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## CONTENTS

### PART I



### PART II

# EFFECTS OF THE DEVALUATION OF THE RUPEE ON THE INDIAN ECONOMY

BY

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566

On 20th September 1949 the Indian Rupee was devalued in terms of gold and the U.S. Dollar in the same proportion as the devaluation effected in the Pound Sterling. The devalued rate became operative from the 22nd September onward, as the 20th and 21st September were declared as holidays. In terms of gold the new rate fixed, with the concurrence of the International Monetary Fund, was 0·186621 grains of fine gold equal to Re. 1, and in terms of U.S. Dollars Re. 1 equal to 21 cents or Rs. 4·76 equal to $1. This represented a 30·5 per cent reduction in the external value of the rupee.

The step was more or less forced on the country by the sudden and unexpected devaluation of the British Pound, and the Finance Minister of the Government of India, who had to take the decision in the matter, did not have, as he stated in the Indian Parliament, sufficient time to consider the matter in all its aspects. The devaluation of the Pound Sterling was quickly followed by the devaluation of all the currencies of the Sterling area by the same rate, with the solitary exception of the Pakistan Rupee, and also by the devaluation of the Canadian Dollar and the Belgian Franc by lower rates. This general devaluation which the International Monetary Fund permitted as a corrective measure, while it eliminated to some extent the imbalance of the Sterling area with the Hard Currency area, especially the Dollar area, it negatived also some of the advantages which otherwise might have been associated with the Indian devaluation. All the same, it must be said that it was this general devaluation which occasioned the uncontemplated devaluation of the Indian Rupee. On merits, doubtless, there was a strong case for India taking the step independently of other countries, but Indian economic or political thinking had not got directed then along that channel in a sufficient degree to bear practical fruit. In fact lay people hardened in thinking, partly as a result of government explanation itself, that the Government of India had been forced into the step.

However, devaluation of currency is bound to have far-reaching effects on the economy, some beneficial and some perhaps harmful, and it is the purpose of this paper to study those effects with a view to discovering the extent to which it has served the purpose for which it was intended.

Theoretically a distinction has to be made between two kinds of devaluation, devaluation which is intended as a corrective to a preexisting overvaluation of currency on the exchange and a deliberate undervaluation of currency on the exchange in order to secure competitive advantage in world markets. The first kind has the general effect of integrating the domestic cost-price structure with world prices and restoring the harmony between the domestic economy and world economy which had been previously disrupted. This is an alternative to deflation which domestic forces would not permit, and is less disturbing to the economy than any of the domestic policies open for adoption. It is primarily a force making for equilibrium and not one which has a disequilibrating effect. When a previous spurt of monetary inflation had raised the level of costs and prices in one country above those prevailing in other countries, the need to restore the lost equilibrium arises, and will have to be met in the most innocuous manner. An inflationary period which lowers the internal value of currency will have a similar effect on its external value too, if international transactions are carried on in the normal way and the rate of exchange is allowed to be determined by the free forces of the economy. In that event a deliberate devaluation or deflation would be needless, as the integration of the domestic economy with the external world would, in the main, remain undisrupted. But if during the inflationary period, international transactions are restricted either deliberately or by the circumstances of the period, and the rate of exchange is pegged or otherwise controlled and held, the previously subsisting integration will be destroyed, and a deliberate measure to restore it would become necessary. And of the measures available, a simple and direct alteration in the external value of currency is fraught with less disturbance to the economy. Especially would this be so, if the inflation had been long, but finally contained, the domestic economy had more or less settled down at the higher level and a deflation which is the alternative, is unlikely to be spontaneous or welcome.

In the other kind of devaluation, the reduction effected in the external value of currency causes a disparity between the external and internal values of the currency and thereby starts a disequilibrium which is bound to affect the domestic economy as well as the country's international transactions. The higher cost structure of the economy there which necessitates the devaluation, will not be the result of monetary inflation, as in the other case, but rather that of inefficient production. The correct remedy in such a case is a reform and improvement of productive organization and technique, leading to lower unit cost of production. Monetary devaluation can at best be only a palliative, the beneficial results arising from it would be only transient and would soon be obliterated by the rise of cost and prices directly induced by the monetary measure. Finally, the initial disparity between external and internal values of currency caused by devaluation will be removed and equality restored, if economic forces within the economy are allowed their free play, but this will happen only after a fairly long period of re-adjustment. The initial advantages gained through devaluation would also then disappear.



This distinction between the two kinds of devaluation is important in the consideration of the Indian devaluation, for it will be seen on scrutiny that that devaluation was essentially of the first kind and was rendered more or less inevitable by the pre-existing circumstances. When a disparity already exists between the external and internal values of currency, the consequences of it will be registered on the nature and magnitude of international transactions and through them on the economy as a whole. The artificial maintenance of this disparity through a system of restrictions and control may be appropriate during an abnormal period, such as a war period or the immediate post-war period, but if normality is to be regained and a free economy to be restored, the disparity between the two values should be removed. This idea formed the kernel of the Purchasing Power Parity Theory of Foreign Exchange, and though at the present time few modern economists subscribe to the doctrine, the kernel of it still stands on unassailable foundations. It is simple to realize that the inequality between the two values is an abnormality which cannot persist for long without invoking undesirable consequences. The removal of it will virtually be one of the first steps in the restoration of normality.

In India the Rupee which was linked to the Sterling at the rate of 1sh. 6d. per rupee remained unchanged on the exchange throughout the war and post-war periods, and continues to be at the same rate even to-day, though the link with the Sterling was legally and formally severed on the country joining the I.M.F. and declaring the par value in terms of gold and the U.S. Dollar. During that period internally the value of currency was percipitately falling as a result of a phenomenally high degree of inflation. The general index of wholesale prices in India, with 1939 as base, had risen by 155% when the country declared the par value of the rupee to the I.M.F. The cost of living index too had risen by 139%. These percentages, however, do not measure the disparity between the internal value and the rate of exchange of currency, for some depreciation in the external value of the rupee too had been caused by the depreciation of the Sterling. But the percentage depreciation in the Sterling was less than that of the rupee internally, for wholesale prices had risen in the United Kingdom only by 45% by May 1945. The difference between the percentage depreciation in the Sterling and in the rupee is the true measure of the overvaluation of the rupee on the exchange. But it was possible to maintain this overvaluation during the war and the immediate post-war periods because of the natural and artificial restraints on trade and other international transactions and the severe control imposed upon the exchange. Such export trade as took place from India during those periods was not adversely affected by the overvaluation; for the demand for goods from all over the world was great and the buyers had not become price conscious at all. It was, however, certain even then that matters would not continue like that for ever and that with the disappearance of the backlog of demand, the reconversion of industries to peace-time purposes and the rehabilitation of war-devastated economies, Indian exports would find it increasingly difficult to meet the competition of the goods of other countries.

That this was what actually happened is borne out by the trade figures and the balance of payments position of the country during the years immediately following the war. There was fairly close correspondence between receipts and payments on account of merchandise in 1946 and 1947, and both exports and imports were increasing. The increase in imports was by 38% and in exports by 34%. The terms of trade too were rapidly moving in India's favour in the years 1945 to 1948. As the trade account in 1946 and 1947 was almost in balance, the net position on current account was determined by service items, and those items were favourable to India in 1946, as she was receiving payment from the Government of the United Kingdom on account of that government's expenditure here. The overall deficit on current account in that year was only Rs. 29 crores. In 1947 the service items became unfavourable to India and the year closed with a deficit of about Rs. 100 crores on current account. But the figures relating to these two years, 1946 and 1947, are not of much significance to our study, for they pertain to undivided India and are not strictly comparable with the position as revealed in later years.



The year 1948 is the most significant year for our study relating to the Indian Union, for it was the first full year after Partition, it was the year which immediately preceded the devaluation and it was the year in which formidable trade difficulties started appearing. The trade deficit in that year, excluding Pakistan, was Rs. 46·5 crores and the overall deficit on current account, Rs. 64 crores. If Pakistan too is included in the trade account, the deficit will have to be put up by about Rs. 50 crores. Within the year there was a major difference between the first and second half years. The overall deficit of the year was unequally divided, the overall surplus of about Rs. 19 crores in the first half-year was converted into a deficit of about Rs. 142 crores in the second half-year. Till the middle of 1948 the favourable balance of trade and the easy payments position were the direct result of the austere import policy followed. The value of imports was kept below the value of exports (Rs. 224·6 crores as against Rs. 246·9 crores), and though export figures were ruling high on account of the strong inflationary pressure within the country, both volume and value of exports remained high. The easy payments position made it unnecessary for the country to use up all the Sterling Balances released for utilization, and out of the £83 million released only £3 million were actually utilized.

The deterioration in the second half-year was partly the result of the relaxation of import controls through O.G.L.XI, especially seen in the trade with the Sterling area, and partly the result of the fall in exports, both in value and in volume, especially to the hard currency area. The index number for the volume of exports for 1948-49 is only 61·8 (base 1938-39, 100) as against 69·9 in 1947-48. The fall started in the second half of 1948 and got accelerated in the first quarter of 1949. Value of imports rose in the second half-year by about Rs. 36 crores over the first half-year, i.e. by about 15·7%, while the value of exports declined by 24·3% or by Rs. 60 crores. There was no increase whatever in the imports from the hard currency area, instead there was an inappreciable decline, but from the Sterling area imports increased from Rs. 112·3 crores in the first half-year to Rs. 183·1 crores in the second half-year. Exports to both areas fell, from Rs. 117·8 crores to Rs. 97·1 crores in the case of the Sterling area and from Rs. 83·9 crores to Rs. 56·4 crores in the case of the hard currency area. In the case of 'other areas,' imports rose from Rs. 27·1 crores to Rs. 51·8 crores and exports fell from Rs. 45·1 crores to Rs. 33·3 crores. The surplus of Rs. 13 crores in the first half-year was turned into a deficit of Rs. 25 crores in the second half-year. This was partly due to the transference of Switzerland and Sweden from the hard currency area to other areas and partly to heavy imports of rice from Siam, cotton from Egypt and rayon from Italy. There was a deficit of Rs. 30 crores with Pakistan too in the second half-year.

The divergent movement in the values of exports and imports was caused by unequal changes in prices and volume. While the volume of imports increased, that of exports declined; export and import prices too rose unequally. Between 1947-48 and 1948-49 export prices rose only by 7%, while import prices rose by 10%. These two factors affected the terms of trade and turned it against the country. A sharper reversal, however, took place in the terms of trade with the hard currency area. The staple exports to that area, viz. raw and manufactured jute, fell both in volume and in prices and earnings fell from Rs. 50 crores to about half of that amount. There was, for instance, a 20% fall in the price and volume of the exports of hessians. This was accompanied by high imports on Government account, especially foodgrains, while private imports declined sharply. The value of food imports was $100 million in 1948, a third of the cost of total food imports and 2/3 of the deficit with the hard currency area. In fact both in the first half and in the second half of the year there were deficits on current account with the hard currency area, but while in the first half it was only Rs. 8·3 crores, in the second half it rose to Rs. 38·4 crores. So in both half-years the country had to make heavy drafts on the Central Reserves of the Sterling area and on the I.M.F. for meeting the deficits. In addition some depletion of the balances of the Indian Supply Mission at Washington too occurred. In the first half-year India drew $40 million from the Central Reserves of the Sterling area and purchased $44 million from the I.M.F. and in the second half-year, $60 million from the Central Reserves of the Sterling area and $56 million from the I.M.F.

The situation deteriorated further in the first half of 1949, and the deficit on trade account rose to Rs. 170 crores and on current account to Rs. 178 crores. Imports rose from Rs. 259·9 crores in the second half-year of 1948 to Rs. 363·1 crores in the first half-year of 1949 and by 61·7% over the first half of 1948. Exports rose only to Rs. 192·8 crores from Rs. 186·8 crores in the second half of 1948, but when compared with the first half of 1948 there was a decline by 21·9%. The rise in imports was caused by the liberal import policy followed and the high Government imports necessitated by the internal food situation. Government imports rose from about Rs. 60 crores per half-year in 1948 to Rs. 107 crores in the first half of 1949. These imports were, however, heavier from the hard currency area and other areas, while they were more or less steady from the Sterling area. Exports, on the other hand, increased to the Sterling area and other areas and declined to the hard currency area. The deficit on trade account increased in this half-year in the case of the hard currency area and other areas, but fell by a little in the case of the Sterling area. The relevant figures are for the hard currency area, rise from Rs. 28·7 crores to Rs. 48·9 crores, for 'other areas', rise from Rs. 18·5 crores to Rs. 52·1 crores, and for the Sterling area, fall from Rs. 86·0 crores to Rs. 81·2 crores. In the deficits on current account also the same trends are visible, the relevant figures being, for the hard currency area, rise from Rs. 38·4 crores to Rs. 49·5 crores, 'other areas,' rise from Rs. 24·8 crores to Rs. 55·8 crores, and for the Sterling area, fall from Rs. 78·6 crores to Rs. 72·4 crores. With Pakistan, however, the deficit was only Rs. 5 crores as against Rs. 30 crores in the second half of 1948.



To meet these deficits the country had by July 1949 to overdraw from the Central Reserves to the tune of £80 million in addition to utilizing the quota of £80 million left over at the end of June 1948. The overdrawn amount was later on adjusted at the Sterling Balances talk in June 1949.

Taking the first three quarters of 1949 for study and making a scrutiny of the quarters separately, it is seen that in the overall position imports were steadily falling from quarter to quarter and exports steadily rising, with the result that the trade deficit was steadily declining. This is the trend noticed in the overall deficit on current account also. An identical trend is noticed in the transactions with the Sterling area, but with the hard currency area, though the deficits on trade account and on current account followed the same trend, as also the imports from that area, exports fell instead of rising in the second quarter. With other areas the deficits rose in the second quarter and then fell again. It was the first quarter of 1949, therefore, which was the worst quarter after the deterioration had set in, and the slight improvement noticed in the second quarter was the direct result of the tightening of import controls inaugurated in May 1949, and the further improvement in the third quarter was partly the full results of those measures and partly the initial results of the devaluation effected in September 1949.

This review of the trade and balance of payments position shows clearly that the export position was becoming increasingly difficult, especially with the hard currency area, till the end of March 1949, necessitating drastic control of imports as a counteracting measure. This alleviated the position a little, but it was quite clear that it could not be long sustained in the face of a deteriorating food situation, without adversely affecting consumption standards as well as productive activity. The necessity to import large quantities of food and capital goods was pressing and that could be made possible only by a marked increase in exportation. But the chief hindrance to such a development was the overvalued rupee on the exchange which artificially kept export prices high for foreign buyers, when the need was to cut down prices to secure competitive advantage. The situation in India as it was developing, clearly indicated an alteration in the exchange as the appropriate remedy, and even apart from the general devaluation which took place in September 1949, this country would have been constrained to effect it, if necessary, alone.

However the devaluation of the British Pound and the general devaluation of currencies in the Sterling area, with the exception of Pakistan, forced the issue, and India, with the primary intention of safeguarding her trade position in the Sterling area, devalued the rupee by the same rate. It was important and essential that this should be done, for about 50 to 54% of our export trade and 53 to 60% of our import trade is with that area and a competitive disadvantage there would have almost 'wiped out' that portion of our export trade. Our exports to the Sterling area formed 50% of our total export trade in 1948 and 54% of that trade in the first three quarters of 1949, and our imports from that area formed 60% and 53% of total imports during those two periods respectively. In the hard currency area as well as other areas too the other countries of the Sterling area would have had a competitive advantage over India had she not devalued her currency along with them. Our export trade with the hard currency area was 32% of our total export trade in 1948 and 27% of that trade in the first three quarters of 1949. Our imports from that area formed 36% and 32% of our total imports in those two periods respectively.



There cannot, therefore, be any doubt cast on the economic wisdom of the step taken then, for it was rendered inevitable by action taken elsewhere as well as by the developing situation in the country itself. The only questions to be considered are whether the degree of devaluation actually effected was adequate as far as this country was concerned and whether it should not have been in terms of the Sterling too. The rate actually adopted was designed to virtually maintain the *status quo* with the Sterling area and affect only the relation with the hard currency and other areas. This could be justified on the ground of our import needs on the one hand and our export needs and possibilities on the other. Devaluation of currency on the exchange immediately raises import prices in terms of the devalued currency and imposes a new burden on the consumers of those products. It should be the aim of policy to minimize this burden, and that was done by maintaining the *status quo* with respect to 53 to 60% of our imports, not taking account of the possibility of diversion of our import trade from the non-sterling to the sterling area. On the export side justification could be found on the basis of the developing situation for leaving the Sterling area alone. Between the second half-year of 1948 and the first half-year of 1949 the overall trade and balance of payments position was worsening, but the position with the Sterling area showed an improvement and not a further deterioration. This improvement was to a great extent due to the increase of exports. In the third quarter of 1949 too this trend was maintained. So, as far as the Sterling area was concerned the deterioration was confined to the second half of 1948. The trade situation, therefore, did not call for an immediate alteration of the relation with the Sterling area.

As regards the rate adopted, it was necessary that it should be the same as the rate of devaluation of the British Pound, for only then could the *status quo* be maintained with the Sterling area. A higher rate would have altered the relation with the Sterling and a lower rate would have placed the country at a disadvantage both with the hard currency area and the Sterling area. The British rate was decided upon after a full consideration of the situation, and the adoption of the same rate by India was about the best course open to the country.

The devaluation that was effected could not, however, be without effect on the economy, some of them beneficial immediately and perhaps in the long run also, and others harmful. The purpose of this paper is primarily to examine those effects and assess their relative significance. Doing this has been rendered difficult by the super-imposition of other national and international events on the measure taken and the pursuit of policies designed to achieve certain other aims. Of these the most important were the outbreak of hostilities in Korea, the policies of stock-piling and rearmament followed in U. S. A., U. K. and certain other countries as a consequence and the inauguration of the Five Year Plan within the country. It is the conjoint effect of all these events and policies which is seen from the middle of 1950 onward, and it is difficult to isolate the effects of devaluation from the effects of those other factors. The period beginning with October 1949 and ending with June 1950 was not complicated by international developments, but even in that period the effects of devaluation within the country were to a certain extent counteracted by the fiscal and control measures inaugurated along with devaluation. Allowance has to be made for these complications before the consequences of devaluation by itself can be discerned. The period following devaluation has therefore to be broken up into separate periods for the purpose of this study.

With devaluation effected the Government of India became concerned with its immediate reactions. In the first place, there was the fear of a price rise, a rise of the rupee prices of imports, a rise in the internal prices of exports and a general rise of prices as a result of speculative activity. Secondly, there was the fear that domestic supplies of exportable commodities may be curtailed in order to meet the increasing foreign demand. Thirdly, it was feared that the Balance of Payments position may be adversely affected by the increased import demand for foreign exchange, and fourthly, that the expenditure of Government may be put up through the rise of prices. There was also the desire on the part of the Government to stimulate higher saving and investment out of raised incomes, to maximize the earnings of foreign exchange, and secure fair shares of the gains flowing from devaluation for the producers and the exchequer. The eight point programme announced by the Finance Minister in the Indian Parliament on 5th October 1949 virtually incorporated the measures required to allay these fears and generate the desired results. The items of the programme were:

1. Formulation of a future pattern of trade to reduce expenditure of foreign exchange to a minimum, regard being given to essential requirements;



2. Reduction of prices of industrial materials imported through negotiation with hard currency countries;
3. Prevention of speculative price rises through legislative and administrative measures and credit control;
4. Imposition of customs duties, observing non-discrimination, on exports to hard currency countries, with the purpose of securing maximum foreign exchange and equitably distributing the gains from devaluation among the foreign importers, the Indian manufacturers and the Indian exchequer;
5. To promote investment under the stimulus provided by devaluation by a savings drive, or failing this, by compulsion or the provision of banking facilities in rural areas;
6. Provision and extension of facilities for voluntary settlement of taxes on war profits in cases not referred to the Income-tax Investigation Commission;
7. Economy measures in Government expenditure—approximately Rs. 40 crores in 1949-50 and twice that sum in 1950-51; and
8. Reduction of 10% in retail prices of essential goods, manufactured as well as foodgrains, by reducing ex-farm and ex-factory prices or distribution costs and incidental charges.

Under each of these points adequate measures were taken to ward off the undesirable effects of devaluation. Under point one, imports were restricted from all sources, especially from the hard currency area, and maximum limits were fixed for travel allowances and transfers of wealth to foreign countries. Under points 3 and 4, ceiling prices were fixed for jute goods intended for export abroad (Rs. 55 per 100 yards of hessian and Rs. 1,550 per ton of sacking), forward trading in cotton seed was banned, the export duty on raw cotton was raised from Rs. 40 to Rs. 100 per bale, an export duty was imposed on black pepper (30% ad valorem) and futures and options were prohibited in gur, gur-shakkar and rab. Under points 5 and 7, a scheme of compulsory savings applicable to Government servants was inaugurated on 1st December 1949, tax relief and concessions to industry and economy measures were incorporated in the budget proposals for 1950-51 and the Rural Banking Enquiry Committee was appointed to report on the extension of banking facilities to rural areas. Under point 8, foodgrains, cloth, yarn, pig iron, steel and coal were selected for price reductions and measures were taken to reduce their prices. Foodgrain prices were reduced by 3 to 15% through cuts in cost of transport, incidental charges and procurement prices. In the case of the other commodities ex-factory prices were cut.

In addition to action under this programme the Government acted also under the Ordinance passed on 22nd September 1949 empowering the Government to levy export duties on vegetable oils, oilseeds, vanaspati, shellac, steel and tobacco and raise the export duties on raw jute and jute manufactures. Immediately, under the ordinance, a duty of annas 8 per lb. was levied on mustard oil, a duty of 45% ad valorem was levied on all controlled categories of iron and steel except sheet on which a lower levy of 30% was made, the duty on hessian was raised from Rs. 80 to Rs. 350 per ton and the West Bengal Government was induced to prohibit forward trading in jute manufactures. Forward trading in raw jute had already been prohibited in 1948.

These accompanying measures were, all of them, intended to counteract in varying degrees the expected results of devaluation, and since they were hurriedly decided upon, without a full study of the facts and their possible consequences, they were calculated to moderate, and even smother, some of the beneficial effects flowing from the principal measure. To what extent this actually happened has to be examined.

The immediate effects of devaluation will be upon the trade and payments position of the country and on the particular prices of imported and exported goods. One may confidently expect the export of goods to increase, to the hard currency area through reduced dollar prices for those goods and to the Sterling area through the competitive advantage secured over dollar goods. This increase in the volume and value of exports will be accompanied by the fall in the imports from the hard currency area as a result of the rise of rupee prices for those goods, and on the net position the trade balance will become favourable, even if the value of imports is maintained in the face of a fall in volume. But all dollar goods will rise in price in terms of rupees, unless as a consequence of a reduced demand for them their dollar prices fall, and Indian export goods will tend to rise in price as a result of the increased demand for them. Sympathetic rises in the prices of other imported goods and those produced within the country, but competing with them,



may also come as secondary effects, and certain goods produced internally may rise in price as a result of an increase in costs. The internal price structure will undergo a radical change, even if the devaluation effected is as a corrective to a pre-existing overvaluation.

As secondary effects one may expect to see changes in productive activity, in the monetary position and in governmental finances. The general price level or cost of living cannot remain unaltered when so many prices spurt upwards, and the changes in them will have direct bearing upon money supply, bank policy and domestic production. It is in these several directions that one has to look for the effects of devaluation. The period immediately following devaluation may be taken up for study first.

*The Immediate Post-Devaluation Period.*

The trade figures for 1949, as already adverted to earlier, show that for all areas taken together exports were increasing in value and imports were declining in value from quarter to quarter. On the value side these steady trends are noticeable only from the second quarter onward. From the first to the second quarter the value of imports increased and the volume of exports decreased. Index numbers of the volume of imports and exports with 1938-39 as base are the following:—

| 1949 | Imports | Exports |
|---|---|---|
| First quarter | 147·5 | 69·6 |
| Second quarter | 151·5 | 54·1 |
| Third quarter | 127·8 | 67·2 |
| Fourth quarter | 115·1 | 92·9 |

Value figures for the four quarters of 1949 are the following: —

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|---|---|---|---|---|
| Imports (crores of rupees) | 187·9 | 175·2 | 135·0 | 104·2 |
| Exports (crores of rupees) | 90·5 | 94·1 | 100·9 | 133·8 |

The decline in imports in the first three quarters cannot be attributed to devaluation except to a small extent in the third quarter, but will have to be considered to be the direct result of the tightening of import controls, with special reference to the hard currency area. Between June and September 1949 the licensing of dollar imports was entirely suspended and the imports permitted from July 1949 to June 1950 was only 75% of the 1948 imports. Food imports too from the dollar area were completely stopped. There was, in addition, a general tightening of imports from all areas. In the fourth quarter, however, the decline is partly accounted for by devaluation, and it is indeed strange that the percentage decline from the third to the fourth quarter was no greater than the percentage decline from the second to the third quarter, viz. 23%. While this is what is seen in the value figures, the volume figures are more disappointing. The index number for the volume of imports fell by 23·7 points between the second and the third quarter, but fell only by 12·7 points between the third and the fourth quarter. It is, therefore, obvious that the effect of devaluation on imports was not very pronounced immediately. This is as should be expected, for the adjustment of the rate of exchange cannot have the same effect on imports as on exports, especially when the imports are of the essential kind like food, capital goods, etc.

For the first two quarters of 1950 the value of imports was on the rising trend, having been Rs. 119·2 crores and Rs. 133·0 crores respectively as against Rs. 104·2 crores in the last quarter of 1949. Whether this was accompanied by a fall in value or not cannot be discovered from the index numbers published by the Reserve Bank of India, since the base for the 1950 index figures, except for the first quarter , is 1948-49 and not 1938-39 as before. But compared with 1948-49 there was a fall in the volume of exports. The index number for the first quarter of 1950 under the old base is 82·8 and under the new base 53, which shows that the volume was about half of the volume of 1948-49, and in the second quarter it rose to 84 and in the third quarter to 87. Decline set in only in the fourth quarter when it was only 62. Sharp falls occurred in chemicals and manufactured articles, but raw cotton, foodgrains, iron and steel and machinery registered increases.

Taking the fourth quarter of 1949 and the first two quarters of 1950 into account, i.e. the period between devaluation and the outbreak of the Korean War, it is seen that imports did not show any pronounced tendency to decrease either in value or in volume, in spite of the severe restrictions placed upon them. This statement will more or less hold even if the regional pattern of imports



is studied. With the hard currency area the percentage decline in importation between the third and the fourth quarter of 1949 was lower than between the second and the third quarter, having been only 22% as against 27%. In the first and second quarters of 1950 imports were on the upgrade. With the Sterling area and with 'other areas' there was a higher percentage decline between the third quarter and the fourth quarter of 1949 than between the second and the third quarter, but the difference was not great, having been 15% as against 11% in the case of the Sterling area and 42% as against 39% in the case of 'other areas'. With the Sterling area the upturn did not happen till the second quarter of 1950, but with 'other areas' it happened, as with the hard currency area, even in the first quarter.

The export position, however, was differently affected. For all areas taken together exports rose by 32% between the third and the fourth quarter of 1949 as against a rise of 7% between the second and the third quarter and a rise of 4% between the first and the second quarter. The uptrend witnessed throughout 1949 got considerably accelerated after devaluation. The volume index also shows a rise from 67·2 in the third quarter to 92·9 in the fourth quarter. The regional pattern too reveals the same feature. With the Sterling area the increase in the relevant period was by 25%, as against 11% and 9% in the previous quarters, with the hard currency area by 62% as against 14% and −12% in the previous quarters and with 'other areas' by 9% as against −12% and 13% in the previous quarters. But unfortunately this acceleration was not sustained in the following two quarters, i.e., the first and second quarters of 1950. On the overall position declines were registered in these quarters, though the total value of exports in the two quarters taken together was greater than the total value of exports in the second half of 1949. The volume of exports also declined, the index number falling from 92·7 in the last quarter of 1949 to 84·9 in the first quarter of 1950. The figure for the first quarter of 1950 under the new base (1948-49) was 21 points higher than the base, but in the second quarter it declined by 40 points. The index numbers were 121 and 81 respectively for the two quarters. The commodities which increased in the volume of exports were oilseeds and cotton manufactures and in a minor degree hides and skins, tobacco, shellac and raw cotton. All these experienced sharp falls in the second quarter. With the Sterling area the decline was greater and the first half-year of 1950 compared unfavourably with the second half of 1949 in the total value of exports. This was the case with 'other areas' too, but with the hard currency area the increasing trend continued into the first quarter of 1950 and decline set in only between the first and second quarter of 1950. The total value of exports for the half-year was higher than the previous half-year.

The net effect of these increases and decreases in exports and imports was that in the fourth quarter of 1949, and the first quarter of 1950 there were surplus balances of Rs. 29·6 crores and Rs. 10·2 crores with all areas taken together as against negative or deficit balances in the first three quarters of 1949. The improvement between the third and the fourth quarter of 1949 was of the order of Rs. 63·7 crores, a deficit balance of Rs. 34·1 crores having been converted into a surplus balance of Rs. 29·6 crores. The balance got reduced to Rs. 10·2 crores in the second quarter of 1950 and got converted into a deficit balance of Rs. 20·5 crores in the second quarter of 1950. Identical trends are noticeable in regional trade balances too. The improvement effected was thus shortlived, and whether deterioration would have again set in, in spite of devaluation or not, cannot be determined now, as the situation became radically transformed by the outbreak of the Korean War.

The balance of payments position on current account also changed with the trade position in the same direction, on the overall as well as on the regional pattern, tending to show that the influence of the 'invisible' item was either constant or negligible on the net position.

The lack of any appreciable or long-sustained decline in imports has, doubtless, to be attributed to the predominence in imports of essential goods the curtailment of which was rendered difficult by the domestic requirements, but the irresponsiveness in exports was the direct result of the imposition of export duties, the maintenance of controls and the prevalence of a high level of prices for them. The advantage conferred by a reduced rate of exchange on certain strategic commodities was virtually cancelled by the high export duties imposed. Certain beneficial results might have flowed from this procedure, but the net effect on the trade position was disappointing.

Turning from the trade situation to the level of domestic prices, the most remarkable feature noticeable is the sudden spurt of the General Index of wholesale prices (base, year ended August 1939) to 393·3 in October 1949 from 389·8 in September 1949. In this upward spurt all sectional prices, with the exception of semi-manufactures, participated, with slightly higher rises in Industrial Raw Materials and the Miscellaneous group. Thereafter in November and December of 1949 the General Index declined to 390·2 and 381·2 respectively, thus going below the level which prevailed in August 1949. The index relating to Food articles, Industrial Raw Materials and Manufactured articles registered declines in November, while Semi-manufactures and the Miscellaneous group rose. In December, while Food articles, Manufactured articles and the Miscellaneous group declined, Industrial Raw Materials and Semi-manufactures rose.



From January 1950 onward the General Index started rising, and with minor fluctuations went up in May 1950 to the level attained in October 1949. All sectional price indices too were rising during this period, but the rises were moderate and round about the levels which prevailed in October 1949, except in the case of the Miscellaneous group. Here there was a marked increased.

Taking the period intervening between Devaluation and the Korean War the rise of prices as registered by the General Index was by 1·1% against a devaluation of currency by 30·5 per cent. This rise is almost negligible and goes to confirm the thesis made earlier that under the first kind of devaluation no great rise of prices need be expected. The rise in sectional indices was in some cases higher and in others lower. By March 1950 the Food group, Industrial Raw Materials and the Miscellaneous group rose by 5·9%, 2·6% and 3·4% respectively, while Semi-manufactures and Manufactured articles rose only by 1% each. Doubtless these results were partly due to price control and the deliberate price reduction policy adopted by the Government, but the very success of those measures has to be attributed to the favourable context. The commodities selected for price reduction were foodgrains, cloth, yarn, sugar, steel, pig iron and coal, and in all these cases controlled prices were revised downward after October 1949. On 1st November 1949 the maximum ex-mill prices of cloth were reduced by 4% and the margin allowed to distributors by 6%. Ex-factory price of sugar was reduced from Rs. 29-5-0 per maund to Rs. 28-8-0. The ex-works fair retention price of pig iron was reduced by 7%. On the 23rd November 1949 coal prices were reduced by annas 9 per ton to annas 15 per ton. On the 12th December 1949 selling prices of all categories of iron and steel were reduced by Rs. 30 per ton. In the case of foodgrains, as stated earlier, prices were reduced by 3 to 15% on 28th October 1949, and these became effective in Bombay, Madras, Madhya Pradesh and Madhya

Bharat from 1st November 1949. Ceiling prices for jute goods for export were also fixed on 10th October 1949 at Rs. 55 per 100 yards of hessian and Rs. 1,550 per ton of sacking.

While these prices registered declines, fairly sharp rises took place after devaluation in the prices of tea, black pepper, oil, oil-seeds, raw cotton and raw jute. These rises together with the rise of rupee import prices principally accounted for the inappreciable rise in the General Index of Wholesale Prices.

The General Index of Export Prices started rising steadily from the first quarter of 1950 till the first quarter of 1951, and almost all the principal commodities of export participated in the rise. The General Index rose to 109 in the first quarter of 1950 and to 114 in the second quarter (with 1948-49 as base). For the last quarter of 1949 no index figure compiled by the Reserve Bank of India is available. The commodities which experienced steady rise of prices from the first quarter of 1950 were tea, raw hides and skins, raw cotton, oils, raw materials and jute manufactures. In oilseeds and cotton manufactures the rising trend started only in the second quarter of 1950. As stated earlier, the principal cause of these rises of prices was the export duties imposed on them in order to secure part of the gains of devaluation for the general community.

The General Index of Import Prices (base—1948-49) was 6 points higher than the base in the first quarter of 1950 and rose to 110 in the second quarter. Among the commodities imported, raw materials, iron and steel, other metals, and manufactured articles were at higher levels in the first two quarters of 1950, while cotton and woollen manufactures and chemicals, starting low, rose in the second quarter. Raw cotton and machinery rose in the first quarter, but declined in the second. In cotton manufactures and raw materials the rise was particularly marked.

Comparing export and import prices, during the three quarters which preceded the Korean War, the rise after devaluation was greater in export than in import prices, though the difference was very little. This is contrary to expectations, as one would naturally think that through the direct impact of devaluation on import prices they would rise higher. This phenomenon cannot be explained in terms of a diversion of imports from the hard currency and 'other areas' to the Sterling area, where the change in the rate of exchange was not effective, for it is seen that no appreciable increase in the imports from the Sterling area took place in the first two quarters of 1950. The decline in imports from all areas in the fourth quarter of 1949, noticed already, was, however, less marked in the case of the Sterling area. The increase in the value of imports in the next two quarters was more marked in the case of the hard currency area than with the Sterling area. This higher rise in export prices caused, doubtless, by export duties, stood in the way of any appreciable increase in the volume of exports, and for the most part obliterated the direct advantage of devaluation.



The effect of these rises of prices on cost of living was negligible. The All-India Cost of Living Index Numbers for the Working Class have been compiled only from January 1952 onward with 1944 as the base, but prior to it we have separate index numbers for the principal cities of country. Taking those figures for study it is seen that the highest rise in them between August 1949 and May 1950 was by 13 points. The Bombay Index which was 291 in August 1949 rose to 295 in November 1949 and then decreased to 288 in March 1950 and then rose again to 297 in May 1950. The Calcutta Index which was 354 in August 1949 rose in November to 367. Thereafter it steadily diminished to 331 in February 1950. It rose again to 342 in May 1950. In Madras the index was 327 in August 1949, 334 in December of the same year and 328 in May 1950. Immediately after devaluation there was a tendency for cost of living to rise, but it seems to have been arrested by the price reduction measures taken by Government with special applicability to essential commodities.

On the whole, therefore, as far as prices are concerned, devaluation did not cause any great rise in them. During the period September 1949 to May 1950 we see the pure effects of devaluation and from those effects the interference that may be drawn is that the price situation in India was not in any appreciable degree adversely affected by the measure. What may have happened if the accompanying price reduction measures had not been taken is anybody's guess.

This conclusion is corroborated also by the variation in money supply which took place during the period. From October 1949 to May 1950 the net increase in money supply was of the order of Rs. 96·9 crores against a deflation in the previous 4 months of Rs. 78·3 crores. In October and November the decline in money supply which had started in 1948 and had been incessant till then, continued, and the opposite tendency of increase started only in

December 1949 and continued till May 1950. This period of December to April or May is the busy season in India during which there is a normal increase of money supply, and so the actual increase which took place during the period under review cannot be considered to be anything out of the ordinary.

This increase of money supply in the busy season is largely caused by the emergence export surpluses during the period, and since after devaluation the balance of payments turned favourable to India these surpluses occasioned the increase in money supply. During the same period in 1948-49, instead of there being an increase in money supply there was a decline of about Rs. 8·7 crores occasioned by import surpluses. But during the period under review, the export surpluses were moderate, the increase in money supply was not inordinately large and so prices in general experienced only a moderate rise. Stringent measures were also taken by the Reserve Bank of India to keep down credit expansion, to check speculation and maintain those monetary conditions required for keeping prices stable.

As secondary effects of the rise of prices, of the increased foreign demand for our exports and reduced importation of goods, all following devaluation, one should expect certain changes in production and in the profitability of enterprise. These aspects of the economy too have to be looked into to get a clear picture of the effects of devaluation. But since we have already seen that the primary effects were neither appreciable nor lasting, we cannot expect to see much by way of secondary effects. This is born out by the facts of the case. The General Index of Industrial Production does not show any marked change except in December 1949. From 104·2 in August 1949 it rose to 108·0 in November and to 123·9 in December. Thereafter it fell sharply to 108·2 in January 1950 and steadily declined to 100·8 in April. In May it was back at 104·5, almost the same as in August 1949. Among individual commodities Cement and Chemicals present steady improvement during this period, but in no other line of industrial production is there any improvement noticeable. In Cement the index number rose from 136·8 in August 1949 to 182·4 in December and then declined to 146·1 in May 1950. The index numbers in the case of Chemicals are not comparable, as upto December 1949 they refer to Sulphuric Acid alone, but from January 1950 onwards they are for all Chemicals. In sugar production too there is a rise of the index figure from December 1949 onward, but little inference can be drawn from it, as the industry is unduly affected by the seasons.



In agricultural production the effects can be seen only after a time lag, but since the devaluation was effected in September, in the middle of the agricultural season, some immediate effects also may be expected. In 1949-50 production in cotton, jute and groundnut was higher than the 1948-49 yield, and rapeseed, mustard and sesamum also showed some slight improvement. In linseed and castorseed on the other hand there were falls. But these changes cannot be wholly or mainly attributed to devaluation, for agricultural production generally in India is dependent more on the seasons than on the price factor. The increase in cotton and jute has to be directly related to the intensive campaign carried out to grow more of them as the sequel to the deadlock with Pakistan, and can only remotely be said to be occasioned by the rise of prices.

Whether profitability of industry had risen or not can be discerned from the index numbers of the prices of variable dividend industrial securities. These index numbers are compiled only for four groups, viz., plantations, textile mills, jute mills and coal. They show that fluctuations occurred from month to month, but on the whole there was a steady uptrend in the plantations and textile group beginning from December 1949. The other two groups remained more or less unchanged or declined till May 1950. After May the rising tendency continued in all these, but that may have been due to the new circumstance of the outbreak of the Korean War. The speculative activity which set in these securities immediately on devaluation was arrested by Pakistan's action in respect of her currency and the price reduction policy adopted by the Government. But towards the close of November 1949 the market resumed its upward trend and by May 1950 the quotations were well above those which prevailed in August 1949. In the four groups of securities, viz. plantations, textiles, jute mills and coal, the index numbers for May 1950 were 145·9, 154·4, 84·0 and 112·0 as against 120·1, 151·4, 78·9 and 106.1 in August 1949. These figures reveal that profitability of industry rose or at any rate was expected to rise, but not in any marked degree.

The effects on Governmental finances were partly due to devaluation and partly to the fiscal measures adopted at that time. As a direct effect of devaluation the Government of India had to find additional currency to the tune of Rs. 79·12 crores to make additional payments to the I.M.F. and the I.B.R.D. in respect of India's quota and contribution. This payment was accomplished by the

Government lodging with the Reserve Bank of India non-negotiable non-interest bearing securities to the credit of the I.M.F. and the I.B.R.D. of the total value of Rs. 79 crores. In the Revenue Budget there were increased receipts under customs of the amount of about Rs. 9·35 crores due to the new export duties and higher rates on the old duties, but expenditure also increased by about Rs. 13·57 crores in spite of the economy measures inaugurated under the 8 point programme. These economy measures affected all categories of expenditure and reduced appreciably loans and grants given by the Centre to the States for developmental activity and the Grow More Food Campaign. On balance in the revenue budget there was a deficit of about Rs. 3·74 crores. The overall deficit of the Central Government on revenue and capital account together was Rs. 96·85 crores in 1949-50 against a deficit of Rs. 81·67 crores in 1948-49. Total internal loan receipts of the Government amounted to only Rs. 47 crores against a target of Rs. 85 crores and small savings amounted to only Rs. 25·94 crores. State Governments on the whole balanced their budgets.

On the banking activity too there were well marked trends following devaluation. The busy season of the year which usually starts in October started only in December, principally due to the deadlock in trade with Pakistan and the restriction on imports. But when it started there were less stringent money conditions than in the previous busy season. Bank deposits were steady as a result of the payments surpluses, and bank advances of scheduled banks spurted up immediately on devaluation to the extent of about Rs. 10 crores. But this upward trend did not last long, declines setting in October and November. The total decline in advances during those two months amounted to Rs. 119 crores. In December, however, the busy season commenced and advances started rising again and in the last 4 months of 1949-50 the increase was by Rs. 67 crores.

While the money market on the whole presented easy conditions, there was stagnation in the capital market. Loan receipts of the Government, as already noticed, were below the target. The capital issues sanctioned in 1949 amounted to only Rs. 63·03 crores, one half of what was sanctioned in 1948 and one quarter of what was sanctioned in 1946. 326 companies were involved in these capital issues, most of them being industrial ventures of an immediate character. Devaluation obviously did not occasion a spurt of new activity. Loans given by the Industrial Financial Corporation were in 1949-50 of the amount of Rs. 3·15 crores as against Rs. 29·9 lakhs in 1948-49, and the bonds issued by the Corporation also amounted to Rs. 5·3 crores. But this increase in its activity can hardly be considered as a symptom of the general improvement in investment activity, but was rather a diversion of that activity through a new channel gradually getting well established in the capital market.



This review of the period immediately following devaluation clearly shows that the improvement in the trade position was shortlived, that prices in the country registered only a moderate and expected increase, the effect on the cost of living was negligible, productive activity did not experience any appreciable increase, investment activity continued to be stagnant and governmental finances underwent a slight improvement. But it would be wrong, however, to infer that this was all that devaluation acheived. To find the full effects of devaluation one should examine not the improvement effected over the previous situation which is, no doubt, partly relevant, but the situtaion as it developed in comparison with what would have been the state had the devaulation not been effected. This latter comparison is not possible, for no one can say what might have happened with any definiteness or concreteness. All that is clear is that the situation was fast deteriorating and the devaluation was, doubtless, instrumental in arresting it and in some ways reversing the process. With the devaluation of the Brtiish Pound and the general devaluation that followed, maintenance of the *status quo* had itself become extremely difficult, and the great advantage which flowed from the measure has to be understood as enabling that. It is in negative rather than in positive terms that the benefits of devaluation have to be conceived.

*The Interlude of the Korean War.*

The second period started in June 1950 with the outbreak of tha Korean War and continued till the second quarter of 1951, when owing to the stretching out of rearmament and the slackening of stock-piling inflationary pressures weakened. The Korean War was a major international event, calculated to have far-reaching consequences, political and economic, and the superimposition of that on the economy radically changed its aspect, so that it becomes impossible to isolate the long-run consequences of devaluation from those of the new factor. The situation as it existed during this period, has, therefore, to be considered to be the conjoint result of both. Nevertheless the new factor had greater significance, and much of the developments of the period has to be attributed to it, for, as has already been seen, the force of devaluation was getting exhausted even before the first period closed. For this reason no detailed examination of the period is undertaken here. Only the main features are briefly delineated.

In India the trade position and the balance of payments position both improved from the third quarter of 1950 onward. The deficit of Rs. 20·5 crores in the trade balance in the second quarter of 1950 was turned into a surplus of Rs. 6·9 crores in the third quarter, and the surplus increased to Rs. 33·9 crores in the fourth quarter, but declined to Rs. 5·4 crores in the first quarter of 1951. This decline is principally accounted for by the resumption of trade with Pakistan with which country India had a heavy deficit on the trade balance. The balance of payments on current account too turned positive in the third quarter of 1950 and continued to be so till the second quarter of 1951. The relevant figures are Rs. 13·4 crores, Rs. 41·2 crores and Rs. 19·3 crores for the last two quarters of 1950 and the first quarter of 1951 respectively. The regional pattern also showed definite improvement with the Sterling and hard currency areas, and also with 'other areas' for a shorter period.

The favourable trade balances were more due to increases of exports than to declines in imports. Overall exports increased from Rs. 112·5 crores in the second quarter of 1950 to Rs. 128·1 crores in the third quarter, to Rs. 170·0 crores in the fourth quarter and to Rs. 194·3 crores in the first quarter of 1951. Imports declined only from the second quarter of 1950 to the third quarter, and then continued to increase from quarter to quarter till the end of 1951. The figures from the second quarter of 1950 to the fourth quarter of 1951 are Rs. 133·0 crores, Rs. 121·2 crores, Rs. 136·1 crores, Rs. 188·9 crores, Rs. 211·7 crores, Rs. 224·6 crores, and Rs. 245·0 crores.

The rise in the value of exports was partly caused by increased volume of exports and partly by the rise of prices. Both the quantity index and the price index of exports were on the uptrend throughout the period, but while quantity started falling from the fourth quarter of 1951 onward, the uptrend in prices continued right into the next period. Import prices also after an initial fall in the third quarter of 1950 had this uptrend till the fourth quarter of 1951. The volume of imports, however, had no steady trend.



It rose in the third quarter of 1950, fell in the next and rose again in the subsequent quarter. Export prices rose by 36 points during the period under review, while import prices rose only by 15 points. The demand for the country's exports intensified, especially in jute goods, cotton textiles, raw cotton and waste and raw wool, that it was found necessary to impose fresh export duties on some goods and raise the existing export duties on others. But while exports were being artificially restricted, import controls were being liberalized.

The general price situation in the country also changed in an upward direction. The general index of wholesale prices rose from 395·6 in June 1950 to 438·6 in March 1951 (10·9%), the rise being steady throughout the period. Sectional prices also recorded varying increases. Industrial Raw Material rose by 24·1%, Semi-manufactures by 13·7%, Manufactured articles by 11·4%, Miscellaneous group by 8·9% and food articles by 2·3%. Money supply correspondingly increased by Rs. 105·0 crores. These rises in prices were to a slight extent reflected in cost of living too. The Bombay Cost of Living Index for Working Classes rose from 297 in June 1950 to 316 in March 1951. But in Calcutta and Madras there were only negligible rises, by 1 point in Calcutta and by 6 points in Madras.

Though there was this rise of prices the expansion in production was only slight. From 108·1 in June 1950 the Index of Industrial Production rose to 117·7 in February 1951, but in between these two months there was a fall to 97·9 and then a gradual rise. Production appears to have been hampered by a shortage of raw materials. The rise in the production of cotton was appreciable and in jute moderate, but very slight in the case of the other commercial crops. Foodgrains production showed a sharp fall. But profitability of industry seems to have been higher as evidenced by the rise in the Index Numbers of Variable Dividend Industrial Securities. All the groups registered increases during the period.

Governmental finances reflected the improved condition of the economy. The Central budget had a revenue surplus of Rs. 59·22 crores and a deficit on capital account of only Rs. 62·04 crores. The improved position enabled the Centre to make loans and grants to States of the total amount of Rs. 72·18 crores. State budgets had surpluses on revenue account but deficits on the capital account. Revenue receipts were higher for the most part absorbed, however, by higher expenditure. Surpluses, therefore, were low.

On the whole, therefore, this period registered an improvement on the previous period, particularly seen in the payments position. That position eased beyond all expectations and the dollar problem seemed to be disappearing. This was the result of developments in world trade and the considerable decline which took place in the U. S. surplus. World trade in 1950 was 4% higher in value than in 1949 and 12% higher in volume, and U. S. imports increased by 30%, while its exports declined by 13%. World industrial output was higher by 14%. Inflationary pressures all over raised prices, and India's high prices for exports were not felt as a handicap to trade. In fact, the rise of prices in this country was much more moderate than elsewhere. There was only a rise of 15·7% in India by mid-April 1951 as against 17% in U. S. A., 14% in Canada, 24% in U.K., 15% in France, 28% in Japan and 21% in Australia.

*The Period of Readjustment*

The third period may be said to have commenced with the second quarter of 1951, for by then the impact of the Korean War and the political and economic policies which flowed therefrom had weakened and the economies of the world started recovering from the shock administered by them. The year 1951-52 was a period of readjustment all the world over and the Indian Economy too went through the process throughout the year. Such readjustment had the net effect of eliminating from the economy the effects of the Korean War and its associated policies and enabling the economy to resume its normal trends. It would, therefore, be possible to see in this period the delayed effects of devaluation and the net advantages gained by the country through that measure.

The year opened with a perceptible deterioration in our overall trade balance. From a surplus of Rs. 5·4 crores in the first quarter of 1951 with all areas including Pakistan, the trade balance registered a deficit of Rs. 22·5 crores in the second quarter, a deficit of Rs. 47·7 crores in the third quarter and a deficit of Rs. 74·9 crores in the fourth quarter. In the first quarter of 1952 the deficit was of the order of Rs. 104·5 crores. This was caused by rising importation and diminishing exportation. The total value of imports steadily rose from quarter to quarter, while the total value of exports fell as steadily. The figures for imports are Rs. 211·7 crores, Rs. 224·6 crores, Rs. 245·0 crores and Rs. 265·6 crores for the four



quarters of 1951-52 respectively, and the figures of exports for the same quarters are Rs. 189·2 crores, Rs. 176·9 crores, Rs. 170·1 crores and Rs. 161·1 crores. The total value of foreign trade was increasing, though very slightly, from Rs. 400·9 crores in the second quarter to Rs. 401·5 crores in the third quarter, to Rs. 415·1 crores in the fourth quarter and to Rs. 426·7 crores in the first quarter of 1952, but the contribution of our exports to total trade was at a diminishing rate.

Part of the explanation for this phenomenon has to be found in the importation of essential goods like food and capital goods and essential raw materials. Food imports reached an all time high of 4·7 million tons valued at Rs. 200 crores. The trade with Pakistan developed involving large importation of raw materials at high rupee prices. The Five Year Plan started operating, necessitating importation of capital goods. All these factors, doubtless, contributed to an increase in the value and volume of imports, for alongside of the rise in values there was also a rise in the quantity of imports. The quantity index of imports rose from 81 in the first quarter of 1951 to 100 in the second quarter, to 104 in the third quarter, to 105 in the fourth quarter and to 115 in the first quarter of 1952. Liberalization and relaxation of controls gave a spurt to import activity.

But this by itself offers no explanation for the steady fall in the value and volume of exports. The quantity index of exports fell from 137 in the first quarter of 1951 to 98 in the second quarter, to 87 in the third quarter, to 86 in the fourth quarter and 84 in the first quarter of 1952. There is the clear indication here that while our demand for foreign goods was increasing at a rapid rate in spite of higher import prices, the foreign demand for our exports was as rapidly falling. The cause was our high export prices. The price index of exports spurted up from the first quarter of 1951 to the second quarter from 126 to 183 and rose again in the third quarter to 189. It started falling only in the fourth quarter when it was 175 and continued to fall in the first quarter of 1952 too to 159. Import prices too had an identical trend, but our demand for imports was obviously price-inelastic.

Regionally considered, heavy fall in exportation took place with the Hard Currency area, as also a heavy rise in importation. But deterioration started here only in the third quarter of 1951, but continued unreversed till the second quarter of 1952. With the Sterling Area it was otherwise. After an initial rise in imports in the second quarter of 1951, they went on falling steadily till the second quarter of 1952. Exports to this area fell in the second quarter, rose in the third quarter and fell again in the two subsequent quarters. The trade balance with this area was adverse to this country only in the first two quarters of this period. Figures relating to the regional pattern of imports, exports and the trade balance for the period are given below.

(In crores of Rupees)

| | | 1951 First Quarter | 1951 Second Quarter | 1951 Third Quarter | 1951 Fourth Quarter | 1952 First Quarter |
|---|---|---|---|---|---|---|
| Sterling area including Pakistan | Imports | 84·8 | 105·9 | 104·5 | 90·1 | 82·4 |
| | Exports | 97·8 | 93·7 | 103·1 | 98·8 | 86·3 |
| | Trade Balance | +13·0 | −12·2 | −1·4 | +8·7 | +3·9 |
| Hard Currency Area | Imports | 55·6 | 51·6 | 64·1 | 113·0 | 133·5 (Dollar area) |
| | Exports | 58·6 | 61·2 | 40·4 | 43·7 | 41·7 |
| | Trade Balance | +3·0 | +9·6 | −23·7 | −69·3 | −91·8 |
| Other Areas | Imports | 48·5 | 54·2 | 56·1 | 41·9 | 59·8 |
| | Exports | 37·9 | 34·3 | 33·4 | 27·6 | 33·2 |
| | Trade Balance | −10·6 | −19·8 | −22·7 | −14·3 | −16·6 |

With 'Other Areas' imports were on the whole at higher levels and exports constant or falling, with the result that the trade balance throughout the period was adverse to the country.

But the deterioration in the trade position is not fully reflected in the balance of payments. Rising deficits, no doubt, characterized it, but on the overall position the deficits for each quarter were below the trade deficits. This was directly due to the foreign aid received by the country from various sources and the Invisibles which were throughout favourable. The deficits on current account were Rs. 11·0 crores, Rs. 38·2 crores, Rs. 63·6 crores and Rs. 75·4 crores during the four quarters of the year 1951-52 respectively. It was with 'other areas' and hard currency area that most of these deficits occurred, with the Sterling area the country having had surpluses throughout the period. With 'other areas' there were deficits in all the quarters of the year and with the hard currency area rising deficits in the last three quarters.



While the trade position and the balance of payments position were thus steadily deteriorating and the transient improvement effected by the Korean War was being obliterated, the price situation in the country too was undergoing a radical change. From April 1951 when the General Index of Wholesale Prices reached its highest point of 457·5, a steady downward movement started, which continued unabated, except in October 1951, till in May 1952 it was down at 367·1. Thereafter there was a rise for four months, followed by the re-establishment of the earlier trend till the end of 1952.

Sectional price indices behaved somewhat differently. Food articles and Semi-manufactures had almost the same trend as the General Index, but in industrial raw materials, in manufactured articles and in the Miscellaneous group, though the general trend was in the downward direction, there were occasional reversals of the trend during the period. And just as in the case of the General Index, so in the sectional indices too, with the exception of manufactured articles and the miscellaneous group, the index figure in May 1952 was well below the pre-devaluation level. The decline of prices during the year 1951-52 was by 15·9% as against a rise of 15·0% in 1950-51. By the close of the year readjustment had completely been effected. In sectional prices varying degrees of decline took place against the previous rise, in industrial raw materials by 41·6%, in semi-manufactures by 12·7%, in manufactured articles by 7·4%, in the miscellaneous group by 25·1% and in food articles by 18·1%.

Among commodities tea was steadily falling in price and coffee was steadily rising, raw cotton continued the uptrend till the early months of 1952 and then fell, oilseeds and raw jute experienced intermittent rises and falls, but by May 1952 were definitely low; so was the case with jute manufactures, while coal and cotton manufactures had constant controlled prices throughout the period.

This downtrend in prices was the combined result of the international situation and the domestic stabilization policy. Internationally inflationary pressures were relaxing and disinflation had definitely set in. Within the country export controls were relaxed, the export duties were either abolished or reduced, all internal controls were liberalized, food subsidies were reduced and significant fiscal and monetary measures were inaugurated.

These reductions in prices were hardly reflected in the cost of living for the greater part of the year. The Working Class Cost of Living Index for Madras City remained almost unchanged throughout the period. The Calcutta index ruled at higher levels till February 1952, while the Bombay index on the whole showed a downward trend. There was, however, in all these centres a tendency for this cost to fall towards the close of the year and the early months of 1952-53.

Corresponding to the fall of prices and the deficits on the balance of payments, there was a contraction of money supply to the tune of Rs. 188·2 crores during the year. The restrictive credit policy followed by the banking system, the surplus in Government revenues and the receipt of the sale proceeds of the wheat loan by the Government also contributed to this contraction. This contraction was partly cause and partly effect of the fall of prices. The inflationary pressure generated by the Korean War was definitely being contained. In the monetary field the raising of the bank rate from 3 to 3½% and the notified alteration in the Reserve Bank's method of supplying seasonal finance were the major changes effected, but the Bank was compelled to partially reverse its policy in order to give support to the sagging gilt-edged market.

Governmental finances showed a definite improvement. According to the revised estimates of the year, there was a surplus of Rs. 92·61 crores on revenue account of the Central Government, contributed largely by higher receipts on Costoms, Income-tax and Excise. On the capital account the deficit was only of the order of Rs. 96·46 crores. Actual receipts under new loans were only Rs. 50·36 crores against a target of Rs. 100 crores, but there were increases in T.D.R. and in the repayments by State Governments. State Governments closed their revenue accounts with surpluses and their capital expenditure amounted to only Rs. 127·84 crores.

Production on the whole was on the increase both in the agricultural and in the industrial sector, the industrial sector registering an increase of nearly 10%. The Index Number of Industrial Production was 117·2 in 1951 against 105·2 in 1950 and 128·9 in 1952. Corresponding index numbers for agricultural production are not available.



*The Period Following*

The period of readjustment is thus seen to have been disastrous to the country in her external relations, though internally improvement was registered in the price level, in the control of inflationary pressure, in production and in Governmental finances. But the fall in the price level was shortlived, the upward trend being resumed from June 1952 onward and by September 1953 reaching the pre-Korean level. Thereafter there was a slow decline to 389·4 in January 1954. A sympathetic rise is seen in Cost of Living too, the All-India Index Number (compiled from January 1952 onward) rising from 135 in March 1952 to 152 in July 1953. This rise is partly accounted for by the discontinuance of food subsidies, nevertheless is in part a reflection of the rise in the general price level.

The rise in the general price level could not have been caused by the rise of export or import prices, for both these were falling steadily from the second quarter of 1952 to the second quarter of 1953. The domestic situation was mainly responsible for this, and one would not be far wrong in attributing it to the execution of the Five Year Plan.

On the production side the improvement noticed in 1951-52 continued and industrial production spurted up by 11·5 points in 1952. The production of commercial crops in the agricultural sector did not show much improvement, in some cases definitely falling, but there was a remarkable recovery in foodgrains production.

In spite of this increase in production the volume of our exports did not show any increase, except negligibly, while in value they were falling from quarter to quarter with appreciable falls in the first and second quarters of 1953. These falls were principally with Pakistan, the O.E.E.C. countries and the Dollar area, with the Sterling area and the rest of the non-sterling area the *status quo* being more or less maintained. Imports too were declining in volume and in value till the third quarter of 1953. The decline was greatest with Pakistan and the Dollar area. On the net position we were having deficit trade balances with all areas taken together from the second quarter of 1952 to the third quarter of 1953, with the exception of the fourth quarter of 1952. If the areas are considered separately too this characteristic is seen, for with most of them we were having deficits in most of the quarters. With 'the rest of the non-sterling area' alone we were in a favourable position. The deficits were of lower magnitude, doubtless due to the fall in the value of our total trade.

*Conclusion.*

Taking the whole period following devaluation into account and allowing for the interlude of the Korean affair, it would appear that devaluation has not effected any lasting improvement in our trade position. Except during the period of the Korean War we have been having continuing deficits on our trade balance, and our total trade has been diminishing rather than increasing. But the real trouble has been caused by our food imports, and if the values of these imports are separated from the accounts, they would be seen to be comfortably in balance. For these necessary food imports we could not make payments with our exports, for in the beginning the high export duties stood in the way, and later, after our five year plan had started, the requirements of domestic economy offered effective competition to the export markets. Thus it may be seen that the direct effects which devaluation might have had were nullified by some of the accompanying measures and subsequent developments. As has been stated earlier, devaluation was not conceived in this country as an offensive measure, but rather as a defensive measure against the devaluation of the Sterling and other Sterling area currencies, and as such, it must be admitted, it played a useful role. Maintenance of the *status quo* was as important as wresting new advantages. The state of the economy on the whole at present is no worse than what it was in September 1949.

# PRICE TRENDS IN INDIA SINCE 1939

BY

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## SECTION I: WAR-TIME PRICE TRENDS, 1939-1945

*Price Position on the eve of the second World War*

There is a general uniformity in the international price trends during the years immediately after the Great Depression of the early nineteen thirties. From 1932 onwards, there was a significant revival in economic activity marked by a general upward movement of prices, higher levels of employment, increased production and an accelerated tempo in international trade. This upward trend received a set-back in 1937-38 which affected almost all countries of the world with the exception of Japan where conditions arising out of the exigencies of the Chinese War were peculiar. In the latter part of 1938 however, there were signs of revival, but the adverse turn which international relations had taken at this time undermined both political and business confidence, with the result that something of an international economic crisis set in with all its characteristic features, such as price recession, fall in industrial production and in the level of employment, decline in stock exchange prices and violent fluctuations in exchange rates. This recession in its turn gave place to general business optimism and increased economic activity just before the outbreak of war in September 1939.

This general pattern is observable in the economy of the two leading countries of the world with which India has an intimate trade relationship. After the recession of 1937-38 beginnings of a recovery were visible in the U.S.A. in the latter part of 1938. The index number of industrial production rose from 76 in May 1938 (1923-25=100) to 104 in the last month of that year. In the same year employment figures showed an improvement of 4·5%. Industrial shares however, after improving till November 1938, again receded in December which indicated the trend of general price level also. In the United Kingdom the index number of business activity (1935=100) moved up from 102 in May 1938 to 105½ in March 1939. There was a synchronous improvement in industrial production as well, but wholesale prices maintained a steady but slow decline. Along with that, Britains external trade also suffered, with exports and imports of merchandise declining by 10% in 1938. But in the first half of 1939, the rearmament programme, which was intensified in view of the worsening international situation, helped in the revival of certain industries in the country. Production of pig iron and steel improved and certain industrial shares registered a recovery. Business trends on the whole indicated an improvement.

Being a primary producer India was quite seriously affected by the slackening of foreign demand for raw materials. Between August 1937 and April 1938 decline in prices in India was greater than in the U.S.A. and much more marked than in the United Kingdom. It was 10.5% in India as against 10% in the U.S.A. and 7.4% in the United Kingdom. In India, as in the other countries, the down trend in general price level was arrested by the middle of 1938. It should however be noted that although in the year 1938-39 the index number of wholesale prices improved, yet towards the close of the first quarter of 1939 there was a downward shift. Thus the Calcutta wholesale prices index number (July 1914=100) moved up from 67 in March 1938 to 69 in February 1939, but came down to 68 in the next month. A more or less similar trend is indicated by the Bombay index number also. Furthermore, this general trend in the wholesale price indices hides the sharp fluctuations in the prices of staple export commodities consequent upon the mounting international political strain. Between March 1938 and March 1939 price indices for raw cotton, cotton manufactures, oilseeds, tea and hides and skins receded 6 to 11%, while cereals, sugar and jute (raw and manufactured) appreciated to a significant extent.

Thus the price position in India, as elsewhere, just before the outbreak of war, was unstable. The broad features however are quite clear viz. concentration of the phases of a business cycle in the brief span of two to three years. These fluctuations were mostly due to psychological factors brought into play by the tense international situation. Another significant fact that may be noted is that even before the outbreak of war, some industries in all these countries showed signs of recovery with the acceleration of the armaments programme.

*The different phases in the war-time price movement*

In August 1945 which witnessed the surrender of Japan and the return of peace, the Economic Adviser's index number of wholesale prices in India[1] stood at 244·1. This rise in the general

1. Week ended 19th August 1939 = 100.



level of prices by 144 points was not uniformly spread over the six years, there being considerable variations in the rate of increase from year to year. Nevertheless, three different phases in the movement of prices during the war period can be discerned. First, the speculative boom and crash covering the period September 1939 to August 1940. In the course of these twelve months the general index mounted upto 138.3 in December 1939 and returned to 108.4 in August 1940; second, the period of comparatively steady rise from August 1940 to June 1943 when the general index reached 241.7 points; third, the period of relative stability between June

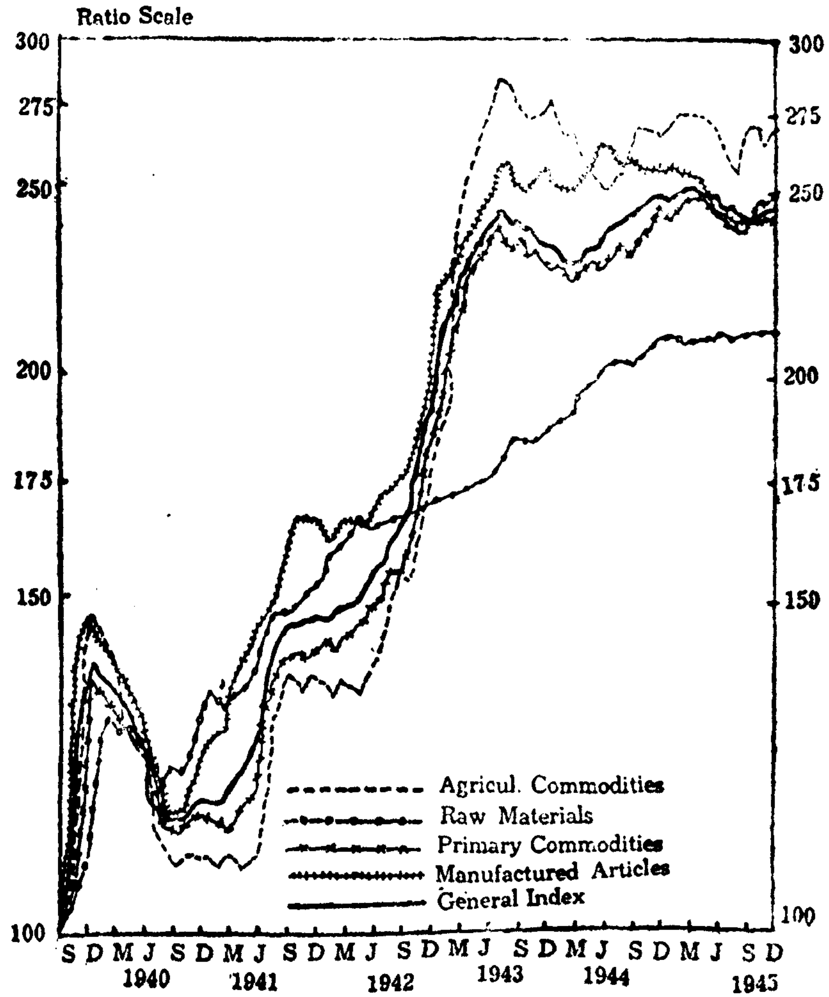


*CHART I.* INDEX NUMBERS OF WHOLESALE PRICES (Sensitive Series)

Base: Week-ended 19th August 1939 = 100.

1943 and the end of the war, August 1945. Chart I illustrates these three phases in the movement of war-time prices in India.

1. *The speculative boom and crash* (*Sept.* 1939 *to Aug.* 1940)

There is a difference in the pattern of price trends in India during the world war of 1914-18 and that of 1939-45. In general, the rise in prices in the first world war was more gradual in the first three years. As compared with the pre-war level, the index number of commodity prices advancd by only 12 points in the first two years and by only 28 points during the first three years. Acute inflationary pressure set in only towards the close of the war in 1917 and in the years immediately following the armistice. On the other hand, in the second world war, there was a sharp upward thrust in the price index soon after the outbreak of hostilities. In the first five months of war the general index of prices went up by 38 points. For more than a decade after the second year of war price-level continued to rise but with considerable fluctuations in the upward movement.

Even before the outbreak of hostilities, the worsening international situation and actual preparations for war resulted in an increased demand for raw materials which helped in the rise of raw material prices all over the world. In India the index number of wholesale prices (Base 1873 = 100) which was moving around 131 since the second quarter of 1938, suddenly spurted to 137 in May 1939, four months before fighting commenced. That higher prices of raw materials were largely responsible for this sudden rise can be known from the fact that while in the first six months of 1939 the index number of the price of raw cotton advanced from 64 to 71, that of cotton manufactures steadily declined from 93 in January 1939 to 88 in August.

This export boom in raw materials which accounted for the rise in prices in the few months preceding the outbreak of war received a sharp check when hostilities actually opened. With the difficulties of obtaining freight and insurance, overseas trade came to a standstill and exporters met with serious losses because they were forced by circumstances to unload their purchases in the local market at a loss. This, however, was a very temporary phenomenon. It soon disappeared in a speculative deluge. This speculative demand which in reality was a hoarding demand, covered almost all groups of commodities, raw materials, manufactured articles and even imported goods. The race for the accumulation of stocks started and with that prices shot up owing to the belief on the part of the businessmen and traders that the intensification of



economic warfare would mean brighter prospects for Indian industries and agriculture. The hoards were built up with the hope of making enormous profits when supply declined or dried up and demand increased in future. The result is seen in the mounting up of the general index number from 100.3 in August to 138.3 in December 1939. This spurt in commodity prices showed itself in all centres of the country. In Madras, the price of rice, the chief item of food, went up by 10 to 20%, the wholesale price of sugar rose by 30%, castor, cocoanuts and copra, important articles of export, by 40 to 50% and cocoanut oil by 64%.

The rise in prices consequent upon speculative demand was not peculiar to India but common to most countries of the world. There is however, one special feature about this sudden price rise in India. In this country increase in prices covered all groups of commodities—food articles, raw materials, manufactured articles, import goods and export goods. This may be seen from the following table:—

*Index Number of Wholesale Prices—Base July* 1914 = 100

| Articles | Calcutta August 1939 | Calcutta October 1939 | Bombay August 1939 | Bombay October 1939 |
|---|---|---|---|---|
| Foodstuffs: | | | | |
| Cereals .. | 83 | 93 | 88 | 95 |
| Pulses .. | 96 | 104 | 95 | 108 |
| Foodgrains .. | — | — | 89 | 98 |
| Sugar .. | 162 | 161 | 136 | 158 |
| Tea .. | 140 | 152 | — | — |
| Other Food .. | 114 | 155 | 154 | 164 |
| All Food .. | — | — | 110 | 121 |
| Raw and Manufactured Articles: | | | | |
| Oilseeds .. | 101 | 107 | 95 | 98 |
| Raw Jute .. | 57 | 76 | — | — |
| Raw Cotton .. | 64 | 79 | 67 | 76 |
| Jute Manufactures .. | 79 | 126 | — | — |
| Cotton Manufactures .. | 97 | 107 | 88 | 92 |
| Other textiles .. | 90 | 168 | 83 | 83 |
| Hides and skins .. | 63 | 74 | 99 | 99 |
| Metals .. | 142 | 153 | 131 | 227 |
| Other raw and manufactured articles | 93 | 103 | 120 | 130 |
| Teak wood .. | 121 | 123 | — | — |
| All non-food .. | — | — | 99 | 122 |
| All Commodities .. | 100 | 118 | 103 | 121 |

The figures in the Table show that just a month after the outbreak of war, food articles moved up from 110 to 121 (Bombay Index) or increased by 10 per cent. Raw jute and cotton gained 19 and 16 points respectively (Calcutta Index). There was a spectacular rise in the prices of jute manufactures and other textiles as well. Export goods, like hides and skins and metals, were no exception.

As against this, in many other countries which experienced a similar boom, the rise in prices was not general, but concentrated mostly on raw materials. According to the League of Nations Monthly Bulletin of Statistics for February 1940, the prices of most of the primary products of the world, such as maize, hogs, linseed and cotton seed oil, cotton, raw silk, rubber, timber, crude petroleum, copper, lead, silver, etc., went up much more rapidly than the prices of manufactured articles with the result that the price descrepancy between these two groups of articles, which had been widening in many countries since the collapse of raw material prices in 1937, narrowed down considerably by the end of 1939.

Towards the close of the first quarter of 1940, the general rise in price level which had followed the outbreak of war had been stopped or reversed in a number of countries, in particular in the large raw material producing countries—South Africa, Argentina, Canada and the United States. In India, the initial spurt in the price level which commenced from the first month of war had nearly spent itself by June 1940. Prices reached the peak level in the first phase of the price movements in India in December 1939 when they were 38 points higher than in August 1939. Since then there was a decline. The ostensible causes for this reversal cited by Government representatives were the price control measures adopted by the Central and Provincial governments and the publication of the Excess Profits Tax Bill on the 27th January 1940. Doubtless the fear of increased government control of prices and the realisation that with the coming into force of the Excess Profits Tax, a large slice of the income from business would be appropriated by the State had a dampening effect on business activity in general and thereby kept prices from going beyond control. Yet, the real factors responsible for the down turn in the first half of 1940, which was as spectacular as the up trend in the preceding four months, were partly the natural reaction to the speculative boom and partly the political developments in Europe as the war got into its full stride. There was the general feeling that the initial rise had been overdone. The hoarding demand had reached



the saturation point and its decline affected total demand. The dishoarding of a large amount of accumulated stocks caused some sort of a temporary glut in several sectors of the market with the result that prices came crumbling down. Furthermore, the virtual loss of all external markets to India with the exception of Great Britain, consequent on the intensification of war, seriously affected business prospects in the country, so that from the beginning of 1940 the commodity markets were in a subdued condition. The situation worsened in May and there was panic in almost all the share and commodity markets and prices came down rapidly under heavy selling pressure. The developments in Europe in June 1940 introduced a feeling of uncertainty in the business world and the prices of most staple commodities registered a sharp down trend and in some cases reached their pre-war levels. Naturally, export articles were hit the hardest. Thus, in the first six months of war, the index number of the price of raw jute declined from 130 to 80, jute manufactures from 172 to 94 and raw cotton from 122 in December 1939 to 68 in June 1940; in the same period cotton manufactures fell by 16 points and oilseeds from 126 to 97, i.e. by 29 points. The more marked decline in the prices of export articles suggests that the loss of foreign markets and the reaction to speculation were responsible for the recession in prices in a greater measure than early government attempts at control.

2. *Period of Rise (August* 1940 *to June* 1943)

While the speculative factor had spent its force in less than one year, there were other long sustaining forces at work which asserted themselves in the latter half of 1940. These factors, essentially of a war-time character, set in motion an upward trend which continued till towards the middle of 1943. Although the general tendency was upward, the rise was neither steady nor continuous, there being periods of slow increase succeeded by periods of quite rapid rise. On the basis of the rate of increase, it is possible to distinguish four different stages in this three-year period. Between August 1940 and April 1941, the rise was slow, the general index moving from 108.4 to 116.4. Between these two points of time Agricultural Commodities remained on the whole low but with considerable fluctuations touching the low level of 94.5 in February 1941 and reaching the maximum of 107.1 in September 1940. On the other hand, industrial raw materials and manufactured articles showed a rather steady upward trend. Between April and August 1941 all groups moved up, but agricultural commodities, which hitherto lagged behind the general index. jumped from 103.2 in April 1941 to as high as 152.7 in August—a rise of 48% in the short period of five months. After a sharp decline in December 1941 shared by all groups, the upward trend continued in the third stage December 1941 to April 1942; but the rate of increase had considerably slackened. In the last phase of this period from April 1942 to June 1943 there is again a steep rise. During this period manufactured articles went up by 59% and agricultural commodities by 67%, while the general index moved from 145.9 to 241.7, a rise of 66%.

The rise in the price level during the three-year period—mid 1940 to mid 1943—was quite significant, and the factors responsible for this rise paved the way for a dangerous inflationary condition in the country. Nevertheless, the seriousness of the situation was not realised at this stage. In fact, the rise in prices was welcomed by the business classes in so far as it represented a recovery from the effects of the depression of the nineteen thirties. The substantial gains made by businessmen as a result of the decline in imports and increased local or war demand were welcomed and justified on the ground that the surpluses thus accumulated in the war period would stand the manufacturers and traders in good stead in the difficult period of reconstruction after the war.[2] In view of this attitude of business towards price trends, it is not surprising that the Reserve Bank remained quite unperturbed. In its Report for the year 1940-41 the Bank remarked, "A general review of comparative price trends since the outbreak of war, indicates no tendency of an abnormal or inflationary rise in prices in India and the rise that is evident from the figures would appear to be incidental to the general disequilibrium in production and trade caused by war".[3] Nor was government's attitude different. Although cost of living had nearly doubled itself at the close of 1942 since the outbreak of war[4] and there was increasing pressure put forth by the employees in mills and factories as well as in government service for higher wages and dearness allowances, and although such allowances had begun to be granted even in 1940 and had been raised in the following years, government does not seem to have woken up to the inflationary potentialities of

2. *Commerce*, 15th March 1941, p. 309.

3. Report on Currency and Finance, 1940-41, p. 5.

4. Between August 1939 and December 1942, the Bombay cost of living index rose from 105 to 188 (1934 = 100), the Madras cost of living index from 98 to 158 (1936 = 100), and the Cawnpore cost of living index from 100 to 224 (August 1939 = 100).



such a situation. Its attitude was mostly a wait and see one. Annual price control conferences had been called together since October 1939 with the view ostensibly of holding the price line and thus relieve the distress among the wage earners and the fixed income groups, yet nothing material was done in these conferences and the upward tendency of prices continued.

In reality, the movement of prices was haphazard and unsteady so that while a certain section of the people benefited, others suffered. Throughout this period of rising prices, manufactured articles maintained a higher level than primary products. The explanation is to be found in the fact that with the worsening of the war situation and the spreading of hostilities to the Far East also, imports of foreign manufactured goods practically stopped. In view of the shortage of capital equipment and the difficulty or even impossibility of importing capital goods from outside, the manufacturing concerns in India were not in a position to cope with the situation created by swelling unsatisfied consumer demand at home. Besides, owing to acute pressure on the railways and general transport difficulties, it was not possible to ensure proper distribution of the limited stock of the manufactured consumption goods. On the other hand, the prices of raw materials did not go up to the same extent because, although there was an expansion in war demand, the transport of these goods across the seas to foreign markets became an insurmountable difficulty. Thus agriculturists were for quite a long time in an unenviable position. The overall result of this situation was that the economy of the country as a whole did not benefit by this rise in prices. This feature was common to all agricultural and less developed countries whose exports are mostly primary products and their imports mostly manufactured articles. Thus in Argentina, in the second and third years of the war the prices of agricultural products, which constitute the bulk of the country's exports, were severely affected by the loss of European markets. They dropped by 15% between August 1939 and January 1941, while non-agricultural goods went up by 28% during the same period. The effect of this is seen in the adverse balance of trade position of countries belonging to this group.

Apart from deficiency in production, particularly in the industrial sector which itself was due mainly to transport bottlenecks and shortage of capital equipment, one of the major factors responsible for the rapid rise in the general price level in 1941 and 1942 was the expansion in money supply. Between August 1939 and

September 1943 currency notes in circulation in the country increased from Rs. 169 crores to Rs. 760 crores or by more than four times and the demand deposits of scheduled and non-scheduled banks went up from Rs. 141 crores to Rs. 473 crores or by nearly three and a half times. Although such an increase in money supply was quite a common feature in most of the countries, yet the rate of increase in India was among the highest as is shown below:—

*Increase in note circulation between the end of 1939 and the first quarter of 1943*

| Country | Percentage of rise |
|---|---|
| Switzerland | .. 24 |
| Sweden | .. 35 |
| United Kingdom | .. 67 |
| Germany | .. 106 |
| U.S.A. | .. 114 |
| Australia | .. 118 |
| Belgium | .. 154 |
| France | .. 163 |
| India | .. 179 |
| Canada | .. 209 |

(Source: 'Commerce', 18th September 1943, p. 408)

In India the expansion of currency was facilitated by the method of financing British purchases in the country. As a result of H.M.G's. purchases in India and also of other expenses incurred in this country in connection with the operations in the Middle East and the Far East, our sterling balances with London mounted up rapidly. Actual financing of these purchases in India was done by the transferring of the sterling balances to the Reserve Bank of India which issued currency notes on behalf of the government. This new purchasing power first found its way into the hands of military contractors and others with whom government had direct contact and helped initially in the rise of prices of articles directly required for war. Subsequently, when the supplies of such goods had enhanced purchasing power, the effective demand for foodstuffs and all other goods increased and the general price level was pushed up. With every such increase in the general level of prices, government had to put more money into circulation in order to get the same quantity of goods, so that inflationary pressure gathered momentum at every turn and the prices went up in a snowball fashion.



The implications of this tendency, however, seem to have impressed neither the government nor the Reserve Bank of India. As late as the middle of 1942, Sir James Taylor, then Governor of the Reserve Bank, argued that rise in prices was not due in the main to currency expansion, but due to non-monetary factors, such as the failure of the provincial governments to enforce control measures in conformity with the requirements of the Central government, transport difficulties, large purchases made by H.M.G's. government and the high prices paid by the Supply Department in respect of purchases made by it on behalf of the government. Similarly, the Finance Member in his speech introducing the Budget for 1943-44 stated that the rise in prices was due to shortage and hoarding of goods and not due to currency expansion.[5] The leaders of business went a step farther. Thus according to G. D. Birla, there was in reality no expansion of currency in so far as increase in the volume of currency was offset by a fall in the velocity of circulation of bank deposits. He attributed rise in prices to fall in production and shortage of goods. While this interpretation of the situation by a representative of the business class is quite understandable in the light of the fact that inflation like any other social phenomenon creates certain vested interests,[6] the attitude taken by the Government and the currency authority of the country cannot be condoned. In effect, the purchases of H.M.G. meant only the lending of real resources by the Indian government to Great Britain; and in so far as this lending was not matched by real savings in the country but involved an expansion of currency, the inflationary potentiality of that financial arrangement is obvious. The incurring of expenditure by H.M.G. in India resulted in an increase in the supply of money in the country, while at the same time it caused the removal of the resources available for consumption at home. In short, while the supply of money was increased, the local demand for money was decreased by limiting the amount of goods available in the country which could meet the expanded volume of money. The inevitable result was the fall in the value of money.

In actual fact, monetary inflation had assumed quite serious proportions towards the close of 1942. There was even flight from currency to a small extent as indicated by the fact that by the middle of 1942 even when the war news was unfavourable, the

5. Budget for 1943-44 (Government of India, Finance Department).
6. Economic Survey, 1919-1939: Arthur Lewis (1949), p. 24.

tone of the Bombay Stock Exchange was quite strong. This suggests the strong preference for shares developed by the public as a safeguard against capital loss in the context of rapidly rising prices and growing scarcity of goods.[7] The fact also remains that the increased volume of money did not exert its full pressure on prices in so far as the velocity of circulation of bank deposits and most probably of currency notes as well, actually declined. This however had an ominous significance in as much as it constituted a potential source of run away inflation if at any time the confidence of the public in the financial stability of the State was impaired.

Besides monetary expansion, there were other causes at work which pushed up prices during this period. The speculative rise of the first few months of war had given place to a set of persistent and more powerful factors stemming from the abnormal conditions brought on by war. The rise since the middle of 1940 was chiefly due to increased war demand as against restricted supply, increased cost of imported materials required for local manufactures, improved purchasing power of certain classes, progressive increase in government expenditure, transport difficulties and certain purely local causes in some cases. By the middle of 1941, there was a sharp rise in the prices of many of the consumption goods at important centres like Bombay, Calcutta and Madras. The spectacular rise in piecegoods prices was due to the elimination of Japanese competition, fall of imports from Britain and increased export demand for Indian products. The flare up in the Far East in December 1941 and the failure of the various annual price control conferences to do something effective to hold down prices account for the sudden spurt in 1942. Last but not least, speculation at this time once again showed its head. Speculative cornering became quite rife in the markets for food items, such as wheat, rice and tea. It gathered strength with the increasing strain of military orders for goods on the nation's economy and manifested itself in every channel of trade.

In a study of war-time price trends, the period of three years from the middle of 1940 and the middle of 1943 has a special significance in so far as 98% of the price rise since August 1940 till the end of war had taken place during this period. A review of the broad features of the rise in price during this period will not therefore be out of place here.

7. World Economic Survey, 1939-41 (League of Nations), p. 111.



It should be mentioned at the outset that the general index indicates only very broadly the pattern of price movements in a country. It hides the extent to which the price movements of various groups divulge from one another and sometimes take quite opposite courses. Such disparities are not surprising in normal times and quite common in the peculiar circumstances brought on by war. The explanation for this phenomenon is to be found in the fact that the nature of demand varies with changes in the pattern of income distribution, that the supply of some articles is more elastic than that of others, that there is considerable variations in the degree of competition in the markets for different articles and that in the case of some articles there is an element of price rigidity owing to the interference by the State, monopolistic practices or the influence of customs. It is thus clear that for a proper understanding of the movement of general indices, a correlation of the price movements of the different groups of articles on which the general index is based is necessary.

A glance on the graph on p. 35 would show that the general index rose only slightly between August 1940 and May 1941, but registered a sharp increase between April 1942 and June 1943. The relatively slight rise in the first period was due to two nearly opposite pulls on the general index. Throughout this period the prices of manufactured articles and industrial raw materials remained much higher than the prices of other groups. On the other hand, the prices of food articles and primary commodities on the whole remained low. It may also be observed that although general index gained only 13·1 points between August 1940 and May 1941, yet it was subject to considerable fluctuations, especially in 1941, as is shown below.

*General Index Numbers of Wholesale Prices*
(Economic Adviser's Index)

| | |
|---|---|
| January 1941 | .. 114·8 |
| February 1941 | .. 111·1 |
| March 1941 | .. 118·8 |
| April 1941 | .. 116·4 |
| May 1941 | .. 121·5 |
| June 1941 | .. 130·2 |
| July 1941 | .. 140·9 |
| August 1941 | .. 142·5 |

(Source: Monthly Survey of Business Conditions in India)

This fluctuation is only a reflection of the much wider fluctuations of other agricultural commodities, raw materials and food articles. Of these the first shows the greatest unsteadiness. The variation of this group ranged from 94·5 in February 1941 to 152·7 in August of the same year. The indices of food articles, raw materials and primary commodities were also fluctuating in a comparatively wide range.

The steep rise in the general index in the four month period May to August 1941 is quite typical of the movements of prices of all groups. However, in this short period the rate of increase in the prices of other agricultural commodities, food articles and primary commodities (49%, 24% and 23% respectively) was higher than the rate of increase in manufactured goods (22%) and industrial raw materials (14%). Between April 1942 and July 1943 all groups showed a marked rise, but manufactured articles, other agricultural commodities and food articles moved up more rapidly than industrial raw materials and primary commodities. The steep rise of manufactured articles was obviously due to the virtual stoppage of imports consequent upon the extension of the war. The fall of Burma is immediately reflected in the movement of the price index of rice. From 218 in February 1943 it jumped to 496 in the next month and touched 1034 in August 1943.

Since the general index of wholesale prices is constructed on the basis of mostly controlled prices, its trend does not indicate correctly the extent to which consumers, mostly of the middle and lower strata of society, were squeezed by the price rise. In this respect, despite its defects, the cost of living index is a better measure of the burden on the average consumer. The close movement of the food index with the cost of living index especially since August 1941 is quite natural in a country such as India where the major part of the average consumers' expenditure is on food items (See Chart II). The fairly wide bulge between the general index curve and the cost of living index curve between mid 1941 and mid 1942 is due to the fact that during the greater part of this period food prices remained well below the prices of the other groups. It should however be mentioned that the cost of living index is at best a very crude measure of the reaction of price movements on the standard of living of the community. It indicates the growth of expenditure on articles of food mostly, and to some ex-



tent on other articles entering into popular consumption. It does not at all suggest to what extent these consumption goods at controlled prices were actually available to the consumer and thus it

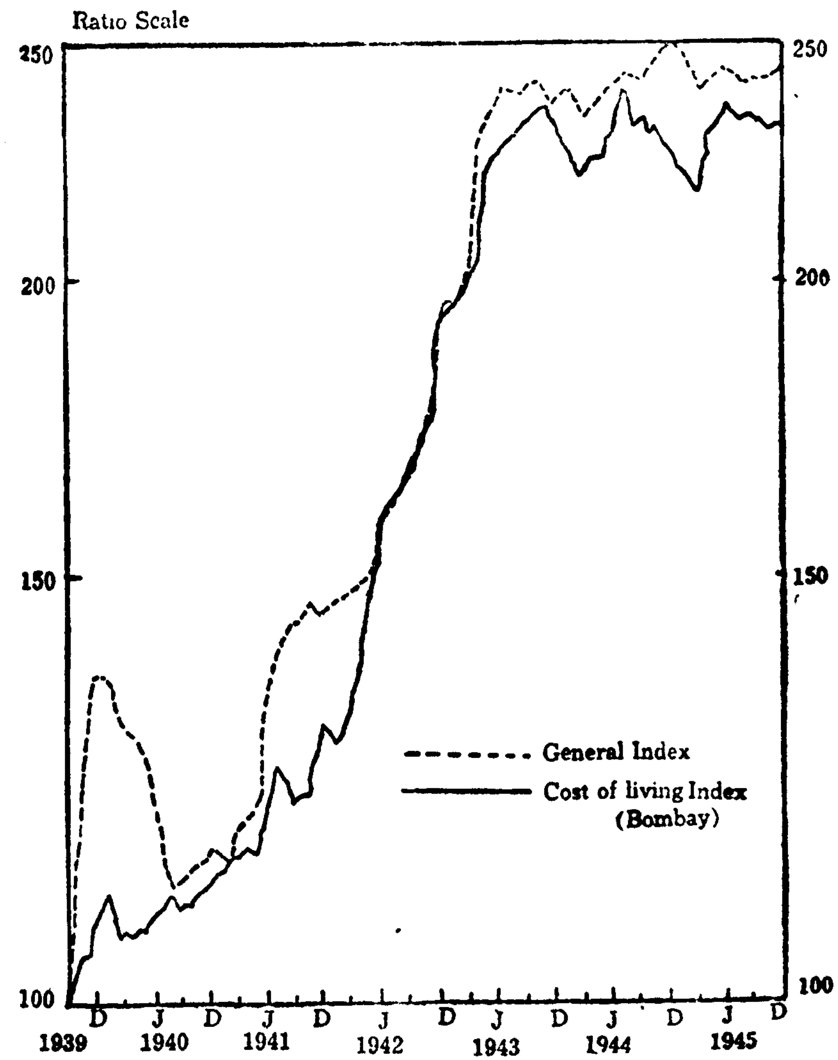


*Chart II.* GENERAL AND BOMBAY COST OF LIVING INDEX NUMBERS

fails even vaguely to indicate the psychological implications of a scarcity of necessary goods and its effect on the health and well-being of the community. In a word, it is not an index of the real burden borne by the community in those abnormal years.

With the rapid increase in food prices, since the first quarter of 1942, the bulge between the general index and the cost of living index gradually disappears and since April 1942 till the close of the war the two indices move quite close together.

### III. *Period of relative stability* (*June* 1943 *to August* 1945)

The last phase in the price movement during the war period, from the middle of 1943 to the end of the war in 1945, is characterised by a great degree of stability in prices, although this stability was maintained at a high level. Between June 1943 and August 1945 the general index gained only 2.4 points as against its rise by 116.7 points in the preceding corresponding period of 27 months i.e. from April 1941 to June 1943). Of the total increase of 135.7 points over the entire war period since the middle of 1940, 1.8% of the rise took place in the 26 months period between June 1943 and August 1945 and as much as 70% of the rise occurred in the 14 months period between April 1942 and June 1943. The following quarter end figures illustrate the satisfactory price position attained in the country during the last two years of war.

*Price Indices: Quarter-end Figures*

| | | All primary commodities | Manufactured articles | General index | Bombay cost of living |
|---|---|---|---|---|---|
| 1943-44 | I | .. 238·8 | 263·5 | 244·0 | 235 |
| | II | .. 237·5 | 252·3 | 240·6 | 245 |
| | III | .. 232·2 | 251·6 | 236·3 | 247 |
| | IV | .. 231·8 | 259·8 | 237·6 | 223 |
| 1944-45 | I | .. 240·1 | 260·1 | 244·3 | 236 |
| | II | .. 238·5 | 258·1 | 242·6 | 239 |
| | III | .. 247·8 | 257·8 | 250·0 | 236 |
| | IV | .. 246·8 | 252·8 | 248·1 | 225 |
| 1945-46 | I | .. 240·3 | 244·7 | 241·3 | 235 |
| | II | .. 243·8 | 243·1 | 243·6 | 240 |
| | III | .. 251·6 | 235·2 | 247·9 | 242 |
| | IV | .. 257·4 | 242·8 | 254·2 | 247 |

(Source: Report on Currency and Finance, 1945-46, p. 14)



It may be seen from the above table that the general index touched the lowest point (236) in this period in the third quarter of the financial year 1943-44, i.e the last quarter of 1943, and since then it fluctuated between 240 and 250 and in the third quarter of 1945 stood at 243.6. While primary commodities reached the lowest point 231.8 in the first quarter of 1944 and thereafter tended slowly to rise with some oscilations, manufactured articles show a reverse trend. In 1943 there is a steady decline in this group, a rise in the first half of 1944 and thereafter again a downtrend reaching the low level of 235.2 in the last quarter of 1945.

The effect of price stability attained in the last two years of war is reflected on the cost of living indices. The range of wholesale prices in 1944 was 11.2, while it was as high as 51.3 in the previous year. This stability combined with the introduction of food rationing in the urban centres and the close supervision exercised by the Central and Provincial governments in the matter of procurement and distribution of food articles maintained the food index at a relatively low level. The cost of living indices and the retail price index numbers (by groups) of different centres in the country prepared by the Labour Department of the Government of India show clearly that prices of most of the necessary articles of consumption, such as food and clothing, were kept within bounds during this period.

This satisfactory price position at the end of the war period was in a large measure due to the effective control measures adopted by the government. Although schemes of control were drawn up soon after the war broke out, yet there was no proper co-ordination of the schemes. The plans drawn up by the Central and the Provincial governments were put into execution with different degrees of strictness and without reference to the functioning of the overall scheme. It was only when prices of many commodities had shot up to very high levels in the latter part of 1942 and early in 1943 that government woke up to the need for tightening up controls. It should, however, be added that it was not merely the slowness with which some of the measures of control were enforced that was responsible for its ineffectiveness in the first few years of war. A point that is quite often forgotten is that during this period government had little co-operation from vast sections of the community in this policy and in certain respects had to work against the opposition of vested interests. Whatever may be the explanation for the laxity in the administration of control measures upto 1943, the fact remains that it was only in the latter part of that year that the matter was taken up seriously and the measures were enforced strictly. The control mechanism had by this time passed the long period of testing and trial and the economy of the country had also been fully geared to the needs of war and the economic pattern of the country itself had undergone a change with the result that the different sectors of the nation's economy had become more amenable to control.

The various control measures adopted by the government involved a three-prolonged attack on the soaring price level; firstly, improvement of the supply position in the country; secondly absorption of excess purchasing power; thirdly, control of speculative dealings and the cornering of commodities. The supply of commodities required for home consumption was sought to be improved by encouraging better production and better distribution, tightening up of export controls by imposing restrictions on the export of a variety of articles like textiles and leather goods and the liberalising of the import of several consumer goods. Mostly as a result of the Hydari Mission to the United Kingdom, arrangements were made for the securing of larger imports of consumer's goods from the United Kingdom, and for reducing the overall demand of the Defence services on Indian production. Besides, government undertook to import raw material, stores and machinery required for the manufacture of consumer's goods on government account for subsequent sale to industry in the country. And the gradual repatriation of foreign troops, following the cessasion of hostilities relieved, not a little, the strain on the country's supplies in the latter part of 1945.[8] Measures to absorb the excess purchasing power in the country which was a constant source of inflationary pressure were mostly of a financial character and comprised such schemes as the immobilisation of company profits, collection of taxes from business houses in advance, sale of gold and silver to the public and the collection of surplus money from the people by savings drive, prizebonds, etc. Lastly, the speculative evil was attempted to be controlled by rigid enforcement of the Hoarding and Profiteering Prevention Ordinance by the Controller General of Supplies. A ban on Cotton Futures Market was put into effect in May 1943 and was extended to practically all futures markets in commodities and bullion in the next month. Even before the measures came into operation, the warning administered by

8. Report on Currency and Finance, 1945-46, p. 19.



the Finance Member in his speech in the Legislative Assembly on March 17, 1943, threatening severe government action against unhealthy speculation in the cotton market had the necessary dampening effect on the prices of certain export commodities.[9] Furthermore, the prospects of the end of war and the return of peace had a sobering effect on speculative activity in the commodity and bullion markets.

*A Comparison with Other Countries*

An interesting feature of the price trends in the last stages of the war is the great degree of uniformity in several countries. Price stability between the middle of 1943 and the end of the war in 1945 is not a feature peculiar to India but common to most countries of the world which have attained different standards of economic and political development. It applies to countries actively engaged in war as well as those neutral countries which escaped the direct consequences of a shooting war. It applies to predominantly agricultural countries like India and Argentina as well as to highly industrialised and developed countries. The Table below shows that in all these countries the tendency of prices was to stabilise as the war was drawing to its close.

*Wholesale Prices: Percentage Increase (+) or decrease (—) in each of the calendar year*[10]

| Countries | 1940 | 1941 | 1942 | 1943 | 1944 |
|---|---|---|---|---|---|
| Canada .. | + 3 | +11 | + 3 | + 6 | 0 |
| Sweden .. | +21 | +12 | + 9 | 0 | 0 |
| Switzerland .. | +31 | +21 | + 8 | + 2 | 0 |
| India .. | —15 | +29 | +54 | +27 | 0 |
| U.S.A. .. | + 1 | +17 | + 7 | + 2 | + 1 |
| Australia .. | +12 | + 5 | +12 | + 1 | + 1 |
| New Zealand .. | +13 | + 9 | + 7 | + 6 | + 1 |
| United Kingdom .. | +21 | + 5 | + 4 | + 1 | + 2 |
| Germany .. | + 3 | + 2 | + 2 | + 1 | + 2 |
| Denmark .. | +34 | +10 | + 2 | + 1 | + 2 |
| Palestine .. | +25 | +46 | +34 | +13 | + 3 |
| Argentina .. | 0 | +39 | +13 | + 6 | + 6 |
| Spain .. | +17 | +19 | +12 | + 7 | + 8 |
| Portugal .. | +23 | +10 | +19 | +22 | + 9 |
| Egypt .. | +15 | +29 | +38 | +17 | +13 |
| Japan .. | 0 | +11 | + 3 | + 9 | +14 |

9. *Monthly Survey of Business Conditions in India*, March 1943, p. 446.
10. The Eastern Economist, 17th August 1945, p. 236.

It may be observed that of the sixteen countries listed above, only in six was the rate of increase in wholesale prices in 1944 greater than in the preceding year and only in one (Japan) was the rate of increase in 1944 higher than in 1942.

The similarity in the price trends in various countries is, however, observable only in the closing stages of the war. It was quite inevitable that the huge expenditure incurred by all the leading countries of the world for military purposes and the concentration of their productive power on the waging of the war, should have serious repurcussions on the economy of the neutral countries as well. The inflationary situation in most of the countries during the war and subsequent to it, whether they were actively engaged in fighting or not, is therefore not surprising. But though the rise of commodity prices was common all the world over, yet there was considerable variation in the degree and in the timing of the advances, depending on the extent of self-sufficiency, inflationary pressure, the efficiency of control, etc., in various countries. The following classification based on the degree of price rise gives an idea of the relative position of different countries in this respect.[11]

1. Less than 50% rise in the wholesale prices during the war .. U.S.A., Australia, Canada, Germany.
2. 50 to 100% rise .. United Kingdom, Japan, Norway, Sweden, Belgium, Netherlands, Mexico.
3. 100 to 250% rise .. Spain, Switzerland, Portugal, Argentina, Chile, Peru.
4. More than 250% rise .. India, Middle East Countries.
5. Runaway inflation .. China, Greece.

This disparity in price movements cannot be explained by the extent to which currency was expanded in these countries. The following figures (p. 53) show clearly that there was no correlation between the degree of currency expansion and the degree of rise in the price level. It is seen that in Canada, U. S. A. and Australia the increase in currency note circulation was the greatest, while rise in prices was the lowest. On the other hand, in Spain and Switzerland currency expansion was not significant, but the rise in prices was quite high. In India alone there is a correspondence between the degree of increase in note circulation and price level.

11. Eastern Economist, September 7, 1945, p. 347.

*Notes in Circulation (in millions of the National Currency Units)*[12]

| Country | 1939 | End of 1945 | Index numbers of prices (1939 = 100) | Grouping according to degree of currency expansion |
|---|---|---|---|---|
| 1. Japan .. | 3818 | 28456 | 745 | |
| 2. India .. | 2245 | 12109 | 539 | |
| 3. Canada .. | 233 | 1129 | 484 | |
| 4. France .. | 151322 | 570006 | 377 | ...han 250% |
| 5. U.S.A. .. | 7598 | 28507 | 375 | |
| 6. Australia .. | 57 | 200 | 351 | |
| 7. Portugal .. | 2494 | 7847 | 315 | |
| 8. Turkey . | 281 | 880 | 313 | |
| 9. Chile .. | 950 | 2657 | 280 | |
| 10. Norway .. | 575 | 1478 | 257 | 100 to 250% |
| 11. Belgium .. | 27994 | 70376 | 251 | |
| 12. United Kingdom .. | 555 | 1380 | 249 | |
| 13. Argentina .. | 1191 | 2722 | 228 | |
| 14. Sweden .. | 1422 | 2782 | 196 | |
| 15. Switzerland .. | 2050 | 3835 | 187 | 50 to 100% |
| 16. Spain .. | 10690 | 17947 | 168 | |
| 17. Netherlands .. | 1152 | 1713 | 149 | Less than 50% |

12. Commerce, 1st June 1946, p. 970.

Nor is there any close relationship between inflation and active participation in war. Thus the price rise in Germany, the United Kingdom and the U.S.A. was very much lower than in any neutral countries in Europe as well as in the Middle East. In general, the following observations can be made. In the first place, the degree of inflation was low in those countries which have a good and efficient administrative mechanism and which have attained to a high standard of economic development. Thus in the U.S.A., the U.K. and Canada, the general wholesale price level between 1939 and 1945 rose by 38%, 64% and 39% while cost of living in the same period rose by 28%, 29% and 19% respectively. On the other hand, in India general price level went up by 99% and cost of living by 117%.[13] In all these countries the greater part of the increase in price level had taken place before the end of 1941. Since the beginning of 1942, the increase was quite slow and gradual. Thus in the U.K. between August 1939 and December 1941 the general index gained 58 points, while between January 1942 and December 1945 it increased by only 14 points. Similarly in U.S.A. in the first period the increase was 19 points and in the second period 11 points. The corresponding figures for Canada are 22 and 10. The extent to which an efficient administrative mechanism in combination with a high degree of civic sense can help in keeping prices within control is illustrated by the working of control methods in the United Kingdom. In so far as no restriction was placed on increase in wages and salaries and farmers had to be offered an incentive in the form of higher wages in order to ensure increased agricultural production, there was every chance of a wage price spiral in that country. Nevertheless the index number of retail food prices in the U.K. increased between 1939 and 1945 only 21% and the cost of living by 29%. This end was achieved by three methods—direct control of prices, transfer to the government of a good proportion of the business incomes of the community by taxation, and encouragement of savings.

Another fact that can be noted in the war-time price trends is that in those countries where control measures were adopted sufficiently early, prices remained comparatively low and steady. Thus in the United Kingdom control of the prices of basic materials had become fairly effective in 1941. In Germany cost of living and food prices were pegged at a low level of 112 (January to June

13. Bombay Cost of Living Index, from 105 to 228.



1939—100) soon after the war started and the prices remained remarkably stable. In Australia price control was introduced on the very first day of the war. In all these countries prices were kept within control throughout the war period. Early start by itself alone could not have been responsible for the effectiveness of control; but that it helped in the forging of a strong control mechanism as the war progressed and thereby prevented prices going the way they did in some other countries cannot be disputed.

Leaving out of account China and Greece where runaway inflationary conditions prevailed, those countries which experienced the highest increase in the price level during the war period were India and the Middle East countries. Apart from the fact that these countries are not economically well developed, they were labouring under certain peculiar difficulties during the war which proved a serious obstacle to effective control of prices. Although these countries did not become theatres of war, they had foreign armies quartered in them as a result of which they experienced great increases in demand in the face of severe shortages of imported supplies. In so far as they had not the efficient administrative mechanism which would assist in the absorption of excess purchasing power from the community by way of taxation or increased savings, these countries suffered serious price inflations. By the middle of 1944 cost of living had increased from the 1939 level by 258% in Iraq, 342% in Turkey, 407% in Lebanon and 746% in Iran. During the same period and for nearly similar reasons, prices in India more than doubled.[14]

14. A. J. Brown: Applied Economics, 1949, p. 106.

# CHARACTERISTICS OF ADOLESCENT BOYS' FANTASIES

BY

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*Introduction :*

In an earlier study, (1950), the present investigator made use of a scheme similar to that of R. M. Clark (1944) and analysed 4840 fantasy stories of 242 adolescent boys. The scheme offered a dynamic skeleton for each story, which facilitated intra-individual, inter-individual and inter-age group comparisons. It did not bring out the characteristics of the themes in the fantasy stories. It is felt that an investigation in that aspect of the adolescent boys' fantasies will be useful in understanding their personality. This paper presents the results of such a study.

*Subjects :*

The subjects for the present investigation are 40 adolescent boys selected at random from the sample of 242 studied earlier (Shanmugam 1950). The mean age of the subjects is 14·8 ranging between 12 and 18.

*Data :*

The data for the study is the 800 fantasy stories of the above subjects. The stories are responses to the twenty armatures in the Verbal Projection Test of the present author (1950).

*Analysis and Classification :*

For analysis and classification of the themes of the stories, the scheme of Symonds (1949) is used. The reasons for the choice of Symonds' scheme are : 1. It brought out the characteristics of the themes in the stories adequately. 2. In another investigation, the present investigator (1952) made use of the same scheme for a study of the characteristics of adolescent girls' fantasies. It is felt the results of the present investigation can be compared with the results of the earlier investigation and the sex differences in the themes of the fantasy stories can be found out, and 3. To compare the important fantasy themes of the author's subjects with that of Symonds. Symonds made use of 42 pictures devised by himself and made a study of the fantasy themes of 40 adolescent subjects—twenty boys and twenty girls.

The scheme made use of in this study has a number of main divisions, each with sub-divisions. Here, for the present purpose, 24 main divisions with their sub-divisions are selected. This selection is found necessary for obvious cultural factors. The number of sub-divisions in each main division vary from 2 to 14.

*Scoring* :

Each theme is given a score of one and if a theme is found more than once in the same story, it is scored again. The different themes present in the stories are scored against the sub-divisions under the main divisions. E.g. the theme referring to stealing is a sub-division under the main division 'aggression'. The sum of the scores of the sub-divisions will be the score of the main division. This paper focusses its attention mainly on the main divisions, though references to the sub-divisions are also made in the discussions. The analysis scheme and the results are presented together in Table 1 in order to save space.

To decide the dominant themes in the stories, quartile deviation is used, i.e., the fantasy themes falling outside the third quartile are considered important. The choice of quartile deviation is arbitrary since there is no single method available to be used to treat data of this type. The quartile deviation is simple and easy of application besides being adequate for the present purpose.

*Results* :

In Table 1, the first column refers to the number of main themes, the second column to the names of main themes and sub-themes. The third column refers to the scores of occurrences of the themes, the fourth column to their percentages. The percentages are for the total stories of 800. In Table 2 besides the scores for the main themes and their percentages, their ranks and standard errors are given. At the bottom of the table the maximum standard error for the scores of the 24 items is given. The standard error (%) for each theme is calculated on the percentage of occurrence. The formula used to calculate Standard Error is as follows:

$$SE = 100\sqrt{\frac{Pq}{N}} = 100\sqrt{\frac{P(1-q)}{N}},$$

in uhich P = the proportion of times the given event occurs N = the number of scores.

The maximum Standard Error (%) for the total number of themes is found out by applying the following formula:

$$\sqrt{\frac{\frac{1}{2}\times\frac{1}{2}}{N}} \times 100.$$



TABLE 1.

*Showing the frequency of themes with their percentages in 800 stories of 40 adolescent boys.*

| No. | Themes | Occurrence of themes | Percentage of occurrences |
|---|---|---|---|
| 1. | Family Relationships: | .. 145 | 18·1 |
| | Mother | .. 47 | 5·9 |
| | Father | .. 29 | 3·5 |
| | Family | .. 15 | 1·9 |
| | Parents | .. 5 | 0·6 |
| | Son | .. 7 | 0·9 |
| | Husband | .. 3 | 0·4 |
| | Children | .. 3 | 0·4 |
| | Home | .. 8 | 1·0 |
| | Wife | .. 7 | 0·9 |
| | Sister | .. — | — |
| | Daughter | .. 7 | 0·9 |
| | Brother | .. 3 | 0·3 |
| | Step-Mother | .. 11 | 1·4 |
| | Grand-Parents | .. — | — |
| 2. | Aggression: | .. 244 | 30·5 |
| | Death | .. 26 | 3·3 |
| | Crime | .. 2 | 0·2 |
| | Criminal, Murderer | .. 8 | 1·0 |
| | Violent Death | .. 2 | 0·2 |
| | Fighting, arguments | .. 17 | 2·1 |
| | Anger, rage, wrath | .. 26 | 3·3 |
| | Stealing, robbing | .. 110 | 13·8 |
| | Bullying | .. 9 | 1·1 |
| | Ridicule, Contempt | .. 8 | 1·0 |
| | Resentment | .. 25 | 3·1 |
| | Toughness | .. 3 | 0·4 |
| | Suicide | .. 8 | 1·0 |
| 3. | Economic Concern: | .. 75 | 9·4 |
| | Money | .. 3 | 0·4 |
| | Job, work | .. 9 | 1·1 |

| No. | Themes | Occurrence of themes | Percentage of occurrences |
|---|---|---|---|
| | Wealthy, rich | .. 23 | 2·9 |
| | Poor | .. 40 | 5·0 |
| 4. | Punishment: | .. 130 | 16·2 |
| | Police | .. 42 | 5·2 |
| | Punishment | .. 60 | 7·5 |
| | Capture, apprehension | .. 25 | 3·1 |
| | Prison, Jail | .. 3 | 0·4 |
| 5. | Love and Sex | .. 95 | 11·7 |
| | Marriage; being married | .. 15 | 1·8 |
| | Boy-Girl situations | .. 15 | 1·8 |
| | Friends | .. 11 | 1·4 |
| | Love, Falling in love | .. 22 | 2·7 |
| | Eroticism | .. 29 | 3·6 |
| | Homo-sexuality | .. 3 | 0·4 |
| 6. | Depression: | .. 100 | 12·5 |
| | Discouragement | .. 29 | 3·6 |
| | Trouble | .. 71 | 8·9 |
| 7. | Separation, Rejection: | .. 45 | 5·6 |
| | Running Away | .. 9 | 1·1 |
| | Loneliness | .. 15 | 1·8 |
| | Rejection | .. 19 | 2·5 |
| | Desertion | .. 2 | 0·2 |
| 8. | Altruism: | .. 31 | 3·9 |
| | Love and service to parents | .. 20 | 2·5 |
| | Love and service to country | .. 11 | 1·4 |
| 9. | Anxiety: | .. 276 | 34·5 |
| | Anxiety, worry | .. 130 | 16·3 |
| | Fear, dread, alarm | .. 146 | 18·2 |
| 10. | Success and Ambition | .. 37 | 4·6 |
| | Reward | .. 12 | 1·5 |
| | Success | .. 17 | 2·2 |
| | Fame | .. 2 | 0·2 |
| | Ambition | .. 6 | 0·7 |



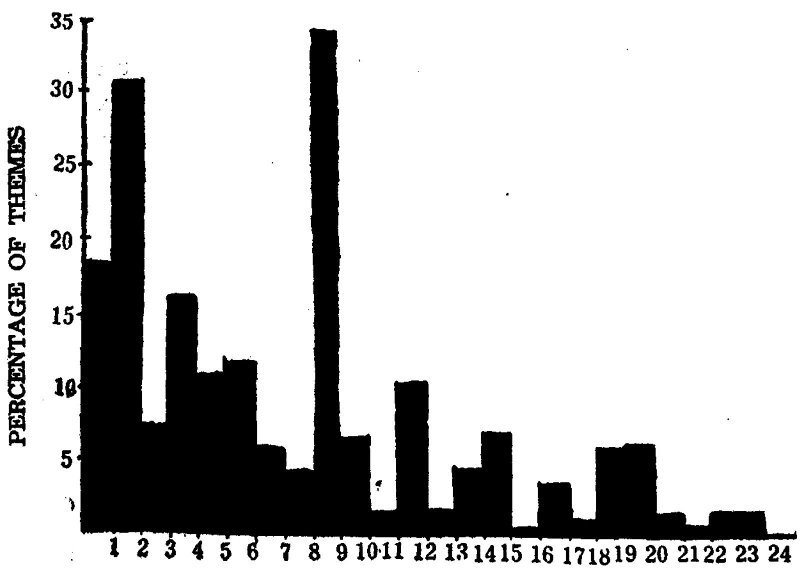
| No. | Themes | Occurrence of themes | Percentage of occurrences |
|---|---|---|---|
| 11. | Repentance, Reform: | .. 36 | 4·5 |
| | Reform | .. 25 | 3·1 |
| | Lesson—Learned | .. 11 | 1·4 |
| 12. | Accident and Illness: | .. 81 | 10·0 |
| | Accident | .. 8 | 1·0 |
| | Illness, sickness | .. 45 | 5·6 |
| | Doctors, Nurses, Hospitals | .. 14 | 1·7 |
| | Injury, wounds | .. 14 | 1·7 |
| 13. | Thinking; Decision: | .. 15 | 1·9 |
| | Wondering, thinking, musing | .. 12 | 1·5 |
| | Deciding | .. 3 | 0·4 |
| 14. | School | .. 33 | 4·1 |
| | Teacher | .. 16 | 2·0 |
| | School | .. 17 | 2·1 |
| 15. | Positive Emotion | .. 53 | 6·6 |
| | Happiness | .. 26 | 3·2 |
| | Fun; good times | .. 19 | 2·4 |
| | Dreams and Day dreams | .. 8 | 1·0 |
| 16. | Sociability: | .. 5 | 0·6 |
| | Parties | .. 3 | 0·4 |
| | Gang | .. 2 | 0·2 |
| 17. | Morality, goodness: | .. 25 | 3·1 |
| | Goodness, Rightness | .. 22 | 2·7 |
| | Conformity | .. 3 | 0·4 |
| 18. | Yearning and Wanting | .. 8 | 1·0 |
| 19. | Badness and Wrong: | .. 48 | 6·0 |
| | Bad Companions | .. 8 | 1·0 |
| | Wrong doing | .. 40 | 5·0 |
| 20. | Appearance | .. 48 | 6·0 |
| 21. | Guilt, conscience | .. 11 | 1·4 |
| 22. | Jealousy, envy | .. 5 | 0·6 |
| 23. | Entertainment | .. 14 | 1·7 |
| 24. | Religion | .. 14 | 1·7 |

TABLE 2

*Showing the scores of occurrence of themes in the Fantasies of 40 adolescent boys with their percentages, ranks and standard errors*

| No. | Main themes | Scores of occurrence | Percentage of occurrence | Rank | Standard error |
|---|---|---|---|---|---|
| 1. | Family Relationships .. | 145 | 18·1 | 3 | 1·02 |
| 2. | Aggression .. | 244 | 30·5 | 2 | 1·04 |
| 3. | Economic Concern .. | 75 | 9·4 | 8 | 0·29 |
| 4. | Punishment .. | 130 | 16·2 | 4 | 1·02 |
| 5. | Love; Sex .. | 94 | 11·7 | 6 | 0·90 |
| 6. | Depression .. | 100 | 12·5 | 5 | 1·00 |
| 7. | Separation, Rejection .. | 45 | 5·6 | 12 | 0·25 |
| 8. | Altruism .. | 31 | 3·9 | 15 | 0·23 |
| 9. | Anxiety .. | 276 | 34·5 | 1 | 1·05 |
| 10. | Success; Ambition .. | 52 | 4·6 | 13 | 0·26 |
| 11. | Repentance; Reform .. | 12 | 1·5 | 19·5 | 0·13 |
| 12. | Accident; Illness .. | 80 | 10·0 | 7 | 0·80 |
| 13. | Thinking; Decision .. | 12 | 1·5 | 19·5 | 0·01 |
| 14. | School .. | 33 | 4·1 | 14 | 0·05 |
| 15. | Positive Emotion .. | 54 | 6·8 | 9 | 0·26 |
| 16. | Sociability .. | 5 | 0·6 | 24 | 0·02 |
| 17. | Morality; Goodness .. | 25 | 3·1 | 16 | 0·20 |
| 18. | Yearning, Wanting .. | 8 | 1·0 | 22 | 0·11 |
| 19. | Badness; Wrong .. | 48 | 6·0 | 10·5 | 0·25 |
| 20. | Appearance .. | 48 | 6·0 | 10·5 | 0·25 |
| 21. | Guilt; Conscience .. | 11 | 1·4 | 21 | 0·12 |
| 22. | Jealousy .. | 5 | 0·6 | 23 | 0·02 |
| 23. | Entertainment .. | 14 | 1·7 | 17·5 | 0·13 |
| 24. | Religion .. | 14 | 1·7 | 17·5 | 0·13 |

Total Stories 800. Maximum Standard Error 1·34%




Numbers of Themes as in Table 2.

*Graph* 1. SHOWING THE FREQUENCY OF THEMES IN THE FANTASY STORIES OF 40 ADOLESCENT BOYS.



If we consider the values falling outside the third quartile, we find themes of *anxiety*, themes of *aggression*, themes of *family relationships*, themes of *punishment*, themes of *love* and *sex*, and themes of *depression* as prominent and important.

1. *Themes of anxiety* are larger in number and in particular the themes of Fear, Dread and Alarm are prominent. Anxiety themes as found from the stories revolve round the gratification of basic physiological needs like hunger, sex, defecation and urination and emotional needs like Recognition and Belongingness. Anxiety over acts of stealing (aggression) are also present. Themes of Anxiety over anticipated death of father or mother exist, in some cases and Anxiety due to anticipated punishment or deprivation of basic needs mentioned above by parents and parent-surrogates are also prominent.

2. *Themes of aggression* are prominent in the fantasies of these (present) subjects. They usually refer to stealing and robbing. Themes referring to deaths (usually of father) are also prominent.

3. *Themes referring to family relationships* are next in importance. Most of the themes refer to mother and then to the father. Mothers are portrayed as being affectionate and loving acting usually as a foil to father's threats and punishments.

4. *Themes of punishment* are also prominent. They are often associated with father, teacher and policemen. Punishment is always for the fulfilment of some one of the basic needs.

5. *Themes of love and sex* are present as important themes in the adolescent fantasies. Amongst these, themes referring to eroticism are important. Next come the themes relating to falling in love, quite often of wish fulfilment type.

6. *Themes of depression* are of next importance. They refer mainly to themes of *trouble* due to poverty. Trouble in getting along satisfactorily with father at home, and with teacher and friends at school are also present.

*Sex differences in the fantasy themes* :

A comparison of the themes present in the stories of the present subjects (adolescent boys) with that of the girls studied earlier (Shanmugam 1952) will be useful in bringing out sex differences. The data for the girls is taken from the earlier study and presented in Table 3. Procedure similar to that used for boys was applied here to find out the dominant themes in the girls' fantasies. The scores for the occurrence of themes, their percentages, ranks and standard error are given in Table 3. Table 4 and the graph accompanying it are presented to show sex differences in the fantasy themes. In calculating critical ratio for such item the maximum standard errors of the two groups are pooled and this pooled standard error is applied to the mean difference of each item. This is a departure from the usual procedure of applying the pooled standard errors of each item to the mean differences of the same item. This procedure adopted here ensures stringent method of testing the ratio between the mean difference and the standard error. The critical ratio is tested at 0·01 level of probability. To see whether there is any relationship between the ranks of themes of boys and girls, Spearman's Rank-difference Correlation method is applied. The formula for the Rank-difference Correlation is:

$$P = 1 - \frac{6\Sigma D^2}{N(N^2 - 1)}$$

where $\Sigma D^2$ = sum of the squared differences between ranks
and $N$ = Number of Measurements.

The significance of the obtained $r$ was tested by comparing the $t$ value obtained for $r$ with the $t$'s to be expected by chance at the 0·01 limits. The $t$ for a given $r$ is found from the formula:

$$t = \frac{r\sqrt{N-2}}{\sqrt{1-r^2}}$$

in which $r$ = obtained coefficient
$N$ = the number of cases

and the value of the $t$ was read from the table (Garrett, p. 190).

From the Tables 2 and 3 the ranks of the themes for boys and girls are considered. When correlation is worked out on the basis of ranks, it is found high, i.e., + ·84 with a $t$ value of 16·5. However, when the ranks of the individual items are considered there are marked differences on certain items. For instance, the themes of *family relationships* occupies first place in girls but third place in boys; *economic concern* fifth place in girls but eighth place in boys; *depression* third place in girls but sixth place in boys; *anxiety* first place in boys but sixth place in girls.

We found earlier, that *anxiety, aggression, punishment, family relationships, love,* and *sex* and *depression* as dominant in themes in boys. In girls, we found themes of *family relationships, aggression, economic concern, depression, love and sex* and *anxiety* as prominent themes. It can be seen that there is no sex differei



in the dominant fantasy themes, except in their rank orders considered above. However, there is one theme which is dominant in boys and which is not dominant in girls; it is, Theme of *punishment*. Similarly there is one theme which is dominant in girls but not in boys. It is theme of *economic concern*.

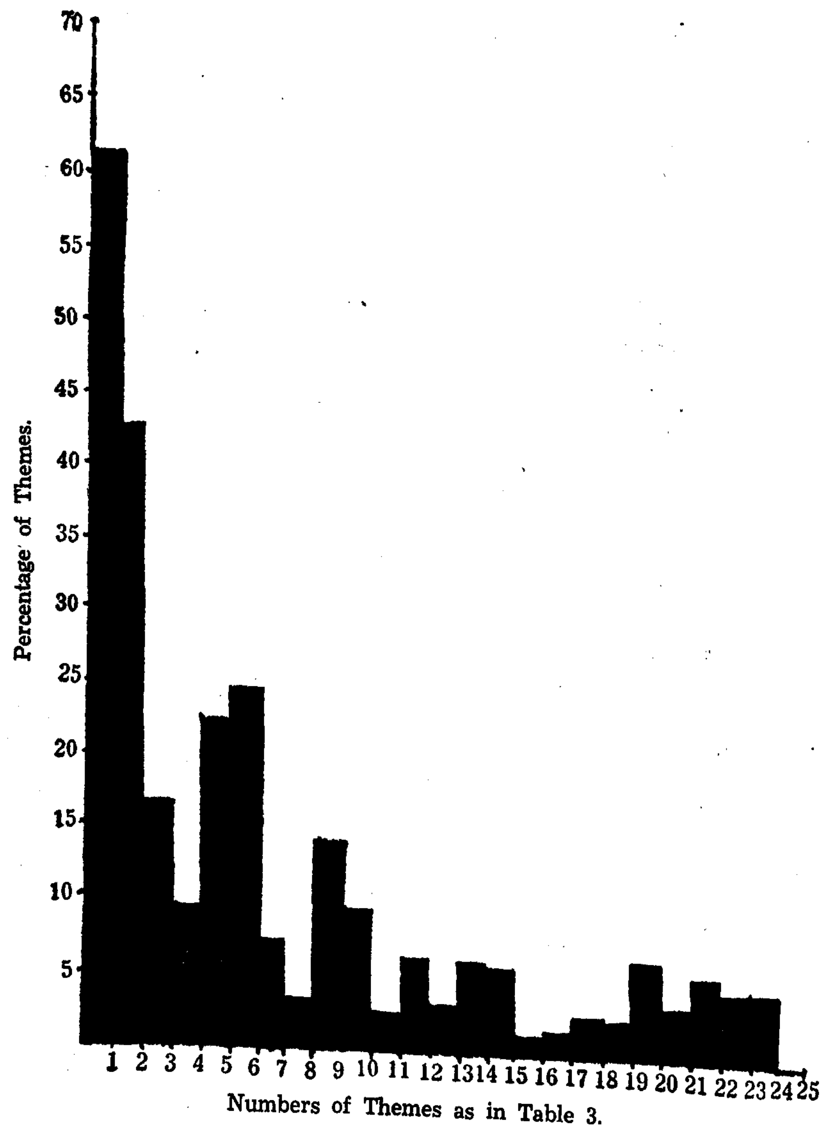
Table 5 brings out the sex differences in the frequency of each of the 24 themes. Girls significantly differ from the boys in only two themes. They are themes of *anxiety* and *punishment*. Boys have greater number of these themes. But boys differ from girls

TABLE 3

*Showing the scores of occurrence of themes, their percentages and Standard error for the fantasies of 30 adolescent girls*

| No. | Main themes | Score of occurrence | Percentage of occurrence | Ranks | Standard error % |
|---|---|---|---|---|---|
| 1. | Family Relationships .. | 370 | 61·67 | 1 | 1·45 |
| 2. | Aggression .. | 258 | 43·00 | 2 | 0·61 |
| 3. | Economic Concern .. | 101 | 16·83 | 5 | 0·43 |
| 4. | Punishment .. | 58 | 9·67 | 8 | 0·36 |
| 5. | Love; Sex .. | 135 | 22·47 | 4 | 0·53 |
| 6. | Depression .. | 147 | 24·75 | 3 | 0·58 |
| 7. | Separation; Rejection .. | 44 | 7·33 | 9 | 0·13 |
| 8. | Altruism .. | 20 | 3·33 | 17·3 | 0·02 |
| 9. | Anxiety .. | 84 | 14·00 | 6 | 0·20 |
| 10. | Success, Ambition .. | 59 | 9·83 | 7 | 0·16 |
| 11. | Repentance, Reform .. | 16 | 2·67 | 20·5 | 0·02 |
| 12. | Accident; Illness .. | 38 | 6·33 | 11 | 0·09 |
| 13. | Thinking; Decision .. | 20 | 3·33 | 17·3 | 0·02 |
| 14. | School .. | 37 | 6·12 | 12· | 0·09 |
| 15. | Positive Emotion .. | 36 | 6·00 | 13 | 0·09 |
| 16. | Sociability .. | 8 | 1·33 | 24 | 0·01 |
| 17. | Morality; Goodness .. | 11 | 1·71 | 23 | 0·01 |
| 18. | Yearning; Wanting .. | 16 | 2·67 | 20·5 | 0·02 |
| 19. | Badness; Wrong .. | 15 | 2·50 | 22 | 0·01 |
| 20. | Appearance .. | 47 | 6·83 | 10 | 0·11 |
| 21. | Guilt; Conscience .. | 20 | 3·33 | 17·3 | 0·02 |
| 22. | Jealousy, Envy .. | 33 | 5·56 | 14 | 0·11 |
| 23. | Entertainment .. | 29 | 4·83 | 15 | 0·03 |
| 24. | Religion .. | 28 | 4·67 | 16 | 0·03 |

Total Stories 600. Maximum S. E. 1·41%.

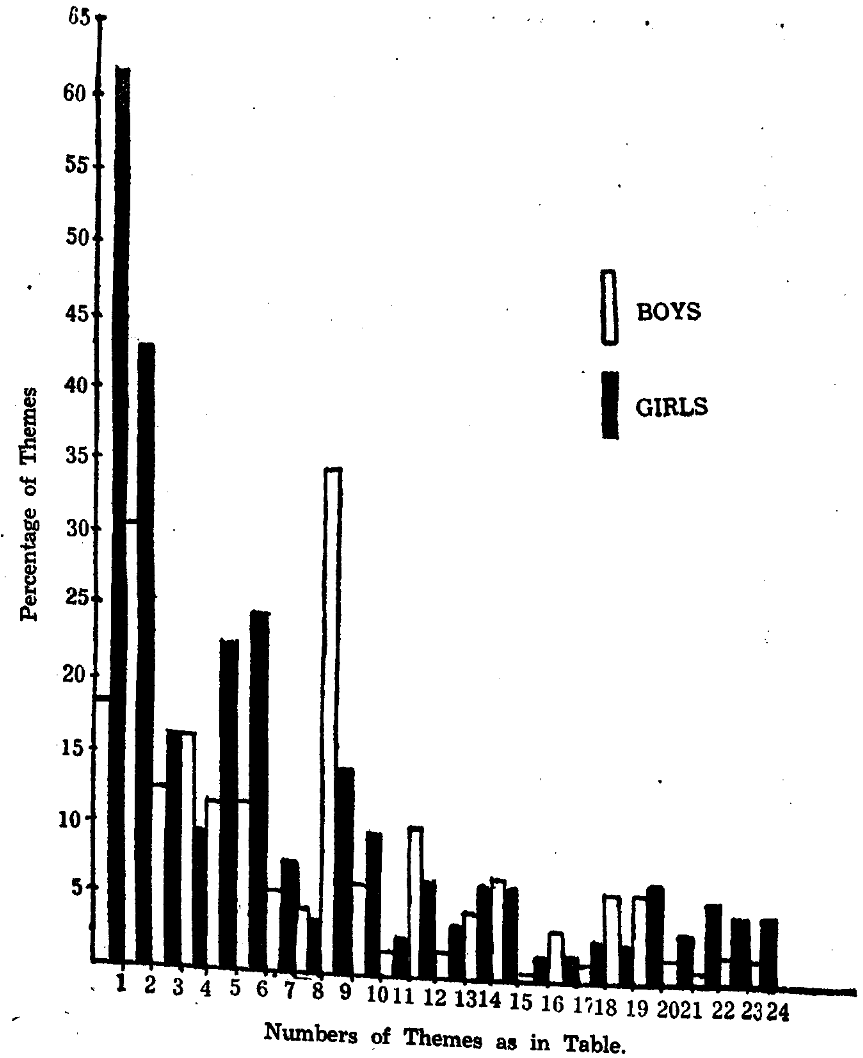



*Graph* 2. SHOWING THE FREQUENCY OF THEMES IN THE FANTASY STORIES OF 30 ADOLESCENT GIRLS.

TABLE 4

*Showing the Sex differences in the Fantasy themes*

| No. Themes | Percentage of occurrence | | Mean difference | Critical ratio | Significance at 0·01 level |
|---|---|---|---|---|---|
| | Boys | Girls | | | |
| 1. Family Relationships .. | 18·1 | 61·7 | 43·6 | 22·5 | Significant |
| 2. Aggression .. | 30·5 | 43·0 | 12·5 | 6·4 | " |
| 3. Economic Concern .. | 9·4 | 16·8 | 7·4 | 3·8 | " |
| 4. Punishment .. | 16·2 | 9·7 | 6·5 | 3·3 | " |
| 5. Love; Sex .. | 11·7 | 22·5 | 10·8 | 5·6 | " |
| 6. Depression .. | 12·5 | 24·8 | 12·3 | 6·2 | " |
| 7. Separation; Rejection .. | 5·6 | 7·3 | 1·7 | 0·9 | Not significant |
| 8. Altruism .. | 3·9 | 3·3 | 0·6 | 0·3 | " |
| 9. Anxiety .. | 34·5 | 14·0 | 20·5 | 10·6 | Significant |
| 10. Success, Ambition .. | 4·6 | 9·8 | 5·2 | 2·7 | " |
| 11. Repentance, Reform .. | 1·5 | 2·7 | 1·2 | 0·6 | Not significant |
| 12. Accident; Illness .. | 10·0 | 6·3 | 3·7 | 1·9 | " |
| 13. Thinking; Decision .. | 1·5 | 3·3 | 1·8 | 0·9 | " |
| 14. School .. | 4·1 | 6·1 | 2·0 | 1·0 | " |
| 15. Positive Emotion .. | 6·6 | 6·0 | 0·6 | 0·3 | " |
| 16. Sociability .. | 0·4 | 1·3 | 0·9 | 0·4 | " |
| 17. Morality; Goodness .. | 3·1 | 1·7 | 1·4 | 0·7 | " |
| 18. Yearning; Wanting .. | 1·0 | 2·7 | 1·7 | 0·9 | " |
| 19. Badness; Wrong .. | 6·0 | 2·5 | 3·5 | 1·8 | " |
| 20. Appearance .. | 6·0 | 6·8 | 0·8 | 0·4 | " |
| 21. Guilt; Conscience .. | 1·4 | 3·3 | 1·9 | 0·9 | " |
| 22. Jealousy, Envy .. | 0·6 | 5·6 | 5·0 | 2·6 | Significant |
| 23. Entertainment .. | 1·7 | 4·8 | 3·1 | 1·6 | Not significant |
| 24. Religion .. | 1·7 | 4·8 | 3·0 | 1·6 | " |




*Graph* 3. SHOWING THE PERCENTAGES OF THEMES IN THE FANTASY STORIES OF 40 ADOLESCENT BOYS AND 30 ADOLESCENT GIRLS.



in themes of *family relationships, aggression, economic concern, love* and *sex; depression, jealousy* and *envy* and *success* and *ambition.* Girls have greater number of these themes in their fantasy stories.

*Comparison with Symond's subjects:*

A comparison of the major fantasy themes of the present subjects with that of the Symon's subjects will be useful in finding out the differences in the fantasy themes of these groups, which differ considerably in social, cultural and geographical factors. The data for Symond's subjects, is taken from Symond's book "*Adolescent Fantasy*" (1949 at 85 and 86). The items in the scoring scheme is identical except an item referring to *religion* is included in our scheme, which is not in Symond's scheme. The data for Symond's subjects is presented in Table 5.

TABLE 5

*Showing the frequency of Themes and their Ranks in Symond's Subjects*

| No. Themes | Boys scores | Rank | Girls scores | Rank |
|---|---|---|---|---|
| 1. Family Relationships .. | 766 | 2 | 829 | 1 |
| 2. Aggression .. | 988 | 1 | 574 | 2 |
| 3. Economic Concerns .. | 370 | 4 | 262 | 3 |
| 4. Punishment .. | 484 | 3 | 130 | 5 |
| 5. Love; Sex .. | 286 | 5 | 173 | 7 |
| 6. Depression .. | 187 | 9 | 162 | 8 |
| 7. Separation, Rejection .. | 185 | 10 | 212 | 4 |
| 8. Altruism .. | 198 | 7 | 203 | 5 |
| 9. Anxiety .. | 130 | 12 | 180 | 6 |
| 10. Success; Ambition .. | 156 | 11 | 112 | 13 |
| 11. Repentance; Reform .. | 217 | 6 | 88 | 15 |
| 12. Accident; Illness .. | 189 | 8 | 108 | 14 |
| 13. Thinking; Decision .. | 118 | 13 | 130 | 9·5 |
| 14. School .. | 122 | 12 | 129 | 11 |
| 15. Positive Emotion .. | 78 | 14 | 115 | 12 |
| 16. Sociability .. | 70 | 15 | 60 | 16·5 |
| 17. Morality, Goodness .. | 58 | 17 | 54 | 18 |
| 18. Yearning; Wanting .. | 19 | 21·5 | 35 | 20 |
| 19. Badness: Wrong .. | 60 | 16 | 21 | 23 |
| 20. Appearance .. | 15 | 23 | 60 | 16·5 |
| 21. Guilt; Conscience .. | 19 | 21·5 | 39 | 19 |
| 22. Jealousy .. | 23 | 18·5 | 29 | 21 |
| 23. Entertainment .. | 23 | 18·5 | 18 | 22 |
| 24. Religion .. | — | 24 | — | 24 |
| Total Stories .. | 840 | — | 840 | — |

Correlation: $+ \cdot 52$ $t$ value of the correlation: $10 \cdot 0$

Significance at ·01 level of probability: Yes.

TABLE 6

*Showing the Ranks of Themes in Symonds' Subjects and the Author's Subjects*

| No. | Main Themes | Rank Symond's Subjects | | Rank Author's Subjects | |
|---|---|---|---|---|---|
| | | Boys | Girls | Boys | Girls |
| 1. | Family Relationships .. | 2 | 1 | 3 | 1 |
| 2. | Aggression .. | 1 | 2 | 2 | 2 |
| 3. | Economic Concerns .. | 4 | 3 | 8 | 5 |
| 4. | Punishment .. | 3 | 5 | 4 | 8 |
| 5. | Love; Sex .. | 5 | 7 | 6 | 4 |
| 6. | Depression .. | 9 | 8 | 5 | 3 |
| 7. | Separation, Rejection .. | 10 | 4 | 12 | 9 |
| 8. | Altruism .. | 7 | 5 | 15 | 17· |
| 9. | Anxiety .. | 12 | 6 | 1 | 6 |
| 10. | Success; Ambition .. | 11 | 13 | 13 | 7 |
| 11. | Repentance; Reform .. | 6 | 15 | 19·5 | 20· |
| 12. | Accident; Illness .. | 8 | 14 | 7 | 11 |
| 13. | Thinking; Decision .. | 13 | 9·5 | 19·5 | 17· |
| 14. | School .. | 12 | 11 | 14 | 12 |
| 15. | Positive Emotion .. | 14 | 12 | 9 | 13 |
| 16. | Sociability .. | 15 | 16·5 | 24 | 24 |
| 17. | Morality, Goodness .. | 17 | 18 | 16 | 23 |
| 18. | Yearning; Wanting .. | 21·5 | 20 | 22 | 20· |
| 19. | Badness: Wrong .. | 16 | 23 | 10·5 | 22 |
| 20. | Appearance .. | 23 | 16·5 | 10·5 | 10 |
| 21. | Guilt; Conscience .. | 21·5 | 19 | 21 | 17· |
| 22. | Jealousy .. | 18·5 | 21 | 23 | 14 |
| 23. | Entertainment .. | 18·5 | 22 | 17·5 | 15 |
| 24. | Religion .. | 24 | 24 | 17·5 | 16 |

TABLE 7

*Showing the inter-correlation between the themes of author's subjects with Symond's subjects.*

| | Correlation Coefficient | $t$ value | Significance at 0·01 level |
|---|---|---|---|
| 1. Author's boys and girls .. | +0·84 | 16·5 | Significant |
| 2. Author's boys and Symonds' boys .. | +0·69 | 13·9 | Significant |
| 3. Author's boys and Symonds' girls .. | +0·64 | 12·6 | Significant |
| 4. Author's girls and Symonds' girls .. | +0·72 | 15·0 | Significant |
| 5. Author's girls and Symonds' boys .. | +0·74 | 15·1 | Significant |
| 6. Symonds' boys and Symonds' girls .. | +0·52 | 10·0 | Significant |



A study of the correlation table will show the correlation between author's subjects and Symonds' subjects on the fantasy themes. There are significant correlation between the rank orders of the themes of author's subjects and Symonds' subjects. Actually, it can be seen that there is higher correlation between Author's subjects with Symonds' subjects, than between Symonds' subjects (boys and girls) themselves.

Applying our procedure of considering the values falling outside third quartile, (to the ranks in Table 5) we find, *aggression, family relationships, punishment, economic concern,* and *love* and *sex* and *repentence; reform* as important themes in boys. In the case of girls *family relationships, aggression, economic concern, separation; rejection* and *altruism* and *anxiety* as dominant themes. There are sex differences in Symond's groups. Themes of *Punishment, love, sex* and *repentence* reform are prominent in boys but not significant in girls. Similarly themes of *separation, rejection, altruism* and *anxiety* are significant in girls but not significant in boys. On the whole there is significant correlation of + ·52 (refer table 7) between the sexes on different themes.

Comparing our subjects, with Symond's—first boys—we find themes of *aggression, punishment, family relationships* and *love, sex* are common dominant themes in both groups. But themes of *anxiety* are significant and occupies first place in the author's subject, whereas it is not significant in Symond's group. Similarly themes of *depression* and *anxiety* are important in the author's group but not significant in Symond's group. Likewise in Symond's group, themes of *economic concern* and *repentence; reform* are significant, but not significant in author's subjects. However there is significant correlation between the ranks of the themes of both the groups (refer Correlation Table 7).

Comparing the two groups of girls, we find the themes of *family relationship, aggression, economic concern* and *anxiety* as common significant themes in both the groups. However themes referring to *depression* and *love-sex* are not significant in Symond's subjects but significant in our subjects. Similarly themes of *separation, rejection* and *altruism* which are significant in Symond's group are not significant in our subjects. Under the themes of *aggression,* in Symond's subjects, [Symond's 1949, pp. 217-226] themes of violent death are prominent, whereas in the present subjects themes of stealing and robbing are prominent. When the ranks of the themes are compared, it is seen there is significant correlation between them (+ ·72).

*Summary of Results*:

800 Fantasy stories which are the results of the application of the Verbal Projection Test to 40 adolescent boys with a mean age of 14·8 were analysed with Symond's scoring scheme with the aim of finding out the characteristics of adolescent boys' fantasies. It was found:

(1) That these stories had *anxiety, aggression, family relationships, punishment, love* and *sex* and *depression* as dominant themes. It may be said that adolescent boys studied entertain the above mentioned themes in their fantasies.

(2) Comparing the dominant themes of the boys with that of girls studied earlier by the author, it is found that there was significant correlation (+ ·84 with a $t$ value of 30·2) between the rank orders of the themes of boys and girls. When the individual themes were considered there were differences between them. *Anxiety* themes were very prominent in boys—occupying the first place—whereas *family relationships* occupied the first place in girls. Similarly *economic concern* was significant in girls and not significant in boys.

(3) When the frequency of themes were considered except in themes of *anxiety and punishment* in all other themes,—*family relationships, economic concern, love* and *sex, depression*—the girls had greater number of themes.

(4) Comparing the author's subjects—boys with that of Symond's subjects, it was found that the dominant themes like *agression punishment, family relationships* and *love* and *sex* were common in both the groups. There were differences also. They were on themes like *depression* and *anxiety,* which were significant in author's subjects; *economic concern* and *repentence* which were significant in Symond's subjects. In the case of girls, *family relationships, aggression, economic concern* and *anxiety* were common dominant features in both the groups. Themes of *depression* and *love* and *sex* were important themes in the author's subjects, whereas *separation, rejection* and *altruism* were important themes in Symond's subjects. It is inferred from this that there are some universal adolescent fantasies and there are some fantasies, typical of adolescents pertaining to certain cultures.



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# THE INNER MEANING OF HUMAN HISTORY AS DISCLOSING THE ONE INCREASING PURPOSE THAT RUNS THROUGH THE AGES

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## *The Spiritual Illusions of Culture and Religious Transfiguration.*

Life's history is one of its own fascinating problems. Modern science has shown that ours is a dynamic universe of ceaseless change. In a broad sense, everything that happens or seems to happen to phenomena in terms of change is history. History thus is not limited to the phenomena of human life, though man is the only form of life that knows life has a history. Philosophers and scientists, all through the ages, have been trying very hard to resolve the mystery of life and to interpret it intelligibly. The very attempt has had an evolution of its own. The progress has been slow and we hope it has been in fact progress.

Earth is the only home of life known to man. It is roughly 2000,000,000 years old. Life on this earth has been approximately for at least 1000,000,000 years. Today we more or less accept the view that all life is one and that man, who is part of this life, is related in differing degrees to the different manifestations of it. Man seems to be the most unique and, in a sense, the highest product of organic nature. His uniqueness lies in his being intellectual, social and spiritual to a degree, the other products of nature are not. Is the cow, for example, intellectual, social or spiritual? Has it the ability to make a judgment, build a house or sing a song? The cow, in its ignorance or wisdom, remains silent; but man, in his wisdom or ignorance, believes the cow has not these abilities.

We have taken it for granted; that man is the goal of evolution, though there is no positive evidence for this truth. It may turn out that man after all is not the goal of evolution, for science tells us Life shows innumerable trends, some tending towards higher manifestations and some towards lower. Other products millions of years in the making have been for a time and have gone out of existence altogether. Is man alone destined to hold the field all the time? Before man's ascendency which has lasted only 100,000 years now, time was when giant fishes and then giant reptiles held sway on earth for millions of years. But both their reigns came to an end. There is every possibility that man's reign also comes to a similar end after a few million years hence to be passed over by future historians as an incidence of no great significance. Scientists describe man as an infinitesimal speck on an insignificant planet, itself swallowed up in an ocean of other stars. Is man nothing more than a miserable accident in the process of time?

The problem of purposes on ends, is a very old philosophical problem. Every age has reflected deeply and seriously on this problem. The same old questions are yet to find answers. Is there a goal or an end towards which the universe is moving? Was the universe originally designed with a plan or purpose? What is the meaning of history, temporal or eternal? What is the nature and destiny of man? What is man? If man's 'humanitas' marks him off sharply from the rest of the creation, is he endowed with a special destiny which he is expected to fulfil?

What we do know or what we seem capable of knowing is very little; what we would like to know, but perhaps cannot possibly know, is infinitely great. But with our limited intelligence and understanding we should accept, that it is of no consequence whether man is the goal of evolution or not. It is of no consequence again whether plan, purpose or goal was present or absent in evolution up to the point of man's entrance into the drama of life. What does matter is the fact that, with the advent of man, plan, purpose and goal did enter into the new evolution. The ethical and spiritual needs seem somehow peculiar to man and their fulfilment also lies in his nature. He may or may not feel responsible to God or Nature ultimately, but he knows, with or without these, he must be moral, must be spiritual. His plans, purposes and goals are in the ultimate analysis rational, moral and spiritual.

Man is an autonomous being. He is not bound entirely by divine or natural laws. Had he been entirely divine or entirely natural, there would have been no human history; for that which is divine is not subject to time, (and history is said to be temporal) and we would have had a kingdom of God on earth which is not man's at present. On the other hand, a pure Nature History, even if it is possible is a dead, mechanical process and as such is meaningless. What makes human history meaningful is man's intrinsic freedom, and, incidentally, it is history that makes human life meaningful.

Classical naturalism fails to regard history as basic to the meaning of life, as it regards Nature as chaos or meaningless order.



According to this view there is no history because there is only sequence and recurrence in Nature. Oswald Spengler, for example, believed that the processes of Nature are the only clue to the meaning of the growth and decline of various world cultures and civilisations. To Spengler there is no unity in history. Freedom of history is illusory or completely subordinate to Nature. The ancient Greeks and Indians taught a kind of "ahistoric spirituality", that is, life on earth had no historical significance. Their interpretation of history was cyclic, that is, they thought of life in terms of cycles or endless recurrences, as in the realm of Nature. Human history had no inner meaning disclosing or fulfilling the one increasing purpose that runs through the ages. In the Graeco-Indian conception the world had neither a beginning nor an end, a process or a goal; everything was eternally recurrent, without a future. Arnold J. Toynbee commenting on this view says: "To our western minds, the cyclic view of history if taken seriously, would reduce history to a tale by an idiot, signifying nothing." Such a view, according to him, "robs life of its hopeful and exciting quest for the goal of human endeavours."

To classical Naturalism there is no super-history either, because, man, a product of Nature, does not transcend his temporal life. Classical idealism, on the other hand, emancipates man from history. Here man faces Eternity, not Time. To quote Reinhold Neibuhr, "History is swallowed up in Eternity." These classical rationalists consider this temporal world as an inferior world of ceaseless change, more or less illusory in character. To emancipate himself from this illusory, temporal process is the highest destiny of man. Man does not seek fulfilment in history, but freedom from history, which is possible for him, for man is transcendentally free in spirit to achieve this, not being bound to this transient life.

The Jewish-Zoroastrian view of history is neither cyclic nor mechanical. It thinks of history as a progressive process, with a definite purpose, tending towards a specific goal. Among the ancients, the Jews and the Persians were the only people who were endowed with a sense of historical destiny. To both fulfilment in history meant simultaneously the inauguration of a new world order. The cyclists could not think of the world as a movement or process pregnant with an inner purpose, seeking fulfilment leading progressively towards a determinate end.

If history is a process in time, then it must be intelligible by the kind of end it aims to achieve. If in the end nothing really matters, if the end of all that is, is cosmic death, where is the place for purpose or plan, history or eternity? A purely materialistic conception of life has stressed and is increasingly stressing the unimportance of life, especially of human life in the universe. With the advent of Copernicus, man's planet lost its prime importance. With the appearance of Darwin man lost his prime importance in his own planet. Purely materialistic psychologists are helping to reduce the primacy of mind within the man. Geologists have contrived to extend time enormously, and astronomers have enabled man to visualise space as an endless extension. With the net result man's life in such vast immensities of time and space looks a very insignificant, uncertain flutter. Some scientists believe that the end of human history will be something like the beginning of it. Just as there was a time when the earth was found too hot and moist for human habitation, they believe we are doomed to face a time when the earth will become too cold and dry for mankind to exist. Then there will be a slow but sure reversal of man to his original primitive state. To quote Joad on this view, "the last inhabitants of the earth will be as destitute, as feeble and dull witted as the first. They will have forgotten all the arts and all the sciences. They will huddle wretchedly in caves in the sides of glaciers, that will roll their transparent masses over the half obliterated ruins of the cities where men now think and love, suffer and hope. The last desperate survivors of mankind will know nothing of our civilisation. One day the last man, callous alike to hate and love, will exhale to the unfriendly sky the last human breath and the globe will go rolling on, bearing with it through the silent fields of space the ashes of humanity, the pictures of Michelangelo, and the remnants of the Greek marbles frozen to its icy surface." Other scientists argue we cannot equate the idea of "Progress" with a dying universe. They assert that the history of life must be understood in terms of 'progression' not 'retrogression' or degeneration. 'Progress' as a concept, associated with the metaphysics of History, dominated European thought from the late 18th century. It was not confused with the idea of Evolution, which took form a century later. It was, to begin with, rooted in religion of the Messianic type which postulated a divine purpose and an ultimate goal outside historical processes. With the advent of Darwin and Spencer, the doctrine of Progress gradually became secularised. During the 19th century, it, in fact, became a religion in itself, this worldly, and, in the traditional sense, anti-religious. Eliminating the religious element, it introduced an idolatrous worship of the 'Future'. Karl Marx, Hegel and others, who belonged to this school of thought, believed that humanity would steadily 'progress' in time culminating in a fully, evolved perfect human race. They felt generations of human beings must necessarily be sacrificed for the ultimate perfection of some, an end, which on both religious and ethical grounds, is not in the least justified.



Nicolas Berdyæv describes the problem of Time as the "most tragic problem in the metaphysics of History." The central weakness of the doctrine of progress is associated with its attitude to the problem of Time. Progressionists aim to find a solution of human destiny within the frame-work of temporal history. They aim to establish a perfect kingdom of man on earth—an earthly and everlasting paradise. The theory of an earthly and everlasting paradise is full of contradictions. (1) Nothing lasts for ever in time, for time, as an element, carries with it the principle of death. The Upanishadic seers, knowing this, gave Time its other name "Death". And even if it should last, it is not going to be a satisfactory end for, as Dr. S. Radhakrishnan observes, "perfection as a historical event is not a satisfactory goal. It is a psychological law that every sensation is blunted by being prolonged. If an agreeable stimulus lasts long, it turns out painful. Weariness is the quality of all that lasts." And lastly, modern culture has confounded everlasting life with eternal life. Man today stands at the foot of the Tree of Knowledge with the forbidden fruits in his hands. He has tasted some of the fruits and has found them extremely good. Above everything else he has discovered himself as a creature of tremendous power and freedom. Acquisition of scientific knowledge has increased his power over nature and his inherent freedom has enabled him to progress through many centuries as a creature of great cultural achievement and technological skills. Gross matter has yielded like wax in his hands. Science and technics have taught him one final lesson "that nothing is impossible with man". The treasures of the earth and the forces of nature are out there to be exploited and explored for human ends. The Tree of Knowledge gave man just what it promised, knowledge, not wisdom. Knowledge promises man everlasting life, but wisdom says that man's natural heritage is not everlasting life, but Life-Eternal. (2) Perfection through progression is not realised on the temporal plane, and to believe that it is possible is in itself an illusion for perfection is an eternal value associated with transcendental life. (3) We can, by no means, accept the thesis that "progress is universal"; in life we not only find progression but also its opposite, 'retrogression' or degeneration. Progression, therefore, cannot be accepted as a principle operating in the universe, especially with reference to organic life and its different manifestations. (4) There is no single plane of development in the history of progress from the primitive good to the absolutely perfect. Is the twentieth century, for example, nearer to perfection than the second century? To make the illustration more concrete, was Gandhiji of the twentieth century more evolved than Socrates of the fourth century B.C.? It is quite possible that the Babylonian culture which flourished 3000 years before the birth of Christ contributed something intrinsically more valuable to humanity than do our so called highly developed modern cultures. On what grounds can we predict that the civilisations which might prevail twenty centuries hence are going to contribute a more highly evolved culture than our ancient or modern civilisations have done?

The first major tragedy occurred, I think, when man first took it into his head to fragmentise eternity and posited an illusory time concept. The second great blunder was committed when time itself was disintegrated into past, present and future. The past is no more or is as much real as the present or the future. The only Reality seems to be the eternal-present, which has no past or future. As one great interpreter of history writes, "our belief and expectations should tend towards a perspective of life, based not on a detached future, but on the eternal and integral present . . . . only when we have situated human destiny and history in the perspective of eternity will the future appear as no more real than the past and the present no more real than either".

Time detached from eternity, from whatever angle it is viewed, is found to be illusory. It is then as F. H. Bradley observes rightly "it falls apart and proclaims itself illusory". Time does not carry with it its own meaning. To think of it as final, ultimate or independent of eternity only shows our erroneous interpretation of time. So long as we cling to this erroneous view of time, we are not likely to understand the eternal nature of the Absolute. To seek the eternal is not to deny the temporal. Time has its roots in eternity, though it is not eternal in itself. Nor is time, something radically different from the eternal. Time is only another "form" of eternity.

Some think time can serve as "the gateway to Reality". To believe that self-realisation or ultimate perfection is attained through time is indeed a spiritual illusion par excellence of all materialistic cultures. I consider this illusion a legacy of mate-



rialistic cultures because, naturalistic theology a product of materialism "regards all the events of the Spiritual as taking place upon this earth within time and space". It will be illogical "to regard the mysteries of the spiritual life as events in the natural order since self-realisation or redemption through grace is a mystery of spiritual life, and since as such, it pertains to the eternal order, it should not be confused with events happening in the temporal order." In the natural order things "Become", in the eternal order, things "Are", and are through divine grace realised as such. I am not advocating that kind of mysticism which in its pure form denies the whole order of Space, Time and Matter, and considers that side of human life which is linked with it as an illusion, dangerous for the redemption of the Soul. The illusion occurs I think when we confuse the *issues* "between the two world orders, the temporal and the eternal. It will be good to remember, the temporal world itself is an event in the eternal order. Time is a particular condition of (the shadow of the Substance) eternity. It is in fact grounded in it. Man is an unique being in the sense that he belongs to both the orders simultaneously, though in quite different senses. That is why he remains man's own most vexing problem. Kirkegaard defines man thus: "He is the place where the eternal and the temporal came into contact with one another, where the eternal breaks in upon the temporal". Man's roots are thus in the eternal. Kirkegaard says "To live one's daily life in the decisive dialectic of the infinite, and yet continue to live. This is both the art of life and its difficulty. Most men have complacent categories for their daily use and resort to the categories of the infinite only upon solemn occasions, that is to say, they do not really have them". The idea is, 'the art of life' consists in living in tune with the infinite all the twenty four hours. The "here" and the "hereafter" are not really two different things. As a leading editor of a leading American magazine writes: "The most satisfying philosophy of life is the faith that the here and the hereafter are one and the same". The quotation is really a comment on one of the articles entitled "There is no Death" which ends thus: "Eternity does not start with death. We are in eternity now. We merely change the form of the experience called life—and that change, I am persuaded, is for the better".

History as T. S. Eliot describes it "is a pattern of time-less moments," in the sense "the moment of the rose and the moment of the Yew-tree are of equal duration". Humanity as such cannot be redeemed "in time" either, for in a highly metaphysical sense mankind is a people without history "and a people without history is not redeemed in time." Therefore historians and historical sciences, philosophers and philosophical sciences must be purged of the illusion of time as the redeemer of mankind or of the world in which we live. Mankind must be taught to live in terms of eternity slowly forgetting its subservience to time. It is not natural for man to "progress" in time or be at home in a temporal world, for man is neither a product of time nor temporal history. He is essentially a creature of noumenal origin, a pilgrim on one of the planets, on earth for one perhaps, but ever abiding, even on his pilgrimage, in the eternal. If he gets entangled with the so called temporal processes, a Messiah is invariably sent to remind him of his eternal destiny. The fact that man does get entangled, or does stumble on his way to self-realisation, does not make him a creature of temporal history, seeking and finding salvation in and through time-processes. It is indeed logically absurd to speak of the metaphysical necessity of the timeless to pass through time, to realise its intrinsic nature that it is time-less. Ages ago, that great Indian sage, Yagnavalkya, taught mankind in clear and distinct terms "That Art Thou", that man, ever belongs to the category of the time-less. Since then sage after sage has repeatedly stressed the importance of self-knowledge. Mankind has yet to realise that "souls are not made in the vale of time", that souls do not progressively realise themselves, or evolve step by step in terms of evolution. Souls simply are. The way to salvation is not to "Become That," but just to realise "I am That", in the sense that I belong to the category of the eternal, and my destiny is not of the earth, earthy.

By substituting the idea of progress for the idea of providenoe, and by substituting the idea of evolution to creation, man, to begin with emphasised the temporal nature of all things in nature. He gradually extended the idea to man, and later on to God Himself. Modern culture has included Nature, man and God in Nature-History. In the closed system of temporal thought there is no place for transcendental values. The worship of "time" has been in fact the greatest enemy of spiritual life. The mystery of genesis and the creation story of the Old-Testament brings out the transcendental nature of eternity more clearly than does the historically drawn out scientific myth of Darwin's evolution theory. To Darwin 'time' is the Deity —he lived, moved and had his being in it. To the sage of the Old-Testament, the time-less is the Deity. He lived in the eternal. It is indeed a psychological fact that you become what you worship. Bergson's romantic mood found it convenient to exalt time to the status of God. According to him, it is the movement, time itself, which is the clue to Reality or the mystery of life. Not only is time conceived to be the redeemer of mankind, but it is also according to some of the best intellects, the creator of God Himself. To Hegel, time is not God, but God takes time to realise His highest divine stature as God. To L. T. Hobhouse, it is the creative power of the time-grown mind that ultimately triumphs over chaos. Samuel Alexander goes one step further. He believes that the universe, at present, is engaged in giving birth to deity, after the emergence of mind. Andre-Gide, yet another of the devotees of time, writes in one of his famous journals that "God is not behind us. He is to come. He must be sought not at the beginning but at the end of evolution. He is the terminal, not initial. He is the supreme and final point toward which all nature tends in time."



I consider that time is an inadequate God, and as a means of self-realisation is an inadequate redeemer of mankind.

To sum up: time and the time-less are two aspects of the same thing eternity. Time is as much inseparable from the time-less as the natural is inseparable from the spiritual in man. Again, Time as the soul of the universe, is so intimately interwoven into the very fabric of the universe, that we could, using the language of science, define the universe as "A four-dimensional Space-Time continuum". Nicolas Berdyaev says "man must work for the illumination and spiritualisation, not only of his own soul and body, but also of the soul and body of the whole Universe". The upanisadic seers echo the same thought when they say "The Beyond is not an annulling or a cancellation of the world of becoming, but its transfiguration."

Cultures emerge from man and his activities in relation to a particular environmental set-up, physical, mental, social, moral, and religious. Man, his culture and environment are subject to many influences from different directions. Considering his physical environment alone, we find, that it is in itself highly complex. He is influenced by the changes in climatic conditions, the type of land he occupies and also by the character of animals, birds and plants he associates with. Whatever may be the state in which the first man found himself on this planet, we cannot absolutely deny the fact that he was, endowed with the instinct for self-preservation. It is quite possible, in this instinct and emotions which ceaselessly fought the forces of environment, in the struggle for existence, we have the origins of culture. The will to live must have necessitated in the will to fight and this perhaps was responsible for the birth of certain cultural values. In man's encounter with thousands of other environmental factors, his value concepts must have been formed. His response to the world outside is greatly dependent upon these value concepts, and his reaction patterns determine his culture patterns. But it is not environment alone that determines man's culture. It also includes his inherent capacity to use acquired knowledge and the different forces prevalent in his environment to the best of his ability.

When man wandered from place to place in search of food and knew only how to collect or gather food fallen on earth, his culture had very simple values. He never looked back on a distant past nor thought about the days to come. When such a man started to domesticate animals, to plough the field and hunt big animals, his cultural values changed according to the environments in which he was placed. With progress in the material products, economic activities united and disunited peoples of varying cultures. With frequent changes in his material life, man's cultural sense and values too, often got destroyed and reconstructed. The reflections of the struggles and successes of man in the pages of history, the prehistoric findings and monuments, the lives of people away from the influences of modern civilisation reveal a life of tastes and sensibilities ever changing and disintegrating in foundations and values.

In the same geographical region, it is possible for peoples of different cultures to live and practise their own ways and customs. To explain a culture as an emanation from a given natural environment is not correct. Every culture in its present form is a growth from a preceeding one, which in its turn may be a product of the activities and beliefs of a people who lived in a different environment. Man is not devoid of the instinct to borrow or give. Instances of borrowing in the development and history of cultures are not few. Due to various reasons chiefly economical and political, cultural elements have travelled widely from one geographical region to another. Even animals and plants have migrated for similar reasons. Thus cultures and factors responsible for different culture patterns have crossed the frontiers of different nations, and cultures have mingled due to culture contacts, in spite of racial, linguistic and other differences. Thus cultural values are not the same for all time, but change with changes in the progress of man, through the ages. As man learnt to discover newer and newer meanings in what all he did for his physical, social and moral progress, his cultural sense expanded. From a purely instinctive and emotional reaction to his surroundings and thoughts, he now displays an intellectual or rational response to his ways and life. A culture is seen to last so long as its values remain permanent and seem to solve certain riddles of life, but once its futility is seen, it has no chances of survival.



The universe is and always has been the bearer of values. What makes some values invaluable is their time-lessness. These are 'real' values of the kind the human soul craves for with a deathless longing. These, Dr. S. Radhakrishnan describes as "neither objects of Space and Time nor Universals of thought." They are intuitively apprehended by the Spirit. Long ago, Plato taught the Greeks about Ideal-Forms, eternal values 'not conditioned by Space and Time'. To Plato, must be attributed the first philosophy of History based on the concept of value. To him the world has an inner meaning, and the meaning is the realisation of the perfection of eternal values or Ideas. He was of the view that the world is a movement in the realisation of these values. Lotze confirms Plato's view when he says "we have in the sense of value a clue to the meaning of reality". To Lotze it is "an authoritative revelation of the purpose of the world".

Some modern philosophers describe evolution as a movement in the realisation of values, but they interpret 'the movement' in a different sense. According to them values are 'won' 'step by step' in the process of evolution. Thus Life is one such value 'won' at a certain stage of evolution. Mind is yet another. To Hegel, "philosophy, art and religion are the final values towards which the world is striving." It is granted by most that Religoin is "the highest and purest feeling of value."

Aristotle, as G. T. W. Patrick explains, advocates a kind of "immanent dynamic purposiveness," but the Prime Mover is at the very beginning of the world-development-process moving the world onward by attracting it. As a lover is attracted to his beloved the world is attracted to the ideally perfect Being. Patrick says "This daring conception of the Universe as a great process of realisation drawn onward by the vision of an ideal, almost takes one's breath away. Could it be true? Could it be reconciled with the modern evolutionary philosophy?"

Philosophers, Plationically inclined interpret History as a process of the realisation of ideals. To the question, are there ideals or values full of meaning and content,—not created as we go along, —but Eternal Verities, Realities or Subsistents which we are called upon to appropriate and enjoy without having to conquer or even understand? One is inclined to answer with George Santayana "The whole of natural life, then, is an aspiration after the realisation and visions of Ideas and all action is for the sake of contemplation." I am of the thought that values of ultimate worth are not acquired or won through growth or struggle, efficiency or industry. They are appropriated and enjoyed by an act of faith. Life in the modern world emphasises the will to activity and achievement. The God of our age has set up this standard against which to judge all life:- How much has been accomplished and how efficiently?

Values which are indeed valuable in every sense of the term are not made in the vale of time by human hands. It is said of those who knew of the mystery of the life in Spirit "They looked up to the things that be, not forward to the things that are made, and they looked up with wonder, admiration, and even worship, desiring not to conquer, but to understand and enjoy."

To the simple, unsophisticated people who came to hear Him, Christ gave the uncompromising, impossible command "Be ye perfect, even as your Father in heaven is perfect." Is Christ's dream of perfection for humanity a spiritual illusion? Can humanity ever hope to realise such an ideal of perfection now, here on earth? If "faith is the assurance of things hoped for, the test of things unseen," mankind may yet hope, God's dream of perfection for man is not altogether an idle dream. William James, in his book, "The will to Believe," writes "That the world of physics is probably not absolute, all the converging multitude of arguments that make in favour of idealism tend to prove; and that our whole physical life may lie soaking in a spiritual atmosphere, a dimension of being, that we at present have no organ for apprehending." Sri Ramakrishna is quoted to have said once "I found everything soaked as it were in Bliss—the Bliss of sat-cit-ananda." If the world is utterly governed by physical laws, then, to "Ideas" which have legs, we must attribute agency and efficiency. In fact modern culture has deified, Ideas, and Ideas rule the world. But we do have an intuitive feeling that physical life must lie soaking in a spiritual atmosphere and if so, it is most probably true, vast untapped spiritual resources are ours for the taking i.e. if our life is founded on the



philosophy of 'acceptance' not of interrogation." In saner moments when we are less obsessed with the idea of 'Ideas,' we realise, life to be adequately lived, must be ruled by 'Ideals' not 'Ideas.' The idea that life can be ruled by "ideas" is in fact one of the spiritual illusions of modern culture. When we think in terms of 'Ideals' we are inevitably led to an understanding of the Ideal of all Ideals, in whom the perfection of all Ideals exist and who makes it possible for us to realise all ideals, in one word, God. Combining Spaulding and Patrick we may attempt at a definition of God in terms of value thus: "God is not a mere object of Faith, not a hypothetical creator of the world, not a pragmatic "working hypothesis," but He is the "Totality of values both existent and subsistent, and of those agencies and efficiencies with which these values are identical." "God is value, the active, living principle of the conservation of values and of their efficiency."

Man seems to be no doubt a victim of his own inexplicable destiny. Specialists may say that circumstances or accidents determine the life of an individual. But why these accidents occur or how the circumstances culminate toward an end good or bad, it is difficult for us to judge. Cultures have changed either for our living or for our dying. If it is true civilisation destroys culture, we find, the very civilisation which is responsible for the destruction of a particular culture, brings to birth a different culture containing in itself again seeds of its own destruction.

We have to-day entered a critical phase in the world crisis, we are in fact witnessing the death of one great civilisation on one side of the globe and the birth of another great civilisation on the other side of it. We in the East have watched in silent bewilderment all that has meant to the West in terms of progress and civilisation. We have witnessed the drama of a whole civilisation being built and flourishing on the ruins of the spirit of humanity. We have seen how it is possible for an apparently triumphant civilisation to lack the warmth of the soul and culture of the spirit. We now understand, more clearly than ever before, the spiritual content of the significant saying "what does it profit a man if he gain the whole world and lose his own Soul?" We realise now that a culture which has no spiritual moorings, but which would tear itself deliberately from its vital religious centre, and puts up a whole edifice on a series of unfounded "Illusions" will necessarily be disillusioned of its false moorings sooner or later.

Human history is one long story of conflict between Spirit and Nature. Man, a difficult complex creature, at once Spiritual and Natural, belonging to two orders of existence so radically different finds it very hard indeed to reconcile, the two seemingly irreconcilable forces, ever at war with each other. Man's value concepts, his cultures and civilisations are built around these conflicts. A culture is often found to be good, sound and lasting to the extent the higher forces have the upper hand. If on the other hand, the lower ones have the ascendancy, that culture is seen to degenerate and die.

Culture is an interpretation of life through symbols. When the will to power dominates over the compassionate element in the human mind, when things come to be valued more on a quantitative rather than on a qualitative basis disintegration of both culture and civilisation sets in. When a culture contradicts its own foundations, when a civilisation confuses life with economic ideologies, techniques and organisation, then the highest norms of culture become illusions and spiritual values lose their inner meaning and significance.

It is true, the more man finds himself technically civilised the less he understands his kinship with Spirit or Nature. He gradually ceases to live in tune with either. He conquers the forces of Nature with one hand, only to find, he is annihilating the rhythm of life with the other. The more man concentrates on the improvement of his material life and resources, the less he finds himself a contemplative of Eternity. The growth of "Isms" tend to destroy man's authentic life and personality. His spiritual destiny is shattered and civilisation is seen to spread a plebian culture.

There are some, archaists and futurists who finding the present conditions intolerable seek fulfilment either in a return to a golden past or in a plunge in an idealised future. In a moment of boredom we sometimes reflect on a past event and feel the past was more glorious than the present. We expect a brighter future and deliberately try to shape the future in our will to make the present as meaningful as possible. To-day we are in a less optimistic mood and feel the spirit in us burning away, from its own state of being, by getting entangled in a myriad horrible external bonds. Some who find the strain of this burden more keenly than the others say in despair.

"The sun has set, the moon no longer shines,
No stars twinkle in the sky,
We must light our candles,
Or we shall be in utter darkness."



Shall we quit or see it through? In the words of Max C. Otto "There is just now a weightier reason for remaining in the battle than our preference. We *must*, or the higher interests of life are doomed . . . our path lies close to the precipice. We must watch our steps or we shall go over, as high minded people have done in other parts of the world."

Europe for example had a glorious past. To begin with, the renaissance grew on the rich firm soil of Christian faith. Thus its roots were in the spiritual as it should be. With the great awakening in every direction a new sense of freedom and power released man's pent up creative forces abundantly to the effect he accomplished many glorious things, in literature, religion, philosophy and art. Culture acquired new values. Man developed a new fascination for Nature in all her different manifestations. There was a universal will created to enjoy Nature and an intellectual curiosity to understand and interpret her intelligently. Man's life vibrated with the peculiar joyousness of life and his early contact with nature filled his soul with a light hearted careless happiness. Some of the loftiest flights into mysticism are attributed to this period, when some more religiously inclined than the others plumbed the very depths of their spiritual life, and experienced a strange ecstasy which satisfied their life internally and externally. Some of the best pieces of religious literature took shape and blossomed artlessly.

But as man's will to power and freedom gathered strength and as his love for material nature increased, a gulf slowly appeared between life and its meaning. Man hoped to find freedom in Nature, but divorced from grace, he could only touch her material beauty, but her soul was beyond his reach. Isolated individuals were able to effect a kind of mystic alliance with her soul, but, the majority of mankind were intoxicated mainly with her external beauty and power. Their intellectual or rational approach in trying to understand the forces behind her exuberant life, unearthed knowledge undreamt of regarding natural forces. With the naive delight of children, who for the first time are initiated into the mystery of the kingdom of toys, pictures and puzzles, mankind let go all considerations of past and future and entered Nature's lovely nursery, threatening ever to remain there, as children, apparently never intending to grow up, or return to the kingdom of men. With the result, there was a rich harvest of scientific knowledge and technological skills. Of the millions who entered God's garden of Nature, only a few were not entirely carried away with the glitter and glamour of infantile ideas of pleasure and progress, material culture and civilisation. It is they who realised man's destiny is not to remain a permanent child, toying for ever with the socalled inventions and discoveries of science or mind; they realised with regret, that their quest for freedom had resulted in bondage to Nature. They understood "Rationalism in all its forms is death of freedom." But the rest pushed on unable to stem in the flow of events, through humanism, rationalism, enlightenment, revolution, positivism, individualism, socialism, secularism and anarchism.

*Humanism* the spiritual basis of the Renaissance deified man. It helped to create a new culture and with it a new history. Thus modern history came into existence. Man, in his new human world made an artistic and scientific discovery of himself and nature. He also discovered that the life of the spirit repressed the human and the natural in man. So he broke from the depths of his being and floated to the surface of life to live in tune with nature. Somehow he felt, in Nature, there was the spirit of freedom. He knew what he wanted—liberty. But in his choice he confounded the spirit of freedom with the freedom of spirit. Little did he realise that to deny to himself the freedom of spirit meant subjection to the finite. To believe that the spirit of freedom is the same as the freedom of spirit is one of the illusions of present-day culture. Ironically enough it becomes a greater illusion when man deliberately sets out to seek 'freedom' in the world of Nature, for Nature is through and through deterministic, bound as it is by necessity.

Reinhold Neibuhr in his book "Faith and History" reviews what he calls "The extravagant Estimates of Freedom in the progressive view of History." It is true, fantastic achievements in the various fields of science and technics have filled modern man with a sense of limitless freedom and power. Commenting on this he writes "The extension of human power and freedom in either individual life or in the total human enterprise does not change the human situation essentially." It is time man realised "Man remains a creature of nature on every stage of development."? There are certain bounds of human finiteness which no historical development can overcome. The preoccupation of modern culture with the remarkable increase in human power and freedom has inclined modern men to deny and to defy these fixed limits. He reminds us of what he calls "the modern error about history." "The final form of the modern error about history is the belief that man's ambiguous position as both a creature and creator of history is gradually changed, until he may, in the forseeable future become the unequivocal master of historic destiny." Neibuhr brings home clearly the fact that "No human achievements can annul man's subjection to natural finitude."



Human culture taken in its entire range of Religion, Philosophy, Art and Social organisation owes much to technical power for its extension and expansion. Neibuhr says, "But there is obviously a law of diminishing returns in the relation of technics to culture." For example, writing is the very foundation of civilisation. The invention of printing has no doubt extended culture, but the fact that we do have the printing press, the type writer, better writing materials etc., does not show that the quality of prose or poetry writing has improved very much. The same applies to the art of the painter, sculptor and musician. With the more refined tools and methods at his disposal, we wonder, whether he is able to contribute more richly to art as such. If we take historical knowledge, people do have today a more accurate and scientific understanding of the subject, but whether they do have an imaginative grasp of events remains yet to be seen.

Innumerable instances from every walk of life can thus be quoted to show how extravagant man has been in his estimate of his own new found freedom. Mankind perhaps has yet to learn "Freedom is to be in possession of oneself."

*Individualism* is a product of modern history, a child of humanism. Paradoxically enough with the rise of Individualism man lost his individuality. The story of this degeneration can be briefly told. Man becomes an individual only in relation to a super-individual. The process includes the recognition of higher powers and higher values, and also submission in humility to them. But modern individualism denied categorically these higher leanings. Individuals were in fact sustained on the slogan "Man makes himself." Man tried to make himself into what he thought, an image of his own self—the individual. But curiously enough man, by a series of progressive steps has evolved finally into what we have today a "unit among other units", isolated from all leanings human or divine. To save man from his self-created loneliness, *socialism*, another product of humanism came to the rescue. Man was thus enabled to get rid of his abstract loneliness by becoming an "atom" in an abstract Collectivism. In short, in both Individualism and Socialism, man's concrete individuality died a natural death. Nicolas Berdyaev commenting on this era of Individualism and Socialism introduces two men, Friedrich Nietzsche and Karl Marx who have made history by representing these two forms of self-negation and self-abstraction with the intensity of genius." He says, "In the super-man individualism of Nietzsche the image of man perishes....so too does it perish in the super-human collectivism of Marx." Berdyaev sums up the whole issue thus "Abstract Individualism and abstract Collectivism are due to one and the same cause, the withdrawal of man from the divine foundation of his life, his cleavage from the concrete."

It is said the works of Nietzsche and Karl Marx "unmask the illusions of humanism." Man, for a period unleashed all his energies to build a perfect kingdom of man on earth, full of happiness and beauty. In the beginning it looked as if he would succeed. But very soon he realised his limitations and understood man is not sufficient unto himself. Humanism failed in its objective for other reasons as well. For one, expansion or extension, when it becomes the aim of culture, necessitates the will to organise the material forces under control. No culture thrives in terms of material organisation or expansion. In fact in the very process of organisation and expansion a culture dies. In the beginning of the renaissance, humanism was creative because it was selective. But due to the influence of enlightenment and revolution humanism aimed to expand creative culture uniformly and this "levelling" brought about the death of humanism itself. One is inclined to agree with T.S. Eliot when he says, "No true democracy can maintain itself unless it contains these different levels of culture." He says, "A democracy in which everybody had an equal responsibility in everything would be oppressive for the conscientious and licentious for the rest." Equality as a political, social or economic principles is neither practical nor desirable. Inequality on the other hand is just the right soil for the growth of any creative enterprise. A culture may be expected to live so long as man does not show any excessive passion for its extension or democratisation.

The tragedy of modern times is described as "Humanism turning against Man." When the humanist kingdom was proclaimed, bankrupt, the age long link which persisted between man and nature finally broke. The death of humanism also announced the birth of mechanism. Life which was somehow held together as an organic whole lost its unity completely when the machine asserted its sway. Whatever the machine touched it mechanised. Science and art, philosophy and religion, in fact every branch of human knowledge got mechanised in the process.

Sir Alladi Krishnaswami Aiyyer Shashtiabdipoorthi
Endowment Lectures, 1953-54

# DEFICIT FINANCING AND ECONOMIC DEVELOPMENT

BY

SHARAD S. MARATHE

## LECTURE I

I am grateful to the Syndicate and the University of Madras for the invitation to deliver these endowment lectures. I understand that this endowment was created at the time of the Shashtiabdipoorthi of the late Sir Alladi Krishnaswami Aiyyer a few years ago. His death last year has removed from amongst us not only a leading light of the legal profession, but one of the architects of the Constitution of our Republic. His memory will be cherished by many and for a long time.

The subject of my lectures which is 'Deficit Financing and Economic Development' has in the last year or so attracted considerable attention. It has been discussed particularly in the context of developmental planning in India and continues to figure prominently in public discussions of the subject. The purpose of these lectures is mainly to clarify some of the issues connected with deficit financing and economic development and I shall feel my efforts amply rewarded if these lectures serve to provoke discussion and to stimulate thought on this vital question. My interest will be mainly theoretical and although certain policy conclusions would be implicit in the argument, I shall make no attempt to spell them out. Further, what I am going to say will be of relevance mainly to countries like India which though underdeveloped do possess a more or less effective economic administration and which already have witnessed the beginnings of industrialisation. Often in current discussions almost the whole world is regarded as underdeveloped except for a few wealthy countries; but the inclusion of nearly three-fourths of the world in one broad category can be seriously misleading. There are fundamental differences between regions of sparse population barely above tribal levels and based on shifting and pastoral cultivation and others closely connected with the Western world with settled population and methods of agriculture and distinct cleavages of class and wealth. The different underdeveloped regions reflect an enormous variety of circumstances, historical experience, potentialities of development, political conditions and so forth and to disregard these differences would be to assume away the very essence of the problem both for analysing and for promoting economic development. I should like to state at the outset—although such a statement is likely to sound odd in the precincts of a university—that the views expressed are purely personal. I need not remind my audience that, unlike in the universities where it is not customary for a lecturer to preface his remarks by declaration that the views expressed by him are only personal and not official, it is often necessary to have this schizophrenic division in the outside world.

In the course of this lecture, I propose to discuss what to me seem the basic elements in the problem of economic development. In the next lecture I shall discuss the more important issues connected with deficit financing. The question of economic development is one which occupied an important place in the writings of the classical economists. In the body of economic literature, certain factors have been treated at different times as the motivating factors for development. For instance, in Adam Smith's *Study of the Wealth of Nations,* division of labour was singled out for this purpose. In latter classical writings, accumulation of capital began to have the pride of place. In certain other cases, it is technical change or innovation which has figured prominently. It is only more recently that apart from the Marxian formulations, due note is beginning to be taken of the fact that the economic decisions which determine the rate of growth and productivity of the working force and of capital should not be regarded as governed by the strictly economic motives of human beings. Economic action, it is beginning to be realised, is the outcome of a complex process of balancing material advancement against other human objectives. In other words, the process of economic development has more variables than were allowed for and that many of these variables are outside what may be termed the proper field of enquiry for an economist. An ambitious attempt in the direction of linking together these several variables has recently been made by an eminent economic historian, Professor Rostow, but even he would not claim that he has solved the problem of determining the range of forces that might determine acceleration or decceleration in economic growth. And yet an understanding of these forces is essential not only for a fuller understanding of the process of economic growth in the past, but for accelerating economic growth in large areas in the world where such acceleration is a pre-condition for civilised living.



From the economic point of view, the most rational basis for defining an under-developed country is not necessarily the degree of its industrialisation. Of course, in certain specific cases a high percentage of population depending on agriculture would in itself be a sympton of under-development resulting in disguised unemployment. In an over-populated and under-developed country, persons continue to remain on the land because they contributed to the total product but because they have nowhere else to go, as opportunities of productive employment are limited. On the other hand there may be cases where, as in New Zealand, a substantial proportion of the population may depend on agriculture and other primary production and also enjoy a high standard of living. Similarly the mere fact that a country has a low per capita income is not by itself a sufficient criterion for under-development. Although the United Nations Report on "Measures for the Economic Development of Under-developed countries', uses the term to mean countries in which per capita real income is low when compared with the per capita real income of the United States of America, Canada, Australasia and Western Europe, as the Report itself admits, the adequate synonym would be poor countries. The authors of the United Nations Report, of course, admit that a country may be poor because its resources are poor, but in their opinion there are no such countries in the modern world. The best test of an under-developed country is the level of its real income and the rate at which its per capita real income is increased. In other words, an under-developed country is one in which per capita real income is low and in which productive efficiency increases very slowly, if at all. For instance, in the United States and Canada per capita real income increased by approximately 50% during the decade 1938-48 and in the Union of South Africa the increase was nearly 25%. In Egypt and India, on the other hand, the per capita real consumption in post-war years is estimated to be somewhat lower than in 1938 and the per capita real income has probably not increased since before the war.

This disparity in the rate of growth of real income must be viewed not by itself but in conjunction with the fact that as it is there are wide disparities in the real income enjoyed by different countries in the world. An analysis based on the national income estimates for 70 countries compiled by the United Nations Secretariat and expressed on the common basis of the United States Dollars of 1949 purchasing power yields some very interesting results. If the world is broadly divided into high, middle and lower income groups, it appears from the figures that the high-income countries, i.e., the United States, Canada, Western Europe, Australia and New Zealand, constituting about 18% of the world's population, have a per capita income of a little less than 1000 Dollars. The world's middle class, so to say, consists of Argentina, Uruguay, South Africa, Israel, the Soviet Union and some countries in the Eastern Europe. These countries constitute 15% of the world's population and have an average per capita income of a little over 300 Dollars a year. At the bottom come the sub-merged tenth, the truly backward countries, constituting no less than 67% of the world's population and having an average per capita income of slightly more than 50 Dollars. This class covers most of Asia, Africa, South-Eastern Europe and Latin America. Of course, international comparisons of real income are tricky things and need to be interpreted with great caution. I do not want you to carry with you the idea that the difference in the welfare or in happiness is truly reflected in the figures I have mentioned. Nor do I want to forget that average per capita incomes themselves might cover a wide range of divergence between the highest and the lowest in particular countries, i.e., even in the high-income countries there would be sections whose per capita incomes may not be much enough for civilised existence and similarly even in the poorest of the countries there may exist a small strata whose ways of life may be more akin to those of the plutocracy in advanced industrial countries. In spite of all these qualifications, I do submit, however, that in the world today there are wide divergences in real income and consumption between different countries. This would be obvious if we look at the figures in another way. As I said earlier, the high-income countries constitute 18% of the world's population but they enjoy something like 67% of the world's income. On the other hand, the low income countries which constitute 67% of the world's population enjoy something like 15% of the world's income. The point I am trying to make is that as it is the disparity is wide and instead of it being narrowed down over time, there seems to be at present a tendency for countries with a rich heritage to get richer and for the gap between the rich and the poor nations to widen.

The problem, therefore, is two-fold. The real income in the backward areas is very low and further the rate at which this real income is growing is also very much lower than the rate of growth



of incomes in the developed areas of the world. We have, therefore, two questions before us. Why is it that the incomes in certain countries are low? And secondly, why is it that the improvement in their standard of living is also very slow? Of course, there can be numerous reasons, social, political, institutional or natural, which would account for differences in income. I do not for a moment want to under-estimate the importance of these factors, but I do suggest that one of the most important factors accounting for differences in real income is difference in capital available per head. Certain regions of the world are poor because in relation to other factors of production, the amount of capital stock available in these regions is small. So far as one can gather from the available evidence, a fairly high degree of correlation exists between the capital per head and productivity in different countries and regions of the world. Of the stock of capital equipment, there is of course no satisfactory measure, and one has to fall back upon approximate indices, such as horse-power of mechanical power per worker. Differences in the value of output, both per head of the population and per worker, are striking not only as between different regions of the world but are sufficiently striking even inside a continent such as Europe. As one of the surveys of the United Nations Economic Commission for Europe has shown, the net value of commodity production per head of population in countries of North-West Europe in 1948 was nearly twice the European average and as much as four times that of South and South Eastern Europe. Labour productivity in industry in the most developed countries of Europe was three times of the less developed and in agriculture where labour productivity was universally lower than in industry, the difference was as great as six to seven times between the more developed and the less developed countries. By comparison with the United States, the average productivity of labour in Europe was only one third and was no more than half the American level even in the most developed areas. In the case of the least developed countries, such as those in South East Europe, it would seem that their productivity was no more than one-fifth to one-sixth of the American level. An interesting point to note, I suggest, is that these differences seem approximately to correspond to differences in capital equipment per head. No adequate data are available of the capital per worker or per head of the population in the backward areas of Asia and Africa. But there should be little disagreement on the point that their inherited stock of capital is relatively much smaller today than in the more developed parts of the world. It is on this aspect of the matter, namely, that of capital formation, that I shall concentrate for the purpose of my argument. I should like to emphasise, however, that economic development has much to do with human endowments, social attitudes, political conditions and may be even historical accidents. While lack of capital equipment is no doubt an important handicap, there can be many others such as lack of mineral resources, insufficient water or barren soil, which would tend to keep countries poor, although I think it is largely true that even in such cases a part of the poverty is attributable to some extent to the lack of adequate capital equipment. The point that I want to make is that capital is a necessary, but not a sufficient, condition of economic progress.

The next question is that if countries are poor on account of inadequate capital resources, why do they continue to remain poor or what are the basic reasons which tend to perpetuate their poverty? A phrase which crops up frequently in discussions of economic development is the 'vicious circle of poverty'. It implies a circular constellation of forces tending to act and react upon one another in such a way as to keep a poor country in a state of poverty and such circular relationship is most important in the matter of accumulation of capital in backward countries. The supply of capital is governed by the ability and willingness to save and the demand for capital is governed by the incentives to invest. In current discussions, somehow it is the supply side which has received more attention; that is to say, the capacity to save is low because the level of real income is low. The low real income is the result of low productivity which in turn is due largely to the lack of capital. The lack of capital in turn is the result of the smaller capacity to save, and so there seems to be no way out. The country continues to be poor because it is poor. But this, I submit, is only one, though doubtless the more important manifestation of the vicious circle of poverty. The other aspect is the one that relates to demand. On the demand side the inducement to invest may be low because of the small buying power of the people, which is due to the small real income, which again is due to low productivity. Now the low level of productivity may itself be a result of the fact that small amount of capital is used in production and this in turn may be the result partly of the smaller inducement to invest. As you will have noticed, the low level of real income reflecting low productivity is the common feature of both these lines of argument. But in one case low productivity is attributed to the existence of smaller capacity to save, while in the other case it is related to the smaller inducement to invest. My feeling has always been that not enough attention has been paid to the demand aspect of capital formation, i.e., to the problems connected with inducement to invest.



I have heard people say that surely there is any amount of demand for capital in the backward areas. But the sense in which the term 'demand' is here used is not strictly the economic sense of the term. The basic point of our argument is not that capital is not needed. All of us know that enormous amounts of capital will be needed in countries like ours, but in terms of private incentives to adopt capitalistic methods of production, the inducement to invest, i.e., the demand for capital, is relatively smaller on account of the limited size of domestic market in the early stages of a country's economic development. Now the lack of domestic demand is not in monetary but in real terms. Monetary expansion alone, therefore, would not remove it but would merely produce an inflation of prices. The crucial determinant in the size of the market is productivity. In an over-all view, the size of the market is not only determined but actually defined by the volume of production. In the economy as a whole, the flow of goods and services produced and consumed is not a fixed magnitude but it is a variable, taking population as a constant. I have heard time and again people say—and quite responsible people too—that if only prices could be reduced, the market would be enlarged. Of course, it is true, but only if the implicit assumption is that money incomes remain constant. The essential point, however, is that prices could be reduced with money incomes remaining constant only if and when there is an increase in productivity and therefore in real income. It would be equally true to say that the market could be enlarged if peoples's money incomes could be increased and the prices remained constant—a kind of situation which with minor variations could obtain in a successful reflationary process. In such a case there would be an increase in productive efficiency as a result of the use of unutilised or under-utilised resources—human as well as material. The point I want to emphasise here is that in the last analysis, the market can be enlarged only through an all-round increase in productivity.

Now in an under-developed country where there is generally no deflationary gap through excessive savings, productivity depends largely—though I repeat by no means entirely—on the degree to which capital is employed in production. I other words, productivity is a function of the capital intensity of production. But as I have mentioned earlier, from the point of view of an individual entrepreneur, the use of more capital is often limited by the small size of the market. It should like to reiterate that the technical contribution which capital can bring about in backward countries is not in dispute. The possible increase in physical output with modern machinery plus efficient management may be tremendous, but this, I submit, is the technical or the engineering as distinct from the economic aspect of the matter. As far as the economic side is concerned, the question is not simply one of physical productivity but of value productivity, and this is limited for any individual entrepreneur by the poverty of potential consumers. Quite often people compare the primitive methods of production that prevail in most backward countries and contrast them with the physical productivity of modern mechanised plant. To them the obvious conclusion is that the marginal productivity of capital in the economically backward areas must be enormous. Application of modern techniques involving capital would greatly expand production, but from an economic point of view, the case is not so simple. The technical opportunities may be great and the physical increase in output may me spectacular, but for any single entrepreneur undertaking such capital investment, the value productivity is often limited by the low purchasing power of the people. Of course, to some extent, he may displace less efficient producers by producing more cheaply, but a large flow of capital in a particular direction would not be sustainable unless there is at the same time a flow of capital in many other lines of activity. The basic point is that the technical physical productivity of capital can be realised in economic terms only through balanced growth in enlarging the aggregate size of the market and increasing individual investment incentives all-round.

In an agricultural country—and most backward areas are mainly agricultural—the evolution of a sufficiently large investment programme, which would enable balanced growth, enlarge the aggregate size of the market and thus help the technical physical productivity of the capital to be realisable in terms of value productivity, would entail investment in numerous directions. Fresh investments will have to go into the field of essential public works and services ranging from roads and railways to postal and air



communications, power plants, water works, schools and hospitals. In addition, there will have to be direct productive investments in agriculture in the form of more irrigation facilities, better seeds, improved techniques, etc. And in order to maintain the balance in the economy and make development possible, investment must take place in manufacturing industry, both consumer goods as well as capital goods. The fact that investment needs in the early stages of development are varied and considerable creates certain special problems. For instance, in the case of under-developed areas, the concept of marginal productivity of capital, central to traditional theory of economics, becomes very difficult to determine and the problem is not at all that of marginal additions but one of structural change and all-round growth. In a sense, this characteristic of investment requirements to transform a backward economy arises out of the fact that there are wide divergencies between private marginal product from the point of view of entrepreneurs acting on their own and the social marginal product emerging from a co-ordinated pattern of investment which through action and inter-action alters over a period of time the basic structure of the economy. At any rate, it is conceptually possible to envisage a situation of this kind, though I am not at all sure that in the present state of our knowledge it would be easy to evolve such a co-ordinated development programme. I do not mean that the directions in which investment is needed are not known, but I do feel that even now our knowledge of the process of economic growth is too limited to enable a rational choice to be made in regard to the appropriate balance of investment in different sectors of a developing economy. The issues posed by a choice of investment in one sector rather than in another will require for their solution a kind of sectoral analysis of the appropriate composition of investment in societies undergoing change which is not yet far advanced. The United Nations Report in dealing with the question of the use of resources mentioned the marginal principle and also referred to a second principle which economic analysis provides.—"This second principle arises from the fact that large movements of resources within the economy will have effects which are disproportionately different from marginal movements. In consequence the planner must satisfy himself not only that further marginal movements would serve no useful purpose, but also that there is nothing to be gained by large movements of resources, amounting to a considerable alteration in the structure of the economy." "The first of these conditions", the Report added, "is often satisfied when the second is not." In addition to these marginal and token conditions, there is probably a need to have an additional dimension to the problem of allocation of resources, namely, the time dimension, in order to ensure the optimum capacity over periods of time. Such an analysis is all the more pertinent in a situation where, as now, a high proportion of the investment of the world is determined by the judgment of governmental or inter-governmental bodies as opposed to that of private individuals or institutions.

Apart from these interesting theoretical considerations, one basic fact remains, namely, that in order to break what may be termed as an under-development equilibrium, initially a push has to be given to the economy so that the vicious chain of poverty perpetuating poverty is broken. The United Nations Report has posed the problem in broad terms by pointing out that providing capital for 1 per cent increase of the population would require something like 2 to 5 per cent of the national income to be diverted towards investment. If, as is quite common, the population is increasing at a rate of between 1 to 1½ per cent per annum, the proportion of national income to be diverted to investment in order to cope up with the population growth alone would be something like 5 to 7 per cent. This is about the rate of saving and investment obtaining in most of the under-developed countries and so like the Red Queen one has to move as fast as possible only to remain where one was. It would seem that at the current levels of capital formation in India—around 5 per cent per annum—we would at best hold our own. The standard of living of the people, after taking into account the increased population, may not fall, but there will be no appreciable increase either. It is this situation which the authors of the Five-Year Plan are out to tackle. In their schematic representation of the shape of things to come, they envisage an increase in the rate of investment to something like 6¾ per cent by the end of the first five-year period. The basis of this increased investment is that some 20% of the additional incomes generated during the planning period would be diverted back into investment. This rate of diversion is to be stepped up to 50% of the additional output in the subsequent planning periods. Further, on the assumption that three units of investment would yield one additional unit of current income both at present and in the future, they estimate that the rate of saving as a proportion of national income can go up from 6¾ per cent in 1955-56 to about 11 per cent in 1960-61 and 20 per cent by 1967-68. At that level



if the investment rate is stabilised, then the planners estimate that per capita incomes may be doubled by about 1977. Of course, these calculations are only illustrative and are intended only to illustrate the implications of alternative courses of action.

I have quoted these figures merely to indicate the basis of reasoning behind development planning in a backward economy. The pertinent question in this context is: What is the mechanism by which an economy which is attuned for many generations to a rate of saving of some 5% per annum converts itself into an economy with a net saving and investment rate of about 15% within the period of a few years? The answer is not that the general public voluntarily starts to save much more. Even in the United Kingdom and the United States where the gross investment rate is often as high as 18 to 20% of the gross national income, personal savings from disposable income seldom exceed 4%. The rest of the investment is financed by corporate savings, i.e., either capital formation financed from taxation or undistributed profits of companies used to finance maintenance and new investment. Of course, I am aware that in the backward countries in addition to savings—private as well as corporate—one can count as a source of finance external aid. But for the purposes of my argument, I prefer not to enter into this field of foreign aid because it will open out new fields which, within the brief space of time at my disposal, I will not be able to cover. The question therefore is whether without any unorthodox economic policies a backward economy can hope to step up the rate of internal saving from some 5% to about thrice as much within a few years.

In current discussions, particularly in Working Parties of international institutions like the Economic Commission for Asia and the Far East on the mobilisation of domestic capital, the emphasis is on increasing personal savings from disposable income through developing postal savings, credit institutions, insurance companies, etc. While I do not deny that all these things are worth doing, I must confess I do not believe that they would make a material difference to the situation. The most of these kinds of reforms can contribute to the saving potential in the community is at best about 1 or 2% of the national income. As regards the other forms of savings, namely, corporate savings by Government or by companies, as a short-term proposition, the scope for expansion is not great. This is to say, Governments cannot expect realistically to increase their share of total national income in the very early stages of economic development. This somewhat pessimistic conclusion is borne out by the experience of most of the Asian countries. For instance, the Second Report of the Consultative Committee of the Colombo Plan which met in Delhi towards the end of last year mentions that "For the current fiscal year 1953-54 the budget estimate of the short fall in receipts comes to about Rs. 185·8 crores, of which Rs. 138 crores is anticipated at the Centre and Rs. 47·8 crores in the States." And this I may remind you is in spite of the fact that the budgetary resources are expected to be slightly higher than in 1952-53. In other words, even in a country like India—which we must remember is perhaps one of the more advanced countries in the backward area—resources available to the States for developmental purposes cannot increase at a rate commensurate with the requirements of the situation. Similarly, the same Report admits that despite some increase in building activity, investment in trade and certain engineering and small-scale industries diminished, and this is attributed to the emergence of a recessionary outlook. No adequate data are available for estimating, with any degree of precision, the aggregate corporate savings in the private sector, but I will not be surprised if in 1953-54 this source of finance declined to some extent. In other words, even in a country like India, which in some sense remains at the top of the class, deficit financing on a scale much larger than in the previous period had become necessary. The moral of the story therefore is that while in the nature of circumstances our requirements of capital investment are large, the resources from which this scale of investment can be financed are currently limited. Deficit financing therefore is to be viewed as a method or a mechanism by which the resources available for development can be augmented.

At this stage, it is perhaps worthwhile to discuss in real terms what capital formation means—although such a discussion may sound, somewhat elementary to an audience like this. It has been a fairly common assumption in the past among writers who have discussed the problem of capital formation that the essence of the problem is the availability of financial resources as the basis for large-scale investment. The problems of capital accumulation and investment have therefore come to be viewed more or less exclusively from the financial angle. In real terms, the resources can come only from the surplus of total production over necessary consumption and as all of us know, in poor countries this margin will be a very narrow one. The traditional argument also contained another element, namely, that full use of the existing margin between production and consumption could not be made in an underdeveloped economy. Because it lacked the financial institutions and methods, potential savings could not be mobilised and canalised into productive investment. According to this view, therefore, the available and mobilisable saving fund of the community is the factor which sets a limit to the possible rate of economic development. It is this line of reasoning also which, I believe, is partly responsible for the importance attached in current discussions to the institutional aspect of mobilisation of domestic savings. Now I would be the last person to deny that this line of reasoning does contain some element of truth. Of course, it is true that the larger the proportion of the labour force required to produce subsistence, the smaller will be the labour force available *ceteris paribus* for industrial construction or capital formation generally. I do not deny also that in the earlier stages of capitalistic development, the lack of liquid resources and the absence of credit facilities have tended to be a retarding factor in investment. But what I would not agree to is that the margin left over after meeting consumption at any given time is a part of the data, or in other words that investment can be increased in the community only by lowering consumption. This will be true only if we assume total production as a constant. It is only in such a circumstance that what we may term the financial consideration becomes of primary importance.



But this need not necessarily be so. As is well known, most backward countries suffer from varying degrees of disguised unemployment. That is to say, they have surplus people engaged in agriculture whose removal from that occupation would not affect total agricultural production. To put it differently, there are a certain number of people apparently engaged in agriculture whose marginal productivity of labour, however, is zero. I must make it quite clear that this is only a conceptual description of the surplus population on land and that in practice it would be impossible to identify individuals or groups as belonging to the category of surplus labour. But for the purposes of our analysis, such individual identification is not necessary. Now if it is agreed—and I think there need be no disagreement on this—that there is a certain fund of labour which is available for alternative employment without causing a reduction in existing output, then the entire complexion of the problem of capital formation altars. What disguised unemployment really means is that there is at least to some extent also a disguised saving potential in the community which, under the existing arrangements, is not being utilised.

This can be illustrated by taking a more concrete example. As things are at present one can say that there are unproductive surplus labourers on the land and that these are sustained through the effort and output resulting from the productive labourers. I am using the terms productive and unproductive only for the sake of convenience,—although as I have said before, the separation of the two groups is in the nature of the case impossible. Now in a situation like this, what is really happening is this that the productive labourers are producing more than they themselves consume, i.e., by themselves they are saving, but this saving is being utilised or rather has to be utilised at present in maintaining the surplus population on land or the unproductive labourers. In other words, the saving performed by the productive workers is being consumed by the unproductive ones. If, let us suppose, these unproductive persons were to be employed on some kind of real capital construction, say, making a road or building a railway line or constructing a factory, and if these people continue to be fed as before, i.e., from out of the actual saving of the productive labourers, then the rate of capital formation can be stepped up theoretically without entailing a reduction in consumption for the community as a whole. Here is a relationship between consumption and investment which, one may say, stands midway between the classical and Keynesian approach. In the usual classical model, or what may be termed the traditional view, an increase in the rate of capital formation requires a reduction in consumption. In the Keynesian world of industrial unemployment, consumption as well as investment can be expanded at the same time. In the type of case that we have been discussing, it is not possible, as in the Keynesian model, to expand both consumption and investment, but it is possible to increase capital formation without having to cut down the level of consumption.

Lest this description of the investment process give you the utterly wrong impression that our problems are not so difficult after all, I must introduce here certain very important qualifications. If factories or roads and railways are built in the countryside by the farmers' sons living at home,, the feeding and clothing of these young men would impose on the farmers no strain that they would not in any case have to bear. But the whole point is that capital formation does not necessarily take place through the



labour of the farmers' sons living at home. They are built also by the unemployed in the towns who now eat more food and wear more clothes than before and someone else has therefore to eat less food and use less cloth. Further, the fact that people have moved away from the villages would not necessarily mean that the food that they were otherwise consuming would move with them. With less mouths to feed, it may well be that those who stay on on the farms would prefer to eat more; particularly so, if their original level of consumption was fairly low. Then again, once the rural people shift from their traditional surroundings, their tastes and patterns of consumption also tend to altar. And often in a remarkably short time they begin to experience new wants and the impact of urbanisation leads their expenditures into new channels, where in the short term someone else will have to consume less if their demands are to be satisfied. Then again, it is well to remember that while the removal of surplus labour would provide a labour force, it would not provide skilled labour and this may constitute a serious bottleneck in the way of economic development. Similarly, in the earlier stages of development, the limiting factor may be certain sorts of industrial or mechanical equipment—heavy electrical machinery or blast furnaces, locomotives or machine tools—which can be obtained only from abroad. In the absence of foreign borrowing, this import can be purchased by increased export of agricultural products or products of light industries producing consumer goods or alternatively by restricting imports of certain other consumer goods. The net result of any of these things, however, is the same, namely, that the consumable quantum in the community is to that extent reduced. In this sense, the classical view of the investment process contains an element of truth. Finally, as I mentioned earlier, one of the important limiting factors on the pace of development would be the marketable surplus of agriculture. It is the size of this surplus that would determine the extent of the labour force that can be employed on capital construction. No doubt, as a part of the process of development, the output of agriculture may itself be increased through suitable investment. But there is no guarantee that such increase would automatically increase the marketable surplus and so we come to a crucial point and the point about which I shall have to say more in the next lecture, namely, that the utilisation of the saving potential implied in the existence of disguised unemployment would in the nature of things involve a considerable degree of regulation and control over the economy.

LECTURE II

In discussing economic development a distinction needs to be made between what is required to initiate a process of growth and what is needed to sustain a process already initiated. I am concerned here mainly for the former. Broadly speaking, a process of growth can be regarded as initiated only when the rate of capital accumulation reached is high enough to sustain per capita consumption standards in a community at a minimum level and yet leave a margin of productive capacity which can be used for stepping up the rate of capital accumulation still further. Obviously this would depend on the consumption standards which the community can be persuaded or compelled to accept in the initial stages. The lower the consumption standards and the longer the period over which they are acceptable, the quicker will be the process of growth. In the absence of any special measures to restrict consumption in the initial stages, the high propensity to consume limits the rate of investment and perpetuates economic stagnation. If, on the other hand, adventurous entrepreneurs making use of bank credit embark on an investment outlay in excess of the receipts from genuine savings or if Government incur developmental expenditure which is larger than the resources that are available to them through taxation and loans minus non-developmental expenditure, the effect is that money incomes increase. Real incomes, of course, do not increase at the same time because it takes some time for the investment to fructify. Voluntary savings, therefore, do not increase *pari passu* with the increase in investment and there ensues a gap between the investment and voluntary savings which is covered by forced savings through a rise in prices. It is this gap which may be described as deficit financing. It is only as economic development gets going at a vigorous pace with capital formation fructifying and real incomes in terms of consumption goods and services increasing in substantial measures that the gap begins to close with an increasingly larger response of voluntary savings, both personal as well as corporate, to the investment outlay. I should like to emphasise that this increase in voluntary savings which takes place at a later stage is not at the cost of an actual reduction in consumption but only at the cost of reduction in potential consumption; that is to say, although the proportion of national incomes spent on consumption falls, the volume of output actually consumed will rise. It is at this stage that one can say that the economy has ceased to be stagnant and is on its way to development. From then on, the problems of economic policy are of a different character and possibly more amenable to the economic calculus which is concerned with marginal adjustments. The role of deficit financing therefore is most relevant during that stage when an economy is transforming itself from a stagnant to a developing economy. And it is this particular aspect of the problem that I intend to discuss today.



Deficit financing arises wherever an attempt is made to step up the rate of investment beyond the existing rate of saving and it leads to a rise in prices. The extent of this rise depends upon the net increase in national outlay as compared to the increase in the national output of purchasable goods and services, resulting from the initial dose of deficits. The duration of the rise will depend upon the period taken for the investment to fructify by addition to the national output of purchasable goods and services. The difference between the net increase in national outlay and net increase in national output of purchasable goods during the investment period may be termed as the measure of deficit financing involved. As I have said earlier, deficit financing can take place in respect of capital formation, whether by Government or by private enterprise, but the deficit financing based on the expansion of credit is normally limited by cash resources of the banking system and is more amenable to regulation or control through the Central Monetary Authority. But the effect of Government undertaking deficit financing is that there is an addition to the cash resources of the banking system which enables the latter to bring about a much greater expansion of credit. Thus, at any rate potentially, a given increase in currency is capable of a larger subsequent increase in credit, thereby strengthening the inflationary potential. That, I believe, is the point which Dr. Rao has sought to make in his recent article.

For the purposes of our discussion, it is sufficient to mention that deficit financing initially must result in a certain rise in prices. But then this does not by itself mean that deficit financing will be inflationary. A rise in prices becomes inflationary only when it assumes a spiral form, i.e., when a rise in prices leads to a further rise in prices and so on, until there is a complete breakdown of the monetary system. An integral feature of such an inflationary rise would be an ever-increasing expansion in the volume of currency which alone can sustain a cumulative inflation. When inflation in this sense is taking place, there ensues capital consumption on a significant scale and to that extent it follows that inflation and economic development are contradictory. It is possible in this sense that there has been consistently an objection from the economists including those who have known sympathies for the underdeveloped countries, to utilise inflationary methods like deficit financing. There is also another reason why deficit financing is viewed with alarm by many intelligent people. As we all know, deficit financing has its historical origin not in economic development but in war finance. Nearly every Government at war spent beyond its available resources, i.e., resources placed at its disposal by people voluntarily, and the use of money and credit effected an involuntary transfer of resources from the people to the State through the mechanism of a rise in prices. The wartime deficit financing also accentuated the inequalities of both income and wealth. Largely as a result of this, the term deficit financing has come to acquire a certain odium. It ought to be remembered, however, that deficit financing during the war was entirely of a different type than the one we are discussing. Deficits were incurred during the war years in order to supply goods and services for the prosecution of the war. At the end of the war there was little to show by way of productive capital equipment for the large deficits because the deficits were largely incurred for consumption rather than investment. But now the position is exactly the reverse. Further, during the war time while the volume of purchasing power in the hands of the people was increased through deficits, supplies of goods on the markets were in fact reduced because they were largely diverted for military purposes. The position now will be different to the extent that additional employment and consequent increase in purchasing power would be matched to some extent at least and after a certain time-lag perhaps, by an increase in the supply of goods and services. As such, any conclusions directly derived from war-time experience are not appropriate.

There is another possible explanation for the object to deficit from certain quarters. These people object to any price rise *per se* on social or political grounds. Naturally I, as a salary earner, have great sympathy for any view which keeps prices constant and my income increasing. But apart from this personal prejudice, I cannot understand why a price rise, within limits I repeat, should be viewed with concern in a country like ours. The proportion of what we would call fixed income earners to the total working population is not as large as in many other countries, and in any case if as a result of a rise in prices there are more employment opportunities, it is these very classes which are adversely affected and which would benefit by additional employment opportunities. What I am suggesting is that even from the sectional point of view, perhaps there is something to be said in favour of employment with higher prices than greater chances of unemployment and a lower level of prices. But price rise may not be a means of forced saving if the existing levels of consumption are already so low that the community would under no circumstances allow any further reduction in that level. In such a case obviously there cannot be any forced saving. I, for one, do not think that India today would tally with this description. If anything, the history of war finance has shown that there are substantial possibilities of forced saving, particularly if such forced savings are 'for the duration' only. Forced savings obtained through war financing are as much a matter of history as are voluntary savings obtained through a reduction in existing or potential consumption. And after all, forced saving obtained through a rise in prices when used for capital formation is no more than deficit financing for economic development.

The really relevant question for our purposes is not whether deficit financing can be used as an instrument for development but the extent to which it can be so used and whether or not its impact would be inflationary in the sense of a spiral of price rises. As I have stressed earlier, deficit financing is bound to result in a certain rise in prices. The extent of the price rise and its duration would depend upon a number of factors, such as, the scale on which the investment outlay is deficit-financed and the purposes for which deficits are used; the extent to which the additional incomes created by the outlay are mopped up and returned to the Exchequer; the effectiveness of the investment undertaken in bringing about an increased flow of consumable output and the period taken for this flow to emerge; the behaviour of money wages in response to the initial rise in prices and also the success of the measures undertaken to prevent a significant rise in the prices of basic necessities during the investment period. There is also an important consideration, namely, that of the effect it has on the demand for imports and on the volume of exports. But I shall not enter into the problems of the external balance here. It is these factors which we shall now consider.

It is difficult to lay down any quantitative limit on the extent of deficit financing because, for one thing, the amount which an economy can sustain would itself be dependent upon its ability to pursue policies which would reduce the inflationary potential of deficit financing. This ability obviously would vary from country to country or, for that matter, from time to time in the same country. All kinds of factors, social and political and even accidental, would enter here. What one can say, however, is that the first stage in any programme based on deficit financing is to concentrate on breaking those bottlenecks which prevent a rapid expansion of output. In most backward countries, extra output of consumer goods is feasible but will not be forthcoming only by putting in more money into circulation. Agricultural output, for instance, may not increase by the mere impetus of higher prices, nor would industrial capacity be fully utilised if there are shortages of certain materials or of transport facilities. One of the major bottlenecks in the under-developed countries is the production of food. In economies where the standard of living is as low as it is in Asia, a large percentage of the money incomes generated will tend to be spent on food. For instance, the National Sample Survey indicates that the proportion of incomes spent on food grain varies from 23% to 49% in various parts of India. Of course, this proportion indicates the average propensity to consume food and the marginal propensity may be slightly lower. But in spite of this qualification, I should think that one can confidently say that a significant part of additional incomes generated in the earlier stages of development would have a tendency to be spent on food. If, therefore, as a consequence of deficit financing, food production could be stepped up, the inflationary dangers would be greatly reduced. My knowledge of agricultural economics is very meagre, but I am told that most agricultural experts in the region agree that the yields per acre of food crops which are at present very low could be raised by something like 30% over a decade if concerted efforts were made. The generally accepted figures are that a 10 to 15 per cent increase would be due to better seed, upto 20% increase due to the use of fertilizers, some 10% increase on an average for the country due to irrigation and wells and some 5 to 10 per cent due to use of pesticides. Of course, these are rough estimates and should be treated as such, but the point remains that



there is considerable scope for using money in directions which would quickly and substantially increase agricultural output. No doubt, even an increase in agricultural output of such magnitude would not necessarily match the greater flow of money implicit in deficit financing. Or even if over a period it does, production would still fall short of demand at the new levels of income, especially in the earlier stages of development. There would, therefore, exist an upward pressure on food prices.

The other main bottleneck is the supply of manufactured consumer goods available either from cottage industries or from modern factories. As is well known, there is considerable under-employment among the cottage industry workers, particularly in certain parts of our country. A great deal of disguised unemployment is to be found in handloom weaving, for instance. And if extra money were put into economic system, some of it would flow towards this sector. I am aware that this would not result in increased production unless those engaged in cottage industries are assured adequate supplies of raw materials—things like cotton yarn, pig iron, timber or leather. Cottage industries are also handicapped by poor marketing arrangements and the equipment they use is also capable of being improved in relatively simple ways. If part of the new money is spent on a programme of improving the techniques of cottage industries, the inflationary potential of such expenditures would be limited, especially if the response in terms of output is quick and considerable. Deficit financing for the establishment of modern industry would, in the first instance, be more inflationary than expenditures either on agriculture or cottage industry. But as a part of the larger developmental programme, there might exist a case for using new money for breaking the bottlenecks which prevent the expansion of factory industry. In the case of India, for example, a serious limitation upon the expansion of machinery manufacture is placed by the fact that the output of steel is very low. And yet we have large resources of iron ore and of coke and much experience of steel making and of engineering. Under these conditions, expansion of the steel production capacity should be undertaken as far as possible through normal resources of finance or through foreign borrowing as is being done now, but if nothing else is possible, increase in capacity may even be financed from out of deficits. Even in case of such long-term projects as steel or multi-purpose river valley schemes, I should like to emphasise that though deficit financing would be inflationary, it would not be as inflationary in the long run as war-time deficits.

The burden of my present argument is that from the economic point of view there is nothing to be said for deficit financing which merely supports large armies or subsidises food consumption or maintains an elaborate civil service or creates large numbers of primary school buildings whose contribution towards increasing output will, if any, be very remote. But deficit financing of programmes which are likely to expand output of consumers goods within a fairly short time is a different thing, for even though they may cause some temporary rise in prices, they may be expected to restore rapidly economic equilibrium at a rate higher than that would have been otherwise achieved. No doubt, part of the fear of using deficit financing even for economic development arises from the expectation that once Governments are allowed to embark on deficit financing, they will not know where to draw the line. It is always a great temptation to take the line of least resistance and in less cautious hands who find creating money much easier than taxing people, the choice will permanently be in favour of the seemingly attractive process of creating money. The great advantage of the principle that budgets must be balanced is that it allows the Finance Minister to discipline his colleagues. They may plead most eloquently for the expansion of this service or that, but his position is impregnable so long as his budget has to be balanced. Once this principle is abandoned, it is argued, there will be no control over Government expenditure. In the absence of the simple but stringent rule of having to live within one's means, the demands on the purse are likely to be many and pressing. There is, of course, some point in this argument. But I think it should be possible to meet it by some kind of a compromise. If we take out of the ordinary budget those development expenditures which are expected to increase rapidly the output of consumer goods, then we can say that all the rest of the budget must be balanced either by taxes or by genuine borrowing from the public. Thus we could take out from the Central and State budgets expenditures which are being incurred on agriculture, including irrigation, on cottage industries, on training facilities and on other industrial projects which may fructify rapidly, and say that the rest of the expenditures must be met by taxation or genuine borrowing. The quickly maturing schemes could be financed by creating money. I do not want you to think that this compromise formula



is the solution to our problem or is a substitute for fiscal discipline imposed by the need to balance a budget. There will still be need for discipline in determining what items should go into the special budget and, even more, how much may be spent on them singly and collectively.

Even if the creation of new money is restricted only to the financing of developments which fructify fairly rapidly, there is no reason to expect that the flow of new money and the flow of new goods would exactly offset each other. Partly there will be the complications of the time-lag between expenditures and output and partly one will come up against the difficulty that those commodities, demand for which is most likely to go up with increased incomes may not always be the commodities, the production of which can be stepped up quickly. Further, especially in backward countries where statistical information is quite scanty, one does not know what form of demand marginal incomes might take and no conscious policy, excepting in a very crude way, is possible to match the new incomes by new goods. It is therefore probable that all things taken together, at least in the first two or three years money incomes would increase faster than the supply of goods and the general level of prices would rise. The increase in certain sectors may be even greater than the rise in the general level.

One of the most important means of keeping the situation under control would be to have a tax system which mops up automatically a large part of any extra incomes created. In fact, this is basically the Keynesian approach to problems of war finance. The main reason why the countries like the United Kingdom and the United States were able to go through the World War II using up as much as half their resources for war purposes and yet come through the war with price levels only about 50% or so above the pre-war level was that their tax system was successful in automatically mopping up significant parts of any increases in money incomes. Of course the rigid wartime controls though successful in curbing the price rise did leave behind a legacy of latent inflation. But broadly speaking, in any economy in which inflation is a possibility, the most effective safeguard is having a tax structure which takes back a high proportion of the marginal money income. Now this can be done by highly progressive rates of income taxation. But in a backward country like India this particular method would be restricted in its application to a very small proportion of the population. The other and the more fruitful line of approach is possibly to have a fairly high rate of indirect taxation on those items the demand for which is expected to increase with higher incomes. Here again, lack of adequate knowledge of the possible consumption patterns is the most serious obstacle to a coherent policy. But in principle the approach is that the greater the extent to which marginal additions to income are sucked back into the public exchequer, the greater are the chances of putting through a developmental programme without undue strain on the price front. In practice, however, most undeveloped countries are likely to have a tax system the incidence of which is low on marginal incomes. In such a case, two consequences are likely to follow. Firstly, the extent to which deficit financing can be resorted to without the risk of a run-away inflation is more limited, and secondly whatever deficit financing is resorted to will have a tendency to increase the share of profits in the national income. I shall have more to say on this point later, but for the present the important point is that in the absence of a tax structure which sucks back into the Exchequer major proportion of the increments in income, the burden of real capital formation has to be borne more by the private sector.

There is one more point about the use of public finance not only as a check to inflation but in the broader perspective of capital formation. Historically there have been important examples where public finance has so been used. Take for instance Japan. In the initial period of Japan, especially in the 1870's and 1880's the State dominated the scene in providing capital for public works and industrial expansion. These expenditures were financed by stiff taxation, especially of the agricultural population, occasionally by forced loans imposed on the middle classes in the towns and also by credit. The most outstanding instrument of forced saving in Japan was the traditional land tax. In the 1870's came the Japanese land reform, the result of which was to divert to the Government large revenues which had previously gone to the landlords. In the earlier stages of Japanese development, it is worthwhile noting that as much as four-fifths of the Government's revenue came from land taxation. Not only that, the system of land taxation was used, as Mr. Johnston has pointed out, "to siphon off a part of the increase in productivity in agriculture and these revenues were channelled directly into investment projects by Government action". This was the way the requisite means of subsistence were mobilised for capital construction. In sharp contrast



to agriculture, manufacturing industries—when not in Government hands—were lightly taxed or even subsidised. Other instances can also be cited where public finance was used for enforcing collective savings in the earlier stages of development. Of course, it might be argued, and with some element of reason, that such collective saving enforced by public finance has often been frittered away or wasted through over-staffed services, ostentatious buildings or military establishments. But the point I would like to make is that collective saving of this kind need not necessarily be incompatible with private investment. What the State does is that it enforces an act of saving. The act of investment can be, at least theoretically, left in private hands. A variety of institutional forms is conceivable, such as State loans or capital subscriptions, mixed companies, developmental finance corporations, investment trusts, etc. I must confess that this kind of framework of collective saving and private investment is not the traditional framework of a private enterprise economy. So anyone who is wedded to the principle of free enterprise should rightly look askance at any such suggestion. But on the other hand those who are prepared to accept less than the best, may well consider this as a fruitful line of approach. Incidentally, the idea of taxation being used for collective saving is not as new as some people imagine. It is interesting to note that Bentham who introduced the concept of forced saving into economic literature in an essay written in 1804, included in it not only the levy that may result from inflation, but also the compulsory saving that can be brought about by Government taxation. This second meaning of the term "forced frugality" which was completely lost in the 19th century may now be coming to the forefront.

Another factor of importance which will affect the final result of deficit financing is the behaviour of money wages which would depend partly on the strength of organised labour and partly on the success of the measures undertaken to prevent a significant rise in the prices of basic necessities during the investment period. The real danger in a price rise is that it may get out of hand. This may happen either because with the rise in prices there is demand for a rise in wages which in turn raises prices and so on, or because violent speculative price movements are initiated. To prevent a wage inflation it is necessary for the Government to be able to stabilise the cost of living, especially of food, clothing and rents. This, as we all know, is not at all easy to do even in countries which have the most competent administrative service, much less can it be done in a backward country. In fact, a backward economy would be much more liable for a wage inflation, were it not for two extraordinary circumstances. In the first instance, the proportion of national income accruing to wage earners as a class is not large, and therefore a given increase in wages has less of an initial impact on total national outlay than in an advanced industrial country. The initial push for the upward process therefore is smaller. Secondly, by and large, the bargaining strength of organised labour is less than in advanced countries, unless of course the situation is materially altered by Government siding with industrial labour either openly or overtly. It may, however, happen that quite apart from Government support, the bargaining position of labour or at any rate certain sections of labour may be materially improved under inflationary conditions; and similarly it may well be that when profits are high, the employer may also be more willing to allow a wage rise. These two factors in combination might compensate for the lower bargaining strength to which I had referred. On the whole, I, for one, feel that the tendency for money wages to rise would be an important factor to be reckoned with in deficit financing in under-developed areas.

Another equally important possibility is of speculative movements in prices which also can be cumulative. It is always difficult to draw a distinction between holding of stocks and speculative holding of stocks. But I would suggest that in a situation where the annual rate of increase in prices is, say 10%, i.e., higher than the normal rate of interest even in the unorganised money markets, there is a distinct incentive for speculative holdings of stocks. The process is cumulative, because when stocks of foodstuffs and raw materials have been withdrawn from the market, the prices rise even faster than they would otherwise. This causes more stocks to be withdrawn for speculative holding. Now this process hurts development in two ways. On the one hand, withdrawal of stocks from the market might create shortages which hold up production. Otherwise also the rise in prices of commodities may raise the cost of living and set off a wage inflation. Broadly speaking, a speculative price rise is easier to prevent in economies where most of the food and raw materials are imported, because then, if necessary, Government can constitute itself a sole importer. This control at the source would strengthen their hands in the use and disposition of stocks. But in a country like India



the problems of controlling prices are enormous. I do not think that price controls are just not feasible, but I would claim that the longer the period over which you are required to hold the price line, the less are your chances of being able to do it.

I have so far discussed the various factors which are relevant for deciding the extent to which deficit financing can be undertaken. On balance I would suggest that deficit financing on a scale large enough to make a material difference to the situation is bound to lead to a rise in prices. Such a rise may persist or even aggravate during the initial period. In other words, deficit financing is no magic wand which would exercise the bane of stagnancy, nor it is likely to be a painless process which would spell automatic prosperity at the end. It is likely to entail some hardship, even with the best of policies intended to mitigate these hardships. But the choice is between accepting the risk of deficit financing involved and the hardship inherent in a slow pace of development—in fact a pace so slow that people's patience might be exhausted. In such a situation, the reluctance to take risks may ultimately mean an invitation to major social and political upheavals. In any case, it would be a sad commentary upon the values of our times if wars could be financed out of deficits and price rises but not economic development.

I shall go one step further and say that the only manner in which a country can convert itself from a 5% rate of investment to a rate of about 10 or 12 per cent within a few years is through policies or circumstances which cause profits to increase sharply as a proportion of national income. I am, as you will notice, excluding throughout the possibility of foreign borrowing or aid. Let us for argument's sake assume that our social and political philosophy excludes complete socialisation. Or to put it differently, the framework is that of an economic system in which private enterprise has a substantial role. It is this kind of framework which has been historically the background of economic development elsewhere. Let us take the case of British industrialisation during the last phases of the industrial revolution. Broadly speaking, economic historians have attributed the growth of capital formation in these years to three sources: Firstly, the increase in the profits from foreign trade; secondly, the profits of new inventions; and thirdly the profits arising from inflation. I would not deny that profits from foreign trade did play in important part in the British industrial revolution or, for that matter, that a big increase in earnings from foreign trade can make possible an increase in domestic saving. But I would suggest that there was no sudden acceleration in profits from foreign trade after 1750. Similarly, the increased profits of invention is a plausible explanation, but it leads to the question: why this spate of inventions occurred when it did? It seems much more likely, as Professor Lewis has pointed out recently, that profits from inflation were more important as an explanation than the other two causes. The period between 1750 and 1815 was one of almost continuous price inflation in Britain because of the almost continuous wars with France. Prices rose faster than the wages and so profits increased their share of national income. The fact that the prices were rising encouraged investment and produced an atmosphere favourable to exploitation of new inventions. Inflation provided both the incentive to invest and also the profits with which to finance investment. Of course, I do not want you to think that you cannot have increased investment without inflation. All of us know that there have been inflations which have not promoted investment. In fact the question I would like you to consider is: What are the circumstances in which inflation does promote investment?

I have no ready answer to this question, but one tentative hypothesis is that the effect of inflation depends upon the traditions of the business community and on whether there exists some kind of a basic framework on which to build up. If the community contains people with industrial experience and if the traditions of the business classes lay a greater store by reinvestment of profits, then inflationary profits would go into building of factories or buying of new machinery. If on the other hand the business tradition is a financial and merchanting tradition rather than an industrial tradition, business profits would tend to go into speculation, into financial jugglery, or else they might be frittered away in conspicuous consumption, big houses often badly planned, or excessive expenditures on marriages and motor-cars. Inflation, therefore, is not likely to start industries in an un-industrialised country, but, I submit, it might help promote industrialisation in a country which has a certain amount of industrial tradition.

As I pointed out in my last lecture the main case for deficit financing rests on the fact that it can be utilised for capital formation by making use of the saving potential implied in the existence of disguised unemployment. But in order that this saving should materialise a considerable degree of regulation and control



over the economy would be necessary. It would be necessary, firstly, to ensure that the marketable surplus is maintained or increased so as to cater to the needs of the newly employed. Secondly, a fairly strict control will be necessary on imports and steps may have to be taken to step up exports, thus reducing the stock of consumable goods in the country. Thirdly, prices particularly the prices of articles which enter into the cost of living, will have to be controlled. Fourthly, a part of the additional incomes by way of wages or profits will have to be mopped up by the State in order to ensure that the additional money incomes do not exert an upward pressure on prices. And finally, a certain amount of control may become necessary on private investment activity so that the real resources required for the priority schemes in developmental planning are not used up in what is deemed as less essential activity. Depending on the extent to which these measures are successfully enforced, the inflationary potential of this kind of financing may be reduced. But I for one have no illusions about the practical difficulties.

There is one more point which I would like you to consider. My theme has been that deficit financing is capable of being used for developmental purposes. The limits within which it can be so used will depend on various factors which I have already discussed. But the use of deficit financing on a scale large enough to affect development significantly will inevitably involve either considerable amount of regulation and control or a great deal of hardship arising from a continuous rise in prices. This raises a more fundamental policy issue. In our present modes of thought there are certain implicit assumptions. For instance, we are at the moment committed to the ideal of a mixed economy in which the private sector has a substantial role to play. At the same time the Directive Principles of State Policy as enunciated in our Constitution lay down a reduction of inequality in income and wealth as a desirable aim of State action. Further, we are getting impatient with the slow rate of economic progress and I think most people would be prepared to pursue somewhat unorthodox economic and financial policies if these would accelerate the pace of development. So here we have three assumptions, the assumption of a mixed economy, the desire for more equitable distribution and the necessity of a quicker pace of development which provide the broad framework for public policy. What I want you to consider is whether and to what extent these three assumptions would remain consistant if deficit financing on a significant scale is to be undertaken. Private enterprise in a mixed economy is no different from private enterprise anywhere else; that is to say, it can work only on the basis of profits. Now during periods of inflationary pressure, profits would tend to be higher and a large part of the profits would be reinvested. If, therefore, deficit financing leads initially to a rise in prices, there would be a tendency for the share of profits to rise and for the inequalities in income and wealth to increase. This would bring us into conflict with our second assumption, the desire for greater equality. I should like you to remember that in other countries where a rise in the share of profits has been one of the motivating forces of development, the social and political milieu was different. Nineteenth century England or Japan was not greatly worried about inequalities and they did not have a political democracy based on adult franchise. Inequalities were a part of their scheme of things. It is no longer so in India today. Politically, it would be indeed difficult to pursue a policy which would have the effect of accentuating inequality particularly when we have a democratic framework based on adult franchise. Similarly it is possible to retain the assumption of mixed economy and of greater equality by doing all that is possible within the framework of existing resources. But as I pointed out earlier this would mean a much slower rate of development. The point that I am trying to drive at is that we cannot have policies which would inevitably exert an upward pressure on prices for a decade or so at least and yet retain our faith in the twin assumptions of a mixed economy and lesser inequality. It is possible to have two things out of the three, but not all the three together. You can have an accelerated pace of development provided you either dilute your faith in greater equality of income and wealth or else if you are prepared to accept more regulation and control and perhaps even a greater degree of State ownership and management. A choice either way raises many issues, which I do not have the time to discuss here. To my mind, it is not the function of a mere economist to suggest which is the best policy. He has done his work well if he has pointed out the implications of alternative courses of action. The choice between alternative policies has to be made by those in authority. All that an economist is entitled to suggest is that the choice be made with a full awareness of its implications.

Honorary Readership Lecture

III

# MORAL VALUES IN SHAKESPEARE

*by*

P. R. KRISHNASWAMI, M.A.

It is not necessary for me here to discuss the exact relation between literature and morals. Literature is governed essentially by the laws of the aesthetic sense, but as Matthew Arnold pointed out, an interpretation of, or comment on, the moral laws of human society is inevitable and implied in every work of literary art. The comment expressed in each work is reflective of the personality of the author, and I propose to consider here the characteristic formulations found in Shakespeare's plays. As usual, Shakespeare's formulations are so wide and comprehensive in their scope that they elude easy description. In my two previous lectures I have considered certain topics affecting the moral outlook of man. The conception of the nature of the human body in relation to mind and soul, and of death and of the universe as a whole, affects human conduct, and I have suggested that Shakespeare reflects sometimes the ideas of Lucretius in these matters. In my second lecture I discussed the peculiar problems affecting human conduct in relation to love. But besides the problem of death and love, there are infinite aspects and situations of human morals worthy of poetic treatment. The writers of Shakespeare's age did not indeed show any tendency to eschew the consideration of moral problems. Spenser stated his purpose in writing the Faerie Queene as follows: "The general end of all the book is to fashion a gentleman or noble person in virtuous and gentle discipline." Sir Philip Sidney elaborated the theme that poetry was a more effective means of teaching morals than philosophy or history.

There may be many ways of deducing the moral values embodied in Shakespeare's plays. The construction and development of each drama provide material on which we may base our inference. But the stories of the plays are usually not Shakespeare's invention, and so they have no significance as illustrating Shakespeare's characteristic outlook. Nor is it my purpose to compile a concordance of all the different virtues and vices described in Shakespeare. It is the casual emphasis laid on certain points of human conduct and behaviour which is of interest to us. The emphasis may be conveyed in the speeches of characters who are not the worthiest of human society, but that does not lessen its value. A moral formulation is only an exercise of the intellect. When the same observation is repeated in several plays we are induced to regard it as Shakespeare's special utterance.

That Shakespeare admired the human character of balanced virtues is to be inferred from the tribute paid to Brutus by Antony:

> His life was gentle; and the elements
> So mix'd in him that Nature might stand up
> And say to all the world, *This was a man!*

It is the want of balance which gives rise to every kind of eccentricity. The mockery bestowed by Portia on her different suitors indicates the want of balance in each of them. One is obsessed with the care of the horse, another keeps frowning always, a third is extremely volatile, and a fourth presents the contrast by showing no sensibility at all.

The ideal man does not become the hero of any play, much less of a tragedy. Horatio is the envied model of Hamlet. Horatio is credited with the virtue recommended in the Bhagavatgita, of bearing alike both good and bad fortune, and what is more, he is not passion's slave:

> A man that Fortune's buffets and rewards
> Has ta'en with equal thanks; and bless'd are those
> Whose blood and judgment are so well commingled
> That they are not a pipe for Fortune's finger
> To sound what stop she pleases. Give me that man
> That is not passion's slave, and I will wear him
> In my heart's core, ay, in my heart of heart
> As I do thee.

Later in the scene Hamlet resents his friends Rosencrantz and Guildernstern presuming to regulate the prince's behaviour, and he asks them: "do you think that I am easier to be played on than a pipe?"



The vision of an old man leading an honoured life is presented by Macbeth, contrasting it with his own fate:

> my way of life
> Is fall'n into the sear, the yellow leaf;
> And that which should accompany old age,
> As honour, love, obedience, troops of friends,
> I must not look to have; but in their stead,
> Curses, not loud but deep, mouth-honour, breath,
> Which the poor heart would fain deny, and dare not.

Nations as well as individuals are guilty of a weakness for which they are not quite responsible. The habit of drinking hard is a custom of the Danes, according to Hamlet, more honoured in the breach than the observance. Yet the Danes have acquired a definitely bad reputation:

> They clepe us drunkards, and with swinish phrase
> Soil our addition; and indeed, it takes
> From our achievements, though performed at height,
> The pith and marrow of our attribute.

The analogy is drawn here to individuals:

> So oft it chances in particular men
> That for some vicious mole of nature in them,
> As, in their birth,—wherein they are not guilty,
> Since nature cannot choose his origin,—
> By the o'ergrowth of some complexion,
> Of breaking down the pales and forts of reason,
> Or by some habit that too much over-leavens
> The form of plausive manners, that these men,
> Carrying, I say, the stamp of one defect,
> Being nature's livery, or fortune's star,
> Their virtues else, be they as pure as grace,
> As infinite as man may undergo,
> Shall in the general censure take corruption
> From that particular fault: the dram of eale
> Doth all the noble substance of a doubt,
> To his own scandal.

When Cassio loses his lieutenancy by yielding to drink, Iago pays him the tribute:

> He is a soldier fit to stand by Caesar
> And give directions; and do but see his vice;
> 'Tis to his virtue a just equinox,
> The one as long as the other.

Passing from weaknesses to vices, the first of them condemned in Shakespeare seems to be ingratitude. The well known song on the subject occurs in As You Like It:

Blow, blow, thou winter wind!
Thou art not so unkind
As man's ingratitude.

In answer to Antonio, the sea-captain who mistakes Viola for her brother Sebastian to whom he has previously rendered many kindnesses, Viola protests:

I hate ingratitude more in a man
Than lying, vainness, babbling, drunkenness,
Or any trait of vice whose strong corruption
Inhabits our frail blood.

We note the words in "King Lear":

Ingratitude, thou marble-hearted friend!

The lack of filial affection in children is naturally an aspect of ingratitude, and Albany condemns the daughter of King Lear thus:

That nature which condemns its origin
Cannot be bordered certain in itself;
She that herself will sliver and disbranch
From her material sap, perforce must wither
And come to deadlyuse.

King Lear himself exclaims thus:

Filial ingratitude!
Is it not as this mouth should fear this hand
For lifting food to 't?

Again

How sharper than a serpent's tooth it is
To have a thankless child!

In presenting King Lear Shakespeare subjects him to a course of distressing circumstances which only chastens his spirit, and he issues out of the trial, a purified soul, relieved of pomp and selfishness, and owning a deep sympathy for the humanity around him. Lear says in an impassioned speech:

Poor naked wretches, whereso'er you are,
That bide the pelting of this pitiless storm,
How shall your houseless heads and unfed sides,
Your loop'd and window'd raggedness, defend you
From seasons such as these? O, I have ta'en



Too little care of this! Take physic, pomp!
Expose thyself to feel what wretches feel,
That thou mayst shake the superflux to them
And show the heavens more just!

Even the passionate speech quoted above is not perhaps so striking as another less passionate one in which the king argues calmly, and convincingly in defence of the human quality which induces man always to want to appropriate more than what is absolutely necessary:

O reason not the need. Our basest beggars
Are in the poorest thing superfluous.
Allow not nature more than nature needs;
Man's life is cheap as beast's:

This remark may take us back to the First Satire of Horace in which he has expressed the same idea, though not with the delicate sympathy shown by Shakespeare: "What pleasure is it for you trembling to deposit an immense weight of silver and gold in the earth dug up by stealth? Because, if you should lessen it, it may be reduced to a paltry farthing.

That human wickedness grows with age is frequently implied in Shakespeare. The idea was part of the casuistry with which Brutus persuaded himself to murder Julius Caesar, that though Caesar was blameless at the time, he might develop wicked qualities, if he continued to enjoy supreme power:

And, since the quarrel
Will bear no colour for the thing he is,
Fashion it thus; that what he is, augmented,
Would run to these and these extremities,
And therefore think him as a serpent's egg
Which, hatch'd, would, as his kind, grow mischievous,
And kill him in the shell.

When the Duke Orsino discovers, as he thinks for the moment, that Cesario has played him false by marrying Olivia, he bursts forth with the words:

O thou dissembling cub! What wilt thou be
When time hath sow'd a grizzle on thy case?

When Banquo is murdered and Fleance escapes, Macbeth says:

There the grown serpent lies, the worm that's fled
Hath nature that in time will venom breed,
No teeth for the present.

It is however notable that in all these instances the proposition is purely suppositious, without reference to anything which happened actually.

The most obvious blemish of human character which calls for remark in Shakespeare is the disparity between precept and practice, and between outward profession and the inner quality. After enduring a long homily from Laertes on the way she would repel Hamlet's offer of love, Ophelia promises to remember his advice but adds:

> But, good my brother,
> Do not, as some ungracious pastors do,
> Show me the steep and thorny way to heaven,
> Whiles, like a puff'd and reckless libertine,
> Himself the primrose path of dalliance treads,
> And recks not his own rede.

The war of sense with soul is indicated by Portia: "If to do were as easy as to know what were good to do, chapels had been churches, and poor men's cottages princes' palaces. It is a good divine that follows his own instructions; I can easier teach twenty what were good to be done, than be one of the twenty to follow mine own teaching."

It is an oft-repeated concept in the plays that no one can be comfortable in his troubles by the verbal sympathy of another. When asked by the Duke to get reconciled to Othello who has won Desdemona by fair means, Brabantio formulates:

> I never yet did hear
> That the bruis'd heart was pierced through the ear.

In "Much Ado About Nothing" Leonato implies that only those who sustain a similar grief are qualified to console another over it:

> men
> Can counsel and speak comfort to that grief
> Which they themselves not feel.

Again he says

> 'tis all men's office to speak patience
> To those that wring under the load of sorrow,
> But no man's virtue nor sufficiency
> To be so moral when he shall endure the like himself.



The duality between understanding and action suggests to us naturally hypocrisy in manners. In commending the sea-captain who saves her from-ship-wreck Viola says:

> And though that nature with a beauteous wall.
> Doth oft close in pollution, yet of thee
> I will believe thou hast a mind that suits
> With this thy fair and outward character.

Shakespeare had probably known numerous men who made fine professions and who were thoroughly unworthy in their conduct. Less than two centuries later, Sheridan was to create his Joseph Surface, "the man of noble sentiments," who was in reality guilty of every kind of meanness in human nature. In the famous speech of the casket scene where Shakespeare develops the theme, "So may the outward shows be least themselves," Bassanio instances those who

> wear yet upon their chins
> The beards of Hercules and frowning Mars,
> Who inward searched, have livers white as milk;

The deceptiveness of outside appearances is a constant theme. Referring to Cawdor who rebels, and is slain by Macbeth, Duncan states:

> There's no art
> To find the mind's construction in the face;
> He was a gentleman on whom I built
> An absolute trust.

That hypocrisy, and specially religious hypocrisy, is the cloak of all wicked actions is frequently emphasised in the plays. An early remark by Prince Hamlet is about the falsity of the outside manner of Caludius:

> O villain, villain, smiling, damned villain!
> My tables,—meet it is I set it down,
> That one may smile, and smile, and be a villain;

After Hamlet has agreed with his mother that all that live must die, she asks him why he should persist in wearing mourning for his father, and inadvertently uses the word 'seems':

> Why seems it so particular with thee?

The vehement reply of Hamlet to this signifies his reacting to the worst accusation, according to Shakespeare, which may be levelled against a man, namely that he is pretending to anything:

Seems, madam! nay, it is; I know not seems.
'Tis not alone my inky cloak, good mother,
Nor customary suits a solemn black,
Nor windy suspiration of forc'd breath,
No, nor the fruitful river in the eye,
Nor the dejected 'haviour of the visage,
Together with all forms, moods, shows of grief,
That can denote me truly: these indeed seem;
For they are actions that a man might play:
But I have that within which passeth show;
These but the trappings and the suits of woe.

Of hypocritical sycophants Kent speaks in "King Lear":

That such a slave as this should wear a sword,
Who wears no honesty. Such smiling rogues as these,
Like rats, oft bite the holy cords atwain
Which are too intrinse and t' unloose; smooth every passion
That in the natures of their lords rebel;
Being oil to fire, show to their colder moods;
Renege, affirm, and turn their halcyon beaks
With every gale and vary of their masters,
Knowing naught, like dogs, but following,—

In a later Act of *Hamlet* Polonius tells us:

We are oft to blame in this,
'Tis too much prov'd, that with devotion's visage
And pious action we do sugar o'er
The devil himself.

Touched to the quick by these words, Claudius says in an 'aside':

O 'tis too true!
How smart a lash that speech doth give my conscience!
The harlot's cheek, beauties with plastering art,
Is not more ugly to the thing that helps it
Than is my deed to my most painted word:
O heavy burden!

Richard III declares:

And thus I clothe my naked villany
With old odd ends stolen out of holy writ,
And seem a saint when most I play the devil.



The theme occurs also in 'Othello':

When devils will their blackest sins put on
They do suggest at first with heavenly shows.

When Shylock quotes from the Bible in support of taking interest Antonio remarks:

The devil can cite scripture for his purpose,
An evil soul producing holy witness
Is like a villain with a smiling cheek—
A goodly apple rotten at the heart—
O what a goodly outside falsehood hath!

Hypocrisy is a cloak which serves servants as well as masters. The cynical Iago describes two kinds of servants and prefers those who are only outwardly faithful, who

throwing but shows of service on their lords,
Do well thrive by them, and when they have lin'd their coats
Do themselves homage: these fellows have some soul.

The remarkable thing in Shakespeare is the unfettered variety of comment found in the plays. No character, however depraved, fails to utter some little half truth. Iago seizes on the evil side of human nature, as the only real side of it. Again there is nothing to beat Sir John Falstaff's utterances. He defends the scarecrows whom he has recruited for the army on the ground they are all right as food for powder, and they will fill a pit as well as better. He gives us the unforgettable catechism on 'honour.' He does not like the 'gaping' honour in pursuit of which men lie dead on the battlefield.

Passing from the lesser to the deeper shades of wickedness we note the remorse which fills the wicked, described with touching pathos. King Claudius exclaims:

Pray can I not,
Though inclination be as sharp as will;
My stronger guilt defeats my strong intent;
Is there not rain enough in the sweet heavens
To wash it white as snow?

Macbeth feels a similar difficulty. He has just committed the murder of Duncan, and when the guards cry in their sleep, 'God bless us,' Macbeth is unable to say, 'Amen':

But wherefore could not I pronounce, *Amen?*
I had most need of blessing, and *Amen*
Stuck in my throat.

Macbeth also exclaims like Claudius:

Will all great Neptune's ocean wash the blood
Clean from my hand?

Nor should we forget Lady Macbeth's words uttered during her sleep-walking: "Here's the smell of the blood still: all the perfumes of Arabia will not sweeten this little hand."

When a man decides to advance himself by crimes it is base cowardice in him not to face or own to the dark means he has to employ to achieve his end. When Pompey was entertaining to wine, Antony, Octavius Caesar, and Lepidus, on board his ship, his officer Menas proposes the destruction of Pompey's colleagues, but Pompey negatives the proposal though he will have liked it if performed without his consent:

Ah, this thou shouldst have done,
And not have spoken on 't! In me 'tis villany.
In thee 't had been good service.

Menas implies that Pompey did seek the destruction of his colleagues:

Who seeks and will not take when once 'tis offered
Shall never find it more.

This observation takes us at once to the well known passage in "Julius Caesar."

There is a tide in the affairs of men
Which, taken at the flood, leads on to fortune;
Omitted, all the voyage of their life
Is found in shallows and in miseries.

Pompey may profess a keen sense of honour but the willingness to profit by crime without having the nerves to work the crime through is suggested in "Macbeth". Lady Macbeth accuses her husband of vacillation and cowardice:

And live a coward in thine own esteem,
Letting *I dare not* wait upon *I would,*
Like the poor cat in the adage.



There is a significant comment by Professor Bradley on the comparative qualities of the sisters Goneril and Regan. Goneril commits the crimes which Regan does not, and Bradley argues, it is only to Goneril's credit. Regan had much less force, courage and initiative than her sister, and for that reason is less formidable and more loathsome." Similarly Richard III is endowed with a power which causes astonishment and a courage which extorts admiration.

It seems to be a favourite idea of Shakespeare's that wicked men are bound to be confounded by means provided by themselves. Prince Hamlet says:

'tis the sport to have the enginer
Hoist with his own petar; and it shall go hard
But I will delve one yard below their mines,
And blow them at the moon.

Shylock's sense of revenge against his adversaries is similarly expressed: "The villany, you teach me I will execute; and it shall go hard but I will better the instruction." Macbeth is vividly aware of the recoiling of one's crimes on onself:

But in these cases
We still have judgment here; that we but teach
Bloody instruction, which being taught, return
To plague the inventor; this even-handed justice
Commends the ingredients of our poison'd chalice
To our own lips.

Shakespeare's characteristic sense of moral values is discernible not only in personal comment, but also in general statement. What, for instance, were the most annoying experiences in life, are to be gathered from Hamlet's soliloquy:

The oppressor's wrong, the proud man's contumely,
The pangs of despis'd love, the law's delay,
The insolence of office and the spurns
That patient merit of the unworthy takes.

If we note the climax in this passage—and Shakespeare was too good an artist not to want to arrange his words deliberately with a view to reach a climax—the most insufferable evil in the world is the spurns that patient merit of the unworthy takes. A more particular remark refers to disappointments in the public service. Iago observes:

It is the curse of service,
Preferment goes by letter and affection,
And not by old gradation where each second
Stood heir to first.

The Prince of Arragon has a very striking passage in his speech over the caskets, bewailing the attainment by the unworthy of the prizes of life:

O, that estates, degrees, and offices,
Were not deriv'd corruptly, and that clear honour
Were purchas'd by the merit of the wearer!
How many then should cover that stand bare!
How much low peasantry would then be gleaned
From the true seed of honour! and how much honour
Pick'd from the chaff and ruin of the times,
To be new varnished!

That Shakespeare did not conceive of moral values in any narrow sense is quite clear. He even anticipates the modern hedonists, who, like Walter Pater, would measure the success of life by the ecstatic moments of existence. Othello utters the words:

If it were now to die,
'Twere now to be most happy; for I fear,
My soul hath her content so absolute
That not another comfort like to this
Succeeds in unknown fate.

Is it possible then to discern Shakespeare's final verdict on the value of human life? Prince Hamlet makes it clear that the unendurable hardships of human life are still endured only because of the terrifying mystery about death, and the life after death. There is however a passage in "Measure for Measure" which prefers decidedly earthly existence to the possibilities after death:

Ay, but to die, and go we know not where;
To lie on cold obstruction and to rot;
This sensible warm motion to become
A kneaded cold; and the delighted spirit
To bathe in fiery floods, or to reside
In thrilling region of thick-ribbed ice;
To be imprison'd in the viewless winds,
And blown with restless violence round about
The pendent world.



The weariest and most loathed worldly life
That age, ache, penury, and imprisonment
Can lay on nature, is a paradise
To that we fear of death.

This passage should suggest to us the words in Milton:

for who would lose,
Though full of pain, this intellectual being,
These thoughts that wander through eternity,
To perish rather, swallow'd up and lost
In the wide womb of uncreated night?

Everywhere however in Shakespeare the emphasis is on pain as the inevitable part of human life, and I would be justified in concluding this survey with the words of Macbeth:

Life's but a walking shadow, a poor player
That struts and frets his hour upon the stage
And then is heard no more: it is a tale
Told by an idiot, full of sound and fury,
Signifying nothing.

## IV

## SHAKESPEARE'S METAPHORS

Let me at the outset ask permission of you to regard the title of this lecture, "The Metaphors of Shakespeare" as being equivalent to "Shakespeare's Figures of Similitude." I am interested in the comparisons instituted by Shakespeare to embellish his style, and not in the technical forms of the figures, whether they come under metaphors or similes. I need hardly remind this audience that a simile is only an expanded metaphor. Figurative language is essential to poetic creation, it is inevitable to it. It is like flashes which light up an object not only in itself but also as it is in relation to other objects, the kinship to which is revealed newly. As an artist Shakespeare revels in his power of revealing strange likenesses the realisation of which gratifies the keen intelligence. The drama should offer less scope for the elaboration of similitudes than the epic or other form of pure poetry, but the dramatic conventions of Shakespeare's time did not stifle or prevent the constant exercise in figures of comparison.

Shakespeare adapted the metaphor to the drama in the sense that a figure once conceived was pursued by the interlocutors in the scene persistently till all the wit was extracted from it. The simplest example of this continuity of metaphor is in the exchange of words between Viola personating Cesario, and Maria, the maid of Lady Olivia:

Maria: Will you hoist sail, sir.

Viola: No good swabber, I must hull a little longer.

In the central scene of "The Merchant of Venice", when about to make his choice of the caskets, Bassanio states:

Let me choose;
Sir, as I am, I live upon the rack.

Catching the metaphor Portia asks him to confess the treason mingled with his love. The metaphor is not given up till ten lines later. The torture applied to Bassanio is peculiar in that his torturer teaches him the answers for deliverance.



There is often a rapid change from metaphor to metaphor as in the impassioned speech of Hamlet when he asks:

Whether 'tis nobler in the mind to suffer
The slings and arrows of outrageous fortune,
Or to take arms against a sea of troubles.
And by opposing end them.

Critics have asked what exactly taking arms against a sea may mean. Is Shakespeare guilty of confused metaphors?

A rich figurative style comes naturally to Rosalind in "As You Like It". When Celia acquaints her with the lover who has carved Rosalind's name on every tree in the Forest of Arden, Rosalind is burning to know the name of the lover: "Good my complexion! dost thou think, though I am caparisoned like a man, I have a doubtlet and hose in disposition? One inch of delay more is a South Sea of discovery; I prithee, tell me who is it quickly, and speak apace. I would thou couldst stammer, that thou mightest pour this concealed man out of thy mouth, as wines out of a narrow-mouthed bottle; either too much at once, or not at all. I prithee, take the cork out of thy mouth, that I may drink the tidings."

Some special figure of similitude seems to be peculiar to each play. In "Macbeth" a man jumping into new dignities is likened to one who wears new suits of clothes which are not his. Macbeth has hardly heard the prophecies from the witches before he is greeted by Ross as Thane of Cawdor. Surprised, Macbeth speaks:

The thane of Cawdor lives: why do you dress me
In borrow'd robes?

In the conversation with his wife in which he expresses hesitation to murder Duncan, the metaphor of the clothes is retained:

I have bought
Golden opinions from all sorts of people,
Which would be worn now in their newest gloss,
Nor cast aside so soon.

Lady Macbeth asks in return

Was the hope drunk
Wherein you dress'd yourself? hath it slept since?
And wakes it now, to look so green and pale
At what it did so freely?

In the Second Act Lady Macbeth refers to her bloody hands:

My hands are of your colour; but I shame
To wear a heart so white.

It is also significant that among the men who knock at hell's gate, mentioned by the porter, is a tailor: "Faith, here is an English tailor come hither, for stealing out of a French hose; come in, tailor; here you may roost your goose." Macduff does not choose to attend the crowning of Macbeth at Scone, but Ross proposes to do so, and Macduff says:

Well, may you see things well done there; adieu!
Let our old robes sit easier than our new!

In the Fifth Act of "Macbeth" Angus remarks on the growing disaffection against Macbeth's rule and Macbeth's own realisation of it:

Now does he feel his title
Hang lose about him, like a giant's robe
Upon a dwarfish thief.

In the First Part of Henry IV Falstaff says, "My skin hangs about me like an old lady's gown." The cynical Enobarbus tells us in "Antony and Cleopatra" touching a man, when he remarries on the death of his wife: "Why sir, give the gods a thankful sacrifice. When it pleaseth their deities to take the wife of a man from him, it shows to man the tailors of the earth; comforting therein, that when old robes are worn out, there are members to make new. If there were no more women but Fulvia, then had you indeed a cut, and the case to be lamented; this grief is crowned with consolation; your old smock brings forth a new petticoat; and indeed the tears live in an onion that should wear this sorrow."

Apart from the metaphor which is sustained through a conversation we have of course the simple figure that occurs everywhere. The imagery suggested by the maritime enterprise of the day was infinite. Scenes of sea-storm are introduced both in the "Tempest" and in "Pericles." Miranda narrates:

The sky, it seems, would pour down stinking pitch,
But that the sea, mounting to the welkin's cheek,
Dashes the fire out.

The fame of Portia in the "Merchant of Venice" is best described by referring to the dangers of the sea which wooers are prepared to risk:



The watery kingdom, whose ambitious head
Spits in the face of heaven, is no bar
To stop the foreign spirits, but they come,
As o'er a brook, to see fair Portia.

Shipwreck and miraculous escape from drowning occur again and again and the Greek story of Arion, the poet who was treacherously thrown into the sea and was rescued by a dolphin, as a compliment to his poetic skill, is cited for a comparison in the "Twelfth Night."

Antonio's merchant ships are magnificent specimens of their kind and are described at the very beginning of "The Merchant of Venice:"

argosies with portly sail,
Like signiors and rich burghers of the flood,
Or as it were, the pageants of the sea,
Do overpeer the petty traffickers
That curtsy to them, do them reverence,
As they fly by them with their woven wings.

A later scene in the same play refers to the great change in the appearance of a ship before and after it has made a voyage:

How like a younker or a prodigal
The scarfed bark puts from her native bay,
Hugged and embraced by the strumpet wind!
How like the prodigal doth she return,
With over-weathered ribs and ragged sails,
Lean, rent, and beggared by the strumpet wind!

The attack by the Norwegian army coming close upon the trouble caused by local rebels, in "Macbeth" suggests an epic simile:

As whence the sun 'gins his reflection
Shipwracking storms and direful thunders break,
So from that spring whence comfort seemed to come
Discomfort swells.

From the sea and ships we turn to the references to contemporary pastimes like hawking, bear-baiting, the game of bowls, and fencing. Addressing the spirit of love Orsino must refer to its "pitch", the highest point to which the hawk rises:

notwithstanding thy capacity
Receiveth as the sea, nought enters there,
Of what validity and pitch so ever,
But falls into abatement and low price
Even in a minute.

Of the fool and his art Viola states that he should imitate the wild hawk which would attack every little bird in the way for prey:

like the haggard, check at every feather
That comes before his eye. This is practice
As full of labour as a wise man's art.

Othello's determination to desert Desdemona, once she is proved a strumpet is expressed in the language of falconry:

If I do prove her haggard
Though that her jesses were my dear heart-strings,
I'd whistle her off and let her down the wind,
To prey at fortune.

Once the wild hawk is let down the wind she seldom returned, as Dr. Johnson has said, but preyed on fortune. Pleading for his wife's accompanying him on the expedition to Cyprus, Othello wishes to offer the assurance that that would not interfere with the efficient discharge of his professional duties:

No, when light-wing'd toys
Of feathered Cupid seel with wanton dullness
My speculative and officed instruments,
That my disports corrupt and taint my business,
Let housewives make a skillet of my helm,
And all indign and base adversaries
Make head against my estimation!

In the famous temptation scene Iago insinuates before Othello against Desdemona:

She that so young could give out such a seeming
To seel her father's eyes up close as oak,
He thought it was witchcraft.

We are reminded how the eye of the hawk was closed by sewing up the eyelids. When Macbeth calls on the night to conceal his crime says:

Come, seeling night,
Scarf up the tender eye of pitiful day.

Bear-baiting offers some comparisons. The passionate Olivia tells Cesario:

Have you not set mine honour at the stake,
And baited it with all th' unmuzzled thoughts
That tyrannous heart can think?



When at last he is to face desperate fight with his opponents who must win, Macbeth states:

They have tied me to a stake; I cannot fly,
And bear-like I must fight the course.

Octavius Caesar warns his colleague Antony in "Julius Caesar" thus:

We are at the stake
And bayed about with many enemies;
And some that smile have in their hearts, I fear
Millions of mischiefs.

We turn next to hunting. Duke Orsino refers to the celebrated story of the huntsman Actaeon who, while hunting, saw Artemis bathing, and was changed into a stag, and torn to pieces by his fifty dogs:

O! when mine eyes did see Olivia first
Methought she purged the air of pestilence,
That instant was I turned into a hart,
And my desires like fell and cruel hounds,
E'er since pursue me.

The formal English ceremony of carving the stag is implied in the words of Brutus when he refuses to carry out a general slaughter along with the murder of Caesar:

Let's kill him boldly, but not wrathfully;
Let's carve him as a dish fit for the gods,
Not hew him as a carcass fit for hounds.

The passage in which the Duke of Theseus in "A Midsummer-Night's Dream" describes his hounds enjoys a great reputation:

Slow in pursuit, but matched in mouth like bells,
Each under each. A cry more tuneable
Was never holla'd to, nor cheered with horn.

It is not surprising that the disappointed Roderigo in "Othello" should complain to Iago: "I do follow here in the chase, not like a hound that hunts, but one that fills up the cry." Turning to archery we remember first the tale told by Bassanio concluding with the words

If you please
To shoot another arrow that self way
Which you did shoot the first, I do not doubt,
As I will watch the aim, or to find both,
Or bring your later hazard back again,
And thankfully rest debtor for the first.

In "Pericles" occur the words:

Like an arrow shot
From a well-experienc'd archer hits the mark
His eye doth level at.

King Claudius tells Laertes that he dared not punish Hamlet openly because of the latter's popularity with the people:

so that my arrows,
Too slightly timber'd for so loud a wind,
Would have reverted to my bow again.

In the later Act Hamlet seeks reconciliation with Laertes assuring him he has not meant him harm:

Let my disclaiming from a purposed evil
Free me so far in your most generous thoughts
That I have shot mine arrow o'er the house
And hurt my brother.

The incredible speed with which Puck can travel is indicated in his words:

I go; I go; look how I go,—
Swifter than arrow from the Tartar's bow.

There are of course nuemrous references to Cupid as an archer which need not be cited here. The metaphor from the game of bowls occurs sometimes. Viola reflects on the lucky accident by which Olivia was married to Sebastian whom she had mistaken for Cesario:

So comes it lady, lady, you have been mistook
But nature to her bias drew in that.

In "The Taming of the Shrew" Petruchio expresses his gratification when Katherina chimes in completely with whatever he bids her say:

thus the bowl should run,
And not unluckily against the bias.

Polonius suggests subtle devices to find out the ways of Laertes at his university:



and with essays of bias
By indirections find directions out.

The suggestion to play a game of bowls reminds the Queen in "Richard II" of the impediments in life:

'Twill make me think
The world is full of rubs, and that my fortune
Runs against the bias.

The First Player in "Hamlet" calls on the gods to disable the wheel of fortune:

Break all the spokes and fellies from her wheel,
And bowl the round nave down the hill of heaven,
As low as to the fiends.

The great efforts made my Henry VIII and other Tudor sovereigns to put down the power of the nobles by various means, the statute against liveries being prominent among them, lend point to the frequent use made by Shakespeare of the metaphor of the livery. The Prince of Morocco apologising before Portia for his dark complexion says:

Mislike me not for my complexion,
The shadow'd livery of the burnish'd sun,
To whom I am a neighbour and near bred.

Numerous figures are drawn from the seasons and mouths of the year. Rosalind says in "As You Like It": "men are April when they woo, December when they wed: maids are May when they are maids, but the sky changes when they are wives." In "The Merchant of Venice," a servant of Portia, announcing the arrival of Bassanio's messenger, grows poetic:

I have not seen
So likely an ambassador of love:
A day in April never came so and sweet,
To show how costly summer was at hand,
As this fore-spurrer comes before his lord.

When the tears appear in Octavia's eyes, Antony remarks in "Antony and Cleopatra":

The April's in her eyes: it is love's spring,
And these the showers to bring it on.

In the same play Enobarbus employs the metaphor of the seasons in referring to the generosity of Antony:

For his bounty,
There was no winter in 't; an Autumn 't was
That grew the more by reaping; his delights
Were dolphin-like; they showed his back above
The element they lived in; in his livery
Walked crown and crownets.

The rose and the early rose are of frequent allusion. The worm which destroys the rosebud is apparently a striking phenomenon. Cesario tells the Duke the story of his sister who pines in love, and when pressed for details says:

She never told her love,
But let concealment, like a worm i' the bud
Feed on her damask cheek.

The same imagery is brought up in "The Timon of Athens":

As is the bud bit with an envious worm
Ere he can spread his sweet leaves to the air!
Or dedicate his beauty to the sun.

Laertes wishes to impress on Ophelia that she should avoid bringing scandal on herself by admitting Hamlet's lover-suit:

Virtue herself 'scapes not calumnious strokes;
The canker galls the infants of the spring
Too oft before their buttons be disclosed
And in the morn and liquid dew of youth
Contagious blastments are most imminent.

The words of Herrick's song are well known:

Gather ye rosebuds while ye may,
Old time is still aflying,
And this same flower that smiles today
Tomorrow will be dying

On this metaphor of young ladies being rosebuds Shakespeare implies a further extension:

earthlier happy is the rose distilled,
Than that which withering on the virgin thorn
Grows, lives and dies in single blessedness.

Boyet formulates in "Love's Labour's Lost":

Fair ladies masked are roses in their bud:
Dismasked, their damask sweet commixture shown,
Are angel vailing clouds, or roses blown.



When advising Cesario that the man should always take a younger than himself to wife Orsino says:

For women are as roses, whose fair flower,
Being once displayed, doth fall that very hour.

A tragic application of the metaphor of the rose occurs when Othello reflects before he murders Desdemona:

When I have plucked thy rose,
I cannot give it vital growth again,
It needs must wither.

From roses we turn back to human assemblies where princes, orators, and actors appear or where prize-contests are witnessed. In "Richard II" is suggested the boredom which ensues after the exist of a famous actor and an ordinary one enters:

As in a theatre, the eyes of men,
After a well-graced actor leaves the stage,
Are idly bent on him that enters next,
Thinking his prattle to be tedious.

The metaphor of the world being a stage occurring in "As You Like It" and elsewhere is too familiar to enlarge upon here. The music played when Bassanio makes his successful choice of the caskets, suggests to Portia the blowing of the trumpet when a newly crowned monarch receives the homage of his subjects, and also the waking up of the bridegroom on the wedding day with sounds of music:

Then music is
Even as the flourish when true subjects bow
To a new crowned monarch: such it is
As are those dulcet sounds in break of day
That creep into the dreaming bridegroom' ear
And summon him to marriage.

Bassanio cannot believe himself when experiencing the ecstatic joy of having made the right choice of the caskets:

Like one of two contending in a prize,
That thinks he hath done well in people's eyes,
Hearing applause and universal shout,
Giddy in spirit, still gazing, in a doubt
Whether those peals of praise be his or no.

Even after assurance from Portia it takes him sometime to realise his position correctly and this confusion is like the effect of an excellent oration:

And there is such confusion in my powers,
As, after some fair oration fairly spoke
By a beloved prince, there doth appear
Among the buzzing pleased multitude:
Where every something, being blent together,
Turns to a wild of nothing, save of joy,
Expressed and not expressed.

There are figures from the province of medicine and from hygienic science, and from the world of law. Duke Orsino pays his tribute to Olivia thus:

O, when mine eyes did see Olivia first,
Methought she purged the air of pestilence.

Beatrice in "Much Ado About Nothing" has an early fling of satiric wit on Benedick by referring to him on his being in Claudio's company thus: "O Lord' he will hang upon him like a disease: he is sooner caught than the pestilence, and the taker runs presently mad! If he have caught the Benedick, it will cost him a thousand pound ere he be cured." King Claudius in "Hamlet" describes his endurance of the vagaries of Prince Hamlet in these words:

So much was our love,
But like the owner of a foul disease,
To keep it from divulging, let it feed
Even on the pith of life.

In "Corialanus a figure turns to itch, scabs, and measles. The itch of opinion creates scabs. The very hatred of a thing may help to catch its infection, like strained lungs measles. Iago's sense of triumph in his successfully poisoning Othello's ear refers to the effect of physical poison:

The Moor already changes with my poison:
Dangerous conceits are in their natures poisonous
Which at the first are scarce found to distaste,
But with a little act upon the blood,
Burn like the mines of sulphur.

When Malvolio falls a ready victim to Maria's device of fooling him, the latter says about him: "His very genius hath taken the



infection of the device." Turning to law we see Iago preparing Othello for the worst of his suggestions about Desdemona in these words:

where's that palace whereunto foul things
Sometimes intrude not? who has a breast so pure
But some uncleanly apprehensions
Keep leets and law-days, and in session sit
With meditations lawful.

When Macbeth complains that the existence of Banquo and Fleance is a perpetual menace to him Lady Macbeth consoles him:

But in them nature's copy's not eterne.

Further illustration is unnecessary of the infinite variety of spheres from which the figures are conceived. The stories of Greek legend furnish innumerable comparisons, and the Bible also contributes many. Sometimes epic similes also occur in the dramas as when Othello speaks in reference to the excitement started in himself over Desdemona's fidelity to himself:

Like to the Pontic sea,
Whose icy current and compulsive course
Ne'er feels retiring ebb, but keeps due on
To the Propontic and the Hellespont,
Even so my bloody thoughts, with violent pace,
Shall ne'er look back, ne'er ebb to humble love
Till that a capable and wide revenge
Swallow them up.

The lucid personification of mediaeval poetry persists in Shakespeare. The different parts of the day call up vivid imagery:

Night's candles are burnt out, and jocund day
Stands tiptoe on the misty mountain tops.

One of the numerous fine descriptions of sleep is in "Macbeth":

The death of each day's life, sore labour's bath,
Chief nourisher in life's feast.
Balm of hurt minds, great nature's second course,

Judged from literary standards, a comparison is valued not only for its convincing aptness, but more for the richness of associations it calls forth. For mere aptness the words of Lady Macbeth in which she admonishes her husband for his unwillingness to go back to Duncan's grooms who have been slaughtered, and smear them with blood, are matchless:

> the sleeping and the dead
> Are but as pictures: 'tis the eye of childhood
> That fears a painted devil.

On hearing the news that Romeo has killed Tybalt, Juliet bursts into a passionate speech packed with numerous figures:

> O serpent heart, hid with a flowering face!
> Did ever dragon keep so fair a cave?
> Beautiful tyrant! Fiend angelical!
> Dove-feathered raven! wolfish ravening lamb!.

Two more metaphors conclude the speech:

> Was ever book containing such vile matter
> So fairly bound? O, that deceit should dwell
> In such a generous palace!

Literary comparisons elucidate the abstract in terms of the concrete and equally the concrete in terms of the abstract. When returning to Belmont after the trial at Venice, Portia is impressed by the great distance over which the flame of a small candle sheds light:

> How far that little candle throws his beams!
> So shines a good deed in a naughty world

Shakespeare's metaphors or figures of comparison may be characterised in language adapted from Enobarbus speaking about the physical charms of Cleopatra:

> Age cannot wither him, nor custom stale
> His infinite variety; other writers cloy
> The appetites they feed, but he makes hungry
> Where most he satisfies; for vilest things,
> Become themselves in him, that the great critics
> Bless him when he is careless.

# PRICE TRENDS IN INDIA SINCE 1939

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## SECTION II: POST-WAR PRICE TRENDS

At the close of the war in August 1945, the forces of inflation and deflation appeared evenly matched in this country. The certainty of a marked decrease in public expenditure with the return of peace, the possibility of a fall in employment level and in purchasing power consequent upon demobilisation and the chances of larger stocks of goods becoming available for the consumers seemed to be factors working on the side of deflation. On the other hand, relaxation or abolition of controls when war ended, the pressure of pent up consumers demand, the easing of the tax burden, the return of hoarded currency into circulation and above all the psychological factor after the end of fighting when people would imagine themselves to be in a position to enjoy a normal and comfortable life would, it was supposed, work in the opposite direction. Although it appeared in the early part of 1945 that these opposing tendencies would work themselves out after the close of war and as a result, prices would neither rise nor fall in the immediate post-war period, yet it was realised by informed public opinion in the country that not long after, there would be the inevitable down-trend in prices following the war boom.

As against these anticipations, price level in the post-war period continued to rise and touched the peak level of 457·5 points in April 1951. Thus between August 1945 and April 1951 the Economic Adviser's General Index of wholesale prices gained 213·4 points as against 144·1 points in the entire war period. Not only has the total increase been greater since mid 1945, but the range of fluctuations in prices has also been wider. The highest range of fluctuation for any twelve month period in war time was between July 1942 and June 1943 when the index number moved up from 159·9 points to 241·7 points—a difference of 81·8 points. On the other hand, in the post-war period the range was 88·2 points between August 1947 and July 1948 and 89·2 points between June 1951 and May 1952 when the index number sharply receded from 456·3 to 367·1.

A series of factors have conspired to push up prices since 1945. Immediately after the end of hostilities in Europe in May 1945, there was a slight down trend in price level mostly due to the psychological factor associated with the thought that even as war was responsible for rise in the price level, its end should logically bring down prices. This gave place to an upward movement which continued from June 1945 till the second quarter of 1951. The general rise in the price level during this period of about six years was fed by three distinct inflationary factors. The rise soon after the end of war was due to the relaxation or abolition of several controls, which brought into play the inflationary pressure of the pent-up consumers demand. This uptrend which gathered momentum towards the close of 1947 after partition of the country, continued till July 1948 when as a result of the reimposition of controls, the rapid rise in the price level was held down and prices were maintained at a stable level for a period of fourteen months. The second loop in the price level commenced from the beginning of the last quarter of 1949 following devaluation of the rupee on September 19, 1949. However, the rise consequent upon devaluation was neither very great nor long lived. The much faster rate at which prices went up in the third phase of the period—mid 1950 to April 1951—was due to an altogeter external factor, namely outbreak of war in Korea. This fairly long period of rising prices from mid 1945 to 1951 was followed by a period of recession which started at about the middle of 1951 and touched the lowest level in May 1952 when the general index number of wholesale prices slipped back to a point even lower than it was just defore devaluation. The third period is one of recovery in prices commencing from May 1952, the recovery and the rise being due mainly to the financing and the partial execution of the Five Year Plan. These three phases of the price trends since 1945, viz. rising prices upto 1951, recession since the second quarter of 1951 to the middle of 1952 and the subsequent recovery are illustrated in Chart III.

A detailed discussion of the forces at work behind these different phases in the price movements in India in the last eight years may now be attempted.

*Period I — August 1945 to April 1951 : Rising Trend*

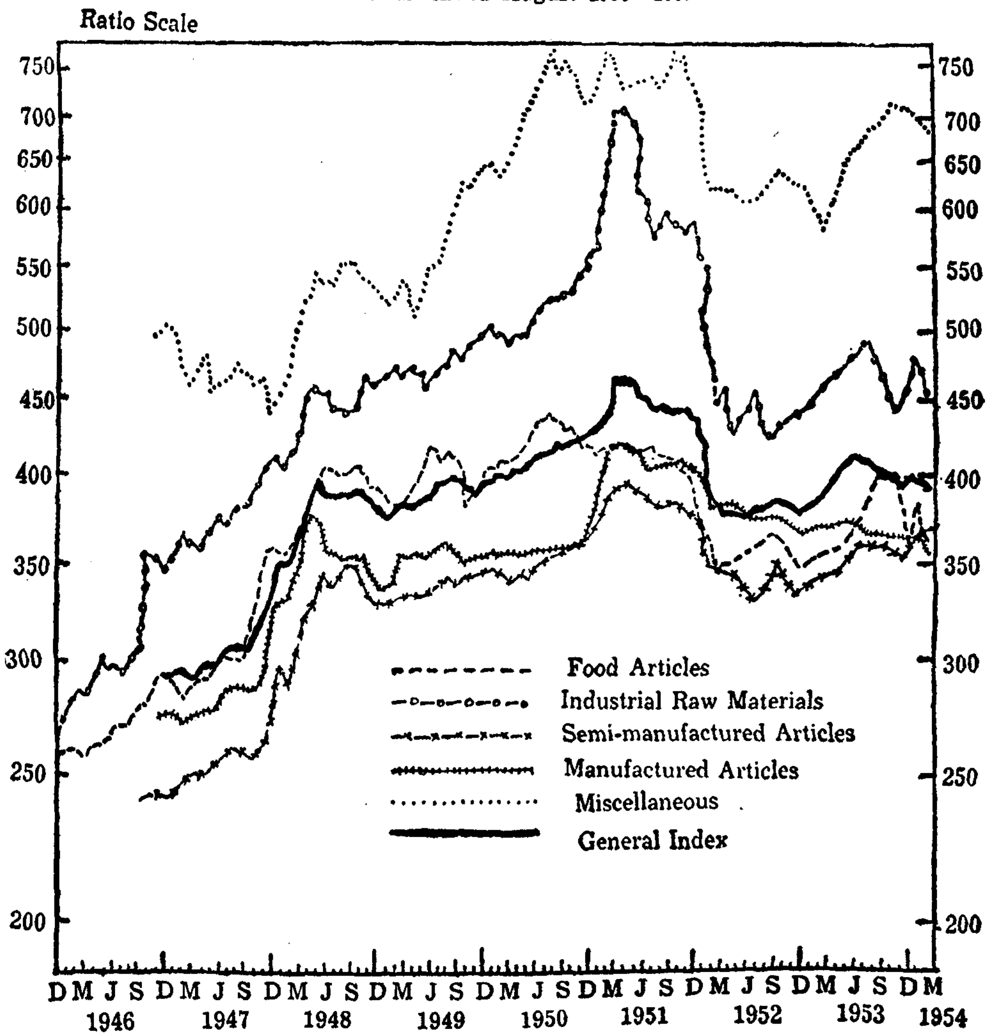
(a) *Decontrol and After.*

Immediately after the end of hostilities in Europe, price position in most of the countries of the world improved. In the United Kingdom, the U.S.A. and Canada prices reached a high level in July 1945 and thereafter declined. As in the West, in India also there was a favourable turn. This however cannot exclusively be attributed to the end of fighting. It was in fact the continuation of a persistent trend that commenced from the beginning of 1945.



Between January 1945 and June of the same year, the general index fell from 250·3 to 237·4, i.e. by nearly 13 points in six months time. As has been observed in the preceding section, the upward thrust had been arrested by the middle of 1943, and since then

CHART III. Index Numbers of Wholesale Prices (General Purpose Series)
Base : Year ended August 1939=100.




the annual rate of increase in the general price level declined. Thus, while prices rose by 38% in 1943-44, the rate of increase came down to 3% in 1944-45 and to 0·8% in 1945-46.

This down trend, however, proved to be very temporary. From the middle of 1945 the upward movement of the price level continued. This was against the hopes entertained when the war was drawing to its close. But in this, India was not a lone sufferer.

There were obvious signs of inflation in the U.S.A., United Kingdom, France and other countries. In Hungary and Greece the position became really serious so as to threaten a return of the experience of Germany after the close of the first world war. The causes for this rise varied from country to country. In the U.S.A., cheap money policy, expansion of bank credit and the removal of controls were responsible for the climbing up of the general index from 106 in mid 1945 to 169 in the third quarter of 1948. In Britain, increase in money supply, expansion of bank deposits, the slackening in the savings movement (which was the cornerstone of the price control structure in that country), the inauguration of the policy of increasing exports and restricting imports, all these helped to push up prices. In France there was a sharp increase in money supply. In Canada pressing demand, widely distributed stocks of money, shortage of raw materials and factors of production and decontrol accounted for the rise. In Italy it was budgetary deficits and political instability.

So far as India is concerned, the uptrend was due to the fact that many of the results which were hoped to follow the return of peace and on which reliance was placed for a lowering of prices did not materialise. The decline of the defence expenditure of the Government of India, the availability of about Rs. 90 crores worth of surplus for disposal, the fall in the Reserve Bank's foreign assets, the comparative overvalued position of the rupee, import surpluses[15] and the further fall in the velocity of money should all have served as deflationary factors. In reality they did not operate as such because the inflationary factors were too strong for them. It is surprising to note that in this comparatively short period of three years (middle of 1945 to middle of 1948) many factors which can normally generate an inflationary situation and any one of which would be sufficient for a rise in the price level were functioning co-operatively and in full force.

Among the factors which were expected to have a deflationary effect in the immediate post-war period, but which did not actually come about, may be mentioned the following. In the first place, the end of war did not immediately bring about a fall in the level of employment to any notable extent and it did not affect the income or purchasing power of vast sections of the community. In the years 1945 and 1946 more than 13 lakh men were released, but in 1947 the rate of demobilization slackened considerably and even of the men who were demobilized, a good number were re-

15. Import surpluses amounted to Rs. 37·58 crores in 1947-48 and Rs. 95·18 crores in 1948-49.



absorbed in some other employment through the Employment Exchanges. As regards workers employed in the factories, their number declined only slightly—from the average daily number of 2·44 millions in 1945 to 2·23 millions in 1947, i.e. by 9% only. As against this slight decline in the number of men employed, the total earnings of this section of the community which have a direct effect on the price trends actually increased. This was due to the improvement in the average earnings of the employees consequent upon the enhancement of wages and allowances on the basis of the recommendations of the Central and Provincial Pay Commissions,[16] and similar additions to wages and allowances granted by private employers. As a result of these concessions, the average annual earnings of employees in factories in 1947 recorded an increase of about 24% over those in 1945.[17] Apart from this increased purchasing power, an important factor which tended to push up prices was the shift in income towards the spending sector of the population. The National Income studies of the "Eastern Economist" have shown that the share of the primary sectors in the national income improved from 52·5% in 1945-46 to 57·3% in 1946-47 and 54% in 1947-48, while the percentage share of labour in the industrial output increased from 20 in 1942-43 to 28 in 1944-45, 32 in 1945-46, 38 in 1946-47 and 34 in 1947-48. This trend indicates that actual spendable income in the country had increased.[18]

Secondly, although the rupee was overvalued, it did not help in holding down prices. It is true that during a short period following the end of war, India had import surpluses. Nevertheless, the demand for Indian raw materials in foreign markets remained as high as before. Against all expectations, economic conditions in several countries of the world failed to improve when hostilities ceased. On the other hand, adverse seasonal conditions brought about shortages in many lines. It is not surprising therefore that the external demand for Indian raw materials (as for example, Indian short staple cotton) was unexpectedly buoyant during the post-war period. Lastly, external price situation was not favourable for an easing of the inflationary pressure in our economy. When immediately after war, the U. S. A. removed con-

16. The Central Pay Commission constituted in May 1946 under the Chairmanship of Sir S. Varadachariar submitted its report in 1947, recommending more liberal Dearness Allowances to the government staff and also extensive reorganization of the pay scales.

17. Sovani: Post-War Inflation in India, p. 13.

18. The Eastern Economist, July 29, 1949, p. 166.

trols, prices there went up sharply, the index of wholesale prices increasing from 123 in 1945 to 176 in 1947; and so important is the position of the U. S. A. in the economy of the world and so much is her influence on business conditions outside that a price rise was felt all over the world, India forming no exception.

Basically, a fall in the value of money should be explained in terms of the supply of currency and the demand for it as represented mainly by the output of goods. Between the end of March 1947 and March 1948, the total money supply with the public increased by Rs. 106 crores as against an increase of Rs. 18 crores in the preceding year. Simultaneously, during the two years 1945-46 and 1946-47, government pursued a cheap money policy and continued to float loans on progressively more favourable terms either by a reduction in the rate of interest on loans or by an increase in their maturity, which meant a lowering of the effective rate of interest.[19] In tune with this policy was the conversion of the 3½% non-terminable loans into the 3% Loan 1986 or the 2¾% Loan 1976. The inflationary effect of this monetary policy was largely strengthened by government's budgetary policy. The deficit of the Central government's budget on revenue account in the two years 1946-47 and 1947-48[20] was Rs. 51·81 crores and on capital account Rs. 194·93 crores. Setting off against this the provincial surplus of Rs. 17·29 crores during this period, the net aggregate deficit amounted to Rs. 229·45 crores. This represents the difference between the amount absorbed from the people by the State by its tax policy and the amount put into their hands by its spending policy and indicates the extent to which purchasing power of the community was increased.

Against an increase in the supply of money and the purchasing power of the people, the output of goods, both agricultural and industrial, declined. The extent of fall in production is shown in the following Table.

| *Commodities* | | 1945 | 1948 |
|---|---|---|---|
| Foodgrains (in thousand tons) | .. | 46093 | 44393 |
| Finished steel ( „ ) | .. | 954 | 854 |
| Cotton piecegoods (in million yards) | .. | 4711 | 4319 |
| Jute manufactures (in thousand tons) | .. | 1086 | 1091 |
| Cement (in thousand tons) | .. | 2209 | 1553 |

(Source: Report on Currency and Finance, 1949-50, pp. 148-150).

19. Report on Currency and Finance, 1945-46, p. 68.
20. 7½ months in 1947-48 (from 15th *August 1947* to *31st* March 1948). Source: Report on Currency and Finance, 1949-50, pp. 182-183.



While fall in agricultural output and deterioration in the food situation especially in 1945-46 were due to adverse seasonal conditions, the decline in industrial production is accounted for, partly at least, by labour discontent in the country exhibiting itself in strikes and disputes. In the first five months of 1947, industrial disputes numbered 152 against 138 and 34 in the corresponding periods of 1946 and 1939. At the same time the supply from outside was restricted. In the interests of conserving foreign exchange and checking non-essential imports, restrictions on imports were reimposed in March 1947. The Universal Open General Licence No. VIII was cancelled and in May 1947 Open General Licences Numbers I and III were abolished.

Thus the stage was set for another spurt in price level before the decontrol policy of the government unleashed the fury of a half suppressed inflation. Between August 1945 and November 1947 when decontrol policy was implemented, the general index number rose from 244·1 to 302·0, a gain of 57·9 points in 26 months. Since November 1947 prices mounted up fast and the general index touched 389·6 points in July 1948, which means a rise of 87·6 points in 8 months time. In reversing the policy of control, government was actuated by the hope that hoarded stocks would come out and with that prices would recede. This however was too optimistic a view not justified by production figures of the time. Hoarded stocks amounted to little in relation to the need for commodities in the country so that what decontrol actually achieved was to make manifest an inflationary situation which hitherto lay partially camouflaged in a controlled economy. The removal of controls developed a "sudden and simultaneous rush to purchase the decontrolled goods with a consequent spurt in currency circulation."[21] The effect is seen in the nature of the movement of the price indices. While in 1947 the general index was fairly stable, in the next year it climbed up rapidly, gaining 15 points in January and nearly 20 points in May. It should however be repeated that decontrol only augmented the tempo of the rise in prices. Even in the absence of that policy prices would have continued their upward march, but obviously the pace would have been much slower. The figures in the subjoined Table indicate the relative rise in the prices of various groups of articles following decontrol.

21. Reserve Bank of India Monthly Bulletin, August 1948, p. 499.

*Movements in Price Indices Since Decontrol*

(Base: Year ended August 1939=100)

| Commodity Groups | November 1947 1 | March 1948 2 | July 1948 3 | Percentage Increase (+) or decrease (—) of column 3 over 1 |
|---|---|---|---|---|
| I. *Food Articles* | 294·8 | 347·1 | 390·7 | +32·5 |
| Cereals | 317·0 | 408·9 | 473·7 | +49·4 |
| Pulses | 573·5 | 362·4 | 440·3 | —23·2 |
| Others | 220·3 | 259·5 | 269·9 | +22·5 |
| II. *Industrial Raw Materials* | 377·9 | 397·7 | 449·9 | +19·1 |
| Fibres | 355·5 | 403·9 | 464·1 | +30·5 |
| Oilseeds | 474·0 | 432·8 | 521·0 | + 9·9 |
| Minerals | 292·2 | 309·8 | 301·6 | + 3·2 |
| Others | 327·5 | 351·0 | 335·4 | + 2·4 |
| III. *Semi-manufactures* | 252·5 | 285·8 | 338·2 | +33·9 |
| Leather | 299·6 | 285·9 | 313·7 | + 4·7 |
| Mineral Oils | 147·8 | 167·0 | 179·1 | +21·2 |
| Vegetable Oils | 540·3 | 430·7 | 547·9 | + 1·4 |
| Cotton yarn | 294·6 | 373·4 | 519·4 | +76·3 |
| Metals | 140·8 | 167·7 | 168·8 | +19·9 |
| Oil Cakes | 202·8 | 413·2 | 403·8 | +99·1 |
| Others | 234·0 | 225·8 | 215·2 | — 8·0 |
| IV. *Manufactured Articles* | 283·2 | 324·3 | 370·2 | +30·7 |
| Textiles | 319·8 | 374·8 | 455·8 | +42·5 |
| Metal Products | 217·0 | 239·5 | 239·8 | +10·5 |
| Others | 239·1 | 261·5 | 271·0 | +13·3 |
| V. *Miscellaneous* | 460·8 | 448·7 | 537·3 | +16·6 |
| VI. *All Commodities* | 302·0 | 340·7 | 389·6 | +29·0 |

Source: Report on Currency and Finance, 1948-49, p. 72.

It may be seen from the above Table that prices of several articles marked a rapid increase—the rise varying from 1·4 in the case of vegetable oils to 99·1 in the case of oil cakes. Although the rise is an all-round one, the significant fact that it is most marked in the case of decontrolled items is easily noticeable. The rise in price of certain manufactured articles which were still controlled was due to government's enhancement of their prices in order to compensate for the rise in their costs of production. With the removal of control over prices and distribution of sugar and pulses and the derationing of a large number of urban areas, prices of foodgrains and sugar shot up. Similarly, price of raw cotton rose consequent on the removal by the Central government of the floors and ceilings in respect of cotton prices with effect from 19th January 1948. The Central government's decision to decontrol cloth with effect from 20th January and to raise the controlled price of steel by Rs. 80 per ton with effect from 27th January mainly contributed to a rise in the group indices of manufactured and semi-manufactured goods.[22]



The rise in prices following decontrol caused considerable discontent in the country and government policy came in for trenchant criticism during the Assembly Debates in the middle of 1948. Government was now decided upon taking steps to arrest the runaway tendency of prices in the country. Before the last quarter of 1948 Government had consulted the Economists, Industrialists and Labour representatives of the country on the question of price control and came to a decision with regard to the adoption of comprehensive measures to keep down prices. Apart from steps taken to control the prices of particular items, such as reimposition of the control on cloth and the cut and control on the prices of foodgrains, pig iron and steel, the fixation of the price of sugar and the downward revision of cloth prices, the government scheme involved such varied measures as encouragement to production, liberalisation of imports and restriction of exports, curtailment of purchasing power by intensifying the Small Savings Campaign and by limiting the dividends of companies, check on speculation through the prohibition of futures trading in commodities, and reduction in government expenditure with a view to ensure balanced budgets.

The effects of these measures were soon seen. During the first quarter of 1949, prices of all groups excepting industrial raw materials declined. The general index came down from the peak level of 389·6 in July 1948 to 370·2 in March 1949. Manufactured articles led the downward movement of prices and their index in March 1949 was lower by 41 points than that in July of the previous year and foodgrains declined by 14 points. Among manufactured articles a significant fall was registered under textiles and cotton yarn, while in the case of foodgrains larger supplies at the harvesting season accounted for the decline. As against these, the opposite movement of the prices of industrial raw materials was the continuation of the tendency which had set in at the close of 1947. The irregular supply of cotton and jute from Pakistan largely accounts for the rise under this category.

22. Reserve Bank of India: Monthly Bulletin, March 1948, p. 132.

Other factors also contributed to the downtrend. Money supply remained on the whole constant; bank deposits declined. At least the revenue budgets of the Central and Provincial governments came to be better balanced. Large deficits in the balance of payments and the slight hardening of long-term interest rates were additional deflationary factors. Furthermore, conditions in foreign countries tended to push down prices. With increased industrial production in all European countries and in the U. S. A., inflationary pressures eased and symptoms of deflation appeared. During the year 1949 price level in the U. S. A. declined by 7% and that in Iran, Switzerland and Belgium by 23·3%, 7·7% and 6·5% respectively; Turkey and Canada registered a decline of 2·1% each.[23]

(b) *Devaluation and its subdued effects.*

The beneficial effects of the control measures were, however short lived. From the peak level of 389·6 in July 1948, the general index came down gradually to 370·2 in March 1949. Since then it began to creep up and reached 389·0 in August. The largest single factor responsible for the subsequent rise to 393·3 in May 1950 was devaluation of the rupee on September 19, 1949. At the time the devaluation decision was taken, there was the fear that such a step would lead to a further rise in the price level. And there was sufficient justification for such fears. The direct effect of devaluation would be to raise the price of imports from dollar areas by 44%. The higher price in terms of rupees of machinery and capital equipment imported from America would add to the cost of production of manufactured goods in India. Furthermore, the concentration of demand on the soft currency areas consequent upon the higher prices of goods available in hard currency areas would push up the prices in the former group of countries as well. Lastly, encouragement to exports from India which would follow from the devaluation of the rupee would produce a relative scarcity of goods at home which would not fail to have an inflationary effect on prices.

Against these anticipations, the actual price rise which took place in India after September 1949 was quite moderate. In March 1950, the general index was above the pre-devaluation figure (389·0) by only 0·9%; and the net increase in the general

23. Report on Currency and Finance, 1949-50, p. 6.



index during 1949-50 was just 6·6% relatively to the level at the close of the preceding year. This moderate rise was due to the movement of the prices of the different groups in opposite directions. In general, export articles registered the largest increases, while the prices of food items and manufactured goods actually declined. In the first category would come commodities like oilseeds, manganese ore, goat skin, cashewnuts, spices, etc. The uptrend in this group was obviously due to the price advantage which these commodities came to acquire in the European markets over competitive supplies from the Western hemisphere as well as to the improved terms of trade in the U. S. A. market. The effect of devaluation of the rupee on the prices of different groups of articles is shown in the following Table.

*Movement in Price indices since Devaluation*

| Commodity Groups | August 1949 1 | March 1950 2 | Percentage increase or decrease of 2 over 1 |
|---|---|---|---|
| I. *Food Articles* | 410·6 | 396·2 | − 3·5 |
| Cereals | 474 | 454 | − 4·2 |
| Pulses | 461 | 440 | − 4·6 |
| Others | 309 | 303 | − 1·9 |
| II. *Industrial Raw Materials* | 460·5 | 490·1 | + 6·4 |
| Fibres | 423 | 469 | +10·9 |
| Oilseeds | 633 | 642 | + 1·4 |
| Minerals | 336 | 337 | + 0·3 |
| Others | 347 | 366 | + 5·5 |
| III. *Semi-manufactures* | 330·8 | 338·2 | + 2·2 |
| Leather | 309 | 361 | +16·8 |
| Mineral Oils | 183 | 199 | + 8·7 |
| Vegetable Oils | 641 | 678 | + 5·8 |
| Cotton Yarn | 435 | 413 | − 5·1 |
| Metals | 174 | 172 | − 1·1 |
| Oil Cakes | 409 | 424 | + 3·7 |
| Others | 245 | 290 | +18·4 |
| IV. *Manufactured Articles* | 348·6 | 347·4 | − 0·3 |
| Textiles | 403 | 402 | − 0·2 |
| Metal Products | 272 | 265 | − 2·6 |
| Others | 267 | 270 | + 1·1 |
| V. *Miscellaneous* | 541·6 | 630·6 | +16·4 |
| VI. *All Commodities* | 389·0 | 392·4 | + 0·9 |

*Source: Report on Currency and Finance, 1949-50, p. 152.*

On the whole therefore the post-devaluation rise in price level in India was less than it had been feared. And in this respect the price trends in India compare favourably with those in the United Kingdom. There, in 1949 the retail price index went up by 4% and the food index by as much as 11%. In the first half of 1950 wholesale price index rose 9% over the year 1947, the food item being responsible for a rise of no less than 19%.

Even this moderate rise in the general level of prices in India subsequent to devaluation cannot be attributed exclusively to devaluation. It is worth noting that before the decision on devaluation was taken, prices in India, particularly those of the food group and manufactured articles, started to move up. The failure of the monsoon in 1949 and the diversion of a large acreage from food crops to non-food crops such as jute and cotton—a step taken by the government soon after Partition in order to make the country less dependent on Pakistan for these raw materials—resulted in a shortage of foodgrains which helped to raise the prices of this group. The advance in the prices of manufactured articles was largely due to government's policy of restricting imports in order to prevent the yawning gap in the country's foreign trade position from becoming wider still. As a result, the indices of food articles went up from 379·1 in January 1950 to 426·5 in August and that of manufactured articles from 344·6 to 349·9 in the same period. The general index which stood at 384·7 in the beginning of the year, touched 409·2 in September. Another point which has to be noted is that throughout 1950 and in the subsequent years, other factors were at work which by themselves alone would have pushed up prices. Besides diminished imports and declining production at home, one important factor other than devaluation responsible for the rise in prices was the budgetary policy of the government. Increased capital expenditure and deficit budgets produced an inflationary potential in the two years 1948-9 and 1949-50 of the order of at least Rs. 176 crores. In fact, about the middle of 1950 it had begun to be realised that inflation in the country was no longer due to devaluation but due to the unsound budgetary policy of the Centre and the States.[24]

The inflationary effects of devaluation were limited and short-lived because of two reasons. Whatever be the controversy at the time when the rupee was devalued, it is now an accepted

24. The Eastern Economist, July 21, 1950, p. 84.



fact that devaluation in India was essentially a defensive measure designed solely for the purpose of safeguarding the country's foreign trade position. To a great extent it was forced upon the country by the pressure of circumstances. Devaluation did not very much raise prices, because already the prices in India were much higher than prices outside so that devaluation only recognized the *de facto* position. This is shown in the disparity in the index number of prices of internationally traded goods. Goods of this category in America stood at 175 in the last quarter of 1949 with 1937 as base; in the principal European countries it was 210. Corresponding figures for two Indian commodities which largely enter into international trade—jute fibre and jute manufactures—were 428 and 549 respectively. This is one explanation why Indian prices did not go up much consequent upon the reduction of the value of rupee in terms of U.S. dollar from 30·225 cents to 21 cents. Secondly, it cannot be denied that government measures at control had a considerable restraining effect on the inflationary power of devaluation. It has already been observed that in the few months preceding devaluation, prices were maintained stable mostly because of government's control policy. Before the devaluation decision was made, government had anticipated a rise in the price level and had tightened its measures of control. Steps taken immediately after devaluation to curb further rise in prices include imposition and enhancement of certain export duties in terms of an Ordinance issued on the 23rd September 1949, the announcement by the Finance Minister of the Eight-Point Programme and the launching of a scheme of compulsory savings applicable to government servants with effect from the 1st December 1949. After devaluation the manufactures group actually showed a decline mostly because of the fixation of ceiling prices for jute manufactures. In October 1949 the general index went up to 393·3 because of a rise in the domestic prices of some export commodities like pepper, tea, lac and oilseeds, but in the last two months of that year there was a decline brought about mainly by official price cuts in essential commodities like cereals, cotton yarn and cloth, pig iron and steel.[25]

(c) *The Korean Boom.*

From the point of view of its inflationary effect, devaluation appears to have lost its strength in the first quarter of 1950. The

25. Reserve Bank of India Monthly Bulletin, September 1950, p. 627.

acceleration of the rate of increase in the general price level since the second quarter of that year was mostly due to external political factors. The outbreak of war in Korea on the 25th June 1950 led to a feverish stockpiling programme in all important countries, the lead being taken by the U. S. A. The scramble for raw materials, which had already become scarce, resulted in a competitive pushing up of prices in the world markets. Particularly in U. S. A., speculative cornering of goods in order to take advantage of the rise in prices and government's huge re-armament programmes caused a sharp rise in prices in all the three major groups of commodities—industrial products, farm products as well as foods. The general index went up from 182 in June 1950 to the peak level of 203 in December. The uptrend in the general price level which started during the first quarter of 1950, gained further momentum in the last quarter of 1950 and in the first quarter of 1951. Between March 1950 and March 1951 prices rose in the U. S. A. by 20·3%, in the United Kingdom by 27·4% and in Australia by 29·5%.

The position in the less developed countries was more serious. This was the natural consequence of prices of raw materials going up faster and higher than those of the other groups. Between April 1950 and March 1951, price of rubber went up by 288%, tin 211·9%, sisal 186·9%, cocoa 154·3% and copper 124·7%. The higher prices earned by the primary producing countries reacted upon their money supply and income level and produced serious inflationary conditions. The Economic Commission for Europe in May 1951 estimated that if the prices of December 1950 were maintained on the average throughout 1951, in respect of twenty selected primary commodities, the income accruing to the primary producers in that year would be greater by anything from 3 billion $ to 4 billion $. In this sense America was in fact exporting inflation to this group of countries.

Between June 1950 and April 1951 acute shortages in industrial raw materials like jute and cotton and in capital and consumer goods, foodgrains and cloth developed in India. The restrictions placed by foreign governments on the export of industrial raw materials and inadequacy of shipping combined with a fall in the United States cotton production pushed up the prices of articles belonging to this group by over 40% in India. The following figures illustrate the effect of the Korean War and the rearmament programme in the West on the price structure in India.



*Movements in price indices after the outbreak of war in Korea*

(Base: August 1939, 100)

| Commodity Groups | June 1950 1 | April 1951 2 | Percentage of increase or decrease of column 2 over 1 |
|---|---|---|---|
| I. *Food Articles* .. | 402·8 | 412·5 | + 2·4 |
| Cereals .. | 456 | 490 | + 7·4 |
| Pulses .. | 409 | 501 | +22·5 |
| Others .. | 321 | 289 | −10 |
| II. *Industrial Raw Materials* .. | 490·7 | 683·1 | +39·2 |
| Fibres .. | 466 | 749 | +60·8 |
| Oilseeds .. | 652 | 716 | + 9·9 |
| Minerals .. | 339 | 407 | +20·1 |
| Others .. | 362 | 588 | +62·4 |
| III. *Semi-manufactures* .. | 335·5 | 387·8 | +15·6 |
| Leather .. | 334 | 531 | +58·9 |
| Mineral Oils .. | 190 | 195 | + 2·6 |
| Vegetable Oils .. | 663 | 724 | + 9·2 |
| Cotton Yarn .. | 409 | 493 | +20·5 |
| Metals .. | 175 | 191 | + 9·1 |
| Oil Cakes .. | 468 | 508 | + 8·5 |
| Others .. | 315 | 347 | +10·1 |
| IV. *Manufactured Articles* .. | 347·6 | 411·7 | +18·4 |
| Textiles .. | 399 | 501 | +25·6 |
| Metal Products .. | 269 | 278 | + 3·3 |
| Others .. | 274 | 302 | +10·2 |
| V. *Miscellaneous* .. | 692·0 | 751·5 | + 8·6 |
| VI. *All Commodities* .. | 395·6 | 457·5 | +15·6 |

The effect of increased American demand for industrial raw materials on the general price structure in India is seen in the fact that between June 1950 and April 1951 (when the general index touched the highest point so far) the prices of articles in the raw material group went up by 39·2% as against the rise of 2·4% in the food group and 18·4% in the manufactured articles group. Among individual items the highest increase (60·8%) was registered by cotton and jute with leather (58·9%) following closely. The inflationary pressure of foreign demand was such that the series of control measures adopted by the Government of India had only a limited and temporary success. The levy of fresh export duties and the enhancement of certain existing ones, liberalisation of imports, downward revision in the prices of fine and superfine cloth, and the reversal of cheap money policy by raising the bank rate from 3 to 3½% in November 1951, all these helped to bring down price level only to a very slight extent and even that improvement was very temporary. The general index number came down from 412·5 in September to 410·9 in November 1950, but thereafter it resumed its upward trend reaching 438·6 in March and 457·5 in April 1951. This was due to the prolongation of the war in Korea, enhanced demand for India's export commodities, shortage of goods in most of the countries of the world, rising import prices and the granting of higher prices by government to a number of controlled commodities like sugar, sugarcane, foodgrains, cotton textiles and rubber. Following the decontrol of the prices of raw jute and jute manufactures on the 9th March 1951—a step taken as a sequel to the Indo-Pakistan Trade Agreement—the prices of these articles climbed up sharply. Thus between the first and the last week of March 1951 the index number of raw jute shot up from 479 to 1026 and that of jute manufactures from 561 to 1052.

The Korean boom thus represents the last lap in the upward movement of prices which continued from the end of war to the second quarter of 1951. In April of that year the general index number reached a peak point (457·5) and remained at about that level for three months. The rate of increase during the first phase of the Korean war has a parallel only in the rate of increase following decontrol in 1947, being respectively 10·8 points and 10·1 points a month in the four-month period January to April 1951 and November 1947 to February 1948. The factors leading to this rapid rise during these two periods however, are widely different.



In 1947-48 it was mostly internal circumstances that led to the spurt in prices, in the latter period it was mostly external factors. In many countries of the world the price rise which became quite significant when war ended became spectacular and disturbing since the outbreak of hostilities in Korea. Thus in the inflationary trend in prices in 1950-51 India was to a great extent only sharing the experience of other countries as well.

## II. *The Recession,* 1951-52.

The year 1951 is important in the history of prices in India in recent times, in so far as it witnessed for the first time since 1940 a major reversal of the general uptrend in prices. Although in this period of more than a decade, the rate of increase in prices had been slowed down at different stages and been even kept steady during brief intervals, there was no significant down turn of the general index number. The forces that brought about this situation in the latter half of 1951 and in the first quarter of 1952 were like those responsible for the preceding rise, mostly external. These factors can be summarised as follows: (1) Favourable weather conditions and increased supply of several agricultural products, particularly cotton, in the world; (2) overstocking of certain commodities during the Korean flare up produced a natural reaction when the expanded stocks of raw materials could not be absorbed by industry, and a decline in demand followed; (3) Korean peace move in mid 1951, the stretching out of the rearmament programme in the U.S.A. and the revision of the stockpiling practice in that country produced deflationary conditions in the world's commodity markets;[26] (4) provisions for the orderly sharing of scarce materials through the agency of the International Materials Conference had considerable psychological influence on buyers by the elimination of buying competition. As a result of the combination of these factors, prices of most of the industrial

26. Early in 1951, the Munitions Board in U. S. A. introduced a change in its buying practice. Instead of concentrating on immediate purchases it revised its contracts, spreading out delivery over one or two years. This arrangement released larger supplies for current use and had a depressing effect on the markets.

raw materials required in connection with the rearmaments programme receded in the U.S.A. and reacted on the structure of prices in other countries. The extent to which prices of some international commodities declined in the course of 1951 is shown in the following table:-

*Commodity Price in 1951* *

| Commodities | | Eve of Korea d. per lb. | 1951 peak d. per lb. | End of July 1951 d. per lb. | Percentage decline from peak |
|---|---|---|---|---|---|
| Cotton American U.K. | .. | 33⅛ | 53 | 42 | 21 |
| New York spot | .. | 29½ | 39½ | 33 | 17 |
| Wool 66's | .. | 145 | 323 | 176 | 46 |
| Rubber spot | .. | 22¾ | 74 | 45 | 39 |
| Hides | .. | 22 | 51 | 29 | 42 |
| Cocoa, New York spot accra | .. | 27⅝ | 33 | 29½ | 10 |
| | | £ per ton | £ per ton | £ per ton | |
| Jute | .. | 118 | 250 | 185 | 26 |
| Sisal No. 1 | .. | 130 | 250 | 245 | 2 |
| Sisal No. 2 | .. | 85 | 174½ | 148 | 15 |
| Tin | .. | 591¼ | 1615 | 895 | 45 |
| Barley | . | 21 | 38 | 32 | 16 |
| Linseed Oil U.K. price | .. | 132 | 180 | 180 | — |
| | | Sh. per unit | Sh. per unit | Sh. per unit | |
| Wolf ram | .. | 126/3 | 672/6 | 530/0 | 21 |

* "Commerce", 1st September 1951, p. 387.

The above figures show that commodities which were in great demand in connection with the stockpiling programmes in various



countries, particularly in the U.S.A., were subject to the wildest fluctuations. The recession in early 1951 affected specially those countries of the Sterling area which are producers of primary commodities like tin, rubber and wool. The down trend continued mostly throughout 1952 in many countries. In the first half of 1952, in some of the European countries—Norway, Holland, Belgium, and Denmark—a fall in industrial production was accompanied by a sharp rise in unemployment, which threatened to bring about a serious depression. Apart from the slackening in the stockpiling programme, internal factors, such as stricter credit controls, provisions for rectifying the deficits in the balance of payments position, such as import cuts in the United Kingdom and Australia and the adoption of positive deflationary policies in Denmark and Holland, account for the reversal of the price trend in a large group of countries.

In India the recession started a little later than in the Western countries, but this late start was more than offset by the higher rate of fall. From the maximum level of 457·5 in April 1951, the Economic Adviser's General Index declined to 430·3 in January 1952 and came down to 377·5 in March 1952, i.e., a decline of 6·7 points a month. Over the year 1951-52 the general price level showed a decline of 15·9% as against a rise of 15% during 1950-51. The extent of fall under the different items is shown below.

In mid March 1952 the general index number of wholesale prices had fallen not only below the point reached before the outbreak of war in Korea but even below the predevaluation level.

While the rise in prices following the outbreak of war in Korea was less in India than in the other countries, the recession after the middle of 1951 was much more pronounced. Between June 1950 and April 1951 prices in India rose by 15·7% as against 23·9% in the United Kingdom, 20·6% in Australia and 16·8% in the U.S.A. But in the subsequent months upto March 1952, prices in India declined by 17·6% as against 2·7% in the U.S.A. and a rise of 4·8% and 12·7% respectively in the United Kingdom and Australia. This disparity in the rate of rise and fall in the

*Movement in Price Indices of different groups of commodities*

| Group of Commodity | Pre-devaluation, Sept. 17, 1949 1 | Pre-Korean June 24, 1950 2 | January 26, 1952 3 | March 1952 4 | Percentage variation of 4 over 3 |
|---|---|---|---|---|---|
| I. *Food Articles* .. | 392·6 | 407·1 | 392·3 | 335·2 | —14·6 |
| Cereals .. | 460 | 456 | 464 | 438 | — 5·6 |
| Pulses .. | 409 | 429 | 506 | 391 | —22·7 |
| Others .. | 293 | 327 | 273 | 200 | —26·7 |
| II. *Industrial Raw Materials* .. | 470·1 | 494·2 | 573·8 | 382·8 | —33·3 |
| Fibres .. | 437 | 468 | 609 | 379 | —37·8 |
| Oilseeds .. | 644 | 657 | 602 | 370 | —38·5 |
| Minerals .. | 331 | 342 | 449 | 466 | + 3·8 |
| Others .. | 347 | 371 | 422 | 360 | —14·7 |
| III. *Semi-manufactures* .. | 334·4 | 335·5 | 370·1 | 339·0 | — 8·4 |
| Leather .. | 315 | 335 | 329 | 341 | + 3·6 |
| Mineral Oils .. | 183 | 190 | 218 | 218 | — |
| Vegetable Oils .. | 662 | 663 | 597 | 376 | —37·0 |
| Cotton Yarn .. | 435 | 409 | 495 | 498 | + 0·6 |
| Oil Cakes .. | 421 | 467 | 483 | 403 | —16·6 |
| Metals .. | 175 | 174 | 206 | 201 | — 2·4 |
| Others .. | 256 | 315 | 320 | 286 | —10·6 |
| IV. *Manufactured Articles* .. | 350·0 | 346·9 | 399·4 | 276·6 | — 5·7 |
| Textiles .. | 405 | 398 | 468 | 424 | — 9·4 |
| Metal Products .. | 272 | 269 | 298 | 311 | + 4·4 |
| Others .. | 268 | 273 | 304 | 301 | — 1·0 |
| V. *Miscellaneous* .. | 557·8 | 692·4 | 734·5 | 610·8 | —16·8 |
| VI. *All Commodities* .. | 386·7 | 397·1 | 428·8 | 364·9 | —14·9 |

(Source: Report on Currency & Finance, 1952-53)



general price level in the three countries, the United Kingdom, the U.S.A. and India, is further illustrated by the following figures.

*Index Numbers of Wholesale Prices in India, the U.S.A. and the U.K.*

(Base: January-June 1950=100)

| | India | U.S.A. | U.K. |
|---|---|---|---|
| 1950 January-June .. | 100 | 100 | 100 |
| 1950 3rd quarter .. | 104 | 107 | 106 |
| 1950 4th quarter .. | 105 | 111 | 116 |
| 1951 1st quarter .. | 109 | 117 | 124 |
| 1951 2nd quarter .. | 116 | 117 | 129 |
| 1951 3rd quarter .. | 113 | 116 | 130 |
| 1951 4th quarter .. | 112 | 116 | 133 |
| 1952 1st quarter .. | 104 | 114 | 134 |
| 1952 2nd quarter .. | 96 | 113 | 131 |
| 1952 3rd quarter .. | 99 | 113 | 130 |
| 1952 4th quarter .. | 98 | 112 | 131 |

(Source: Reserve Bank of India Monthly Bulletin, June 1953, p. 469).

The downward price trend which set in by the middle of 1951 in India was sharp and spectacular. It affected more seriously the bullion and stock markets and some export commodities, particularly oilseeds, pepper, jute, cloth and wool. Towards the last week of February, the prices of gold and silver bullion began sagging under persistent offerings. In fact, the worst hit market was the bullion market where operators experienced increasing difficulties in paying banks margins for advances against the yellow and white metals and had to liquidate their holdings. Simultaneously, decline in external demand seriously affected the commodity markets in the country. The U.S.A. imported 24,159,380 lbs. of pepper in 1951. It was the lowest import in six years and was lower than the 1950 import by nearly 9 million pounds. The effect of this decline in demand is reflected on the price of this commodity which came down from about Rs. 2,900 per candy on the 1st March 1952 to Rs. 2,600 in the course of a week and tended to decline further subsequently. According to estimates compiled by the Commonwealth Economic Committee and the International Wool Study Group, world consumption of wool during 1951 had dwindled to 2,150 million pounds from 2,652 million pounds in the previous year. On the other hand, world production of wool in 1951-52 showed a slight increase over that for the previous year. The total production of 1951-52 taken along with the previous years stock held by the different exporting countries was calculated to be 14·4% in excess of the estimated world consumption of wool in 1951. The considerable fall in the demand for jute in the external markets forced down the price of this export commodity to one-third of what it was in the middle of 1951. The heavy reduction in the export duty on hessians in India from Rs. 1,500 to Rs. 750 per ton had little effect on exports. Similar was the fate of the demand for cocoanut and groundnut oil in foreign markets. Low external off-take brought about a collapse of the business in cotton in all important centres. The Indian markets were as dull and featureless as the markets at Alexandria and Karachi and had to be closed for a number of days.

Speculation accelerated the down trend. In the early months of 1952, large amounts of export goods, such as oilseeds, raw cotton, pepper, lemon grass oil and other agricultural cash crops had been hoarded by speculators in the godowns of the banks which had lent them money. The easing of the foreign markets caused some nervousness among the speculators. They were however harbouring the hope that the budget would bring some relief in the shape of reduction in export duty and abolition of the surcharge on income-tax and super-tax. The reductions in the export duty on hessians and forecast of a large budget surplus strengthened their hopes. Some speculative operators had therefore gone long in oilseeds and shares. When the relief did not come and the Finance Minister announced that there would not be any tax reduction in the near future, the markets were seized with a panic and a regular stampede for selling ensued, which resulted in the crumbling of prices and share values. Many speculators in commodities cancelled even some of their genuine commitments for purchase at the high rates which prevailed formerly and this led to a general crash in commodity prices.



Although the early signs of the crumbling of the price structure in the first quarter of 1952 were welcomed with a sigh of relief by the hard pressed middle class consumers, yet in actual fact the consumers did not benefit from it. The recession was too short lived and affected mostly export articles. The index number of wholesale prices declined to 364·9 by the middle of March (about 30 points lower than the pre-Korean level) but again rose to 376·5 at the end of the month. This quick recovery was mostly due to the timely and prompt measures taken by the government in order to avert a crisis. While wholesale prices and that mostly of export goods declined quite rapidly, retail prices began to show some signs of easing only towards the last lap of the recession. The prices of a large number of consumption goods did not come down at all with the result that the cost of living remained high and stable. The Bombay cost of living index stood at 315 points in January 1952. The lowest level to which it fell was 298 points in March 1952, but it rose again to 329 points in the next month. The average for the year 1951-52 was 314 against 302 in the previous year.

While the consumers did not benefit much, many producers were hit hard. In a period of about 2 months the jute trade lost over Rs. 50 crores, cotton about Rs. 21 crores, sugar Rs. 1½ crores besides huge amounts in bullion, oilseeds, spices and chemicals. The loss in securities, excluding government securities, was estimated at Rs. 100 crores. Export traders, such as dealers in textiles and cotton, wool, jute, hides and skins, were the worst sufferers. In textiles, the growing accumulation of large stocks of finished goods and raw cotton because of declining demand had depressed their markets. Some of the silk manufacturers in Bombay closed down their mills and several textile manufacturers in Bombay, Ahmedabad and other centres decided upon reducing shifts and shortening the working time. This pessimistic attitude on the part of the business classes threatened the emergence of depression conditions. Government realised the seriousness of the situation, and in response to the appeals of the business classes offered prompt help.

The various measures taken by the government fall into three classes: firstly, methods adopted to facilitate exports; secondly, removal of internal restrictions on distribution; thirdly, provision of easier credit facilities. Thus with effect from March 16, export duties on groundnut oil, kardi seed, niger seed and raw wool were abolished and the export duty on raw cotton was reduced from Rs. 400 to Rs. 200 per bale. The export duty on soft cotton was lowered from 50% to 30% ad valorem. Although these measures would seriously affect the revenues of the State, government justified this step on the ground that foreign prices had fallen and therefore the rates of several export duties had to be readjusted. Besides, in order to ensure easier distribution of consumer's goods internally, the central government and several State governments lifted various controls and removed other restrictions. The allotment of quotas of fine and superfine cloth to the State nominees was considerably reduced and at the same time mills were made free to sell superfine cloth and certain varieties of fine cloth directly to sellers of their own choice. The Uttar Pradesh Government lifted the control on the distribution of cloth; and in order to end the sugar crisis decided to allow the factories to defer the payment of 2/7 of the price of cane bought by them. Lastly, with a view to provide better credit facilities for the importers of foreign cotton, government undertook to buy foreign cotton pledged with the banks against loans granted to the mills at foreign floor prices if the banks found it necessary to sell the cotton to realise the loan.

Partly as a result of these measures and to a large extent assisted by developments in foreign countries where prices had begun to recover, the rapid decline in price level in India was arrested and the general index number began to move up in the second quarter of 1952 save for a temporary set back in May. Exports of jute manufactures, vegetable oils and raw cotton increased substantially. The loans made by the Reserve Bank against government securities and usance bills helped to relieve stringencies in the money market and assisted in the process of readjustment. By the end of June 1952 the general index of prices had risen to 381, a rise of over 4% compared with the lowest level touched during March 1952.



III. *Period of Recovery: Since May* 1952.

The recession of 1951-52 was peculiar in certain respects. It cannot be considered as an economic depression on a limited scale because it had not many of the characteristic features of a depression, namely, fall in employment, production, and income. While wholesale prices were tending rapidly downwards, retail prices remained comparatively stable and cost of living remained high. Nor was there any decrease in production. In fact, towards the close of 1952 industrial production reached very high levels. The recession affected sales and profits more than production and cost of living. To the extent cost of living did not decline in any notable measure, cost of production remained high, so that with selling prices coming down, the profit margin of the business class was considerably narrowed.

Even as the recession affected most seriously articles coming under the Raw Materials group and other primary commodities, the recovery that set in in the second quarter of 1952 was marked by a rise in the prices of such articles like raw cotton, raw jute, raw wool, cotton seed, vegetable oils, etc. To a large extent this change in the situation was due to the revival of demand both internal and external for most of the country's products following the measures taken by government in the direction of a liberalisation of exports and relaxation of domestic controls over commodities. Early in 1953 government controls on certain categories of iron and steel manufactures were given up and by the middle of that year the remaining price and distribution controls over cotton cloth and yarn were removed. Furthermore, adverse balance of payments, which was operating as a deflationary force for several years, was rectified since the middle of 1952 by means of drastic cuts in imports. However, the immediate cause for recovery was of a technical type in the sense that it represented a reaction against the preceding slump. There was the feeling in business circles that prices in the first quarter of 1952 had gone down a little too far, so that in the subsequent months there was again a revival of activity on the part of traders in replenishing their stocks.

The figures in the following Table illustrate the extent to which prices have recovered since mid March 1952.

*Movement in price indices of different groups of commodities*

| Group of commodity | Mid March 1952 1 | 20th March 1954 2 | Percentage variation of 2 over 1 |
|---|---|---|---|
| I. *Food Articles* .. | 335·2 | 371·3 | +10·8 |
| Cereals .. | 438 | 425 | − 3·0 |
| Pulses .. | 391 | 365 | − 6·7 |
| Others .. | 200 | 292 | +46·0 |
| II. *Industrial Raw Materials* .. | 382·8 | 459·8 | +20·3 |
| Fibres .. | 379 | 443 | +16·9 |
| Oilseeds .. | 370 | 514 | +38·9 |
| Minerals .. | 466 | 442 | − 5·2 |
| Others .. | 360 | 403 | +11·9 |
| III. *Semi-manufactures* .. | 339·0 | 355·6 | + 4·9 |
| Leather .. | 341 | 388 | +13·8 |
| Mineral Oils .. | 218 | 221 | + 1·4 |
| Vegetable Oils .. | 376 | 477 | +26·9 |
| Cotton Yarn .. | 498 | 447 | −10·2 |
| Oil Cakes .. | 403 | 417 | + 3·5 |
| Metals .. | 201 | 238 | +18·4 |
| Others .. | 286 | 306 | + 7·0 |
| IV. *Manufactured Articles* .. | 376·6 | 375·7 | − 0·2 |
| Textiles .. | 424 | 419 | − 1·2 |
| Metal Products .. | 311 | 337 | + 8·4 |
| Others .. | 301 | 286 | − 4·9 |
| V. *Miscellaneous* .. | 610·8 | 686·3 | +12·4 |
| VI. *All Commodities* .. | 364·9 | 394·0 | + 7·9 |

(Source: Report on Currency and Finance, 1952-53).



In the two years since March 1952 the general price index has gone up by about 8%. It may be noted that Industrial Raw Materials, Miscellaneous items and Food Articles which recovered by 20·3%, 12·4% and 10·8% respectively are largely responsible for the general rise in the price level during this period.

Although the main feature of the price movements since the second quarter of 1952 is a general uptrend, it is possible to discern four different phases in this period. (1) March 1952 to September 1952 (7 months) was a period of recovery with a set back in May.

| Month | General Index Number | Month | General Index Number |
|---|---|---|---|
| March 1952 | .. 377·5 | March 1953 | .. 385·2 |
| April 1952 | .. 377·8 | April 1953 | .. 384·9 |
| May 1952 | .. 367·1 | May 1953 | .. 397·4 |
| June 1952 | .. 374·8 | June 1953 | .. 405·4 |
| July 1952 | .. 383·8 | July 1953 | .. 407·7 |
| August 1952 | .. 387·4 | August 1954 | .. 410·4 |
| September 1952 | .. 389·0 | September 1953 | .. 403·8 |
| October 1952 | .. 387·5 | October 1953 | .. 393·6 |
| November 1952 | .. 383·4 | November 1953 | .. 390·6 |
| December 1952 | .. 372·7 | December 1953 | .. 389·4 |
| January 1953 | .. 377·5 | January 1954 | .. 398·5 |
| February 1953 | .. 381·5 | February 1954 | .. 395·0 |
| | | March 1954 | .. 394·0 |

As already observed, this recovery was partly due to the measures taken by government in order to encourage business activity and partly a reaction to the excesses of the preceding slump conditions. (2) The last quarter of 1952 was a period of decline. The down trend in the general price level during this period was the result of the uncertainty in the international markets and fall in export demand which mostly affected certain agricultural commodities. Thus the sharp decline in the prices of jute manufactures during this period[27] was caused by the slackening of export business and the resultant accumulation of stocks in the mills. (3) The third phase covering the first eight months of 1953 was a period of rapid rise in prices, the rate of increase acquiring considerable momentum in the second quarter of the year. This rise was due to the general optimistic conditions prevailing among business classes and the consequent revival of confidence in the markets. The successful operation of the Five Year Plan, the hopes of a reduction in the incidence of taxation as a result of the findings of the Taxation Enquiry Commission, and the favourable gesture shown by government in the form of relaxation of controls on foreign trade and minor concessions like reductions of duties on exports of manufactured articles and imports of essential raw materials, all these helped in the return of business confidence and the revival of business activity. Industrial relations improved, food situation in the country was much better than before, and industrial production went up. Apart from these favourable circumstances, certain special factors pushed up the prices of particular commodities. Thus anticipations of a short fall in the production of jute in Pakistan and India raised the price of raw jute and jute manufactures, while decontrol of tea in the United Kingdom and the restriction of exports of Ceylon tea caused tea prices in India to go up. (4) The fourth phase commences from August 1953. The effect of the end of war in Korea on general price level is seen in the decline of the general index number of prices from 410·4 in August to 403·8 in September and 393·6 in October. The return of peace did not result in any serious recession because of the fact that peace negotiations were very prolonged so that business had sufficient time to adjust itself to prospective changes in demand.

On the whole, prices in India since May 1952 have been more stable than in many other countries. Despite minor fluctuations the general tendency of prices has been upward. This has to be attributed in a large measure to the favourable balance of payments position and budgetary deficits. The acceptance of deficit financing

27. The index numbers of the price of jute manufactures were 478 in October and 392 in December 1952.



as part of the arrangement for the execution of the Five Year Plan[28] points to a secular trend of rising prices in India. That the huge expenses incurred by the Central and Stage governments on various development works envisaged by the Plan are responsible to a great extent to the rise in prices in the country in the last two years is known from the fact that this rise in prices has taken place against a down trend in other countries and in spite of the absence of any external stimulus for most of the Indian products.

The decline in exports especially of industrial raw materials against a fall in their export prices[29] indicates the extent to which the commodities have been absorbed internally. The single factor responsible for this situation is obviously the execution of the works under the Plan which has augmented the purchasing power of the community and has thereby encouraged internal demand.

A review of the price trends in India since the close of the war brings into prominent relief some salient features. In the first place, since the middle of 1948 when strict control measures were readopted, there has been a relative stability in the price level with the exception of a temporary deviation marked by the Korean boom and recession. Since the rise in 1950-51 and the subsequent fall were due purely to external factors, it may be said that government's price control policy has on the whole been successful in stabilising prices at a high level. The establishment of this higher price plateau was due mostly to internal factors, such as general improvement in business activity and the adoption of a policy of deficit spending. Second, the indices of the manufactures group were consistently above the general index during the war and consistently below the general index after the war. In the uptrend during the war, the lead was taken by manufactured goods, while in the post-war period it was the turn of industrial raw materials and the miscellaneous group. In a period of about one and a half years, from September 1949, when the rupee was

28. In his reply to the Budget debate in the Council of States on March 8, 1954, Mr. C. D. Deshmukh, Finance Minister, estimated "that the actual deficit financing will be of the order of Rs. 500 to Rs. 600 crores if we want to complete the plan during the next two years".

29. The price indices of Indian exports (1948-49=100) show a decline from 178 in 1951-52 to 116 in the next year and to 104, 106, and 111 respectively in the first, second and third quarter of 1953. At the same time, the quantity indices of raw materials exported from the country (1948-49 =100) declined from the average of 83 in 1952.53 to 79, 65 and 37 in the first, second and third quarters of 1953. (Reserve Bank of India Monthly Bulletin, February 1954, p. 179).

devalued, to April 1951 when the post-Korean peak was attained, industrial raw matrials advanced by 49% while semi-manufactured and manufactured goods followed far behind recording a rise of only 17% and 18% respectively. In the recession that followed the Korean boom, the prices of industrial raw materials came down by as much as 45%, but that of semi-manufactured articles declined by 13% and manufactured goods by 9%. Since then industrial raw materials and semi-manufactured goods recovered (the former much more rapidly than the latter), while manufactured goods declined. In so far as most of the items coming under the categories of raw materials and miscellaneous are export articles, the wide bulge between the curves (see Chart III) showing the movement of prices of miscellaneous and industrial raw materials on the one hand, and manufactures and general indices on the other, both in the upswing and in the down swing, indicates the preponderant influence of international factors on the price structure in India.

Third, throughout the period under review, the cost of living index (Bombay) has remained below the general index, the divergence between the two becoming steadily wider up to the post-Korean recession. (See Chart IV).

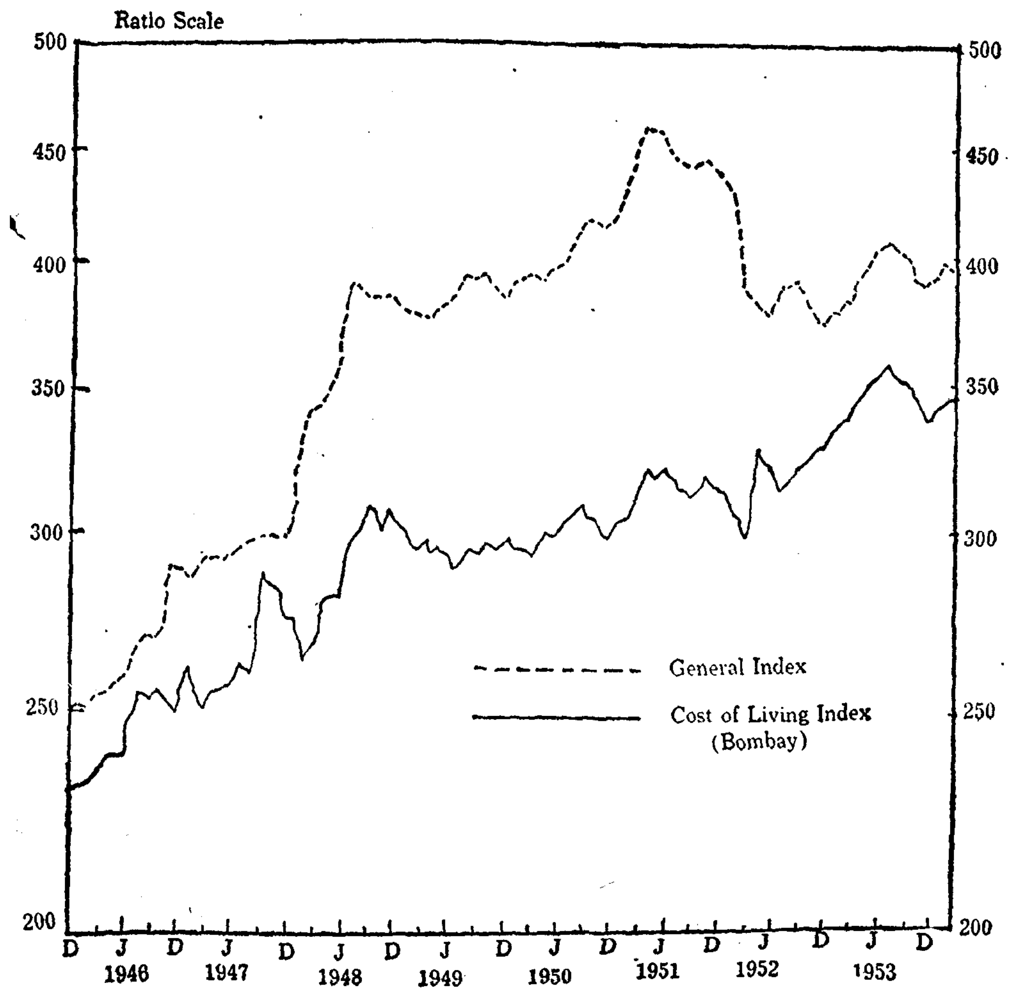
This was due to the fact that while a steady upward pull was exerted by the industrial raw materials and miscellaneous group on the general index, the prices of food articles remained quite steady. The rapid down trend of prices in the first quarter of 1952 and the removal of food subsidies brought about a situation in which, while cost of living remained high, the general index was moving downward. This, however, was a temporary phenomenon. In general, the movement of the cost of living indices in India in recent years compares favourably with that in other countries. A consolidated cost of living index number series based on the indices for Kanpur, Calcutta, Madras, Bombay and Nagpur in comparison with the cost of living indices in the United Kingdom and the U. S. A. shows that since the end of 1951 the Indian index has remained lower than that of the other two countries. To a large extent, this advantageous position can be attributed to the measures taken by the Government to hold the price line since the Korean boom.[30]

30. "Cost of Living in India": "Hindu", dated 5-8-1953.



A comparison of the price indices in India during the war and in the subsequent years with that of other countries shows a disparity in the pattern of price movements. If the period of rapid rise in prices immediately following the outbreak of war (upto the last quarter of 1942) is left out of account, it will be

CHART IV. General and Bombay Cost of Living Index Numbers.




seen that the prices in foreign countries like the U. S. A., the United Kingdom, Canda and Switzerland, unlike that in India, remained remarkably stable upto the middle of 1946. In those countries the greater portion of the price rise took place since the end of the war. In the United Kingdom the general index ranged between 106 and 171 during the war period, but after the close of the war, it went up from 171 in August 1945 to 335 in January 1952. In the U. S. A. prices rose 34% between September 1939 and August 1945; but in the post-war period between September 1945 and April 1951 it increased by 75%. On the other hand, in India the increase in the general level of prices subsequent to 1945 was only a continuation of the tendency which started when the war broke out. The general index recorded a rise of 144% during the war period and 90% between September 1945 and April 1951. Apart from this, price movements in India both in the war and in the post-war period were subject to much more violent fluctuations than in most other countries.

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MADRAS UNIVERSITY GOKHALE ENDOWMENT LECTURES
(1952-53)

# REFORMS ON LAND-HOLDINGS IN INDIA

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# II

## LAND TENURES IN MADRAS

The land Revenue administration in the Madras Province under the British was begun under conditions similar to those which prevailed at the commencement of the Revenue administration in Bengal. In both these provinces the servants of the East India Company were fitted for trade and commerce rather than taking up the control of the revenue administration. Hence although Madras had its President and Council (afterwards called Governor, and Council) and its array of officials known as "writers", "factors", "junior merchants" and "senior merchants" and although they had military forces for their own protection, they were quite unprepared to take up the responsibility of administration of a populous province as Madras.

*Formation of the Madras State*:

In tracing the progress of the Madras Land Revenue System a review of the general course of acquisition of the various areas that constitute the present Madras State by the East India Company is necessary.

The first acquisition of territory from a revenue point of view was the area around present Madras known as the Madras Jagir. This was granted by the Nawab of the Karnatic as a contribution towards the expenses of the wars undertaken by the company on behalf of the Nawab. The grant of this Jagir was finally confirmed by the Emperor Shah Alam in 1763.

The next acquisition was that of the northern Circars which comprise the present districts of Vizagapatam, Ganjam, Kistna and Godavari. This was granted to the company by the Mughal Emperor in 1765. The term Circar denotes one of the administrative divisions of the Mughal Empire. At the time of the British occupation of this territory this region consisted of the crown property of 'haveli' lands, as in the case of the Zamindari areas as in Bengal, i.e., lands reserved for the support of the royal family and its immediate dependents. Hence the application of the Zamindari settlement which was introduced in Bengal was easy in the Northern Circars. The existing Zamindars were accordingly left in possession and the 'haveli' lands were parcelled out and leased to the Zamindars for a term of years.

The Mysore Wars led to the cession by Hyder Ali and his son Tipu Sultan of the districts along the southern and western frontiers of the present Mysore State—the Baramahal, excluding the hill area taluk of Hosur in the Salem District some taluks in Madura District (Dindigul and Madura) and the districts of Malabar, Coimbatore and South Kanara.

The Mysore Wars also resulted in the transfer from Mysore of the districts of Anantapur, Kistna, Cuddapah and Kurnool to the Nizam who ceded them to the British and hence these districts are known as the Ceded Districts.

The State of Tanjore under the Mahratta rule was brought under the Company's management in 1799 owing to the incapacity of the ruler. In 1855 it was annexed by the British by the doctrine of lapse due to the failure of the heirs.

The remaining areas of the present Madras State were those originally held by the Nawab of the Karnatic or Arcot who gradually became indebted to the British. To pay off those debts the revenues of various taluks and estates were assigned to the British, so much so the Nawab only retained his titular dignity and pension. The direct title expired in 1855.

The above is a brief account of the formation of the Madras State under the British. At the time of the acquisition of the different areas the systems of revenue administration were varied. In the northern Circars the Zamindari system had taken a deep root but in these parts according to Baden Powell the revenue assessment of the Zamindars widely varied from region to region. In the Ceded Districts the revenue assessment was exacting and it was levied by local native officials called "Poligars." In the Carnatic Districts as in the case of the Ceded Districts the assessment was oppressive.

## KINDS OF LAND TENURE

The Land Tenure Systems prevalent in the Madras State are as folows:

1. The Zamindari Tenure; 2. The Ryotwari Tenure; 3. The Inams; 4. The Malabar Land Tenures and 5. The Mulgani Tenure of South



Kanara. The different types of land tenures are to a great extent the by-products of the attempts of the British administration in fixing up the responsibility for payment of land revenue.

### *The Zamindari System:*

In the Fifth Report of the Select Committee on Affairs of the East India Company the origin of the word Zamindar is traced as far back to the Hindu period. The Revenue collection in the Hindu period was directly undertaken by the Government through its village servants who were known as "Chowdry" in certain parts and during the Muslim rule this name was changed into "Krory" and later on substituted by the term "Zamindar." During the Muslim period these village servants were the intermediaries of the Government for the collection of the land revenue. The Muslim rulers occupied the country as a military colony and did not make any attempt in replacing the old officers who served under the Hindu kings by their own men. The old Hindu system of Revenue administration involved close and constant supervision and considerable local knowledge which was inconvenient to Muslim rulers. So they instituted a system of intermediaries who were recruited mostly from the old village servants of the Hindu kings as they were found suitable persons for enforcing revenue demands in view of the power and influence they wielded in the country. The British also adopted this system which became gradually known as the Zamindari system.

The word Zamindar means a landholder but in the early stages the Zamindar was only a collector of revenue and he had no title to the lands under his control. His functions were mainly supervision and partial maintenance of order. He gave advances to the ryots for cultivation purposes and collected the land revenue due to the Government. For the trouble of collection the Zamindar was allowed a "Mallikhana" which amounted to ten percent of the collections made by him. Some lands were also allotted to the Zamindars free of revenue and in addition he was also allowed to enjoy some other village collections as well. Though this was the arrangement in the early days the Zamindars gradually entered into an arrangement with the rulers for the payment of lump sums which was for a year or term of years. Each time a fresh contract based on a fresh calculation of the income derivable from the lands was made. The Zamindar was not in any sense a local land holder. He was appointed by official warrant which was valid for life time at the pleasure of the ruler. But the power and position of the Zamindar naturally grew and they became hereditary. There were large areas of waste lands attached to each Zamindari and they cultivated the same with their own tenants and virtually became owners of such lands. As long as the central power was strong enough to control the activities of the Zamindar, they continued merely as officers carrying on their legitimate duties of revenue collection. After the death of Aurangazeeb the Mughal Empire disintegrated and the Zamindars by reason of their local power and influence became virtually independent. The successors of Aurangazeeb were feeble rulers and unable to control the situation and hence the Zamindars began to assert proprietory right to the soil and with the further disintegration of the central power, the Zamindars even usurped the administration of justice.

In Madras the Zamindari system took firm root in the northern Circars, where the Muslims came in first and where their rule lasted long. In the south of Madras lands were held by a class of persons known as Poligars. The Poligars were of three kinds:-

1. The descendants of the royal families of Vizianagaram, Conjeevaram and Madura.

2. The military chieftains of the sovereigns who had resisted the conquest of Muslims.

3. District Collectors who had eluded the immediate control of the Muslims and had gradually usurped the sovereignty of the districts.

4. The Poligars of the Nayak dynasty. The "Paliem" system in the South was the result of the reorganization of the kingdom on a fuedal basis by the founder of the Nayak dynasty. The whole Nayak kingdom was divided into a number of estates and the proprietors of these estates were known as Poligars whose functions were more or less the same as that of fuedal barons of Medieval Europe. These Poligars seem to have had different status and origin in different parts of the country. They were military chieftains who exercised different degrees of power and bearing a strong affinity to the Zamindars of the northern Circars. Their origin may be traced to similar causes which are as follows:-

1. Those whose territories were situated in the jungle parts of the country and among the eastern hills appear to have been entrusted with the charge of the police.



2. Those who derived their descent from the ancient Rajas.

3. Those who gained their territories by usurpation and force.

4. Those who had been renters of districts or revenue officers who had revolted in times of disturbance. Even headman of villages had attained a footing of Poligar chieftains though on a small scale. Though in some cases their incomes did not exceed a few hundred rupees yet they kept up their military retainers and their officers of State and were regularly installed with all the forms of and ceremonies of a prince of extended territories.

When the East India Company took over the administration of the Madras Province in the middle of the 18th century, their main anxiety was to make sure of their land revenue. They had to acquaint themselves with the descendants and representatives of the old vanquished rulers including the Zamindars and the rent farmers through whom the Muslim rulers had been collecting the land revenue. The Zamindars were the only established revenue machinery which remained in existence. The English East India Company at that time were deeply interested in making a settlement of the revenues due to their financial needs. The Permanent Settlement of Lord Cornwallis which was introduced in Bengal and extended to the other possessions of the East India Company was adopted in the Madras Province as per the orders of the Board of Directors of the East India Company. Lord Cornwallis was succeeded by Lord Wellesley who set up a special commission for arranging the revenue settlement on a permanent basis. Regulation XXV of 1802 was passed by which the Permanent Settlement was brought into force. Under this settlement, all the Zamindars, Poligars and other land holders who held claims on estates were confirmed in their respective estates in perpetuity. As a result of the settlement the States revenue demand was assured, regularised and augmented and the method of collection was considerably eased. But the Zamindar's social position was undermined as a result of the Company's policy of taking away from Zamindars all the privileges they had enjoyed such as the keeping of a military force and the preservation of law and order, the Zamindars were practically stripped off every power excepting such rights as were necessary to be exercised as private proprietors. Several taxes were also expressly excluded from the Zamindar's purview. But they got authority to hold the Zamindari for ever on a fixed peshkash. The Zamindars were made heritable and transferable. The

Zamindar got a clean title to land under his possession and a proprietor-ship as long as he continued to pay the revenue to the Government. The assessment fixed at the time of the Permanent Settlement and payable by the Zamindars to the Government is called "Peshkash." The fixing of "Peshkash" was arrived by various methods of calculation and no general rules were followed.

Under the Permanent Settlement the worst sufferer was the Ryot. Nowhere were his rights properly and clearly defined. In course of time this resulted in a number of disputes and the relations between the Zamindar and the ryot were never cordial. The first dispute arose out of the conferment on the Zamindar of the proprietory right to the soil by the Permanent Settlement Regulations. This led to a series of disputes till the right of the soil was conferred on the ryot by the amending act of 1822. Another cause of trouble was the uncertainty attached to the amounts of rents payable by the Ryots to the Zamindars. If the Ryots' dues to the Zamindar had been definitely fixed at the time of the Permanent Settlement and expressed clearly in unambiguous terms a great deal of subsequent trouble would have been avoided.

The relation between the Ryots and the land owners in the Zamindari areas is one of the most difficult land problems in the areas where the Permanent Settlement was introduced. Great abuses existed in the system due to the avarice and inactivity of the Zamindars, who wanted to enrich their coffers. Cultivators had to pay large contributions to the Zamindars for no valuable return and their failure to pay these high demands resulted in compulsory evictions or dispossession of land. The result was that the villages became wretched hovels and tenants did not get even bare subsistence. Thus the Zamindars did not command the same hold. The ryots lost confidence in the Zamindars as the Zamindars were making on them many illegitimate demands. Considerable migration took place from the rural to the urban areas and only such of those of the agriculturists who had no alternative means of livelihood remained in the rural areas and carried on cultivation. But cultivation on a large scale was abandoned and the ryots had no incentive to cultivate more land than what was just and sufficient to meet the tax demand and their needs of bare subsistence. The rights to the soil and the rights in other directions were fixed in the same manner as though the ryot was the owner of the land and his only responsibility was the payment of



the rent or land revenue due to the Zamindar. For the security and comfort of the ryots, the Patta Regulations were passed as regulation XXX of 1802 simultaneously with the Permanent Settlement. The Patta Regulations were specifically enacted to protect and safe-guard the right of the cultivators. After the Patta agreement was effected it was not open to the Zamindars to enhance the amount of land revenue payable by the cultivators. Provision was also made to settle disputes arising out of those determined agreements. The only enhancement in the revenue permissible was when waste lands were brought under cultivation, which entailed the giving of a new patta. But a great deal of confusion arose at a latter date due to the annual renewals of pattas. If regulation XXX had provided one permanent patta for all the land under cultivation at the time of the permanent settlement and another for the land that was subsequently brought under cultivation perhaps much of the troubles would have been avoided. It was not however easy to divide the two interests of the cultivator for several reasons. Whatever it was the effect of this enactment at the time of the Permanent Settlement was to fix for ever the rent of both the cultivated and uncultivated land. Unfortunately this law for the protection of the tenants and cultivators was allowed to become a dead letter. No sooner the regulations became law, the Zamindars started their campaigns to contest the rights conceded to cultivators under the regulations. The weak point in the regulation was the provision that in any case of dispute with regard to rates of rent or right of occupancy the Zamindar could put the cultivator in a court of law and contest the same. This was taken advantage of by the land holders. The power of distraint of the goods of the ryot by the zamindar for rent arrears without going to the court provided for in regulations XXV and XXX gave the Zamindars ample authority to harass the ryots in many ways. The ryots could appeal to the Civil Courts.

In course of time the distraint proceedings became very oppressive and the cultivators were put to trouble. Simultaneously the cultivators were also subjected to constant litigation in the law courts by the Zamindars to get their proprietory right to the soil declared under Regulation XXV. The Zamindars began to deny that the rate of rent was permanently fixed and claimed enhanced rate of rents. Thus even after the Permanent Settlement, which was partly intended to strengthen the Ryots' position they found themselves in the same predicament as before. The Ryots suffered because they had not the wherewithal to fight their case. This situation was remedied somewhat by Regulation V of 1822 by which the Revenue Courts of the Collector were authorised to hear cases of arrears of rent.

The causes of failure of the Patta Regulation are explained by C. D. Field while reviewing the land-lord tenant relation in the post-settlement period. It was partially due to the aversion of the ryot to receive the patta and this disinclination on his part was due to his apprehensions that the rates of payments being reduced to fixed amounts they would form the basis for future imposition. This was due to a fear on the part of a ryot that, if, due to disase or loss of cattle or shortage of labour, he was unable to bring the whole land under cultivation he would still have to pay the dues stipulated in the patta. The loss of crop owing to bad seasons also would bring about the same results. It is reasonable to view that the Ryot was justified in his apprehensions at that time, though viewed from present day conditions, he might be said to have lost an opportunity.

*The Rent Act of* 1865:

The unsettled conditions which arose from the misinterpretation of the Permanent Settlement Regulation by the Zamindars and the various courts of law had to be remedied and the rights of the Ryot clearly defined. The Board of Revenue in their proceedings of 2nd December, 1854 clearly enunciated the position. The Board recorded the popular assumption that the ryots had to pay rent to the Zamindars as land lord and not as a tax due to the State and the Zamindar as the person entitled by law to receive State dues was fundamentally erroneous. The right of the State was to a proportional share of the produce of all cultivated land, that is, to a tax on produce and this was never disputed. So when the Government or the person to whom the Government had delegated its rights or its equivalent in money, neither the Government nor the Zamindar could claim a land lord's right in the soil. The right to a share in the produce was distinct from the land lord's interest in the land. The need to state the Government's position arose out of several judgments in the courts which even went to the extent of questioning the occupancy right of the ryot. In 1863 a zilla court refused to recognize the right of occupancy of the cultivator and the Permanent Settlement rates of rent.



It was decided then to introduce a Bill to consolidate and improve the laws which define the process to be taken in the recovery of rent, and the Rent Recovery Act of 1865 was the result. But when the enactment was finally passed it did not do much good to the ryot. The clubbing of the rights of the Zamindari ryots and the rights of the ordinary ryotwari areas created confusion in the minds of the jurists which led them to conclude that the Indian land lord was on a war with English land lord and the Indian ryot was only a tenant from year to year who could be ejected after due notice at the end of the term. Though this misinterpretation was soon rectified the field was still fertile for many legal quibbles till the Estate Land Act of 1908 was passed.

The rents in the Zamindaris continued to be high. In a report of land revenue administration the Board of Revenue remarked: "In the Zamindari areas the rentals are often extremely high as compared with the neighbouring Government assessments owing to the fact that having been permanently settled in 1802 they either retain the peishkash rates similar to those of the Government areas or when untramelled by such rates they are able to make their own bargains with their tenants or they have committed the amounts due under the sharing system into money at their own rates. In a Zamindari under the court of wards the Board has found that the highest wet rates are as Rs. 45 per acre, for which, however the ryot may raise two crops, if he can. The garden rates run up to Rs. 15 per acre. These are the maximum rate that are actually being paid. The rate payable for betel leaf garden is fixed at Rs. 32 per acre. The maximum wet rates for Government lands in the three neighbouring districts are Rs. 10, Rs. 8 and Rs. 7-8 respectively with the addition of one-half extra when a second crop has been raised. The moderation of Government assessments may be guaged from the figures. In considerable areas in the Godavari delta good Zamindari lands are rented to tenants for growing paddy Rs. 25 to Rs. 30 per acre plus the Government water rate and at much higher rates for sugar cane. The Board is not defending these rentals but they are payable and are being paid."

*The Madras Estates Land Act of* 1908.

With a view to remedy the imperfections noticed in the working of Madras Act VIII of 1865 and to define the substantive and relative rights and obligations of landholders and their tenants the Government of Madras passed the Madras Estates Land Act 1908.

The Act secured a permanent right of occupancy to every ryot. This right was heritable and transferable by sale, gift or otherwise. A Ryot could not be ejected from his holding otherwise than in accordance with the provisions of the Act. He might use the land in any manner which did not materially impair its value or render it unfit for agricultural purposes. This Act invested the ryots with a right to use the land and cut down all trees which were planted by him or which naturally grew upon the holdings notwithstanding any customary contract to the contrary. He had a right to make improvements to his lands. No enhanced rate could be claimed by the landholder on the ground of the improvements effected by him unless it had been registered in accordance with the provisions of the Act. The tenant on his part had a right to have evidence of improvements effected by him recorded. When an improvement had been effected at the ryot's sole expense, he was not liable to pay a higher rate of rent on account of increased production or of any change in the nature of the crop raised consequent on such improvement. The Act prohibited landholders from exacting from their ryots any thing in addition to the rent lawfully payable. The ryot was entitled to a reduction of rent in the circumstances and manner laid down in the Act. He had a right to call upon the landholders to issue a patta and the landholder was bound to give him a "muchalika" in exchange. The Act also conferred certain rights on the landholders. The landholder was entitled to reserve mining rights and to reserve premium when first admitting any person to the possession of the land, to have improvements effected by him registered and to enhance the rent on certain grounds specified in the Act. He could recover arrears of rent from the ryot by a suit before the Collector and by sale of the holding. The Act also provided for a survey to be made and a record of rights to be prepared by the Collector in respect of an estate or a portion thereof in certain cases. Within one year of the passing of the Act certain defects were noticed in its working and it was amended in 1909. Since then further amendments were passed from time to time. In Madras State the question was again taken up by the Congress Government when it took up office in 1937. A Committee was constituted to enquire into and report on the conditions prevailing in the Zamindari and other proprietory areas and to recommend any legislation that might be considered desirable. The Committee reported in 1938. In its voluminous report the Committee traced the origin of the Zamindaris and the



rights of tenants from the beginning of East India Company's administration. The main conclusions of the Committee are as follows :—

1. On the question whether the Zamindar or the tenant is the proprietor of the soil the Committee observes that the Zamindar has no right to the land not even to the possession of it, because he is only a collector of revenue. The nature of the interest which the ryot has in his land is a free hold right as in the case of the ryotwari ryots subject to the payment of land revenue to the landholder, as the agent of the Government. His interest in the soil extend to the right to own it, sell it, even give it away to another, subject to the liability to pay the land tax fixed permanently at the time of the Permanent Settlement. His interest is not derived from the landholder under a lease or contract. He holds the land in his own right and deals with it as his own in the same manner in which his ancestors enjoyed it. Thus the Zamindars were really rent collectors and the ryots were the real owners of the soil.

2. The Permanent Settlement fixed not only the Peishkish which the Zamindar was to pay to the Government but also the rent which the Ryot was to pay to the Zamindar.

3. In subsequent years the Zamindars who were mere tax gathers receiving a remuneration of about one third of the tax collected for this service converted the land tax into rents payable to themselves and enhanced these rents from time to time also levying at the same time several illegal dues and claiming several rights incidental to the ownership of the land.

The Committee made the following recommendations:—

1. The Estate Land Act of 1908 should be replaced by another legislative measure for Permanently Settled Estates declaring that the ryot is the owner of the soil and he is entitled to hold and enjoy the full rights of ownership subject to the condition that he is liable to pay land revenue (rent) and also subject to all conditions and terms entered into between himself and his landholder at the time of the Permanent Settlement.

2. A declaration should be made in the new legislature that the rates of land revenue fixed permanently at the pre-settlement rates should be given to the ryot by the landholder for the whole of the land.

3. It must be declared that the ryot was entitled to enjoy all the natural facilities including grazing of cattle, collection of green manure or wood for agricultural purposes.

The report included a draft bill embodying the various recommendations of the Committee. The Legislative Assembly after a lengthy debate adopted the general principles of report and brought forward a Bill embodying majority of the recommendations of the Committee for the abolition of Zamindari. The Bill, however, met with vehement opposition and lapsed when the Congress Ministry resigned. But it was taken up when the Congress Ministry came to power in 1945 and legislature piloted a bill for the abolition of the Zamindaris.

### *The Inam Tenure*

Inam rent is a grant of land to be held revenue free. An Inam holding may be of a field only or a village or a tract of several villages. They are beneficial tenures and are traceable to remote antiquity in India. During the time of the Hindu rulers it was the custom to grant assignments of land revenue free or at a low quit rent for all kinds of purposes like payment of troops, civil officers, maintenance and support of temples, charitable institutions and rewards for public service. The Muslim rulers also continued this custom of granting beneficial tenures for various purposes. These assignments were called "Jagirs." The Jagirs, however, reverted to the State on the death of the grantee unless renewed by a new grant, as it was the established policy of the Muslim rulers not to alienate the rights of the Government in the soil in perpetuity. But exceptions were made in the case of lands alienated for religious endowments, to holy men and celebrated scholars etc. These were called multi-grants which gave perpetual title of the land to the grantees. During the early period of the East India Company's rule the Company following the custom of the country adopted the practice of rewarding meritorious service by grants of jagirs. This custom gradually fell into disuse under instructions from the court of Directors in 1829 who directed that money pension should be preferred to grant of land on all ordinary occasions and that grants of land should be made only under exceptional circumstances.

The total area of Inam lands in this State is about 7 million acres. These Inams or Manyam's are in hereditary and perpetual occupation. Whenever a ruler made a grant of land he gave a deed



evidencing it, which contained particulars of the donor's genealogy description and nature of the grant, person on whom it was conferred, object for which the rent was made and the conditions of the grant. The deeds were generally engraved on copper plates or slabs or stone. In the earlier periods these grants were made by the sovereigns only but towards the end of the Mughal period when the Central authority disintegrated various petty chiefs assumed the power of granting beneficial tenures for numerous miscellaneous purposes.

### *Kinds of Inams*

Inams are found scattered in Ryotwari as well as in Zamindari areas. There are three types of Inams: 1. The excluded Inams; 2. Post-Settlement Inams and 3. Included Inams.

1. The excluded Inams. These Inams are those excluded from the assessments of the Zamindaris during the time of the Permanent Settlement under Section 4 of Regulation XXV of 1802. The post-settlement Inams are those created by landholders after the Permanent Settlement. They are considered invalid under Sections 4 and 12 of Permanent Settlement Regulations. The included "Inams" were taken in the assets of the Zamindari during the Permanent Settlement. Under the Permanent Settlement Regulations in 1802 the Inamdars were excluded from the scope of the regulations and their title to the holdings were based on their actual possession. The Regulations provided for the investigations of the title of the Inamdars and other similar grantees and their liabililty to pay any revenue to the Government and for the fixing of the amount payable. The preamble to the regulations declared that in conformity with ancient usages the Government reserved to itself the actual proprietory right of lands of every description. Under Clause 2 of the Regulations all grants of lands exempt from the payment of revenue and made previous to the following dates were held to be valid provided the then incumbents or their ancestors had obtained and held actual possession of the said lands and jagirs:—

1. In the northern Circars prior to 26th February 1792.
2. In the Carnatic and Tanjore District prior to 12th July 1792.
3. In the Baramahal area in Salem, Dindigul Taluk in Madura and Malabar Districts prior to 18th March 1792.

4. In the Ceded Districts prior to 12th October 1800.

Though provision was made for the validation of the Inams in the Regulation XXXI of 1802 no action was taken for a long time to investigate titles. The necessity for investigation arose only at the time of the settlement of the ryotwari lands when the necessity to exempt these Inam lands from assessment was felt. In 1858 an Inam Commissioner was appointed to investigate into the Inam titles and grant title deeds. Between 1802 and 1853 a number of disputes relating to the titles of Inam lands had arisen. Inams granted for special purposes were not utilised for the purposes for which it was granted. The Inam Commissioner compiled an Inam Register. As a result of various enquiries, the Inams were classified as follows:—

1. Those held for the support of religious institutions.
2. Those held for the purposes of public utility.
3. Those held for the support of works of irrigation yielding public revenue.
4. Those held by Brahmins and other religious classes for their personal benefit.
5. Those held by the families of Poligars and those who filled hereditary offices under former Governments.
6. Those held by kinsmen, dependants and followers of former Poligars and Zamindars.
7. Those held by persons connected with the former general police of the country.
8. Those held for village revenue and police service, and
9. Those held by artisans of various descriptions for services rendered to the village communities.

After the appointment of the Inam Commissioner in 1858 the Board of Revenue issued a rule regarding the basis for the investigation of the Inams. It stipulated that the Inamdars should have been in possession of Inam for a period of 50 years before 1858 to constitute a valid title. Thus the principle of the Inam Settlement was long possession, which both afforded an evidence of right and also constituted a motive for the Government not to interfere. The Inam Commissioner validated titles and issued title deeds to Inamdars lawfully in possession for fifty years before the appointment of the Commissioner. Thus Inams were enfranchised. After the enfranchisement, the Inam Commissioner issued title deeds for the Inams and they were passed and validated by the Inams Act IV of 1862 and 1866.



*The Ryotwari Settlement*

The Ryotwari Settlement means the division of all arable land whether cultivated or not into fields and the assessment of each field at a fixed rate for a term of years. The following are the chief characteristic features:—

1. The underlying principle of the State ownership of all lands including waste lands.

2. The holder of the land possesing the right to use, transfer and relinquish the occupancy of the holding and enjoying these privileges as long as he pays the land revenue.

3. The assessment of land revenue being fixed for a period of 20 or 30 years and being periodically revised and settled anew.

The assessment is announced, of course, by the Settlement Officer after calculation according to rules. Of course objections as to rates would be listened to, as elsewhere, and so far there is a settlement of the amount of the land revenue but on the whole 'Survey Assessment' is the more appropriate term. Hence the settlement is necessary both to see what the ryot has actually held and has to pay revenue for during the year as well as to determine the amount of any remissions he may by rule be entitled to. So it is a feature of the Ryotwari system that, besides the initial assessment of the land revenue, there is an annual Jamabundi or settling up with the cultivator taking account of any change in his holding as shown in his "patta" and noting deductions from his total payment. The occupant pays the revenue so assessed on the area he actually occupied. The occupant deals directly with the Government and is responsible for his own holding. He is given a document called a "patta" which sets-forth the extent and assessment of each survey field or portion of a field in his occupation. The patta is liable to revision every year to bring it up to date. The occupant thus enjoys all the advantages of proprietorship subject only to the payment of the revenue due to the lands during the year.

The original idea of the founders of the Ryotwari system was to make the assessment on land permanent as in the case of the Permanent Settlement of the Zamindaris. The Famine Commission of 1860 made a proposal to extend the Permanent Settlement of land revenue introduced in Bengal to all parts of India and this was circulated for opinion to the Governments of the other Provinces. The Government of Madras was of opinion that the Permanent Settlement was applicable only to those districts in which estates were fairly cultivated but resources imperfectly developed.

When Barahamal region was acquired by the Madras Government, Colonel Read was deputed to study the conditions of the ryots and to make suitable proposals for the assessment of the land revenue. To begin with Colonel Read made a proclamation offering annual leases to the patels of single villages or groups of villages. But in the course of his enquiries Read was led away from the idea of making leases of fixed areas for fixed sums to be paid uniformly for the whole term of lease. As he surveyed the villages field by field he came round to the idea of assessing each according to its quality and leaving the Ryot free which was in the end a very good test of the assessment to keep the field or throw it up or take another provided only he gave notice at the proper time of his intentions. This did not occur to Read all at at once; there were many restrictions, but the idea once entertained, the idea of a lease or village rent grew faint. Colonel Read in fact devéloped his own system without much regard to the instructions from the Board of Directors and carried on a field to field survey which he finished by 1798 and he issued a proclamation explaining the terms of his settlement. The Settlement was on individual basis. The circumstances which led to Colonel Read to prefer individual settlements to leases which bound people to certain lands and certain payments for a term was that he "heard numerous complaints that binding the ryots to the same lands for a number of years, despite constant changes in their stock and circumstances produced considerable hardship." Munroe also agreed to this.

*Principle of Assessment.*

As to the method employed in assessing the lands when surveyed it was assumed that the share of the Government was about half the produce of "Punja" or dry land and three fifths of "Nanja" or wet or irrigated land, the three fifth being reduced when there was not a full water supply. Making the necessary allowances, however, for the deduction as the remuneration for the village artisans and for the vicissitudes of the season the actual shares were one-third for dry and two-fifths for wet lands.



These proportions were calculated in kind (varam). They were now to be commuted into money value.

The reduction to the smaller fractions mentioned would not affect the revenue totals much because the survey brought to light cultivation that escaped assessment and unauthorised free holdings and also (on the other hand) abolished irregular cases-devices which enable the cultivator and the renter respectively to bear up against the burden of excessive demands under native rule.

Both the rates calculated in this manner still proved too high: Munroe predicted this and from the first advocated a reduction of from 15 to 20 percent. To ascertain the value of lands, wet and dry, according to produce, a classification was adopted. Several methods were tried of valuing the produce—one was the measuring or estimating the grain produce for the particular year and valuing it at current prices. As the gradations of soil are infinite averages were taken and by enquiry and comparisons of the figures deduced from the old cultivation accounts of twenty years (1773-92) a full crop for each average soil was made out. Deduction was made for failures, uncultivated parts of areas and it was held for dry land 69 percent and wet lands 84 percent of a full crop was the average yield. This was valued at the average of selling prices for the previous 20 years. The resulting rates were again modified by grouping villages according to the advantages of their situation. Tables of rates so prepared applied only to the Taluk or part of a district over which conditions were similar.

In early Ryotwari settlements the Government revenue was taken as a certain share of the gross produce valued at fair rates. This is Col. Read's plan for Salem District and this plan with certain modifications was adopted by Munroe in the Ceded districts.

*Munroe Observes*: "When a district has been surveyed and the rent of every field permanently fixed the Kulwar Settlement becomes extremely simple; for all that is required is to ascertain what fields are occupied by each ryot and to enter them with the field rents attached to them in his patta; their aggregate constitutes his rent for the year."

*Ryotwari and the Zamindari Systems.*

Under the Ryotwari system every ryot will on his own estate be proprietor, farmer and labourer and hence a great body of small proprietors instead of a few Zamindars or Mittadars will be interested in supporting Government. The Ryotwari system could be said to be better calculated to augment the agricultural productions of the country, as every ryot would take interest in improving the land as each ryot is more immediately interested in the cultivation of his land and bestow more pains on it and make it yield more abundant crop than the intermediaries as the Zamindar or Mittadar. The Ryotwari system by retaining in the hands of Government all unoccupied land gives it the power of gradually augmenting the revenue without imposing any fresh burden on the Ryots."

The Settlement Department was first organised in 1858. This Department first demarcated the village and field boundaries after a tedious process of investigation and arbitration of disputes. In the fifteen years of the existence of the Department the settlement of the whole of the Trichinopoly, Kistna, Guntur, Godavari, Nellore and Salem districts and parts of South Arcot, Kurnool, Cuddapah and Tinnevelly was completed. The System of settlement in the early stages varied from region to region. There were different types of Settlements. The "Amani" or direct system in the Tinnevelly district simply consists in taking the actual share of the grain. This is also known as the "Asara" or sharing system. The "Visapadi" system was merely a method of dividing the revenue assessed under the village system according to the customary shares in which the village body held their land. The "Ulungi" system prevailed in Tinnevelly and for a long time in Tanjore. The "Mucta" system was similar to the "Nutafaisal" system which prevailed in Tanjore. Under "Dittam" Settlement a preliminary estimate was made by the Tahsildar at the beginning of the season.

As a result of all these different types of Settlements there are 89 rates in the wet lands ranging from As. 12 to Rs. 15 per acre and 61 in the dry lands varying from As. 2 to Rs. 2 per acre. In the Malabar District there were 7 garden rates ranging from Re. 1 to Rs. 7 per acre.

*Settlement Register and Pattas.*

The final accounts, after settlement, are entered in the Settlement Register, which is the foundation of the whole revenue administration. It contains information regarding every holding large or small. From the Register a ledger is prepared which gives the personal account of each Ryot with the Government. A copy of the personal account is also given to the Ryot and this is known as the "Patta." The introduction of Settlement is effected by the issue of pattas to those entitled to them and this is one of the most important aspect in the process of the settlement. The "Pattas" are issued to the rightful owners of the land. On an average a district consists of over a million fields with over a lakh and a half of ryots. The interval between Settlement and Re-settlement is 30 years. During that period neither the grain out-turn nor the commutation rates are altered. Under the Ryotwari System each cultivator is free to hold or relinquish whatever fields he likes, or take other available fields. Deductions have sometimes to be made from the total assessment. There must be, therefore, an annual settling up of accounts with the Ryots. This is called the annual "Jamabandi." This enables the Settlement Register to be corrected and brought up to date. The settlement was for 30 years and as each settlement expired the question of its revision or re-settlement was taken up. Re-settlement consists of a revision of the rates of assessment based on changes in prices, means of communication accessibility to markets and the improvements in the quality of irrigation sources since the original assessment. As a rule the rates are raised or lowered all round in defined tracts by the same percentage. Therefore re-settlement in practice means an increase in assessment.



*Recent Changes in Land Revenue Policy.*

Beginning from this century re-settlement operations were carried from time to time in the districts where the 30 year period has been specified and enhancements of land assessment were made. The percentage enhancements were generally between 9 and 25. Such enhancements were generally regulated by executive rules and evoked strong public feeling. In their report on the Government of India Bill in 1818, the Joint Select Committee recommended legislation embodying the main principles on which the assessment of these lands should be based. Since the introduction of the Montford Reforms the demand for such legislation became insistent. A draft bill was prepared by the Board of Revenue in 1921 and this was examined by a committee of officials and non-officials. In 1924 this bill was introduced in the Legislative Council with a new clause to the effect that the increase in the rate proposed at re-settlement should not exceed 18¾ percent of the previous rate. But this Bill was rejected by the Council. After 1930, the economic depression increased the burden of the land tax and the Government had to order suspension and later remissions of the enhancements. In 1937 the Government ordered that no re-settlement operations should be initiated and that those already in progress should be suspended, excepting those which were carried on for purposes other than the re-assessment. In the same year in order to reduce the burden of the land tax the Government proposed to introduce a Bill to fix standard rates of assessment payable on land and to make these rates unalterable except by a vote of the legislature. The Bill was not proceeded with as the Congress Ministry resigned. The question was again taken up when the Congress Ministry accepted office in 1947.

*The Malabar Tenancy System*

"The district of Malabar will always have singular attraction for the student of Indian land-tenures; it presents an unique history of landholding customs, the result of a colonisation by separate tribes, each with its own rival interests and the absence of a central Government. The peculiarities of development which afterwards followed are to be traced partly to the physical features of the country, but chiefly to the characteristics of the tribes and the peculiar circumstances of the government. It further presents to us a curious modern process of landlord development, in which local and historical conditions, no doubt, had their part, but which was still more due to the influence of European ideas embodied in western terms—ideas which unfortunately, according to the light of those days were accepted as the only ones applicable to the facts."

The land tenures prevalent are peculiar. It is the only part of the Province where a really complicated tenancy problem exists. It has had a singularly unfortunate history as regards its revenue-administration; but in the end the assessments, which at first were badly arranged and without system, became easy under the influence of a gradual rise in prices and general prosperity aided by the bounty of a naturally fertile and abundantly watered soil.

The difficulty in dealing with Malabar tenures is due to the fact that for a long time the subject was never studied in the light of actual facts.

"At a very early period, it is probably, that Malabar was conquered by a king above the Ghats who established the Pagodas; and Malabar was governed by a theocracy. The Nairs may have been established at the same time by the conqueror or called in by the Brahmins, as a military body, to support the Government. In process of time they obtained settlements in the land. The head peons probably took advantages of opportunities of aggrandizing themselves and became Rajahs; from a remote period, they continued to govern Malabar like independent princes, but still as deputies of the Gods who resided in the Pagoda's until Hyder's invasion in A.D. 1760. There is no proof that any regular land tax existed in Malabar previous to that event; tradition and general opinion seem to deny it. The State of Travancore, where it was said there was no regular land tax gives probably to this opinion, while the former State of Canara where there has been a regular land tax for many centuries renders it somewhat doubtful. The proprietors of land were certainly bound to render military service, and were likely to contribute twenty percent in the case of invasion. The Pagodas and the Rajahs had lands of their own. The Rajahs had other sources of revenue from fines, royalties, imposts, personal taxes, and plunder which were sufficient to support them. There was no army besides the militia, nor any expensive establishments to support; so that there does not seem to have been any necessity for a general land tax; nor had the Rajah's power perhaps to collect one." Fifth Report of the Select Committee on the affairs of the East India Company.

When Malabar first came under observation the facts noticed were as follows:—

At a comparatively recent period the Mysore Sultan had conquered the country dispersing the chiefs of the military or Nayar caste who had formerly held the country as rulers over separate estates or territories. Some of these had since returned and still retained in a few places, a rulership over territorial estates. Even after the death of these small chieftains their families clung to the land or part of it as landlords. A number of Brahmins and Nayar caste-men were found in possession of tracts of country calling themselves "Jenmies" and claiming to be in fact, absolute landlords. Under them were found humbler landholders of the same caste, but apparently only privileged tenants, they acknowledged the "Jenmis" as their superiors; but in many, if not in most cases, they made money advances to their lord and so were not paying any rent, or only a very reduced rent, because the interest on the money covered the whole or part of the rent or grain share. Almost the whole of the land in Malabar cultivated and uncultivated is private property and held by "Jenmum" right which conveys full absolute right to the holding.

It is very important to notice that the use of the term "Janmam" (or Janmi for the holder) is quite modern. It cannot be traced back before the end of the 16th Century when Muslim institutions became already well known in South India. The adoption of a Sanskrit word by Dravidians is quite natural and it is of course possible, that, when at a later period the Nayars seized upon lands as landlords they would have desired to use a term implying birth right to inheritances. But on the other hand "Janmum" in Sanskrit does not mean birth right but only birth and Jenmi is a term of no language at all. One can probably agree with Mr. Thompson who suggests that in all probability the word only means a corrupted form of "Zamin," the common land term of the Muslims: In a Hindi dialect this would become "Jamin" and the Janmi may be merely the same as Zamindar i.e. landholder. It is certainly curious that the term was not in use before a period at which conversion of the old Hindu chiefs under Muslim rule into Zamindars had become familiar in the country. In Coorg the military class now claim the land in exactly the same way calling their tenures by the term "Jamma" which may either have a supposed Sanskrit derivation or be, also, a corruption of the word "Zamin." The tradition has it that a republican form of Government existed in Kerala. There were all federated into a union and a council of four members acting for 12 years. It was at a later time that kingship arose, and became permanent. This form of political organization of the country suggests that after the origin of kingship intermediaries between the king and the tenants arose and these intermediaries became known as the Jenmis. In status they resemble the feudal barons of Medieval Europe.

Baden Powell observes "We know from other parts that in every village the Dravidian method was peculiar. Certain allotments of land were made in each village—one for the village officers and for the village founders, one for the priest and religious worship, and one for the king or the king's grantee. The nature of the country in Malabar would not allow of this plan in the same form. It was quite possible, therefore, to find a ruler or a chief taking no land revenue in the shape of a general grain share, but content with the produce of his special allotments all over the territory. But in Malabar as elsewhere it is quite certain that so long as there was a king or overlord he levied the grain share as well and there is mention of it in ancient deeds."



When the rule of a supreme overlord broke up and the country was divided among a number of smaller chieftains, we cease to hear of the revenue-shares; as the petty lords would not, of course, take revenue one from the other, but doubtless lived on the produce of their own territory and of the rents of the family estates. When the chiefs were overthrown by the Mysore conquest and afterwards regained their place as a part of local Zamindars and had to pay revenue, those, who retained the lands or acquired them as landlords from time immemorial, having paid no revenue under their former organization, naturally claimed that until the Mysorean conquest they had not paid land revenue. Hence at one time there prevailed the idea that land revenue was unknown in Malabar. Under no Hindu System does one chief take revenue from another; only the conquerors of them all will exact a general tribute.

In the 9th century A.D. the Perumal (king) named Cheraman became a Muslim and determining on a pilgrimage to Arabia he gave up his dominion and divided the country among a number of Nayar claimants, who then became separate chieftains. These chieftains were always kept in awe by the Nad Assemblies ("Kuttam") of their caste men and we find in the deeds—both of the times of the "Perumal" rulers and after that—allusions to a "Council of Six Hundred" which had a power of control.

When the Mysorean conquest took place in the latter part of the 18th century the Sultan made the surviving Nayar overlords his "Zamindars," and then they began to oppress the people—in fact, they descended from the place of rulers to being land managers and exacters of rent. It is to this period that we must assign the definite soil rights claimed by the socalled "Janmis." The British Administrators who became perplexed with the "Janmum" rights claimed by the landholders and misled into supposing these rights made by landholders into something really ancient and exceptional did not desire to interfere with the ancient traditions as they respected them and they recognised birth right or inherited rights ("Janmum") claimed by the landholders ("Jenmis") to the soil.

*Mr. Logan's view.*

The views of Mr. Logan, the able author of the Malabar Dist. Manual, regarding the land tenure in Malabar are as follow:—

"All the immigrants into the land of Kerala fall into a sort of corporate unity. (There are geological evidences to the fact that the land of Kerala was recently raised from the sea besids literary and historical). All these immigrants had certain functions—one of the protecting, another of tree planting, another of irrigating—and they divided the produce so that each had a certain right in the soil; the king his share, the protecting class their share, and the rest going to the actual cultivator. No one was the landlord in any modern sense; but each class had its appropriate interest and privileges. There were separate settlements of the different castes and the non-cultivating castes like Brahmins and military Nairs employed slaves or tenants of the agricultural classes, while others cultivated their own holdings paying such dues to a landlord or to the State as the existing organization required. Indeed the theory of corporate unity rests entirely on supposed meanings of certain terms which the best scholars find to be wholly untenable.

The main division is between the landlord called "Janmi" and the tenants, of whom there are several descriptions with varying rights. Of these principal ones are in local terms called "Kanam" "Kushikanam" and "Verumpattam." The use of the technical terms cannot easily be avoided in the discussions connected with Malabar Tenures as on their ultimate foundations are set up legal conceptions and form the very spirit of the jural relationship between landlord and tenant.

Kanam is derived from "Kan" and "Kanuka" means to see. Dr. Gundart, than whom no better authority can be quoted, says that the root "Kanu" implies not to see but to appear and Kanam is visible wealth or property in a tangible shape. It will be observed that Mr. Logan refers to one of the ancient deeds where the word "Kanam" occurs in which its obvious sense is property or possession—whether of a limited kind or not. "Kanam" is described as mortgage with possession, the mortgagee (i.e.) the "Kanamdar" recovering interest on the money he has advanced to the landlord from the produce of the land and paying a portioin of net profits as rent to the landlord. It thus takes the character of both a lease and a mortgage. "Kanam" is now generally a lease for 12 years. The tenant on the expiry of the term takes a renewal from the



landlord after paying a fee and is entitled to hold on for another period of 12 years. According to the provisioin of the Malabar Tenancy Act, 1930 it is obligatory on the part of the landlord to grant a renewal on payment of a fee which is also fixed by the Act. "Kushikanam" is the mortgage of waste land with a view to its being planted. In the event of the tenant failing to reclaim the land, plant trees, or otherwise fulfil the conditions of the deed, he can be dispossessed by the landlord before the expiration of the period specified. But for this there is no difference between "Kushikanam" and the 'Kanam' tenure. The tenant has the right to take a renewal on payment of a stipulated fee.

"Verumpattam" is the name for ordinary lease for a year.

The tenures in Malabar have been the subject matter of acute controversies and elaborate examination. In 1880 Mr. Logan, the then Collector of Malabar, was appointed the Special Commissioner to enquire into Agrarian discontent in many parts of Malabar. In his report Mr. Logan stated that prior to British rule no private property in the European sense of the term existed in Malabar, that the "Janmum" did not import absolute right to the soil and that the Janmi, Kanamdar and Verumpattamdar were in fact co-partners each entitled to one-third share of the net produce. He contended that the early English courts had misinterpreted the position and had endowed the Janmi with powers like a landlord of the European type. Mr. Logan's report was circulated to a number of officials and non-officials and was then referred to a Select Commission whose report was later circulated to the High Court. Sir Charler Turner, the then Chief Justice, criticised Mr. Logan's views in strong terms. He denied the charge that the Courts had upset the customary relations of Janmi and Kudiyam tenants. He also questioned Mr. Logan's theories relating to the ownership of the soil. He claimed that the Janmies' right in the soil was as complete as it was ever enjoyed by a freeholder in England and this for some years gave a quietus to the controversy. In 1940 the matter was again reviewed by the Malabar Tenancy Committee. They stated that it has not been possible for the Committee to come to any unanimous opinion regarding the origin of "Janmi" and "Kanamdar." The majority held the view that there was no evidence to show that the "Janmi" or the landlord was the absolute owner of the soil and the "Kanam" holder a mere tenant at will. As the Kanam holder was the occupier he must have been the original owner. In tracing the history they suggested that the Kanamdar must have acknowledgd allegiance for his own safety to some Rajah, local chief or Devasthanam or Nambudri Brahmin and that the "Janmum" right might have originated in that way and might have meant only a sort of overlordship and not absolute right to the soil. The fact that all lands in Malabar originally belonged in "Janmum" to the Rajahs, Devasthanams and Nambudris gives strength to this conclusion. They could not have actually occupied and cultivated such large blocks of land and, therefore, original occupation could not have been the basis for "Janmum". It is possible that these opinions expressed by the 1940 committee might have been coloured to some extent by the political views of some of its members as the committee was overwhelmingly "tenancy" in character. Up to date the actual rightholder to the soil is a matter of controversy. The "Janmis" and the Kanamdars have their own stock arguments in support of their respective views on the question.

The existence of strained relationship between the landlord and the tenant is common the world over and Malabar is never an exception to the rule. The genesis for all the troubles lay in the several unwritten customs prevalent in Malabar governing the relationships between the "Janmi" and the "Kanamdar." These began to be misused and the relationship between them became strained. The "Kanamdar" takes a renewal from the landlord after paying a fee after which he is entitled to hold the land for another period of 12 years. The "Jenmies" in the early period began to misuse their position and granted leases to strangers. The landlord's power of ousting was widely used and in many cases the tenant's improvements were not properly assessed or paid for. The "Kanam" tenants had therefore to have recourse to law courts leading to uncertain judgments and delayed compensation by the State. In the neighbouring States of Cochin and Travancore as early as 1829 reforms were carried out to make the "Kanamdar" entitled to remain in possession of the land as long as he paid the rent and other customary dues to the Jenmi. The order also directed that the tenants should pay the Janmi his usual ordinary and extraordinary dues and that the Jenmi should receive the same and let the tenant remain in possession and enjoyment of the property. In Cochin State an enactment on similar lines was passed in 1914. In Madras the first Act governing landlord-tenant relations was passed in 1887. It provided for the payment to the tenant



on eviction to the full value of the improvements carried out by him. This Act, however, did not check the growing practice of evictions. On examining the position the Government came to the conclusion that the failure was to some extent due to the inadequacy of the compensation awarded to the tenants. This Act was replaced by the Act of 1900 which provided for adequate compensation. This Act did not improve the position, as what the tenant wanted was not compensation on quiting but the right to continue in possession of the land in peace by paying a fair rent. To remedy this unsatisfactory situation a Bill was introduced in the Legislative Council in 1924. It was intended to confer fixity of tenure on all "Kanamdars" and on all cultivators of the soil of certain categories. The Bill was passed in 1926 but the Governor withheld his assent as it was felt that the Bill contained various inconsistencies, ambiguities and other grave defects, which would seriously increase litigation and indeed render the Bill unworkable in practice if it became an Act. In order to re-examine the whole question the Government appointed a Committee in 1927 to enquire and report on the disabilities of the tenants in Malabar, the extent of unjustifiable evictions by the "Janmies" and the necessity for protection to "Kanamdars" and on the best means of remedying their disabilities. The Committee after elaborate investigation prepared a careful report and a draft bill. Their main recommendations were accepted by the Government with some variations and a Bill was introduced in the Legislature and passed as the Malabar Tenancy Act, 1930. The Act in the main conferred fixity of tenures to "Kanamdars," "Kushikanamdars" and other intermediaries subject to their paying what has been fixed as fair rent and get renewal as a matter of right on payment of a renewal fee prescribed under the Act. This Act secured the tenant fixity of tenure and fair rent. Within the few years of the working of the Act, certain defects in the Act became apparent. As a result the Government decided on a more comprehensive legislation. The Malabar Tenancy Committee in 1940 examined and reported on the general question of tenancy Reforms in Malabar. The question was, however, postponed for the duration of the war.

*The South Kanara Tenancy System.*

The land tenure obtaining in the South Kanara District is the same as the Ryotwari tenure obtaining in other parts of the State but there are certain special features. The landholder is called

"Wargadar." He may cultivate the land himself or give it on lease to tenants. The tenancy may be for a year, in which case it is called 'chalgani" lease, for a term in which case the lease is called "Vayudugeni" lease, or in perpetuity called "mulgeni" lease. In all cases the relationship between the landlord and the tenant is governed by the instruments creating the lease. In the absence of special provisions in the document the principles embodied in the Transfer of Property Act apply. "Chalugenidars" and "Vayudugenidars" have no substantial rights to the land as the land can be mortgaged or alienated in any manner. The "Malgenidar's" right is ordinarily heritable and has market value in the same way as the occupancy right of ryots having Kudivaram rights in other districts but there may be cases restraining alienation or imposing conditions involving forfeiture. In such cases the rights of the Mulgeni lease may not be worth much. Only a very small portion of the area in the district is covered by the Mulgeni lease.

### III. *Recent Reforms on landholding with particular reference to the Madras State.*

The objective of the Congress as passed and adopted by the All-India Congress Session held at Ahmedabad in 1949 is the establishment by peaceful and legitimate means of a co-operative commonwealth based on equality of opportunity and of political, economic and social right and aiming at World Fellowship. The greatest stress on the Congress Election Manifesto is on the development of rural areas. Land Reforms, prevention of the fragmentation of holdings, co-operative farming and preference for agricultural labour in the allocation of newly reclaimed areas are promised in the Manifesto. Special emphasis is laid on agriculture. Of the several reforms undertaken hitherto by the various states in India, the abolition of the Zamindari system is the most important. This was first carried out in the Madras State and later on followed by other States. The Zamindari system is an undoubted survival of the past age. It gives private individuals revenue that should justifiably go to the State.

Although the area covered by this tenure including the whole of Inams was roughly one fourth of the total area, being 33,077 square miles out of a total of 125,828 square miles, and although sub-infeudation has not gone here to the extent of bringing about 17 intermediaries between the tiller and the landlord as in some parts of India, conditions regarding fixity of tenure, fairness of



rents and freedom of sale needed very much to be improved. Successive attempts at statutory regulations during the last forty years only confirmed that the system was very much of an anomaly and that it must be brought into line with the "Ryotwari" tenure in the rest of the provinces. With the abolition of the "Zamindari" a great agrarian reform has been achieved. The word "Zamindari" is generally understood to mean one of those permanently settled estates, which have come down by hereditary succession from father to son and from generation to generation in the same family dating back to the days of Lord Cornwallis. Within the last thirty or forty years many middle class families have also purchased some of these so called Zamindaris by investing all their savings. The results remain to be seen. Has the abolition of the Zamindari laid the foundation of a contended and prosperous peasantry? Has the abolition of the Zamindaris brought about the promotion of the interests of the tenant, and particularly of the cultivating tenant and how far the utilisation of the land has improved after the abolition of the Zamindari and how far the administrative machinery has set up properly in areas where the Zamindari System has been abolished? It is too early to assess the results of the Zamindari abolition.

The Congress Election Manifesto which contemplates the removal of all intermediaries between the State and the tenant and the acquisition by the State on payment of equitable compensation is the basis for the legislation regarding the abolition of the Zamindaris. It is also very difficult to define the word "intermediaries." It is an accepted fact that all lands belong to the State and the tenant has got only a right of possession. If we accept the view that all those who engage in carrying on agricultural operations in their lands are peasants and those who lease out their lands to others for rent or "waram" are the intermediaries regardless of the designations given to them in the tenancy laws in force now, then all the Zamindars and Inamdars have to be classified as "intermediaries."

The next aspect of the election pledge is the equitable compensation promised therein. The argument advanced by some persons that the Zamindars are only assignees of revenue that they already enjoyed much income from their estates during the last one and a half centuries by exploiting the ignorance of the ryots and that they are not entitled to any compensation is not just and tenable. If the history and origin of the development of the Zamindaris is considered, it will be seen that many of them had absolute rights and exercised even sovereign powers and those few, who were in the beginning only collectors of revenue, asserted and exercised absolute rights in their estates when the central Government became weak and helpless. Some Zamindars were feudal lords from the beginning. But whatever be the sources from which they acquired wealth, they cannot be deprived of their wealth without adequate compensation. If one goes into the history of how people amassed and hoarded wealth in money and other property, one will find it all ill-gotten.

There is no need to theorise regarding the rights of Zamindars as to whether they are assignees of revenue and exploiters or proprietors of soil. Regulation XXV of 1802 puts the matter beyond all doubt and speculation. Section I of the Regulation says that the Zamindar and other landholders were granted property in their lands and in Section 2 which is still more clear it is stated that in consequence of payment by them of fixed revenue the proprietory right of the soil remains vested in them. As proprietors they are entitled to the market value of their lands calculated at 20 or 30 times their annual income as per the provision of the Land Acquisition Act and the highest judicial authorities.

With the abolition of the Zamindari, the rent for the Ryots under Zamindars is approximated to the land revenue paid by the ryots in the Ryotwari areas. With the abolition of the Zamindaris the Inams too have been abolished. Thus the Zamindari and Inam lands have been brought into line with the system of Ryotwari ownership which prevails practically in the rest of the State. The case of the Government in including Inams under the Bill is morally and economically justifiable. It should be remembered that any "Inamdar" who has "Kudivaram" rights will be excluded from the purview of the Bill and will be treated as similar in status to the ryotwari pattadar and that the Bill affects the whole Inam villages.

As for measures of legislation with regard to the grant of occupancy right to established tenants, mention may be made of the Malabar Tenancy Act 1950 and the Tanjore Pannaiyals Act 1952.

*Malabar Tenancy Act, 1950.*

The Malabar Tenancy Act 1950 is an improvement over the Malabar Tenancy Act of 1930 and its scope extends to the entire districts of Malabar, the Gudalar Taluk of the Niligiris district and certain villages of the South Kanara district.



The Act gives fixity of tenure, increases the cultivating tenants' share of the produce and provides for fixing of fair rent for all holdings.

In July 1939 the Government appointed a Committee to study the nature and effects of the land tenures prevailing in the Malabar District and in the adjacent areas where similar tenures were prevalent and to suggest the necessary legislative measures for the regulation of tenancies and similar relations in those areas. The Committee submitted its report in 1940. The Government obtained the remarks of the Board of Revenue, the High Court and certain other Heads of Departments on the Committee's report but further considerations of the report were postponed owing to the changes in the economic conditions caused by World War II.

In 1946 the Government again took up the report and asked the special officer for Land Tenures Systems, who was then functioning to examine the recommendations of the Committee. The Special Officer made his report in 1947. The Government then examined the two reports in detail in fresh consultation with the Board of Revenue and formulated certain proposals as to the lines on which the Malabar Tenancy Act was to be amended. These proposals were discussed at the conference of legislators from Malabar and certain other districts including representatives of the landed interests convened by the Government at Calicut in December 1948 and in Madras early in July 1950 and have been modified suitably in the light of the criticisms and suggestions made at these conferences. The Malabar Tenancy Act was intended to implement the proposals as so modified and made certain consequential amendments in the Malabar Land Registration Act 1895, the Malabar Compensation for Tenants Improvement Act 1899, the Gudalore Compensation for Tenants Improvement Act 1931, the Madras Marumakkathayam Act 1932 and the Madras Aliyasanthanam Act 1949.

The Act abolished the system of renewals and renewal fees, gave fixity of tenure to all cultivating "Verumpattamdars" whether their holdings included wet lands or not and extended such fixity to all customary "Verumpattamdars," "Kanamdars" and "Kushikanamdars." It takes away the right of the landlord to demand of the cultivating "Verumpattamdars" any advance of rent or security for its due payment.

The landlord's right to evict the tenant when the holding is needed by him bonafide for. cultivation or building purposes will not be exercisable in the case of lands held by a "Sthani" or held in trust for religious or charitable institutions or endowments; but temples, mosques, churches and other places of public religious worship will be entitled to evict the tenant if the Collector certifies that the holding is needed by them for extending their own premises.

In other cases the right to evict the tenant from a holding when it is needed by the landlord bona fide for the cultivation or building purposes will be available only during the next five years, and that too only in cases, where the tenant or members of his family have not been in continuous occupation of the holding for 12 years and provided further that the eviction will not reduce the total extent of the land in their occupation to less than five acres.

The Bill gives tenants of Kudiyiruppus also fixity of tenure and extends such fixity to holders of "Ulkudis" and "Kudikappus" who will however be bound more to their sites of equal extent in the same village provided by their landlords.

*Tenants' share of Produce.*

The Act increased the cultivating tenants' share of the produce. In the case of ordinary wet lands the tenant's share is increased from one third to one half of the net produce. For this purpose net produce has been defined as meaning the gross produce less expenses for cultivation, which have been fixed at 22 Palghat paras per acre instead of at 2½ times the seed required.

***The Rent Settlement.***

Authorities will have freedom to fix any other quantity of paddy and cultivation expenses in exceptional cases. In the case of lands cultivated on the "Punjokal" or "Kaipod" system, the fair rent is fixed at one fourth of the gross produce. In the case of wet lands situated in the Wyanaad Taluk fair rent will be one-twentieth of the gross produce if the lands have been converted into wet by the tenants' labour and one-twelfth of the gross produce in other cases.

For dry lands three times of the assessments will continue to be fair rent but certain exceptions have been made: (a) If pepper



is cultivated as the principal crop, the fair rent will be the entire pepper produce of the land in the 12th year after the planting of the crop and in every sixth year thereafter; (b) If groundnut is cultivated the fair rent will be one-tenth of the gross produce or thrice the highest assessment payable in respect of dry lands in the district whichever is higher; (c) In the case of fugitive cultivation, the fair rent will be an amount equal to the assessment imposed on the land for that year.

*Fixing of fair rent.*

The fair rent of all holdings including "Kudiyiruppu", "ulkudis" and "Kudikaluppus" will be fixed by Rent Settlement authorities, whose decisions will be subject to an appeal to a prescribed authority. Every cultivating tenant will be entitled to pay the fair rent as so fixed whichever is less.

The fair rent will have to be paid in the case of garden or dry lands only in money, but in the case of wet lands it may be paid either in kind or money at the tenants' option.

Clear and specific provisions have been made for the manner in which the assessment and local cesses are to be borne between the landlord and the tenant. Generally speaking these will be borne by them in equal shares. In some cases the fair rent payable to the landlord specifically included the assessment or a portion of the assessment and in these cases the landlord will be liable to pay the entire assessment to the Government. There will be proportionate reduction in the rent payable by the intermediary to the landlord in cases, where, by the operation of this measure, the rent which the intermediary is himself entitled to receive from his tenant becomes reduced and the rent which the intermediary has to pay to his landlord exceeds one-half of such reduced rent. A tenant who has been regularly paying his rent within the time allotted, without default, is given the right to purchase the rights of the intermediary immediately above him, if such intermediary has continuously committed default in the payment of the rent due to him to his landlord for three consecutive years.

*Payment of arrears.*

If, within a year of the passing of the Act, the tenant pays to his landlord the entire rent payable (under the Act as now amended) for the six agricultural years beginning with the year 1944-45, the tenant will not become liable to pay to his landlord the arrears of rent, if any, due in respect of any prior period.

The Act gives persons interested in any land the right to apply to the Rent Settlement Authority for a declaration that a transaction purporting to be a mortgage of that land and entered into on or after 1st January 1916 is not in fact a mortgage but a transaction by way of "Kanam," "Kuzhikanam," "Verumpattam" or other lease and makes a decision of that authority final subject only to a right of appeal to the District Judge or "persona designata."

The State Government and officers authorised by them are given power to direct the owners of waste lands to lease them to such persons for such period and subject to such conditions as the Government or their officers may specify. Another provision of this Act is that the tenant or "Kanamdar" who has parted with the possession of his holding in execution of a decree passed on or after the 1st July 1942 at the instance of a landlord on the ground that he requires it bona fide for his own cultivation or building purposes will be restored to possession, if the decree would not have been passed, if this Bill had been in force.

*The Tanjore Pannayal Protection Act,* 1952.

This Act recently introduced by the Madras Government with a view to protect the tenants and thereby promote agricultural Production considered to be an important piece of legislation. This Act is applicable to the Tanjore District and other areas notified by the Government from time to time.

This measure, it is stated, will protect the landowners, will benefit the tenants, will benefit "Pannayals" and it will increase production.

Some of the criticisms offered against this piece of legislation are as follows:—

1. It will, no doubt, protect the rights of big landowners from the danger of agrarian violence, crimes and disturbances. But it is doubtful whether it would protect the rights of medium and small sized cultivating peasants who form 70 percent of the agricultural population. The Bill does not go into this question. It says that in law it will not affect farmers owning one "veli" of wet land or 20 acres of dry land but it is doubtful whether it would happen in reality. The cultivation expense for an acre of wet land at the



rates prescribed by the Ordinance, expenses as connected with ploughing, sowing, transplantation, weeding and harvesting will amount to something like 16 kalams (a kalam is approximately 24 Madras measures), expenses on manure, fodder and other items will be from 6 to 12 kalams according to the resources available to the farmer, expenses by way of "Mammools" to the village carpenter, blacksmith and village menials being treated as extra. In all the cost of cultivation may be anything from 22 to 26 kalams. But it is voiced forth that the income from the yield of one acre of land according to the season and crop report (the yield of one acre of land in the Tanjore district in the year 1949-50 was 1487 lbs. (about 25 Kalams) in 1950-51—1940 lbs. (about 26 Kalams). The yield is even less according to the Crop Cutting Experiments. For 1949-50 it was 1286 lbs. (i.e.) about 21 Kalams and for 1950-51 1335 lbs. (about 23 Kalams) is not sometimes sufficient to get even a margin of profit and when they get some profit it is seldom more than two Kalams per acre. It should be remembered that in all this accounting we have not allowed for the maintenance of the farmer and his family or for education, medical relief and other minimum necessaries consistent with the prevalent standard of living, which, by no means, is worth mentioning. if only we analyse his environment and way of life.

"Pannayals" under the new measure will be better off than the cultivating farmer, on whose shoulder falls the responsibility of finding capital for agricultural operations and bearing the risks incidental to farming.

With regard to the benefits that the tenants would derive, it is stated, that it is not clear how a tenant who has to part with a share of the produce will do when the small owner-farmer does not stand to benefit. The increase in the level of remuneration for Pannayals affects not only the owner cultivator but also the tenant and the tenant, too, will have to employ some farm labour. The handicaps to the tenant-farmer are bound to be greater than before, now that the old relationships are disturbed. The landowners, rendered a virtual non-functionary, loses interest in land improvements and becomes disinclined to help the tenants with finance.

The third important object of the legislation is to better the lot of Pannaiyals by fixing a higher level of wages. This is a highly laudatory object. Some are of opinion that agriculture will cease to be a profitable occupation, if wages at the level fixed in the Ordinance, are to be paid. Therefore, if the object is to be realised it is necessary to increase the income from the land.

### IV. *Problems connected with Land Reforms.*

The problem of transferring the land from small owners to landless owners is not an easy one. Maximum production should be aimed in any agrarian reform. The Indian Union is faced with a deficit of 4 million tons of food grains per year and the problem is how to make the country self-sufficient in the matter of food grains.

It is said that absentee lordism is a common feature in this country. Industrialisation is making a rapid progress in this country and the villages are gradually becoming depopulated whereas urban areas are gradually expanding. During the last two centuries, service under the Government of the day, commercial undertakings in cities, the noble profession and other appointments attracted the socalled educated men to the cities and they amassed wealth; investment in land became common and even more attractive than gilt-edged securities. This transferred ownership of land from the cultivator to the absentee landlord. Some peasants following the example of other persons just mentioned left their villages and migrated to cities in pursuit of education, appointments, or trade which they considered more honourable or secured letting their lands to those that remained in villages. After the abolition of the Zamindaris and Inamdars the persons above referred to and the tenants cultivating lands under them constituted the main problem to the Government both at the centre and the States. Carver's observation that next to war, pestilence and famine the worst thing that affects a rural community is absentee landlordism. This cannot entirely be accepted as the necessary capital that is needed by the agriculturist is furnished by these absentee land lords. Agriculture like any other industry requires skill, capital and labour; all these are essential and the absence of any one of these affects production considerably. Skill involves observation, knowledge and aptitude and it is not reasonable to think that any person can carry on agriculture. Knowledge of every kind, latest developments in all branches of science are useful to an agriculturist. If the ownership of the land is passed on to one who may be called today, and who is not in a position to



command all the requisite means of production, it is doubtful whether the maximum production from the land which is the need of the day could be achieved. Therefore for the maximum production better relationship should prevail between the owners and tillers of lands. But now the view that the tiller of the soil should be made the owner of the land is gaining ground. Whatever may be the view the objective in all land reforms is the achievement of the maximum out-put from the land.

*Nationalisation of the land.*

Can maximum production be achieved by the policy of nationalization of land? This has been attempted in U.S.S.R. This would partly mean in the actual practice the right to use the land for productive purposes but not the right to the land itself. There can be no logical objection to such a step and it is purely a question of policy whether this should take the form of pure expropriation of existing rights or expropriation with compensation. This does not, however, prevent two lines on which action may be taken even at present. The first is the application of this principle when new lands are granted by the Government. Here the Governments are not restricted by rights that have already accrued and the field for experiment is, therefore, considerable.

Can we take up collective farming or co-operative farming? The former contemplates a clean slate approach to our problems while the latter is a compromise with the existing laws and customs and tries within their frame work to achieve an improvement. In the case of co-operation, too much depends on the willingness of the individual to approach and understand his responsibility for co-operative equality and endeavours. The introduction of community or collective farming can be achieved by the introduction of a Land Nationalisation Bill which in one sweep will over-ride all past law and custom and make all land State-owned. The first step of legislation is necessary so that the practical implication of working and planning collectivism can successfully be achieved.

The most serious defect in the agricultural system in India is the low yield of agricultural crops. The yield per acre in India in respect of all crops is very low as compared with the other countries of the world. The yield of rice per acre is about 700 lbs. per acre as against 2400 lbs. in Italy, 2000 lbs. in Japan, 1500 lbs. in U.S.A. The yield of wheat per acre in India is about 500 lbs. per acre as compared with about 800 lbs. in Canada and about 850 lbs. in the

U.S.A. The position in the case of other crops is also similar. The main reason for such low yield is stated to be due to the loss in fertility of land on account of continuous exploitation which is not made good by proper manuring and the use of inferior seed and primitive implements. The Indian agriculturists are not so well off as to make use of costly chemical fertilisers. Improved seeds will be one of the important requisites to increase the yield of crops per year. The same land can be made to produce more if a heavy yielding variety seed is substituted for a low yielding variety.

But perhaps the most serious defect in the agricultural system in India accounting for the low yield is the small size of the holding.

The average size of an agricultural holding is between 3 to 5 acres. According to the enquiries made at the instance of Bengal Land Revenue Commission the average holding in Bengal was ascertained to be about 4·4 acres, 42·7 percent of the families having less than 2 acres. In Madras the average holding is estimated as 4·5 acres 74 percent of the holdings having an average area of not more than 2·4 acres. The average size of the holding in the Uthar Pradesh is estimated by the famine enquiry commission report (Woodhead Commission Report) as about 6 acres and about 27·3 percent of the holdings being less than 2·5 acres. The result of an investigation made by the Board of Economic Enquiry in Punjab in 1919 revealed that the largest number of owners held less than 3 acres. The average size of the holding in Punjab in 1945 is placed at not more than 10 acres by the Famine Enquiry Commission in 1945. In Bombay the average size in 1936-37 was in the neighbourhood of 11·7 acres; 49 percent being below 5 acres. In the Central Provinces the average size was 8·5 acres in 1931, in Assam about 2 acres and in Bihar and Orissa about 4·5 acres.

*The average size of the holdings in India in 1931*

The small size of the holding in India becomes quite noticeable when we compare it with the average size of the holdings in other countries:

| | | | |
|---|---|---|---|
| U.S.A. | 145 acres | Germany | 21·5 acres |
| Denmark | 40 ,, | England | 20·0 ,, |
| Sweden | 25 ,, | India | 5·0 ,, |

From the reports received from the various provinces by the Famine Enquiry Commission 1945 it would appear that the tendency is for small holdings to increase in numbers. About 70 percent of the population in the country has taken to agriculture and the decay of the cottage industries on account of competition from factory industries has left them no other source of income but from land. The absence of alternative employment has made the majority cling to the land however small it might be. The Hindu Law of inheritance by which every male member born in a family has a right to an equal share of the property naturally leads to subdivision and fragmentation of holdings at every generation. Apart from the progressive reduction in the size of the agricultural holdings, a more serious handicap is the composition of such holding. Each individual holding is not merely small but is scattered over a wide area in tiny plots and not held in compact contiguous blocks which would permit an economic cultivation of the land. The land thus presents a crazy quilt work of disjointed pieces rather than a well ordered, scientifically laid out pattern of cultivation. It is this fragmentation which is a greater evil than subdivision that has led to the gradual improvement of land and of the peasantry who depend on it. To a certain extent the dispersion of the holdings and diversified cultivation have helped the farmers to take advantage of differences in fertility, location and climatic factors; but when the process has gone on very much beyond the stage warranted by these conditions, it has become one of the most serious menaces to a proper and efficient cultivation of land. The expenditure on such a farm bears no proportion to the return realised. His credit requirements have therefore to be bought at a high cost. These difficulties have forced him to pursue an unscientific method of cropping and land management. On the sale side of his business the smallness of the volume of his produce places him at the middlemen's mercy while the raising of quality produce for specialised markets which would fetch him a higher return becomes well nigh impossible. Insufficient finance and consequent lack of holding power considerably weakens his selling capacity.

The problem of uneconomic holding is not peculiar to India. Several European countries had realised the danger of sub-division and adopted preventive measures. In France a minimum limit was fixed below which subdivision could not proceed. In Germany as early as 1870 a land Commission purchased uneconomic holdings rearranged them into compact blocks and sold them back to the agriculturists. The Nazis had enacted a law with a view to creating a priveleged agricultural class under which an estate descended to only one member of a family at a time and the other members were offered special priveleges like appointments, tax reduction, immunity from creditors etc. In countries such as England the law of primogeniture prevents any division of property on succession.

In India, too, the gravity of the problem was realised by the Governments and attempts though slip-shod were made to check the evil. An example is the Bombay Small Holdings Bill of 1927 which, had, however, to be abandoned before it became law on account of public opposition. The Central Provinces and Berar Consolidation of Holdings Act of 1928, which left to the land owners themselves to prepare schemes of consolidation which would be made binding on all, did not at all produce much result. The only experiment with a measure of success was in Gurgoan district in the Punjab but what was achieved was only a drop in the ocean—during the past 20 years only about one lakh of acres have been consolidated. For a real remedy compulsory consolidation and fixation of a minimum area of land beyond which it cannot be subdivided may be resorted by governments by passing necessary legislation therefor. If necessary, the law of inheritance may also be altered for this purpose.

The progress of the agricultural industry has to a very large extent been conditioned by the system of land management and use in force. So long as the cultivator's position in the economy is unstable, the more he produces, the more he has to part with, incentives to self improvements will be lacking. As R. H. Tawney observes that in the 19th century the reconstruction of the legal fabric of the land system in Europe receded the modernization both of productive technique and the business side of farming; nor in the absence of the first, would the last two have been possible. The land reforms in Europe except in the Soviet Union have aimed at the creation of sizeable peasant holdings by the dismemberment of bigger estates, consolidation of small ones, restrictions on alienations, creation of non-attachable 'family farms' financial assistance to tenants to purchase land, preventive measures against division of land on succession and the creation of new undertakings and the extension of the area under cultivation mainly by the allocation of lands owned by the State. These reforms have resulted in increasing substantially the percentage of owner cultivators in the



European countries. The figures of percentage of area cultivated directly by owners in Europe are as given below:

| Country: | Percentage of area under direct working by the owner to the total area cultivated: |
|---|---|
| France | 60·0 |
| Germany | 88·7 |
| Italy | 57·5 |
| Hungary | 85·0 |
| Netherlands | 51·0 |
| Switzerland | 80·0 |

Even in Great Britain, the classic land of big estates, the movement for the creation of small holdings has become pronounced especially after the passing of the Small Holdings Act of 1907. A number of Co-operative Small Holdings and Allotments Associations have sprung up and these have steadily increased the class of the middle sized farmers cultivating 5 to 50 acres of land. These reforms have thus helped the abolition of land-lordism or at least the mitigation of its evils over the greater part of Europe. This would explain why there is no agrarian discontent in these countries arising from the exactions of a renter class of land lords and why no urge is felt for the collectivisation of land on Russian model. On farms of convenient economic size the cultivator can pursue his own methods of tilling undisturbed. In the actual process of farming he looks for very little assistance from outside. This would also account for the fact that in these countries Co-operative Farming in the sense of joint cultivation has made little headway, and co-operative endeavour has been confined to the provision of supplementary aids to farming like the supply of credit, proceeds of produce and marketing.

Though consolidation of holdings will be a step in the right direction, improved methods of farming will be possible only, if the holdings are of sufficiently large size. Steps will have, therefore, to be taken to enlarge the size of holdings, if farming is to be improved. This can be done by any of the following three ways:

1. Acquisition of small holdings by the State and converting them into State farms; in which the former landholders will work as labourers.

2. Large landholders acquiring the interests of small holders, who, therefore, work as labourers.

3. Pooling of lands of the small holders for the purpose of joint farming, each landholder retaining his title to the land or in the alternative, getting shares in the joint farming society to the extent of the value of land, cattle and implements contributed by him.

The first proposal is not feasible, because agriculture cannot be converted into a State industry. It must remain a private industry in a large measure. There may be some state farms but these will be exceptions rather than the rule, while practically the whole field will have to be covered by private enterprise.

The second proposal is not desirable from the social as well as political point of view, especially when the Zamindaries have been abolished.

The third proposal of pooling the land by small holders for the purpose of cultivation or what is technically called co-operative or joint farming will enable the farmers to retain interest in their land and at the same time obtain all the economies of large-scale farming.

In several countries, where average holdings are small or where large holdings have been split up and allotted to a large number of small holders, the farmers have been encouraged to adopt joint farming. In several countries co-operative societies for different objects such as credit supply, for marketing and for the purchase of machinery etc. have been organized and they have led to the gradual adoption of joint farming. In some countries joint farming societies have been organized from the beginning with such objects as rehabilitation of low income farmers and settlement of refugees. These joint farming societies in different countries resulting from the pooling of land, cattle and implements for the purpose of farming have now attained the complete integration of the social and economic life of the people.

*What is Co-operative Farming?*

It is difficult to give a standard definition of a Co-operative Farming. It must embody some or all of the distinctive traits of a Co-operative Organization:

(a) It must be one for mutual assistance.

(b) The management must be democratic.

(c) It must distribute income in proportion to the use which each member makes of the association. If the society is one for purchase and sale, the value of the goods, that the member purchases and the value of the goods he sells through the society should determine his income; if it is one for joint cultivation, the value of the lands he brings for common enterprise and the share of the labour he puts in should form the basis on which his proportion of the proceeds is determined, subject to the condition that the type of organization he evolves will vary with the needs and circumstances of the situation.



*Types of Co-operate Farming Organization.*

Generally Co-operative Farming Societies can be classified into four categories.

1. Co-operative Better Farming Society.
2. Co-operative Joint Farming Society.
3. Co-operative Tenant Farming Society.
4. Co-operative Collective Farming Society.

*Better Farming Societies.*

A Co-operative Better Farming Society consists like any other Co-operative Society of ten or more members who join together for promotion of common economic interests through the adoption of improved methods of farming. Except for certain specific purposes like the purchase of agricultural requisites in common or the pooling, grading, processing or selling the produce etc. connected with cultivation like arrangements for sowing, draining, keeping watch and ward or common harvesting, the members own and independently work their lands, although they may agree to a common plan of cultivation drawn up by the society. There is no standard definition of a Better Farming Society. It is defined as a society which is formed with the object of promoting development of lands and better methods of cultivation by means of improved seeds, manure, irrigation, bunding, tractor ploughing, soil conservation and includes a Joint Farming Society, a Co-operative Farming Society and a Crop Protection Society. Like every other society, the Better Farming Society will be managed by a Managing Committee usually consisting of five members elected by a General Body. The Funds of the Society consist of (i) owned capital composed of (a) shares (b) entrance fees (c) reserve fund and (d) subscription contributions from members and (2) borrowed funds consisting of (a) loans and (b) deposits. Each member has only one vote in the affairs of the Society irrespective of the number of shares he may hold. After the payment of interests on deposits, the working expenses, defraying the losses incurred and making an allowance for the depreciation of buildings and other assets, part of the balance is credited to the Reserve Fund and the rest utilised for paying dividends or bonuses in proportion to the patronage each member gives to the Society.

*Joint Farming Society.*

A Co-operative Joint Farming Society represents much closer association of members in the common work of the farm and in the business aspects of farming. The objects of the Society are:

(1) to purchase or take lease lands for cultivation.

(2) to encourage the members to pool the lands and to work it jointly in compact economic blocks.

(3) to arrange for the joint purchase of requirements and joint sale of the produce.

(4) to prevent their physical sub-division and fragmentation.

(5) to arrange the necessary finance for carrying on their operations.

(6) to undertake land improvement and all other activities calculated to improve the economic lot of the members.

Ownership remains individual although the property is worked in common and is generally recognized by the payment of an ownership divided from out of the proceeds or by some method of evaluation entitling to a claim on profits. The members work on the lands under the direction of the Managing Committee which is the executive body of the society and receive wages on agreed terms for the work done. The balance of the proceeds after paying for the interest on loans and deposits, charges for working expenses, allocation to cover losses and depreciation and payment of land assessment, cesses and rent is distributed somewhat in the following proportions:

(a) Twenty-five percent is carried to the Reserve Fund, (b) a percentage is distributed as divided to members on their share capital, (c) the balance of the net profits is paid to members in proportion to the wages earned by them or the assets brought by them into a common pool, a portion being distributed as bonus to the staff and subscription to charitable objects.



The exact proportion of the proceeds distributed may differ in respect of different societies, but the items of distribution are broadly the same. The members of the society also generally enter into subsidiary agreements with the society to repay the cost of and improvements made by the society when they ceases to be members.

*Tenant Farming Society:*

A Co-operative Tenant Farming Society is generally organized by the society taking over land either on lease-hold or free-hold and dividing it among members who work the land as tenants of the society on the basis of a fixed rent. A cropping plan is laid down by the society which is generally adhered to by the members. The actual cultivation of the land is left to each member who tills the land independently and sells through the society such part of the produce he chooses. The Society performs the supplementary services of purchase and sale and the provision of credit. The proceeds, after making the usual payments mentioned above and providing for the Reserve Fund, are divided among the members in proportion to the rent paid by each or the produce delivered or on some other agreed principle of division.

*Collective Farming Society:*

A Co-operative Collective Farming Society is a combination of tenant farming and joint farming organisation. The society takes on lease or free-hold land which the members cultivate jointly under the direction and management of the society. The members are paid wages. The proceeds after the usual deductions are distributed among the members in proportion to the wages earned by each member. The members have the right to withdraw. They have also complete freedom to manage their affairs without interference from the state.

*Co-operative Farming in some of the leading countries:*

Co-operative Farming in the sense of joint cultivation and joint sharing of the produce has not attained any popularity in the advanced countries of the west largely owing to the individualism of the farmers but experiments in Co-operative Collective Farming have been developed in countries as Palestine, U.S.A., U.S.S.R. and some of the Eastern European countries. In all these countries these societies have in a large measure changed the entire social, economic and cultural life of the people. A review of the results achieved in this field in some of these countries is given below:

*Palestine*:

The Co-operative Settlements of Palestine constitute the finest example in the field of Co-operative Farming. They are generally of four types:

1. Private villages with individual farms.
2. Small holders Co-operative Settlements.
3. Collective or Communal Settlements.
4. Small holders' Collective and Co-operative Settlement.

The origin and success of this movement lies in the intention of the Zionist Organization to establish all enterprises in the Jewish Homeland on the basis of a sound and permanent agricultural industry. This task was undertaken in 1908 and today the co-operative settlements known as "Kvutza" constitute the biggest movement in Palestine.

Land is acquired by the Zionist organization with the finance provided by the Jewish National Fund and is assigned to a group of settlers on lease for 49 years. The Fund provides central water works for new settlements. The entire cost of the settlements is recovered from members in long term instalments after the settlement begins to show profits. Short term credit is provided by the Central Bank of the Co-operative Institutions and the Workers' Bank. Each settlement consists of 60 families and any Jewish male or female over 18 years of age adhering to the tenents of the Zionist Organization is eligible for membership. Admission to membership is decided by the General Assembly which is the supreme authority in the settlement. The General Assembly elects committees for all phases of community life. No one will be admitted to the Co-operative Settlement who is not able or willing to work, but the invalids, the sick, the children or the aged or such of those who are physically incapable are exempt from this obligation.

Agriculture is the principle occupation. Additional source of income includes small-scale industries. Since the main economic goal of the "Kvutza" is to provide its own subsistence it tries to practise many branches of farming. The diversified farming not only supplies the members with most of their food but also makes them more independent of price fluctuations and facilities, and



assures full employment in all seasons. The "Kvutza" being run as a large-scale farm employs the most modern technique of agriculture and stock breeding. Field crops, irrigated forage, vegetables, fruit and nurseries, dairy products, sheep and poultry, represent the chief branches of agriculture. Additional sources of income include small scale industries and outside work. The diversified farming not only supplies the members with most of their food but also makes them more independent of price fluctuations and facilitates full employment in all seasons.

All aspects of life in the "Kvutza" are governed by the spirit of comprehensive co-operation. There is a common dining hall and this place also serves as a town hall where the General Assembly meets and also all affairs concerning the community as a whole, such as lectures, concerts and recitals take place.

Besides "Kvutza" there exist what are called "Small holders' Settlements" which have both co-operative as well as individualistic elements. As in "Kvutza" the land is cultivated in common according to a plan approved by a General Assembly and maximum self-sufficiency as well as diversified farming are aimed at. How ever, there are differences between these two types of settlements. The small holders' settlement is an association of individuals who are either proprietors or tenants of their holding. Their work outside and inside the settlement is performed individually and every member is entitled to the full proceeds of his labour. Certain limited enterprises such as the cultivation of given areas, irrigation, sale and purchase of produces and commodities, use of agricultural machines and storage are handled co-operatively.

Though the small holders' settlements offer certain advantages namely higher degree of privacy and gratification of the desire of individual ownership, the Kvutza has succeeded in developing higher values in life namely social responsibility, self control, self discipline and a sense of solidarity.

Thus the Co-operative Farming not only succeeded in raising the standard of life of the settlers but also taught them co-operative way of life. The achievements of this movement in the economic and social fields have been remarkable.

*U. S. S. R.*

Since the Russian Revolution of 1917 when the old autocratic regime was thrown out and, under a new dispensation, lands of the large owners were confiscated and distributed among the cultivators, land became the property of the State with nobody having a right to purchase, sell, lease, mortagage or alienate it. Various proposals were made to the Government for reorganising the system of farming particularly to achieve the maximum of production and of them Collective or Co-operative Farming received immediate recognition. However, the change from individual farming to collective farming was gradually achieved and farmers were slowly brought over to the new methods of cultivation and in the interval the farmers were trained in co-operative methods. To begin with Consumers' Co-operatives and Producers' Co-operatives were organized extensively. Before mass collectivisation of peasant farms began, say about 1928, more than half the trade of supplying villages with their requirements was in the hands of the Co-operatives, two thirds of the farm produce marketed went through the Co-operatives and State organizations. All the peasant farms growing sugar beet and 95 percent of those growing cotton were organized into Co-operatives while the producers' Co-operatives embraced about a million peasant farms. Co-operation gave the peasants a practical demonstration of the advantages accruing from economic union. It taught them to work together in partnership and capable organizers in the field of co-operation began to step forward from among them.

The peasants' organization of collective farms began with the simplest form of collectivised farming partnership for the joint tilling of the soil. These partnerships united their members mainly for the field work while the means of production remained the private property of the members.

All the means of production are at present socialised, viz, working capital, agricultural implements, seed supplies, supplies of fodder sufficient to maintain the socialised cattle, farm building necessary for the functioning of collective farms and all enterprises for the manufacturing of farm produce. The farmer is, however, allowed to have as his private property a small plot of land attached to his house together with animals and poultry and minor agricultural implements.

The management of collective farms is organised on democratic lines. The general meeting of the members is the highest authority which elects the board of management, the chairman and the auditing committee. It accepts and expels members, approves the annual production plan and budget, building projects and rules of remuneration. The board is made up of from five to nine members and is elected for two years. It is the executive body of collective farm and is accountable to the general meeting of the members. The chairman of the board elected by the general meeting is ex-officio chairman of the board of management. He is in duty bound to call a meeting of the board of management at regular intervals. The Vice-Chairman is elected by the Board from among its own members on the chairman's recommendations. The duties of the chairman include the day to day division of the work of the "Kolkhoz" and the checking up of the fulfilment of the Board's decisions. The farmers' labour is paid out of a definite part of the income of the "Kolkhoz". He is not paid wages. For that reason the collective farm has adopted a special method of valuing and paying for work done in units known as work days. At the end of the year the board of management determines how much produce and cash will be paid for each work day due to each worker. The work day is expressed in terms of real value. The scale of pay depends upon the nature of work and skill involved in its performance. Payment for labour in accordance with quantity and quality gives every collective farmer a direct material interest in the result of his work and is one of the most important means of encouraging a high level of labour productivity on the collective farms.



The most important agency that has assisted the collective farms to achieve a high standard of production is the Machine and Tractor stations or M. T. S. maintained by the State. They possess up-to-date farming machines including tractors, combine harvesters, threshers, tractor drawn ploughs, winnowing machines, etc. Each M.T.S. works for a group of collective farms on the basis of special contracts. One M.T.S. serves an average of 30 collective farms. The M.T.S. is not merely a machine lending centre. Its staff is composed not only of technicians who run the tractors and train the members of the "Kolkhoz" in handling modern farm machinery but also of agronomists who advise the community in such matters as rotation of crops, the proper use of fertilizers, conservation of soils and other related problems. In fact the State exercises considerable influence over the collective farms through the M.T.S. In all these collective farms the system of remuneration for labour is on the principle "for each according to his ability, to each according to the work performed. He who does not work, shall not eat."

The collectivisation of Russian farms has raised the standard of life of the farmers not only economically but socially and culturally also. Literacy among the people has been raised from barely 8 percent in pre-Revolution times to almost 85 percent at present. Technicians in all branches have been trained. Vast numbers of people have been released from agriculture to take up positions in industries. In fact the loyalty and patriotism of the people towards the system of collectivisation were proved beyond doubt during the war. Collective Farms have become an integral part of the Soviet economic system.

***East European Countries:***

Collective Farming is also being developed in countries that have come under the Russian influence since the end of the World War II particularly in Bulgaria, Hungary and Yugoslavia.

*Bulgaria:*

In Bulgaria joint farming societies have been in existence since a long time, the first having been organised in 1879 at Koshov. The object of these societies is to farm pooled land on a co-operative basis and market the produce, the profits being distributed in proportion to the number of hectares and hours of labour contributed by each member. To organize the existing societies and to give an impetus to the organization of new ones special legislation was passed in 1948, which enunciated the fundamental principles followed by joint-farming societies. According to this legislation co-operatives are regarded as voluntary economic organizations and are autonomous. Wherever more than 15 agriculturists in one village decide to set up a co-operative and the decision is ratified by the general purpose co-operative of the village and Minister of Agriculture, the State at once carries out re-grouping. The Co-operative block is formed in one of the village lands and the peasants who are members and whose lands have been expropriated for the purpose are given properties of equal value, in other parts of the village. The peasant thus affected has the right of appeal to the district tribunal whose decision is final.

As a result of active support of the State the number of joint farming societies increased from 28 in 1944 to 812 in 1948, membership from 16,677 to 54,132 and the area cultivated from 4000 hectares to 220,000 hectares.



In addition to joint farming co-operatives there are in Bulgaria tractor stations which can supply farmers and their associations with suitable equipments for periods of heavy work.

*Hungary.*

In Hungary joint farming societies owe their origin to Hungarian Reforms Act of 1920 when land leasing societies were organized to enable small farmers to obtain land from bigger landlords. These societies were closely associated with the agricultural credit societies. In most of the cases the credit societies functioned as land leasing societies through separate committees. The finance required to pay compensation to these landlords was obtained by them from the Hungarian Central Bank of Credit Co-operative Societies. In 1942 there were 103 agricultural credit co-operatives with which were associated 142 land leasing societies comprising 15,000 families.

In 1945 land reforms of far reaching character were introduced as a result of which about 2 million hectares of land were distributed among 6 lakhs of agricultural labourers. By an Ordinance in the same year the Co-operative Societies were organised with a view to serve the economic, social and cultural interests of their members. This Ordinance resulted in the organization of a large number of joint farming Co-operatives.

*Yugoslavia:*

Since the World War II a number of radical changes affecting agriculture have taken place in Yugoslavia. These changes are in accordance with similar developments in other countries coming under communism. Here, the authorities have, along with collective and state farming operations, taken up a land reform programme including greater farm mechanization and the use of machinery through centralised State machinery stations, rigid control of marketing, with private trade practically eliminated except for elementary peasant consumer transactions and the growth of co-operatives on the Russian model. Although the area under collective and State farms is widening most of the farms in Yugoslavia are cultivated on the basis of private peasant holdings. The first steps towards collectivisation were taken in 1945-46 during the transitory period of the land reforms under which lands were taken from the larger farmers and allotted to poor farmers and to the State and Collective farms.

Most land is cultivated in common but each co-operating house-hold retains legal property rights for lands equivalent to its contribution. The members may retain for private use a house, garden land around the house, limited live-stock and equipment necessary for the prescribed limits of private operations. Collectives are to establish reserve funds for insurance against lean years or loss of cattle. Collective Funds are to be raised from the revenue to the extent of ten percent each year. Two percent of the revenue is also to be invested annually in a "social fund" to meet the needs of invalids the aged and similar needy cases. One percent is to be paid to a cultural fund for educational purposes and childrens' nurseries. Between ten and twenty-five percent of the revenue will be paid into a "seed" and "food and fodder fund." Each year a productive and financial plan is to be developed to guide the work of the collective.

In theory the chief governing body of the collective is the assembly consisting of all its members. It elects a President, a Secretary, and a Board of Control and takes decisions on various policies and problems of the collective. However in reality the broad lines of policy and local management are directed by the higher officials of the Government regardless of the by-laws of the co-operatives which provide for democratic machinery and operation through the assembly. The State has also established State farms which numbered in 1946, 146 covering an area of five lakhs of acres. These farms are designated to serve as models to produce seed and breeding stock and to be in the vanguard in introducing new methods of farming.

*Mexico*:

In Mexico the expropriation of land from big landholders and its distribution among low income farmers for cultivation on a Collective basis was made an integral part of President Cardenas' "Six Year Social and Economic Plan" of 1934. President Cardenas believed that collective farm, as a social system, must free the peasant from the exploitation to which he was subject under both the feudal and the individualistic regimes, and secondly as a mode of agricultural production it must yield enough to furnish the nation with its food requirements. Up to 1936 no significant progress in agrarian reform was made. However in 1936 all of a sudden over



four lakhs of acres of farming land and six lakhs of acres of unimproved land were distributed among 32,000 farmers by force of a decree of that year.

To establish a co-operative settlement at least 20 eligible male peasants must form a group and petition the government for land. The internal administration is in the hands of two committees one executive and the other supervisory both of whom are elected by the General Assembly. In the successful organization of the Co-operative farming societies the National Co-operative Bank has played a notable part. As the Settlements have been formed by the poorest of the peasants, practically the entire finance has to be provided by the Bank.

*United States of America*:

In the U.S.A. Co-operative Settlements belong to two categories:—(i) those established by private enthusiasm in pursuit of religious or socio-reformative ideals and (2) those established by the Government for the rehabilitation of low income farmers. Belonging to the first category, 262 co-operative communities are known to have been established but most of them proved to be short lived. Among successful settlements the Hutterites on account of the length of their existence as well as their high ideals deserve special mention. The Hutterites originally belonged to a group of people who were persecuted in Europe on account of their religious principles. They were forced to migrate from place to place in Europe for their safety and livelihood and ultimately settled down in the U.S.A. and Canada. Their leader Jacob Hutter from whom they derive their name preached the creed of non-violence. He was subjected to murderous persecution and died a martyr in 1536. Though Hutter died his followers have steadfastly followed his ideals of non-violence. The Hutterite communities were closely knit groups spiritually even before they settled down in Canada and in the U.S.A. Though they had grown numerically since then through natural increase they have maintained their cohesion even to the present day. In fact their customs, training, education, up bringing social life and practically all affairs of life have been moulded on that ideal.

Each community is an autonomous body administratively though it maintains close ties with other communities. The responsible officers of each community are:—(1) the heads of the settlement; (ii) Council of elders; (iii) managers of diverse activities and (iv) managers of womens' work. Except for the head of the settlement the preacher who is elected by the convention of all communities specially called for the purpose all officers are elected by the General Assembly of the members. The preacher is the head of the settlement and looks after its overall welfare.

These Hutterite communities offer a good pattern to the planners of Co-operative Settlements.

New Llano and Sun Rise Community are the other co-operative Settlements in the U.S.A. These are organized with socio-reformist ideals as against the religious ideals of the Hutterite community. These are organized to prove that the co-operative way of life is superior to the competitive way of life. Though they were modelled on the basis of Hutterite communities individualistic instincts were given scope in the method of consumption as well as living while production was undertaken co-operatively. Both of them succeeded for sometime and gained economic advantages resulting from large scale production and co-operative method of work. However dissensions among members gradually crept with the result that they were unable to adjust themselves temperamentally with others and the settlements had to be wound up. These experiments prove that for successful working of co-operative settlements the selection as well as training of members and also a common land and ideals among them are essential.

*F.S.A. Farms:*

A number of farms have been organized by the U.S.A. Government through the Farm Security Administration with a view to rehabilitate low income farmers. These farms served also as a training ground to small farmers in the field of large-scale and scientific farming. The F.S.A. Co-operative Corporations were made up chiefly of low income farmers. The long range plan of the F.S.A. was that the farmer would not only be rehabilitated but would eventually become part owner of a large-scale co-operative enterprise. Meanwhile, however, the F.S.A. with its financial administrative controls, functions as the owner of the property and creditor of the co-operatives.

*Other F.S.A. Projects:*

Besides the co-operative farms the F.S.A. organized the Land Leasing or Purchasing Associations. These Associations varied in technique from that of the co-operative farms. They were developed in areas where the land tenures were especially unstable and were designed to help tenants and share croppers on southern plantations to obtain greater security of land tenure. The following procedure was followed in their organisation:—



The tenant farmers assisted by the F.S.A. drew up a charter and by-laws. They subscribed the share capital and elected a Board of Directors under the by-laws of their State. Then the farmers leased the land usually for periods of five to ten years on rent. To raise the standard of living the F.S.A. helped each family in home making and in planning the farm activities.

*Co-operative Farming in Italy:*

Italy's major contribution to Co-operative experiments is the labour society. Formed at first for productive purposes some of them have taken up the work of land improvement and after reclaiming vast areas of marshy and malaria ridden tracts have transformed them into fine arable land, colonised them and cultivated them co-operatively in a variety of forms. Joint farming co-operatives in Italy have been formed on the basis of workers' labour contracting co-operatives set up with a view to reduce unemployment. This process has taken place because the labour co-operatives undertook mostly the clearing of waste lands and wishing to stabilise their employment went on to cultivate the land they had cleared. The following three types of joint farming co-operatives are typical:—

(i) Co-operatives for joint cultivation with centralised management.

(ii) Co-operatives for joint cultivation with delegated management.

(iii) Mixed co-operatives for joint cultivation.

In the societies with a centralised management the operations are wholly directed and controlled by the management, the members being employed as workers. In the societies with delegated management the co-operatives remain concerned with the risks and in the results as a whole of its operations, but the land is subdivided into holdings which are leased or allocated to the members. In societies with "mixed managements" the lands are divided in lots, holdings or centres of cultivation which are operated by one or more families or by teams of workers; but the co-operatives fix the plan of cultivation and directly performs as in the case of the society with centralised management, all the fundamental operations, such as ploughing, fertilising and sowing.

In all the above three cases the unit is generally a medium sized area adaptable to intensive cultivation. When summer operations demand more abundant man-power than what the actual membership can provide, the co-operatives employ seasonal workers. On the other hand when all the members cannot be employed throughout the year they are given work in turn and those who are for the time not so engaged undertake, during the winter, work on roads, canals, drainage etc. regrouping themselves for this purpose in more or less temporary labour contracting co-operatives. Further more, these joint cultivation co-operatives have to some extent associated themselves with other activities such as credit, supply, marketing of products, by joining general purpose agricultural co-operatives in the same way as independent farmers.

Most of the joint farming co-operatives have grouped themselves into regional federations which provide them assistance in book-keeping, technical advice and a means of bulking their purchases of necessary equipment.

To sum up Italian Joint Farming Co-operatives have helped on the one hand to establish collective estates and the other to develop small rural holdings. These have helped to provide opportunities of work and have thereby helped to some degree to solve the unemployment problem. They have contributed towards the improvement of the conditions of Italian workers generally.

Joint Farming Co-operatives have been developed in several other countries too particularly in Czechoslovakia, Finland, Sweden and England and in some of the Latin American Countries.

*Co-operative Farming in India.*

Co-operative Farming in the sense of joint cultivation of land is a recent idea in India. Stray experiments in this direction were made here and there but they proved unsuccessful. The very idea of co-operative farming originated only at the end of the World War II. With the need for settling ex-soldiers on land, it found a place in various schemes prepared by the Government of India and provincial governments for postwar developments. The partition of the country and the problem of rehabilitating the refugees gave added importance to the question of farming; and



the problem of increasing food production within the country in the face of growing food shortage and the need to restrict imports of food stuffs for other essential requirements further increased its importance. Several provinces have drawn up schemes for bringing more land under irrigation within the shortest time possible.

Indian genius and tradition are peculiarly suited to such a form of social and economic activity as co-operative farming. The joint farming tradition is still strong and the village as a unit of political administration and of the social and economic life of the community is still the basic organisation for every form of co-operative activity.

*Bombay:*

Attempts on co-operative farming were made in the Bombay State as early as 1921 and all these were unsuccessful. But the real beginning in this direction was made with the appointment of Captain S. P. Mohita by the Government of Bombay as a special officer to investigate into the possibilities of organising co-operative farming societies. Based on his recommendations which he submitted in 1947 the Government of Bombay approved a scheme for organising co-operative farming societies in the Bombay State. The societies to be organised under the scheme have been classified into three categories: (i) Co-operative Joint Farming; (ii) Co-operative Tenant Farming and (iii) Co-operative Collective Farming. Model by-laws for the different types of societies have been framed. The main object of the scheme is to increase the yield from the land and to secure better return to the cultivators by consolidating their holdings, adopting improved methods of farming and marketing of agricultural produce. The scheme also provided for the introduction of cottage and small scale industries and subsidiary occupations which may become supplementary sources of income to the members of the societies. These co-operative farming societies organised under the scheme will receive assistance from Government in several directions. The Government will provide free services of agricultural assistants in the initial stages of their working as their managers. Land Revenue will be remitted by Government for the first year where land owners pool their lands for joint cultivation. Long term loans at a concessional rates are to be given. These societies are also to be given financial assistance from Government for the construction of godowns, farm buildings and farm barns. It has also been provided that in cases where co-operative farming societies take waste lands on lease from Government the cost of developing the land will be provided by Government and treated as long term loan to the society.

With a view to facilitate the formation of co-operative farming societies the Bombay Co-operative Societies Act was amended to the effect that if not less than 75 percent of the land in a specified area or village agree to pool their land with a view to form a co-operative farming society the rest of the land owners in the village will be required to join the society. Further under the Bombay Tenancy and Agricultural Loans Act, 1948, it has been provided that the landlord cannot eject a tenant from the lands held by him as long as he remains a member of a co-operative farming society.

Up to the end of the year 1949 thirty-seven co-operative farming societies have been organised in the Bombay State.

*Bihar*:

The joint cultivation of sugar cane on scientific lines attempted in Bihar to increase yields is an example of co-operative farming in Bihar. There are eight farms at present:—(i) Bithauli, (ii) Jhakara, (iii) Silout, (iv) Chariharva, (v) Kanhauli, (vi) Nayanagar, (vii) Pandeytola and (viii) Hajipur. The members of these eight cane growers' co-operative societies have agreed to surrender the rights of cultivation of their plots to the co-operative farms formed by them. The management of each of these farms is vested in a sub-committee consisting of not less than three and not more than five members elected by the general body. One of the members is the Chairman and one an executive officer.

*Madras*:

The land colonisation societies may be regarded as examples of co-operative farming. These societies have achieved some success. Land is allotted on lease at the rate of ten acres per member and divided among them as an approved plan each member also getting a house site. The lands assigned to them are those which are cultivable but not as yet cultivated. Therefore the members of these societies have generally to attend to such work as clearance of scrub jungle, laying of roads, digging of drinking water wells, erection of dwelling etc., besides the cultivation of crops. Sub-division and fragmentation is obviated by requiring each member to nominate a single heir acceptable to the Society in whose absence the property will revert to the society. Government have sanctioned



a number of concessions to these societies—grants and loans for sinking of wells and purchase of bullocks, manure and implements for construction of houses and even towards share capital. The Government have also made available the services of the co-operative inspectors free of cost to assist the societies in their day to day working and of the agricultural maistries to guide the members to undertake improved cultivation.

After the war land colonisation societies have been formed for the re-settlement of ex-servicemen also. During 1946-47 the Government sanctioned a scheme to open six vocational training centres in six colonies for implementing training in agricultural and allied vocations to demobilised soldiers. In 1948 there were 26 land colonisation societies for the land-less farmers. In addition there were nine land colonisation societies for ex-servicemen. The Post-war Service Reconstruction Fund Committee has made grants and loans amounting to Rs. 6 lakhs towards the share capital of the members.

*Madhya Pradesh:*

In this State three co-operative farming societies at Akola, Imlikheda and Vishad were organised recently.

*Uthar Pradesh*:

In this State experiments are being continued in a system called "consolidated farming" under which cultivator in a village agrees to grow each main crop in or more consolidated blocks instead of scattered fields. However, more striking experiments in the field of joint farming are being carried on in the land that is being reclaimed under the aegis of the Colonisation Department in Ganga Chadir and Naini Terai areas. These areas were abandoned for years as jungle unfit for cultivation or human habitation and were exposed to malaria and wild beasts. The settlers have braved the danger which pioneers in every field have to face and have converted lands once barren into smiling fields.

The Ganga Khadir comprises an area of 47,000 acres of which nearly 22,000 acres were culturable waste. With the help of a unit of Central Tractor Organization the reclamation work was started in December 1947. Since then commendable progress has been made and about 10,000 acres of land have been made fit for cultivation and have begun to yield excellent result.

The Nainital Terai covers an area of 100,000 acres of which 80,000 acres were culturable. It was late in 1948 that operations were started in this area. However before the advent of the monsoon the work of reclaiming nearly 10,000 acres was almost completed. The work of bringing more and more land under cultivation is also proceeding expeditiously.

In both the above settlement houses have been built, roads have been laid out and drinking water and other amenities have been provided for the settlers who are mostly refugees. Loans by the Governments have been advanced to them so that they may carry on agricultural operations.

Two more experiments are also being conducted in the villages of Nanvara and Daruna.

These colonisation schemes are expected to be self-supporting and in the long run will re-imburse the Government even the expenses incurred by them in that connection.

*Orissa:*

There are four co-operative farming societies at present:— (i) The Gurang Champatimunda Land Colonisation Society at Augul (2) The Krishna Chandrapur Land Colonisation Society at Parlakemedi and (3) The Rattangia Land Colonisation Co-operative Society in Udayagiri and (4) the Bulligude Co-operative Colonisation Society.

All these are subsidised farming societies and they are intended for ex-servicemen and ex-civil pioneers. They obtain land from the Government, reclaim them and either cultivate them jointly or divide them among the members.

*Assam:*

The Misamari Co-operative Colony is one of the ambitiously planned experiments in co-operative farming in Assam. The colony covers an area of nine square miles where 250 families are to be grouped into five villages. Eventually the five villages of the colony will be treated as a Rural Panchayat area. Some of the surrounding villages may also be included in this rural Panchayat area.

*Delhi:*

In Delhi two multi-purpose societies organised for refugees have been cultivating land jointly. At the villages of Chatarpur a refugee colony of 35 families of cultivators has been established under the auspices of the Indian Co-operative Union Ltd. A multi-purpose agricultural Co-operative Society has been formed and about 400 acres of land are to be jointly cultivated. The Government of India have placed three tractors at the disposal of the society for the cultivation of land. Another multi-purpose co-operative society was formed at Jaithpur for settling 30 families from Sind. Three hundred acres of land were allotted to the society and it received a grant of Rs. 20,000 from the Government. The society has been receiving considerable assistance from the Indian Co-operative Union.



*Mysore:*

The Co-operative Farming scheme is being started in various areas in the Mysore State. In Belagumbla village in the Mugadi Taluk about 100 acres of land are jointly cultivated by 12 families. The other co-operative farming societies are (i) the Netkal village in the Mandys District (2) the Goduva Malam in Mysore District. Recently in some of the villages of Holaker Taluk similar land colonisation schemes are also being taken up.

The above societies have cleared some of the forest areas and brought them under cultivation.

*Cochin:*

There are three Co-operative Societies engaged in Collective Farming: (1) Anamalai Co-operative Farming Society and (2) Kormala Co-operative Farming Society and (3) Karathedom Co-operative Society.

Apart from the experiments narrated above, in every State schemes, for reclaiming land and its cultivation by joint efforts, have been drawn up and are being slowly executed.

*Scope for Co-operative Farming in India:*

In spite of the fact that the advantages of co-operative farming are vast and well known it has in practice proved to be the most difficult aspect of co-operative activity at any rate so far as India is concerned. In fact co-operative farming has achieved a high degree of development only where either special incentives existed among its sponsors or its development was actively favoured by the State. As we have seen it was the religious creed of the Hutterites or the sense of historic mission among the Jewish pioneers in Palestine that helped in knitting the groups closely together and led the success of the co-operative settlement. In U.S.S.R. and Mexico it was the State policy that shaped the growth of collective or co-operative farming. In India, too, if co-operative farming is to take deep roots and achieve a substantial measure of growth, deep and abiding interest by the State and full measure of co-operation of the people will be found essential. Equally necessary will be a proper understanding of the problems connected with joint farming and the factors likely to lead to its success on the part of both the people and the officials also.

The question is often raised whether co-operative farming in the sense of pooling and working the land in large blocks is at all possible or even suitable under existing conditions, except to a limited extent on lands newly brought under the plough. It is stated that the advantages of large-scale farming by power machinery over that of the small farm have not been conclusively established and that in a densely populated country like India the evolution of agriculture should be more on the lines of intensive farming of the kind obtaining in China and Japan and those of Soviet Russia and the U.S.A. Even in Soviet Russia with all the incentives given for work on the collective farms the garden plots attached to each household and worked independently by each farmer have generally shown better results in yield. Therefore the creation of family sized holdings with the farmers free to cultivate their holdings independently but agreeing to make their purchases and their sales jointly has been held up a desirable objective of land reform in India. This is a peasant proprietorship system on a co-operative basis. The farmer being the owner does his best to develop and improve his land. It is said "Give a man a secure tenure of a rock and he will turn it into a garden, give him nine years lease of a garden and he will turn it into a desert." "The magic of private property turns sand into gold." Productivity per acre will be very high and nothing will be done to damage the land and every thing will be done to conserve its energies and improve its value. The farmer works ungrudgingly and unsparingly. Social and political advantages too are claimed for this system. It produces hard working, self respecting and law abiding citizens. They are considered the backbone of the society, and at the time of war are the most fertile recruiting grounds. Having a stake in the country they make for social and political stability.



But this system is not free from defects. The holdings are generally small and there is a tendency for further subdivision and fragmentation of holdings. A small farm does not provide a full scope for the organising ability of an enterprising farmer. In a small farm there is no scope for scientific rotation of crops and for the use of modern machinery. The capital at the disposal of the farmer is very meagre. As a matter of fact the dead weight of debt presses him down. He is born in debt, lives under debt, dies in debt and bequeathes debt. But these defects could be rectified by bringing all the small scale farmers under the aegis of the Co-operative Movement.

The peasant proprietorship system based on co-operation has a good deal to commend itself especially in view of the difficulties that have to be faced in organising full fledged joint or collective farming. But this does not rule out the case for collective or joint farming.

*Case for Co-operative Farming.* It is considered that co-operative farming offers a solution for the present shortage of food grains in the country.

*The partition of the country* necessitated the transfer of population on an unprecedented scale and the country is faced with the problem of rehabilitating large masses of refugees most of whom belong to agricultural classes.

*The Five Year Plan:*

The principle emphasis in the Five Year Plan is on agriculture. Topmost priority has been given to agriculture, food production in particular. This is explained by the serious view which the Commission takes of the country's food problem. If the per capita availability of food is to be raised to 14, 15, or 16 oz. per adult the additional production required would be 2, 8, 12 and 15·8 million tons respectively. The production of food grains is expected to increase by 7·6 million tons by 1955-56 as a result of (a) schemes of State Governments which together account for a total production of 6 million tons and (b) supplementary schemes proposed by the Planning Commission with a view to achieving additional production of 1·6 million tons.

Stating that the uneconomic holdings are at present the root causes of many of the difficulties of Indian agriculture, the Plan says that agriculture cannot be developed as an efficient industry unless the unit of management may be brought by (i) nationalising the land and making it available for cultivation placing a ceiling on existing holdings and distributing the surplus land for individual or co-operative cultivation (2) inducing small farmers to become members of the co-operative farming societies and (3) taking the village as a whole as the unit of co-operative management in which while meeting the claims of ownership through an ownership dividend the entire area is treated as a single farm and is divided for convenience of cultivation into suitable blocks.

The Plan rejects nationalisation of land as an impracticable course. The Plan agrees that the main solution to the problem of Indian Agriculture lies in the direction of Co-operative Cultivation.

Co-operative Village management has been recommended as the ultimate objective of re-organisation of agriculture. In Co-operative village management the area of the village becomes the unit of land management and all the land of the village is regarded as a single farm. Rights of ownership are recognised and compensated. Co-operative village management is to be introduced in any village where at least two-thirds of the owners or permanent tenants holding not less than one half of the cultivated area of the village express their preference in favour of its adoption. The Commission recommends enabling legislation for co-operative village management.

After examining the principal objections to Co-operative Village management which it recommends as the essential objective, the Planning Commission outlines its programme for immediate action. This consists of three main proposals:

(i) Establishment of Village Production Councils (2) Establishment of Registered Farms and (3) Promotion of Co-operative Farming Societies.

Registered Farms and Co-operative Farming Societies are considered to be the best suitable methods, at present available, for increasing the size of the unit of land management in agriculture and organising as large a sector as possible as an efficient industry. The Plan suggests that all holdings above a level to be prescribed should be organised as Registered Farms and these below the prescribed level should be brought together increasingly into small co-operative farms. The voluntary formation of Co-operative Farming Societies is to be encouraged as a part of positive drive and the Plan recommends a number of measures to this end.



Co-operative Farming gives to the farmers better economic security. When lands of different fertility and location go into common pool, the risks of failure and consequent loss are more widely distributed and no individual farmer is totally ruined. More over it will enable the farm equipment to be more fully employed as it can be put to diverse use according to the different requirements of each farm plots.

When agriculture has passed from the self sufficing to the commercial stage, the farmer has constantly to adjust his resources and the system of production to the needs of the market. Without an association to study market trends as well as to advise him on the best way to augment the productive resources, he is apt to remain the weakest unit in the economy at the mercy of every other organised section. Further in the National Planning Programmes agriculture will not be able to make its full contribution unless the farmers organise productive units which would fit into the development schemes undertaken. The State will find in these farming co-operatives powerful auxiliaries for enforcing its production programmes, for introducing improved methods and maintaining the desired standards of cultivation.

The value of an agricultural Co-operative comprising a whole village or groups of villages as a social organisation bringing erstwhile individualistic elements into a common fraternity cannot be discounted. The Ownerite ideal of a village Commune, which has found expression in the village bank of Raiffeisen and has been revived in the famous expression of Horace Plunkett "better business, better farming and better living" has special appeal for India, where the ideal of the village as the unit of the cultural and the economic life of the community is still very strong.

At present there is a widespread dissatisfaction with the extent to which compartmentalism and specialisation have crept in the co-operative field and hence people have now begun to look forward to a wider orbit of integrated action in the different fields of endeavour. George Russel observes "It is not enough to organise farmers in a district—a credit society, a dairy society, a fruit society, a bacon society or in a co-operative store. All these may and must be in the beginnings; but if they do not develop and absorb all rural business into their organisation they will have little effect on character. The specialised society only develops economic efficiency. The evolution of humanity beyond its present level depends absolutely on its power to unite and create true social organisms." Such multi-purpose societies should be co-terminous with the village generally covering area under the jurisdiction of a village Panchayat.

*Future of Co-operative Farming*:

In the case of lands that are to be brought under cultivation by the process of reclamation, co-operative farming could easily be attempted. There are at present about 90 million acres of cultivable waste land spread over the whole of the country. With the assistance of the Central Tractor Organization a beginning has been made and about a lakh of acres have been reclaimed chiefly in the Uttar Pradesh, Madhya Pradesh, East Punjab and Delhi. Ganga Kadir and Naini Terai settlement in the Uttar Pradesh have been taken as a model for other settlements to follow. These settlements have been founded on a co-operative pattern. Several countries provide instances as to how best people have been settled on reclaimed land and it has been realised in all such cases it is possible to obtain the benefits of large scale production and at the same time to preserve the democratic way of life for settlers which would not be possible either under system of State farming or under landlordism.

In respect of new lands the preliminary clearance of land, levelling and stripping, construction of communications, drainage and irrigation works, provision of domestic water supply and building of farm houses will have to be done by the Government.

The socio-economic measures proposed to be undertaken by several States such as abolition of Zamindaris and introduction of tenancy legislation offer good scope for developing co-operative farming in some way. In India in five Part A States Madras, Bihar, Assam, Uttar Pradesh and Madhya Pradesh have passed legislation for the abolition of the Zamindaris. In Orissa a Bill is pending in the State Assembly for its abolition. Bombay has abolished a number of tenures like Mehwari, Tubigdari, Khoti and Maleki.

In Part B. States Madhya Bharat, Hyderabad, Saurashtra and Mysore have taken steps to abolish Zamindari and Jagirdari Systems. Jammu and Kashmir has pased the Big Land Lord Estates Abolition Act 1950 for the abolition of intermediary interests in land and for the transfer of land to the tiller.



With the abolition of Zamindaris in India the tenants have achieved a new status but this status, though important from a social point of view, will hardly bring any economic benefit to them unless accompanied by other measures and this has been amply demonstrated by measures adopted in other countries, where similar reforms have been introduced. In all these countries it was found necessary that along with the redistribution of land, adoption of subsidiary measures was necessary to obtain the full economic benefits of such a course. In Hungary, for instance, it was realised that a mere change in the distribution of land by itself did not produce any agrarian reform but might, on the other hand, seriously disturb agricultural production. By 1945 when land reform was introduced 642,000 agricultural workers found themselves in possession of about 2 million hectares of land but without communication, drainage, technical skill, equipment and other resources of production etc. creating acute problems. In order to cope with the situation it was made obligatory on the part of all beneficiaries of the land reforms to be members of joint farming societies so that technical equipment, machinery dwelling and other buildings that belonged to the estates affected by the land reforms could be effected co-operatively.

In India with the abolition of the Zamindaris and re-settlement of actual farmers in the lands acquired from the Zamindars similar measures will have to be adopted if full benefits is to be derived from the reforms. There may be difficulties in imposing conditions where the farmers have already occupancy rights; reforms in their cases will have to be introduced by other means. The fragmentation of holdings is reported to have gone very far in these areas and no improvements in the economic conditions of the tenants is possible unless in the first instance steps are taken to consolidate the holdings. In order to overcome the impediments, that might be placed by farmers in carrying out a scheme of consolidation in a particular area, necessary provision need to be made as in West Bengal, Assam and Uttar Pradesh. The State acquisition and Tenancy Bill of West Bengal provides that any two or more ryots having lands in the same or contiguous villages might apply to the Revenue Officer for consolidation of holdings and submit along with such application a scheme for such consolidation. Further it is provided that if not less than two thirds of ryots in a village or a block of villages make an application for consolidation of holdings, such application is to be deemed to be an application on behalf of all the ryots of such a village or blocks of villages. The Revenue Officer has to consult various interests involved and to see that the scheme as it emerges finally is fair to all. He is assisted by the local Advisory Committee appointed by the Government especially for the purpose. After the scheme takes final shape it is published and objections if any are received. After examining all objections the Revenue Officer confirms the scheme. There is also a provision for an appeal against the order of the Revenue Authority by an aggrieved party to the Superior Revenue Authority whose decision is to be final.

In Assam State Acquisition of Zamindari Bill requires the cultivators benefiting by the legislation to join a society for consolidation of holding or co-operative farming or any other society if directed by the Provincial Government under their Agrarian Reform plans.

The Uthar Pradesh Zamindari Abolition Land Reforms Bill provides for organization of co-operative farms in respect of land affected by legislation. These farms are to be of two kinds:—(i) Small co-operative farms of 50 acres or more constituted by voluntary agreement among ten or more cultivators and (2) a co-operative farm comprising all the uneconomic holdings in a village. The latter type can be established if two thirds of the holders of uneconomic holdings in a village apply for registration of such farms; on their doing, the remaining one-third will have to join. As soon as co-operative farm has been established consolidation proceedings will be taken up. The members of the Co-operative Farm will retain their individual rights in the land.

Hence it is desirable that similar tenancy legislation are also carried on in other states where the Zamindaris have been abolished. After the lands have been consolidated the farmers may be induced to pool their lands as well as other means of production for the purpose of cultivating their lands jointly. If the agriculturists are not prepared for such pooling a beginning may be made by organising a society for supply of improved seeds, manure and implements, joint-ownership and use of machinery, for providing irrigation facilities and supply of power where possible for crop planning and for marketing of the produce of the members. Such a society would in course of time lead to joint farming.



*Joint Farming in Ryotwari areas:*

The area under Ryotwari tenure is greater than that of the Zamindari System. Unless the production in this larger area is improved the production in the country cannot be effectively increased. However it is this area which presents more complexities and difficulties for organizing co-operative farming. The first and fore-most problem to be tackled here will be to bring about consolidation of the holdings as no improvements in farming can be brought about so long as land continues to remain scattered in numerous tiny pieces. This may at first be attempted by suitable propaganda explaining to the farmers the benefits of consolidation as no measure of reform, however, laudable will succeed without the active co-operation of the beneficiaries themselves. After the ground has been prepared and the majority of the farmers in a village are found willing to consolidate their holdings a scheme for the entire village may be drawn up. Before the scheme is carried out for the whole village it should be approved by at least two-thirds of the landholders owning not less than three-fourths of the cultivable land in the village. Experience in the past particularly in the Punjab, where consolidation was attempted on a voluntary basis has proved, that, if the work of consolidation is to be carried out expeditiously some form of compulsion is necessary.

When consolidation has been effected joint farming may be introduced in either of two ways. Where the landowners are absolute landlords or where they are not willing to take part in the cultivation of lands themselves a tenant co-operative society may be formed comprising of the actual tillers. The owners of the lands included in the block will be paid fair rent for them and perhaps as a further inducement they may also be paid a portion of the net profits of the society in proportion to the rents received by them. As regards the actual tillers they get the usual wages and share in the net profits remaining after allocation to the various funds. In the second method the owners themselves will be the members of the society and besides contributing their lands towards the pool they and the members of their family may also work on the land. For the ownership of the land they may be paid the usual rent and for their labour usual wages. Where the members own cattle and implements besides land the society will have them also paying the owner members the prevailing hire for the use thereof or they may be purchased by the society.

In either of these methods the owner would not lose his proprietory right over his particular plot of land nor need there be restrictions against his right of alienation.

It may happen that in some areas the formation of compact blocks necessary for joint cultivation may be prevented if certain farmers do not join the society and contribute their lands. In Bulgaria by a legislation promulgated in 1948 it was provided that when more than 15 farmers in a village decide to set up a co-operative and the decision is ratified by the general purposes co-operative of the village and by the Ministry of Agriculture the State should carry out re-grouping. The Co-operative block is to be formed on one part of the village lands and the peasants who are not members and whose lands have to be included in the block are given property of equal value in other parts of the village. In such cases there is no compulsion for membership but the lands needed are acquired. Recently the Bombay Co-operative Societies Act has been amended to the effect that if not less than 66 percent of the farmers owning in the aggregate not less than 75 percent of the land in a specified area or village agree to pool their land with a view to forming a Co-operative Farming Society the rest of the landowners in the village will be required to join the society.

If it is not found feasible to start forthwith a co-operative farming society on the lines stated above on account of extreme individualism or conservative nature of the farmers in any area a beginning may be made by organising a "better farming society" whose functions should be (1) to prepare a plan for production on each field of the member and to provide technical assistance; (ii) to supply improved varieties of seed, manure, implements etc.; (iii) to provide irrigation facilities; (iv) to arrange for hiring out to members agricultural machinery; (v) to market the produce of members and (vi) and to take such other measures as may improve agricultural production. After the members have learnt to run such a society successfully, steps may be taken to organise farming society for them.

It should be remembered that co-operative farming is of recent innovation in India and its development on a wide scale will depend upon the extent to which the State is prepared to extend its support to it.



*Co-operative Farming and University Education.*

For the successful working of the Co-operative Farming and making such farming popular in the country I would like to make the following suggestion:—

"Go back to the land"—this has become a slogan nowadays. In India the towns are very few. There are at present 75 cities in India with a population of 100, 000 and over. The urban population of India totalled 62 millions or about 17 percent of the total population as per the census of 1951 as against 44 millions or 14 percent of the total population as per the census of 1941. In recent years we find a significant trend towards urbanisation so much so the rural parts are slowly becoming deserted. India is an agricultural country with an undue concentration of industries in certain areas though the process of decentralisation is in slow progress. These industries are depending mostly on imported raw materials which could be produced in our country if our agricultural sector could be set aright. Further the country is faced with a deficit of about 4 million tons of food grains. Hence the pressing need of the hour is to increase both food as well as agricultural crops.

With a view to develop the rural areas the Five Year Plan contemplates the organisation of Community Projects in selected areas. The purpose of the Community Project is to serve as a pilot in the establishment, for the men, women and children covered by the project area of the "Right to live." The Indian Constitution aims at establishing a Welfare State and the community projects constitute a step towards the direction. The chief object of the Community Projects is to secure the fullest development of the material and human resources of the area. The attainment of this object in rural areas demands urgent measures for a rapid increase and agricultural production. Work will also be undertaken for the promotion of education, for the improvement in the health of the people, and for the introduction of new skills and occupations so that the programme as a whole can lift the rural community to the higher levels of economic organisation and arouse enthusiasm for new knowledge and improved ways of life.

Under such circumstances it is imperative that educated persons should settle in the villages and take an active part in improving the conditions of life in the rural areas and for this I would suggest the following measures:

There is scope for reclaiming areas and bringing them under the plough. It is worthwhile to make an attempt to encourage persons who have taken degrees from the Universities to settle in these newly reclaimed areas. Here a word of caution is needed. In selecting graduates to settle in the areas only such of those graduates who have an aptitude for agriculture and are willing to take up agriculture are to be selected and each should be provided with a sufficient area which would be constituted as an economic holding. In the first instance it is also necessary for the Government to assist these graduates with the necessary financial resources as are needed for the improvement of the land, the purchase of necessary agricultural implements and improved seeds etc.

Such a step would be having the following advantages:

(i) Co-operative Farming could very easily be introduced among these educated settlers. This would be an incentive for such farming among the existing farmers in the rural areas.

and (ii) This would solve the problem of unemployment among the educated persons.

*Land Reforms and the Five Year Plan*:

Proposals for land reform in the Five Year Plan are made with reference to the principal interests involved, namely, (i) intermediaries (ii) large owners (iii) small and middle owners (iv) tenants-at-will and (v) landless workers. Intermediary rights have been abolished or are in the process of abolition in States in which they existed. Administrative arrangements for areas formerly under zamindary need special attention and, in particular, in these areas, a good system of village records should be organised.

On the ownership of land the Plan recommends the fixing up of an upper limit to an amount of land that an individual may hold. The Plan also observes that in relation to land individual prosperity in excess of any form that may be proposed has to be justified in terms of public interest and not merely on grounds of individual rights or claims.

As for the fixing of a ceiling of present and future land holdings the following objections are raised:

(i) As per Article 31 under Fundamental Rights of the Indian Constitution the State cannot deprive any one of his property



without adequate compensation. No where in the Constitution equal distribution of land is contemplated.

(ii) The ceiling of land holding is a death blow to the joint Family System which prevails in most parts of our country. The agricultural life and the laws relating to land are woven with the joint family system—the law of inheritance, partition, alienation and also adoption etc. Hence the ceiling of land holding is in conflict with the joint family system in our country.

(iii) This would lead to fragmentation of holdings and the mal-distribution of economic resources.

(iv) There is not sufficient land in the country for distribution. If the land is equally distributed there would be an economic collapse of the whole credit structure and a great unprecedented financial depression would follow.

In view of the above objections, the practicability of fixing a ceiling on the land holdings needs to be examined carefully.

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