhelmingly British in control and ownership, the leadership in the organisations belonged almost wholly to them. At the commencement of the second world world war, 84 percent of tea, over 40 percent of coffee and nearly 50 percent of rubber plantations were controlled by them. In the organised sector, the British share was even higher.

The war brought about a series of changes in the industry. The first was the large number of sales of plantation properties from British into Indian hands. The share of Indian ownership by way of original opening or expansion is insignificant compared with the increase in Indian holdings brought about by purchases. According to the Plantation Enquiry Commission's report, only 64.1 percent of the tea area was owned or controlled by the British in 1954. Coffee and rubber areas are almost wholly confined to south India, and non-Indian control in these two industries has been reduced to less than 20 percent. If the shift in ownership was one of the important changes, another was independence and the adoption of a Constitution which aimed at a welfare society and a planned and controlled economy. Privileges were at a discount and established systems were looked upon with suspicion. The third change which had the most powerful direct impact on the industry was the advent of the trade union movement in the plantations.

British Control

A century of British control and leadership gave the industry certain characteristics. It provided a system of management, purposive direction, a sense of stability and an armoury of corrective weapons against trade depressions or economic crises. During the first hundred years, trade unionism was unknown and Governmental interference was rare. The authority of the planters was hardly questioned, and the only threat to their security came from the market. A sense of stability pervaded the scene till the end of the 'thirties. The management was rationalised, and leadership came from the top layer of the managerial hierarchy. That layer was thoroughly efficient as long as everything went on as usual. But nothing went on as usual from 1940. The challenge to the old leadership became more marked after independence, and labour became a powerful factor. Although the organisation of plantation labour began only in late 1946, it enjoyed advantages which took other labour organisations many years to earn. The isolation of plantations lying away from the populated areas, their colonial origin, the British control, and widespread ignorance, all tended to make labour propaganda against the plantation management more effective than was actually warranted.

If there had been enough Indians capable of taking over the leadership and of effectively formulating the industry's policies in tone with current public sentiment, the leadership would have smoothly passed from British to Indian hands. Historically, the reason why the industry developed in the way it has done is basically the Indian indifference to organisation until there is trouble with labour or one is seeking office. Another reason is the lack of experience and leadership among the new owners. Although Indians began to be employed at the managerial level in British-controlled companies, they had neither the experience nor the background nor the authority to provide the leadership that was demanded of them.

Labour Problems

British leadership began to work on the basis that once British power was withdrawn, it could not effectively lead and all that it could do was to follow Government initiative or be moved by other pressures. The last ten years show that, barring Government demands, the force which occupied the time and energy of the management most was organised labour. The next big blow came from the Government. The re-constitution of the plantation boards in 1954 and 1955 took away the remnants of industrial initiative. They were vested, under the Tea, Coffee and Rubber Acts, in the hands of the respective boards where the representatives of the producers were reduced to a minority and pitted against an intractable collection of diverse interests, most of them with no interest in planting outside the board rooms and yet capable of outvoting the most experienced planting opinion. The net result of having to function within the new and unfamiliar circumstances, while exposed to constant pressures and having no voice in the shaping of the policies affecting the industry, is that the old leadership is finding itself incapable of initiative while no new leadership has emerged to take its place.

The launching of an enterprise and its slow growth to productive maturity call for many things, including confidence about its future which induces people to risk their savings. It also calls for the planning and execution of a number of operations until the undertaking becomes productive. In planting, that confidence has been shattered. Labour, which was once voiceless, has now great power. The statutory boards have been invested with vast policy-making powers and executive functions in a manner which frustrates initiative from the industry.

Heavy Taxation

Heavy taxation is a serious factor hampering the growth of the industry, but it is less frustrating than Governmental interference and faulty decisions, against which managements are helpless. The taxation policy of the Kerala Government appears to be aimed at something more than simply securing revenue. Today, control over the various factors which make for the success of an enterprise is no longer in the hands of those who invest the money or know most. The control is so widely diffused that no single individual or authority can be made responsible for any failure. That is the condition under which the dynamism of an industry disappears.

The responsibility for leadership in the planting industry today falls between two stools. Non-Indian ownership is still substantial and provides the main support to the established organisation within the industry, but it cannot function effectively for leadership purposes. Indian leadership has not yet arrived with any weight of experience. This is the kind of state in which a dynamic movement towards growth cannot take place. The present rise in production is the result of past growth. The spirit of the impending land laws and the philosophy on which organised labour functions, whatever its political leadership, are against expansion. The basis of the plantation system is size. Without it, the managerial structure cannot be sustained. If that base is threatened, the prospects of the industry's growth or survival become uncertain. The example of tea will show, more than that of any other plantation crop, the full effect of waning confidence and enfeebled leadership.

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63P

HIGH PRODUCTION COSTS HAMPERING COAL EXPANSION

ANXIETY ABOUT SHORTAGE OF RAIL TRANSPORT

• By A SPECIAL CORRESPONDENT •

DURING 1957, the coal industry, along with steel, cement and the railways, has found itself in the hard core of the second five year plan. It has always been appreciated that coal is of major importance, but with increasing economic difficulties, much stress has been laid by the Government on the core achieving its targets. The industry is in the spotlight and, for better or worse, its activities get greater public and Government attention. Almost two years of the plan have passed and it is possible to assess with some degree of accuracy the progress which has been made towards achieving the output target of 60 million tons of coal by 1960. The following figures give the details:

	Public Sector Tons	Private Sector Tons	Total Tons
Production in 1955 (base for targets)	2,958,500	35,357,500	38,216,000
Ceiling for plan period			60,000,000
Allocation of additional 22 million tons	12,000,000	10,000,000	22,000,000
Increased production since 1955 (1957 partly estimated)	496,316	3,781,871	4,278,187

By the end of the current year, the private sector will have raised approximately 38 percent of the additional output fixed for it under the second plan, while the public sector will have raised less than 5 percent of its target. From the point of view of increased production, 1957 has been a year of considerable achievement for the private sector. A firm foundation has been laid for expansion in spite of many preoccupations not directly concerned with the raising of coal.

Tribunal Awards

In an industry employing 350,000 workers, labour matters are of great importance. During 1957, the decision of the Labour Appellate Tribunal was published. This dealt with the appeals—made almost entirely by labour—against the award of the All-India Industrial Tribunal (Colliery Disputes). The decision gave additional benefits to almost all colliery labour in several ways, by increasing minimum wages due to the exclusion of bonus; by reducing workloads and placing certain workers in a higher category; by giving equal pay to both men and women; and by fixing a variable dearness allowance related to the cost of living index. All these concessions were given retrospective effect from the date of the lower Tribunal's award, which meant that the coal industry was suddenly called upon to provide Rs. 4.25 crores to cover arrears of pay. It did not have the resources to make this payment and a satisfactory agreement could not be reached on how the arrears should be paid except in one instalment; it had, therefore, no alternative but to appeal to the Supreme Court. From whatever aspect it was viewed, the position was unsatisfactory and the Government, towards the end of June, held discussions with employers and labour in order to try to find a solution. The resulting agreement provided for an interim increase in the price of coal; the payment of the increased wages and amenities to labour; the payment of arrears of wages in nine equal instalments; the introduction by the Government of measures to ensure that the agreement was binding on all parties; and the withdrawal of the appeal to the Supreme Court.

Labour Relations

During 1957, labour relations have been good on the whole and workers for the most part are satisfied with their gains from the lower and Appellate Tribunals. But in spite of a substantial improvement in wages and amenities, there have been deplorable cases of lawlessness in the coalfields which have resulted in a number of unfortunate incidents and the murder of a mine manager. Whatever may be the cause of a dispute, whether the fault lies with labour or the management—and managements may not always be faultless—there can be no excuse for a resort to physical violence. Workers have to be taught that if they have a grievance, there are many ways for them to obtain redress. Acts of violence worsen the whole relationship between labour and management, and there can be no doubt that unruly elements should be weeded out ruthlessly, be they workers or union officials, otherwise the many will suffer for the wrongs of the few. The Government is no doubt aware of the position and it is sincerely hoped that it will pursue a strong and vigorous policy without being influenced by political considerations.

Interim Price Increase

The Delhi agreement provided for an interim increase in the statutory price of coal and this was based on Rs. 1.50 a ton pending the findings of the Coal Prices Revision Committee set up in May. This Committee is still sitting and its recommendations are not expected before the end of the year. The industry maintains that a further increase is necessary because wages constitute the largest and most important item in production costs—they represent 60 percent of total costs. The additional wages granted by the Appellate Tribunal have, therefore, increased production costs by a considerable amount. Coal mining is the exploitation of a wasting asset which varies in quantity and quality from colliery to colliery. Unlike a factory which, once it is built and equipped, requires no major replacements for several years, capital expenditure in mining is continuous. Large sums of money have to be steadily spent, and this is possible only if a reasonable margin of profit remains to be ploughed back after all liabilities have been met. The smaller the margin—and this is directly controlled by the statutory selling price of coal—the smaller is the amount available for expansion purposes. To produce an extra 10 million tons by 1960, large capital outlays have to be made by the private sector and if coal prices are fixed so that working costs are only just covered, expansion will suffer. The Rs. 160 crores required by the public sector to produce a further 12 million tons of coal and 2 million tons of lignite annually will be provided by the Government but the private sector has to find its own sources of capital, much of which has to come from the difference between production costs and the selling price of coal. To refuse to give the industry a fair deal on this point will ruin hopes of raising an extra 10 million tons of coal by 1960. A great responsibility rests, therefore, on the Coal Prices Revision Committee. Realistic and far-sighted recommendations are required if the private sector is to give the maximum tonnage of coal.

More Railway Wagons

If the industry is to expand, among the most important requirements are sufficient railway wagons. Without these, stocks of coal will pile up at pitheads and eventually production will have to be curtailed. Undoubtedly, the railways are faced with a huge task in trying to meet the needs of all consumers but during 1957, as far as the coal industry is concerned, wagon availability has not kept pace with either demand or production. Other difficulties have arisen mainly due to insufficient siding or loading accommodation and the railways would do well to concentrate on this aspect as more wagons become available. In fact, if this problem is not tackled with more determination than in the past, a stage will soon be reached when the production of coal will be regulated by pilot and depôt capacities. Various types of sidings are available to the coal industry but considerable delay is being experienced in getting plans approved. Lists completed recently showed that in certain cases applications for assisted sidings were made as long ago as 1945 but the work has not yet been completed. The amount of material used in building sidings is small—for example, old rails are used for the track—and the present difficulties are mainly administrative. They could be overcome by resolute planning. For the period January to October 1957, the average daily allotment of wagons for West Bengal and Bihar was 3,707, compared with 3,432 for the corresponding period of 1956, an increase of 275 wagons a day or 8 percent. The average number of wagons loaded a day in 1957 (January-October) was 3,679, compared with 3,391 in 1956, an increase of 288 or 8.5 percent. Raisings for the period January to August 1957 (the latest available figures) show an increase of 2,189,476 tons or 8.4 percent over the corresponding period of 1956 and despatches an increase of 1,672,801 tons or 7.2 percent.

Credit is given to the railways for the greater wagon availability but collieries are still carrying extremely large stocks. In West Bengal and Bihar, they stood at 2,670,832 tons in August 1957. Nearly all consumers complain of shortages of coal and the lowness of their own stocks. It would, therefore, be a considerable advantage if some of the present pithead stocks were reduced and transferred to consumer reserves. So far, the railways have barely met the day-to-day requirements of coal-consuming industries. Excessive stocks at the pithead not only lock up capital when the coal industry needs all the cash it can lay its hands on for increased wage payments, for distribution of arrears, and to provide funds for development. They also retard output. Further efforts are, therefore, required to increase wagon availability to keep pace with production.

Greater Appreciation

Although coal is the most rigidly controlled industry in the country, during 1957 there has undoubtedly been a far greater appreciation of the rôle which the private sector must play if the second plan is to proceed smoothly. The turning point appears to have been the setting up of the Ministry of Steel, Mines and Fuel (Department of Mines) with a special section to deal with the private sector. The industry now feels that it has some voice, if only a small one, in its own affairs and has somebody who might possibly back its point of view when the occasion arises.

The past year has brought a bumper crop of legislation, including the Coal Bearing Areas (Acquisition and Development) Act, the Mines and Minerals (Regulation and Development) Act, and last, but not least, the Coal Mines Regulations. The purpose of the Coal Bearing Areas (Acquisition and Development) Act is to enable the Government to exercise greater public control over the coal-mining industry by giving the State the power to acquire unworked land containing, or likely to contain, coal deposits. The industry appreciates the underlying reasons for the Act but has urged that "contiguous" areas should not be regarded as "unworked" land. Its representations have not been heeded but the Government has given an assurance that it is not the intention to deny working facilities to the private sector nor is it proposed to restrict expansion. Unfortunately, assurances given by the Government one day may be changed the next, and the industry is still pressing this point on the ground that it has to plan many years ahead. Uncertainties of this nature discourage coal companies from planning for the future, and as coal is a wasting asset, they must either expand or contract.

Prospecting Licences

The Mines and Minerals (Regulation and Development) Act, 1948, is now before Parliament and will be made applicable to gas and petroleum. Other minerals will be covered by the Mines and Minerals (Regulation and Development) Act, 1957, the main features of which are that no person shall acquire in any one State a prospecting licence for more than 50 square miles or a mining lease for more than 10 square miles; that the maximum period for a mining lease shall be 30 years; and that rates of royalty shall be fixed as a percentage of the pitsmouth sale value up to a maximum of 20 percent. The industry considers that both the area and the length of time laid down for a mining lease are too small and that it is completely unscientific to fix royalties on the pitsmouth value. If the method of assessing royalties now suggested is adopted, further increases in coal prices must result, which in itself will again increase the rate of royalty.

The new Coal Mines Regulations have caused great concern to the industry. They are extremely

stringent, and are conspicuous for the various written and mostly unnecessary records which have to be maintained by colliery offices. They require the importation from abroad of specialised machinery and equipment, which will be an unnecessary drain of foreign exchange. They entail large increases in staff, especially at the managerial level, whose services are not available in the country at the present time nor are likely to be available for many years to come with the present rate of expansion. They stipulate the use of various types of equipment, which are considered to be excessive and unnecessary and, in many cases, will not improve safety, for which the Regulations are primarily designed. Before drawing up these regulations, the Government appears to have failed to examine the accident rate in India as compared with other countries. The death rate in this country a 1,000 workers from 1953 to 1957 (the first three months) was 0.97, 0.96, 0.89, 0.78, and 0.47, respectively. If the rate for the first three months of this year is continued, India will have one of the lowest accident rates in the world, comparable with the United Kingdom and considerably lower than the United States. Although these regulations have become law, a proposal is now being considered to set up a Committee to enquire into the question of safety in mines. It seems a little odd to lay down stringent regulations for safety and then to consider whether or not a Committee should be set up to examine the subject.

Practical Experience

When the 1957 quota of legislation is added to that of the previous years, there appears to be an even greater army of Government "white collar surface workers" to see that all the Acts and regulations are carried out. Unfortunately, in many cases their knowledge of the law is not matched with practical mining experience. Considerable exasperation is felt by mine managers over the frequent interference. Rules and regulations require imaginative interpretation according to circumstances. Colliery officials in most cases have been at their work for many years and the pooling of brains and ideas should result in considerable advantage. Coupled with increasing Government interference is the mounting pile of paper work which has to be completed and often duplicated to various Government departments. It seems that Government officers destined to be employed on work connected with coal could with considerable advantage during their training be given an indication of the work done by other departments dealing with the same subject.

The achievements of the industry will ultimately be judged by the tonnage of coal raised and almost all matters, with perhaps the exception of safety and conservation, are of secondary importance. There is undoubtedly a danger that the Government is trying to do too much in too short a time. As the country becomes more industrialised, its standard of living will rise, but it is not possible to raise the standard of living first and then raise output. An outstanding example of this is the drive by the Government to force collieries to build more canteens, creches and pithead baths. No one will deny that coal miners should have proper houses, canteens and other modern amenities but to try and push these through at the expense of production is to lose sight of the fundamental object. Far more could be done at much less cost and in a much shorter time by erecting less permanent structures which would meet the immediate needs of the workers and could be replaced by brick and concrete buildings later.

Industrial Policy Resolution

The 1956 Industrial Policy Resolution places coal in the category where future development will be the exclusive responsibility of the State. It goes on to say that this does not preclude the expansion of the existing private units or the possibility of the State securing the co-operation of private enterprise in the establishment of new units where national interests so require. No definite indication is given about nationalisation. But the coal industry is so rigidly controlled that nationalisation seems likely to serve no purpose.

INDIAN ORDNANCE FACTORIES

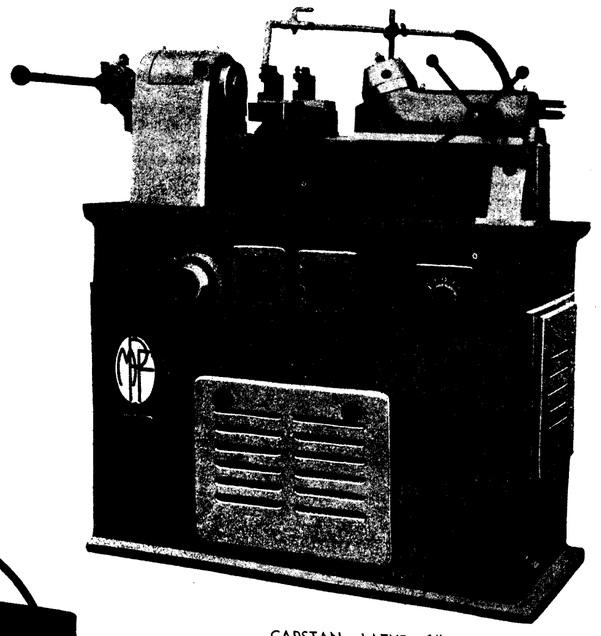
(MINISTRY OF DEFENCE)

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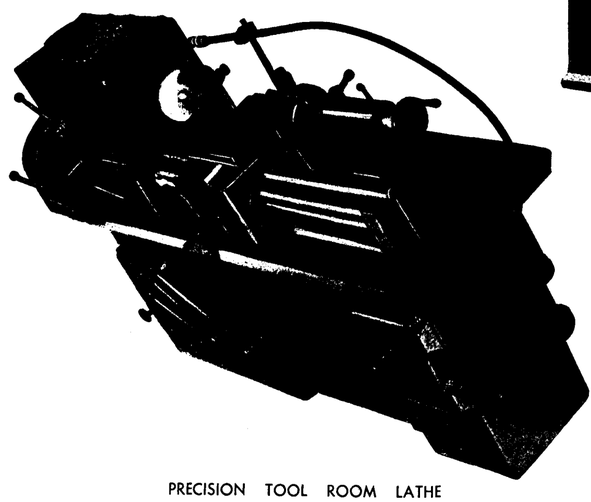
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GROWING ACCUMULATION OF STOCKS IN CLOTH MILLS

RISING COSTS AND NARROWER PROFIT MARGINS

• By A SPECIAL CORRESPONDENT •

THE prospects for the cotton textile industry have seemed favourable for some years, but there has been a remarkable change in recent months, mainly because of the short-sighted policy pursued by the Government. Rising taxation and heavier costs have made it difficult to earn a reasonable margin of profit. Official policy has been far from helpful, although the cloth production target under the second plan is ambitious. As one commentator puts it, "no Indian industry can report as irritating a mixture of success and frustration as cotton textiles. In none has the ideological battle between large-scale and small-scale enterprise been more vigorously fought, or had more damaging consequences." The prosperity of the organised industry depends on whether it will be allowed to expand so that it can meet the higher consumer demand brought about by increased development expenditure and the increase in population. The growing tempo of economic activity will put more purchasing power into the hands of the community. Because of the poverty of the masses, whose basic needs remain unsatisfied, cloth will inevitably claim a big share of the increase in incomes.

Increased Output

In spite of serious difficulties, the mills have managed to maintain a high level of output. It is possible that the current year might witness an all-time record production of cloth and yarn; the estimated figure is 5,400 million yards for cloth and 1,770 million lbs for yarn, against 5,307 million yards and 1,671 million lbs, respectively, in 1956. This increase has been achieved mainly by the intensive utilisation of production capacity. The daily average number of looms run on second and third shifts during the first six months of the current year was 51,399 and 172,772, against 49,069 and 169,933 in the same period of last year. In spite of growing consumer resistance, which has been accentuated by the phenomenal increase in taxes, mills have not hesitated to raise the level of production. The Central Government has not permitted an expansion in their weaving capacity, except for the installation of 18,000 automatic looms to produce 350 million yards of cloth for export. Even the installation of these looms has not yet made much progress, mainly because of the rigorous conditions laid down by the Government. Faced with the prospect of an inflated wage bill and a heavier tax burden, mills have endeavoured to reduce the average cost of production by maintaining a high level of output.

During the first half of 1957, 570 million yards of coarse varieties of cloth were produced, against 276 million yards in the same period of last year. The output of the other categories showed a decline. Medium, fine and superfine varieties amounted to 1,808 million yards, 196 million yards and 135 million yards, against 1,912 million yards, 218 million yards and 178 million yards, respectively. The following table shows the trend of mill yarn and cloth output during the first eight months of the current year:

	Yarn (Million lbs)		Cloth (Million yards)	
	1956	1957	1956	1957
January	132.51	156.42	413.78	483.70
February	133.63	143.25	425.49	435.08
March	132.56	150.45	418.76	453.32
April	131.02	153.67	420.82	464.37
May	135.41	149.98	452.65	453.07
June	137.05	137.98	451.44	419.62
July	145.31	149.60	467.01	460.30
August	140.27	139.00	438.32	411.00
Total	1,087.76	1,180.35	3,488.27	3,580.46

Unfortunately, the textile programme under the second plan, which was announced in June 1956, does not make any specific provision for increasing the production of mill cloth for domestic use. The industry has urged that it be given a target commensurate with the rise in cloth requirements. This will necessitate removal of the restrictive measures which have been imposed on the organised sector, especially on the expansion of its loomage. The main contention of the mills is that the rate of cloth consumption by the end of the second plan will be more than the planners' estimate of 18.5 yards a head. The population is expected to increase to some 400 million by 1960-61. In view of the huge investment expenditure proposed under the plan, the industry urged the Planning Commission as far back as 1955 to provide for a production target in the second plan on the basis of an estimated consumption of 22 yards a head. It was pointed out that the domestic market was likely to absorb about 8,800 million yards of cloth a year, while exports would be of the order of 1,000 million yards. The Central Government took a different view, being influenced mainly by the recommendations of the Kanungo and Karve Committees, both of which suggested that cloth consumption would not be more than 18 yards a head by the end of the second plan. This recommendation, in fact, is in conflict with the view of the Central Ministry for Commerce and Industry, which has long held that the industry's production target should be drawn up in terms of an estimated consumption of 20 yards a head. The planners have been far too conservative in assessing the potential demand for mill cloth.

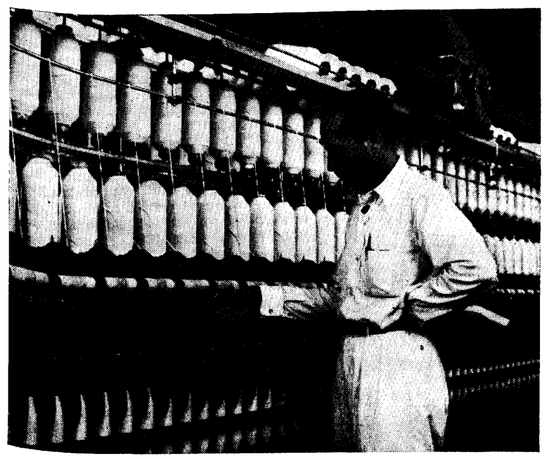
Patronage to Handlooms

At the same time, the production target for the non-mill sectors is too high. The Bombay Millowners Association has said: "There is no doubt that, as a means of solving the unemployment problem, every possible effort should be made to promote the prosperity of the decentralised sector of the economy. The handlooms provide employment to a large section of the population and, therefore, deserve encouragement. But, with all the goodwill in the world and even with the most generous State aid and patronage, the weaver cannot be expected to give production on the scale required by the planners by transcending his inherent limitations." What is worse is that State patronage to the handlooms is being extended at the cost of the mill sector. In the beginning, certain varieties of cloth such as coloured *saries, lungis, sarongs* were reserved for the former, and the production of *dhoties* by mills was restricted to a percentage of their previous production by the levy of a penal excise duty. The Textile Enquiry Committee then recommended that all further expansion of cloth production should be reserved for the small-scale sector. Furthermore, an additional cess has been levied on mill-made cloth to finance the development of the handloom industry. But in spite of the huge expenditure incurred by the Government, the progress of the handlooms, by and large, has not been impressive. They have not even achieved the production target of 1,700 million yards allotted to them under the first plan.

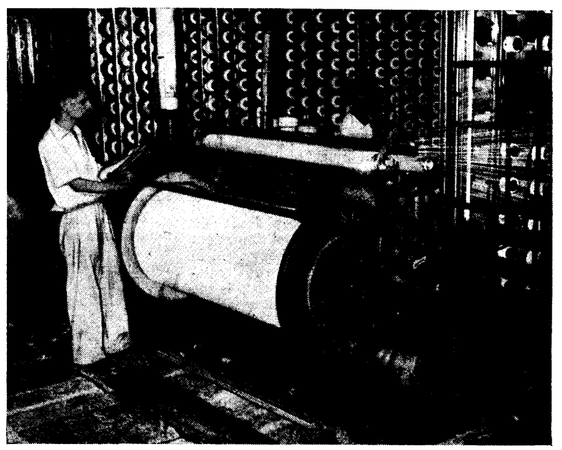
Depressing Performance

There is reason to believe that cloth production from the handlooms during 1957-58 will not exceed 1,664 million yards, compared with 1,600 million yards in 1956-57 and 1,470 million yards in 1955-56. The figure for the current year thus falls short of the second plan's production target of 2,000 million yards by about 336 million yards. This estimate, made by a reliable source, shows the depressing performance of the handloom sector in spite of the assistance given to it. The Central Minister for Commerce and Industry, Mr. Morarji Desai, addressing a meeting of the All-India Handloom Board in July this year, said: "It is not enough if spokesmen of the handloom industry repeatedly declare that it can produce as much as 3,000 or 4,000 million yards of cloth; they have to show it in actual practice." Assistance is being given in various ways. The Reserve Bank has agreed to provide working capital at a nominal rate of interest, and the Government has undertaken to subsidise the interest rate and to bear the losses partially in case of non-recovery of loans. But the scheme has made little progress because of the hostility of a section of weavers. Meanwhile, State Governments have not yet completed the necessary preliminaries to draw working capital from the Reserve Bank.

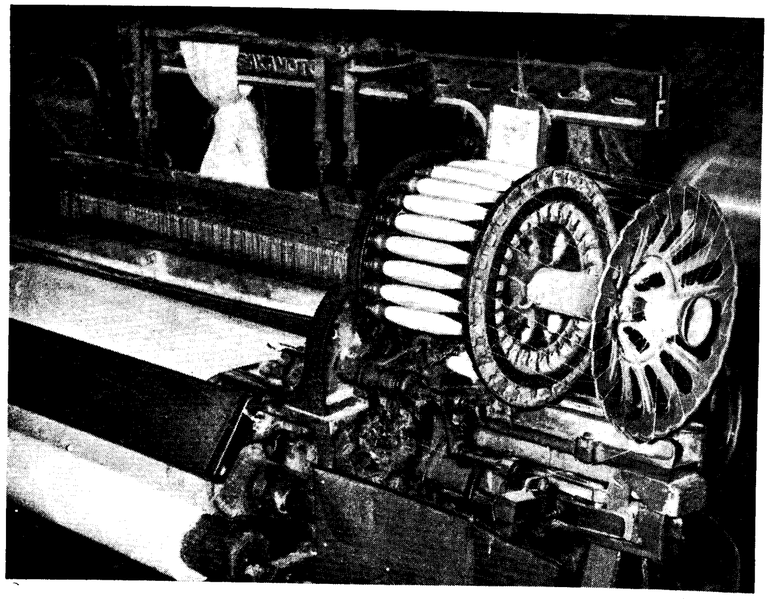
The introduction of powerlooms has not made much headway due to the persistent opposition of handloom weavers. In spite of these unencourag-



A ring frame in a textile mill



A warping machine



An automatic loom

ing developments, State support has been extended to a new four-spindled spinning wheel, known as *ambar charkha*, with the avowed objective of solving the problem of unemployment. The enquiry committee which was appointed in 1956 to report on this spinning wheel suggested that experiments on it should be made for a longer period and on a bigger scale. Meanwhile, the Government sanctioned about Rs. 4 crores to finance the programme during 1956-57, and it now hopes that yarn sufficient for 300 million yards of cloth a year will be produced by *ambar charkhas* by the end of the second plan.

Cotton Supplies

An essential prerequisite for increased production from the organised mill sector is to ensure adequate raw cotton supplies. Cotton output in 1956-57 reached the high level of 4.8 million bales, against 4 million bales in 1956-57. Efforts are being made to increase it to 6.5 million bales a year during the second plan period. Lower raw material costs will help improve the prospects for cotton textiles. Although cultivators are entitled to receive a fair price for their produce, it is necessary to ensure that the price is not too high since this may raise the cost of textiles. At the same time, exports of cotton should not be allowed to weaken the position of the industry.

A favourable raw material position and the need to make intensive use of capacity with a view to reducing production costs have persuaded millowners to increase output. But some are now thinking of reducing output. They are finding it extremely difficult to sell their goods, with the result that stocks have accumulated. In spite of the increase of about 10 percent in cloth exports so far this year, compared with last year, cloth stocks lying with mills are too big. The problem is similar to that which developed in 1953, but the difference is that there were no severe credit restrictions then.

Several explanations have been offered for the heavy accumulation of stocks. It is said that consumer resistance has increased, although cloth prices in general are lower than last year. Purchasing power has been reduced by the high prices of foodgrains and other essential commodities. In some parts of the country, cultivators have suffered because of floods and drought. Mills in West Bengal, which usually sell much of their output in Bihar and Orissa, report that offtake has not increased on account of widespread economic distress. The tightening of restrictions on bank advances against textiles has led to a decline in trade demand. But perhaps the most important reason is that the excise duty is too heavy. Most mills have shown a tendency to produce that category of cloth on which the incidence of duty is the lowest. There has, for example, been a fall in superfine cloth production—a fall which has been aggravated by the shortage of foreign cotton.

High Rates of Excise Duty

The excise duty has imposed a heavy burden on cotton textile mills. The duty was sharply increased in September 1956, "ostensibly to inhibit consumption" and "to mop up some of the increased profits that are being made." But the duty is so heavy that neither the producer nor the trade nor the consumer is in a position to bear it. It has been estimated that the yield from the duty will amount to Rs. 72 crores in 1957-58, against Rs. 59-58 crores in 1956-57. The following table shows the extent of the increase:

	Before March 1956	After 1956 Budget	A Square Yard Latest Excise
	Rs. a. p.	Rs. a. p.	Rs. a. p.
Coarse—*dhoties* and *saries*	0 0 6	0 0 6	0 0 6
Coarse: others	0 0 6	0 1 0	0 1 6
Medium	0 0 6	0 1 0	0 2 0
Fine	0 1 3	0 1 9	0 3 0
Superfine	0 2 0	0 2 6	0 4 0

(Exclusive of the handloom cess of 3 pies a square yard)

Commenting on the phenomenal increase in excise duty, the Bombay Millowners Association has said: "It is difficult to find justification for such a sharp increase in the excise, especially when the rise in cloth prices was by no means substantial. In fact, we have the testimony of the White Paper on the Budget for 1957-58 that the index for cotton manufactures in 1956 increased by 4.3 percent only. This small rise in prices cannot justify an increase in excise by an average of 11.2 percent over August 1956 and 14.8 percent over December 1955. Today, excise calculated on the mill prices of a variety of representative qualities of cloth varies according to classification from 11.5 percent to 31.9 percent and averages 24.8 percent—an average increase of 11.2 percent over August 1956. In fact, in certain categories of superfine cloth, it is as high as 38 to 39 percent".

Financial Burden

The accumulation of stocks has caused considerable hardship to mills. It not only entails a financial burden but also strains storage capacity. The Government has not appreciated the seriousness of the problem. Replying to a question in the Rajya Sabha in September this year, the Central Minister for Commerce and Industry, Mr. Morarji Desai, said that, at the current rate of production, mills carried just over seven weeks' output. Their financial difficulties, he asserted, were due to "mismanagement, uneconomic conditions and want of rejuvenation of machinery." Unsold cloth stocks are estimated at 586.5 million yards. These, together with the 322.5 million yards sold but not lifted by the trade, bring the total of stocks to about 909 million yards.

The Central Minister of Commerce, Mr. Nityananda Kanungo, said in the Lok Sabha some time ago that stocks were "not abnormal". But the working results of mills for 1956-57 have shown a drastic fall in profits, and in some cases they have been able to pay a dividend to shareholders only by drawing on reserves. It is feared that the results for 1957-58 may be even more depressing. Faced with this bleak prospect, some mills are thinking of reducing production. But a decline in output is no long-term remedy, for it might bring about scarcity. The main need is to reduce the excise burden.

Trend of Exports

The planners have laid great stress on the need to increase exports of textiles. They expect that the annual average of foreign exchange earnings during the second plan through exports of cotton yarn and manufactures will be Rs. 75 crores, against Rs. 72 crores in 1954, Rs. 63 crores in 1955 and Rs. 62 crores in 1956. But it will be difficult to reach the export target of 1,000 million yards of cloth a year unless special efforts are made. The following table shows the exports of various categories of cloth:

	(In Million Yards)				
	1952	1953	1954	1955	1956
Coarse	168	261	185	176	191
Medium	139	274	634	603	517
Fine	264	152	78	36	22
Superfine	23	14	24	21	17
Total	594	701	921	836	747

There has been some shrinkage in the world trade in cotton goods, mainly because of the drift of the industry to cotton-growing and cloth-consuming countries. The total volume of cloth entering the world market has steadily declined. Lancashire, for example, exported 7,000 million yards of cloth annually five decades ago, but now exports hardly 700 million yards a year. Competition among exporting countries has greatly increased. The textile industry in Japan, equipped as it is with the latest automatic machinery, has proved itself a formidable competitor. New producers like China and Pakistan are trying to capture foreign markets, and many of the mills in these countries are equipped with modern plant and machinery. But in spite of this, some think that India is capable of attaining the export target of 1,000 million yards of cloth a year. As an authoritative source says, "access to adequate supplies of home-grown cotton and a solid experience of over one hundred years are among the assets which the mill industry enjoys and which are shared by only a few of its competitors. Moreover, there is still an immense potential demand for textiles in large undeveloped areas, whose economic progress will inevitably lead to greater consumption of cloth. Their propinquity to India is an asset to this country." It is necessary, therefore, that the mill industry be encouraged to achieve greater economy and efficiency.

Rationalisation Programme

It is surprising that no detailed survey of the modernisation requirements of the cotton mill industry has been undertaken so far. The Government, it is reported, is collecting the necessary data. It is likely, therefore, that as the investigations are completed, valuable information will be available for framing a proper rationalisation programme. The Working Party for the Cotton Textile Industry some years ago said that the plan rehabilitation programme would be huge. In the 38 mills covered by it in Bombay City, it was found that no less than 32,815 looms had been installed before 1910, 11,618 during 1910-25 and 5,532 after 1925. But a big replacement programme cannot be undertaken because of the industry's financial difficulties. Moreover, because of the intensive utilisation of capacity to increase production, machines have suffered considerable wear and tear.

The Kanungo Committee appreciated the importance of this problem, and suggested that one-half of the existing loomage should be discarded in favour of automatic looms. How far such a change will prove beneficial can be gathered from the report of the British Working Party for Cotton which said: "The change to automatic looms shows by far the largest and most consistent advantage of any change in equipment, averaging about 20 percent of the operating cost and going up to 25 percent." But a major handicap in launching rationalisation programmes is opposition from workers since they believe that this will lead to unemployment. This belief is erroneous, for a reduction in costs and prices will increase consumption and will therefore create new employment opportunities. In spite of opposition, the programme has already made some headway in Bombay and Ahmedabad. Meanwhile, the Kanpur Textile Mills Rationalisation Enquiry Committee, the full text of whose report was made public only this year, has stressed the need for rationalisation to ensure the efficient working of mills. It has suggested that machines should be maintained in good condition, although other recommendations seem to suggest that it does not favour any move which might cause a dislocation of labour.

The cotton mill industry is the nation's biggest organised enterprise. Next to tea and jute, cotton yarn and manufactures are the biggest earners of foreign exchange. The industry employs a much bigger labour force than any single mechanised industry in India. In spite of difficulties, it has maintained its leading position and has earned much foreign exchange. Its prosperity depends to a large extent on a sympathetic official policy. That sympathy and appreciation has been badly lacking during the past year.

CRISIS IN THE U.K. COTTON TEXTILE INDUSTRY

LANCASHIRE SEEKS REDUCTION IN DUTY-FREE IMPORTS FROM ASIA

● FROM OUR LONDON CORRESPONDENT ●

IN an atmosphere burdened with talk of free trade areas and the expansion of trade by every possible means to offset the dangerous indications of an international slump, Lancashire's plea for protection against duty-free imports of cheap cotton goods from India, Hongkong and Pakistan appears to be rather unreal. That it is a very live issue to those concerned, however, was only too evident at the Cotton Board's annual conference in Harrogate a couple of months ago. The subject was referred to directly by a number of speakers, formed the basis of one of the principal papers, and provided the general background for most of the discussion. The problem and the basis of Lancashire's fears are undoubtedly well enough appreciated in the industry itself not only in the United Kingdom but overseas as well. To the general public, however, the apparent anomaly of a plea for restriction at a time when liberalisation of trade and the removal of barriers are being widely discussed, seems incomprehensible and even indefensible. Further complication arises from the uncompromising opposition of the Government to protection in any form and its suggestion that direct negotiations between the industries in the four countries might be the best way of finding a solution. It is understood that Mr. Nehru also favoured this method of approach. From this we may take it that there *is* a problem requiring a solution, and it would seem to be acknowledged by both sides. Why the Governments should feel industrialists will be readier to abandon any advantages they now enjoy than to submit to imposed regulations is difficult to understand. Indeed, there are so many contradictions bedevilling the whole problem that some clarification of the issues involved and an examination of Lancashire's case ought to prove useful to everyone.

Postwar History

First and foremost, why should Lancashire be so concerned about imports which, when representations on the subject were first made to the authorities, represented no more than 10 percent of its own output for home consumption? To understand this one must examine the postwar history of the cotton textile industry. So far as exports are concerned good progress was made in the first five years, from 1945 to 1949, to regain markets which had been lost during the war because of the stress on meeting defence needs and other severe restrictions on normal trade. From total exports of 441 million square yards in 1945, the figure was gradually increased to 904 million square yards by 1949. That proved to be the peak year, however, and since then there has been a steady decline. By the end of the next five-year period, in 1954, the figure had fallen by 267 million square yards to 637 million square yards. The slight recovery in world trade in 1955 brought a small rise in British exports, but by 1956 the downward trend had been resumed with a total of no more than 579 million square yards, which is roughly the rate for 1957 exports according to the latest available statistics. This loss of exports is a serious matter for the industry, but is accepted as being a legitimate hazard in the face of increasing competition, even though not all of it may be ascribed to that reason, the change-over from a seller's to a buyer's market and a contraction in world demand. Meantime, the imports from Asia have also risen, so that they now represent some 19 percent of Lancashire's output for the domestic market.

Two Main Features

An analysis of Britain's loss of exports discloses two main features. The first is that the offtake of India and Pakistan has dropped so substantially as to account for about 40 percent of the total decline, which is attributable to import duties and restrictions imposed by the former in support of its own industry and to Japanese competition in Pakistan based largely on the special trade arrangements entered into by those two countries. Before the war, undivided India was the United Kingdom's best market and in 1937 took a total of 290 million square yards or 20 percent of all exports. By 1949 total exports to the two markets resulting from the partition had fallen to 113 million square yards, while by 1954 the trade had almost disappeared. It continues that way at under 10 million square yards, and that in spite of the fact that India has agreed to a reduction of her protective duties following the visit of the Lancashire industry's mission and that some additional business with Pakistan has resulted from the U.S. aid scheme. The second feature accounts for a similar percentage of the loss and represents the falling off in exports to the British colonies. Britain's loss has proved the gain of India and Japan since they have increased their exports to the west African markets very substantially. The remaining 20 percent of the loss applies to exports to all other markets combined, and here also Indian and Japanese competition is responsible for about half the total, especially in the case of Far East and other African markets.

Adjustment to these changed circumstances has not been a painless process for the Lancashire textile industry. Thirty-one mills closed down in 1954, another 97 in 1955, and well over 100 in 1956. None of these is ever likely to re-open. At the same time, the labour force has declined steadily, by no less than 80,000 in the period between 1951 and 1956, representing a decline of 22 percent, while statistics show that the industry has a higher proportion of operatives on short-time than any other industry in the country and fewer working overtime, the respective percentages being 12.7 and 2.3 in spinning and 9.6 and 3.2 in weaving, against overall figures for all manufacturing industry of 0.9 and 26.3. The most serious aspect of this decline in the labour force is the loss of key men and highly trained personnel and the difficulty now being found in attracting new recruits to an industry whose production in almost all sections is declining at an alarming rate. Yarn output has fallen from 1,077 million lbs in 1951 to only 852 million lbs in 1956, while that of cloth has dropped over the same period from 2,960 million square yards to 2,314 million square yards.

Rationalisation Programme

The loss of the large Indian market was more or less inevitable as the local industry developed and expanded, but it was felt that a process of rationalisation in Lancashire and the extension of research to improve quality, increase efficiency and devise new processes and products could help to hold off both Japanese and Indian competition in other markets in spite of the great advantages which both these producers enjoyed in cheaper cotton, lower labour costs and even to some extent official subsidies in one form or another. An enquiry recently made among a number of the bigger firms showed that 23 firms with an issued share capital of £45 million had spent £28 million on capital and development in the past six to ten years. Great progress has been made in the installation of modern spinning machinery, in electrification, the introduction of larger packages, and the elimination of dust. Ring spindles account for about 53 percent of the total number of spindles installed (in terms of mule equivalents) compared with about 37 percent in 1937. In weaving, the greatest mechanical improvements have been in high speed winding and warping and in automatic looms. For instance, 12 percent of the looms installed (15 percent of running looms) are automatic compared with about 3 percent before the war. Since these are mostly on two shifts, an important proportion of output now comes from automatic looms.

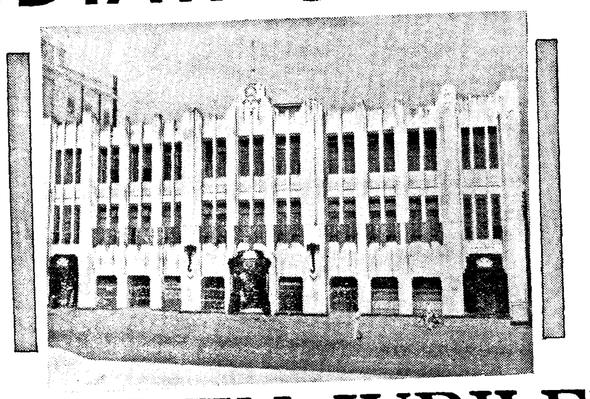
In finishing, large sums of money have been spent on improved machinery for vat dyeing, printing by photographic means, pressure dyeing, automatic slashing, modern steam raising plant, heat conservation and laboratory equipment. Great progress has been made since the war also in the more effective use of labour by work study and re-deployment. The number of spinning mills using these methods has risen from a mere handful to nearly 200. In addition to the re-deployment accompanying the use of automatic looms, the average number of ordinary "Lancashire" looms a weaver has been increased by over 25 percent compared with before and during the war as a result of improved methods. No cotton textile industry in any other country has a finer record of success in the field of research. It possesses the largest co-operative research organisation in the United Kingdom or in any textile industry in the world, with a budget of about £350,000 annually, in addition to all large firms and many smaller ones having their own laboratories operating on an annual scale of between £20,000 and £50,000.

The industry is proud of this record, for it has involved a considerable amount of expenditure from finances already strained by higher wages and welfare costs to compete for scarce labour and

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heavy outlay on arrears of maintenance, and in the face of a declining tendency in the general level of profits. In spite of its reduced size, it is still a major industry whose output is valued at almost £300 million a year (of which exports represent about £100 million) and giving employment to around quarter of a million people. It meets the requirements of many other industries, and not only utilises the products of yet others, but is a valuable testing ground for new products which are ultimately sold in overseas markets.

The inter-dependence of home and export trade in cotton goods is well known. Not only is production for the home market the flywheel of the industry during periods of dull trade or quota restrictions in overseas markets, but it is the main source on which economic production and technical development are based. In fields where design is important, such as furnishings, dress fabrics and men's shirtings, wide ranges are only possible where a considerable home market is assured. The incursion of imported cloth into the home market, therefore, is injuring the export trade. The decline in exports has made ample productive resources available to serve the home market without the need for imported cloths, but unless the latter can be limited, more machinery will have to be dismantled, and in a matter of a few years Britain might well find herself dependent for certain essential needs on countries 6,000 or 10,000 miles away—a strategic danger which would be unthinkable.

Government Policy

These considerations, quite apart from natural anxiety to stay in business or employment, have led to the almost unanimous representations which have been made to the Government from time to time to take some action to prevent a further deterioration in the position. The Government's reluctance to do so is based on three grounds: (1) that the retained imports of cotton goods only represent some 10 percent of the home market and cannot, therefore, be as injurious as the industry declares them to be; (2) that the present worries of the industry are more attributable to falling export orders than to increasing imports at home; and (3) that the Government's policy of liberalising trade would be completely imperilled by any action which might be taken to safeguard the cotton industry's home market, with consequences far more serious to the economy than could be justified by the relief which the industry would obtain.

This attitude, which has governed the Government's policy over the past few years, has been maintained in spite of the fact that these arguments grow less convincing as time passes. Retained imports, for instance, are almost double what they were when limitation was first sought, and the same applies to cheap made-up goods which are not included in the 10 percent figure. So far as increased productive efficiency is concerned the advantages enjoyed by the Eastern producers in the matter of cheap labour and reduced raw material costs make it impossible for Lancashire to compete on price. Offers from India and Hongkong are so low that the gap between them and the lowest possible price for Lancashire-made goods proves to be entirely unbridgeable, no matter what efforts are made. The adverse effect of the present type of competition should be noted. While foreign cloth is completely crippling a few firms directly and exclusively engaged in the branches of trade most affected, it is replacing part of the production of a great many more. These firms find their costs increasing and, in a desperate attempt to maintain employment, they seek trade in other cloths, and, by cutting prices, greatly impair the profitability and normal health of the industry as a whole. This lack of profitability is providing a most serious check to the considerable re-equipment programmes undertaken since the war.

Discriminatory Measures

So far as trade liberalisation and the possible reactions thereon of any protection granted to the industry is concerned, the general picture of world development shows that the almost universal practice of governments in all countries, both old and new, is to treat their textile industries as an essential unit in their economic structure and to give them adequate protection. To achieve this object they can and do impose discriminatory measures apparently without serious consequences. For example, to quote only two appropriate instances, India increased the duties on cotton piecegoods in March 1953, from 15 percent and 18 percent to 60 percent and 80 percent *ad valorem* while maintaining a tight quota control. Quota limitations were withdrawn in September 1954, and as result of representations the high rates of duty were reduced in May 1955, to 25 percent *ad valorem*. In view, however, of the advantages which the domestic industry enjoys, the current rates still present a formidable barrier to trade.

Pakistan soon after the partition raised her duties from the old British India rates of 15 percent and 18 percent to 60 percent *ad valorem*. At least 15 other countries have in recent years taken steps of one kind or another to protect their cotton textile industries from injuries far less serious than those now actually being suffered in Lancashire, which is only pressing for a limitation of these cheap imports. India, in particular, should be able to appreciate the position, for Mr. T. T. Krishnamachari had this to say in the Lok Sabha on the vulnerability of Indian industries to cheap products exported from Japan: "I hope sooner or later we shall be able to arrive at an understanding with Japan which will reassure our industry against any kind of unfair competition from that country." India's position in relation to Japan is precisely the same as the U.K.'s position in relation to India and Hongkong, and Japan, at least so far as the textile industry is concerned. As the Indian Government stresses the need for checking excessively low-priced imports from Japan, it can scarcely object if the U.K. Government takes reasonable steps to safeguard the industry from what are excessively low-priced imports from India. Similarly, Hongkong, as a member of the Commonwealth, can be expected to understand the exceptional disparity of labour costs *vis-à-vis* the United Kingdom.

Adverse Comment

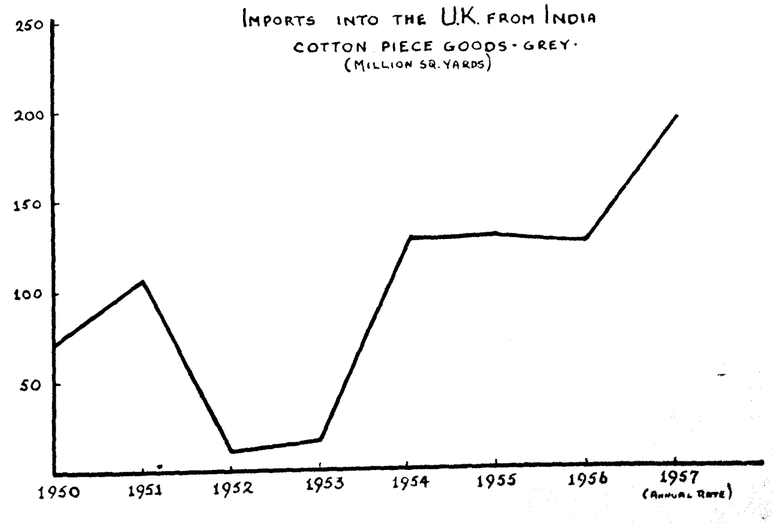
The Government's whole attitude, not surprisingly, is regarded by Lancashire with much misgiving, and occasioned not a little adverse comment at the recent Harrogate conference. Sir David Eccles, President of the Board of Trade, restated the official policy and particularly the belief that the best solution of Lancashire's problems resulting from cheap imports lay in persuading the supplying countries to restrict voluntarily their exports to the United Kingdom. He expressed the hope that consultations which Sir Alexander Grantham, Governor of Hongkong, was having with mill interests there would produce results which would help Sir Cuthbert Clegg in his further talks with the Indian and Pakistani industries. Nothing was said, however, about what the Government would do if these talks, like the earlier ones, also failed to yield a scheme of voluntary restriction.

Traders were asking at the Harrogate conference whether there was a hint in Sir David's remark that it would be unwise to introduce restrictions on the imports now in view of the approach of the Commonwealth Trade and Economic Conference next year, or in his reminder that the Ottawa system of Imperial Preferences was founded on the exchange of Commonwealth food and raw materials against British manufactures and that, as a result of changes in the last 25 years, a new basis would have to be found. That is an argument which Lancashire has also pressed, and supported by quoting the cases of other industries—jute, motor-cars, motor-cycles, agricultural tractors, musical instruments, clocks and silk tissues—which are protected in spite of the Ottawa Agreement. It was pointed out that the Government had frequently suggested that there might be some time when it would be prepared to impose restrictions on the imports, without defining at what stage of the expansion in the trade it would feel compelled to take action to safeguard the Lancashire mills' position.

Peril Point

Lancashire feels that the stage has been reached now, when imports from India are at an annual rate of 200 million yards, of which three-quarters is retained in the home trade and those from Hongkong comprise 70 million yards of cloth and the equivalent of a further 30 million yards in the form of garments. The total imports represent about 19 percent of the total quantity consumed in the United Kingdom and it is claimed that the trade has already risen well above the "peril point." Nevertheless, many traders seem prepared to accept even the present volume of imports provided that no further increase is allowed. It is the uncertainty about the future relationship between domestic and imported goods in the home market which hinders firms in making their plans and deters them from undertaking heavy capital expenditure. India is being encouraged to invest in textile production by the continued absence of restrictions on its yarns and cloth which enter the United Kingdom. Was it fair, one speaker at the conference asked, to allow the former to believe that it would for ever have a free market in the United Kingdom?

The present background against which international trade in cotton piecegoods is carried on is clearly one in which optimistic factors are markedly absent. World trade in cotton goods is shrinking and this trend will continue. Low-cost producers today, as is evident in the case of Japan, cannot hope to avoid tariff or quota defensive measures in domestic markets if they continue to indulge in unbridled competition with local interests. The international trend is towards co-operation in sharing markets on an equitable basis as an alternative to the hostile economic measures of the past. Japan, the worst offender in this, has been accepting quota restrictions ever since she realised the error of her former ways in 1933, when she accepted a ceiling for exports to India, and has since sought expansion in other markets along the same lines. That also appears to be a wise policy for other low-cost producers, including India, Hongkong, Pakistan and, probably in the near future, mainland China, to follow at the start, rather than to create situations such as now is the case in the United Kingdom, for ultimately it would seem to be inevitable that they will not only create resistance but also resentment, and the latter is something a developing country should avoid at all costs.



EXPANDING RAILWAY CAPACITY

MEASURES TO COPE WITH STEEL PLANT TRAFFIC

● By C. G. BALAKRISHNAN ●

THE ambitious projects in the second plan call for a huge outlay on transport. In a country of long distances and difficult coast lines, this means the railways. The few sea ports are far apart, and in any case, cannot be used for the movement of coal and ores for the heavy industries, as the mines, in many cases, are in central regions. Navigable rivers do not reach these natural resources; nor are there roads suitable for heavy traffic. This gives a measure of the vast responsibilities ahead of the railways. While they have not been able to cope with all the goods traffic offered, their performance in the last two years can be described as a record.

During 1956, the Indian railways loaded 7 percent more wagons on the broad gauge and 9.8 percent more on the metre gauge than in 1955. Wagon miles a "wagon day" increased to 46.3 during 1955-56, compared with 43.3 in 1954-55. In August 1956, a record figure of 49.7 miles was obtained. The "net ton-miles a wagon day" on the broad gauge was the highest since 1938-39. Towards the end of 1955, when the busy period for the movement of goods traffic commenced, railway men all over India had to prepare themselves for a bigger job than ever for which targets had been set. A favourable monsoon in 1955 made for greater agricultural production; materials for the various multipurpose projects and expanded industries had to be carried inland quickly from Bombay, Calcutta, Madras and other ports; the movement of imported foodgrains, iron and steel, cement, machinery, etcetera, had to be stepped up, so time was of great consequence.

Detailed Planning

Detailed planning was done at the headquarters; and at the regional and district levels. The traffic from the coalfields and from the Calcutta industrial area to Uttar Pradesh, Punjab and the western area has to move through Moghalsarai, which is the focal point of railway operation in India. This yard was designed to move daily about 1,400 wagons each way, but by concentrated supervision and continuous vigil, it was possible to put through about 1,900 wagons each way through it during 1956. During certain months, the turnover reached an average of 2,100 wagons. This was achieved without any additional yard facilities, and largely through the sustained effort of the yard and supervisory staff. In the face of additional traffic moving over the various sections, special measures to reduce the detention periods of wagons and engines were called for. So a wagon-chasing organisation was set up, keeping constant watch on trouble spots such as transhipment points and marshalling yards. Experienced and dependable staff now move about the yards and industrial areas where wagons are usually detained. In normal times, such supervision is done at the district, the divisional and the headquarters level; the Chief Operating Superintendent and the transportation cell at the headquarters maintain overall supervision and take corrective action when necessary

The Railway Board, which does not normally concern itself with routine movements, now keeps regular touch with important details of day-to-day working. It watches wagon movements. Difficult problems, particularly of co-ordination with the operating heads, have to be anticipated and advance orders issued. This is possible by an intelligent interpretation of stock movements and a close co-ordination of day-to-day work. Passenger train services have also increased to some extent. Passenger train miles during 1956 improved by about 4,700 a day over those of 1955.

Importance of South-Eastern Railway

Of the individual railways, the South-Eastern Railway has the most difficult job to perform. It has to serve not only the two existing steel plants, whose production capacity is growing, but also the two new State steel works in Rourkela and Bhilai. The Durgapur plant will be served mainly by the Eastern Railway, but its principal raw materials such as iron ore, limestone and dolomite will have to be moved over the South-Eastern Railway. Quite appropriately, therefore, this railway has earned the name of "steel plants railway."

The South-Eastern Railway is, from the industrial point of view, important. The rich mineral belts in eastern and central India were opened up in the early years of this railway, and as it connected the hinterlands with the ports of Calcutta and Visakhapatnam, it helped development considerably. The entire raisings of central India and of the Talcher coalfields, a little over one quarter of the coal raisings in Bengal and Bihar and a very large proportion of the output of iron and manganese ore, limestone, dolomite and bauxite now form its regular traffic. The newly constructed 24 miles of railway line from Champa to Korba, not far from Bilaspur in Madhya Pradesh, is expected to handle 4 million tons of coal in the second plan period. Another line, 74 miles long, from Bijuri to Karoiyi near Chirmiri in the Central India coalfield is used to develop the entire Birampur coalfields. When these and other development schemes are completed, the railway alone will carry about 18 million tons out of the projected 60 million tons of coal to be produced in the country.

The South-Eastern Railway has been closely connected with all stages of the Tata Iron and Steel Company's growth. At Tatanagar, pig iron was produced in 1911 and the first steel ingot came out a year later. The original plant had an annual production capacity of 80,000 tons of rolled steel. The railway has been associated as closely with the activities of the second main steel producer in the country—the Indian Iron and Steel Company. From its modest beginnings in Burnpur, then called Hirapur, Indian Iron was able to produce 450,000 tons of steel at the commencement of the second five year plan, and is presently set for increasing the annual output to 800,000 tons by 1961.

Demand from Steel Projects

Three new steel plants, each with a capacity of one million tons, are coming up in the public sector. When in full production, these will require 12 train loads of raw materials each day—five trains of iron ore, five of coal and two of limestone —each train taking a net load of 1,200 tons. Two trains will go out daily with finished products from each plant. The goods traffic on the South-Eastern Railway has been predominantly coal, iron ore, limestone and dolomite, which are the principal raw materials for the iron and steel industry. The bulk of the new traffic will also consist largely of these minerals. Another important item is manganese ore, which is moved in a smaller quantity to the steel works and is largely exported. Manganese ore and iron ore for export move to the ports of Calcutta and Visakhapatnam. With the establishment of ferro-manganese plants, ferro-manganese will also be exported.

The Indian Copper Corporation's works in Ghatsila, the only producer of copper in this country, the Indian Aluminium Company's Muri plant, the cement plants in Jhinkpam and Rajangpur in Bihar and the Orient Paper Mills in Orissa, are the other industrial units served by the South-Eastern Railway. Most of these units are planning for expansion in the near future. When the development schemes visualised in the second plan mature, it is estimated that the number of wagons to be loaded daily on the South-Eastern Railway alone will increase from 3,200 daily (as at the beginning of the plan) to 6,900. Within five years, goods traffic on this railway will thus be more than doubled.

In preparation for its new responsibilities, the main line of the South-Eastern Railway, a distance of 307 miles, is being doubled. Similarly, a double line connection is being provided from Anara to Burnpur. Another section which it is proposed to double is the Vizianagram-Gopalpatnam strip, which is already linked with Waltair by four miles of double track. About 232 miles of new lines are being laid for bringing ore and limestone and washed coal to the steel plants.

Inadequacy of Marshalling Yards

Most of the existing marshalling yards are not capable of dealing with any large increase in traffic. In addition to their improvement, entirely new yards of the latest design have been taken in hand in Rourkela and Bhilai. On other sections, particularly on the east coast line, additional crossing stations and improvements in signalling are being provided to enable the single-track to carry an increased number of trains. Even with this doubling of the principal sections, it will not be possible to move under steam traction all additional traffic. The electrification of the track up to Asansol and of the Tatanagar, the Rourkela, Rajkharswan and Dangoaposi sections, over which raw materials for the steel works will move, have thus become a necessity. The electrification will take some time to be completed, so diesel traction will be introduced over these sections as an interim measure and some diesel locomotives are at present on order for service. Running heavy trains of 3,000 tons load, to carry coal and raw materials for the steel plants, will be made possible in this manner.

Additional Line Capacity

Additional line capacity and, side by side, improvements to the existing track with speedy renewal and rehabilitation of bridges are compelling necessities. The capacity of the workshops will have to be stepped up and that is why a new workshop on the South-Eastern Railway for the maintenance of wagons at a cost of about Rs. 2 crores has had to be set up. The additional traffic will involve the employment of more staff, and adequate training facilities for them at various centres will have to be provided.

It is against this background that the railways' demand for Rs. 1,480 crores as outlay on the plans to move an additional 60 million tons of traffic, a 50 percent increase over the present level, is to be judged. The allocation has been reduced because of inadequate resources. Those responsible for the reduced allocation support the cut on the ground that essential building materials are scarce and trained manpower is generally short. There was little chance of Parliament sanctioning an increase, but knowing how they always get the blame in the end, the railways' protest this time has been firm and in public. They undertake to move no more than 42 million tons of extra goods. The steel traffic being irreducible, either coal or general merchandise must stay at their present levels or move up only insignificantly if both are to be accommodated. The railways have suggested a 7 million ton cut in the coal traffic to be able to carry 7 million tons of extra general merchandise. They consume a third of India's annual output of coal, and there must be a more progressive replacement of the entire quantity of coking coal supplied to them by non-coking coal. It is difficult to say whether any ground has been covered here yet. Coal losses due to handling and stacking conditions and pilferage should also be minimised. The reorganisation of the railways into zones is slowly leading to a more rigorous and systematic control over fuel. They, it is said, could still economise in the use of coal.

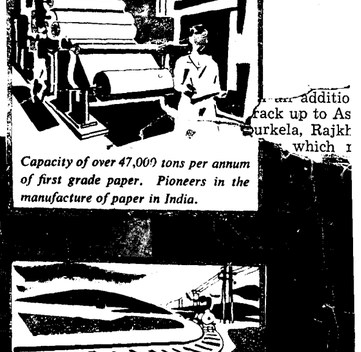
Increased Traffic Volume

The three new steel works and the expansion of the existing ones involve the transportation of 7 million tons of coal and 13 million tons of ore and flux; then there are the finished products to consider. Cement, another essential commodity, requires transport for 5 million tons, and other industries require 13 million tons of coal. There is to be an all-round increase in consumer goods production—textiles to 8,200 million yards from 5,400 million yards; others by about 25 percent. The river valley projects and minor irrigation schemes will account for 10 million tons of extra traffic. These and the prosperity they promote will absorb the present railway capacity, while the steel demands slowly gather momentum. Restriction then could cripple the smaller private industries; unrestricted, the much-needed steel cannot be produced. The force of this argument of the railways is irrefutable. They carry about 65 million tons of general merchandise now, and an increase of a bare 7 million tons, even after cutting coal to that extent, is obviously inadequate. This may well scare away investment. Can the Government then rest with the answer: let the railways be given a chance to spend what they have been given, and then will be the time for review?



What have minerals to do with their happiness?

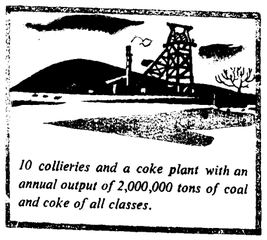
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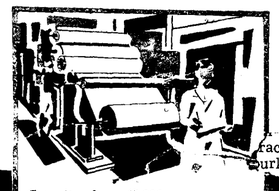
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Annual output of quality tea chests: 5,00,000.

Tubewells sunk by Water Flush, Percussion and Calyx methods.



Manganese Ore, Manganese Dioxide, Iron Ore, Kyanite, Chrome Ore, Bauxite, Gypsum. Total output over 700,000 tons per annum.

Industrial Progress has brought about this change. Opportunities of employment have increased with the country's expanding economy. People earn more ... spend more. Motor cars, radios, electric fans, refrigerators, sewing machines, etc.— luxuries once—are things many can afford. Still better days are ahead.

In this dynamic development, the House of BIRD and HEILGERS plays a significant part. Their collieries and mines provide power and raw materials for our industries. Their prestressed concrete and structurals, pumps and tubewells, tea chests, refractory bricks, etc. help to place the country on the road to self-sufficiency.

The House of BIRD and HEILGERS are proud in having served the industries which contribute towards the happiness in such homes.



Fireclay & Silica bricks for high quality furnace lining. Annual production is about 72,000 tons.

FREE ENTERPRISE SERVES THE SMALL MAN

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and F.W. HEILGERS (PRIVATE) LIMITED
Chartered Bank Buildings, Calcutta–1